

MANAGEMENT

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Stephen P. Robbins

San Diego State University

Mary Coulter

Missouri State University

With contributions by

Joseph J. Martocchio

University of Illinois

Lori K. Long

Baldwin Wallace University



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About the Authors



STEPHEN P. ROBBINS received his Ph.D. from the University of Arizona. He previously worked for the Shell Oil Company and Reynolds Metals Company and has taught at the University of Nebraska at Omaha, Concordia University in Montreal, the University of Baltimore, Southern Illinois University at Edwardsville, and San Diego State University. He is currently professor emeritus in management at San Diego State.

Dr. Robbins's research interests have focused on conflict, power, and politics in organizations, behavioral decision making, and the development of effective interpersonal skills. His articles on these and other topics have appeared in such journals as *Business Horizons*, the *California Management Review*, *Business and Economic Perspectives*, *International Management*, *Management Review*, *Canadian Personnel and Industrial Relations*, and *The Journal of Management Education*.

Dr. Robbins is the world's best-selling textbook author in the areas of management and organizational behavior. His books have sold more than 7 million copies and have been translated into 20 languages. His books are currently used at more than 1,500 U.S. colleges and universities, as well as hundreds of schools throughout Canada, Latin America, Australia, New Zealand, Asia, Europe, and the Arab World.

Dr. Robbins also participates in masters track competition. Since turning 50 in 1993, he's won 23 national championships and 14 world titles. He was inducted into the U.S. Masters Track & Field Hall of Fame in 2005.



MARY COULTER received her Ph.D. from the University of Arkansas. She held different jobs including high school teacher, legal assistant, and city government program planner before completing her graduate work. She has taught at Drury University, the University of Arkansas, Trinity University, and Missouri State University. She is currently professor emeritus of management at Missouri State University. In addition to *Management*, Dr. Coulter has published other books with Pearson including *Fundamentals of Management* (with Stephen P. Robbins), *Strategic Management in Action*, and *Entrepreneurship in Action*.

When she's not busy writing, Dr. Coulter enjoys puttingter around in her flower gardens, trying new recipes, reading all different types of books, and enjoying many different activities with husband Ron, daughters and sons-in-law Sarah and James, and Katie and Matt, and most especially with her two grandkids, Brooklynn and Blake, who are the delights of her life!

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The book you have before you is one of the world's most popular introductory management textbooks. It's used by several hundred U.S. colleges and universities; it's translated into Spanish, French, Russian, Dutch, Bahasa, Korean, and Chinese; and there are adapted editions for Australia, Canada, India, and the Arab World.

For a textbook first published in 1984—in a crowded market where there are currently several dozen choices, why has Robbins/Coulter *Management* been so popular and enduring? We believe there are three characteristics that set us apart: contemporary topic coverage, readability, and relevance.

Contemporary Topic Coverage

We have always prided ourselves on bringing the latest management issues and research to this book. In preparing each edition, we carefully comb the academic journals and business periodicals to identify topics that students need to be current on. For instance, prior editions of this book were the first to discuss self-managed teams, emotional intelligence, open-book management, sustainability, social entrepreneurship, stretch goals, the contingent workforce, self-managed careers, wearable technology, big data, and design thinking.

This current edition continues the tradition by including a new section on disruptive innovation. No topic appears to be more current or important to students today than dealing with major structural changes taking place in industries as varied as automobiles, hotels, banking, TV networks, or book publishing. In fact, there are few industries that aren't being threatened by disruptive innovation. In Chapter 6, we define disruptive innovation; explain why it's important; describe who is vulnerable; and discuss implications for entrepreneurs, corporate managers, and your career planning.

Key Changes to the 14th Edition

- Chapter 6 on managing change has been expanded to include a discussion of disruptive innovation as an important driver of change.
- The Part 2 module on creating and leading entrepreneurial ventures has become a separate chapter (Chapter 10). We've expanded our discussion, added end-of-chapter applications, and acknowledged the importance of entrepreneurship by giving it its own chapter.
- The two chapters on organizational design have been merged into one chapter (Chapter 11) in response to comments by users and reviewers. But we've retained the key concepts that students need to know.
- The addition of "Workplace Confidential" pages throughout the book which address common frustrations and challenges that employees face in the workplace.
- Current and timely topics—including the Internet of things, real-time feedback, and choosing appropriate communication media, among others—have been added.
- Dozens of current examples illustrating management practices and challenges in start-up and established organizations, small and large organizations, and manufacturing, service and technology organizations have been added.

Readability

Every author claims his or her books are highly readable. The reality is that few actually are. From the first edition of this book, we were determined to make the field of management interesting and engaging for the reader. How did we do it? First, we committed to a

conversational writing style. We wanted the book to read like normal people talk. Second, we relied on an extensive use of examples. As your senior author learned early in his teaching career, students don't remember theories but they do remember stories. So you'll find a wealth of current examples in this book.

A well-written book should be able to be used successfully at all levels of higher education, from community colleges to graduate programs. And over its 30+ years of life, this book has done just that. You'll find this book is used in community colleges, at for-profit colleges, by undergraduate students at both regional and land-grant universities, and in numerous graduate programs.

Relevance

Students are unlikely to be motivated if they think a course and its textbooks aren't relevant to their career goals. We've responded to this challenge in a number of ways. Our latest inclusion is an important new feature—the *Workplace Confidential* pages—that's designed to make this book more meaningful to non-management majors. We also want to highlight four additional features that have helped build this book's reputation for practicality.

Providing value to non-management students. New to this edition are in-chapter pages entitled *Workplace Confidential*. This unique feature marks a distinct break from what typically has been included in the traditional introductory management text.

Your authors have long heard a common complaint about the introductory management course from students in majors such as accounting, finance, and marketing. As summed up by one accounting student: "Why do I need to take a management course? I have no interest in pursuing a career in management!" Even though that accounting student might some day lead an audit team or manage an office of a major CPA firm, we understand those non-management majors who question the relevance of this course to their career goals. We've listened and responded.

We've made the contents of this 14th edition relevant to any student who plans to work in an organization. Regardless of whether an organization employs three people or 300,000, there are common challenges that every employee encounters. We've researched those challenges and identified the nearly dozen-and-a-half most frequent. Then we looked at providing students with guidance for dealing with these challenges. The result is the *Workplace Confidential* features that you'll find throughout this book. For instance, you'll find suggestions for dealing with organizational politics, job stress, coping with an uncommunicative or abusive boss, and responding to an unfair performance review.

Insights from real managers. One feature that has differentiated Robbins/Coulter for more than 15 years is our "real" managers. Student feedback tells us that they appreciate learning from real managers in their everyday jobs. In *Let's Get Real* boxes, actual managers respond to problem scenarios. In *Leader Making a Difference* boxes, you'll meet a variety of global executives whose knowledge and skills significantly influenced organizational outcomes.

Focus on skills. Today's students need both knowledge (knowing) and skills (doing). Students want to leave class knowing what management is all about but also with the skills necessary to help them succeed in today's workplaces. In response, you'll find several features in this book that are designed to build skill expertise. *It's Your Career* chapter openers cover skills ranging from managing time and being self aware to being a pro at giving feedback and being change ready. These chapter openers include information about the skill and are reinforced with a *Pearson MyLab Management* component that tests students' comprehension of the skill. Also, at the end of each chapter, you'll find more skill exercises, where we provide a thorough discussion of additional skills and give students opportunities to practice these skills.

Looking ahead. Students are going to spend most of their future work life in a setting that's likely to look very different from today. To help students prepare for that future, we have included *Future Vision* boxes throughout the book that look at how

management and organizations might change over the next 15 to 20 years. Although no one has a perfectly accurate view into the future, certain trends in place today offer insights into what tomorrow's work world might look like. We draw from recent research and forecasts to consider this future.

Pearson MyLab Management Suggested Activities

Making assessment activities available online for students to complete before coming to class will allow you, the instructor, more discussion time during the class to review areas that students are having difficulty in comprehending. The activities below are available in Pearson MyLab Management and are integrated into the textbook.

Watch It

Recommends a video clip that can be assigned to students for outside classroom viewing or that can be watched in the classroom. The video corresponds to the chapter material and is accompanied by multiple-choice questions that reinforce students' comprehension of the chapter content.

Try It

Recommends a mini simulation that can be assigned to students as an outside classroom activity or be done in the classroom. As the students watch the simulation they will be asked to make choices based on the scenario presented in the simulation. At the end of the simulation the student will receive immediate feedback based on the answers they gave. These simulations reinforce the concepts of the chapter and the students' comprehension of those concepts.

Talk About It

These are discussion-type questions that can be assigned as an activity within the classroom.

Write It

Students can be assigned these broad-based, critical-thinking discussion questions that will challenge them to assimilate information that they've read in the chapter.

Personal Inventory Assessments (PIA)

Students learn better when they can connect what they are learning to their personal experience. PIA (Personal Inventory Assessments) is a collection of online exercises designed to promote self-reflection and engagement in students, enhancing their ability to connect with concepts taught in principles of management, organizational behavior, and human resource management classes. Assessments are assignable by instructors who can then track students' completions. Student results include a written explanation along with a graphic display that shows how their results compare to the class as a whole. Instructors will also have access to this graphic representation of results to promote classroom discussion.

Assisted Graded Writing Questions

These are short essay questions that the students can complete as an assignment and submit to you, the professor, for grading.

Chapter-by-Chapter Changes

Chapter 1

- New *FYI* features
- New *Workplace Confidential: Dealing with Organizational Politics*
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Ethics Dilemma*

- New examples
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on the ALS Ice Bucket Challenge

Chapter 2

- New *Workplace Confidential: Making Good Decisions*
- New examples
- New *Future Vision: Crowdsourcing Decisions*
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on Card Connection's business model to decide on franchisee locations
- New Case Application on Manchester City Football Club's use of big data in game strategies

Chapter 3

- Updated *It's Your Career* opener and Pearson MyLab Management component: Developing Your Global Perspective: Jump-start Your Cultural Intelligence
- Updated *Future Vision: Communicating in a Connected World*
- New *Leader Making a Difference: Lucy Peng (Alibaba)*
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New examples
- New *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on expanding internationally at Tableau, a technology company

Chapter 4

- New *Future Vision: Diversity of Thought*
- New *FYI* features
- New examples
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential: Dealing with Diversity*
- New *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on ethical management at Albergo Etico

Chapter 5

- New *FYI* features
- New *Workplace Confidential: Balancing Work and Personal Life*
- New examples
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on ethical problems at Volkswagen

Chapter 6

- New *It's Your Career* opener and Pearson MyLab Management component: Learning to Manage Your Stress
- New *Future Vision: The Internet of Things*
- New *FYI* features
- New *Workplace Confidential: Coping with Job Stress*

- New Examples
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real's*
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on the iPhone as a technology disruptor

Chapter 7

- New *Leader Making a Difference*: Indra Nooyi (Pepsi)
- New *FYI* features
- New *Watch It*, Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential*: Adjusting to a New Job or Work Team
- New examples
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on organizational culture at Tesco
- New Case Application on Amazon's use of drone technology

Chapter 8

- New *Future Vision*: Using Social Media for Environmental Scanning
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Workplace Confidential*: When You Face a Lack of Clear Directions
- New examples
- New *Let's Get Real*
- New *Ethics Dilemma*
- New *Working Together* and updated *My Turn to Be a Manager* activities
- New Case Application on shipping challenges at Hermès

Chapter 9

- New *Leader Making a Difference*: Mary Barra (GM)
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Workplace Confidential*: Developing a Career Strategy
- New examples
- New *Let's Get Real*
- New *Ethics Dilemma*
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on Costco's strategy

Chapter 10

- New *It's Your Career* opener and Pearson MyLab Management component: Being Entrepreneurial Even If You Don't Want to Be an Entrepreneur
- New *Leader Making a Difference*: Mark Zuckerberg (Facebook)
- New *Future Vision*: The Growth of Social Businesses
- New *FYI* features
- New *Watch It*, Pearson MyLab Management recommended video assignments
- New *Let's Get Real's*
- New *Workplace Confidential*: Dealing with Risks
- New examples
- New *Ethics Dilemma*
- New *Personal Inventory Assessment*
- New *Working Together* and *My Turn to Be a Manager* activities
- New Skills Exercise: Developing Grit
- New Case Applications on Jamie Oliver's unique social business at Fifteen

Chapter 11

- New *FYI* features
- New *Workplace Confidential*: Coping with Multiple Bosses

- New examples
- New *Working Together* activity

Chapter 12

- New *Leader Making a Difference*: Dr. Dara Richardson-Heron (YWCA USA)
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential*: Handling Difficult Coworkers
- New examples
- Updated *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on self-directed teams at W.L. Gore and Associates

Chapter 13

- New *It's Your Career* opener and Pearson MyLab Management component: Negotiating Your Salary
- New *Future Vision*: Gamification of HR
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential*: Job Search
- New examples
- Updated statistics
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on Maersk and the HR management challenges in China
- New Case Application on BAE Systems making use of schedule based working

Chapter 14

- New *It's Your Career* opener and Pearson MyLab Management component: I'm Listening
- New *Future Vision*: No Longer Lost in Translation
- New *Leader Making a Difference*: Angela Ahrendts (Apple)
- New *FYI* features
- New *Workplace Confidential*: An Uncommunicative Boss
- New examples
- New *Let's Get Real*
- New Skills Exercise: Developing Your Presentation Skills
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on performance feedback at Amazon

Chapter 15

- New *Leader Making a Difference*: Carolyn McCall (easyJet)
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential*: An Abusive Boss
- New examples
- New *Ethics Dilemma*
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on the Tencent Holdings, China

Chapter 16

- New *Leader Making a Difference*: Dr. Delos "Toby" Cosgrove (Cleveland Clinic)
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Workplace Confidential*: A Micromanaging Boss

- New examples
- New *Let's Get Real*
- New *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on PepsiCo's Indra Nooyi imbibing qualities of an inspirational leader

Chapter 17

- New *Leader Making a Difference*: Susan Wojcicki (YouTube)
- New *FYI* features
- New *Workplace Confidential*: Feelings of Unfair Pay
- New examples
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Application on Hong Kong Disneyland's HR programs to motivate employees
- New Case Application on John Lewis Partnership balancing success and happiness

Chapter 18

- New *Future Vision*: Real-time Feedback
- New *FYI* features
- New *Watch It* Pearson MyLab Management recommended video assignments
- New *Let's Get Real*
- New *Workplace Confidential*: Responding to an Unfair Performance Review
- New examples
- New *Ethics Dilemma*
- Updated Skills Exercise, new *Working Together* and *My Turn to Be a Manager* activities
- New Case Applications on Chipotle's food contamination problems and Bring Your Own Device programs

For Students Taking a Management Course:

What This Course Is About and Why It's Important

This course and this book are about management and managers. Managers are one thing that all organizations—no matter the size, kind, or location—need. And there's no doubt that the world managers face has changed, is changing, and will continue to change. The dynamic nature of today's organizations means both rewards *and* challenges for the individuals who will be managing those organizations. Management is a dynamic subject, and a textbook on it should reflect those changes to help prepare you to manage under the current conditions. We've written this 14th edition of *Management* to provide you with the best possible understanding of what it means to be a manager confronting change and to best prepare you for that reality.

But not every student aspires to a career in management. And even if you do, you may be five or ten years away from reaching a managerial position. So you might rightly feel that taking a course in management now may be getting ahead of the game. We hear you. In response to these concerns, we've added new material to this book that is important and relevant to everyone working in an organization—manager and non-manager alike. Our "Workplace Confidential" pages identify, analyze, and offer suggestions for dealing with the major challenges that surveys indicate frustrate employees the most. You should find these pages valuable for helping you survive and thrive in your workplace. Surprisingly, this topic has rarely been addressed in business programs. Inclusion in an introductory management course appeared to us to be a logical place to introduce these challenges and to provide guidance in handling them.

Instructor Resources

At the Pearson's catalog, <https://www.pearsonglobaleditions.com/Robbins>, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <https://support.pearson.com/getsupport> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- Instructor's Resource Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoint Presentation

This title is available as an eBook and can be purchased at most eBook retailers.

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Our team at Pearson has been amazing to work with, as always! This team of editors, production experts, technology gurus, designers, marketing specialists, sales representatives, and warehouse employees works hard to turn our files into a bound textbook and a digital textbook and sees that it gets to faculty and students. We couldn't do this without all of you! Our sincere thanks to the people who made this book "ready to go," including Stephanie Wall, Kris Ellis-Levy, Claudia Fernandes, Hannah Lamarre, and Nancy Moudry, as well as Kathy Smith and the team at Cenveo. All of you are consummate professionals who truly are committed to publishing the best textbooks! We're glad to have you on our team!

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Chapter 1

Managers and You in the Workplace

It's Your Career



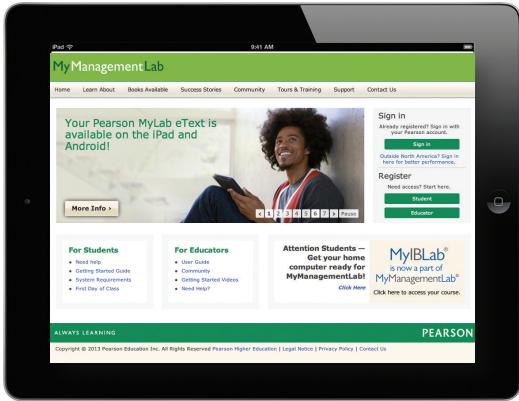
Source: valentint/Fotolia

A key to success in management and in your career is having good time management skills.

The ABC's of Managing Your Time

Are you *BUSY*? Do you always seem to have a lot to do and never seem to get it done, or done on time, or are things done at the last minute under a lot of pressure and stress? If you're like most people, the answer to these questions is YES! Well, maybe in a management textbook we need to do something about that by focusing on one aspect of management that can be tremendously useful to you . . . **TIME MANAGEMENT!** Time is a unique resource and one of your most valuable resources. Time is also a limited resource. First, if it's wasted, it can never be replaced. People talk about saving time, but time can never actually be saved. Second, unlike resources such as money or talent, which are distributed unequally in the world, time is an equal-opportunity resource. Each one of us gets exactly the same amount of time: 24 hours per day or 168 hours each week. But as you have undoubtedly observed, some people are a lot more efficient in using their allotment. It is not uncommon to hear others say that they need additional hours to get everything done, but that is simply wishful thinking. Commit to improving your ability to manage those 168 hours so you can be more efficient and effective—in your career and in your personal life! Here are some suggestions to help you better use your time:

- 1. Make and keep a list of all your current, upcoming, and routine goals.** Know what needs to be done daily, weekly, and monthly.
- 2. Rank your goals according to importance.** Not all goals are of equal importance. Given the limitations on your time, you want to make sure you give highest priority to the most important goals.
- 3. List the activities/tasks necessary to achieve your goals.** What specific actions do you need to take to achieve your goals?
- 4. Divide these activities/tasks into categories using an A, B, and C classification.** The A's are important and urgent. B's are either important or urgent, but not both. C's are routine—not important nor urgent, but still need to be done.



Pearson MyLab Management®

★ Improve Your Grade!

When you see this icon, visit www.mymanagementlab.com for activities that are applied, personalized, and offer immediate feedback.

Learning Objectives

● SKILL OUTCOMES

- 1.1 **Tell** who managers are and where they work.
 - **Know how to manage your time.**
- 1.2 **Explain** why managers are important to organizations.
- 1.3 **Describe** the functions, roles, and skills of managers.
 - **Develop your skill** at being politically aware.
- 1.4 **Describe** the factors that are reshaping and redefining the manager's job.
- 1.5 **Explain** the value of studying management.

5. Schedule your activities/tasks according to the priorities you've set. Prepare a daily plan. Every morning, or at the end of the previous workday, make a list of the five or so most important things you want to do for the day. Then set priorities for the activities listed on the basis of importance and urgency.

6. Plan your to-do list each day so that it includes a mixture of A, B, and C activities/tasks. And it's best to spread the three types of tasks throughout your day so you're not lumping together all your demanding tasks. Also, be realistic about what you can achieve in a given time period.

7. Recognize that technology makes it too easy to stay connected. Just think for a moment how many phone calls, e-mails, texts, postings

on social media, and unscheduled visitors you receive on a typical day. Some are essential to the tasks at hand, while others are distractions that do not require immediate attention. Prioritize the importance of this information.

8. Realize that priorities may change as your day or week proceeds. New information may change a task's importance or urgency. As you get new information, reassess your list of priorities and respond accordingly.

9. Remember that your goal is to manage getting your work done as efficiently and effectively as you can. It's not to become an expert at creating to-do lists. Find what works best for you and use it!

Like many students, you've probably had a job (or two) at some time or another while working on your degree. And your work experiences, regardless of where you've worked, are likely to have been influenced by the skills and abilities of your manager. What are today's successful managers like and what skills do they need in dealing with the problems and challenges of managing in the twenty-first century? This text is about the important work that managers do. The reality facing today's managers—and that might include you in the near future—is that the world is changing. In workplaces of

all types—offices, stores, labs, restaurants, factories, and the like—managers deal with changing expectations and new ways of managing employees and organizing work. In this chapter, we introduce you to managers and management by looking at (1) who managers are and where they work, (2) why managers are important, and (3) what managers do. Finally, we wrap up the chapter by (4) looking at the factors reshaping and redefining the manager’s job and (5) discussing why it’s important to study management.

WHO are managers and where do they work?

LO1.1

Managers may not be who or what you might expect! Managers can range in age from 18 to 80+. They run large corporations, medium-sized businesses, and entrepreneurial start-ups. They’re also found in government departments, hospitals, not-for-profit agencies, museums, schools, and even nontraditional organizations such as political campaigns and music tours. Managers can also be found doing managerial work in every country on the globe. In addition, some managers are top-level managers while others are first-line managers. And today, managers are just as likely to be women as they are men; however, the number of women in top-level manager positions remains low—only 24 (4%) women were CEOs of Fortune 500 companies in 2014.¹ Similarly, only 20 (4%) were minorities. Even in government leadership roles, women are far outnumbered by men in the U.S. Senate and House of Representatives, representing approximately 20 percent of these total elected officials.² But no matter where managers are found or what gender or race they are, managers have exciting and challenging jobs!



Carnival Corporation’s CEO Arnold Donald is the top manager of the world’s largest cruise line, with over 100,000 employees from different cultures and countries, 10 cruise line brands, and 100 ships. His challenging job involves making decisions and developing plans that help Carnival achieve its goal “to show our guests the kind of fun that memories are made of.”

Source: Jason DeCrow/AP Images for Carnival Corporation

manager

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

Who Is a Manager?

It used to be fairly simple to define who managers were: They were the organizational members who told others what to do and how to do it. It was easy to differentiate *managers* from *nonmanagerial employees*. Now, it isn’t quite that simple. In many organizations, the changing nature of work has blurred the distinction between managers and nonmanagerial employees. Many traditional nonmanagerial jobs now include managerial activities.³ For example, the gaming company Valve does not award job titles, and there is little formal supervision. Virtually any employee is free to start a project as long as the employee obtains funding and assembles a project team.⁴ Or consider an organization like Morning Star Company, the world’s largest tomato processor, where no employees are called managers—just 400 full-time employees who do what needs to be done and who together “manage” issues such as job responsibilities, compensation decisions, and budget decisions.⁵ Sounds crazy, doesn’t it? But it works—for this organization. (See Case Application 2 at the end of the chapter to see how another business—Zappos—has gone bossless!)

So, how *do* we define who managers are? A **manager** is someone who coordinates and oversees the work of other people so organizational goals can be accomplished. A manager’s job is not about *personal* achievement—it’s about helping *others* do their work. That may mean coordinating the work of a departmental group, or it might mean supervising a single person. It could involve coordinating the work activities of a team with people from different departments or even people outside the organization such as temporary employees or individuals who work for the organization’s suppliers. Keep in mind that managers may also have work duties not related to coordinating and overseeing others’ work. For example, an insurance claims supervisor might process claims in addition to coordinating the work activities of other claims clerks.

How can managers be classified in organizations? In traditionally structured organizations (often pictured as a pyramid because more employees are at lower



Exhibit 1-1
Levels of Management

organizational levels than at upper organizational levels), managers can be classified as first-line, middle, or top. (See Exhibit 1-1.) At the lowest level of management, **first-line (or frontline) managers** manage the work of nonmanagerial employees who typically are involved with producing the organization's products or servicing the organization's customers. These managers often have titles such as *supervisors* or even *shift managers*, *district managers*, *department managers*, or *office managers*. **Middle managers** manage the work of first-line managers and can be found between the lowest and top levels of the organization. They may have titles such as *regional manager*, *project leader*, *store manager*, or *division manager*. Middle managers are mainly responsible for turning company strategy into action. At the upper levels of the organization are the **top managers**, who are responsible for making organization-wide decisions and establishing the plans and goals that affect the entire organization. These individuals typically have titles such as *executive vice president*, *president*, *managing director*, *chief operating officer*, or *chief executive officer*.

Not all organizations are structured to get work done using a traditional pyramidal form, however. Some organizations, for example, are more loosely configured, with work done by ever-changing teams of employees who move from one project to another as work demands arise. For instance, Atlassian, a global software company based in Australia, forms employee teams with the skills and experience needed for each work project. When a project is complete, the team disbands and its members join new teams. Because team members may be in separate buildings or even in separate countries, Atlassian emphasizes clear and constant communication.⁶ Although it's not as easy to tell who the managers are in these organizations, we do know that someone must fulfill that role—that is, someone must coordinate and oversee the work of others, even if that “someone” changes as work tasks or projects change or that “someone” doesn't necessarily have the title of manager.

Where Do Managers Work?

It's obvious that managers work in organizations. But what is an **organization**? It's a deliberate arrangement of people to accomplish some specific purpose. Your college or university is an organization; so are fraternities and sororities, government departments, churches, Google, your neighborhood grocery store, the United Way, the St. Louis Cardinals baseball team, and the Mayo Clinic. All are considered organizations and have three common characteristics. (See Exhibit 1-2.)

first-line (frontline) managers
Managers at the lowest level of management who manage the work of nonmanagerial employees

middle managers
Managers between the lowest level and top levels of the organization who manage the work of first-line managers

top managers
Managers at or near the upper levels of the organization structure who are responsible for making organization-wide decisions and establishing the goals and plans that affect the entire organization

organization
A deliberate arrangement of people to accomplish some specific purpose

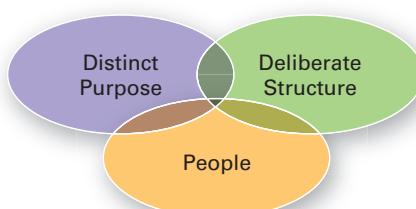


Exhibit 1-2
Characteristics of Organizations



- Frontline managers directly supervise some 93 percent of all nonsupervisory employees.
- 9.3 million managers and executives were in the U.S. workforce in 2014.
- 6.9 million middle managers were in the U.S. workforce
- 2.4 million top executives were in the U.S. workforce.⁷

First, an organization has a distinct purpose typically expressed through goals the organization hopes to accomplish. Second, each organization is composed of people. It takes people to perform the work that's necessary for the organization to achieve its goals. Third, all organizations develop a deliberate structure within which members do their work. That structure may be open and flexible, with no specific job duties or strict adherence to explicit job arrangements. For instance, most big projects at Google (at any one time, hundreds of projects are in process simultaneously) are tackled by small, focused employee teams that set up in an instant and complete work just as quickly.⁸ Or the structure may be more traditional—like that of Procter & Gamble or General Electric or any large corporation—with clearly defined rules, regulations, job descriptions, and some members identified as “bosses” who have authority over other members. In the military, there is a well-defined hierarchy. In the U.S. Air Force, the General of the Air Force is the highest ranking officer and Second Lieutenant is the lowest ranking officer. Between the two are nine officer ranks.

Many of today's organizations are structured more like Google, with flexible work arrangements, employee work teams, open communication systems, and supplier alliances. In these organizations, work is defined in terms of tasks to be done. And workdays have no time boundaries since work can be—and is—done anywhere, anytime. However, no matter what type of approach an organization uses, some deliberate structure is needed so work can get done, with managers overseeing and coordinating that work.

FUTURE VISION

Is It Still Managing When What You're Managing Are Robots?

While this text presents a fairly accurate description of today's workplace, you're going to spend most of your work life in the future. What will that work life look like? How will it be different from today? The workplace of tomorrow is likely to include workers that are faster, smarter, more responsible—and who just happen to be robots.⁹ Are you at all surprised by this statement? Although robots have been used in factory and industrial settings for a long time, it's becoming more common to find robots in the office, and it's bringing about new ways of looking at how work is done and at what and how managers manage. So what *would* the manager's job be like managing robots? And even more intriguing is how these “workers” might affect how human coworkers interact with them.

As machines have become smarter, researchers have been looking at human-machine interaction and how people interact with the smart devices that are now such an integral part of our professional and personal lives. One conclusion is that people find it easy to bond with a robot, even one that doesn't look or sound anything like a real person. In a workplace setting, if a robot moves around in a “purposeful way,” people tend to view it, in some ways, as a coworker. People name their robots and can even describe the robot's moods and tendencies. As telepresence robots become more common, the humanness becomes even more evident.

For example, when Erwin Deininger, the electrical engineer at Reimers Electra Steam, a small company in Clear Brook, Virginia, moved to the Dominican Republic when his wife's job transferred her there, he was able to still be “present” at the company via his VGo robot. Now “robot” Deininger moves easily around the office and the shop floor, allowing the “real” Deininger to do his job just as if he were there in person. The company's president, satisfied with how the robot solution has worked out, has been surprised at how he acts around it, feeling at times that he's interacting with Deininger himself.

There's no doubt that robot technology will continue to be incorporated into organizational settings. The manager's job will become even more exciting and challenging as humans and machines work together to accomplish an organization's goals.

If your professor has chosen to assign this, go to www.mymanagementlab.com to discuss the following questions.

TALK ABOUT IT 1: What's your response to the title of this box: Is it still managing when what you're managing are robots? Discuss.

TALK ABOUT IT 2: If you had to “manage” people and robots, how do you think your job as manager might be different than what the chapter describes?

WHY are managers important?

L01.2

What can a great boss do?

- Inspire you professionally and personally
- Energize you and your coworkers to accomplish things together that you couldn't get done by yourself
- Provide coaching and guidance with problems
- Provide you feedback on how you're doing
- Help you to improve your performance
- Keep you informed of organizational changes
- Change your life¹⁰

If you've worked with a manager like this, consider yourself lucky. Such a manager can make going to work a lot more enjoyable and productive. However, even managers who don't live up to such lofty ideals and expectations are important to organizations. Why? Let's look at three reasons.

The first reason why managers are important is because *organizations need their managerial skills and abilities* more than ever in uncertain, complex, and chaotic times. As organizations deal with today's challenges—changing workforce dynamics, the worldwide economic climate, changing technology, ever-increasing globalization, and so forth—managers play an important role in identifying critical issues and crafting responses. For example, BlackBerry Limited introduced software for autonomous cars. The company's vehicle-to-vehicle software will enable cars to communicate with each other to prevent collisions and improve traffic flow.¹¹ Teams of talented scientists and engineers create the hardware and software to make this possible. But it takes more than that to be successful. There has to be a focus on commercial potential. For example, Virgin Galactic and Xcor Aerospace are working toward creating a new industry—space tourism for civilians. These companies possess the technological and scientific know-how and resources to make this a reality; however, the fare for a suborbital flight around Earth is expected to be about \$100,000 per passenger.¹² Most people will not have the discretionary funds to take these flights. That's why, behind the scenes, you'd also find a team of managers who scrutinize ideas and focus on the question: *Is there a sustainable market?* These managers realize what is critical to success. The opposite "types" have worked together and created a successful business.¹³

Another reason why managers are important to organizations is because *they're critical to getting things done*. For instance, Philips has thousands of general managers who supervise the work of 113,000 employees worldwide.¹⁴ These managers deal with all kinds of issues as the company's myriad tasks are carried out. They create and coordinate the workplace environment and work systems so that others can perform those tasks. Or, if work isn't getting done or isn't getting done as it should be, they're the ones who find out why and get things back on track. And these managers are key players in leading the company into the future.

Finally, *managers do matter* to organizations! How do we know that? The Gallup Organization, which has polled millions of employees and tens of thousands of managers, has found that the single most important variable in employee productivity and loyalty isn't pay or benefits or workplace environment—it's the quality of the relationship between employees and their direct supervisors.¹⁵ In addition, global consulting firm Towers Watson found that the way a company manages and engages its people can significantly affect its financial performance.¹⁶ Companies that hire managers based on talent realize a 48 percent increase in profitability, a 22 percent increase in productivity, a 30 percent increase in employee engagement scores, a 17 percent increase in customer engagement scores, and a 19 percent decrease in turnover.¹⁷ That's scary considering another study by the Gallup Organization found that leadership is the single largest influence on employee engagement.¹⁸ In yet another study by different researchers, 44 percent of the respondents said their supervisors strongly increased engagement.¹⁹ However, in this same study, 41 percent of respondents also said their supervisors strongly decreased engagement. And, a different study of organizational performance found that managerial ability was important in creating organizational value.²⁰ So, as you can see, managers can and do have an impact—positive and negative. What can we conclude from such reports? Managers are important—and they *do* matter!

WHAT do managers do?

L01.3

Simply speaking, management is what managers do. But that simple statement doesn't tell us much, does it? Let's look first at what management is before discussing more specifically what managers do.

management

Coordinating and overseeing the work activities of others so their activities are completed efficiently and effectively

efficiency

Doing things right, or getting the most output from the least amount of inputs

effectiveness

Doing the right things, or doing those work activities that will result in achieving goals

Management involves coordinating and overseeing the work activities of others so their activities are completed efficiently and effectively. We already know that coordinating and overseeing the work of others is what distinguishes a managerial position from a nonmanagerial one. However, this doesn't mean that managers or their employees can do what they want anytime, anywhere, or in any way. Instead, management involves ensuring that work activities are completed efficiently and effectively by the people responsible for doing them, or at least that's what managers should be doing.

Efficiency refers to getting the most output from the least amount of inputs or resources. Managers deal with scarce resources—including people, money, and equipment—and want to use those resources efficiently. Efficiency is often referred to as “doing things right,” that is, not wasting resources. For instance, Southwest Airlines has achieved operating efficiency through a variety of practices, which include using one aircraft model (Boeing 737) throughout its fleet. Using one model simplifies scheduling, operations, and flight maintenance, and the training costs for pilots, ground crew, and mechanics are lower because there's only a single aircraft to learn.²¹ These efficient work practices paid off, as Southwest has made a profit for 42 consecutive years!²²

It's not enough, however, just to be efficient. Management is also concerned with employee effectiveness. **Effectiveness** is often described as “doing the right things,” that is, doing those work activities that will result in achieving goals. Besides being efficient, Southwest Airlines' mission is “dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.”²³ Two of the many reasons cited for the airlines' effectiveness are permitting two checked bags for free and permitting a change in itinerary without incurring a penalty.²⁴ Whereas efficiency is concerned with the *means* of getting things done, effectiveness is concerned with the *ends*, or attainment of organizational goals (see Exhibit 1-3). In successful organizations, high efficiency and high effectiveness typically go hand in hand. Poor management (which leads to poor performance) usually involves being inefficient and ineffective or being effective but inefficient.

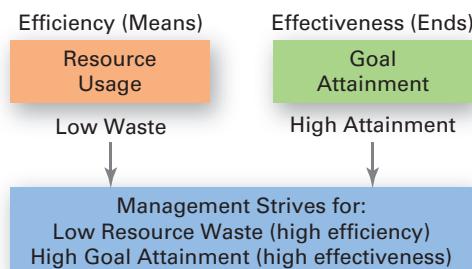
★ It's Your Career

Time Management—If your instructor is using Pearson MyLab Management, log onto www.mymanagementlab.com and test your *time management knowledge*. Be sure to refer back to the chapter opener!

Now let's take a more detailed look at what managers do. Describing what managers do isn't easy. Just as no two organizations are alike, no two managers' jobs are alike. In spite of this, management researchers have developed three approaches to describe what managers do: functions, roles, and skills.

Exhibit 1-3

Efficiency and Effectiveness in Management



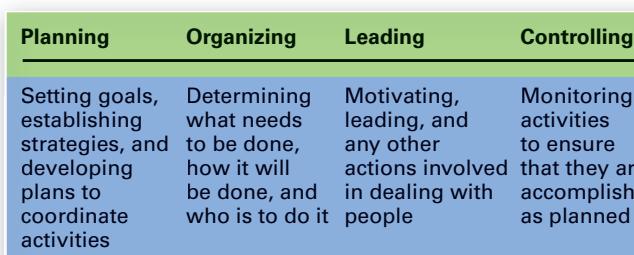


Exhibit 1-4
Four Functions of Management

Management Functions

According to the functions approach, managers perform certain activities or functions as they efficiently and effectively coordinate the work of others. What are these functions? Henri Fayol, a French businessman in the early part of the twentieth century, suggested that all managers perform five functions: planning, organizing, commanding, coordinating, and controlling.²⁵ (See Management History Module for more information.) Today, we use four functions to describe a manager's work: planning, organizing, leading, and controlling (see Exhibit 1-4). Let's briefly look at each.

If you have no particular destination in mind, then any road will do. However, if you have someplace in particular you want to go, you've got to plan the best way to get there. Because organizations exist to achieve some particular purpose, someone must define that purpose and the means for its achievement. Managers are that someone. As managers engage in **planning**, they set goals, establish strategies for achieving those goals, and develop plans to integrate and coordinate activities.

Managers are also responsible for arranging and structuring work that employees do to accomplish the organization's goals. We call this function **organizing**. When managers organize, they determine what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

Every organization has people, and a manager's job is to work with and through people to accomplish goals. This is the **leading** function. When managers motivate subordinates, help resolve work group conflicts, influence individuals or teams as they work, select the most effective communication channel, or deal in any way with employee behavior issues, they're leading.

The final management function is **controlling**. After goals and plans are set (planning), tasks and structural arrangements are put in place (organizing), and people are hired, trained, and motivated (leading), there has to be an evaluation of whether things are going as planned. To ensure goals are met and work is done as it should be, managers monitor and evaluate performance. Actual performance is compared with the set goals. If those goals aren't achieved, it's the manager's job to get work back on track. This process of monitoring, comparing, and correcting is the controlling function.

Just how well does the functions approach describe what managers do? Do managers always plan, organize, lead, and then control? Not necessarily. What a manager does may not always happen in this sequence. However, regardless of the order in which these functions are performed, managers do plan, organize, lead, and control as they manage.

If your professor has assigned this, go to www.mymanagementlab.com to complete the *Simulation: What Is Management?* and see how well you can apply the ideas of planning, organizing, leading, and controlling.



Leading is an important function of The Container Store manager Jaimie Moeller (left). She influences the behavior of employees by leading them in a team huddle before they begin their work day. Coaching employees to succeed in the store's team-selling environment helps Moeller achieve the store's sales performance and customer service goals.

Source: ZUMA Press Inc/Alamy

planning

Management function that involves setting goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities

organizing

Management function that involves arranging and structuring work to accomplish the organization's goals

leading

Management function that involves working with and through people to accomplish organizational goals

controlling

Management function that involves monitoring, comparing, and correcting work performance

Try It 1!

Although the functions approach is a popular way to describe what managers do, some have argued that it isn't relevant.²⁶ So let's look at another perspective.

let's get REAL

The Scenario:

Micah, one of your best employees, was just promoted to a managerial position. You invited him to lunch to celebrate and to see what was on his mind about his new position. Waiting for your food to arrive, you asked him if he had any concerns or questions about being a manager. Looking straight at you, Micah said, "How is being a manager going to be different? What will I do as a manager?"

How would you respond?

Being a manager means that you have a greater responsibility to consider, and keep in mind big-picture organizational goals and how your work and that of your staff contribute to those goals. As a manager you also have a responsibility to think about development opportunities for any team members who may now report to you. How will you help to put them on a path toward growth and success?

Maribel Lara
Director, Account Management



Source: Maribel Lara

Mintzberg's Managerial Roles and a Contemporary Model of Managing

Henry Mintzberg, a well-known management researcher, studied actual managers at work. In his first comprehensive study, Mintzberg concluded that what managers do can best be described by looking at the managerial roles they engage in at work.²⁷ The term **managerial roles** refers to specific actions or behaviors expected of and exhibited by a manager. (Think of the different roles you play—student, employee, student organization member, volunteer, sibling, and so forth—and the different things you’re expected to do in these roles.) When describing what managers do from a roles perspective, we’re not looking at a specific person per se, but at the expectations and responsibilities associated with the person in that role—the role of a manager.²⁸ As shown in Exhibit 1-5, these 10 roles are grouped around interpersonal relationships, the transfer of information, and decision making.

The **interpersonal roles** involve people (subordinates and persons outside the organization) and other ceremonial and symbolic duties. The three interpersonal roles include figurehead, leader, and liaison. The **informational roles** involve collecting, receiving, and disseminating information. The three informational roles include monitor, disseminator, and spokesperson. Finally, the **decisional roles** entail making decisions or choices and include entrepreneur, disturbance handler, resource allocator, and negotiator. As managers perform these roles, Mintzberg proposed that their activities included both reflection (thinking) and action (doing).²⁹

A number of follow-up studies have tested the validity of Mintzberg’s role categories, and the evidence generally supports the idea that managers—regardless of the type of organization or level in the organization—perform similar roles.³⁰ However, the emphasis that managers give to the various roles seems to change with organizational level.³¹ At higher levels of the organization, the roles of disseminator, figurehead, negotiator, liaison, and spokesperson are more important; while the leader role (as Mintzberg defined it) is more important for lower-level managers than it is for either middle or top-level managers.

managerial roles

Specific actions or behaviors expected of and exhibited by a manager

interpersonal roles

Managerial roles that involve people and other duties that are ceremonial and symbolic in nature

informational roles

Managerial roles that involve collecting, receiving, and disseminating information

decisional roles

Managerial roles that revolve around making choices



Exhibit 1-5
Mintzberg's Managerial Roles

Source: Based on H. Mintzberg, *The Nature of Managerial Work* (New York: Prentice Hall, 1983).

So which approach is better, managerial functions or Mintzberg's propositions? Although each does a good job of depicting what managers do, the functions approach still seems to be the generally accepted way of describing the manager's job. "The classical functions provide clear and discrete methods of classifying the thousands of activities managers carry out and the techniques they use in terms of the functions they perform for the achievement of goals."³² However, Mintzberg's role approach and additional model of managing do offer us other insights into managers' work.

Management Skills

UPS is a company that understands the importance of management skills.³³ The company's new on-road supervisors are immersed in a new manager orientation where they learn people and time management skills. The company started an intensive eight-day offsite skills training program for first-line managers as a way to improve its operations. What have supervisors learned from the skills training? Some things they mentioned learning were how to communicate more effectively and important information about safety compliance and labor practices.

What types of skills do managers need? Robert L. Katz proposed that managers need three critical skills in managing: technical, human, and conceptual.³⁴ (Exhibit 1-6 shows the relationships of these skills to managerial levels.) **Technical skills** are the job-specific knowledge and techniques needed to proficiently perform work tasks. These skills tend to be more important for first-line managers

technical skills
Job-specific knowledge and techniques needed to proficiently perform work tasks

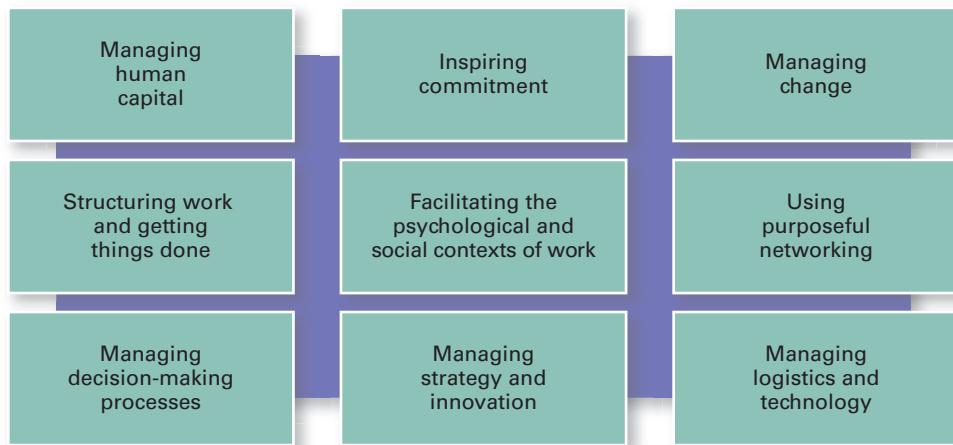
Top Managers	Conceptual	Human	Technical
Middle Managers	Conceptual	Human	Technical
Lower-Level Managers	Conceptual	Human	Technical

Exhibit 1-6
Skills Needed at Different Managerial Levels

Exhibit 1-7

Important Managerial Skills

Source: Based on *Workforce Online*; J. R. Ryan, *Bloomberg BusinessWeek Online*; In-Sue Oh and C. M. Berry; and R. S. Rubin and E. C. Dierdorff.



interpersonal skills

The ability to work well with other people individually and in a group

conceptual skills

The ability to think and to conceptualize about abstract and complex situations

because they typically manage employees who use tools and techniques to produce the organization's products or service the organization's customers. Often, employees with excellent technical skills get promoted to first-line manager. For example, Dean White, a production supervisor at Springfield Remanufacturing, started as a parts cleaner. Now, White manages 25 people in six departments. He noted that at first it was difficult to get people to listen, especially his former peers. "I learned I had to gain respect before I could lead," White said. He credits mentors—other supervisors whose examples he followed—with helping him become the type of manager he is today.³⁵ Dean is a manager who has technical skills, but also recognizes the importance of **interpersonal skills**, which involve the ability to work well with other people both individually and in a group. Because all managers deal with people, these skills are equally important to all levels of management. Managers with good human skills get the best out of their people. They know how to communicate, motivate, lead, and inspire enthusiasm and trust. Finally, **conceptual skills** are the skills managers use to think and to conceptualize about abstract and complex situations. Using these skills, managers see the organization as a whole, understand the relationships among various subunits, and visualize how the organization fits into its broader environment. Managers then can effectively direct employees' work. For example, Ian McAllister, general manager at Amazon, indicates that a successful general manager understands the whole business. With this understanding, managers can get everyone on the same page. In turn, employees will make a substantial number of decisions in support of the company's vision.³⁶ These skills are most important to top managers.

Other important managerial skills that have been identified are listed in Exhibit 1-7. In today's demanding and dynamic workplace, employees who want to be valuable assets must constantly upgrade their skills, and developing management skills can be particularly beneficial. We feel that understanding and developing management skills is so important that we've included a skills activity component for each chapter's *It's Your Career* opener. You'll find that activity at www.mymanagementlab.com. In addition, we've included a career skills feature at the end of each chapter. (The one in this chapter looks at developing your political skills.) Although completing skill-building exercises won't make you an instant expert, they can provide you an introductory understanding of some of the skills you'll need to master to be a valuable employee and an effective manager.



If your professor has assigned this, go to **mymanagementlab.com** and complete the Writing Assignment *MGMT 1: Management Skills*.

let's get REAL

The Scenario:

After three years as a lead customer service representative for an Internet-based clothing company, Jane is eager to apply for a team supervisor position. She has good relationships with the employees in her department, but she is not sure what skills she needs to have to be considered for the promotion. At her performance appraisal meeting with her manager, she asks, "What can I do to build my skills to prepare me to become a supervisor?"



Source: Whitney Portman

Whitney Portman

Senior Marketing Communications Manager

What advice can you give Jane on developing her skills?

As you advance in your career, the biggest shift in your skill set will be going from the "doer" to the "delegator." Instead of getting all the work done, you'll become air traffic control and act as more of a guide for your employees. You can hone these leadership skills before ever actually getting the role. Try to approach each new project as if you were leading the team responsible for it. Think more strategically and consider the broader business objectives versus just the details of the tasks at hand. Your manager will start to notice this shift in your mindset and it will become clear that you're ready to seamlessly take on the new responsibilities.

HOW is the manager's job changing?

L01.4

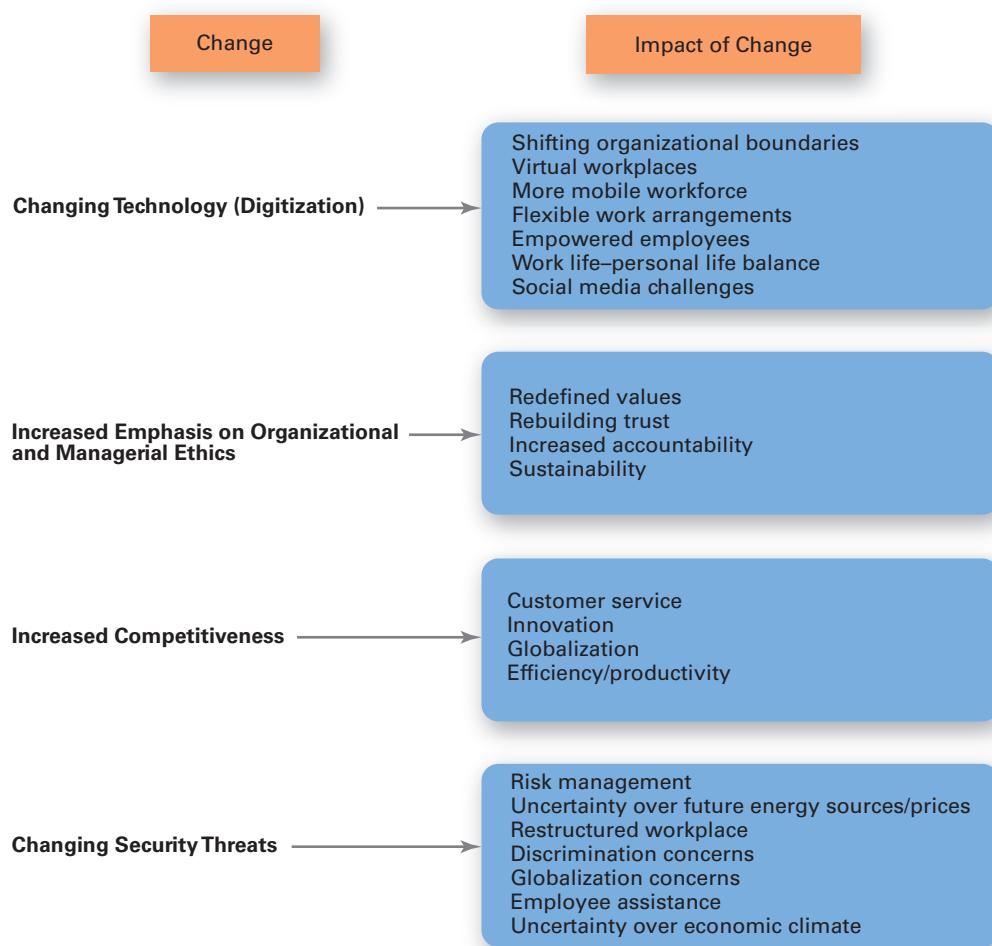
In today's world, managers are dealing with global economic and political uncertainties, changing workplaces, ethical issues, security threats, and changing technology. For example, as annual sales surge past 500,000 vehicles, a major challenge for Jaguar Land Rover is staffing its UK assembly plants to meet demand. The Halewood plant near Liverpool has tripled its workforce during the past six years and is always seeking qualified employees. To attract a large and diverse pool of job candidates, managers created apprenticeships for recent graduates. They also launched "Young Women in the Know," a program in which Jaguar Land Rover's women engineers and managers conducted factory tours to get girls and women interested in manufacturing. At the same time, these managers are facing decisions in an uncertain environment now that the United Kingdom has voted to exit the European Union.³⁷ It's likely that more managers *will* have to manage under such demanding circumstances, and the fact is that *how* managers manage is changing. Exhibit 1-8 shows some of the most important changes facing managers. Throughout the rest of this text, we'll discuss these and other changes and how they affect the way managers plan, organize, lead, and control. We want to focus on six of these changes: customers, technology, social media, innovation, sustainability, and the employee.

Focus on the Customer

John Legere, CEO of T-Mobile, likes to listen to customers. "My business philosophy is listen to your employees, listen to your customers. Shut up and do what they tell you. And each of our Un-carrier moves and the way I run my company is completely aligned with that."³⁸ This manager understands the importance of customers and clearly believes that focusing on customers is essential to success. Without them, most organizations would cease to exist. Yet, focusing on the customer has long been thought to be the responsibility of marketing types. "Let the marketers worry about the customers" is

Exhibit 1-8

Changes Facing Managers



how many managers felt. That sentiment is out of date. At Banana Republic, the customer experience manager position is responsible for ensuring that customers enjoy a high-quality in-store experience. This manager is also responsible for staffing and training as well as supporting the implementation of product placement, marketing, and promotional strategies.³⁹ We're discovering, however, that employee attitudes and behaviors play a big role in customer satisfaction and a return on investment. The J.D. Power 2015 North American Airline Satisfaction Study supports this idea. According to J.D. Power's global travel and hospitality practice leader, Rich Garelick, building customer satisfaction creates "better customer advocates for the airline."⁴⁰ Successful airlines such as Alaska Airlines and Jet Blue Airways treat passengers well by putting forward friendly announcements to inform them on the ground or in the air about flight status and offering amenities such as in-flight entertainment.

Today, the majority of employees in developed countries work in service jobs. For instance, almost 80 percent of the U.S. labor force is employed in service industries.⁴¹ In Australia, 75 percent work in service industries, and in Canada, 76 percent do. In the



With the growing popularity of tourism in the Dominican Republic, a large percentage of the labor force works in service jobs for resorts, attractions, and tourist-related activities such as the aerobics instructor shown here leading a class on the beach for tourists. To succeed in the service industry, managers must create a customer-responsive organization.

Source: Ellen McKnight/Alamy

United Kingdom, Germany, and Japan, the percentages are 83, 74, and 71, respectively. Even in developing countries such as Colombia, Dominican Republic, Vietnam, and Bangladesh, we find 62 percent, 65 percent, 31 percent, and 40 percent of the labor force employed in service jobs.⁴² Examples of service jobs include technical support representatives, food servers or fast-food counter workers, sales clerks, custodians and housekeepers, teachers, nurses, computer repair technicians, front-desk clerks, consultants, purchasing agents, credit representatives, financial planners, and

bank tellers. The odds are pretty good that when you graduate, you'll go to work for a company that's in a service industry, not in manufacturing or agriculture.

Managers are recognizing that delivering consistent, high-quality customer service is essential for survival and success in today's competitive environment. Good customer care pays off. A recent study found that nearly all customers (92%) whose issue was resolved during first contact with customer service would likely continue using the company.⁴³ That number drops to about half (51%) for customers whose issue was not resolved during first contact. Employees are an important part of that equation.⁴⁴ The implication is clear: managers must create a customer-responsive organization where employees are friendly and courteous, accessible, knowledgeable, prompt in responding to customer needs, and willing to do what's necessary to please the customer.⁴⁵ We'll look at customer service management in other chapters.

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled *Zane's Cycles: The Management Environment* and to respond to questions.



Focus on Technology

Managers increasingly face challenges in their work because technology has been changing how things get done. Cloud computing, social media, and robotics are examples of technology. Getting employees on board presents a challenge to many managers. Managers must work with employees to understand why new technology is an improvement over present ways of conducting business. According to Didier Bonnet, coauthor of *Leading Challenge*, “The job of a manager is to help people cross the bridge—to get them comfortable with the technology, to get them using it, and to help them understand how it makes their lives better.”⁴⁶

It is a myth that social skills have become less important because there is more technology in the workplace. Take robotic technology. Software programming can systemize human decision making and physical tasks, which can be carried out by machinery. However, technological advances have fallen short of replicating human interactions and technology falls short of substituting human judgment. Particularly in team settings, workers rely on each other's expertise, and they are able to adapt to changing circumstances than is made possible by software.⁴⁷ As a result, managers are continually challenged to oversee team building and problem solving. Management expert Henry Mintzberg, however, warns that “wonderful as they are in enhancing communication, [technological devices] can have a negative effect on collaboration unless they are carefully managed. An electronic device puts us in touch with a keyboard, that's all.”⁴⁸ Therein lies a significant challenge for managers. Social media technology adds further challenges to the mix.

Focus on Social Media

You probably can't imagine a time when employees did their work without smart devices, e-mail, or Internet access. Yet, some 25 years ago, as these tools were becoming more common in workplaces, managers struggled with the challenges of providing guidelines for using the Internet and e-mail in their organizations. Today, the new frontier is **social media**, forms of electronic communication through which users create online communities to share ideas, information, personal messages, and other content. And employees don't just use these on their personal time, but also for work purposes. That's why managers need to understand and manage the power and peril of social media. For instance, all 143,000 workers in the Singapore Civil Service are being encouraged to use a workplace chat function provided by Facebook for internal conversations. The idea is to reduce reliance on email and instead enable real-time collaboration among employees.⁴⁹ More businesses are turning to social media as a way to connect with customers. Increasingly, many companies encourage employees to use social media to become employee activists. For this purpose, employee activists draw visibility to their workplace, defend their employers from criticism, and serve as advocates, both online and off.⁵⁰

social media

Forms of electronic communication through which users create online communities to share ideas, information, personal messages, and other content

But the potential peril is in how it's used. CEO of Berkshire Hathaway, Warren Buffett, has said that, "It takes 20 years to build a reputation and five minutes to ruin it."⁵¹ Internally, social media also becomes problematic when it becomes a way for boastful employees to brag about their accomplishments, for managers to publish one-way messages to employees, or for employees to argue or gripe about something or someone they don't like at work—then it has lost its usefulness. To avoid this, managers need to remember that social media is a tool that needs to be managed to be beneficial. At SuperValu, about 9,000 store managers and assistant managers use the social media system. Although sources say it's too early to draw any conclusions, it appears that managers who actively make use of the system are having better store sales revenues than those who don't.

In the remainder of the book, we'll look at how social media is impacting how managers manage, especially in the areas of human resource management, communication, teams, and strategy. For example, a particular question is whether human resource managers should use social media to screen potential employees.

Watch It 2!

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled **CH2M Hill: Emotions and Moods** and to respond to questions.

Focus on Innovation

Success in business today demands innovation. Innovation means exploring new territory, taking risks, and doing things differently. And innovation isn't just for high-tech or other technologically sophisticated organizations. Innovative efforts can be found in all types of organizations. For instance, the manager of the Best Buy store in Manchester, Connecticut, clearly understood the importance of being innovative, a task made particularly challenging because the average Best Buy store is often staffed by young adults in their first or second jobs who aren't always committed long term to a retail career. Yet, the increasingly sophisticated products carried by the store required a high level of employee training. The store manager tackled this challenge by getting employees to suggest new ideas. One idea—a "team close," in which employees scheduled to work at the store's closing time closed the store together and walked out together as a team—had a remarkable impact on employee attitudes and commitment.⁵³ As you'll see throughout the book, innovation is critical throughout all levels and parts of an organization. It's so

critical to today's organizations and managers that we also address this topic in other chapters.

LEADER making a DIFFERENCE



Ursula Burns is the first African American woman to lead a company the size of Xerox.⁵² Appointed to the CEO position in 2009, Burns is known for her courage to "tell the truth in ugly times." Having grown up in the projects on the Lower East Side of New York, Burns understands what it takes to get through

those uncertainties. With her aptitude for math, Burns went on to earn a mechanical engineering degree from Polytechnic Institute of New York. After a summer engineering internship at Xerox, she was hooked. At Xerox, Burns was mentored by individuals who saw her potential. Throughout her more than 30-year career at Xerox, Burns had a reputation for being bold. As a mechanical engineer, she got noticed because she wasn't afraid to speak up bluntly in a culture that's known more for being polite, courteous, and discreet than for being outspoken. Although Burns is still radically honest and direct, she has become more of a listener, calling herself a "listener-in-chief." What can you learn from this leader making a difference?

Focus on Sustainability

Microsoft Corporation generated \$93.6 billion in software sales and \$12.1 billion in profits, and it had a workforce of 118,000 in 2015. We all know Microsoft for its development and sales of software such as Windows, Skype, and Xbox Live. And Microsoft is probably the last company that you'd think about in a section describing sustainability. However, Microsoft invests in a variety of sustainability projects. Management funds these projects through taxes levied on its business units' energy consumption that contributes to environmentally unfriendly carbon emissions. The responsibility for savings falls on division managers. Microsoft's efforts have paid off. In a recent three-year period, the company has reduced its emissions by 7.5 metric tons of carbon dioxide.⁵⁴ According to the U.S. Environmental

Protection Agency, this level of emissions is the equivalent of removing more than 1.5 million cars from the road for a year.”⁵⁵ This corporate action affirms that sustainability and green management have become mainstream issues for managers.

What’s emerging in the twenty-first century is the concept of managing in a sustainable way, which has had the effect of widening corporate responsibility not only to managing in an efficient and effective way, but also to responding strategically to a wide range of environmental and societal challenges.⁵⁶ Although “sustainability” means different things to different people, the World Business Council for Sustainable Development describes a situation where all the earth’s inhabitants can live well with adequate resources.⁵⁷ From a business perspective, **sustainability** has been described as a company’s ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into its business strategies.⁵⁸ Sustainability issues are now moving up the agenda of business leaders and the boards of thousands of companies. We’ll examine sustainability and its importance to managers in other places throughout the book.

sustainability

A company’s ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into its business strategies

Focus on the Employee

In 2015, more than 75 percent of organizations worldwide indicated that they would follow a strategy of building talent from within their organizations rather than recruiting talent from the external labor force.⁵⁹ Also, progressive companies recognize the importance of treating employees well not only because it’s simply the right thing to do, but also because it is good business. Well-treated employees are more likely to go the extra mile when performing their jobs. Every year, *Fortune* magazine publishes the list titled Great Places to Work. In 2015, outdoor retailer L.L. Bean was among the top 10 retail companies, and it ranked first for an outdoor retailer. L.L. Bean president and CEO Chris McCormick maintains that L.L. Bean’s strong leadership makes it an employer of choice. According to McCormick, “It reflects the work our leadership has done to develop a culture that helps ensure employees feel trusted to do a good job, take pride in their work, and feel that their contributions are truly valued.”⁶⁰

Successful managers regularly provide performance feedback that serves as an evaluation of an employee’s performance and provides the foundation for discussing developmental opportunities. Effective performance appraisal outcomes depend on clearly communicating performance expectations and the resources available to help employees perform well and providing feedback on how well expectations were met. Also, conversations about an employee’s career aspirations in the context of past performance serve a developmental role that will motivate workers to strive for excellence. When performance appraisal works in these ways, the company stands to build a strong talent base. Developmental practices also can support a structure on which to base rewards. Effective managers strive to reward employees with competitive base wages or salary and pay raises that recognize past performance and future potential.

Successful managers often embrace work-life practices and provide encouragement to employees who wish to use them. Such behavior expresses the value the manager and company leadership place on the well-being of employees. The company stands to benefit through higher employee satisfaction, talent retention, and higher employee engagement.⁶¹

WHY study management?

L01.5

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

The Universality of Management

Just how universal is the need for management in organizations? We can say with absolute certainty that management is needed in all types and sizes of organizations, at all organizational levels and in all organizational work areas, and in all organizations, no matter where they’re located. This is known as the **universality of management**.

universality of management

The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in organizations no matter where located

Exhibit 1-9

Universal Need for Management



(See Exhibit 1-9.) In all these organizations, managers must plan, organize, lead, and control. However, that's not to say that management is done the same way. What a supervisor in an applications testing group at Twitter does versus what the CEO of Twitter does is a matter of degree and emphasis, not function. Because both are managers, both will plan, organize, lead, and control. How much and how they do so will differ, however.

Management is universally needed in all organizations, so we want to find ways to improve the way organizations are managed. Why? Because we interact with organizations every single day. Organizations that are well managed—and we'll share many examples of these throughout the text—develop a loyal customer base, grow, and prosper, even during challenging times. Those that are poorly managed find themselves losing customers and revenues. By studying management, you'll be able to recognize poor management and work to get it corrected. In addition, you'll be able to recognize and support good management, whether it's in an organization with which you're simply interacting or whether it's in an organization in which you're employed.

Try It 2!

If your professor has assigned this, go to www.mymanagementlab.com to complete *Simulation: Managing Your Career* and get a feel for your career goals.

The Reality of Work

Another reason for studying management is the reality that for most of you, once you graduate from college and begin your career, you will either manage or be managed. For those who plan to be managers, an understanding of management forms the foundation upon which to build your management knowledge and skills. For those of you who don't see yourself managing, you're still likely to have to work with managers. Also, assuming that you'll have to work for a living and recognizing that you're very likely to work in an organization, you'll probably have some managerial responsibilities even if you're not a manager. Our experience tells us that you can gain a great deal of insight into the way your boss (and fellow employees) behave and how organizations function by studying management. Our point is that you don't have to aspire to be a manager to gain something valuable from a course in management.

Rewards and Challenges of Being a Manager

We can't leave our discussion here without looking at the rewards and challenges of being a manager. (See Exhibit 1-10.) What *does* it mean to be a manager in today's workplace?

First, there are many challenges. It can be a tough and often thankless job. In addition, a portion of a manager's job (especially at lower organizational levels) may entail duties that are often more clerical (compiling and filing reports, dealing with bureaucratic procedures, or doing paperwork) than managerial.⁶² Managers also spend significant amounts of time in meetings and dealing with interruptions, which can be time

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

Exhibit 1-10

Rewards and Challenges of Being a Manager

consuming and sometimes unproductive.⁶³ Managers often have to deal with a variety of personalities and have to make do with limited resources. It can be a challenge to motivate workers in the face of uncertainty and chaos. And managers may find it difficult to successfully blend the knowledge, skills, ambitions, and experiences of a diverse work group. Finally, as a manager, you're not in full control of your destiny. Your success typically is dependent on others' work performance.

Despite these challenges, being a manager *can* be rewarding. You're responsible for creating a work environment in which organizational members can do their work to the best of their ability and thus help the organization achieve its goals. You help others find meaning and fulfillment in their work. You get to support, coach, and nurture others and help them make good decisions. In addition, as a manager, you often have the opportunity to think creatively and use your imagination. You'll get to meet and work with a variety of people—both inside and outside the organization. Other rewards may include receiving recognition and status in your organization and in the community, playing a role in influencing organizational outcomes, and receiving attractive compensation in the form of salaries, bonuses, and stock options. Finally, as we said earlier in the chapter, organizations need good managers. It's through the combined efforts of motivated and passionate people working together that organizations accomplish their goals. As a manager, you can be assured that your efforts, skills, and abilities are needed.

Gaining Insights into Life at Work

A good number of students regularly remind your authors that they are not planning a career in management. These students' career goals are to be accountants or financial analysts or marketing researchers or computer programmers. They ask us: Why do I need to take a management course? Our answer is: Because understanding management concepts and how managers think will help you get better results at work and enhance your career. And who knows, you may become a manager someday. Oftentimes, successful employees are promoted to managerial roles. For example, you may begin your career as an auditor with a major accounting firm and find, a few years later, you're overseeing an audit team or you're a partner thrust into managing a regional office.

For instance, throughout this book you'll encounter pages that we call "Workplace Confidential." This feature will introduce you to challenges you're likely to face at work—like organizational politics, an uncommunicative boss, or an unfair performance review—and offer you specific suggestions on how to deal with these challenges.

If you expect to work with others—whether it's in a Fortune 100 corporation or in a three-person start-up—studying Management can pay demonstrable dividends.

WORKPLACE CONFIDENTIAL**Dealing with Organizational Politics**

In an ideal world, the good guys always win, everyone tells the truth, and job promotions and generous pay raises go to the most deserving candidate. Unfortunately, we don't live in such an ideal world. The world we live in is a political one.

Politics is a fact of life in organizations. People who ignore this fact do so at their own peril. But why, you may wonder, must politics exist? Isn't it possible for an organization to be politics free? It's possible, but most unlikely.

Organizations are made up of individuals and groups with different values, goals, and interests. This sets up the potential for conflict over resources. Departmental budgets, office allocations, project responsibilities, promotion choices, and salary adjustments are just a few examples of the resources about whose allocation organizational members will disagree.

Resources in organizations are also limited, which turns potential conflict into real conflict. If resources were abundant, then all the various constituencies within the organization could satisfy their goals. But because they are limited, not everyone's interests can be provided for. Furthermore, whether true or not, gains by one individual or group are often perceived as being at the expense of others within the organization. These forces create a competition among members for the organization's limited resources.

Maybe the most important factor leading to politics within organizations is the realization that most of the facts that are used to allocate the limited resources are open to interpretation. What, for instance, is good performance? What's an adequate improvement? What constitutes an unsatisfactory job? One person's team player is another's "yes man." So it is the large and ambiguous middle ground of organizational life—where the facts don't speak for themselves—that politics flourish.

The above explains why some people in the workplace lie, misrepresent, conceal, backstab, play favorites, scheme, pass the buck, deny responsibility, form alliances, or engage in similar political actions.

If you want to improve your political skills at work, we offer the following suggestions:

- **Frame arguments in terms of organizational goals.**

People whose actions appear to blatantly further their own interests at the expense of the organization are almost universally denounced, are likely to lose influence, and often suffer the ultimate penalty of being expelled from the organization. Challenges to your actions are not likely to gain much support if your actions appear to be in the best interests of the organization.

- **Develop the right image.** Make sure you understand what your organization wants and values from its employees—in terms of dress, associates to cultivate and those to avoid, whether to appear to be a risk taker or risk averse, the importance of getting along with others, and so forth. Because the assessment of your performance is rarely a fully objective process, you need to pay attention to style as well as substance.

- **Gain control of organizational resources.** The control of organizational resources that are scarce and important is a source of influence. Knowledge and expertise are particularly effective resources to control. These resources make you more valuable to the organization and, therefore, more likely to gain security, advancement, and a receptive audience for your ideas.

- **Make yourself appear indispensable.** You don't have to be indispensable as long as key people in your organization believe that you are. If the organization's prime decision makers believe there is no ready substitute for what you bring to the organization, your job is likely safe and you're likely to be treated well.

- **Be visible.** If you have a job that brings your accomplishments to the attention of others, that's great. However, if not—without creating the image of a braggart—you'll want to let others know what you're doing by giving progress reports to your boss and others, having satisfied customers relay their appreciation to higher-ups, being seen at social functions, being active in your professional associations, and developing powerful allies who can speak positively about your accomplishments.

- **Develop powerful allies.** It is often beneficial to have friends in high places. Network by cultivating contacts with potentially influential people above you, at your own level, and in the lower ranks. These allies often can provide you with information that's otherwise not readily available and provide you with support if and when you need it. Having a mentor in the organization who is well respected is often a valuable asset.

- **Avoid "tainted" members.** In almost every organization, there are fringe members whose status is questionable. Their performance and/or loyalty are suspect. Or they have strange personalities. Keep your distance from such individuals. Given the reality that effectiveness has a large subjective component, your own effectiveness might be called into question if you're perceived as being too closely associated with tainted members.

- **Support your boss.** Your immediate future is in the hands of your current boss. Because that person evaluates your performance, you'll typically want to do whatever is necessary to have your boss on your side. You should make every effort to help your boss succeed, make her look good, support her if she is under siege, and spend the time to find out the criteria she will use to assess your effectiveness. Don't undermine your boss. And don't speak negatively of her to others.

Based on D. Krackhardt, "Assessing the Political Landscape: Structure, Cognition, and Power in Organizations," *Administrative Science Quarterly*, June 1990, pp. 342–369; G. R. Ferris, S. L. Davidson, and P.L. Perrewé, *Political Skill at Work: Impact on Work Effectiveness* (Mountain View, CA: Davies-Black Publishing, 2005); and J. Bolander, "How to Deal with Organizational Politics," *The Daily MBA*, February 28, 2011.

Chapter 1

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO1.1

TELL who managers are and where they work.

Managers coordinate and oversee the work of other people so that organizational goals can be accomplished. Nonmanagerial employees work directly on a job or task and have no one reporting to them. In traditionally structured organizations, managers can be first-line, middle, or top. In other more loosely configured organizations, the managers may not be as readily identifiable, although someone must fulfill that role.

Managers work in an organization, which is a deliberate arrangement of people to accomplish some specific purpose. Organizations have three characteristics: They have a distinctive purpose, they are composed of people, and they have a deliberate structure. Many of today's organizations are structured to be more open, flexible, and responsive to changes.

LO1.2

EXPLAIN why managers are important to organizations.

Managers are important to organizations for three reasons. First, organizations need their managerial skills and abilities in uncertain, complex, and chaotic times. Second, managers are critical to getting things done in organizations. Finally, managers contribute to employee productivity and loyalty; the way employees are managed can affect the organization's financial performance, and managerial ability has been shown to be important in creating organizational value.

LO1.3

DESCRIBE the functions, roles, and skills of managers.

Broadly speaking, management is what managers do and involves coordinating and overseeing the efficient and effective completion of others' work activities. Efficiency means doing things right; effectiveness means doing the right things.

The four functions of management include planning (defining goals, establishing strategies, and developing plans), organizing (arranging and structuring work), leading (working with and through people), and controlling (monitoring, comparing, and correcting work performance).

Mintzberg's managerial roles include interpersonal, which involve people and other ceremonial/symbolic duties (figurehead, leader, and liaison); informational, which involve collecting, receiving, and disseminating information (monitor, disseminator, and spokesperson); and decisional, which involve making choices (entrepreneur, disturbance handler, resource allocator, and negotiator).

Katz's managerial skills include technical (job-specific knowledge and techniques), interpersonal (ability to work well with people), and conceptual (ability to think and express ideas). Technical skills are most important for lower-level managers, while conceptual skills are most important for top managers. Interpersonal skills are equally important for all managers. Some other managerial skills identified include managing human capital, inspiring commitment, managing change, using purposeful networking, and so forth.

LO1.4

DESCRIBE the factors that are reshaping and redefining the manager's job.

The changes impacting managers' jobs include global economic and political uncertainties, changing workplaces, ethical issues, security threats, and changing technology. Managers must focus on customer service because employee attitudes and behaviors play a big role in customer satisfaction. Managers must focus on technology

as it impacts how things get done in organizations. Managers must focus on social media because these forms of communication are important and valuable tools in managing. Managers must focus on innovation because it is important for organizations to be competitive. Managers must also focus on sustainability as business goals are developed. And finally, managers must focus on employees in order for them to be more productive.

L01.5**EXPLAIN the value of studying management.**

It's important to study management for three reasons: (1) the universality of management, which refers to the fact that managers are needed in all types and sizes of organizations, at all organizational levels and work areas, and in all global locations; (2) the reality of work—that is, you will either manage or be managed; and (3) the awareness of the significant rewards (such as creating work environments to help people work to the best of their ability, supporting and encouraging others, helping others find meaning and fulfillment in work, etc.) and challenges (having to work hard, sometimes having more clerical than managerial duties, interacting with a variety of personalities, etc.) in being a manager.

Pearson MyLab Management

Go to mymanagementlab.com to complete the problems marked with this icon 

★ REVIEW AND DISCUSSION QUESTIONS

- 1-1. What are the three main roles performed by a manager?
- 1-2. Why are managers important to organizations? What are their key responsibilities in an organization?
- 1-3. Mintzberg suggested that specific actions or behaviors expected of and exhibited by a manager comprise of three specific roles. Briefly explain them.
- 1-4. In your opinion, is management still relevant as a course of study today? Explain using relevant examples.
- 1-5. It is sometimes said that management is a tough and thankless job. Do you think this is true?
- 1-6. Is the task of seeking innovative processes really a manager's job?
- 1-7. Discuss how managers define organizational purpose. How would the managerial functions help in achieving that purpose?
- 1-8. Henri Fayol suggested that all managers perform the five functions of planning, organizing, commanding, coordinating, and controlling. Was he correct?

Pearson MyLab Management

If your professor has assigned these, go to mymanagementlab.com for the following Assisted-graded writing questions:

I-9. Is there one best “style” of management? Why or why not?

I-10. Christine Porath, together with the Harvard Business Review and Tony Schwartz, examined the views of 20,000 employees regarding commitment and engagement. The one thing that the employees could agree on was that they wanted respect from their leaders. Is management as simple as this? What other areas do you consider important?

PREPARING FOR: My Career

★ PERSONAL INVENTORY ASSESSMENTS



Time Management Assessment

Take a look at how well *you* manage time. This PIA will help you determine how skillfully you do that.

★ ETHICS DILEMMA

Mintzberg suggests that managerial roles should encompass interpersonal, decisional, and informational roles. Clearly this is an idealized vision of the manager. They are encouraged to encompass all of these characteristics but this is an unattainable goal. A manager can never be all these things at once.

- 1-11. To what extent is it unethical to expect a manager to have such a broad base of skills and abilities?
- 1-12. Do managerial models like this reflect the reality of day-to-day management? Explain.

SKILL EXERCISE Developing Your Political Skill

About the Skill

Research has shown that people differ in their political skills.⁶⁴ Political skill can be defined as the ability to understand and influence others for the benefit of the individual or the organization.⁶⁵ Those who are politically skilled are more effective in their use of influence tactics. Politically skilled individuals are able to exert their influence without others detecting it, which is important in being effective so that you're not labeled political. A person's political skill is determined by his or her networking ability, interpersonal influence, social astuteness, and apparent sincerity.

Steps in Practicing the Skill

- **Develop your networking ability.** A good network can be a powerful tool. You can begin building a network by getting to know important people in your work area and the organization and then developing relationships with individuals in positions of power. Volunteer for committees or offer your help on projects that will be noticed by those in positions of power. Attend important organizational functions so that you can be seen as a team player and someone who's interested in the organization's success. Utilize a professional networking site such as LinkedIn to connect with those you meet. Then, when you need advice on work, use your connections and network with others throughout the organization.
- **Work on gaining interpersonal influence.** People will listen to you when they're comfortable and feel at ease around you. Work on your communication skills so that you can

communicate easily and effectively with others. Work on developing good rapport with people in all areas and at all levels of your organization. Be open, friendly, and willing to pitch in. The amount of interpersonal influence you have will be affected by how well people like you.

- **Develop your social astuteness.** Some people have an innate ability to understand people and sense what they're thinking. If you don't have that ability, you'll have to work at developing your social astuteness by doing things such as saying the right things at the right time, paying close attention to people's facial expressions, and trying to determine whether others have hidden agendas.
- **Be sincere.** Sincerity is important to getting people to want to associate with you. Be genuine in what you say and do. And show a genuine interest in others and their situations.

Practicing the Skill

Select each of the components of political skill and spend one week working on it. Write a brief set of notes describing your experiences—good and bad. Were you able to begin developing a network of people throughout the organization or did you work at developing your social astuteness, maybe by starting to recognize and interpret people's facial expressions and the meaning behind those expressions? What could you have done differently to be more politically skilled? Once you begin to recognize what's involved with political skills, you should find yourself becoming more connected and politically adept.

WORKING TOGETHER Team Exercise

All of us have an idealized view of the skills and characteristics that a manager should possess. Often managers excel in certain areas, but fail in others. They may be quick-witted and decisive; however, they may lack the communication skills to disseminate their decisions and ideas. The fact is that managers who have a good grasp of the full range of skills are rare. In some cases this will cause

problems, either internally or externally, in an organization. Do you think managers should be fully rounded individuals? What skills might be less critical than others? Form small groups with 3–4 other class members and be prepared to share your lists with the rest of the class. Can you agree on a list of critical and non-critical skills?

MY TURN TO BE A MANAGER

- Use the most current *Occupational Outlook Handbook* (U.S. Department of Labor, Bureau of Labor Statistics) to research three different categories of managers. For each, prepare a bulleted list that describes the following: the nature of the work, training and other qualifications needed, earnings, and job outlook and projections data.
- Get in the habit of reading at least one current business periodical (*Wall Street Journal*, *Bloomberg BusinessWeek*, *Fortune*, *Fast Company*, *Forbes*, etc.). Sign up to follow a few of these publications on Twitter.
- Explore the social media presence of your favorite company. Like their Facebook page and follow them on Twitter, Instagram, and/or any other social media outlet the company uses.
- Interview two different managers and ask them the following questions: What are the best and worst parts about being a manager? What's the best management advice you ever received? Type up the questions and their answers to turn in to your professor.
- Accountants and other professionals have certification programs to verify their skills, knowledge, and professionalism. What about managers? Two certification programs for managers include the Certified Manager (Institute of Certified Professional Managers) and the Certified Business Manager (Association of Professionals in Business Management). Research each of these programs. Prepare a bulleted list of what each involves.
- If you have work experience, consider managers who you have encountered. Did you work with any good managers? Did you work with any bad managers? Based on your experience, create a list of traits or skills that good managers possess.

CASE APPLICATION 1 The Power of Social Media

In the summer of 2014, the ALS Association (ALSA) learned first-hand about the power of social media.⁶⁶ In just a little over a month, more than 17 million people dumped buckets of ice water over their heads, raising more than \$115 million for the ALSA in what became known as the Ice Bucket Challenge. To put that number in perspective, the organization raised just \$23 million in the entire previous year.

The ALSA is a nonprofit organization that supports the fight against amyotrophic lateral sclerosis (ALS), a disease that affects nerve cells in the brain and spinal cord. Often referred to as Lou Gehrig's disease, ALS affects about 20,000 people in the United States. As this number is far lower than other diseases such as cancer, ALS researchers do not receive as much federal funding, making ALSA's fundraising pivotal for the fight against the disease. In addition to supporting scientific research, the ALSA works to provide compassionate care for ALS patients and advocates for public policies that benefit people living with the disease.

How did the ALSA convince so many people to get involved in this fundraising success? Surprisingly, the organization had very little to do with it. The Ice Bucket Challenge was initiated by Chris Kennedy, a professional golfer whose brother-in-law has ALS. The challenge took off after reaching Pete Frates, a former Boston College baseball player, and his friend Pat Quinn, who both suffer from ALS. From there, the challenge became a worldwide sensation and attracted millions of participants including influential people such as Bill Gates, Mark Zuckerberg, and even President Barack Obama.

The Ice Bucket Challenge spread quickly due to the power of viral videos. Once challenged, individuals recorded themselves getting a bucket of ice water dumped on them and then challenged some friends to do the same. Videos were posted on Facebook and friends were tagged to do the challenge. If challenged, you could donate to the ALSA, or get dumped on. However, many people ended up doing the challenge and still donating. Why were people so willing to engage in this unpleasant experience? Carrie Munk, an ALS spokesperson, asked this question of many participants and reported that most people said they did it because they were asked.

Interestingly, many of those friends who were asking knew little about ALS. The movement went well beyond those who already were impacted by the disease. Barbara Newhouse, the CEO of ALSA, did admit the organization helped catalyze the movement with one e-mail to 60,000 on their mailing list, but otherwise it took off on its own. And thus the organization not only had its most successful fundraiser in history, but it also built international awareness of the disease.

Can the Ice Bucket Challenge become a sustainable source of funding for the ALSA? The organization is hoping that it can, initiating a campaign in 2015 to make it an annual event. However, the attempt to repeat the challenge the following year did not see the same results, raising only about 500,000 dollars in the same time frame. This was not a big surprise for the organization. ALSA leadership knew that because of the nature of the giving, the funding would not be sustainable at the same level. Many gave with little awareness, and that does not usually lead to repeat donations. Brian Frederick, ALSA's chief of staff, acknowledged they can't recreate the phenomenon but suggested they can build on the momentum of the 2014 events by making it an annual event.

DISCUSSION QUESTIONS

- 1-13. Why is it important for the ALSA management team to understand the importance of social media in their work?
- 1-14. Do you think the ALSA can continue to rely on the Ice Bucket Challenge to support the organization's fundraising efforts? Why or why not?
- 1-15. Do you think the Ice Bucket Challenge would have had the same success if the management at ALSA initiated the challenge?
- 1-16. What can the ALSA learn from this experience to help the organization take advantage of the power of social media in the future?

CASE APPLICATION **2** Who Needs a Boss?

“Holacracy.”⁶⁷ That’s the word of the day at Zappos, the Nevada-based online shoe and apparel retailer. During a four-hour, year-end employee meeting in 2013, CEO Tony Hsieh announced that he was eliminating the company’s traditional managerial and structural hierarchy to implement a holacracy. What is a holacracy, you ask? In a nutshell, it’s an organizational system with no job titles, no managers, and no top-down hierarchy with upper, middle, or lower levels where decisions can get hung up. The idea behind this new type of arrangement is to focus on the work that needs to be done and not on some hierarchical structure where great ideas and suggestions can get lost in the channels of reporting. The holacracy concept was dreamed up by Brian Robertson, the founder of a Pennsylvania software start-up. Its name comes from the Greek word *holos*, a single, autonomous, self-sufficient unit that’s also dependent on a larger unit.⁶⁸ A simple explanation of Robertson’s vision of a holacracy is workers as partners, job descriptions as roles, and partners organized into circles.⁶⁹ (It might help in grasping

this idea by thinking of these employee circles as types of overlapping employee groups but with more fluid membership and individual roles and responsibilities.)

In these circles, employees can take on any number of roles, and the expectation is that each employee will help out wherever he or she can. Without titles or a hierarchy, anyone can initiate a project and implement innovative ideas. The hope is that circle members will pool ideas and watch out for each other. The goal is radical transparency and getting more people to take charge. Yet, trusting individuals who probably know the details of the job better than any manager to work conscientiously, creatively, and efficiently is good as long as there is a way to keep standards high. The last thing Zappos wants is for a slacker mentality to take hold.

Hsieh has always approached leading his business in unique and radical ways. He strongly believes in the power of the individual and has created a highly successful organization (which is now part of Amazon) that's known for its zany culture, where corporate values are matched with personal values and where "weirdness and humility" are celebrated.⁷⁰ However, as the company moves away from the traditional work model to this new system, it may face some challenges. Both Zappos and Robertson caution that while a holacracy might eliminate the traditional manager's job, there is still structure and accountability. Poor performers will be obvious because they won't have enough "roles" to fill their time, or a circle charged with monitoring the company's culture may decide they're not a good fit. Also, just because there are no traditional managers doesn't mean that leaders won't emerge. But it will be important to watch for dominant personalities emerging as authority figures, which could potentially cause other employees to be resentful or to rebel. Zappos says that it will not be leaderless. Some individuals will have a bigger role and scope of purpose, but leadership is also distributed and expected in each role. "Everybody is expected to lead and be an entrepreneur in their own roles, and holacracy empowers them to do so."⁷¹ Also, there will be some structure arrangement where "the broadest circles can to some extent tell subgroups what they're accountable for doing."⁷² But accountability, rather than flowing only up, will flow throughout the organization in different paths. Other challenges they're still trying to figure out include who has the ultimate authority to hire, fire, and decide pay. The hope is that eventually the authority for each of these roles will be done within the holacratic framework as well. So, if no one has a title and there are no bosses, is Tony Hsieh still the CEO? So far, he hasn't publicly commented about how his own role is impacted.

DISCUSSION QUESTIONS

- 1-17. What is a holacracy?
- 1-18. What benefits do you see to an organization where there are no job titles, no managers, and no hierarchy?
- 1-19. What challenges does a holacratic approach have?
- 1-20. Discuss why you would or would not like to work in an organization like this.

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Management History *Module*

Henry Ford once said, “History is more or less bunk.” Well, he was wrong! History is important because it can put current activities in perspective. In this module, we’re going to take a trip back in time to see how the field of study called management has evolved. What you’re going to see is that today’s managers still use many elements of the historical approaches to management. Only through reflection can we fully appreciate the effects of the past on present thought and action. Use this knowledge to become effective managers by learning from past mistakes and successes. For now, focus on the following learning objectives as you read and study this module.

Learning Objectives

MH1.1 **Describe** some early management examples.

MH1.2 **Explain** the various theories in the classical approach.

MH1.3 **Discuss** the development and uses of the behavioral approach.

MH1.4 **Describe** the quantitative approach.

MH1.5 **Explain** various theories in the contemporary approach.



MH1.1 EARLY Management

Management has been practiced a long time. Organized endeavors directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. Let’s look at some of the most interesting examples.



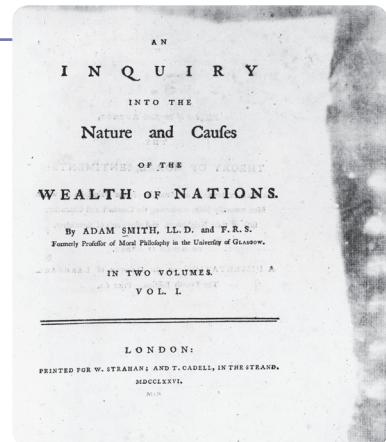
Source: Stephen Studd/The Image Bank/Getty Images

- The Egyptian pyramids and the Great Wall of China are proof that projects of tremendous scope, employing tens of thousands of people, were completed in ancient times.¹ It took more than 100,000 workers some 20 years to construct a single pyramid. Who told each worker what to do? Who ensured there would be enough stones at the site to keep workers busy? The answer is *managers*. Someone had to plan what was to be done, organize people and materials to do it, make sure those workers got the work done, and impose some controls to ensure that everything was done as planned.

In 1776, Adam Smith published *The Wealth of Nations*, in which he argued the economic advantages that organizations and society would gain from the **division of labor** (or **job specialization**)—that is, breaking down jobs into narrow and repetitive tasks. Using the pin industry as an example, Smith claimed that 10 individuals, each doing a specialized task, could produce about 48,000 pins a day among them. However, if each person worked alone performing each task separately, it would be quite an accomplishment to produce even 10 pins a day! Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, saving time lost in changing tasks and creating labor-saving inventions and machinery. Job specialization continues to be popular. For example, think of the specialized tasks performed by members of a hospital surgery team, meal preparation tasks done by workers in restaurant kitchens, or positions played by players on a football team.

Starting in the late eighteenth century when machine power was substituted for human power, a point in history known as the **industrial revolution**, it became more economical to manufacture goods in factories rather than at home. These large, efficient factories needed someone to forecast demand, ensure that enough material was on hand to make products, assign tasks to people, direct daily activities, and so forth. That “someone” was a manager. These managers would need formal theories to guide them in running these large organizations. It wasn’t until the early 1900s, however, that the first steps toward developing such theories were taken.

In this module, we’ll look at four major approaches to management theory: classical, behavioral, quantitative, and contemporary. (See Exhibit MH-1.) Keep in mind that each approach is concerned with trying to explain management from the perspective of what was important at that time in history and the backgrounds and interests of the researchers. Each of the four approaches contributes to our overall understanding of management, but each is also a limited view of what it is and how to best practice it.



Source: Fotosearch/Archive Photos/Getty Images



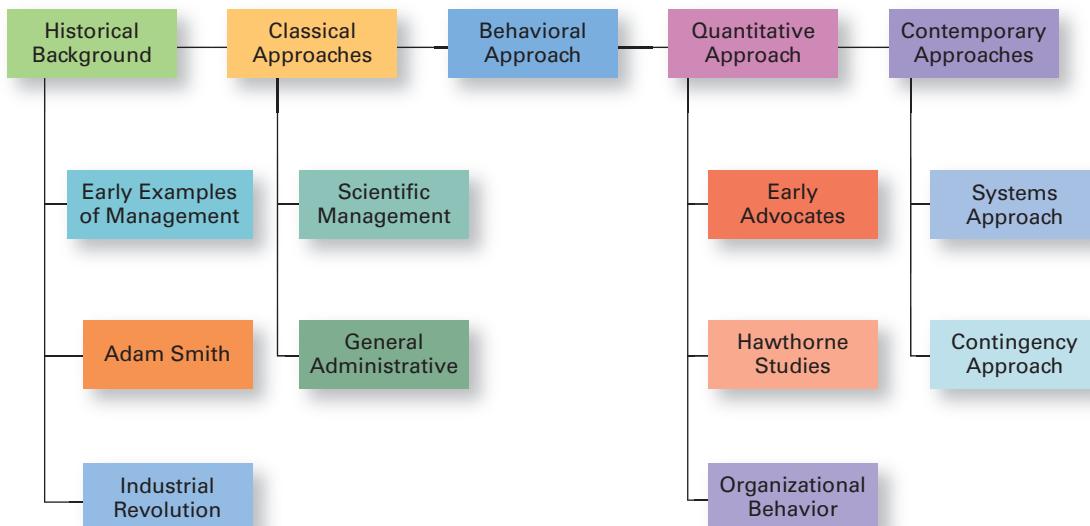
Source: Transcendental Graphics/Archive Photos/Getty Images

division of labor (job specialization)
The breakdown of jobs into narrow and repetitive tasks

industrial revolution
A period during the late eighteenth century when machine power was substituted for human power, making it more economical to manufacture goods in factories than at home

Exhibit MH-1

Major Approaches to Management



**MH1.2**

CLASSICAL Approach

classical approach

First studies of management, which emphasized rationality and making organizations and workers as efficient as possible

Although we've seen how management has been used in organized efforts since early history, the formal study of management didn't begin until early in the twentieth century. These first studies of management, often called the **classical approach**, emphasized rationality and making organizations and workers as efficient as possible. Two major theories compose the classical approach: scientific management and general administrative theory. The two most important contributors to scientific management theory were Frederick W. Taylor and the husband-wife team of Frank and Lillian Gilbreth. The two most important contributors to general administrative theory were Henri Fayol and Max Weber. Let's take a look at each of these important figures in management history.

Scientific Management

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



Source: Jacques Boyer/The Image Works

scientific management

An approach that involves using the scientific method to find the "one best way" for a job to be done

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

Taylor's experiences at Midvale led him to define clear guidelines for improving production efficiency. He argued that these four principles of management (see Exhibit MH-2) would result in prosperity for both workers and managers.² How did these scientific principles really work? Let's look at an example.

Probably the best known example of Taylor's scientific management efforts was the pig iron experiment. Workers loaded "pigs" of iron (each weighing 92 lb.) onto rail cars. Their daily average output was 12.5 tons. However, Taylor believed that by scientifically analyzing the job to determine the "one best way" to load pig iron, output could be increased to 47 or 48 tons per day. After scientifically applying different combinations of procedures, techniques, and tools, Taylor succeeded in getting that level of productivity. How? By putting the right person on the job with the correct tools and equipment, having the worker follow his instructions exactly, and motivating

Exhibit MH-2

Taylor's Scientific Management Principles

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

the worker with an economic incentive of a significantly higher daily wage. Using similar approaches for other jobs, Taylor was able to define the “one best way” for doing each job. Overall, Taylor achieved consistent productivity improvements in the range of 200 percent or more. Based on his groundbreaking studies of manual work using scientific principles, Taylor became known as the “father” of scientific management. His ideas spread in the United States and to other countries and inspired others to study and develop methods of scientific management. His most prominent followers were Frank and Lillian Gilbreth.

A construction contractor by trade, Frank Gilbreth gave up that career to study scientific management after hearing Taylor speak at a professional meeting. Frank and his wife Lillian, a psychologist, studied work to eliminate inefficient hand-and-body motions. The Gilbreths also experimented with the design and use of the proper tools and equipment for optimizing work performance.³ Also, as parents of 12 children, the Gilbreths ran their household using scientific management principles and techniques. In fact, two of their children wrote a book, *Cheaper by the Dozen*, which described life with the two masters of efficiency.

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

The Gilbreths invented a device called a microchronometer that recorded a worker’s hand-and-body motions and the amount of time spent doing each motion. Wasted motions missed by the naked eye could be identified and eliminated. The Gilbreths also devised a classification scheme to label 17 basic hand motions (such as search, grasp, hold), which they called **therbligs** (Gilbreth spelled backward with the *th* transposed). This scheme gave the Gilbreths a more precise way of analyzing a worker’s exact hand movements.

HOW TODAY’S MANAGERS USE SCIENTIFIC MANAGEMENT Many of the guidelines and techniques Taylor and the Gilbreths devised for improving production efficiency are still used in organizations today. When managers analyze the basic work tasks that must be performed, use time-and-motion study to eliminate wasted motions, hire the best-qualified workers for a job, or design incentive systems based on output, they’re using the principles of scientific management. Nowadays, adaptive robotics can help boost worker efficiency. By freeing workers from repetitive tasks, one study revealed that workers could complete essential tasks requiring manual dexterity 25 percent faster.⁴ At ABB, a Swiss energy and automation company, the use of adaptive robots reduced workers’ idle time by 85 percent.⁵

General Administrative Theory

General administrative theory focused more on what managers do and what constituted good management practice. We introduced Henri Fayol in Chapter 1 because he first identified five functions that managers perform: planning, organizing, commanding, coordinating, and controlling.⁶

Fayol wrote during the same time period as Taylor. While Taylor was concerned with first-line managers and the scientific method, Fayol’s attention was directed at the activities of *all* managers. He wrote from his personal experience as the managing director of a large French coal-mining firm.

Fayol described the practice of management as something distinct from accounting, finance, production, distribution, and other typical business functions. His belief that management was an activity common to all business endeavors, government, and



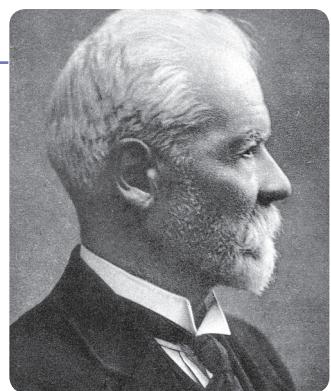
Source: Bettmann/Getty Images

therbligs

A classification scheme for labeling basic hand motions

general administrative theory

An approach to management that focuses on describing what managers do and what constitutes good management practice



Source: Jacques Boyer/The Image Works

Exhibit MH-3

Fayol's 14 Principles of Management

1. **Division of work.** Specialization increases output by making employees more efficient.
2. **Authority.** Managers must be able to give orders, and authority gives them this right.
3. **Discipline.** Employees must obey and respect the rules that govern the organization.
4. **Unity of command.** Every employee should receive orders from only one superior.
5. **Unity of direction.** The organization should have a single plan of action to guide managers and workers.
6. **Subordination of individual interests to the general interest.** The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration.** Workers must be paid a fair wage for their services.
8. **Centralization.** This term refers to the degree to which subordinates are involved in decision making.
9. **Scalar chain.** The line of authority from top management to the lowest ranks is the scalar chain.
10. **Order.** People and materials should be in the right place at the right time.
11. **Equity.** Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel.** Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.** Employees allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps.** Promoting team spirit will build harmony and unity within the organization.

Source: Based on Henri Fayol's 1916 Principles of Management, "Administration Industrielle et Générale," translated by C. Storrs, *General and Industrial Management* (London: Sir Isaac Pitman & Sons, London, 1949).

principles of management

Fundamental rules of management that could be applied in all organizational situations and taught in schools



Source: Hulton Archive/Getty Images

bureaucracy

A form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships

even the home led him to develop 14 **principles of management**—fundamental rules of management that could be applied to all organizational situations and taught in schools. These principles are shown in Exhibit MH-3.

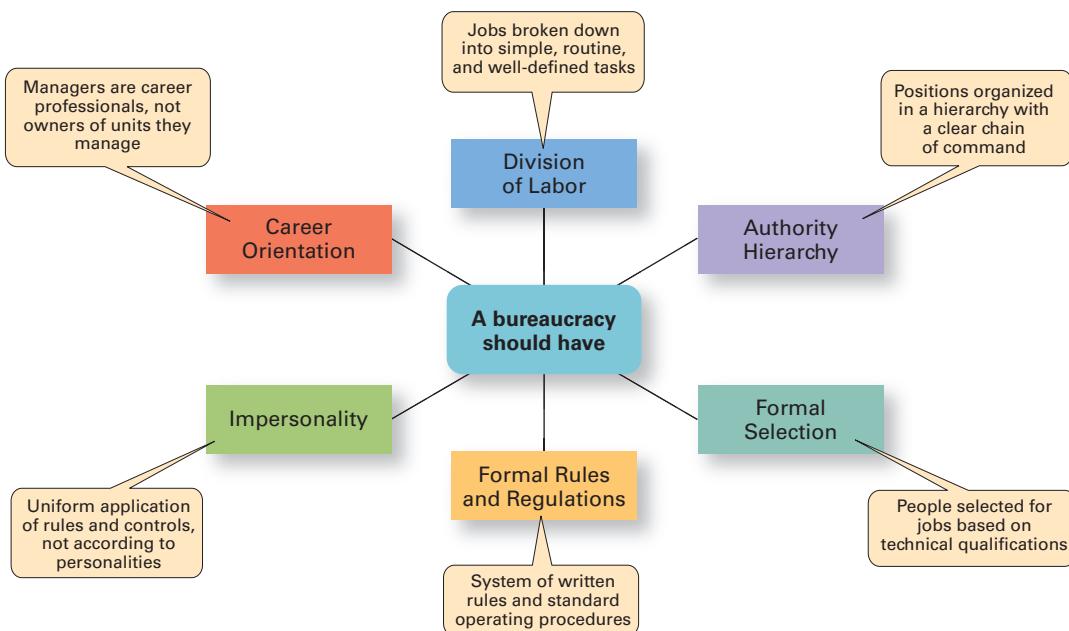
Max Weber (pronounced VAY-ber) was a German sociologist who studied organizations.⁷ Writing in the early 1900s, he developed a theory of authority structures and relations based on an ideal type of organization he called a **bureaucracy**—a form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. (See Exhibit MH-4.) Weber recognized that this “ideal bureaucracy” didn’t exist in reality. Instead, he intended it as a basis for theorizing about how work could be done in large groups. His theory became the structural design for many of today’s large organizations.

Bureaucracy, as described by Weber, is a lot like scientific management in its ideology. Both emphasized rationality, predictability, impersonality, technical competence, and authoritarianism. Although Weber’s ideas were less practical than Taylor’s, the fact that his “ideal type” still describes many contemporary organizations attests to their importance.

HOW TODAY’S MANAGERS USE GENERAL ADMINISTRATIVE THEORY Several of our current management ideas and practices can be directly traced to the contributions of general administrative theory. For instance, the functional view of the manager’s job can be attributed to Fayol. In addition, his 14 principles serve as a frame of reference from which many current management concepts—such as managerial authority, centralized decision making, reporting to only one boss, and so forth—have evolved.

Exhibit MH-4

Characteristics of Weber's Bureaucracy



Source: Based on *Essays in Sociology* by Max Weber, translated, edited, and introduced by H. H. Gerth and C. Wright Mills (New York: Oxford University Press, 1946).

Weber's bureaucracy was an attempt to formulate an ideal prototype for organizations. Although many characteristics of Weber's bureaucracy are still evident in large organizations, his model isn't as popular today as it was in the twentieth century. Many managers feel that a bureaucratic structure hinders individual employees' creativity and limits an organization's ability to respond quickly to an increasingly dynamic environment. However, even in flexible organizations of creative professionals—such as Google, Samsung, General Electric, or Cisco Systems—bureaucratic mechanisms are necessary to ensure that resources are used efficiently and effectively. In some organizations, such as the U.S. Food and Drug Administration, bureaucracy has been a double-edged sword. Back in the 1960s, the FDA carefully scrutinized thalidomide, which was marketed to women in Europe for morning sickness. Thalidomide was not approved for this purpose because much evidence showed that it was causing profound birth defects. At times, the FDA's bureaucracy may not serve the public interest. The FDA's bureaucracy delayed the release of a vaccine for meningitis B for several months without explanation after a serious outbreak across college campuses.



BEHAVIORAL Approach

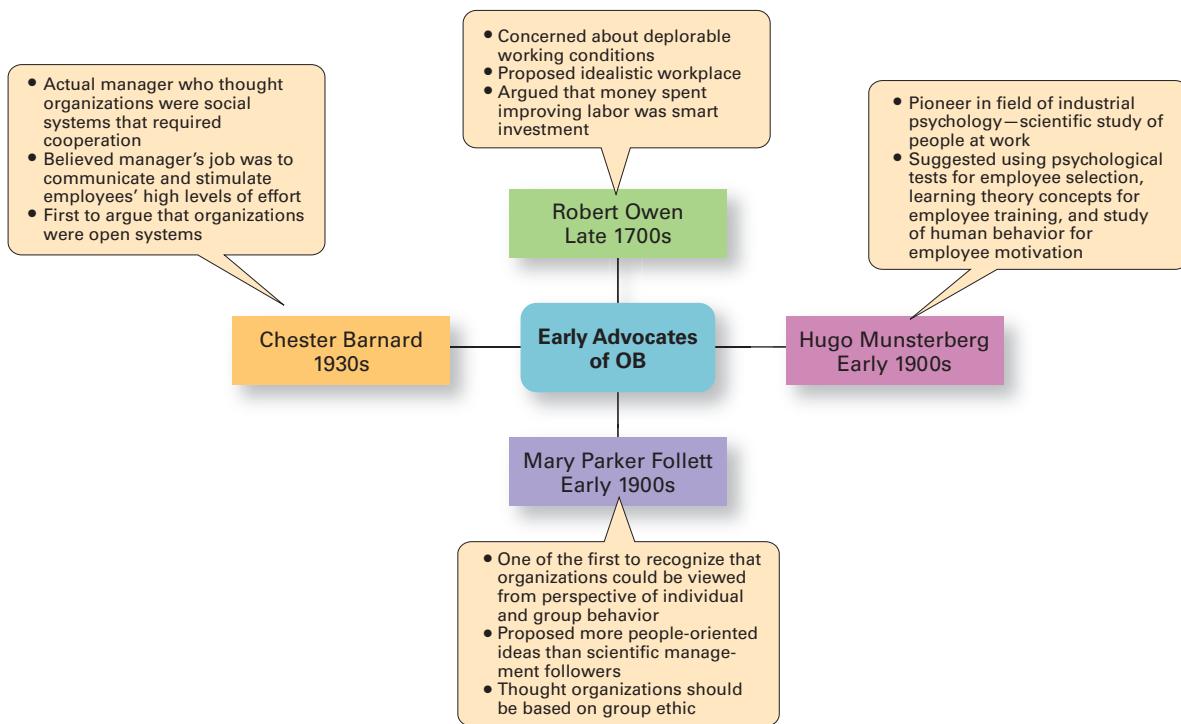
MH1.3

As we know, managers get things done by working with people. This explains why some writers have chosen to look at management by focusing on the organization's people. The field of study that researches the actions (behavior) of people at work is called **organizational behavior (OB)**. Much of what managers do today when managing people—motivating, leading, building trust, working with a team, managing conflict, and so forth—has come out of OB research.

organizational behavior (OB)
The study of the actions of people at work

Exhibit MH-5

Early OB Advocates



Although a number of individuals in the early twentieth century recognized the importance of people to an organization's success, four stand out as early advocates of the OB approach: Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard. Their contributions were varied and distinct, yet all believed that people were the most important asset of the organization and should be managed accordingly. Their ideas provided the foundation for such management practices as employee selection procedures, motivation programs, and work teams. Exhibit MH-5 summarizes each individual's most important ideas.



Source: Hawthorne Works Museum of Morton College

Hawthorne Studies

A series of studies during the 1920s and 1930s that provided new insights into individual and group behavior

Without question, the most important contribution to the OB field came out of the **Hawthorne Studies**, a series of studies conducted at the Western Electric Company Works in Cicero, Illinois. These studies, which started in 1924, were initially designed by Western Electric industrial engineers as a scientific management experiment. They wanted to examine the effect of various lighting levels on worker productivity. Like any good scientific experiment, control and experimental groups were set up, with the experimental group exposed to various lighting intensities, and the control group working under a constant intensity. If you were the industrial engineers in charge of this experiment, what would you have expected to happen? It's logical to think that individual output in the experimental group would be directly related to the intensity of the light. However, they found that as the level of light was increased in the experimental group, output for both groups increased. Then, much to the surprise of the engineers, as the light level was decreased in the experimental group, productivity continued to increase in both groups. In fact, a productivity decrease was observed in the experimental group *only* when the level of light was reduced to that of a moonlit night. What would explain these unexpected results? The engineers weren't sure, but concluded that lighting intensity was not directly related to group productivity and that something else must have contributed to the results. They weren't able to pinpoint what that "something else" was, though.

In 1927, the Western Electric engineers asked Harvard professor Elton Mayo and his associates to join the study as consultants. Thus began a relationship that would last through 1932 and encompass numerous experiments in the redesign of jobs, changes in workday and workweek length, introduction of rest periods, and individual versus group wage plans.⁸ For example, one experiment was designed to evaluate the effect of a group piecework incentive pay system on group productivity. The results indicated that the incentive plan had less effect on a worker's output than group pressure, acceptance, and security. The researchers concluded that social norms or group standards were the key determinants of individual work behavior.

Scholars generally agree that the Hawthorne Studies had a game-changing impact on management beliefs about the role of people in organizations. Mayo concluded that people's behavior and attitudes are closely related, that group factors significantly affect individual behavior, that group standards establish individual worker output, and that money is less a factor in determining output than group standards, group attitudes, and security. These conclusions led to a new emphasis on the human behavior factor in the management of organizations.

HOW TODAY'S MANAGERS USE THE BEHAVIORAL APPROACH The behavioral approach has largely shaped how today's organizations are managed. From the way managers design jobs to the way they work with employee teams to the way they communicate, we see elements of the behavioral approach. Much of what the early OB advocates proposed and the conclusions from the Hawthorne Studies have provided the foundation for our current theories of motivation, leadership, group behavior and development, and numerous other behavioral approaches. It is important that managers embrace the lessons from the behavioral approach. The Gallup Organization's survey on employee engagement revealed an alarming statistic—87 percent of global employees are disengaged.⁹ According to one CEO, "It's no wonder most employees are disengaged. We isolate people and put them in standardized, uniform work settings that reinforce the idea that your unique wants and needs are not of importance to us."¹⁰



QUANTITATIVE Approach

MH1.4

Although passengers bumping into each other when trying to find their seats on an airplane can be a mild annoyance for them, it's a bigger problem for airlines because lines get backed up, slowing down how quickly the plane can get back in the air. Based on research in space-time geometry, one airline innovated a unique boarding process called "reverse pyramid" that has saved at least two minutes in boarding time.¹¹ This is an example of the **quantitative approach**, which is the use of quantitative techniques to improve decision making. This approach also is known as *management science*.

The quantitative approach evolved from mathematical and statistical solutions developed for military problems during World War II. After the war was over, many of these techniques used for military problems were applied to businesses. For example, one group of military officers, nicknamed the Whiz Kids, joined Ford Motor Company in the mid-1940s and immediately began using statistical methods and quantitative models to improve decision making.

What exactly does the quantitative approach do? It involves applying statistics, optimization models, information models, computer simulations, and other quantitative techniques to management activities. Linear programming, for instance, is a technique that managers use to improve resource allocation decisions. Work scheduling can be more efficient as a result of critical-path scheduling analysis. The economic order quantity model

quantitative approach
The use of quantitative techniques to improve decision making



Source: Bert Hardy/Hulton Archive/Getty Images

helps managers determine optimum inventory levels. Each of these is an example of quantitative techniques being applied to improve managerial decision making. Another area where quantitative techniques are used frequently is in total quality management.



Source: Richard Drew/AP Images

total quality management (TQM)

A philosophy of management that is driven by continuous improvement and responsiveness to customer needs and expectations

A quality revolution swept through both the business and public sectors in the 1980s and 1990s.¹² It was inspired by a small group of quality experts, the most famous being W. Edwards Deming (pictured at left) and Joseph M. Juran. The ideas and techniques they advocated in the 1950s had few supporters in the United States but were enthusiastically embraced by Japanese organizations. As Japanese manufacturers began beating U.S. competitors in quality comparisons, however, Western managers soon took a more serious look at Deming's and Juran's ideas, which became the basis for today's quality management programs.

Total quality management, or **TQM**, is a management philosophy devoted to continual improvement and responding to customer needs and expectations. (See Exhibit MH-6.) The term *customer* includes anyone who interacts with the organization's product or services, internally or externally. It encompasses employees and suppliers, as well as the people who purchase the organization's goods or services. *Continual improvement* isn't possible without accurate measurements, which require statistical techniques that measure every critical variable in the organization's work processes. These measurements are compared against standards to identify and correct problems.

HOW TODAY'S MANAGERS USE THE QUANTITATIVE APPROACH No one likes long lines, especially residents of New York City. If they see a long checkout line, they often go somewhere else. However, at Whole Foods' first gourmet supermarkets in Manhattan, customers found something different—that is, the longer the line, the shorter the wait. When ready to check out, customers are guided into serpentine single lines that feed into numerous checkout lanes. Whole Foods, widely known for its organic food selections, can charge premium prices, which allow it the luxury of staffing all those checkout lanes. And customers are finding that their wait times are shorter than expected.¹³ The science of keeping lines moving is known as queue management. And for Whole Foods, this quantitative technique has translated into strong sales at its Manhattan stores.

The quantitative approach contributes directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, queuing, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. Specialized software has made the use of these techniques less intimidating for managers, although many still feel anxious about using them.

Exhibit MH-6

What Is Quality Management?

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



CONTEMPORARY Approaches

MH1.5

As we've seen, many elements of the earlier approaches to management theory continue to influence how managers manage. Most of these earlier approaches focused on managers' concerns *inside* the organization. Starting in the 1960s, management researchers began to look at what was happening in the external environment *outside* the boundaries of the organization. Two contemporary management perspectives—systems and contingency—are part of this approach. Systems theory is a basic theory in the physical sciences, but had never been applied to organized human efforts. In 1938, Chester Barnard, a telephone company executive, first wrote in his book, *The Functions of an Executive*, that an organization functioned as a cooperative system. However, it wasn't until the 1960s that management researchers began to look more carefully at systems theory and how it related to organizations.

A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. The two basic types of systems are closed and open. **Closed systems** are not influenced by and do not interact with their environment. In contrast, **open systems** are influenced by and do interact with their environment. Today, when we describe organizations as systems, we mean open systems. Exhibit MH-7 shows a diagram of an organization from an open systems perspective. As you can see, an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. The organization is "open" to and interacts with its environment.

How does the systems approach contribute to our understanding of management? Researchers imagined organizations as complex systems comprised of many components, including individuals, groups, structure, goals, status, and authority. What this means is that as managers coordinate work activities in the various parts of the organization, they ensure that all these parts are working together so the organization's goals can be achieved. For example, the systems approach recognizes that, no matter how efficient the production department, the marketing department must anticipate changes in customer tastes and work with the product development department in creating products customers want—or the organization's overall performance will suffer.

In addition, the systems approach implies that decisions and actions in one organizational area will affect other areas. For example, if the purchasing department



Source: Frederic J. Brown/AFP/Getty Images/Newscom

system

A set of interrelated and interdependent parts arranged in a manner that produces a unified whole

closed systems

Systems that are not influenced by and do not interact with their environment

open systems

Systems that interact with their environment

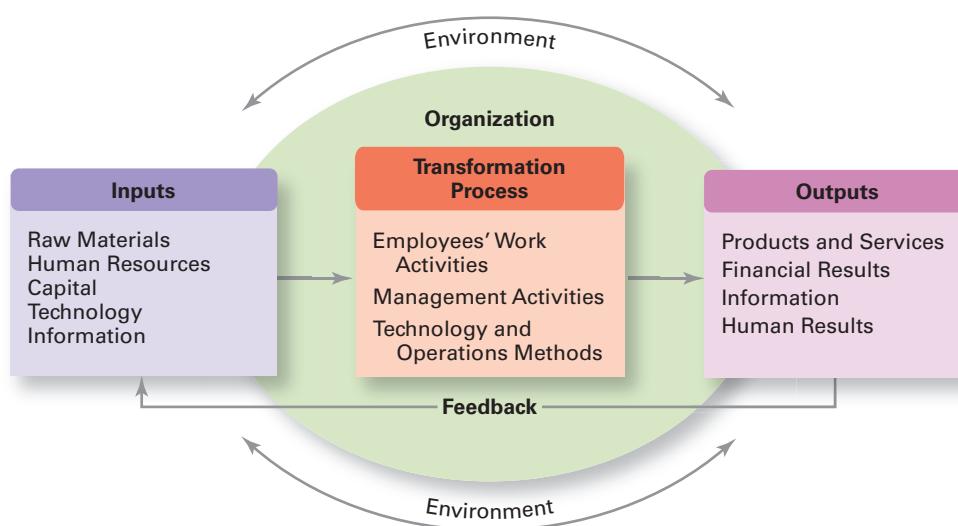


Exhibit MH-7

Organization as an Open System

doesn't acquire the right quantity and quality of inputs, the production department won't be able to do its job.

Finally, the systems approach recognizes that organizations are not self-contained. They rely on their environment for essential inputs and as outlets to absorb their outputs. No organization can survive for long if it ignores government regulations, supplier relations, or the varied external constituencies on which it depends.

How relevant is the systems approach to management? Quite relevant. Consider, for example, a shift manager at a Starbucks restaurant who must coordinate the work of employees filling customer orders at the front counter and the drive-through windows, direct the delivery and unloading of food supplies, and address any customer concerns that come up. This manager "manages" all parts of the "system" so that the restaurant meets its daily sales goals.



contingency approach

A management approach that recognizes organizations as different, which means they face different situations (contingencies) and require different ways of managing

The early management theorists came up with management principles they generally assumed to be universally applicable. Later research found exceptions to many of these principles. For example, division of labor is valuable and widely used, but jobs can become *too* specialized. Bureaucracy is desirable in many situations, but in other circumstances, other structural designs are *more* effective. Management is not (and cannot be) based on simplistic principles to be applied in all situations. Different and changing situations require managers to use different approaches and techniques. The **contingency approach** (sometimes called the *situational approach*) says that organizations are different, face different situations (contingencies), and require different ways of managing.

A good way to describe contingency is "if, then." *If* this is the way my situation is, *then* this is the best way for me to manage in this situation. It's intuitively logical because organizations and even units within the same organization differ—in size, goals, work activities, and the like. It would be surprising to find universally applicable management rules that would work in *all* situations. But, of course, it's one thing to say that the way to manage "depends on the situation" and another to say what the situation is. Management researchers continue working to identify these situational variables. Exhibit MH-8 describes four popular contingency variables. Although the list is by no means comprehensive—more than 100 different variables have been identified—it represents those most widely used and gives you an idea of what we mean by the term *contingency variable*. The primary value of the contingency approach is that it stresses there are no simplistic or universal rules for managers to follow.

So what do managers face today when managing? Although the dawn of the information age is said to have begun with Samuel Morse's telegraph in 1837, dramatic changes in information technology that occurred in the latter part of the twentieth century and

Exhibit MH-8

Popular Contingency Variables

Organization Size. As size increases, so do the problems of coordination. For instance, the type of organization structure appropriate for an organization of 50,000 employees is likely to be inefficient for an organization of 50 employees.

Routineness of Task Technology. To achieve its purpose, an organization uses technology. Routine technologies require organizational structures, leadership styles, and control systems that differ from those required by customized or nonroutine technologies.

Environmental Uncertainty. The degree of uncertainty caused by environmental changes influences the management process. What works best in a stable and predictable environment may be totally inappropriate in a rapidly changing and unpredictable environment.

Individual Differences. Individuals differ in terms of their desire for growth, autonomy, tolerance of ambiguity, and expectations. These and other individual differences are particularly important when managers select motivation techniques, leadership styles, and job designs.

continue through today directly affect the manager's job. Managers now may manage employees who are working from home or working halfway around the world. An organization's computing resources used to be mainframe computers locked away in temperature-controlled rooms and only accessed by the experts. Now, practically everyone in an organization is connected—wired or wireless—with devices no larger than the palm of the hand. Just like the impact of the industrial revolution in the 1700s on the emergence of management, the information age has brought dramatic changes that continue to influence the way organizations are managed.



Source: Image Source/Getty Images

Management History Module

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

MH1.1

DESCRIBE some early management examples.

Studying history is important because it helps us see the origins of today's management practices and recognize what has and has not worked. We can see early examples of management practice in the construction of the Egyptian pyramids and the Great Wall of China. One important historical event was the publication of Adam Smith's *Wealth of Nations*, in which he argued the benefits of division of labor (job specialization). Another was the industrial revolution, where it became more economical to manufacture in factories than at home. Managers were needed to manage these factories, and these managers needed formal management theories to guide them.

MH1.2

EXPLAIN the various theories in the classical approach.

Frederick W. Taylor, known as the "father" of scientific management, studied manual work using scientific principles—that is, guidelines for improving production efficiency—to find the one best way to do those jobs. The Gilbreths' primary contribution was finding efficient hand-and-body motions and designing proper tools and equipment for optimizing work performance. Fayol believed the functions of management were common to all business endeavors but also were distinct from other business functions. He developed 14 principles of management from which many current management concepts have evolved. Weber described an ideal type of organization he called a bureaucracy—characteristics that many of today's large organizations still have. Today's managers use the concepts of scientific management when they analyze basic work tasks to be performed, use time-and-motion study to eliminate wasted motions, hire the best qualified workers for a job, use adaptive robotics to boost worker efficiency, and design incentive systems based on output. They use general administrative theory when they perform the functions of management and structure their organizations so that resources are used efficiently and effectively.

MH1.3

DISCUSS the development and uses of the behavioral approach.

The early OB advocates (Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard) contributed various ideas, but all believed that people were the most important asset of the organization and should be managed accordingly. The Hawthorne Studies dramatically affected management beliefs about the role of people in organizations, leading to a new emphasis on the human behavior factor in managing. The behavioral approach has largely shaped how today's organizations are managed. Many current theories of motivation, leadership, group behavior and development, and other behavioral issues can be traced to the early OB advocates and the conclusions from the Hawthorne Studies.

MH1.4**DESCRIBE the quantitative approach.**

The quantitative approach involves applications of statistics, optimization models, information models, and computer simulations to management activities. Today's managers use the quantitative approach, especially when making decisions, as they plan and control work activities such as allocating resources, improving quality, scheduling work, or determining optimum inventory levels. Total quality management—a management philosophy devoted to continual improvement and responding to customer needs and expectations—also makes use of quantitative methods to meet its goals.

MH1.5**EXPLAIN the various theories in the contemporary approach.**

The systems approach says that an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. This approach provides a framework to help managers understand how all the interdependent units work together to achieve the organization's goals and that decisions and actions taken in one organizational area will affect others. In this way, managers can recognize that organizations are not self-contained, but instead rely on their environment for essential inputs and as outlets to absorb their outputs.

The contingency approach says that organizations are different, face different situations, and require different ways of managing. It helps us understand management because it stresses there are no simplistic or universal rules for managers to follow. Instead, managers must look at their situation and determine that *if* this is the way my situation is, *then* this is the best way for me to manage.

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REVIEW AND DISCUSSION QUESTIONS

- MH-1.** Explain why studying management history is important.
- MH-2.** What is the significance of the industrial revolution?
- MH-3.** What is a bureaucracy? Do bureaucracies still exist today?
- MH-4.** What did the early advocates of OB contribute to our understanding of management?
- MH-5.** Why were the Hawthorne Studies so critical to management history?

- MH-6.** Explain what the quantitative approach has contributed to the field of management.
- MH-7.** Describe total quality management.
- MH-8.** How has technology impacted how managers use the quantitative approach in today's workplace?
- MH-9.** How do systems theory and the contingency approach make managers better at what they do?
- MH-10.** How do societal trends influence the practice of management? What are the implications for someone studying management?

PREPARING FOR: My Career

MY TURN TO BE A MANAGER

- Conduct research and identify a new or emerging management theory. Do you think the new theory will have an impact on future management practices?
- Can scientific management principles help you be more efficient? Choose a task you do regularly (such as laundry, fixing dinner, grocery shopping, studying for exams, etc.).

Analyze it by writing down the steps involved in completing that task. See if any activities could be combined or eliminated. Find the “one best way” to do this task. And the next time you have to do the task, try the scientifically managed way! See if you become more efficient (keeping in mind that changing habits isn’t easy to do).

- How do business organizations survive for 100+ years? Obviously, they’ve seen a lot of historical events come and go. Choose one of these companies and research their history: Coca-Cola, Procter & Gamble, Avon, or General Electric. How has it changed over the years? From your research on this company, what did you learn that could help you be a better manager?

- Pick one historical event from this century and do some research on it. Write a paper describing the impact this event might be having or has had on how workplaces are managed.
- Come on, admit it, you multitask, don’t you? And if not, you probably know people who do. Multitasking is also common in the workplace. But does it make employees more efficient and effective? Pretend you’re the manager in charge of a loan-processing department. Describe how you would research this issue using each of the following management approaches or theories: scientific management, general administrative theory, quantitative approach, behavioral approach, systems theory, and contingency theory.

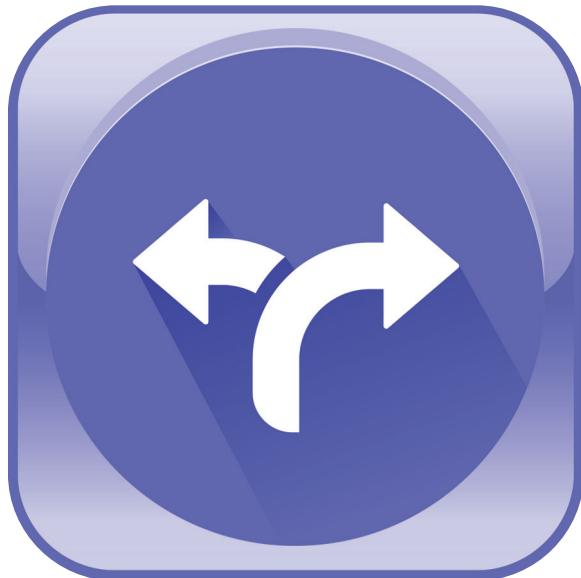
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Chapter 2

Decision Making

It's Your Career



Source: Zudy and Kysa/Shutterstock

A key to success in management and in your career is knowing how to be an effective problem-solver.

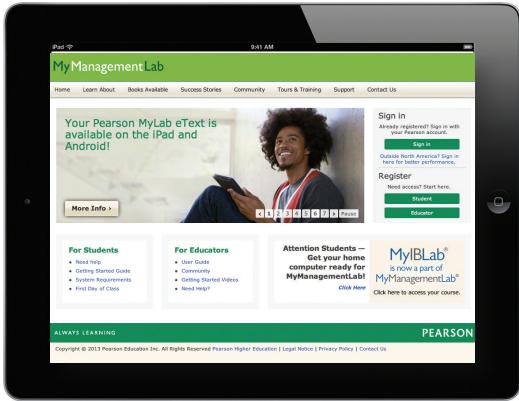
Problem Solving—Not A Problem

Every day you're faced with problems to solve—what class assignment should I focus on first? What am I going to eat for dinner? What's the quickest way for me to get to work (or school) today since I'm running behind schedule? And when you're done with school and employed by an organization, you are going to be expected to show that you're a good problem solver.

And having good problem-solving skills is important if you're going to be successful in your career. What can you do to develop and improve your problem-solving skills? Let's look at some suggestions.

1. Define the problem. This might seem self-evident but you'd be surprised at how many people try to jump in with a quick and easy solution without having spent time to first understand and then define the problem. When you do that, you might come up with a solution...to the wrong problem! Instead, spend some time in asking questions. Lots of questions! But don't get so caught up in defining the problem that you ignore solving the problem. Another precautionary note when defining the problem is, as we describe in the chapter, making sure you don't confuse problems with symptoms of problems. For instance, supposed you've applied for several jobs, but have not received any interview invites. The problem isn't the lack of interview invites...that's only a symptom of a problem. There's some reason you're not getting asked in for an interview. Before you can "solve" this situation, you need to define the problem. So, ask questions. Is it your résumé? Is it your cover letter? Are you applying for jobs you're not suited for?

2. Look at the problem from different perspectives and generate multiple solutions. A good problem-solver (and a good decision-maker)



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Learning Objectives

● SKILL OUTCOMES

2.1 *Describe the eight steps in the decision-making process.*

- **Develop your skill** at being creative.

2.2 *Explain the four ways managers make decisions.*

2.3 *Classify decisions and decision-making conditions.*

2.4 *Describe how biases affect decision making.*

- **Know how to** recognize when you're using decision-making errors and biases and what to do about it.

2.5 *Identify effective decision-making techniques.*

has an open mind and attempts to be as creative as possible in coming up with solutions to a problem.

3. Evaluate the ideas or possible solutions.

Evaluate your ideas carefully and thoroughly by how they would impact the problem. But it's also critical to look at the constraints of time and money. Can your solutions lead to successful results in the time frame and the budget constraints you face?

4. Implement your solution. A problem doesn't get solved without implementing your solution. Think through the "how's" of your solution. If you don't execute this step well, the problem is likely to still be there or even get worse.

5. Re-examine your solution. Has the problem been resolved or at least gotten better? If not, you'll have to determine if it is still the right solution or what additional actions might be needed.

Decision making is the essence of management. It's what managers do (or try to avoid). And all managers would like to make good decisions because they're judged on the outcomes of those decisions. In this chapter, we examine the concept of decision making and how managers make decisions.

THE decision-making process

L02.1 In 2016, actor Will Smith, director Spike Lee, and others publicly announced that they would boycott the Academy Awards ceremony. Their protest came on the heels of the announcement of the Oscar nominations, which did not include any African

American filmmakers or actors. Such protest would tarnish the reputation of the award's sponsor, the Academy of Motion Picture Arts and Sciences. Management promptly analyzed the root cause of the nomination process, which they determined to be a homogenous membership base, consisting primarily of older, white males. In response, the Academy's management board decided to change the racial composition of the Academy by radically altering the Academy's rules for membership—something that had not been done in the 90-year history of the organization.

Although most decisions managers make don't require radical changes, you can see that decisions—choices, judgments—play an important role in what an organization has to do or is able to do.

Managers at all levels and in all areas of organizations make **decisions**. That is, they make choices. For instance, top-level managers make decisions about their organization's goals, where to locate manufacturing facilities, or what new markets to move into. Middle- and lower-level managers make decisions about production schedules, product quality problems, pay raises, and employee discipline. Our focus in this chapter is on how *managers* make decisions, but making decisions isn't something that just managers do. All organizational members make decisions that affect their jobs and the organization they work for.

Although decision making is typically described as choosing among alternatives, there's more to it than that! Why? Because decision making is (and should be) a process, not just a simple act of choosing among alternatives.¹ Even for something as straightforward as deciding where to go for lunch, you do more than just choose burgers or pizza or hot dogs. Granted, you may not spend a lot of time contemplating your lunch decision, but you still go through the process when making that decision. Exhibit 2-1 shows the eight steps in the decision-making process. This process is as relevant to personal decisions as it is to corporate decisions. Let's use an example—a manager deciding what laptop computers to purchase—to illustrate the steps in the process.

Step 1: Identify a Problem

problem

An obstacle that makes it difficult to achieve a desired goal or purpose

Your team is dysfunctional, your customers are leaving, or your plans are no longer relevant.² Every decision starts with a **problem**, a discrepancy between an existing and a desired condition.³ Let's work through an example. Amanda is a sales manager whose reps need new laptops because their old ones are outdated and inadequate for doing their job. To make it simple, assume it's not economical to add memory to the old computers and it's the company's policy to purchase, not lease. Now we have a problem—a disparity between the sales reps' current computers (existing condition) and their need to have more efficient ones (desired condition). Amanda has a decision to make.

How do managers identify problems? In the real world, most problems don't come with neon signs flashing "problem." When her reps started complaining about their computers, it was pretty clear to Amanda that something needed to be done, but few problems are that obvious. Managers also have to be cautious not to confuse problems with symptoms of the problem. Is a 5 percent drop in sales a problem? Or are declining sales merely a symptom of the real problem, such as poor-quality products, high prices, bad advertising, or shifting consumer preferences?⁴ For example, McDonald's Corporation has fallen on hard times in recent years as its sales have declined substantially.⁵ Also, keep in mind that problem identification is subjective. One possibility for McDonald's sales decline is the different preferences of younger generations compared to the older generations who "grew up" eating McDonald's hamburgers and french fries. One manager might consider this to be the problem, but another manager might not. In addition, a manager who resolves the wrong problem perfectly is likely to perform just as poorly as the manager who doesn't even recognize a problem and does nothing. For instance, what if McDonald's management were to attribute sales declines exclusively to its advertising campaign rather than to changing consumer preferences? As you can see, effectively identifying problems is important, but not easy.⁶

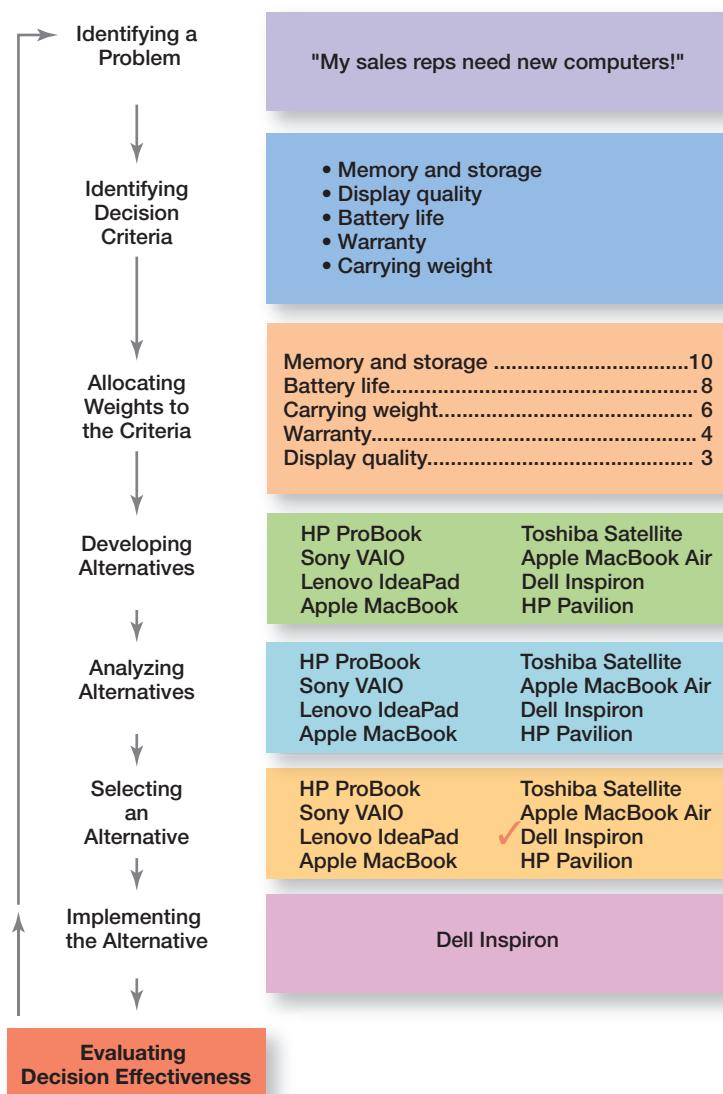


Exhibit 2-1
Decision-Making Process

Step 2: Identify Decision Criteria

Once a manager has identified a problem, he or she must identify the **decision criteria** important or relevant to resolving the problem. Every decision maker has criteria guiding his or her decisions even if they're not explicitly stated. In our example, Amanda decides after careful consideration that memory and storage capabilities, display quality, battery life, warranty, and carrying weight are the relevant criteria in her decision.

Sometimes, decision criteria change. For instance, considering the demographics, interests, and preferences of consumers were essential criteria in making advertising decisions. Nowadays, many companies realize that those criteria in making advertising choices are not sufficient because consumers are more multifaceted.⁷ We work, read books for pleasure, take vacations, enjoy eating out, and so forth. Understanding the psychology of consumers at different moments is shown to be more effective than relying exclusively on demographics and interests.⁸ Mobile technology enables consumers to be influenced by companies with ease and when consumers need it most. For example, restaurants that want to attract travelers and locals who seek new eating experiences are signing up with mobile apps like RoundMenu. Based in the United Arab Emirates, RoundMenu understands that consumers routinely rely on apps for everyday needs like finding a restaurant. Therefore, the RoundMenu app makes it easy for users to browse restaurant listings and menus, reserve a table, or order meals for home delivery.⁹

decision criteria
Criteria that define what's important or relevant to resolving a problem

Exhibit 2-2

Important Decision Criteria

Memory and storage	10
Battery life	8
Carrying weight	6
Warranty	4
Display quality	3



The eight-step decision-making process begins with identifying a problem and ends with evaluating the result of the decision. After identifying the need to buy new laptop computers for her sales reps, the manager must identify relevant criteria such as price, display quality, and memory that will help guide her final decision.

Source: Alex Segre/Alamy Stock Photo

Step 3: Allocate Weights to the Criteria

If the relevant criteria aren't equally important, the decision maker must weight the items in order to give them the correct priority in the decision. How? A simple way is to give the most important criterion a weight of 10 and then assign weights to the rest using that standard. Of course, you could use any number as the highest weight. The weighted criteria for our example are shown in Exhibit 2-2.

Step 4: Develop Alternatives

The fourth step in the decision-making process requires the decision maker to list viable alternatives that could resolve the problem. In this step, a decision maker needs to be creative, and the alternatives are only listed—not evaluated just yet. Our sales manager, Amanda, identifies seven laptops as possible choices. (See Exhibit 2-3.)

Step 5: Analyze Alternatives

Once alternatives have been identified, a decision maker must evaluate each one. How? By using the criteria established in Step 2. Exhibit 2-3 shows the assessed values that Amanda gave each alternative after doing some research on them. Keep in mind that these data represent an assessment of the eight alternatives using the decision criteria, but *not* the weighting. When you multiply each alternative by the assigned weight, you get the weighted alternatives as shown in Exhibit 2-4. The total score for each alternative, then, is the sum of its weighted criteria.

Sometimes a decision maker might be able to skip this step. If one alternative scores highest on every criterion, you wouldn't need to consider the weights because that alternative would already be the top choice. Or if the weights were all equal, you could evaluate an alternative merely by summing up the assessed values for each one. (Look again at Exhibit 2-3.) For example, the score for the HP ProBook would be 36, and the score for the Apple MacBook Air would be 35.

Exhibit 2-3

Possible Alternatives

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
HP ProBook	10	3	10	8	5
Lenovo IdeaPad	8	5	7	10	10
Apple MacBook	8	7	7	8	7
Toshiba Satellite	7	8	7	8	7
Apple MacBook Air	8	3	6	10	8
Dell Inspiron	10	7	8	6	7
HP Pavilion	4	10	4	8	10

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
HP ProBook	100	24	60	32	15	231
Lenovo IdeaPad	80	40	42	40	30	232
Apple MacBook	80	56	42	32	21	231
Toshiba Satellite	70	64	42	32	21	229
Apple MacBook Air	80	24	36	40	24	204
Dell Inspiron	100	56	48	24	21	249
HP Pavilion	40	80	24	32	30	206

Exhibit 2-4
Evaluation of Alternatives

Step 6: Select an Alternative

The sixth step in the decision-making process is choosing the best alternative or the one that generated the highest total in Step 5. In our example (Exhibit 2-4), Amanda would choose the Dell Inspiron because it scored higher than all other alternatives (249 total).

Step 7: Implement the Alternative

In Step 7 in the decision-making process, you put the decision into action by conveying it to those affected and getting their commitment to it. We know that if the people who must implement a decision participate in the process, they're more likely to support it than if you just tell them what to do. Another thing managers may need to do during implementation is reassess the environment for any changes, especially if it's a long-term decision. Are the criteria, alternatives, and choices still the best ones, or has the environment changed in such a way that we need to reevaluate? For instance, businesses that offer goods and services with an online component must secure private customer data, such as passwords and payment details. However, even companies that have taken steps to protect customer data are rethinking their criteria and alternatives because of a dramatic increase in cybercrime. VTech Holdings, a Hong Kong company that makes tech-enabled toys, is a case in point. After a VTech website for children was hacked, the company was criticized for being slow to confirm the breach and notify parents to change passwords. After investigating, VTech's executives hired a cybersecurity consulting firm to strengthen online defenses. Later, they relaunched the website with updated terms of use disclosing the potential problems, saying no company can offer a 100 percent guarantee that it won't be hacked.¹⁰

Step 8: Evaluate Decision Effectiveness

The last step in the decision-making process involves evaluating the outcome or result of the decision to see whether the problem was resolved. If the evaluation shows that the problem still exists, then the manager needs to assess what went wrong. Was the problem incorrectly defined? Were errors made when evaluating alternatives? Was the right alternative selected but poorly implemented? For example, following BP's catastrophic Deepwater Horizon oil spill in the Gulf of Mexico, CEO Tony Hayward (now former) issued an apology to the public that was poorly conceived and executed. In response to the spill, Hayward said: "We are sorry for the massive disruption it's caused their lives. There's no one who wants this thing over more than I do. I'd like my life back."¹¹ Indeed, it was the right decision to issue an apology to the victims. But Hayward's decision to include himself as a victim was poorly conceived. The answers to the questions asked as a result of evaluating the outcome might lead you to redo an earlier step or might even require starting the whole process over. In this particular case, Hayward did not have this opportunity because he resigned in the wake of public outcry.



- Decision making is the essence of management.¹²

APPROACHES to decision making

LO2.2

Although everyone in an organization makes decisions, decision making is particularly important to managers. As Exhibit 2-5 shows, it's part of all four managerial functions. That's why managers—when they plan, organize, lead, and control—are called *decision makers*.

The fact that almost everything a manager does involves making decisions doesn't mean that decisions are always time-consuming, complex, or evident to an outside observer. Most decision making is routine. For instance, every day of the year you make a decision about what to eat for dinner. It's no big deal. You've made the decision thousands of times before. It's a pretty simple decision and can usually be handled quickly. It's the type of decision you almost forget *is* a decision. And managers also make dozens of these routine decisions every day; for example, which employee will work what shift next week, what information should be included in a report, or how to resolve a customer's complaint. Keep in mind that even though a decision seems easy or has been faced by a manager a number of times before, it still is a decision. Let's look at four perspectives on how managers make decisions.

Rationality

rational decision making

Describes choices that are logical and consistent and maximize value

We assume that managers will use **rational decision making**; that is, they'll make logical and consistent choices to maximize value.¹³ After all, managers have all sorts of tools and techniques to help them be rational decision makers. What does it mean to be a "rational" decision maker?

ASSUMPTIONS OF RATIONALITY A rational decision maker would be fully objective and logical. The problem faced would be clear and unambiguous, and the decision maker would have a clear and specific goal and know all possible alternatives and consequences. Finally, making decisions rationally would consistently lead to selecting

Exhibit 2-5

Decisions Managers May Make

Planning

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

Organizing

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

Leading

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

Controlling

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

the alternative that maximizes the likelihood of achieving that goal. These assumptions apply to any decision—personal or managerial. However, for managerial decision making, we need to add one additional assumption—decisions are made in the best interests of the organization. These assumptions of rationality aren’t very realistic and managers don’t always act rationally, but the next concept can help explain how most decisions get made in organizations.

Bounded Rationality

Despite the unrealistic assumptions, managers are *expected* to be rational when making decisions.¹⁴ They understand that “good” decision makers are supposed to do certain things and exhibit good decision-making behaviors as they identify problems, consider alternatives, gather information, and act decisively but prudently. When they do so, they show others that they’re competent and that their decisions are the result of intelligent deliberation. However, a more realistic approach to describing how managers make decisions is the concept of **bounded rationality**, which says that managers make decisions rationally, but are limited (bounded) by their ability to process information.¹⁵ Because they can’t possibly analyze all information on all alternatives, managers **satisfice**, rather than maximize. That is, they accept solutions that are “good enough.” They’re being rational within the limits (bounds) of their ability to process information. Let’s look at an example.

Suppose you’re a finance major and upon graduation you want a job, preferably as a personal financial planner with a minimum salary of \$55,000 and within 100 miles of your hometown. You accept a job offer as a business credit analyst—not exactly a personal financial planner but still in the finance field—at a bank 50 miles from home at a starting salary of \$47,500. If you had done a more comprehensive job search, you would have discovered a job in personal financial planning at a trust company only 25 miles from your hometown and starting at a salary of \$55,000. You weren’t a perfectly rational decision maker because you didn’t maximize your decision by searching all possible alternatives and then choosing the best. But because the first job offer was satisfactory (or “good enough”), you behaved in a bounded-rationality manner by accepting it.

Most decisions that managers make don’t fit the assumptions of perfect rationality, so they satisfice. However, keep in mind that their decision making is also likely influenced by the organization’s culture, internal politics, power considerations, and by a phenomenon called **escalation of commitment**, an increased commitment to a previous decision despite evidence that it may have been wrong.¹⁶ The *Challenger* space shuttle disaster is often used as an example of escalation of commitment. Decision makers chose to launch the shuttle that day even though the decision was questioned by several individuals who believed it was a bad one. Why would decision makers escalate commitment to a bad decision? Because they don’t want to admit that their initial decision may have been flawed. Rather than search for new alternatives, they simply increase their commitment to the original solution.

Intuition

When managers at stapler-maker Swingline saw the company’s market share declining, they used a logical scientific approach to address the issue. For three years, they exhaustively researched stapler users before deciding what new products to develop. However, at Accentra, Inc., founder Todd Moses used a more intuitive decision approach to come up with his line of unique PaperPro staplers.¹⁷

bounded rationality

Decision making that’s rational, but limited (bounded) by an individual’s ability to process information

satisfice

Accept solutions that are “good enough”

escalation of commitment

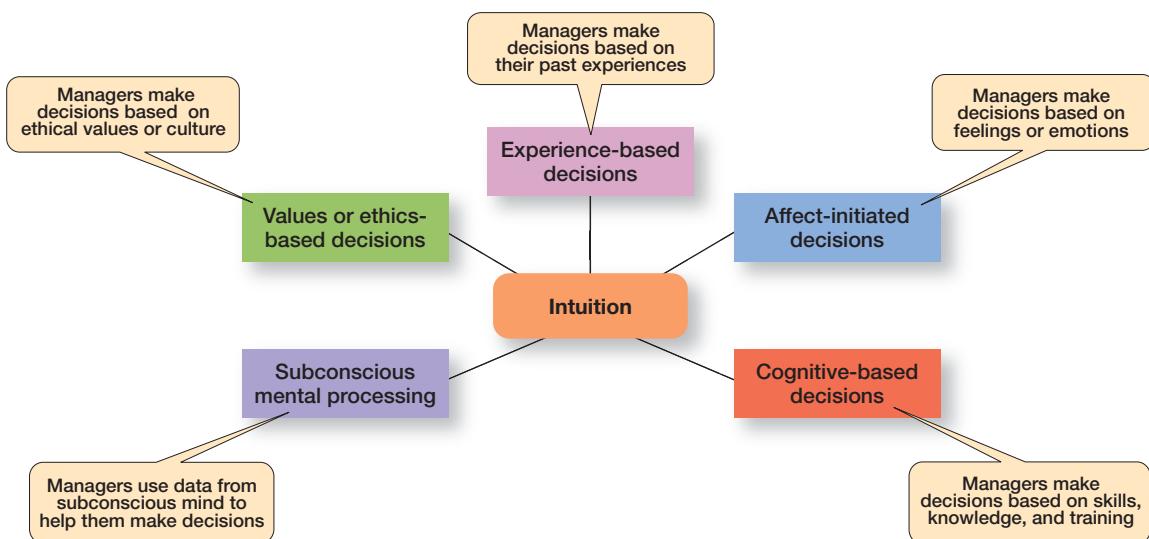
An increased commitment to a previous decision despite evidence it may have been wrong



Netflix CEO Reed Hastings relies on what he calls “informed intuition” in the development of original programming, which plays a major role in the company’s international growth. Although Netflix invests heavily in data analytics, Hastings says that intuition is as important as data in making final decisions. *Source: Tobias Hase/picture alliance / dpa/Newscom*

Exhibit 2-6

What Is Intuition?



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

intuitive decision making
Making decisions on the basis of experience, feelings, and accumulated judgment

Like Todd Moses, managers often use their intuition to help their decision making. What is **intuitive decision making**? It's making decisions on the basis of experience, feelings, and accumulated judgment. Researchers studying managers' use of intuitive decision making have identified five different aspects of intuition, which are described in Exhibit 2-6.¹⁸ How common is intuitive decision making? One survey found that almost half of the executives surveyed "used intuition more often than formal analysis to run their companies."¹⁹

Intuitive decision making can complement both rational and bounded rational decision making.²⁰ First of all, a manager who has had experience with a similar type of problem or situation often can act quickly with what appears to be limited information because of that past experience. In addition, a recent study found that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.²¹

Watch It 1!

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled *CH2 MHill Decision Making* and to respond to questions.

Evidence-Based Management

Sales associates at the cosmetics counter at department store Bon-Ton Stores, Inc. had the highest turnover of any store sales group. Using a data-driven decision approach, managers devised a more precise pre-employment assessment test. Now, not only do they have lower turnover, they actually have better hires.²²

Suppose you were exhibiting some strange, puzzling physical symptoms. In order to make the best decisions about proper diagnosis and treatment, wouldn't you want your doctor to base her decisions on the best available evidence? Now suppose you're a manager faced with putting together an employee recognition program. Wouldn't you want those decisions also to be based on the best available evidence?

let's get REAL

The Scenario:

Juan Hernandez is a successful business owner. His landscaping business is growing, and a few months ago he decided to bring in somebody to manage his office operations since he had little time to keep on top of that activity. However, this individual can't seem to make a decision without agonizing about it over and over and on and on.

What could Juan do to help this person become a better decision maker?

Juan could give his office assistant a more complete picture of the tasks at hand for the day/week/month as well as timelines for each. It would force his decision to be made within a certain timeframe as well as give him a bigger-picture view of the workload. It would make him realize that there are many more tasks to accomplish.

Prudence Rufus
Business Owner/Photographer



Source: Prudence Rufus

"Any decision-making process is likely to be enhanced through the use of relevant and reliable evidence, whether it's buying someone a birthday present or wondering which new washing machine to buy."²³ That's the premise behind **evidence-based management (EBMgt)**, the "systematic use of the best available evidence to improve management practice."²⁴

EBMgt is quite relevant to managerial decision making. The four essential elements of EBMgt are (1) the decision maker's expertise and judgment; (2) external evidence that's been evaluated by the decision maker; (3) opinions, preferences, and values of those who have a stake in the decision; and (4) relevant organizational (internal) factors such as context, circumstances, and organizational members. The strength or influence of each of these elements on a decision will vary with each decision. Sometimes, the decision maker's intuition (judgment) might be given greater emphasis in the decision; other times it might be the opinions of stakeholders; and at other times, it might be ethical considerations (organizational context). The key for managers is to recognize and understand the mindful, conscious choice as to which elements are most important and should be emphasized in making a decision.

evidence-based management (EBMgt)

The systematic use of the best available evidence to improve management practice

TYPES of decisions and decision-making conditions

LO2.3

Restaurant managers in Portland make routine decisions weekly about purchasing food supplies and scheduling employee work shifts. It's something they've done numerous times. But now they're facing a different kind of decision—one they've never encountered: how to adapt to a new law requiring that nutritional information be posted.

Types of Decisions

Such situations aren't all that unusual. Managers in all kinds of organizations face different types of problems and decisions as they do their jobs. Depending on the nature of the problem, a manager can use one of two different types of decisions.



- The more trust employees have in their managers, the more likely the employees are to expect organizational outcomes to be favorable and the more likely they are to expect that the procedures used by authorities to plan and implement decisions will be fair.²⁵

structured problems

Straightforward, familiar, and easily defined problems

programmed decision

A repetitive decision that can be handled by a routine approach

procedure

A series of sequential steps used to respond to a well-structured problem

rule

An explicit statement that tells managers what can or cannot be done

policy

A guideline for making decisions

STRUCTURED PROBLEMS AND PROGRAMMED DECISIONS Some problems are straightforward. The decision maker's goal is clear, the problem is familiar, and information about the problem is easily defined and complete. Examples might include when a customer returns a purchase to a store, when a supplier is late with an important delivery, a news team's response to a fast-breaking event, or a college's handling of a student wanting to drop a class. Such situations are called **structured problems** because they're straightforward, familiar, and easily defined. For instance, a server spills a drink on a customer's coat. The customer is upset and the manager needs to do something. Because it's not an unusual occurrence, there's probably some standardized routine for handling it. For example, the manager offers to have the coat cleaned at the restaurant's expense. This is what we call a **programmed decision**, a repetitive decision that can be handled by a routine approach. Because the problem is structured, the manager doesn't have to go to the trouble and expense of going through an involved decision process. The "develop-the-alternatives" stage of the decision-making process either doesn't exist or is given little attention. Why? Because once the structured problem is defined, the solution is usually self-evident or at least reduced to a few alternatives that are familiar and have proved successful in the past. The spilled drink on the customer's coat doesn't require the restaurant manager to identify and weight decision criteria or to develop a long list of possible solutions. Instead, the manager relies on one of three types of programmed decisions: procedure, rule, or policy.

A **procedure** is a series of sequential steps a manager uses to respond to a structured problem. The only difficulty is identifying the problem. Once it's clear, so is the procedure. For instance, a purchasing manager receives a request from a warehouse manager for 15 tablets for the inventory clerks. The purchasing manager knows how to make this decision by following the established purchasing procedure.

A **rule** is an explicit statement that tells a manager what can or cannot be done. Rules are frequently used because they're simple to follow and ensure consistency. For example, rules about lateness and absenteeism permit supervisors to make disciplinary decisions rapidly and fairly.

The third type of programmed decisions is a **policy**, a guideline for making a decision. In contrast to a rule, a policy establishes general parameters for the decision maker rather than specifically stating what should or should not be done. Policies typically contain an ambiguous term that leaves interpretation up to the decision maker. Here are some sample policy statements:

- The customer always comes first and should always be *satisfied*.
- We promote from within, *whenever possible*.
- Employee wages shall be *competitive* within community standards.

Notice that the terms *satisfied*, *whenever possible*, and *competitive* require interpretation. For instance, the policy of paying competitive wages doesn't tell a company's human resources manager the exact amount he or she should pay, but it does guide the manager in making the decision.

 **It's Your Career**

Decision Making, Part 1—If your instructor is using Pearson MyLab Management, log onto mymanagementlab.com and test your *decision-making knowledge*. Be sure to refer back to the chapter opener!

unstructured problems

Problems that are new or unusual and for which information is ambiguous or incomplete

UNSTRUCTURED PROBLEMS AND NONPROGRAMMED DECISIONS Not all the problems managers face can be solved using programmed decisions. Many organizational situations involve **unstructured problems**, new or unusual problems for which information is ambiguous or incomplete. After more than 50 years of separation between the United States and Cuba, how the United States

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

Exhibit 2-7

Programmed Versus Nonprogrammed Decisions

government builds economic ties with Cuba is an example of an unstructured problem. So, too, is the problem facing American HR professionals who must decide how to modify their health insurance plans to comply with the Patient Protection and Affordable Care Act. When problems are unstructured, managers must rely on nonprogrammed decision making in order to develop unique solutions.

Nonprogrammed decisions are unique and nonrecurring and involve custom-made solutions.

Exhibit 2-7 describes the differences between programmed and nonprogrammed decisions. Lower-level managers mostly rely on programmed decisions (procedures, rules, and policies) because they confront familiar and repetitive problems. As managers move up the organizational hierarchy, the problems they confront become more unstructured. Why? Because lower-level managers handle the routine decisions and let upper-level managers deal with the unusual or difficult decisions. Also, upper-level managers delegate routine decisions to their subordinates so they can deal with more difficult issues.²⁶ Thus, few managerial decisions in the real world are either fully programmed or nonprogrammed. Most fall somewhere in between.

If your professor has assigned this, go to www.mymanagementlab.com to complete the Writing Assignment *MGMT 8: Decision Making*.

nonprogrammed decisions

Unique and nonrecurring decisions that require a custom-made solution



Decision-Making Conditions

When making decisions, managers may face three different conditions: certainty, risk, and uncertainty. Let's look at the characteristics of each.

CERTAINTY The ideal situation for making decisions is one of **certainty**, a situation where a manager can make accurate decisions because the outcome of every alternative is known. For example, entrepreneurs and business managers in Sweden can be certain they will receive prompt payment for goods and services when they decide to allow customers to make purchases through financial services apps like iZettle and Trustly. As you might expect, the outcomes of most managerial decisions are not as certain.²⁷

certainty

A situation in which a manager can make accurate decisions because all outcomes are known

RISK A far more common situation is one of **risk**, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information that lets them assign probabilities to different alternatives. Let's do an example.

risk

A situation in which the decision maker is able to estimate the likelihood of certain outcomes

Suppose you manage a Colorado ski resort, and you're thinking about adding another lift. Obviously, your decision will be influenced by the additional revenue

that the new lift would generate, which depends on snowfall. You have fairly reliable weather data from the last 10 years on snowfall levels in your area—three years of heavy snowfall, five years of normal snowfall, and two years of light snow. And you have good information on the amount of revenues generated during each level of snow. You can use this information to help you make your decision by calculating expected value—the expected return from each possible outcome—by multiplying expected revenues by snowfall probabilities. The result is the average revenue you can expect over time if the given probabilities hold. As Exhibit 2-8 shows, the expected revenue from adding a new ski lift is \$687,500. Of course, whether that's enough to justify a decision to build depends on the costs involved in generating that revenue.

UNCERTAINTY The general manager and employees of the Fukushima Daini nuclear power plant in Japan faced a crisis because of the damage that resulted from an earthquake and tsunami. A strong possibility existed for a catastrophic nuclear meltdown and explosion at the power plant. Many possible factors could

FUTURE VISION

Crowdsourcing Decisions

The Hershey Co. needs to find a way to keep their chocolates cool when shipping during the summer months or in warmer climates.²⁸ To meet this challenge, Hershey is turning to the crowd. Instead of looking for a solution within the company, management is using a crowdsourcing innovation competition to solve this supply chain management problem. Anyone can submit an idea, and the contest winner gets \$25,000 in development funds and the opportunity to collaborate with Hershey to develop the proposed solution.

Finding innovative solutions to problems is one of several uses of crowdsourcing in organizations. Crowdsourcing can help managers gather insights from customers, employees, or other groups to help make decisions such as what products to develop, where they should invest, or even who to promote. Powered by the collective experiences and ideas of many, crowdsourcing can help managers make better informed decisions by getting input from the front line and beyond.

Crowdsourcing is not new in the business world. One of the first examples of a business using crowdsourcing occurred in 1916 when Planters Peanuts held a contest to create its logo. However, today's Internet connectivity provides businesses quick and easy access to insights from customers and employees, effectively tapping into their cumulative wisdom. This connectivity, coupled with new software applications that facilitate crowdsourcing, gives it the potential to significantly impact the future of organizational decision making.

The ability of crowdsourcing to help organizations make decisions and solve problems will depend on management's ability to effectively harness the power of the crowd. Harvard Business School Professor Karim Lakhani suggests that organizations must find the right people and create appropriate incentives to motivate them to contribute. Effective crowdsourcing must draw a diversity of opinions that are independent of one another. Organizations must also have a mechanism to aggregate individual responses into a collective opinion in order to support the use of crowdsourcing in decision making.

Crowdsourcing could be a game changer for making decisions in organizations if used strategically. We could see a shift from the traditional model of decision making led from the top of the hierarchy to more effective decisions driven by customers, employees, or others. This revolution in the decision-making process could challenge conventional management practices, requiring new skills from managers.

If your professor has chosen to assign this, go to www.mymanagementlab.com to discuss the following questions.

 **TALK ABOUT IT 1:** How can crowdsourcing help managers make better decisions?

 **TALK ABOUT IT 2:** What are some risks in using crowdsourcing to make decisions?

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

have led to these outcomes, including whether vital systems damaged in the quake could be repaired and whether aftershocks would further destabilize the nuclear reactors. What happens if you face a decision where you're not certain about the outcomes and can't even make reasonable probability estimates? We call this condition **uncertainty**. Managers face decision-making situations of uncertainty. Under these conditions, the choice of alternatives is influenced by the limited amount of available information and by the psychological orientation of the decision maker. An optimistic manager will follow a *maximax* choice (maximizing the maximum possible payoff); a pessimist will follow a *maximin* choice (maximizing the minimum possible payoff); and a manager who desires to minimize his maximum "regret" will opt for a *minimax* choice. Let's look at these different choice approaches using an example.

A marketing manager at Visa has determined four possible strategies (S_1 , S_2 , S_3 , and S_4) for promoting the Visa card throughout the West Coast region of the United States. The marketing manager also knows that major competitor MasterCard has three competitive actions (CA_1 , CA_2 , and CA_3) it's using to promote its card in the same region. For this example, we'll assume that the Visa manager had no previous knowledge that would allow her to determine probabilities of success of any of the four strategies. She formulates the matrix shown in Exhibit 2-9 to show the various Visa strategies and the resulting profit, depending on the competitive action used by MasterCard.

In this example, if our Visa manager is an optimist, she'll choose strategy 4 (S_4) because that could produce the largest possible gain: \$28 million. Note that this choice maximizes the maximum possible gain (maximax choice).

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

In the third approach, managers recognize that once a decision is made, it will not necessarily result in the most profitable payoff. There may be a "regret" of profits given up—*regret* referring to the amount of money that could have

Exhibit 2-8

Expected Value

uncertainty

A situation in which a decision maker has neither certainty nor reasonable probability estimates available

Visa Marketing Strategy (in millions of dollars)	MasterCard's Competitive Action		
	CA ₁	CA ₂	CA ₃
S_1	13	14	11
S_2	9	15	18
S_3	24	21	15
S_4	18	14	28

Exhibit 2-9

Payoff Matrix

Exhibit 2-10

Regret Matrix

Visa Marketing Strategy (in millions of dollars)	MasterCard's Competitive Action		
	CA ₁	CA ₂	CA ₃
S ₁	11	7	17
S ₂	15	6	10
S ₃	0	0	13
S ₄	6	7	0

LEADER making a DIFFERENCE



He's not your typical CEO. In fact, some might call him a little crazy, except for the fact that his track record at turning crazy ideas into profitable ventures is pretty good. We're talking about Elon Musk.²⁹ In 2002, he sold his second Internet startup, PayPal, to eBay for \$1.5 billion. (His first company, a Web software firm, was acquired by Compaq.) Currently, Musk is CEO of Space Exploration Technologies (SpaceX) and Tesla Motors, and chairman and largest shareholder of SolarCity, an energy technology company. SpaceX, which builds rockets for companies and countries to put satellites in space, was the first private company to deliver cargo to the International Space Station. It's reigniting interest in space exploration. Tesla Motors is the world's most prominent maker of electric cars and is proving that electric cars can be green, sexy, and profitable. SolarCity is now the leading provider of domestic solar panels in the United States. Each of these ventures has transformed (or is transforming) an industry: PayPal—Internet payments; Tesla—automobiles; SpaceX—aeronautics; and SolarCity—energy.

As a decision maker, Musk deals mostly with unstructured problems in risky conditions. However, like other business innovators, Musk is comfortable with that and in pursuing what many might consider "crazy" idea territory. His genius has been compared to that of the late Steve Jobs. And Fortune magazine named him the 2013 Businessperson of the Year. What can you learn from this leader making a difference?

Source: Kristoffer Tripplar/Sipa USA (Sipa via AP Images)

been made had a different strategy been used. Managers calculate regret by subtracting all possible payoffs in each category from the maximum possible payoff for each given event, in this case for each competitive action. For our Visa manager, the highest payoff—given that MasterCard engages in CA₁, CA₂, or CA₃—is \$24 million, \$21 million, or \$28 million, respectively (the highest number in each column). Subtracting the payoffs in Exhibit 2-9 from those figures produces the results shown in Exhibit 2-10.

The maximum regrets are S₁ = \$17 million; S₂ = \$15 million; S₃ = \$13 million; and S₄ = \$7 million. The *minimax* choice minimizes the maximum regret, so our Visa manager would choose S₄. By making this choice, she'll never have a regret of profits given up of more than \$7 million. This result contrasts, for example, with a regret of \$15 million had she chosen S₂ and MasterCard had taken CA₁.

Although managers try to quantify a decision when possible by using payoff and regret matrices, uncertainty often forces them to rely more on intuition, creativity, hunches, and "gut feel."

Watch It 2!

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled *Gaviña Gourmet Coffee: Organizational Behavior* and to respond to questions.

DECISION-MAKING biases and errors

LO2.4

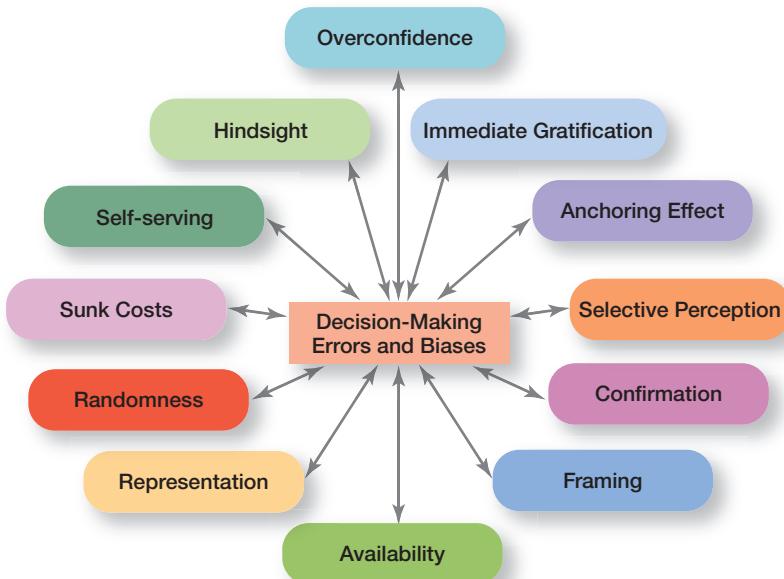
When managers make decisions, they may use "rules of thumb," or **heuristics**, to simplify their decision making. Rules of thumb can be useful because they help make sense of complex, uncertain, and ambiguous information.³⁰ Even though managers may use rules of thumb, that doesn't mean those rules are reliable. Why? Because they may lead to errors and biases in processing and

heuristics

Rules of thumb that managers use to simplify decision making

Exhibit 2-11

Common Decision-Making Biases



evaluating information. Exhibit 2-11 identifies 12 common decision errors of managers and biases they may have. Let's look at each.³¹

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they're exhibiting the *overconfidence bias*. The *immediate gratification bias* describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those with payoffs in the future. The *anchoring effect* describes how decision makers fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later. When decision makers selectively organize and interpret events based on their biased perceptions, they're using the *selective perception bias*. This influences the information they pay attention to, the problems they identify, and the alternatives they develop. Decision makers who seek out information that reaffirms their past choices and discounts information that contradicts past judgments exhibit the *confirmation bias*. These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges these views. The *framing bias* occurs when decision makers select and highlight certain aspects of a situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points. The *availability bias* happens when decision makers tend to remember events that are the most recent and vivid in their memory. The result? It distorts their ability to recall events in an objective manner and results in distorted judgments and probability estimates. When decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events, that's the *representation bias*. Managers exhibiting this bias draw analogies and see identical situations where they don't exist. The *randomness bias* describes the actions of decision makers who try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance even though random events happen to everyone, and there's nothing that can be done to predict them. The *sunk costs error* occurs when decision makers forget that current choices can't correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they can't forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors are exhibiting the *self-serving bias*. Finally, the *hindsight bias* is the tendency



- When managers reduced the effects of bias in their decision making, their organizations' performance returns were 7 percent higher.³²

for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.

Managers avoid the negative effects of these decision errors and biases by being aware of them and then not using them! Fortunately, some research shows that training can successfully engage employees to recognize particular decision-making biases and reduce subsequent biased decision making with a long-lasting effect.³³ Beyond that, managers also should pay attention to “how” they make decisions and try to identify the heuristics they typically use and critically evaluate the appropriateness of those heuristics. Finally, managers might want to ask trusted individuals to help them identify weaknesses in their decision-making style and try to improve on those weaknesses. For example, Christopher Cabrera, founder and CEO of Xactly, did just that. “I had a seasoned boss who was a wonderful mentor, and he really helped me with hiring and understanding how to create diverse teams. The company was growing quickly, and hiring was a big part of my job.”³⁴

It's Your Career

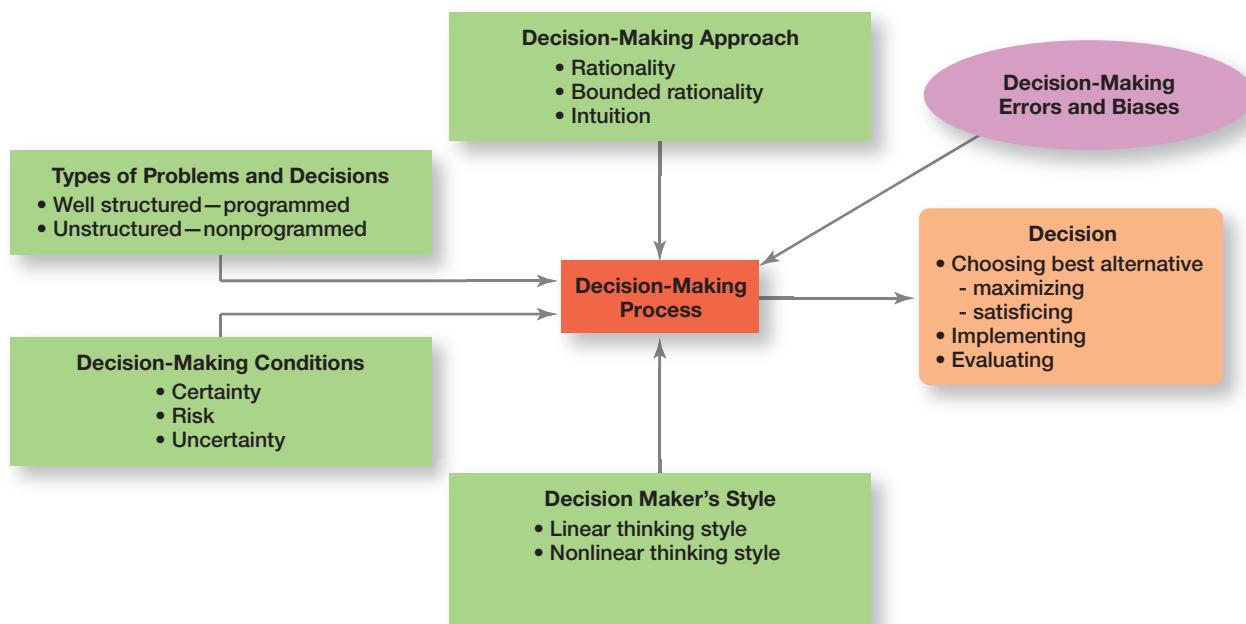
Decision Making, Part 2—If your instructor is using Pearson MyLab Management, log onto mymanagementlab.com and test your *decision-making knowledge*. Be sure to refer back to the chapter opener!

Overview of Managerial Decision Making

Exhibit 2-12 provides an overview of managerial decision making. Because it's in their best interests, managers *want* to make good decisions—that is, choose the “best” alternative, implement it, and determine whether it takes care of the problem, which is the reason the decision was needed in the first place. Their decision-making process is affected by four factors: the decision-making approach, the type of problem, decision-making conditions, and certain decision-making errors and biases. So whether a decision involves addressing an employee's habitual tardiness, resolving a product quality problem, or determining whether to enter a new market, it has been shaped by a number of factors.

Exhibit 2-12

Overview of Managerial Decision Making



WORKPLACE CONFIDENTIAL**Making Good Decisions**

Life comes with tough decisions. And so do jobs. The tough decisions start with choosing whether to accept an initial job offer. They often continue with deciding who to befriend and trust at work, whether or not to join a new work team or accept a promotion to a new city, how to respond to a situation that might compromise your ethics, or how to relay bad news to your boss.

Let's begin with the basic tenet that you can't avoid tough decisions by ignoring them. The decision to do nothing is *still a decision*. It's a decision to maintain the status quo.

You can maintain the status quo by following either of two paths—one active and the other passive. You can rationally assess your current situation, identify your options, carefully review the strengths and weaknesses of these options, and conclude that no new alternative is superior to the path you're currently taking. This active approach is fully consistent with rational decision making. Our concern here, however, is with the passive approach—where the current path is followed only because you fail to consider your other options. You don't, for instance, want to find yourself regretting having spent 20 years in a go-nowhere job that you disliked because you avoided looking for other opportunities.

How do you counter the nondecision decision? The first step is awareness. You can't opt out of decisions by ignoring them. To do so is merely choosing to continue along the path you're on. That path may be the one you want, but the astute decision maker recognizes that there are costs associated with maintaining the status quo as well as with change. You also need to directly challenge the status quo. It's not merely enough to know that doing nothing is a decision. You also need to occasionally justify why you *shouldn't* pursue another path that's different from the one you're currently following. Why aren't you looking for other job opportunities? Are the stocks, bonds, and mutual funds in your retirement plan properly aligned to recent changes in the economy? Finally, consider the costs of inaction. Too often we focus only on the risks associated with change. You're less likely to get caught up in decision inaction if you also address the risks related to doing nothing.

We should also take a look at arguably the three most critical errors you're likely to make in your decision making: overconfidence, a short-term focus, and the confirmation bias. While each is briefly mentioned in this chapter, let's take a closer look at them. Conquer these three and you'll go a long way toward improving the quality of your decisions.

It has been said that no problem in judgment and decision making is more prevalent and more potentially catastrophic than overconfidence. Almost all of us suffer from it. When we're given factual questions and asked to judge the probability that our answers are correct, we tend to be far too optimistic. In general, we overestimate our knowledge, undervalue risk, and overestimate our ability to control events.

Studies have found that when people say they're 65 percent to 70 percent confident that they're right, they're

actually correct only about 50 percent of the time. And when they say they're 100 percent sure, they tend to be only 70 percent to 85 percent correct.

To reduce overconfidence, begin by recognizing this tendency, and expect it to most likely surface when your confidence is extremely high or when accurate judgments are difficult to make. Next, adjust your confidence awareness to reflect your level of expertise on an issue. You're most likely to be overconfident when you're considering issues outside your expertise. Finally, directly address this bias by challenging yourself to look for reasons why your predictions or answers might be wrong.

A lot of us suffer from the tendency to want to grab for immediate rewards and avoid immediate costs. If it feels good, we want to do it now; if it implies pain, we want to postpone it. This immediate gratification bias explains why it's so hard to diet, quit smoking, avoid credit card debt, or save for retirement. Each comes with an immediate reward—tasty food, an enjoyable cigarette, an immediate purchase, or extra disposable money to spend. And each delays its costs to some nebulous future.

If you see yourself as vulnerable to the immediate gratification bias, what can you do? First, set long-term goals and review them regularly. This can help you focus on the longer term and help you to justify making decisions whose payoff may be far into the future. If you don't know where you want to be in 10 or 20 years, it's easier to discount your future and live for the moment. Second, pay attention to both rewards and costs. Our natural tendency is to inflate immediate rewards and underplay future costs. For instance, think about what it would be like to be retired, having no savings and trying to live on a \$1200-a-month Social Security check. Or look around for examples of people who didn't plan for their future and now are suffering the consequences.

Finally, the rational decision-making process assumes that we objectively gather information. But we don't. We selectively gather information so it confirms our current beliefs, and we dismiss evidence that challenges those beliefs. We also tend to accept at face value information that confirms our preconceived views, while being critical and skeptical of information that challenges these views.

Overcoming this confirmation bias begins by being honest about your motives. Are you seriously trying to get information to make an informed decision, or are you just looking for evidence to confirm what you'd like to do? If you're serious about this, then you need to purposely seek out contrary or disconfirming information. That means you have to be prepared to hear what you don't want to hear. You'll also need to practice skepticism until it becomes habitual. In the same way that a defense attorney seeks contradictory evidence to disprove a plaintiff's case, you have to think of reasons why your beliefs might be wrong and then aggressively seek out evidence that might prove them to be so.

Based on S. P Robbins, *Decide & Conquer: The Ultimate Guide for Improving Your Decision Making*, 2nd ed. (Upper Saddle River, NJ: Pearson Education, 2015).



Korean carmaker Hyundai decided to take the design thinking approach in testing the durability and quality of its i30 hatchback family car by letting a group of 40 safari park baboons examine it for 10 hours. Hyundai hopes that the lessons learned from the excessive wear-and-tear test of the car's parts and interior can be applied to the research and development of future cars.

Source: REX Features/AP Images

EFFECTIVE decision making in today's world

L02.5

Per Carlsson, a product development manager at IKEA, “spends his days creating Volvo-style kitchens at Yugo prices.” His job is to take the “problems” identified by the company’s product-strategy council (a group of globe-trotting senior managers that monitors consumer trends and establishes product priorities) and turn them into furniture that customers around the world want to buy. One “problem” identified by the council: the kitchen has replaced the living room as the social and entertaining center in the home. Customers are looking for kitchens that convey comfort and cleanliness while still allowing them to pursue

their gourmet aspirations. Carlsson must take this information and make things happen. There are a lot of decisions to make—programmed and nonprogrammed—and the fact that IKEA is a global company makes it even more challenging. Comfort in Asia means small, cozy appliances and spaces, while North American customers want oversized glassware and giant refrigerators. His ability to make good decisions quickly has significant implications for IKEA’s success.³⁵ Similarly, hotel giant Hilton Worldwide Holdings plans to diversify its portfolio by establishing a newly branded hotel. The brand, Tru by Hilton, is being established to meet the preferences of a millennial mind-set, regardless of age. CEO Christopher Nassetta is positioning the new brand to people who “are united by a millennial mind-set—a youthful energy, a zest for life and a desire for human connection.”³⁶

Today’s business world revolves around making decisions, often risky ones, usually with incomplete or inadequate information and under intense time pressure. Making good business decisions in today’s rapid-paced and messy world isn’t easy. Things happen too fast. Customers come and go in the click of a mouse or the swipe of a screen. Market landscapes can shift dramatically overnight along several dimensions. Competitors can enter a market and exit it just as quickly as they entered. Thriving and prospering under such conditions means managerial decision making must adapt to these realities. Most managers make one decision after another; and as if that weren’t challenging enough, more is at stake than ever before. Bad decisions can cost millions. What do managers need to do to make effective decisions in today’s fast-moving world? First, let’s look at some suggested guidelines. Then, we’ll discuss an interesting new line of thinking that has implications for making effective decisions—especially for business types—called design thinking.

Try It!

If your professor has assigned this, go to www.mymanagementlab.com to complete the Simulation: *Decision Making* and see how well you can apply the ideas behind the decision-making process.

Guidelines for Effective Decision Making

Decision making is serious business. Your abilities and track record as an effective decision maker will determine how your organizational work performance is evaluated and whether you’ll be promoted to higher and higher positions of responsibility. Here are some additional guidelines to help you be a better decision maker.

- *Understand cultural differences.* Managers everywhere want to make good decisions. However, is there only one “best” way worldwide to make decisions? Or does the “best way depend on the values, beliefs, attitudes, and behavioral patterns of the people involved?”³⁷ Getting work done is less likely when individuals from one culture are tone deaf to cultural norms elsewhere. For example, L’Oréal’s decision-making culture encourages open debate, which management maintains

generates creativity.³⁸ However, that style probably does not fit well with cultural differences in other countries. For example, the company's confrontational approach is inconsistent with the cultural values in Southeast Asia, a region in which they conduct business. An Indonesian employee said, "To an Indonesian person, confrontation in a group setting is extremely negative because it makes the other person lose face. So it's something that we try strongly to avoid in any open manner."³⁹

- *Create standards for good decision making.* Good decisions are forward-looking, use available information, consider all available and viable options, and do not create conflicts of interest.⁴⁰ The Bill & Melinda Gates Foundation expect employees not to engage in decision making that could create a conflict of interest. "Foundation employees are obligated to avoid and disclose ethical, legal, financial, or other conflicts of interest involving the foundation, and remove themselves from a position of decision-making authority with respect to any conflict situation involving the foundation."⁴¹
- *Know when it's time to call it quits.* When it's evident that a decision isn't working, don't be afraid to pull the plug. For instance, only months after Steve Rowe became CEO of UK-based Marks & Spencer, he decided to close dozens of stores domestically and abroad in a major move to boost the retailer's profitability. Although the previous CEO had reestablished large stores in and around Paris after a decade of not operating in France, Rowe reversed that decision as a way to significantly reduce costs.⁴² However, as we said earlier, many decision makers block or distort negative information because they don't want to believe their decision was bad. They become so attached to a decision that they refuse to recognize when it's time to move on. In today's dynamic environment, this type of thinking simply won't work.
- *Use an effective decision-making process.* Experts say an effective decision-making process has these six characteristics: (1) it focuses on what's important; (2) it's logical and consistent; (3) it acknowledges both subjective and objective thinking and blends analytical with intuitive thinking; (4) it requires only as much information and analysis as is necessary to resolve a particular dilemma; (5) it encourages and guides the gathering of relevant information and informed opinion; and (6) it's straightforward, reliable, easy to use, and flexible.⁴³
- *Develop your ability to think clearly* so you can make better choices at work and in your life.⁴⁴ Making good decisions doesn't come naturally. You have to work at it. Read and study about decision making. Keep a journal of decisions in which you evaluate your decision-making successes and failures by looking at the process you used and the outcomes you got.

Design Thinking and Decision Making

The way managers approach decision making—using a rational and analytical mindset in identifying problems, coming up with alternatives, evaluating alternatives, and choosing one of those alternatives—may not be the best, and is certainly not the only, choice in today's environment. That's where design thinking comes in. **Design thinking** has been described as “approaching management problems as designers approach design problems.”⁴⁶ More organizations are beginning to recognize how design thinking can benefit them.⁴⁷ PepsiCo embraces the importance of design thinking. For example, the company designers created the Pepsi Spire, which is a high-tech beverage dispensing machine with a futuristic design. PepsiCo CEO Indra Nooyi had this to say about the company's design approach: “Other companies with dispensing machines have focused on adding a few more buttons and combinations of flavors. Our design guys essentially said that we're talking about a fundamentally different interaction between consumer and machine.”⁴⁸

While many managers don't deal specifically with product or process design decisions, they still make decisions about work issues that arise, and design thinking can help them be better decision makers. What can the design thinking approach teach



- 77 percent of managers say the number of decisions they make during a typical day has increased.⁴⁵

design thinking

Approaching management problems as designers approach design problems

managers about making better decisions? Well, it begins with the first step of identifying problems. Design thinking says that managers should look at problem identification collaboratively and integratively, with the goal of gaining a deep understanding of the situation. They should look not only at the rational aspects, but also at the emotional elements. Then invariably, of course, design thinking would influence how managers identify and evaluate alternatives. “A traditional manager (educated in a business school, of course) would take the options that have been presented and analyze them based on deductive reasoning and then select the one with the highest net present value. However, using design thinking, a manager would say, ‘What is something completely new that would be lovely if it existed but doesn’t now?’”⁴⁹ Design thinking means opening up your perspective and gaining insights by using observation and inquiry skills and not relying simply on rational analysis. We’re not saying that rational analysis isn’t needed; we are saying that there’s more needed in making effective decisions, especially in today’s world. Just a heads up: Design thinking also has broad implications for managers in other areas, and we’ll be looking in future chapters at its impact on innovation and strategies.

Big Data and Decision Making

- China’s Alibaba, the world’s largest online retailer, profits from its technology to personalize customer offers and handle 175,000 purchases per second.⁵⁰
- At Etihad Airways, based in Abu Dhabi, managers rely on extensive data analysis for a variety of business decisions. They considered the financial services and technological resources of 14 different banks before choosing two banks capable of providing the necessary data, in the necessary detail and software format, for key decisions about managing the airline’s money.⁵¹
- It’s not just businesses that are exploiting big data. Thanks to improved data collection and analysis techniques, including new software for modeling supply and demand, managers at the National Blood Authority in Australia can make better decisions about distributing blood products to medical facilities—saving a lot of lives and a lot of money.⁵²

Yes, there’s a ton of information out there—100 petabytes here in the decade of the 2010s, according to experts. (In bytes, that translates to 1 plus 17 zeroes, in case you were wondering!)⁵³ And businesses—and other organizations—are finally figuring out how to use it. So what is **big data**? It’s the vast amount of quantifiable information that can be analyzed by highly sophisticated data processing. One IT expert described big data with “3Vs: high volume, high velocity, and/or high variety information assets.”⁵⁴

What does big data have to do with decision making? A lot, as you can imagine. With this type of data at hand, decision makers have very powerful tools to help them make decisions. However, experts caution that collecting and analyzing data for data’s sake is wasted effort. Goals are needed when collecting and using this type of information. As one individual said, “Big data is a descendant of Taylor’s ‘scientific management’ of more than a century ago.”⁵⁵ While Taylor used a stopwatch to time and monitor a worker’s every movement, big data is using math modeling, predictive algorithms, and artificial intelligence software to measure and monitor people and machines like never before. But managers need to really examine and evaluate how big data might contribute to their decision making before jumping in with both feet. Why? Because big data, no matter how comprehensive or well analyzed, needs to be tempered by good judgment. For instance, a recent government report states: “Companies should remember that while big data is very good at detecting correlations, it does not explain which correlations are meaningful.”⁵⁶ Credit companies have generally established a correlation between credit score and repayment history (lower scores are associated with lower payment histories). However, it is certainly not the case that every person with a low credit score will fail to pay credit cards. When making decisions, it is important to remember that correlation does not equate with cause and effect.

big data

The vast amount of quantifiable information that can be analyzed by highly sophisticated data processing

Chapter 2

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

L02.1 DESCRIBE the eight steps in the decision-making process.

A decision is a choice. The decision-making process consists of eight steps: (1) identify the problem; (2) identify decision criteria; (3) weight the criteria; (4) develop alternatives; (5) analyze alternatives; (6) select alternative; (7) implement alternative; and (8) evaluate decision effectiveness.

L02.2 EXPLAIN the four ways managers make decisions.

The assumptions of rationality are as follows: the problem is clear and unambiguous; a single, well-defined goal is to be achieved; all alternatives and consequences are known; and the final choice will maximize the payoff. Bounded rationality says that managers make rational decisions but are bounded (limited) by their ability to process information. Satisficing happens when decision makers accept solutions that are good enough. With escalation of commitment, managers increase commitment to a decision even when they have evidence it may have been a wrong decision. Intuitive decision making means making decisions on the basis of experience, feelings, and accumulated judgment. Using evidence-based management, a manager makes decisions based on the best available evidence.

L02.3 CLASSIFY decisions and decision-making conditions.

Programmed decisions are repetitive decisions that can be handled by a routine approach and are used when the problem being resolved is straightforward, familiar, and easily defined (structured). Nonprogrammed decisions are unique decisions that require a custom-made solution and are used when the problems are new or unusual (unstructured) and for which information is ambiguous or incomplete. Certainty is a situation in which a manager can make accurate decisions because all outcomes are known. Risk is a situation in which a manager can estimate the likelihood of certain outcomes. Uncertainty is a situation in which a manager is not certain about the outcomes and can't even make reasonable probability estimates. When decision makers face uncertainty, their psychological orientation will determine whether they follow a maximax choice (maximizing the maximum possible payoff); a maximin choice (maximizing the minimum possible payoff); or a minimax choice (minimizing the maximum regret—amount of money that could have been made if a different decision had been made).

L02.4 DESCRIBE how biases affect decision making.

The 12 common decision-making errors and biases include overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias, and hindsight. The managerial decision-making model helps explain how the decision-making process is used to choose the best alternative(s), either through maximizing or satisficing and then implementing and evaluating the alternative. It also helps explain what factors affect the decision-making process, including the decision-making approach (rationality, bounded rationality, intuition), the types of problems and decisions (well structured and programmed or unstructured and nonprogrammed), and the decision-making conditions (certainty, risk, uncertainty).

LO2.5**IDENTIFY effective decision-making techniques.**

Managers can make effective decisions by understanding cultural differences in decision making, creating standards for good decision making, knowing when it's time to call it quits, using an effective decision-making process, and developing their ability to think clearly. An effective decision-making process (1) focuses on what's important; (2) is logical and consistent; (3) acknowledges both subjective and objective thinking and blends both analytical and intuitive approaches; (4) requires only "enough" information as is necessary to resolve a problem; (5) encourages and guides gathering relevant information and informed opinions; and (6) is straightforward, reliable, easy to use, and flexible.

Design thinking is "approaching management problems as designers approach design problems." It can be useful when identifying problems and when identifying and evaluating alternatives. Using big data, decision makers have power tools to help them make decisions. However, no matter how comprehensive or well analyzed the big data, it needs to be tempered by good judgment.

Pearson MyLab Management

Go to mymanagementlab.com to complete the problems marked with this icon 

★ REVIEW AND DISCUSSION QUESTIONS

- 2-1. Explain how good decision making is a skill that can be learned and improved.
- 2-2. Where in the eight-step decision-making process are the likely problem areas for managers?
- 2-3. What role does intuition play in decision making? Discuss.
- 2-4. Is satisficing a desirable way of making managerial decisions?
- 2-5. Most managers adopt particular styles to simplify their decision making. This helps them make sense of information. Why do you think these styles are unreliable?
- 2-6. What should a good manager do if it becomes apparent that a decision that has already been made is clearly not working or solving the situation?
- 2-7. What do you understand by personalization technologies? How does big data fit into decision-making processes?

Pearson MyLab Management

If your professor has assigned these, go to www.mymanagementlab.com for the following Assisted-graded writing questions:

- 2-8.** How might an organization's culture influence the way managers make decisions?
- 2-9.** Efe has looked at last year's sales figures and incorporated a 20 percent growth for his year. He figures that his business can cut costs by at least 15 percent with little effort. Identify his biases and the mistakes he might be making.

PREPARING FOR: My Career

★ PERSONAL INVENTORY ASSESSMENTS



Solving Problems Analytically and Creatively

Making decisions is all about solving problems. Do this PIA and find out about your level of creativity and innovation in problem solving.

★ ETHICS DILEMMA

In the United Kingdom, the National Health Service employs 1.7 million people.⁵⁷ It is the world's largest publicly funded health service. There are cases when employees have found themselves "victimized" by management for one reason or another. A prime example is that of a senior consultant, around 50 years old, working for a London hospital. She was suspended on full pay for three years after raising concerns over staffing levels in her clinic. Shortly before her suspension, a major case of child abuse implicating the hospital hit the headlines. As the hospital had failed to pick up on these problems, the consultant became a whistle-blower and exposed staffing concerns. Deeply concerned, the hospital promptly offered her money

with a gagging clause as part of the agreement. She turned it down. It took the support of hundreds of colleagues for her to eventually return to work. Petitions that received great support from former patients had added to the call. However, she would never work for that hospital again. Since the incident, the consultant has been instrumental in trying to bring about changes to the support and protection of whistle-blowers in service.

- 2-10. Was the hospital's decision to suspend the consultant correct? Explain why or why not.
- 2-11. If you were the consultant's line manager, how would you have dealt with the situation?

SKILLS EXERCISE Developing Your Creativity Skill

About the Skill

Creativity is a frame of mind. You need to open your mind to new ideas. Every individual has the ability to be creative, but many people simply don't try to develop that ability. Developing your creative skills can help you become a better problem-solver and contributor in the workplace. Dynamic environments and managerial chaos require that managers look for new and innovative ways to attain their goals as well as those of the organization.⁵⁸

Steps in Practicing the Skill

- ***Think of yourself as creative.*** Although it's a simple suggestion, research shows that if you think you can't be creative, you won't be. Believing in yourself is the first step in becoming more creative.
- ***Pay attention to your intuition.*** Every individual's subconscious mind works well. Sometimes answers come

to you when least expected. For example, when you are about to go to sleep, your relaxed mind sometimes whispers a solution to a problem you're facing. Listen to that voice. In fact, most creative people keep a notepad near their bed and write down those great ideas when they occur. That way, they don't forget them.

- ***Move away from your comfort zone.*** Every individual has a comfort zone in which certainty exists. But creativity and the known often do not mix. To be creative, you need to move away from the status quo and focus your mind on something new.
- ***Engage in activities that put you outside your comfort zone.*** You not only must think differently; you need to do things differently and thus challenge yourself. Learning to play a musical instrument or learning a foreign language, for example, opens your mind to a new challenge.

- **Seek a change of scenery.** People are often creatures of habit. Creative people force themselves out of their habits by changing their scenery, which may mean going into a quiet and serene area where you can be alone with your thoughts.
- **Find several right answers.** In the discussion of bounded rationality, we said that people seek solutions that are good enough. Being creative means continuing to look for other solutions even when you think you have solved the problem. A better, more creative solution just might be found.
- **Play your own devil's advocate.** Challenging yourself to defend your solutions helps you to develop confidence in your creative efforts. Second-guessing yourself may also help you find more creative solutions.
- **Believe in finding a workable solution.** Like believing in yourself, you also need to believe in your ideas. If you don't think you can find a solution, you probably won't.

- **Brainstorm with others.** Being creative is not a solitary activity. Bouncing ideas off others creates a synergistic effect.
- **Turn creative ideas into action.** Coming up with ideas is only half the process. Once the ideas are generated, they must be implemented. Keeping great ideas in your mind or on paper that no one will read does little to expand your creative abilities.

Practicing the Skill

Developing your creative skills is similar to building your muscles through exercise; it requires effort over time. Every week pick a new activity to develop your creative skills. Try something new, take an art class, practice brainstorming, or spend some time with a new group of people. Keep a journal of creative ideas or insights.

WORKING TOGETHER Team Exercise

Just how do you make decisions? Researchers suggest that the way we make decisions greatly depends on our individual thinking style. It is all about the sources of information we use and how we process that information. The researchers have categorized the numerous ways of thinking into two distinct styles: linear and nonlinear.

Create a group of three or four and discuss how you source and process information. Which of you are linear and which are nonlinear? Share your findings with the rest of the class. Can you arrive at an agreement as to whether one method is better, faster, or more accurate than the other? Is it possible to change from linear to nonlinear or vice versa?

MY TURN TO BE A MANAGER

- Consider a big decision that you have made. Write a description of the decision using the steps in the decision-making process as your guide. What could you have done differently in the process to improve your decision?
- Write a procedure, a rule, and a policy for your instructor to use in your class. Be sure that each one is clear and understandable. And be sure to explain how it fits the characteristics of a procedure, a rule, or a policy.
- Find three examples of managerial decisions described in any of the popular business periodicals (*Wall Street Journal*, *BusinessWeek*, *Fortune*, etc.). Write a paper describing each decision and any other information, such as what led to the decision, what happened as a result

- of the decision, etc. What did you learn about decision making from these examples?
- Interview two managers and ask them for suggestions on what it takes to be a good decision maker. Write down their suggestions and be prepared to present them in class.
- Do a Web search on the phrase “101 dumbest moments in business.” Get the most current version of this end-of-year list. Pick three of the examples and describe what happened. What’s your reaction to the examples? How could the managers have made better decisions?
- Visit the Mindtools website (www.mindtools.com) and find the decision-making toolkit. Explore the decision-making tools suggested and select one tool to use the next time you need to make a decision.

CASE APPLICATION 1 On The Cards: Decision Making

Card Connection is one of the United Kingdom's largest card publishers and a market leader in the franchise distribution of greeting cards in the United Kingdom and the Republic of Ireland (ROI). Established in 1992, it is regarded as one of the Britain's best-run franchise operations and has been a member of the British Franchise Association since 1995.

Its franchisees don't operate under a standard retail format and, instead, act as intermediaries in supplying cards to a range of retail outlets in allocated franchise areas. Typically, its franchise holders supply products to post offices, convenience stores, gas stations, and other retailers. Given this customer base, Card Connection's management takes advantage of a business model that requires it to place its products in the outlets on a "consignment" basis—customers don't buy the stock and only pay for what they sell. This proved to be a success. At the beginning of 2017, there were 63 franchises across Britain and around 12,000 retail outlets using its services in ROI. At any given time, the management of Card Connection looks for potential franchisees—a mix of new and unexplored territories and replacement franchisees.

To decide which areas to allocate to which franchise holder, Card Connection analyzes several data sources. The primary data drivers are demographic, a combination of raw population figures and number of households. The decision makers must also analyze the number of potential stockists, competitors in the area, the average income of the population, and other elements. While the initial process of dividing the United Kingdom and the ROI into equal portions is simple, as the franchises develop and with changes in demographics, regional and local economics, and other criteria, the value of each area changes.

Each franchise holder has a discrete and exclusive territory that only they can supply to. It is because of this that Card Connection's decision-making process regarding territories often revolves around geography. In most cases, this is how franchise areas are determined and how territories derived. A major problem arises when a franchisee attracts business from a customer outside of its franchise area. The franchisor needs to be clear about these instances. Some franchise agreements allow the franchisor to change the territory, should the circumstance arise. This is an indicator of changes in the demographics within a territory, a development in technology, or a rise in the demand for the product or service being offered within the franchise system.⁵⁹

DISCUSSION QUESTIONS

- 2-12. What ongoing decisions are necessary about the size of franchise areas?
- 2-13. What factors should you consider when deciding to acquire a franchise?
- 2-14. How might globalization impact the decision-making process for Card Connection?

CASE APPLICATION 2 Manchester City: Football Big Data Champions

In most football teams, the minutes before the match are spent in the locker room where the coach provides last minute tips and delivers a motivational speech to the players. However, for Manchester City Football Club the ritual is a bit different. The team spends 15 minutes before each match meeting the club's performance analyst team, discussing things they had done well or wrong in previous matches. For instance,

the defense examines several factors—the number of crosses, effective or ineffective tackles, balls lost or recovered, the relationship with midfield, and movements in protecting their penalty area.

The day after the match, the analysis team, headed by Gavin Fleig, gives each player a detailed and personalized report of all their movements during the match, thus, enabling each player to get an accurate feedback on improvements required. In a 2012 interview released to Forbes, Fleig declared that the goal of the performance analysis unit is both to help the club make smarter decisions by relying on objective and more informative data, and to enhance players' performance by helping them to become more reflective and aware of their unique features, actions, and movements on the pitch.

To illustrate how the performance analysis team helps better the team's performance, let's look at Manchester City's performance and the set-piece goals scored in the 2010–11 season.

According to the analyst team, City was underperforming more than any other club in Premier League with only one set-piece goal scored over 21 matches. To understand what led to the goals scored across several European leagues, the analyst team studied more than 500 corner kicks. The players were then presented with videos illustrating the best tactics and movements applied by other teams. This helped City to score 9 goals in the first 15 matches of the next season from corners, which represents a tremendous improvement in their performance.

Data analysis is a critical decision-making support tool for Manchester City's managers at all levels, including for youth teams. For example, future young players are helped in understanding their strengths and weaknesses within the different formation plays and what aspects they need to focus on to develop their talent. It is important to note that big data is just a means to facilitate the achievement of Manchester City's strategic goals concerning youth team development, which is to integrate young homegrown-talents into the first team's formation. The performance analysts have helped the team to become very successful—Manchester City got the best defensive records for two consecutive years since 2012, and it won the title in the seasons 2011–12 and 2013–14 after more than four decades of no wins. Of course, big data is not the only factor behind these successes, but it was very important.

To continue being a leader in football big data, in 2016, Manchester City organized a global Hackathon, with more than 400 applications received from all over the world, where data and football experts created algorithms and simulations using data from real players that have never before been available to external actors. The challenge was to create algorithms that could help identify new movements, passes, runs and pressure to be more effective on the pitch. The winning team, who received a cash prize of £7000 and the promise to collaborate with the performance analysis team, created a learning machine algorithm that tracks decision-making during games.⁶⁰

DISCUSSION QUESTIONS

- 2-15. What types of decisions are made by football managers? Would you characterize these decisions as structured or unstructured problems? Explain.
- 2-16. Describe how big data can help football managers to make better decisions and how this has an effect on the decision-making process.
- 2-17. What type(s) of conditions are more likely to influence the performance analyst team's work: certainty, uncertainty, or risks? Explain.
- 2-18. Do you think it is appropriate for football managers to use only quantitative information to evaluate their players' performance during a season? Why or why not?
- 2-19. How can big data transform football decisions in the future?

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PART 1

Management Practice

A Manager's Dilemma

Selina Lo loves her job as the manager of a toy store in San Francisco. She loves the chaos and the excitement of kids as they wander around the store searching for their favorite toys. Teddy bears pulled off the shelves and toy trucks left on the floor are part and parcel of managing a toy store. Yet, her biggest challenge, which is a problem faced by many retailers, is employee turnover. Many of her employees leave after just a few months on the job because of hectic schedules and long work hours. Selina is always looking for new ways to keep her employees committed to their jobs. She also takes care of customers' requests and complaints and tries to address them satisfactorily. This is what Selina's life as a manager is like. However, retailers are finding that people with Selina's skills and enthusiasm for store management are few and far between. Managing a retail store is not the career that most college graduates aspire to. Attracting and keeping talented managers continues to be a challenge for all kinds of retailers.

Suppose you're a recruiter for a large retail chain and want to get college graduates to consider store management as a career option. Using what you learned in Part 1, how would you do that?

Global Sense

Who holds more managerial positions worldwide: women or men? Statistics tell an interesting story. In the United States, women held 50 percent of all managerial positions and 15 percent were members of the senior leadership team, but only 4 percent of the Fortune 500 CEO spots. In the United Kingdom, only 1.8 percent of the FTSE 500 companies' top positions are held by women. In Germany, women hold 35.6 percent of all management positions, but only 3 percent of women are executive board members. Asian countries have a much higher percentage of women in CEO positions. In Thailand, 30 percent of female managers hold the title of CEO, as do 18 percent in Taiwan. In China, 19 percent of the female workforce are CEOs. Even in Japan, 8 percent of senior managers are women. A census of Australia's top 200 companies listed on the Australian Stock Exchange showed that 11 percent of company executive managers were women. Finally, in Arab countries, the percentage of women in management positions is less than 10 percent.

As you can see, companies across the globe have a large gender gap in leadership. Men far outnumber women in senior business leadership positions. These circumstances exist despite efforts and campaigns to improve equality in the workplace. The situation may be slowly changing in Europe. Many countries there require corporations to allocate a specified percentage of board seats to women. For example, 100 of the largest German corporations award at least

30 percent of board seats to women. The remaining German companies were required to establish quotas sometime in 2016. One company—Deutsche Telekom—has chosen to aggressively tackle the problem head-on. It says it intends to “more than double the number of women who are managers within five years.” One action the company is taking is to improve and increase the recruiting of female university graduates. The company's goal: to have at least 30 percent of the places in executive development programs held by women. Other steps taken by the company revolve around the work environment and work-family issues. Deutsche's chief executive René Obermann said, “Taking on more women in management positions is not about the enforcement of misconstrued egalitarianism. Having a greater number of women at the top will quite simply enable us to operate better.”

Discuss the following questions in light of what you learned in Part 1:

- *What issues might Deutsche Telekom face in recruiting female university graduates?*
- *How could it address those issues?*
- *What issues might it face in introducing changes in work-family programs, and how could it address those issues?*
- *What do you think of Obermann's statement that having a greater number of women at the top will enable the company to operate better?*
- *What could other organizations around the globe learn from Deutsche Telekom?*

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Continuing Case

Starbucks—Introduction

Community. Connection. Caring. Committed. Coffee. Five Cs that describe the essence of Starbucks Corporation—what it stands for and what it wants to be as a business.



Beginning in 1971 as a coffee shop in Seattle's Pike's Place Market, Starbucks has grown to become the world's top specialty coffee retailer with shops in more than 62 countries and an expanded product line including merchandise, beverages and fresh food, global consumer products, and a Starbucks card and consumer rewards program. Starbucks' first store, shown here today, retains its original look with signs and other items bearing the company's first logo.

Source: ZUMA Press, Inc./Alamy

With more than 31,000 stores in 70 countries, Starbucks is the world's number one specialty coffee retailer. The company also owns Seattle's Best Coffee, Teavana, Tazo Tea, Starbucks VIA, Starbucks Refreshers, Evolution Fresh, La Boulange, and Verismo brands. It's a company that truly epitomizes the challenges facing managers in today's globally competitive environment. To help you better understand these challenges, we're going to take an in-depth look at Starbucks through these continuing cases, which you'll find at the end of every part in the textbook. Each of these six part-ending continuing cases will look at Starbucks from the perspective of the material presented in that part. Although each case "stands alone," you'll be able to see the progression of the management process as you work through each one.

The Beginning

"We aren't in the coffee business, serving people. We're in the people business, serving coffee." That's the philosophy of Howard Schultz, chief executive officer of Starbucks. It's a philosophy that has shaped—and continues to shape—the company.

The first Starbucks, which opened in Seattle's famous Pike Place Market in 1971, was founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl. The company was named for the coffee-loving first mate in the book *Moby Dick*, which also influenced the design of Starbucks' distinctive two-tailed siren logo. Schultz, a successful New York City businessperson, first walked into Starbucks in 1981 as a sales representative for a Swedish kitchenware manufacturer. He was hooked immediately. He knew that he wanted to work for this company, but it took almost a year before he could persuade the owners to hire him. After all, he was from New York and he hadn't grown up with the values of the company. The owners thought Schultz's style and high energy

would clash with the existing culture. But Schultz was quite persuasive and was able to allay the owners' fears. They asked him to join the company as director of retail operations and marketing, which he enthusiastically did. Schultz's passion for the coffee business was obvious. Although some of the company's employees resented the fact that he was an "outsider," Schultz had found his niche and he had lots of ideas for the company. As he says, "I wanted to make a positive impact."

About a year after joining the company, while on a business trip to Milan, Schultz walked into an espresso bar and right away knew that this concept could be successful in the United States. He said, "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience. I believed intuitively we could do it. I felt it in my bones." Schultz recognized that although Starbucks treated coffee as produce, something to be bagged and sent home with the groceries, the Italian coffee bars were more like an experience—a warm, community experience. That's what Schultz wanted to recreate in the United States. However, Starbucks' owners weren't really interested in making Starbucks big and didn't really want to give the idea a try. So Schultz left the company in 1985 to start his own small chain of espresso bars in Seattle and Vancouver called *Il Giornale*. Two years later when Starbucks' owners finally wanted to sell, Schultz raised \$3.8 million from local investors to buy them out. That small investment has made him a very wealthy person indeed!

Company Facts

Starbucks' main product is coffee—more than 30 blends and single-origin coffees. In addition to fresh-brewed coffee, here's a sampling of other products the company also offers:

- **Handcrafted beverages:** Hot and iced espresso beverages, coffee and noncoffee blended beverages, Tazo® teas, and smoothies
- **Merchandise:** Home espresso machines, coffee brewers and grinders, premium chocolates, coffee mugs and coffee accessories, compact discs, and other assorted items
- **Fresh food:** Baked pastries, sandwiches, salads, hot breakfast items, and yogurt parfaits
- **Global consumer products:** Starbucks Frappuccino® coffee drinks, Starbucks Iced Coffee drinks, Starbucks Liqueurs, and a line of super-premium ice creams
- **Starbucks card and My Starbucks Rewards® program:** A reloadable stored-value card and a consumer rewards program
- **Brand portfolio:** Starbucks Entertainment, Ethos™ Water, Seattle's Best Coffee, and Tazo® Tea

At the end of 2015, the company had more than 235,000 full- and part-time partners (employees) around the world. Howard Schultz is the chair, president, and CEO of Starbucks. Some of the other "interesting" executive positions include chief operating officer; global chief

marketing officer; chief creative officer; executive vice president of partner resources and chief community officer; executive vice president, global supply chain; executive vice president, global coffee; learning business partner; and international partner resource coordinator.

Decisions, Decisions

One thing you may not realize is that after running the show for 15 years at Starbucks, Howard Schultz, at age 46, stepped out of the CEO job in 2000 (he remained as chairman of the company) because he was “a bit bored.” By stepping down as CEO—which he had planned to do, had prepared for, and had no intention of returning to—essentially he was saying that he agreed to trust the decisions of others. At first the company thrived, but then the perils of rapid mass-market expansion began to set in and customer traffic began to fall for the first time ever. As he watched what was happening, there were times when he felt the decisions being made were not good ones. Schultz couldn’t shake his gut feeling that Starbucks had lost its way. In fact, in a memo dubbed the “espresso shot heard round the world,” he wrote to his top managers explaining in detail how the company’s unprecedented growth had led to many minor compromises that when added up led to a “watering down of the Starbucks experience.” Among his complaints: sterile “cookie cutter” store layouts, automatic espresso machines that robbed the “barista theater” of roasting and brewing a cup of coffee, and flavor-locked packaging that didn’t allow customers to inhale and savor that distinctive coffee aroma. Starbucks had lost its “cool” factor, and Schultz’s criticism of the state of the company’s stores was blunt and bold. There was no longer a focus on coffee but only on making the cash register ring. Within a year of the memo (and eight years after he left the CEO gig), Schultz was back in charge and working to restore the Starbucks experience. His goals were to fix the troubled stores, to reawaken the emotional attachment with customers, and to make long-term changes like reorganizing the company and revamping the supply chain. The first thing he did, however, was to apologize to the staff for the decisions that had brought the company to this point. In fact, his intention to restore quality control led him to a decision to close all (at that time) 7,100 U.S. stores for one evening to retrain 135,000 baristas on the coffee experience ... what it meant, what it was. It was a bold decision, and one that many “experts” felt would be a public relations and financial disaster. But Schultz felt doing so was absolutely necessary to revive and reenergize Starbucks. Another controversial decision was to hold a leadership conference with all store managers (some 8,000 of them) and 2,000 other partners—all at one time and all in one location. Why? To energize and galvanize these employees around what Starbucks stands for and what needed to be done for the company to survive and prosper. Schultz was unsure about how Wall Street would react to the cost, which was around \$30 million total (airfare, meals, hotels, etc.), but again he didn’t care because

he felt doing so was absolutely necessary and critical. And rather than gathering together in Seattle, where Starbucks is headquartered, Schultz chose New Orleans as the site for the conference. Here was a city still recovering from Hurricane Katrina, which had totally devastated it five years earlier in 2005. Talk about a logistical nightmare—and it was. But the decision was a symbolic choice. New Orleans was in the process of rebuilding itself and succeeding, and Starbucks was in the process of rebuilding itself and could succeed, too. While there, Starbucks partners volunteered some 50,000 hours of time, reinforcing to Schultz and to all the managers that despite all the problems, Starbucks had not lost its values. Other decisions, like closing 800 stores and laying off 4,000 partners, were more difficult. Since that transition time, Schultz has made lots of decisions. Starbucks has again come back even stronger in what it stands for, achieving in 2015 phenomenal record financial results, and it is on track to continue those record results.

So we’re beginning to see how Starbucks epitomizes the five Cs—community, connection, caring, committed, and coffee. In this Continuing Case in the Management Practice section at the end of Parts 2–6, you’ll discover more about Starbucks’ unique and successful ways of managing. As you work on these remaining continuing cases, keep in mind that there may be information included in this introduction you might want to review.

Discussion Questions

- P1-1.** What management skills do you think would be most important for Howard Schultz to have? Why? What skills do you think would be most important for a Starbucks store manager to have? Why?
- P1-2.** How might the following management theories/approaches be useful to Starbucks: scientific management, organizational behavior, quantitative approach, systems approach?
- P1-3.** Choose three of the current trends and issues facing managers and explain how Starbucks might be impacted. What might be the implications for first-line managers? Middle managers? Top managers?
- P1-4.** Give examples of how Howard Schultz might perform the interpersonal roles, the informational roles, and the decisional roles.
- P1-5.** Look at Howard Schultz’s philosophy of Starbucks. How will this affect the way the company is managed?
- P1-6.** Go to the company’s website, www.starbucks.com, and find the list of senior officers. Pick one of those positions and describe what you think that job might involve. Try to envision what types of planning, organizing, leading, and controlling this person would have to do.
- P1-7.** Look up the company’s mission and guiding principles at the company’s website. What do you think of the mission and guiding principles?

Describe how these would influence how a barista at a local Starbucks store does his or her job. Describe how these would influence how one of the company's top executives does his or her job.

- P1-8.** Starbucks has some pretty specific goals it wants to achieve (look ahead to Part 3 on p. 379 for these company goals). Given this, do you think managers would be more likely to make rational decisions, bounded rationality decisions, or intuitive decisions? Explain.
- P1-9.** Give examples of decisions that Starbucks managers might make under conditions of certainty. Under conditions of risk. Under conditions of uncertainty.
- P1-10.** What kind of decision maker does Howard Schultz appear to be? Explain your answer.
- P1-11.** How might biases and errors affect the decision making done by Starbucks executives? By Starbucks store managers? By Starbucks partners?

- P1-12.** How might design thinking be important to a company like Starbucks? Do you see any indication that Starbucks uses design thinking? Explain.

Notes for the Part 1 Continuing Case

Information from company website, www.starbucks.com, including 2015 Annual Report; "Starbucks on the *Forbes* World's Most Innovative Companies List," *Forbes* online, www.forbes.com, August 19, 2015; H. Schultz (with J. Gordon), *Onward: How Starbucks Fought for Its Life Without Losing Its Soul* (New York: Rodale, 2011); J. Cummings, "Legislative Grind," *Wall Street Journal*, April 12, 2005, pp. A1+; A. Serwer and K. Bonamici, "Hot Starbucks to Go," *Fortune*, January 26, 2004, pp. 60–74; R. Gulati, Sarah Huffman, and G. Neilson, "The Barista Principle," *Strategy and Business*, Third Quarter 2002, pp. 58–69; B. Horovitz, "Starbucks Nation," *USA Today*, May 29–31, 2006, pp. A1+; and H. Schultz and D. Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997).

Chapter 3

Global Management

It's Your Career



Source: Irina Nartova/Shutterstock

A key to success in management and in your career is becoming comfortable with cultural differences and recognizing how to be more culturally aware so you can learn to respond appropriately in different situations.

Know that becoming culturally competent is a process during which time you will likely make mistakes. Remember that to err is human. Develop a forgiveness strategy and show others that you are sincere in your desire and efforts to learn.

Developing Your Global Perspective—Working with People from Other Cultures

- Nearly 70 percent of executives and management professionals say that developing global competencies is very important or extremely important to the future success of their companies.¹
- The five most important attitudes, knowledge, skills, and abilities for effective global leadership include:

Multicultural sensitivity/awareness

Communicates effectively

Strategic thinking

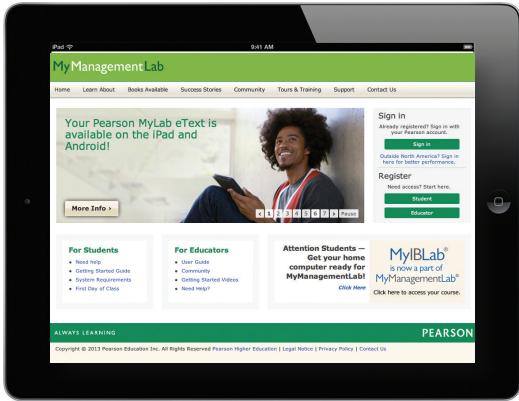
Leadership, influences others

Respect for differences²

You can be certain that during your career you will work with individuals who were born in a different country than you were. Their first language is likely to be different from yours. And they will probably exhibit habits and customs that differ significantly from those familiar to you. You may find it hard to understand some of those people's behaviors, and you may find your differences make it difficult to communicate and work together. Welcome to the twenty-first century! That's why it's important for you to develop your global perspective—especially your cultural intelligence! As you develop your global competence, start with the perspective that "I am different from the rest," rather than "They are different from me."

So what can you do to increase your ability to work with people from different cultures?³

1. **Become aware of your own level of openness to and confidence in cross-cultural experiences.** Some people just aren't as open to and comfortable with new and different experiences as others are. For instance, do you try new foods with unfamiliar or exotic ingredients? Are you comfortable with class project teams that have individuals from other countries? Do you dread having to communicate with individuals who don't speak your native language? If you're one of those who isn't comfortable with new and different experiences, try to overcome your fear and reluctance by



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Learning Objectives

● SKILL OUTCOMES

- 3.1 Contrast** *ethnocentric, polycentric, and geocentric attitudes toward global business.*
- **Develop your skill** at collaborating in cross-cultural settings.
- 3.2 Discuss** *the importance of regional trading alliances and global trade mechanisms.*
- 3.3 Describe** *the structures and techniques organizations use as they go international.*
- 3.4 Explain** *the relevance of the political/legal, economic, and cultural environments to global business.*
- **Know how** to be culturally aware.

starting small. Practice listening closely to those who struggle with your language. Maybe try a new and unusual menu item or get to know individuals in your classes who are from other cultures. Your goal should be expanding your comfort zone.

2. Assume differences until similarity is proven. Most of us have a tendency to assume people are like us until proven otherwise. Try to think the reverse. Assume that individuals from different cultures will interpret communication or behaviors differently. Carefully observe how individuals from other cultures relate to each other and how those interactions differ from how people within your culture relate. Then, you can try interacting with individuals with those observations in mind. This approach will help avoid embarrassing situations.

3. Emphasize description rather than interpretation or evaluation. Delay making judgments until you have observed and interpreted the

situation from the perspectives of all cultures involved. Description emphasizes observation. Some customs may be different from what you're used to, but different doesn't make them wrong or inferior.

4. Show empathy. When trying to understand the words, motives, and actions of a person from another culture, try to interpret them from the perspective of that culture rather than your own. This will also encourage you to read up on various cultures to learn their customs and practices.

5. Treat your initial interpretations as working hypotheses. Check with people from other cultures to make sure that your evaluation of a behavior is accurate if you're in doubt. Treat your first interpretations as working hypotheses rather than facts, and pay careful attention to feedback in order to avoid serious miscommunications and resulting problems.

6. Educate yourself on cross-cultural issues and approaches. Although we trust that you're learning a great deal in your classes (and from your textbooks!) about cross-cultural norms, practices, and behaviors, you can learn even more in at least three additional ways! How? First, get international experience through traveling. Invest in short-term study trips abroad. Maybe do an entire semester abroad where you can immerse yourself in a different culture and perhaps even get some overseas work experience, depending on your semester-abroad program. You could also participate in international volunteer programs. If the expense of these kinds of trips is an insurmountable obstacle, you're not off the hook! Second, right where you are, take the initiative to get to know other

international students and learn about their countries. Consider attending one or more cultural or multicultural events, which are typically hosted by a single cultural (maybe, Latin American) or multicultural student organization. Third, take advantage of online tools to learn more about cross-cultural differences. (See the *My Turn to Be a Manager* section on page 137 for information about *Kwintessential*.) And at the very least, you can start paying attention to global news stories.

7. Make a good first impression. Greetings differ among cultures. In the United States, the handshake is used while hugs and cheek-kisses are commonly demonstrated in some other countries in Europe and South America. In Japan, present your business card with two hands.

Going global is something that most organizations want to do. A study of U.S. manufacturing firms found that companies operating in multiple countries had twice the sales growth and significantly higher profitability than strictly domestic firms.⁴ There are many contributing factors to success. Among them is an innate global bias. That is, some American companies with strong performance in international markets are led by executives who are foreign-born or first generation American.⁵ For example, Facebook's Eduardo Saverin is Brazilian. Other research has found additional evidence that multinational business increases the value of U.S. companies.⁶ However, if managers don't closely monitor changes in the global environment or don't consider specific location characteristics as they plan, organize, lead, and control, they may find limited global success. In this chapter, we're going to discuss the issues managers face as they manage in a global environment.

WHO owns what?

One way to see how global the marketplace has become is to consider the country of origin for some familiar products. You might be surprised to find that many products you thought were made by U.S. companies aren't! Take the following quiz⁷ and then check your answers at the end of the chapter on page 140.

1. Tombstone and DiGiorno frozen pizzas are products of a company based in:
a. Italy b. United States c. Canada d. Switzerland
2. Transportation network company Uber Technologies is a company based in:
a. Poland b. United Kingdom c. United States d. Germany
3. Rajah spices are products of a company based in:
a. United States b. Brazil c. India d. Switzerland
4. Dos Equis, Tecate, and Sol beer products are owned by a company based in:
a. The Netherlands b. Mexico c. United States d. Colombia
5. The *America's Got Talent* show is a part of a franchise based in:
a. United States b. United Kingdom c. Italy d. Spain
6. Chobani Greek yogurt is owned by a company based in:
a. Japan b. France c. United States d. India
7. The manufacturer of the Swatch watch is based in:
a. Germany b. United States c. Switzerland d. Brazil

8. The British newspaper the *Independent* is owned by a company based in:
 - a. Russia
 - b. United Kingdom
 - c. South Africa
 - d. Canada
9. Spotify is owned by a company located in:
 - a. Sweden
 - b. United Kingdom
 - c. United States
 - d. Canada
10. The *Candy Crush Saga* mobile video game was developed by a company based in:
 - a. United States
 - b. Sweden
 - c. France
 - d. Japan

How well did you do on the quiz? Were you aware of how many products we use every day that are made by companies not based in the United States? Probably not! Most of us don't fully appreciate the truly global nature of today's marketplace.

WHAT'S your global perspective?

LO3.1

It's not unusual for Germans, Italians, or Indonesians to speak three or four languages. In China, a large majority of children learns English in school. On the other hand, most U.S. children study only English in school—only a small percentage are studying Chinese.⁸ At schools—elementary through college—large numbers of students will *not* have the opportunity to study a foreign language as courses and programs are reduced or cut. For decades, there has been a steady decline in the availability of foreign language courses, and many colleges and universities have eliminated completion of one or more courses as a degree requirement altogether.⁹ Not surprisingly, experts note that there is a “foreign language deficit” in the United States,¹⁰ including a U.S. Secretary of Education who lamented that “The United States is a long way from being the multilingual society that so many of our economic competitors are.”¹¹ Americans tend to think of English as the only international business language and don't see a need to study other languages. This could lead to future problems, as a major research report commissioned by the British Council says that relying only on English hurts the future competitive abilities of both Britain and the United States.¹² Foreign language proficiency is essential for successful business transactions. For instance, many languages such as Italian, French, and Spanish include two versions of the word *you*—one is considered to be formal and the other informal. In Italy, it is appropriate to use the formal *lei* when conducting business discussions and the informal *tu* when holding conversations with friends.

Monolingualism is one sign that a nation suffers from **parochialism**—viewing the world solely through one's own eyes and perspectives.¹⁴ People with a parochial attitude do not recognize that others have different ways of living and working. They ignore others' values and customs and rigidly apply an attitude of “ours is better than theirs” to foreign cultures. This type of narrow, restricted attitude is one approach that managers might take, but it isn't the only one.¹⁵ In fact, there are three possible global attitudes. Let's look at each more closely.

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

Next, a **polycentric attitude** is the view that employees in the *host* country (the foreign country in which the organization is doing business) know the best work approaches and practices for running their business. Managers with this attitude view every foreign operation as different and hard to understand. Thus, they're likely to let employees in those locations figure out how best to do things.

The final type of global attitude managers might have is a **geocentric attitude**, a *world-oriented* view that focuses on using the best approaches and people from around the globe. Managers with this type of attitude have a global view and look for the best approaches and people regardless of origin. For instance, Carlos Ghosn, CEO of Nissan and Renault, was born in Brazil to Lebanese parents, educated in France, and



- Between 18 and 27 percent of Americans say they can converse in more than one language.¹³

parochialism

Viewing the world solely through your own perspectives, leading to an inability to recognize differences between people

ethnocentric attitude

The parochial belief that the best work approaches and practices are those of the home country

polycentric attitude

The view that the managers in the host country know the best work approaches and practices for running their business

geocentric attitude

A world-oriented view that focuses on using the best approaches and people from around the globe

speaks four languages fluently. He could very well be the “model of the modern major corporate leader in a globalized world bestraddled by multinational companies.”¹⁶ Ghosn’s background and perspective have given him a much broader understanding of what it takes to manage in a global environment—something characteristic of the geocentric attitude. Another Renault management veteran in the geocentric mold is Carlos Tavares, who was recently named CEO of PSA Peugeot Citroen.¹⁷ He also speaks four languages and has run auto operations in Japan, Europe, North America, and South America. A geocentric attitude requires eliminating parochial attitudes and developing an understanding of cross-cultural differences. That’s the type of approach successful managers will need in today’s global environment.¹⁸



- Ranked no. 1 on a list of three skills every twenty-first-century manager needs: GLOBAL MIND SET.¹⁹

UNDERSTANDING the global trade environment

LO3.2

One important feature of today’s global environment is global trade, which, if you remember history class, isn’t new. Countries and organizations have been trading with each other for centuries.²⁰ And it continues strong today, as we saw in the chapter-opening quiz. Global trade today is shaped by two forces: regional trading alliances and trade mechanisms that ensure that global trade can happen.

Regional Trading Alliances

Global competition once was considered country against country—the United States versus Japan, France versus Germany, Mexico versus Canada, and so on. Now, global competition and the global economy are shaped by regional trading agreements, including the European Union (EU), North American Free Trade Agreement (NAFTA), and the Association of Southeast Asian Nations (ASEAN), which we review here. A comprehensive list of trading alliances is available on the U.S. federal government’s International Trade Administration website (www.trade.gov). More than 200 countries participate in at least one regional trade agreement.²¹ The United States alone has agreements with 75 countries.²²

Countries enter into regional trading alliances for a variety of political and national security reasons. Mainly, countries choose to participate with the goal of stimulating economic growth. Reducing trade barriers such as tariffs or taxes imposed upon imported goods opens new markets for companies in participating countries. For example, U.S. automobile manufacturers Ford and General Motors have benefited tremendously from participation in a variety of regional trade blocs. NAFTA, which we describe later in this chapter, has provided an economic boost to U.S. automobile manufacturers, including Ford and General Motors. These companies have been able to establish manufacturing facilities in Mexico where labor costs are lower than in the United States. The NAFTA agreement also permits the companies to sell those vehicles in the United States without restrictive tariffs.

European Union (EU)

A union of 28 European nations created as a unified economic and trade entity

THE EUROPEAN UNION The **European Union (EU)** is an economic and political partnership of 28 democratic European countries. (See Exhibit 3-1.) Five countries (Albania, the former Yugoslav Republic of Macedonia, Turkey, Montenegro, and Serbia) are candidates to join the EU. Two countries are potential candidates to join the EU (Bosnia and Herzegovina and Kosovo).²³ Before they are allowed to join, however, the countries must meet the criteria, which include democracy, rule of law, a market economy, and adherence to the EU’s goals of political and economic union. When the 12 original members formed the EU in 1992, the primary motivation was to reassert the region’s economic position against the United States and Japan. Before then, each European nation had border controls, taxes, and subsidies; nationalistic policies; and protected industries. These barriers to travel, employment, investment, and trade prevented European companies from developing economic efficiencies. Now, with these barriers removed, the economic power represented by the EU is considerable. Its current membership covers a population base of more than half a billion people (7 percent of the world population)²⁴ and accounts for approximately 16 percent of the

Exhibit 3-1

European Union Map



Source: Data based on: "EU Member Countries on the Road to EU Membership", www.europa.eu

world's global exports and imports.²⁵ In June 2016, the citizens of the United Kingdom (U.K.) voted to remove themselves from the EU because they felt that their needs and interests were being shifted to the greater EU. Conflicts have arisen over immigration, legal, and economic policies. The U.K. decided that its interests would be better served as an independent entity. While the U.K.'s transition will take a few years to complete, this vote holds significance for both the U.K. and other EU countries. The fact that the U.K. will no longer be part of the EU opens the door for other countries to vote themselves out, which could eventually lead to the demise of the EU.

Another step toward full unification occurred when the common European currency, the **euro**, was adopted. The euro is currently in use in 18 of the 28 member states, and all new member countries must adopt the euro. Only Denmark, the United Kingdom, and Sweden have been allowed to opt out of using the euro.²⁶ Another push in unification has been attempts to develop a unified European constitution. EU leaders struggled for nearly a decade to enact a treaty designed to strengthen the EU and give it a full-time president. The so-called Lisbon Treaty (or Reform Treaty), which was ratified by all 28 member states, provides the EU with a common legal framework and the tools to meet the challenges of a changing world, including climatic and demographic changes, globalization, security, and energy. And backers feel the new structure will help strengthen the EU's common foreign policy. Many believe that a more unified Europe could have more power and say in the global arena. As the former Italian prime minister and European Commission president said, "Europe has lost and lost and lost weight in the world."²⁷

The last couple of years were difficult economically for the EU and its members, as they were for many global regions. However, things are looking up. The economic recovery, which began mid-2013, is expected to continue spreading across countries and gaining strength. Europe's economies are benefiting from many factors. Oil prices remain relatively low, global growth is steady, and the euro has continued to depreciate.²⁸

euro

A single common European currency

The euro zone is a larger economic unit than the United States or China and is a major source of world demand for goods and services. The importance of this regional trading alliance will continue to evolve as EU members work together to resolve the region's economic issues and once again assert their economic power, with successful European businesses continuing to play a crucial role in the global economy.

North American Free Trade Agreement (NAFTA)
An agreement among the Mexican, Canadian, and U.S. governments in which barriers to trade have been eliminated

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) AND OTHER LATIN AMERICAN AGREEMENTS When agreements in key issues covered by the **North American Free Trade Agreement (NAFTA)** were reached by the Mexican, Canadian, and U.S. governments in 1992, a vast economic agreement was created. It's the second-largest trade alliance in the world in terms of combined gross domestic product (GDP) of its members.²⁹ Between 1994, when NAFTA went into effect, and 2014, imports from Canada and Mexico to the United States increased 212 percent and 637 percent, respectively. The rise in export activity from the United States to Canada and Mexico was 211 percent and 478 percent, respectively.³⁰ Put into numbers, that translates to some \$1.1 trillion exchanged among NAFTA partners in 2014 alone. Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has strengthened the economic power of all three countries. Even though immigration to the United States continued to rise through about 2005, structural improvements within Mexico raised the standard of living.³¹ After 2005, substantially positive effects of NAFTA became evident through new export industries such as automobile manufacturing, which has helped narrow the wage gap between the United States and Mexico. As the gap decreases, there is less incentive for Mexicans to leave their country.³² Despite early criticisms of the trade agreement, the North American trading agreement remains a powerful force in today's global economy.³³

Other Latin American nations have also become part of free trade agreements. Colombia, Mexico, and Venezuela led the way when all three signed an economic pact in 1994 eliminating import duties and tariffs. Another agreement, the U.S.–Central America Free Trade Agreement (CAFTA-DR), promotes trade liberalization between the United States and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua as well as the Dominican Republic. The CAFTA-DR region was the third-largest export market in Latin America behind Mexico and Brazil, as well as the thirteenth largest in the world.³⁴ The United States also signed a trade deal with Colombia that is said to be the “largest Washington has concluded with a Latin American country since signing” NAFTA.³⁵ Upon the U.S.–Colombia Trade Promotion Agreement (TPA) going into effect in 2012, over 80 percent of U.S. industrial goods exports to Colombia became duty-free.³⁶ Another free trade agreement of 10 South American countries known as the Southern Common Market or Mercosur already exists. Some South Americans see Mercosur as an effective way to combine resources to better compete against other global economic powers, especially the EU and NAFTA.



NAFTA has made it easier for Mexican-based commercial baking company Grupo Bimbo to operate throughout the United States. Since NAFTA, Grupo's subsidiary Bimbo Bakeries USA has grown to become the largest U.S. baking company with 22,000 employees, 11,000 sales distribution routes, and more than 60 bakeries, including the tortilla plant shown here.

Source: Owen Brewer/ZUMA Press/Newscom

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN) The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Southeast Asian nations. (See Exhibit 3-2.) The ASEAN region has a population of more than 625 million with a combined GDP of US \$2.4 trillion.³⁷ In addition to these 10 nations, leaders from a group dubbed ASEAN+3, which include China, Japan, and South Korea, have met to discuss trade issues. Also, leaders from India, Australia, and New Zealand have participated in trade talks with ASEAN+3 as well. The main issue with creating a trade agreement of all 16 nations has been the lack of any push toward regional integration. Despite the Asian culture's emphasis on consensus building, “ASEAN’s biggest problem is that individual members haven’t been willing to sacrifice for the common good.”³⁸ Although Southeast Asian leaders agree that closer regional integration would help economic growth, the large differences in wealth among ASEAN members have made it “difficult to create



Exhibit 3-2 ASEAN Map

Source: This infographic was first published for IBA Global Insight online news analysis, 30 July 2013, [available at www.ibanet.org] and is reproduced by kind permission of the International Bar Association, London, UK. © International Bar Association.

common standards because national standards remain so far apart.”³⁹ However, the challenges brought on by the recent worldwide recession, which adversely affected many countries in this region, triggered greater interest in pushing for integration. In fact, on January 1, 2010, China and ASEAN launched an ambitious free trade agreement, making it the world’s third-largest trade agreement.⁴⁰

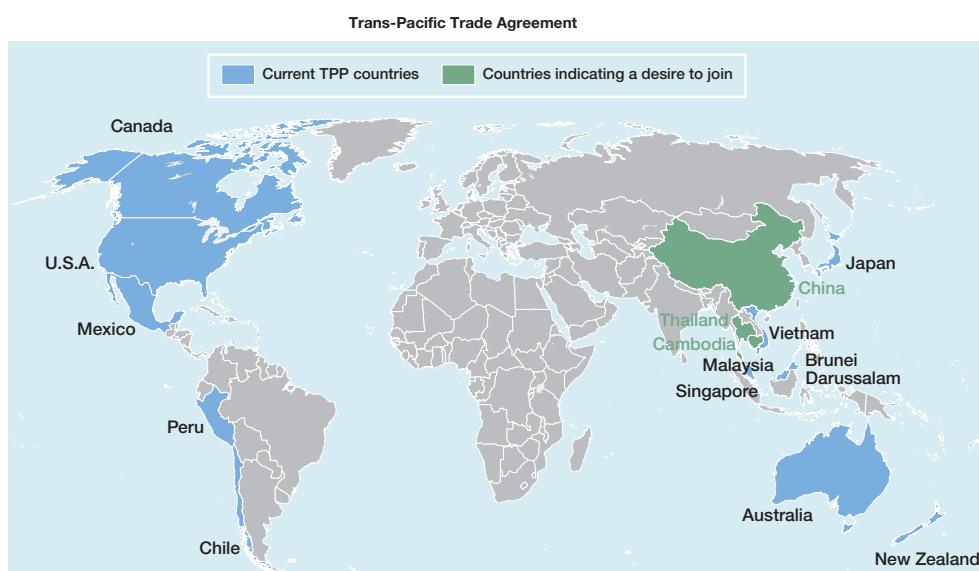
Despite the barriers and challenges, progress toward regional integration continues. This fast-growing region means ASEAN and other Asian trade alliances will be increasingly important globally with an impact that eventually could rival that of both NAFTA and the EU.

OTHER TRADE ALLIANCES Other regions around the world have also developed regional trading alliances. For instance, the 54-nation African Union (AU), which came into existence in 2002, seeks to “build an integrated, prosperous and peaceful Africa, an Africa driven and managed by its own citizens and representing a dynamic force in the international arena.”⁴¹ Members of this alliance have created an economic development plan to achieve greater unity among Africa’s nations. Like members of other trade alliances, these countries hope to gain economic, social, cultural, and trade benefits from their association. Such cooperation couldn’t be more important as Africa’s economic output is booming like never before, and trade relations with China have been particularly robust.⁴² GDP growth rates have been averaging 4.8 percent, the highest rate outside Asia, with most of that growth coming domestically. In addition, Africa has been experiencing a “virtually unprecedented period of political stability with governments steadily deregulating industries and developing infrastructure.”⁴³

Five east African nations—Burundi, Kenya, Rwanda, Tanzania, and Uganda—have formed a common market called the East African Community (EAC).⁴⁴ Under this agreement, goods can be sold across borders without tariffs. The next step for the EAC will be monetary union, although that will take time to implement.

The South Asian Association for Regional Cooperation (SAARC), composed of eight member states (India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Nepal, the Maldives, and Afghanistan), began eliminating tariffs in 2006.⁴⁵ Its aim, like all the other regional trading alliances, is to allow free flow of goods and services, and it continues to negotiate tariff reduction agreements with countries throughout the region.⁴⁶

Finally, in 2015, 12 countries forged the terms of a trade alliance called the Trans-Pacific Partnership (TPP).⁴⁷ The countries involved in the agreement include the United States, Canada, Mexico, Japan, Australia, and seven other countries around the Pacific region, excluding China. (See Exhibit 3-3.) If the agreement goes into effect, it will influence about two-thirds of world economic input, making it among the largest trade alliances of all time. Among its provisions is the elimination of more than 18,000 tariffs that make cross-national trade relationships costly.



The preceding discussion indicates that global trade is alive and well. Regional trade alliances continue to be developed in areas where member countries believe it's in their best interest economically and globally to band together and strengthen their economic position.

Global Trade Mechanisms

Global trade among nations doesn't just happen on its own. As trade issues arise, global trade systems ensure that trade continues efficiently and effectively. Indeed, one of the realities of globalization is the interdependence of countries—that is, what happens in one can impact others, good or bad. For example, the financial crisis that started in the United States in 2008 threw the global economy into a tailspin. Although things spiraled precariously out of control, it didn't completely collapse. Why? Because governmental interventions and trade and financial mechanisms helped avert a potential crisis. We're going to look at four important global trade mechanisms: the World Trade Organization, the International Monetary Fund, the World Bank Group, and the Organization for Economic Cooperation and Development.

tion (WTO)
161 countries
of trade among

WORLD TRADE ORGANIZATION The **World Trade Organization (WTO)** is a global organization of 161 countries (as of April 2015) that deals with the rules of trade among nations.⁴⁸ Formed in 1995, the WTO evolved from the General Agreement on Tariffs and Trade (GATT), a trade agreement in effect since the end of World War II. Today, the WTO is the only *global* organization that deals with trade rules among nations. Its membership consists of 161 member countries and 24 observer governments (which have a specific time frame within which they must apply to become members). The goal of the WTO is to help countries conduct trade through a system of rules. Although critics have staged vocal protests against the WTO, claiming that global trade destroys jobs and the natural environment, it appears to play an important role in monitoring, promoting, and protecting global trade. For instance, the WTO ruled that the European plane maker Airbus received improper European Union subsidies for the A380 super jumbo jet and several other airplanes, hurting its American rival, Boeing.⁴⁹ Airbus has the right to appeal the ruling, but even after appealing, any member ultimately found to

of these devices include smartphones, hybrid car batteries, and wind turbines. The case seeks to force China to lift export limits on rare earths, which are the particular essential minerals. China produces nearly all of these minerals. With continued restrictions, the long-term viability of companies in the United States, the European Union, and Japan is at risk. According to the WTO, China agreed to lift these restrictions in 2015.⁵² These examples illustrate the types of trade issues with which the WTO deals. Such issues are best handled by an organization such as the WTO, and it has played, without a doubt, an important role in promoting and protecting global trade.

INTERNATIONAL MONETARY FUND AND WORLD BANK GROUP Two other important and necessary global trade mechanisms include the International Monetary Fund and the World Bank Group. The **International Monetary Fund (IMF)** is an organization of 188 countries that promotes international monetary cooperation and provides member countries with policy advice, temporary loans, and technical assistance to establish and maintain financial stability and to strengthen economies.⁵⁴ During the global financial turmoil of the last few years, the IMF was on the forefront of advising countries and governments in getting through the difficulties.⁵⁵ The **World Bank Group** is a group of five closely associated institutions, all owned by its member countries, that provides vital financial and technical assistance to developing countries around the world. The goal of the World Bank Group is to promote long-term economic development and poverty reduction by providing members with technical and financial support.⁵⁶ For instance, during the recent global recession, financial commitments by the World Bank Group reached \$100 billion as it helped nations respond to and recover from the economic downturn.⁵⁷ Both entities have an important role in supporting and promoting global business and often collaborate to achieve these goals.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) The forerunner of the OECD, the Organization for European Economic Cooperation, was formed in 1947 to administer American and Canadian aid under the Marshall Plan for the reconstruction of Europe after World War II. Today, the **Organization for Economic Cooperation and Development (OECD)** is a Paris-based international economic organization whose mission is to help its 34 member countries achieve sustainable economic growth and employment and raise the standard of living in member countries while maintaining financial stability in order to contribute to the development of the world economy.⁵⁸ When needed, the OECD gets involved in negotiations with OECD countries so they can agree on “rules of the game” for international cooperation. One current focus is combating small-scale bribery in overseas commerce. The OECD says such “so-called facilitation payments are corrosive...particularly on sustainable economic development and the rule of law.”⁵⁹ In 2015, a group of finance ministers from several countries expressed support for a plan that provides governments with solutions for closing the gaps in existing international rules. The long-standing laws have allowed corporate profits to be artificially shifted to low-/no-tax environments, where little or no economic activity takes place.⁶⁰ With a long history of facilitating economic growth around the globe, the OECD now shares its expertise and accumulated experiences with more than 80 developing and emerging market economies.

International Monetary Fund (IMF)
An organization of 188 countries that promotes international monetary cooperation and provides advice, loans, and technical assistance

World Bank Group
A group of five closely associated institutions that provides financial and technical assistance to developing countries

Organization for Economic Cooperation and Development (OECD)
An international economic organization that helps its 34 member countries achieve sustainable economic growth and employment

LEADER making a DIFFERENCE



Source: Bao Fan - Imaginechina/AP Images

The China-based online retailing giant Alibaba made history in 2014 with the largest global initial public offering (IPO) of all time.⁵³ A key leader behind the IPO and the company's overall success is founding partner **Lucy Peng**, number 33 on Forbes 2015 list of the world's most powerful women. Peng created and now leads Alibaba's human resources department as their chief people officer. She also serves as the CEO of Ant Financial Services, a stand-alone financial services company that serves about 615 million customers. A former economics teacher, Peng was a founding leader of the company in 1999. She is credited with creating the family-like organizational culture at The Alibaba Group, which has helped the company grow to become the world's largest online marketplace with nearly 35,000 employees. While she is known for being funny and down-to-earth, her strong values of humility and passion create the foundation for her success at Alibaba. What can you learn from this leader making a difference?

DOING business globally

LO3.3

Daimler, Nissan Motor, and Renault are part of a strategic partnership that shares small-car technology and powertrains—an arrangement that all three automakers say will allow them to better compete in an environment where cutting costs is crucial. Convenience store operator 7-Eleven, a subsidiary of Japan-based Seven & iHoldings, has created a profitable niche in Jakarta by adapting its stores to Indonesian ways. Procter & Gamble Company relocated the top executives from its global skin, cosmetics, and personal-care unit from its Cincinnati headquarters to Singapore. Reckitt Benckiser, the U.K.-based maker of consumer products (Lysol, Woolite, and French's mustard are just a few of its products), has operations in more than 60 countries, and its top 400 managers represent 53 different nationalities. The Missouri State Employees' Retirement System pays retirement benefits to recipients in 20 countries outside the United States.⁶¹ As these examples show, organizations in different industries and from different countries do business globally. But *how* do they do so?

Different Types of International Organizations

Companies doing business globally aren't new. DuPont started doing business in China in 1863. H.J. Heinz Company was manufacturing food products in the United Kingdom in 1905. Ford Motor Company set up its first overseas sales branch in France in 1908. By the 1920s, other companies, including Fiat, Unilever, and Royal Dutch/Shell, had gone international. But it wasn't until the mid-1960s that international companies became quite common. Today, few companies don't do business internationally. However, there's not a generally accepted approach to describe the different types of international companies; different authors call them different things. We use the terms *multinational*, *multidomestic*, *global*, and *transnational*.⁶³ A **multinational corporation (MNC)** is any type of international company that maintains operations in multiple countries.

One type of MNC is a **multidomestic corporation**, which decentralizes management and other decisions to the local country. This type of globalization reflects the polycentric attitude. A multidomestic corporation doesn't attempt to replicate its domestic successes by managing foreign operations from its home country. Instead, local employees typically are hired to manage the business, and marketing strategies are tailored to that country's unique characteristics. For example, Switzerland-based Nestlé is a multidomestic corporation. With operations in almost every country on the globe, its managers match the company's products to its consumers. In parts of Europe, Nestlé sells products that are not available in the United States or Latin America. Another example is Frito-Lay, a division of PepsiCo, which markets a Dorito chip in the British market that differs in both taste and texture from the U.S. and Canadian version. Even the king of retailing, Walmart, has learned that it must "think locally to act globally" as it tailors its inventories and store formats to local tastes.⁶⁴ Many consumer product companies organize their global businesses using this approach because they must adapt their products to meet the needs of local markets.

Another type of MNC is a **global company**, which centralizes its management and other decisions in the home country. This approach to globalization reflects the ethnocentric attitude. Global companies treat the world market as an integrated whole and focus on the need for global efficiency and cost savings. Although these companies may have considerable global holdings, management decisions with company-wide implications are made from headquarters in the home country. Some examples of global companies include Sony, Deutsche Bank AG, Starwood Hotels, and Merrill Lynch.

Other companies use an arrangement that eliminates artificial geographical barriers. This type of MNC is often called a **transnational, or borderless, organization**



- The world's 500 largest companies generated \$31.2 trillion in revenues and \$1.7 trillion in profits in 2014. Together, this year's Fortune Global 500 employ 65 million people worldwide and are represented by 36 countries.⁶²

multinational corporation (MNC)

A broad term that refers to any and all types of international companies that maintain operations in multiple countries

multidomestic corporation

An MNC that decentralizes management and other decisions to the local country

global company

An MNC that centralizes management and other decisions in the home country

transnational or borderless organization

An MNC in which artificial geographical barriers are eliminated

and reflects a geocentric attitude.⁶⁵ For example, IBM CEO Ginni Rometty is initiating the largest global reorganization in IBM's history. The goal is to create a vibrant future. "Multiple sources told us senior managers were this week informed about the changes that will see IBM try to shed the dusty hardware, software and services silo structure."⁶⁶ The main units are expected to include Research, Sales & Delivery, Global Technology Services, Cloud, Security, Commerce, and Analytics. Ford Motor Company is pursuing the second generation of what it calls the One Ford concept as it integrates its operations around the world and has achieved efficiencies by reducing the number of vehicle platforms from 27 to 9.⁶⁷ Another company, Thomson SA (renamed to Technicolor SA), which is legally based in France, has eight major locations around the globe. The CEO said, "We don't want people to think we're based anywhere."⁶⁸ Managers choose this approach to increase efficiency and effectiveness in a competitive global marketplace.⁶⁹

If your professor has assigned this, go to www.mymanagementlab.com to complete the Writing Assignment *MGMT 5: The Global Marketplace*.



How Organizations Go International

When organizations do go international, they often use different approaches. (See Exhibit 3-4.) Managers who want to get into a global market with minimal investment may start with **global sourcing** (also called global outsourcing), which is purchasing materials or labor from around the world wherever it is cheapest. The goal: take advantage of lower costs in order to be more competitive. For instance, Massachusetts General Hospital uses radiologists in India to interpret CT scans.⁷⁰ Although global sourcing may be the first step in going international for many companies, they often continue to use this approach because of the competitive advantages it offers. Each successive stage of going international beyond global sourcing, however, requires more investment and thus entails more risk for the organization.

The next step in going international may involve **exporting** the organization's products to other countries—that is, making products domestically and selling them abroad. In addition, an organization might do **importing**, which involves acquiring products made abroad and selling them domestically. Both usually entail minimal investment and risk, which is why many small businesses often use these approaches to doing business globally.

global sourcing

Purchasing materials or labor from around the world wherever it is cheapest

exporting

Making products domestically and selling them abroad

importing

Acquiring products made abroad and selling them domestically



Exhibit 3-4

How Organizations Go Global

licensing

An organization gives another organization the right to make or sell its products using its technology or product specifications

franchising

An organization gives another organization the right to use its name and operating methods

 **Watch It 1!**

Managers also might use **licensing** or **franchising**, which are similar approaches involving one organization giving another organization the right to use its brand name, technology, or product specifications in return for a lump sum payment or a fee usually based on sales. The only difference is that licensing is primarily used by manufacturing organizations that make or sell another company's products and franchising is primarily used by service organizations that want to use another company's name and operating methods. For example, Chicago consumers can enjoy Guatemalan Pollo Campero fried chicken, South Koreans can indulge in Dunkin' Donuts coffee, Hong Kong residents can dine on Shakey's Pizza, and Malaysians can consume Schlotzsky's deli sandwiches—all because of *franchises* in these countries. On the other hand, Anheuser-Busch InBev has *licensed* the right to brew and market its Budweiser beer to brewers such as Kirin in Japan and Crown Beers in India.

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled *Domino's Pizza: Franchising* and to respond to questions.

strategic alliance

A partnership between an organization and foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities

joint venture

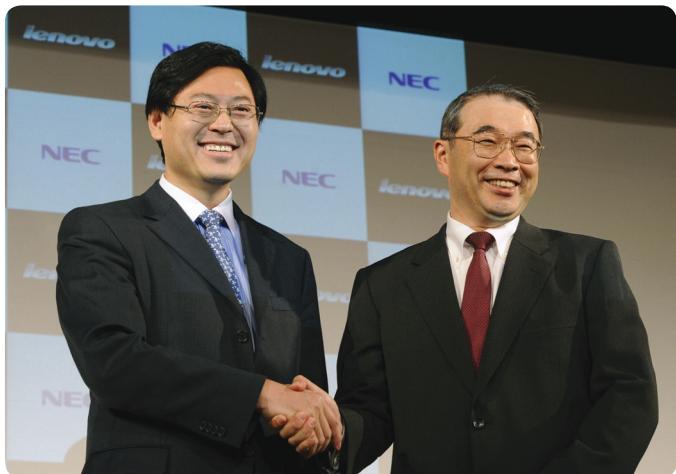
A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose

foreign subsidiary

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

When an organization has been doing business internationally for a while and has gained experience in international markets, managers may decide to make more of a direct foreign investment. One way to increase investment is through a **strategic alliance**, which is a partnership between an organization and a foreign company partner or partners in which both share resources and knowledge in developing new products or building production facilities. For example, Honda Motor and General Electric teamed up to produce a new jet engine. A specific type of strategic alliance in which the partners form a separate, independent organization for some business purpose is called a **joint venture**. For example, Hewlett-Packard has had numerous joint ventures with various suppliers around the globe to develop different components for its computer equipment. British automaker Land Rover and Chinese automaker Chery created a joint venture, which aims to combine the experience of Britain's luxury vehicle manufacturer with Chery's deep understanding of the Chinese markets and customer preferences. These partnerships provide a relatively easy way for companies to compete globally.

Finally, managers may choose to directly invest in a foreign country by setting up a **foreign subsidiary** as a separate and independent facility or office. This subsidiary can be managed as a multidomestic organization (local control) or as a global organization (centralized control). As you can probably guess, this arrangement involves the greatest commitment of resources and poses the greatest amount of risk. For instance, United Plastics Group of Houston, Texas, built two injection-molding facilities in Suzhou, China. The company's executive vice president for business development said that level of investment was necessary because "it fulfilled our mission of being a global supplier to our global accounts."⁷¹



China's Lenovo CEO Yang Yuanqing (left) and Japan's NEC President Nobuhiro Endo formed a strategic alliance to create a new joint venture called NEC Lenovo Japan Group to sell personal computers in Japan. The joint venture gives the two electronics firms the opportunity to expand their business in Japan, the third-largest PC market in the world.

Source: Kyodo/AP Images

MANAGING in a global environment

L03.4

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

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

The Political/Legal Environment

The growing complexity of the political and legal landscapes in the global environment is one of the most important trends affecting global business. Managers working for global businesses contend with a growing tide of employment legislation that cuts across national boundaries. Legal and political forces are unique to each country, and sometimes the laws of one contradict those of another, or are ignored altogether. For instance, Americans may encounter laws that are routinely ignored by host countries, creating somewhat of a dilemma. The laws in some countries that require a minimum age for factory workers are often not enforced. A U.S. Department of Labor report revealed continued child labor abuses in the apparel and textile industries.⁷²

U.S. managers are accustomed to a stable legal and political system. Changes tend to be slow, and legal and political procedures are well established. Elections are held at regular intervals, and even when the political party in power changes after an election, it's unlikely that anything too radical will happen. The stability of laws allows for accurate predictions. However, this certainly isn't true for all countries. Managers must stay informed of the specific laws in countries where they do business. For instance, the president of Zimbabwe is pushing ahead with plans to force foreign companies to sell majority stakes to locals.⁷³ Such a law would be a major barrier to foreign business investment. In China, foreign businesses are finding a less-than-welcoming climate as government policies are making it more difficult to do business there.⁷⁴ U.S. companies find that China provides preferential treatment to protect and promote domestic firms and state-owned companies.⁷⁵

Also, some countries have risky political climates. For instance, BP could have warned Exxon about the challenges of doing business in Russia. During its long involvement in the country, BP has "had so many police run-ins that its stock price often nudges up or down in response to raids or the arrests of employees." However, almost a quarter of BP's output comes from Russian oil and natural gas, so the company has learned to live with the disruptions. Recently, not long after Exxon formed a strategic alliance with Russia's state-owned oil company, armed commandos raided BP's offices in "one of the ritual armed searches of white-collar premises that are common here." These incidents are so common that they've been "given a nickname: masky shows (so-called because of the balaclavas—ski masks—the agents often wear)." The episode was sure to "send a signal that when it comes to dealing with the state-run business world of Prime Minister Vladimir V. Putin, Exxon wasn't in Texas anymore."⁷⁶

Risks are part of doing business globally. Those risks encompass political ones as well as security, kidnap, and maritime situations. The 2014 annual report by Control Risks maps the trends that multinational companies need to track.⁷⁷ Managers of businesses in countries with higher risk levels face dramatically greater uncertainty. In addition, political interference is a fact of life in some regions, especially in some Asian countries such as China.⁷⁸ In other nations, however, the legal and political systems are much less stable. Some governments are subject to coups, dictatorial rule, and corruption, which can substantially alter both the business and legal environments. Legal systems can also become unstable, with contracts suddenly becoming unenforceable because of internal politics.

Keep in mind that a country's political/legal environment doesn't have to be risky or unstable to be a concern to managers. Just the fact that it differs from that of the home country is important. Managers must recognize these differences if they hope to understand the constraints and opportunities that exist.

The Economic Environment

Strange as it may sound, 17,000 tons of Parmesan cheese, with an estimated value of \$187 million, were held in the vaults of Italian bank Credito Emiliano. The cheese was collateral from Italian cheese makers struggling through the recent recession.⁷⁹ Such an example of an economic factor of business may seem peculiar for those of us in the United States, but it's not all that unusual for Italian businesses.

A global manager must be aware of economic issues when doing business in other countries. First, it's important to understand a country's type of economic system. The two major types are a free market economy and a planned economy. A **free market economy** is one

free market economy

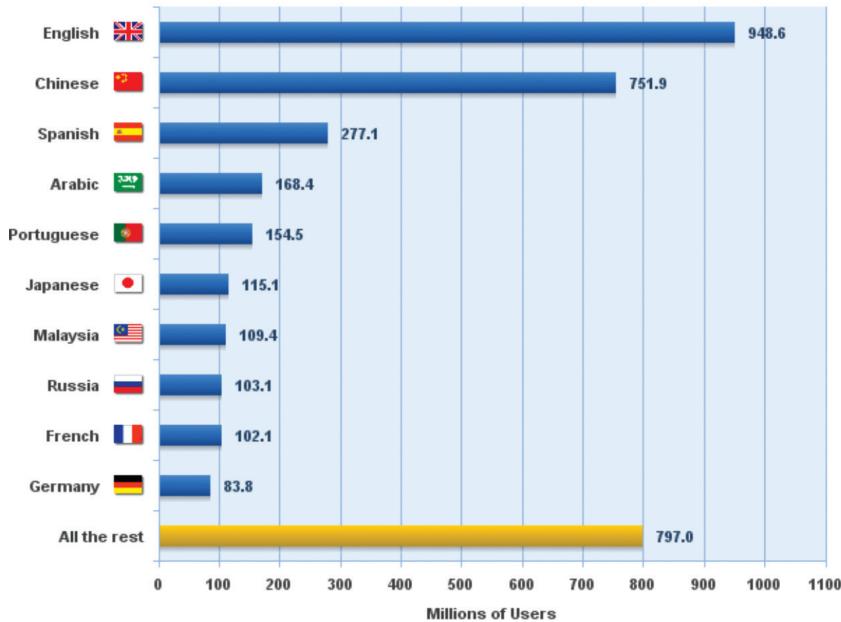
An economic system in which resources are primarily owned and controlled by the private sector

FUTURE VISION

Communicating in a Connected World

The United Nations International Telecommunication Union estimates that 3.2 billion people use the Internet.⁸⁰ To put this into perspective, the world population is just over 7.2 billion. These figures translate into nearly 45 percent! About 2 billion of those connections are in the developing world. With all these people on the Internet, one of the challenges—as it is in the physical realm—is the many different languages spoken by Internet users. In fact, there are nearly 800 languages spoken in India alone! The top 10 languages used on the Internet are as seen in the graph.⁸¹

**Top Ten Languages in the Internet
in millions of users**



Source: Internet World Stats, "Estimated total Internet Users Are 3,366,260,056," www.internetworldstats.com/stats7.htm, November 30, 2015, Copyright 2016, Miniwatts Marketing Group.

The diversity of Internet users creates challenges for the increasing number of companies expanding operations globally. One of the challenges for companies is to find a common language to ensure effective communication and shared understanding across cultures. Today's workplace often includes geographically dispersed teams, creating a need to overcome these communication challenges.⁸² When teams address conceptual matters such as consumer preferences, there is a significant risk that team members will have different interpretations of a particular idea or concept.⁸³ The growing availability of translation software is making it easier to communicate across language differences. For example, Skype now offers real-time translation services between seven of the world's most used languages for video discussions.⁸⁴ Skype also provides translation of more than fifty languages through their text chat service. However, cultural differences still create communication concerns. As the number of Internet users continues to grow, so will challenges for companies working with international employees as well as customers.

If your professor has chosen to assign this, go to **www.mymanagement-lab.com** to discuss the following questions.

TALK ABOUT IT 1: How can a manager improve communication between employees in different international locations?

TALK ABOUT IT 2: How can companies learn more about their customers with different cultural backgrounds?

planned economy

An economic system in which economic decisions are planned by a central government

in which resources are primarily owned and controlled by the private sector. A **planned economy** is one in which economic decisions are planned by a central government. Let's consider the United States and China, respectively, as examples of these types of economies. The U.S. economy is based on the idea of *capitalism*. Under capitalism, the government does not possess ownership of all land, businesses, or natural resources. This economic system relies on market forces in which supply and demand for products, services, and labor determine monetary value. China's political and economic systems are tightly intertwined and are founded on *communism*. Communism draws on the principle of community ownership. That is, all property, businesses, and natural resources are community owned, but these items are controlled by the single political party (Communist Party). Also, in communist societies, the government provides basic necessities based on need. In principle, citizens elect individuals to serve in the Communist Party, but that is rarely the case. In recent decades, China's economy has become more diverse. While maintaining communist control, economic growth has been fueled by market forces and capitalism. As a result, a growing segment of the population has gained considerable wealth and is adopting lifestyles similar to those in the United States. Actually, no economy is purely free market or planned. Why

would managers need to know about a country's economic system? Because it, too, has the potential to constrain decisions. Other economic issues managers need to understand include (1) *currency exchange rates*, (2) *inflation rates*, and (3) diverse *tax policies*.

1. An MNC's profits can vary dramatically, depending on the strength of its home currency and the currencies of the countries in which it operates. For instance, prior to the overall global economic slowdown, the rising value of the euro against both the dollar and the yen had contributed to strong profits for German companies.⁸⁵ Any currency exchange revaluations can affect managers' decisions and the level of a company's profits.
2. Inflation means that prices for products and services are increasing, but it also affects interest rates, exchange rates, the cost of living, and the general confidence in a country's political and economic system. Country inflation rates can, and do, vary widely. The *World Bank* shows rates ranging from a negative 18.7 percent in South Sudan to a positive 48.6 percent in Venezuela.⁸⁶ Managers need to monitor inflation trends so they can anticipate possible changes in a country's monetary policies and make good business decisions regarding purchasing and pricing.
3. Finally, tax policies can be a major economic worry. Some countries' tax laws are more restrictive than those in an MNC's home country. Others are more lenient. About the only certainty is that they differ from country to country. For instance, U.S. companies have been unable to move profits from Venezuela and are buying up commercial real estate in Caracas, the capitol.⁸⁷ Managers need accurate information on tax rules in countries in which they operate to minimize their business's overall tax obligation.

If your professor has assigned this, go to www.mymanagementlab.com to complete the Simulation: *Managing in the Global Environment*.



The Cultural Environment

One year, the entire senior leadership team at Starwood Hotels relocated to Shanghai, China, for five weeks. Why? Because clearly China is a huge growth market and “working closely with people from a different culture helps you to see pitfalls and opportunities in a very different way.”⁸⁸

Managing today's talented global workforce can be a challenge.⁸⁹ Consider the cultural challenges faced by Sodexo, a multinational corporation based in France, with more than 400,000 employees working at facilities in 80 countries. Businesses, hospitals, universities, and other organizations contract with Sodexo for on-site catering, cleaning, reception, and other services. Clients often ask for services in two different nations, as happened when Sodexo handled maintenance for the headquarters of the French space agency as well as for the agency's base in Guyana. When supervising employees in such situations, Sodexo's managers must be sensitive to the client's management practices, not just to differing cultural norms and communication preferences. Another management challenge is posed by the range of ages within the workforce. In the United Kingdom, Sodexo created a program to improve cross-generational collaboration by highlighting generational similarities, not just differences, and by demonstrating the benefits of teamwork among employees of all ages.⁹⁰

Most often, cross-cultural challenges are described between countries that speak different languages, and these language differences can result in conflict or misunderstandings. Perhaps surprisingly, misunderstanding can occur between two countries that share the same language, such as is the case for the United States and the United Kingdom. For instance, Martin Brooks, Production and Export Manager of pet nutrition company Hilton Herbs, considers the U.S. as one of the most challenging. “As an example, we had a product for older horses and dogs called ‘Veteran,’” he says.⁹¹ Sales were lackluster until the company replaced the word “veteran” with “senior,” which is the way people in the United States refer to older pets and animals. Veteran is a commonplace descriptor in the United Kingdom. If such a large cultural divide can exist between two countries that share a common mother tongue, how much wider must the chasm be between nations that speak different languages?



Top executives of French car manufacturer PSA Peugeot Citroen participate in a Hindu puja ritual during a ceremony celebrating the firm's plan to re-enter the Indian market with the construction of a new plant. The spiritual ritual is an integral part of India's national culture, which research shows has a greater effect on employees than an organization's culture.

Source: Sam Panthaky/AFP/Getty Images

national culture

The values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important

As we know from Chapter 7, organizations have different cultures. Countries have cultures, too. **National culture** includes the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.⁹² National culture is steeped in a country's history, and we can describe it based on a society's social traditions, political and economic philosophy, and legal system.

Which is more important to a manager—national culture or organizational culture? For example, is an IBM facility in Germany more likely to reflect German culture or IBM's corporate culture? Research indicates that national culture has a greater effect on employees than their organization's culture.⁹³ German employees at an IBM facility in Munich will be influenced more by German culture than by IBM's culture.

Legal, political, and economic differences among countries are fairly obvious. The Japanese manager who works in the United States or his or her American counterpart who works in Japan can get information about laws or tax policies without too much effort. Getting information about cultural differences isn't quite that easy! The primary reason? It's difficult for natives to explain their country's unique cultural characteristics to someone else. For instance, if you were born and raised in the United States, how would you describe U.S. culture? In other words, what are Americans like? Think about it for a moment and see which characteristics in Exhibit 3-5 you identified.

HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURES Geert Hofstede developed one of the most widely referenced approaches to helping managers better understand differences between national cultures. His research found that countries vary on five dimensions of national culture.⁹⁴ These dimensions are described in Exhibit 3-6, which also shows some of the countries characterized by those dimensions.

Watch It 2!

If your professor has assigned this, go to www.mymangementlab.com to watch a video titled *Impact of Culture on Business: Spotlight on China* and to respond to questions.

Exhibit 3-5

What Are Americans Like?

- Americans are *very informal*. They tend to treat people alike even when great differences in age or social standing are evident.
- Americans are *direct*. They don't talk around things. To some foreigners, this may appear as abrupt or even rude behavior.
- Americans are *competitive*. Some foreigners may find Americans assertive or overbearing.
- Americans are *achievers*. They like to keep score, whether at work or at play. They emphasize accomplishments.
- Americans are *independent and individualistic*. They place a high value on freedom and believe that individuals can shape and control their own destiny.
- Americans are *questioners*. They ask a lot of questions, even of someone they have just met. Many may seem pointless ("How ya' doin'?"') or personal ("What kind of work do you do?"').
- Americans *dislike silence*. They would rather talk about the weather than deal with silence in a conversation.
- Americans *value punctuality*. They keep appointment calendars and live according to schedules and clocks.
- Americans *value cleanliness*. They often seem obsessed with bathing, eliminating body odors, and wearing clean clothes.

Sources: Based on M. Ernest, ed., *Predeparture Orientation Handbook: For Foreign Students and Scholars Planning to Study in the United States* (Washington, DC: U.S. Information Agency, Bureau of Cultural Affairs, 1984), pp. 103–105; A. Bennett, "American Culture Is Often a Puzzle for Foreign Managers in the U.S.," *Wall Street Journal*, February 12, 1986, p. 29; "Don't Think Our Way's the Only Way," *The Pryor Report*, February 1988, p. 9; and B. J. Wattenberg, "The Attitudes Behind American Exceptionalism," *U.S. News & World Report*, August 7, 1989, p. 25.



Exhibit 3-6

Hofstede's Five Dimensions of National Culture

Source: Based on Hofstede, Geert, *Culture's Consequences: International Differences in Work-Related Values*, © Geert Hofstede, 1980 (Newbury Park: SAGE Publications, Inc., 1980).

THE GLOBE FRAMEWORK FOR ASSESSING CULTURES The **Global Leadership and Organizational Behavior Effectiveness (GLOBE)** program is an ongoing research program that extended Hofstede's work by investigating cross-cultural leadership behaviors and giving managers additional information to help them identify and manage cultural differences. Using data from more than 18,000 managers in 62 countries, the GLOBE research team (led by Robert House) identified nine dimensions on which national cultures differ.⁹⁵ Two dimensions (power distance and uncertainty avoidance) fit directly with Hofstede's. Four are similar to Hofstede's (assertiveness, which is similar to achievement-nurturing; humane orientation, which is similar to the nurturing dimension; future orientation, which is similar to long-term and short-term orientation; and institutional collectivism, which is similar to individualism-collectivism). The remaining three (gender differentiation, in-group collectivism, and performance orientation) offer additional insights into a country's culture. Here are descriptions of these nine dimensions. For each of these dimensions, we have indicated which countries rated high, which rated moderate, and which rated low.

- **Power distance:** the extent to which a society accepts that power in institutions and organizations is distributed unequally. (*High*: Russia, Spain, and Thailand. *Moderate*: England, France, and Brazil. *Low*: Denmark, the Netherlands, and South Africa.)
- **Uncertainty avoidance:** a society's reliance on social norms and procedures to alleviate the unpredictability of future events. (*High*: Austria, Denmark, and Germany. *Moderate*: Israel, United States, and Mexico. *Low*: Russia, Hungary, and Bolivia.)

Global Leadership and Organizational Behavior Effectiveness (GLOBE) program
The research program that studies cross-cultural leadership behaviors

- **Assertiveness:** the extent to which a society encourages people to be tough, confrontational, assertive, and competitive rather than modest and tender. (*High*: Spain, United States, and Greece. *Moderate*: Egypt, Ireland, and Philippines. *Low*: Sweden, New Zealand, and Switzerland.)
- **Humane orientation:** the degree to which a society encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others. (*High*: Indonesia, Egypt, and Malaysia. *Moderate*: Hong Kong, Sweden, and Taiwan. *Low*: Germany, Spain, and France.)
- **Future orientation:** the extent to which a society encourages and rewards future-oriented behaviors such as planning, investing in the future, and delaying gratification. (*High*: Denmark, Canada, and the Netherlands. *Moderate*: Slovenia, Egypt, and Ireland. *Low*: Russia, Argentina, and Poland.)
- **Institutional collectivism:** the degree to which individuals are encouraged by societal institutions to be integrated into groups within organizations and society. (*High*: Greece, Hungary, and Germany. *Moderate*: Hong Kong, United States, and Egypt. *Low*: Denmark, Singapore, and Japan.)
- **Gender differentiation:** the extent to which a society maximizes gender role differences as measured by how much status and decision-making responsibilities women have. (*High*: South Korea, Egypt, and Morocco. *Moderate*: Italy, Brazil, and Argentina. *Low*: Sweden, Denmark, and Slovenia.)
- **In-group collectivism:** the extent to which members of a society take pride in membership in small groups, such as their family and circle of close friends, and the organizations in which they're employed. (*High*: Egypt, China, and Morocco. *Moderate*: Japan, Israel, and Qatar. *Low*: Denmark, Sweden, and New Zealand.)
- **Performance orientation:** the degree to which a society encourages and rewards group members for performance improvement and excellence. (*High*: United States, Taiwan, and New Zealand. *Moderate*: Sweden, Israel, and Spain. *Low*: Russia, Argentina, and Greece.)

The GLOBE studies confirm that Hofstede's dimensions are still valid and extend his research rather than replace it. GLOBE's added dimensions provide an expanded and updated measure of countries' cultural differences. It's likely that cross-cultural studies of human behavior and organizational practices will increasingly use the GLOBE dimensions to assess differences among countries.⁹⁶ While indeed Hofstede's dimensions are still valid, it is also important to recognize that our interactions with individuals from the same culture may differ because a variety of factors, such as personality, influence how people interact with each other. For example, we previously described Americans as being proactive. Indeed, this is a fair characterization of most Americans. But, by nature, some may not fulfill this expectation because they are inherently introverted. Introverted people tend to be focused more on internal thoughts, feelings, and moods rather than on seeking out interactions with others. Personality variables are measured on a continuum. Introversion is typically considered as part of a continuum along with extraversion, or individuals who generally seek out interactions with others.

It's Your Career!

Cultural Intelligence—If your instructor is using Pearson MyLab Management, log onto mymanagementlab.com and test your *cultural intelligence* knowledge. Be sure to refer back to the chapter opener!

Global Management in Today's World

Doing business globally today isn't easy! As we look at managing in today's global environment, we want to focus on two important issues. The first issue involves the challenges associated with globalization, especially in relation to the openness that's part of being global. The second issue revolves around the challenges of managing a global workforce.

THE CHALLENGE OF OPENNESS The push to go global has been widespread. Advocates praise the economic and social benefits that come from globalization, but globalization also creates challenges because of the openness that's necessary for it

let's get REAL

The Scenario:

Renata Zorzato, head of new product development for a global recruiting company, is preparing to move from São Paulo to San Diego to head up a team of executive recruiters. Her newly formed team will include company employees from Berlin, London, Shanghai, Mexico City, Kuala Lumpur, New York, and San Diego. The team will be designing and launching an innovative new global executive recruiting tool. But first, Renata has to get the team members all working together, each bringing his or her unique strengths and perspectives to the project.

What's the best way for Renata to get this culturally diverse team up and running?

I would organize an off-site luncheon; food is a universal language. While at the luncheon, I would have each team member go around the room and introduce themselves, and being that the group is from all over the world, I would have each person speak a little about where they are from. After the lunch I would have an interactive game of some sort that requires the team to slowly begin working together—the idea would be for them to have more fun as opposed to work and get to know each other.

Katie Pagan
Accounting & HR Manager



Source: Katie Pagan

to work. One challenge is the increased threat of terrorism by a truly global terror network. Globalization is meant to open up trade and to break down the geographical barriers separating countries. Yet, opening up means just that—being open to the bad as well as the good. In a wide range of countries, from the Philippines and the United Kingdom to Israel and Pakistan, organizations and employees face the risk of terrorist attacks. Another challenge from openness is the economic interdependence of trading countries. As we saw over the last couple of years, the faltering of one country's economy can have a domino effect on other countries with which it does business. So far, however, the world economy has proved to be resilient. And as we discussed earlier, structures that are currently in place, such as the World Trade Organization and the International Monetary Fund, help to isolate and address potential problems.

The far more serious challenge for managers in the openness required by globalization comes from intense underlying and fundamental cultural differences—differences that encompass traditions, history, religious beliefs, and deep-seated values. Managing in such an environment can be extremely complicated. Even though globalization has long been praised for its economic benefits, some individuals think that globalization is simply a euphemism for “Americanization”—that is, the way U.S. cultural values and U.S. business philosophy are said to be slowly taking over the world.⁹⁷ At its best, proponents of Americanization hope others will see how progressive, efficient, industrious, and free U.S. society and businesses are and want to emulate that way of doing things. However, critics claim that this attitude of the “almighty American dollar wanting to spread the American way to every single country” has created many problems.⁹⁸ Although history is filled with clashes between civilizations, what’s unique now is the speed and ease with which misunderstandings and disagreements can erupt and escalate. The Internet, television and other media, and global air travel have brought the good and the bad of American entertainment, products, and behaviors to every corner of the globe. For those who don’t like what Americans do, say, or believe, this exposure can lead to resentment, dislike, distrust, and even outright hatred.

Challenges of Managing a Global Workforce

- Cross-cultural work teams can have many benefits, but conflicts can arise due to differences in work methods, pay levels, and language barriers.⁹⁹

- Global companies with multicultural work teams are faced with the challenge of managing the cultural differences in work-family relationships. The work-family practices and programs appropriate and effective for employees in one country may not be the best solution for employees in other locations.¹⁰⁰

cultural intelligence
Cultural awareness and sensitivity skills

global mind set
Attributes that allow a leader to be effective in cross-cultural environments

These examples indicate challenges associated with managing a global workforce. As globalization continues to be important for businesses, it's obvious that managers need to understand how to best manage that global workforce. Some researchers have suggested that managers need **cultural intelligence** or cultural awareness and sensitivity skills.¹⁰¹ Cultural intelligence encompasses three main dimensions: (1) knowledge of culture as a concept—how cultures vary and how they affect behavior; (2) mindfulness—the ability to pay attention to signals and reactions in different cross-cultural situations; and (3) behavioral skills—using one's knowledge and mindfulness to choose appropriate behaviors in those situations.

Other researchers have said that what effective global leaders need is a **global mind-set**, attributes that allow a leader to be effective in cross-cultural environments.¹⁰² Those attributes have three components, as shown in Exhibit 3-7.

Leaders who possess such cross-cultural skills and abilities—whether cultural intelligence or a global mind-set—will be important assets to global organizations. Successfully managing in today's global environment will require incredible sensitivity and understanding. Managers from any country will need to be aware of how their decisions and actions will be viewed, not only by those who may agree, but more importantly, by those who may disagree. They will need to adjust their leadership styles and management approaches to accommodate these diverse views, and at the same time be as efficient and effective as possible in reaching the organization's goals.

Exhibit 3-7

A Global Mind Set

Intellectual capital:	Knowledge of international business and the capacity to understand how business works on a global scale	
Psychological capital:	Openness to new ideas and experiences	
Social capital:	Ability to form connections and build trusting relationships with people who are different from you	

Source: Based on M. Javidan, M. Teagarden, and D. Bowen, "Making It Overseas," *Harvard Business Review*, April 2010, and J. McGregor, ed., "Testing Managers' Global IQ," *Bloomberg BusinessWeek*, September 28, 2009.

Chapter 3

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY **by Learning Objectives**

LO3.1

CONTRAST ethnocentric, polycentric, and geocentric attitudes toward global business.

Parochialism is viewing the world solely through your own eyes and perspectives and not recognizing that others have different ways of living and working. An ethnocentric attitude is the parochial belief that the best work approaches and practices are those of the home country. A polycentric attitude is the view that the managers in the host country know the best work approaches and practices for running their business. And a geocentric attitude is a world-oriented view that focuses on using the best approaches and people from around the globe.

LO3.2 DISCUSS the importance of regional trading alliances and global trade mechanisms.

Countries enter regional trading alliances for a variety of reasons, mainly to stimulate economic growth. The European Union consists of 28 democratic countries with 5 countries having applied for membership. NAFTA continues to help Canada, Mexico, and the United States strengthen their global economic power. In Latin America, CAFTA-DR promotes trade liberalization between the United States and 5 Central American countries, and another free trade agreement of 10 South American countries known as the Southern Common Market or Mercosur is seen as an effective way to combine resources to better compete against other global economic powers. ASEAN is a trading alliance of 10 Southeast Asian nations—a region that remains important in the global economy. Other trade alliances include the African Union (AU), the East African Community (EAC), the South Asian Association for Regional Cooperation (SAARC), and the Trans-Pacific Partnership (TPP). To counteract some of the risks in global trade, the World Trade Organization (WTO) plays an important role in monitoring and promoting trade relationships. The International Monetary Fund (IMF) and the World Bank Group are two entities that provide monetary support and advice to their member countries. The Organization for Economic Cooperation and Development assists its member countries with financial support in achieving sustainable economic growth and employment.

LO3.3 DESCRIBE the structures and techniques organizations use as they go international.

A multinational corporation is an international company that maintains operations in multiple countries. A multidomestic organization is an MNC that decentralizes management and other decisions to the local country (the polycentric attitude). A global organization is an MNC that centralizes management and other decisions in the home country (the ethnocentric attitude). A transnational organization (the geocentric attitude) is an MNC that has eliminated artificial geographical barriers and uses the best work practices and approaches from wherever. Global sourcing is purchasing materials or labor from around the world wherever it is cheapest. Exporting is making products domestically and selling them abroad. Importing is acquiring products made abroad and selling them domestically. Licensing is used by manufacturing organizations that make or sell another company's products and use the company's brand name, technology, or product specifications. Franchising is similar but is usually used by service organizations that want to use another company's name and operating methods. A global strategic alliance is a partnership between an organization and foreign company partners in which they share resources and knowledge to develop new products or build facilities. A joint venture is a specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose. A foreign subsidiary is a direct investment in a foreign country that a company creates by establishing a separate and independent facility or office.

LO3.4 EXPLAIN the relevance of the political/legal, economic, and cultural environments to global business.

The laws and political stability of a country are issues in the global political/legal environment with which managers must be familiar. Likewise, managers must be aware of a country's economic issues such as currency exchange rates, inflation rates, and tax policies. Geert Hofstede identified five dimensions for assessing a country's culture, including individualism-collectivism, power distance, uncertainty avoidance, achievement-nurturing, and long-term/short-term orientation. The GLOBE studies identified nine dimensions for assessing country cultures: power distance, uncertainty avoidance, assertiveness, humane orientation, future orientation, institutional collectivism, gender differentiation, in-group collectivism, and performance orientation. The main challenges of doing business globally in today's world include (1) the openness associated with globalization and the significant cultural differences between countries and (2) managing a global workforce, which requires cultural intelligence and a global mind-set.

Pearson MyLab Management

Go to mymanagementlab.com to complete the problems marked with this icon 

★ REVIEW AND DISCUSSION QUESTIONS

- 3-1. A monolingual, parochial, and ethnocentric organization is bound to fail. Discuss.
- 3-2. The European Union (EU) is an economic and political partnership of countries. What are the practical implications of this union?
- 3-3. Discuss the role of the World Trade Organization (WTO).
- 3-4. What are the characteristics of a multidomestic corporation?
- 3-5. Is learning a foreign language essential for managers?
- 3-6. What clarity of perspective would the GLOBE framework, as presented in this chapter, offer to local managers to help them understand their employees better?
- 3-7. What makes the Association of Southeast Asian Nations (ASEAN) different from the European Union (EU) as a trade alliance? Can those differences impair ASEAN's effectiveness as a trade alliance compared to the EU?
- 3-8. How many ways can an organization go global? What is the primary driver for the organization to choose a particular path toward going global?

Pearson MyLab Management

If your professor has assigned these, go to mymanagementlab.com for the following Assisted-graded writing questions:

- 3-9.** What are the main challenges of global business and how would you suggest handling them?
- 3-10.** Is globalization good for business? For consumers? Discuss.

PREPARING FOR: My Career

★ PERSONAL INVENTORY ASSESSMENTS



Intercultural Sensitivity Scale

Managing in a global environment absolutely demands being sensitive to other country's cultures. Use this PIA to determine your level of cultural sensitivity.

★ ETHICS DILEMMA

In 2013, a clothing factory in Bangladesh collapsed, killing 1,138 people.¹⁰³ Some 27 global brands, including Walmart and Benetton, were using the factory. One year on, these two corporations were among 22 of the 27 yet to contribute toward a compensation fund created for this cause. Factories in developing countries face

similar problems all the time, but such instances may go unreported. Bangladesh alone houses around 5,000 garment factories. Many of these factories are converted to residential buildings, with no fire escapes or alarms. The scale of the problem means reforms may well take time.

- 3-11. Do you think that corporations that outsource to developing countries have a responsibility of care to the workers on those sites?

- 3-12. What can be done globally to ensure that employees working under such conditions are protected?

SKILLS EXERCISE Developing Your Collaboration Skill

About the Skill

Collaboration is the teamwork, synergy, and cooperation used by individuals when they seek a common goal. In many cross-cultural settings, the ability to collaborate is crucial. When all partners must work together to achieve goals, collaboration is critically important to the process. However, cultural differences can often make collaboration a challenge.

Steps in Practicing the Skill

- **Look for common points of interest.** The best way to start working together in a collaborative fashion is to seek commonalities that exist among the parties. Common points of interest enable communications to be more effective.
- **Listen to others.** Collaboration is a team effort. Everyone has valid points to offer, and each individual should have an opportunity to express his or her ideas.
- **Check for understanding.** Make sure you understand what the other person is saying. Use feedback when necessary.
- **Accept diversity.** Not everything in a collaborative effort will “go your way.” Be willing to accept different ideas

and different ways of doing things. Be open to these ideas and the creativity that surrounds them.

- **Seek additional information.** Ask individuals to provide additional information. Encourage others to talk and more fully explain suggestions. This brainstorming opportunity can assist in finding creative solutions.
- **Don't become defensive.** Collaboration requires open communications. Discussions may focus on things you and others may not be doing or need to do better. Don't take the constructive feedback as personal criticism. Focus on the topic being discussed, not on the person delivering the message. Recognize that you cannot always be right!

Practicing the Skill

Interview individuals from three different nationalities about the challenges of collaborating with individuals from different cultures. What challenges do different cultures create? How have they dealt with these challenges? What advice do they have for improving collaboration across cultural differences? Based on your interviews, what are some general ideas you learned to improve your ability to collaborate?

WORKING TOGETHER Team Exercise

Moving to a foreign country isn't easy, no matter how many times you've done it or how receptive you are to new experiences. Successful global organizations are able to identify the best candidates for global assignments, and one of the ways they do this is through individual assessments prior to assigning people to global facilities. Form groups of three to five individuals. Your newly formed team, the Global Assignment Task Force, has been given the responsibility for developing a global aptitude assessment form for Yum Brands (the largest food operator in the world whose units include

Taco Bell, Pizza Hut, KFC, Long John Silver's, and A&W). Because Yum is expanding its global operations significantly, it wants to make sure it's sending the best possible people to the various global locations. Your team's assignment is to come up with a rough draft of a form to assess people's global aptitude. Think about the characteristics, skills, attitudes, and so on that you think a successful global employee would need. Your team's draft should be at least half a page, but not lengthier than one page. Be prepared to present your ideas to your classmates and professor.

MY TURN TO BE A MANAGER

- Find two current examples of each of the ways that organizations go international. Write a short paper describing what these companies are doing.
- The U.K.-based company Kwintessential has several cultural knowledge “quizzes” on its website (www.kwintessential.co.uk/resources/culture-tests.html). Go to the website and try two or three of them. Were you surprised at your score? What does your score tell you about your cultural awareness?
- On this website, you'll also find Intercultural Management Guides (www.kwintessential.co.uk/intercultural/management/

[guide.html](#)). Pick two countries to study (from different regions), and compare them. How are they the same? Different? How would this information help a manager?

- Interview two or three professors or students at your school who are from other countries. Ask them to describe what the business world is like in their country. Write a short paper describing what you found out.
- Take advantage of opportunities you might have to travel to other countries, either on personal trips or on school-sponsored trips.
- Sign up for a foreign language course.

- Suppose you were sent on an overseas assignment to another country (you decide which one). Research that country's economic, political/legal, and cultural environments. Write a report summarizing your findings.
- If you don't have your passport yet, go through the process to get one. (The current fee in the United States is \$140.)
- It is important to understand basic etiquette when traveling internationally for business (e.g., how does one greet someone new, and is a handshake appropriate?). Identify three countries that you would like to travel to and conduct research to learn about business etiquette for those countries. Summarize your findings.
- Identify a company that operates internationally and has locations in more than two different countries. Explore the "Career" page of the company's website. Write a brief report about the career opportunities available at the company and the required qualifications of applicants.

CASE APPLICATION 1 Dirty Little Secret

Money. Secrecy. Foreign officials. "Greasing palms." Bribery. That's the dirty little secret about doing business globally that managers at multinational companies don't want to talk about. Although 39 countries worldwide have signed up for the OECD Anti-Bribery Convention to outlaw bribery and corruption, the problem is far from gone. Take Greece, for example, which has been censored by the OECD for failing in its promise to crack down on corruption. The practice of political favouritism and passing "fakelaki"—envelopes stuffed with cash—in return for services is as prevalent today as it ever was. Indeed, since the country joined the European Community, more than 150 scandals have come to light, and it is thought that part of the blame for the country's €367 billion (\$486 billion) debt is down to an epidemic of corruption. From needless jobs to a refusal to give receipts, through tax evasion and then on to high-level bribery, it is estimated that Greek citizens spent nearly €1.62 billion (\$2.15 billion) in 2012 on bribes. Foreign companies looking toward Greece are aware that this is often the cost of doing business there. In August 2012, the German group Siemens AG, reached a €330 million (\$438 billion) settlement with the Greek government over long-running allegations that Siemens AG used bribery to secure a raft of contracts for the Athens Olympic Games in 2004. In an earlier case, two managers from another German company, industrial firm Ferrostaal, were convicted of paying bribes in Greece and ordered to pay fines.¹⁰⁴

★ DISCUSSION QUESTIONS

- 3-13. What's your reaction to the events mentioned in the case? Are you surprised that bribery is illegal? Why do you think bribery takes place? Why do you think it needs to be outlawed?
- 3-14. Research whether other countries outlaw bribery. (Hint: look at the Organization for Economic Cooperation and Development.)
- 3-15. We've said it's important for managers to be aware of external environmental forces, especially in global settings. Discuss this statement in light of the events described.
- 3-16. What might the managers at Siemens AG have done differently? Explain.
- 3-17. Siemens AG is not the only company to be linked to bribery. Find at least three other examples and describe them briefly.

CASE APPLICATION 2 The Power of Presence

How do you successfully manage a growing international company? CEO Christian Chabot of Seattle-based Tableau now believes being there physically is an important piece in the often complex puzzle of international management.¹⁰⁵ International growth is nothing new for Tableau, which was founded in 2004. As a leading provider of analytics and business intelligence software solutions, the company has more than 35,000 clients in over a dozen countries.

Tableau provides software tools and interactive dashboards that allow users to generate useful business insights through the analysis and visualization of data. The company is on the cutting edge of data-imaging solutions for end-users, creating products such as Elastic, which allows users to create graphics from spreadsheets. Despite tough competition in the market for business intelligence from software giants such as Microsoft, Tableau has continued to maintain its share of the marketplace, and the company's value continues to grow with a 64 percent increase in revenue over last year. Much of the company's growth is attributed to the company's expansion into international markets, with an 86 percent increase in revenue last year from international markets, which now account for a quarter of the company's total revenues.

With plans to hire about 1,000 more employees in the next year, the company's projected continued success is evident. While more than half of their current 2,800 employees work in the company's Seattle headquarters, Tableau has 14 locations around the world in places such as Shanghai, Singapore, Sydney, and London. About 400 of the new employees will be hired outside of the Seattle headquarters, and Tableau's expansion will include opening new international offices.

International growth creates many challenges for companies, particularly as they open and staff branch locations in different countries. Cultural differences, time differences, and simply the geographic distance can make it difficult to sustain the same management practices at home and abroad. How has Chabot managed the quick growth of this international company? One strategy was to spend almost a year abroad working in the company's London office. His focused time at that location helped grow regional sales, but also provided the CEO with valuable insights to support further international expansion.

Chabot reported that the time he spent in London highlighted the importance of managing culture and people. Prior to the trip he did not have a true understanding of the challenges of international employees working for a U.S.-based company. He found that many working in international branch offices did not feel like they were taken seriously by those at the home office. Geographically remote workers can feel disconnected from a global company, particularly when they report to management they have never met in person at headquarters.

Chabot's time working in London was valuable for employees in all locations of the company, as his actions sent the message that he feels employees outside of headquarters are important. While he spent time only in London, the fact that he spent a year away from the home office emphasized his belief that locations beyond Seattle are important for the company's success. Chabot's experience is having such a profound impact on the company's success, Tableau is now encouraging other executives to spend time at international offices.

DISCUSSION QUESTIONS

- 3-18. Tableau staffs its international offices primarily with host country nationals. What are the advantages and disadvantages of this staffing strategy?
- 3-19. Do you agree with Chabot that the company will benefit if more executives spend time in international offices? Why or why not?

- 3-20. As Tableau executives get ready to spend time in the company's international offices, how can they prepare for the cultural differences they will encounter?
- 3-21. What are some of the challenges Tableau will face as it hires 1,000 new employees in one year?

ANSWERS TO "WHO OWNS WHAT" QUIZ

1. d. Switzerland

Nestlé SA bought both the Tombstone and DiGiorno frozen-pizza brands from Kraft Foods in 2009.

2. c. United States

Uber Technologies, LLC is a U.S. company based in San Francisco, California, established in 2009.

3. a. United States

Rajah Spices are products of the Lea & Perrins sauce division, which the H.J. Heinz Company acquired in June of 2005.

4. a. The Netherlands

Mexico's second-largest beer producer was acquired by Heineken N.V. in January 2010.

5. b. United Kingdom

The television show *America's Got Talent* premiered in June 2006, and it is a part of the British franchise *Got Talent*, owned by SYCOtv company.

6. c. United States

Chobani, LLC is a U.S. company that manufactures and distributes Greek yogurt, and prior to 2012, was named Agro-Farma, Inc.

7. c. Switzerland

The Swatch Group Ltd. was established through the merger of two Swiss watch companies—ASUAG and SSIH, in 1983.

8. a. Russia

Russian tycoon Alexander Lebedev acquired the *Independent* in March 2010.

9. a. Sweden

Spotify is a service of Spotify AB, which was established in 2008.

10. b. Sweden

Interactive game company King Digital Entertainment was established in 2003.

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Chapter 4

Valuing a Diverse Workforce

It's Your Career



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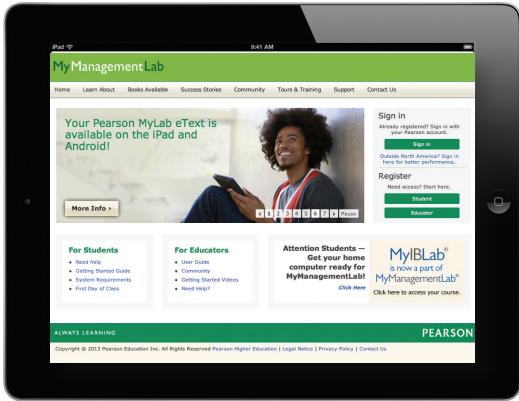
A key to success in management and in your career is knowing how to find a great sponsor/mentor and how to be a great protégé.

Find a Great Sponsor/ Mentor—Be a Great Protégé

What do you want from your career? If your goal is to “move up the organizational ladder” to higher and more challenging positions of responsibility, then consider finding influential people who believe in you and will work with you to help you get ahead. These individuals—called sponsors or mentors—can be a wonderful source of career support. How? By advocating for your career path/promotion; assisting you in dealing with problems/conflicts; expanding your perception of what you can do; helping you “connect” with senior executives and other influential people; and advising you on “how” to be promotable. Now that you know what they’re called...what are you called? The term for the other person in this relationship is protégé, which comes from a French word meaning to protect. As someone with a lot of knowledge and experience, the sponsor/mentor “protects” the protégé by helping prepare (groom) that person for more challenging job responsibilities. Here’s what you need to know to have active and effective sponsor/protégé relationships:

1. Absolutely, positively, always DO GREAT WORK. Be sure that your work performance is stellar. Demonstrate that you can and will deliver outstanding performance. Realize that doesn’t mean that you won’t ever make mistakes. But if you do make mistakes, learn quickly from those mistakes. Seek out new challenges and be enthusiastic when you get them. And remember, doing great work **is** absolutely essential!

2. TRUSTWORTHINESS and LOYALTY and DEPENDABILITY are absolutely critical. Sponsors/mentors want to know that you can be trusted in all ways and in all things. Be loyal. Keep your sponsor “in the know.” Your sponsor wants to know that you can be depended on totally to do the right thing. Make your sponsor look good and look smart for taking you on as a protégé. Ideally, you and your sponsor(s) should work together to



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Learning Objectives

● SKILL OUTCOMES

- 4.1 Define** workplace diversity and explain why managing it is so important.
- **Develop your skill** at valuing and working with diverse individuals and teams.
- 4.2 Describe** the changing workplaces in the United States and around the world.
- 4.3 Explain** the different types of diversity found in workplaces.
- 4.4 Discuss** the challenges managers face in managing diversity.
- 4.5 Describe** various workplace diversity management initiatives.

- **Know how** to find a great sponsor/mentor and be a great protégé.

accomplish results that can help each of you fast track your careers. A mentor/protégé relationship can—and should—be mutually beneficial.

3. BE SELECTIVE in seeking out your sponsor(s)/mentor(s). Look for individuals who are compatible and complement your work style/approach and who can help you reach your goals. Although you may start off with just one, don't be content with that. Target leaders (inside and outside your organization) whose expertise and networks you think you learn from. It's helpful to think of these individuals as your own personal

"board of advisors" who are helping you develop your skills and abilities.

4. NURTURE the relationship. Have regular meetings—face-to-face, by phone, or by e-mail. Prove that you were worth the investment by meeting deadlines, exceeding targets, and advancing the organization's mission. Look for ways to support your sponsors and help them build their careers. Also, remember at some point to become a sponsor/mentor yourself. When you harness and help develop other talent, that's a great demonstration of leadership!

Although many companies have a goal of cultivating a diverse workforce, there's still a lot of work to be done by organizations around the globe. For instance, only seven women are CEOs of the United Kingdom's FTSE 100 companies, leading major firms like GlaxoSmithKline, Whitbread, and easyJet. Few corporations in South Korea and Japan have female CEOs. In Australia, only about 18 percent of CEOs are women. This is why some nations, including Germany, Norway, and Malaysia, now set minimum standards for the number of women on corporate boards. Other minorities are also underrepresented in top management. Tidjane Thiam of Credit Suisse Group is the first black CEO of a leading European bank. Antonio Simões of HSBC Bank is among the relatively few openly gay chief executives.¹ Clearly, the issue of moving beyond a homogeneous workforce remains important. This chapter will look at managing diversity in the workplace.

DIVERSITY 101

LO4.1

It's amazing all the different languages you can hear in the lobby of one of MGM Mirage's hotels. Because guests come from all over the world, the company is committed to reflecting that diversity in its workforce. MGM Mirage has implemented a program that is devoted to making sure that everyone in the organization feels included. There are payoffs for promoting diversity. For instance, companies in the hospitality business that boast gender-diverse workforces have shown a 19 percent higher average quarterly profit than hospitality businesses with less diversity.²

Such diversity—and inclusion—can be found in many organizational workplaces domestically and globally.³ Sodexo, provider of quality of life services, is an example. The company offers “Spirit of Inclusion” training sessions for employees who work throughout Europe, including their locations in Finland, Germany, and Luxembourg.⁴ Managers in those workplaces are looking for ways to value and develop that diversity, as you'll see through the various examples throughout this chapter. However, before we look at what it takes to manage diversity, we first have to know what workplace diversity is and why it's important.

What Is Workplace Diversity?

Look around your classroom (or your workplace). You're likely to see young/old, male/female, tall/short, blonde hair, blue-eyed/dark hair, brown-eyed, any number of races, and any variety of dress styles. You'll see people who speak up in class and others who are content to keep their attention on taking notes or daydreaming. Have you ever noticed your own little world of diversity where you are right now? Many of you may have grown up in an environment around diverse individuals, while others may not have had that experience. We want to focus on *workplace* diversity, so let's look at what it is. By looking at various ways that diversity has been defined, you'll gain a better understanding of it.

Diversity has been “one of the most popular business topics over the last two decades. It ranks with modern business disciplines such as quality, leadership, and ethics. Despite this popularity, it's also one of the most controversial and least understood topics.”⁵ With its basis in civil rights legislation and social justice, the word *diversity* often invokes a variety of attitudes and emotional responses in people. Diversity has traditionally been considered a term used by human resources departments, associated with fair hiring practices, discrimination, and inequality. But diversity today is considered to be so much more. Exhibit 4-1 illustrates a historical overview of how the concept and meaning of workforce diversity has evolved.

We're defining **workforce diversity** as the ways in which people in an organization are different from and similar to one another. Notice that our definition not only focuses on the differences, but also the similarities of employees. This reinforces our belief that managers and organizations should view employees as having qualities in common as well as differences that separate them. It doesn't mean that those differences are any less important, but that our focus as managers is in finding ways to develop strong relationships with and engage our entire workforce.

We want to point out one final thing about our description of “what” workforce diversity is.⁶ The demographic characteristics that we tend to think of when we think of diversity—age, race, gender, ethnicity, and so on—are just the tip of the iceberg. These demographic differences reflect **surface-level diversity**, which includes easily perceived differences that may trigger certain stereotypes but don't necessarily reflect the ways people think or feel. Such surface-level differences in characteristics can affect the way people perceive others, especially when it comes to assumptions or stereotyping. The Time Warner Corporation works diligently to turn surface-level diversity into an advantage. According to Chief Diversity Officer Lisa Garcia Quiroz, “our success as a business is directly correlated to our ongoing efforts to attract talent and maintain a progressive and inclusive environment where employees can thrive regardless of gender, race, ethnicity or sexual orientation.”⁷

workforce diversity

The ways in which people in an organization are different from and similar to one another

surface-level diversity

Easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel

1960s to 1970s	Focus on complying with laws and regulations: Title VII of Civil Rights Act; Equal Employment Opportunity Commission; affirmative action policies and programs
Early 1980s	Focus on assimilating minorities and women into corporate setting: Corporate programs developed to help improve self-confidence and qualifications of diverse individuals so they can "fit in"
Late 1980s	Concept of workforce diversity expanded from compliance to an issue of business survival: Publication of <i>Workforce 2000</i> opened business leaders' eyes about the future composition of workforce—that is, more diverse; first use of term <i>workforce diversity</i>
Late 1980s to Late 1990s	Focus on fostering sensitivity: Shift from compliance and focusing only on women and minorities to include everyone; making employees more aware and sensitive to the needs and differences of others
New Millennium	Focus on diversity and inclusion for business success: Workforce diversity seen as core business issue; important to achieve business success, profitability, and growth

Source: Based on "The New Global Mindset: Driving Innovation Through Diversity" by Ernst & Young, January 27, 2010.

As people get to know one another, these surface-level differences become less important and **deep-level diversity**—differences in values, personality, and work preferences—becomes more important. At Nielsen, Angela Talton, Senior Vice President of Global Diversity & Inclusion, endorses this idea: "By diversity, we mean far more than the diversity you can see; we value diversity of thought, experiences, skills and backgrounds. It is our ability to create a culture of inclusion—whereby we value, encourage and promote the various thoughts, opinions and insights of our diverse workforce—that enables us to grow and continuously provide clients with innovative solutions."⁸ These deep-level differences can affect the way people view organizational work rewards, communicate, react to leaders, negotiate, and generally behave at work.

Exhibit 4-1

Timeline of the Evolution of Workforce Diversity

deep-level diversity

Differences in values, personality, and work preferences

Why Is Managing Workforce Diversity So Important?

Ranked on *Diversity Inc.*'s list of top 50 companies for diversity, financial services company Wells Fargo recognizes the powerful benefits of diversity. The company's chief diversity officer says, "With more than 264,000 team members, we know there is power in mobilizing our global organization around common diversity and inclusion goals and priorities. By doing so, we will create a sustainable culture that is accepting of differences, open to new ideas, and able to create a competitive advantage in the marketplace."⁹ Another example is KeyBank, which is "committed to supplier diversity through business strategy and community access. We support diverse business enterprises and our Supplier Diversity team in our Corporate Responsibility group provides accountability."¹⁰ Many companies besides Wells Fargo and KeyBank are experiencing the benefits that diversity can bring. In this section, we want to look at *why* workforce diversity is so important to organizations. The benefits fall into three main categories: people management, organizational performance, and strategic. (See Exhibit 4-2.)

Exhibit 4-2

Benefits of Workforce Diversity

People Management

- Better use of employee talent
- Increased quality of team problem-solving efforts
- Ability to attract and retain employees of diverse backgrounds



Organizational Performance

- Reduced costs associated with high turnover, absenteeism, and lawsuits
- Enhanced problem-solving ability
- Improved system flexibility



Strategic

- Increased understanding of the marketplace, which improves ability to better market to diverse consumers
- Potential to improve sales growth and increase market share
- Potential source of competitive advantage because of improved innovation efforts
- Viewed as moral and ethical; the "right" thing to do



Sources: Based on Ernst & Young, "The New Global Mindset: Driving Innovation Through Diversity," EYGM Limited, 2010; M. P. Bell, M. L. Connerley, and F. K. Cocchiara, "The Case for Mandatory Diversity Education," *Academy of Management Learning & Education*, December 2009, pp. 597–609; E. Kearney, D. Gebert, and S. C. Voelpel, "When and How Diversity Benefits Teams: The Importance of Team Members' Need for Cognition," *Academy of Management Journal*, June 2009, pp. 581–598; J. A. Gonzalez and A. S. DeNisi, "Cross-Level Effects of Demography and Diversity Climate on Organizational Attachment and Firm Effectiveness," *Journal of Organizational Behavior*, January 2009, pp. 21–40; O. C. Richard, "Racial Diversity, Business Strategy, and Firm Performance: A Resource-Based View," *Academy of Management Journal*, April 2000, pp. 164–177; and G. Robinson and K. Dechant, "Building a Business Case for Diversity," *Academy of Management Executive*, August 1997, pp. 21–31.



- Racial and ethnic diversity are 35 percent more likely to have financial returns above national industry medians.
- Currently 97 percent of U.S. companies fail to have senior leadership teams that reflect the country's ethnic labor force.¹¹

PEOPLE MANAGEMENT When all is said and done, diversity *is*, after all, about people, both inside and outside the organization. The people management benefits that organizations get because of their workforce diversity efforts revolve around attracting and retaining a talented workforce. Organizations want a talented workforce because it's the people—their skills, abilities, and experiences—who make an organization successful. Positive and explicit workforce diversity efforts can help organizations attract and keep talented diverse people and make the best of the talents those individuals bring to the workplace. In addition, another important people management benefit is that as companies rely more on employee teams in the workplace, those work teams with diverse backgrounds often bring different and unique perspectives to discussions, which can result in more creative ideas and solutions. However, recent research has indicated that such benefits might be hard to come by in teams performing more interdependent tasks over a long period of time. Such situations also present more opportunities for conflicts and resentments to build.¹² But, as the researchers pointed out, that simply means that those teams may need stronger team training and coaching to facilitate group decision making and conflict resolution.

Watch It 1!

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled: *Verizon: Diversity* and to respond to questions.

ORGANIZATIONAL PERFORMANCE The performance benefits that organizations get from workforce diversity include cost savings and improvements in organizational functioning. The cost savings can be significant when organizations that cultivate a diverse workforce reduce employee turnover, absenteeism, and the chance of lawsuits.

let's get REAL

The Scenario

As the district manager for a region of retail discount clothing stores, Henry Banks is preparing for a quarterly meeting with all of the store managers in his district. As part of a presentation about company hiring practices, he plans to stress the importance of diversity. He knows the company needs a diverse workforce to meet the needs of the company's diverse customer base; however, he is not sure how to convey this to the group of store managers.

What do you think Henry should say in his presentation?

Henry should take this opportunity to review the company's values and to consider how diversity is a critical aspect of a dynamic culture. He could provide data that indicate that diverse companies perform better than less diverse companies, overall. With a diverse customer base, Henry should provide real-life examples of situations in which diversity helped with a customer's shopping experience or increased a sale, as well as examples in which lack of diversity had a negative impact on the business. Lastly, Henry should explain how the store managers' incentives are tied to the overall performance of the store; the better the store performs, the greater incentive opportunity they have.



Leya Gaynor
HR Business Partner

Source: Leya Gaynor

For instance, the Royal Canadian Mounted Police recently agreed to a very costly settlement in cases of sexual discrimination and harassment brought by hundreds of female Mounties.¹³ Women in China are increasingly speaking out against sexual discrimination, not just to attain management positions but also for the right to work in jobs that traditionally have been held by men.¹⁴ In the United Kingdom, employees file more than 3,000 complaints about racial discrimination every year. One organization was ordered to pay more than £162,000 for racial discrimination, an amount that can seriously affect the bottom line. According to a U.K. study, job applicants from ethnic minorities tend to receive fewer employer responses than non-minority applicants.¹⁵ In addition to gender and race, discrimination on the basis of age, disability, or sexual orientation also causes employees to file complaints (and, often, to find work elsewhere).¹⁶ In Hong Kong, for example, one in three employees surveyed by the Equal Opportunities Commission said they had faced age discrimination, and one in four had been denied promotions due to age.¹⁷ However, from the positive side, organizational performance *can be* enhanced through workforce diversity because of improved problem-solving abilities and system flexibility. An organization with a diverse workforce can tap into the variety of skills and abilities represented, and just the fact that its workforce is diverse requires that processes and procedures be more accommodative and inclusive. The benefits of promoting diversity are worthwhile. According to Professor Christine Riordan, “inclusion also has the promise of many positive individual and organizational outcomes such as reduced turnover, greater altruism, and team engagement. When employees are truly being included within a work environment, they’re more likely to share information, and participate in decision-making.”¹⁸

STRATEGIC Organizations also benefit strategically from a diverse workforce. You have to look at managing workforce diversity as the key to extracting the best talent, performance, market share, and suppliers from a diverse country and world. One important

strategic benefit is that with a diverse workforce, organizations can better anticipate and respond to changing consumer needs. Diverse employees bring a variety of points of view and approaches to opportunities, which can improve how the organization markets to diverse consumers. For instance, as the Hispanic population has grown, so have organizational efforts to market products and services to that demographic group. Organizations have found their Hispanic employees to be a fertile source of insights that would otherwise not have been available. Food service companies, retailers, financial services companies, and automobile manufacturers are just a few of the industries that have seen sales and market share increases because they paid attention to the needs of diverse consumers using information from employees. It is important to remember that a diverse workforce is not a magic pill: “Diversity does not produce better results automatically, through a sort of multicultural magic. It does so only if it is managed well.”¹⁹

A diverse workforce also can be a powerful source of competitive advantage, primarily because innovation thrives in such an environment. A report by Ernst & Young stated that “cultural diversity offers the flexibility and creativity we need to re-create the global economy for the twenty-first century.”²¹ Innovation is never easy, but in a globalized world, it’s even more challenging. Tapping into differing voices and viewpoints can be powerful factors in steering innovation. Companies that want to lead their industries have to find ways to “stir the pot”—to generate the lively debate that can create those new ideas. And research shows that diverse viewpoints can do that. “Diversity powers innovation, helping businesses generate new products and services.”²²

Finally, from an ethical perspective, workforce diversity and effectively managing diversity is the right thing to do. Although many societies have laws that say it’s illegal to treat diverse people unfairly, many cultures also exhibit a strong ethical belief that diverse people should have access to equal opportunities and be treated fairly and justly. Businesses do have an ethical imperative to build relationships that value and enable all employees to be successful. Managers need to view workforce diversity as a way to bring different voices to the table and to build an environment based on trusting relationships. If they can do that, good things can happen, as we’ve noted.



Companies with diverse leadership are:²⁰

- 45 percent more likely to report a growth in market share over the previous year
- 70 percent more likely to have captured a new market

Watch It 2!

If your professor has assigned this, go to www.mymanagementlab.com to watch a video titled: *Rudi's Bakery: Diversity* and to respond to questions.

THE CHANGING workplace

L04.2

An African American serving as the chief executive of the United States. A woman heading up the Federal Reserve. A Latina sitting on the nation’s highest court. Even at the highest levels of the political arena, we see a diverse workplace. In the business world, the once predominantly white male managerial workforce has given way to a more gender-balanced, multiethnic workforce. But it’s a workforce still in transition as the overall population changes. In this section, we want to look at some of those changes, focusing on demographic trends by looking first at the characteristics of the U.S. population and then at global diversity trends. These trends will be reflected in a changing workplace, thus making this information important for managers to recognize and understand.

Characteristics of the U.S. Population

Of all the babies born in the United States recently, less than half are whites of European ancestry—a significant demographic milestone that will affect the country’s political, economic, and labor force characteristics.²³ Statistics from the latest U.S. Census reports are reinforcing what we’ve already seen happening—America is changing.²⁴ We are an increasingly diverse society with some major readjustments occurring that will dramatically change the face of America by the year 2050. Let’s look at some of the most dramatic of these changes.²⁵

WORKPLACE CONFIDENTIAL**Dealing with Diversity**

This chapter looks at diversity from the standpoint of management: Specifically, what can *management* do to create a workplace that welcomes and appreciates differences—such as gender, age, race, religion, sexual orientation, disabilities, or social class? But this chapter doesn't offer *you* direct guidance on how to deal with coworker diversity. While management and the organization are largely responsible for fostering an inclusive culture that values diversity, you play a vital part.

Let's begin with the realization that many individuals have difficulty accepting others who are different from themselves. Human nature is such that we tend to be attracted to and feel more comfortable with people who are like us. It's not by chance, for example, that new immigrants gravitate to communities where there is a sizeable population of people from their country of origin. But "embracing differences" has become an unquestioned goal in most advanced economies and a mantra within organizations. It's increasingly difficult to survive in today's workplace if you can't accept differences and function effectively with a diverse workforce.

As described in this chapter, a strong argument can be made for a diverse workforce. From your standpoint, that argument would include being part of more effective work groups through a broader perspective in decision making; gaining a better understanding of diverse markets and customer preferences; improved ability to work comfortably with others in your workplace; and promoting fairness for individuals from underrepresented groups. Furthermore, we would be naïve to ignore that supporting diversity is, for lack of a better term, "politically correct." Today's workplace is sensitive to appearances of prejudice or unfairness. If you expect to be a valued and accepted member of today's labor force, you need to recognize that supporting diversity is the ethical and morally right thing to do.

Research tells us that we all have biases. Demographics mostly reflect surface-level diversity and can lead you to perceive others through stereotypes and assumptions. In contrast, when you get to know others, you become less concerned about demographic differences if you can see yourself sharing more important, deeper-level characteristics. Let's elaborate on the difference between surface- and deep-level diversity.

Most of us typically define diversity in terms of surface-level characteristics. Surface-level diversity relates to those characteristics that are easily noticeable; the things we initially see in people. This includes gender, age, skin color, language, and the presence or absence of a physical disability. So when a 20-year-old sees someone who's 70 and quickly classifies him as "old," that person is operating at a surface level. In contrast, deep-level diversity refers to characteristics that are not easily noticeable. They're communicated through verbal and nonverbal behaviors. Examples of deep-level differences would include personality, moods, attitudes, values, and beliefs. As you get to know a person, especially someone you like and bond with, you tend to forget surface differences and focus on your deeper commonalities.

An interesting illustration of the difference between these two types of diversity is the typical college campus. For more than 40 years, most college admissions' personnel have actively sought to expand surface diversity by considering race or ethnicity in their decision criteria. In addition, other factors such

as gender, sexual orientation, socioeconomic status, or geographic background might also be applied to expand diversity. When these other factors can be visibly assessed by the way someone looks, dresses, or talks, then they are also surface-level variables. But here's the interesting observation: While college administrators try to increase diversity through admission selection, students themselves tend to undermine surface diversity by gravitating to others like themselves. Fraternities and sororities choose members who are like themselves. And friends tend to be those with similar majors, or living in the same dorm wing, or belonging to a common on-campus affinity group. So what we find is that campuses do a very good job at promoting surface-level diversity through admission decisions, but this breaks down once students are on campus. Natural student groupings tend to be defined more by deep-level characteristics.

So what can you do to more effectively deal with coworker diversity? At the surface level, start by confronting your biases and assumptions about others. You can't deal with your prejudices unless you recognize them. Then consider the positives of diversity. As we noted in the chapter, a diverse workforce has numerous pluses. You need to recognize, accept, and value the unique contributions of those who are different from you in terms of appearance, culture, skills, experiences, and abilities.

At the deep level, the good news is that as we get to know people, most of us look beyond the surface to find common bonds. Specifically, the evidence shows that the longer individuals work together, the less the effects of surface diversity. So your first reaction might be to assume you have nothing in common with a colleague who is 30 years older, or raised in a different country, or whose first language is different from yours. But start with the basics. You're both working for the same employer. That alone suggests a common bond. Both of you saw something in your employing organization that drew you to it. Then, if you're having trouble dealing with someone's differences, look beyond the surface and try to get to know the individual's personality, interests, and beliefs. You're likely to be pleasantly surprised. You might initially think someone isn't like you or won't understand you, but as you dig deeper and spend more time with the person, you'll often find common bonds.

In addition to working one-on-one with a diverse set of coworkers, you'll likely have to deal with diversity within work teams. Occasionally, diversity within teams can create problems known as "faultlines." Faultlines are subgroups that develop naturally within teams, typically along various demographic lines. The behavior of the team leader and way in which she structures the leadership role is essential for promoting communication and cohesiveness across the subgroups and for rallying the membership to meet a common cause.

Source: Based on D. A. Harrison, K. H. Price, and M. P. Bell, "Beyond Relational Demography: Time and the Effects of Surface- and Deep-Level Diversity on Work Group Cohesion," *Academy of Management Journal*, February 1998, pp. 96–107; D. C. Lau and J. K. Murnighan, "Demographic Diversity and Faultlines: The Compositional Dynamics of Organizational Groups," *Academy of Management Review*, April 1998, pp. 325–340; L. F. Pendry, D. M. Driscoll, and S. C. T. Field, "Diversity Training: Putting Theory into Practice," *Journal of Occupational Psychology*, March 2007, pp. 27–50; and M-E. Roberge, E. Petrov, and W-R. Huang, "Students' Perceptions of Their Attitudes and Behaviors Toward Different Cultures/Ethnicities Before and After a Diversity Training Program," *Journal of Business Diversity*, August 2014, pp. 80–90.

Exhibit 4-3

Changing Population Makeup of the United States

	2015	2050
Foreign-born	14%	19%
Racial/Ethnic Groups		
White*	72%	47%
Hispanic	12%	29%
Black*	12%	13%
Asian*	4%	9%

*= Non-Hispanic
American Indian/Alaska Native not included.

Sources: Based on "Population Density by County," U.S. Census Bureau, www.census.gov, accessed February 24, 2016; H. El Nasser, "U.S. Hispanic Population to Triple by 2050," *USA Today*, February 12, 2008; and J. Passel and D. Cohn, "U.S. Population Projections: 2005–2050," Pew Research Center, February 11, 2008.

The total population of the United States is projected to increase to 438 million by the year 2050, up from 322 million in 2015; 82 percent of that increase will be due to immigrants and their U.S.-born descendants. Nearly one in five Americans will be an immigrant in 2050, compared with one in eight in 2015. In addition to total population changes, the components of that population are projected to change as well. Exhibit 4-3 provides the projected population breakdown. As the projections show, the main changes will be in the percentages of the Hispanic and white population. But the data also indicate that the Asian population will be more than double. Also, as a nation, the population of the United States is aging. According to the CIA World Factbook, the median age stands at 37.8 years, up from 36.2 years in 2001.²⁶ By 2050, one in every five persons will be age 65 or over. The most populous group would be those age 80 and over.²⁷

Such population trends are likely to have a major impact on U.S. workplaces. The reality of these trends for businesses is that they'll have to accommodate and embrace such workforce changes. Although America historically has been known as a "melting pot," where people of different nationalities, religions, races, and ethnicities have blended together to become one, that perspective is no longer relevant.²⁸ Organizations must recognize that they can't expect employees to assimilate into the organization by adopting similar attitudes and values. Instead, there's value in the differences that people bring to the workplace. It's not been easy. The ability of managers and organizations to effectively manage diversity has not kept pace with these population changes, creating challenges for minorities, women, and older employees. But many businesses are excelling at managing diversity, and we'll discuss some of their workplace diversity initiatives in a later section of this chapter.

Global Population Trends and the Changing Global Workforce

Right now, we share our planet with more than 7.4 billion people, a number projected to increase to nearly 10 billion by 2050.²⁹ That's a worldwide population increase of more than one-third, with much of this future growth occurring in Africa and Asia. What are some of the key population trends and what do they mean for the global workplace?

Age Trends. First, as life spans increase, some areas will have a higher proportion of older people. Europe currently has a higher percentage of people over 60 than any other region, followed by North America. At the country level, Japan's population is the oldest, with a median age over 46 and a low birth rate. Germany, Italy, and Portugal have a median age over 44. By 2050, China's median age is projected to be 56, and Singapore's will be 53.³⁰ Management challenges will increase as large numbers of workers retire and businesses will need to fill many open positions to maintain operations. On the other hand, this trend creates business opportunities for entrepreneurs and companies that can fill the needs of an aging population.

In comparison, some countries have particularly young populations with high birth rates. Niger is the world's youngest country, with a median age just below 15. Although that median age is expected to increase to nearly 18 by 2050, analysts project that Niger will remain the youngest country for decades to come. In fact, Africa is currently the continent with the largest percentage of the population younger than 15. One benefit of a younger population is having a youthful workforce that contributes to productivity as well as economic growth. The challenge here is to provide education, employment opportunities, and welfare services to these young workers.³¹

Gender, Gender Identity, and Sexual Orientation. In today's global population, there are slightly more males than females overall. Individual countries, however, can have vastly different proportions of males and females in the population. Russia, for example, has fewer than 90 men for every 100 women. In contrast, India has 107 men for every 100 women. Looking ahead to 2050, when there will be slightly more females than males in the overall world population, how will traditional gender roles and cultural norms affect the ability of companies to attract and retain a motivated workforce? Also while some countries are legalizing equal rights for the LGBTQ community, preventing discrimination and harassment on the basis of gender identity or sexual orientation will remain an important issue for organizations.

Migration and Movement. Strife and violence in certain regions are increasing pressures on migration, which leads to changes in national and regional policies on immigration that affect the ability of businesses to hire people from other countries. Migration also affects the ethnic (and sometimes the religious) composition of the local population, which global businesses must bear in mind. Managers must also consider where jobs and workers are located. In Europe, for instance, much of the working-age population is concentrated in urban areas, which is a consideration for companies deciding where to open new facilities. With managers recognizing that many jobs can only be performed in person, should workplaces be moved to areas with an abundance of skilled labor and other valued resources, or should workers be expected to move to take advantage of career opportunities?

These trends indicate the real urgency for improving diversity in the workplace. Businesses are increasingly concerned about being able to attract more workers, from the domestic or international population, regardless of gender, ethnicity, religion, or age. Organizations that actively recruit across national borders, seeking to fill specialized jobs or address competitive issues, are paying close attention to how government policies regarding migration and work permits are changing. To prepare for the future, managers must understand the current realities of the global workforce and the many dimensions of workplace diversity.³²

How much do *you* know about global aging? (Our guess is . . . probably not much!) Take the quiz in Exhibit 4-4—no peeking at the answers beforehand—and see how well you scored. Were you surprised by some of the answers?

TYPES of workplace diversity

LO4.3 As we've seen so far, diversity is a big issue, and an important issue, in today's workplaces. What types of dissimilarities—that is, diversity—do we find in those workplaces? Exhibit 4-5 shows several types of workplace diversity. Let's work our way through the different types.

Age

The Marriott hotel group, headquartered in Bethesda, Maryland, employs more than 100,000 employees in the United States. What's interesting is that 43 percent of those employees are age 45 and older, and 18 percent are 55 and older.³³ To make it easier for older workers, company managers are redesigning tasks that require bending, stretching, lifting, pushing, and pulling. For instance, an older employee may be paired with a younger one, and tasks such as bending to clean under beds are shared.



At 90, Bill Dudley, Europe's oldest McDonald's employee, works as a part-time member of the customer care team at a restaurant in Wales. McDonald's values its older employees for their strong work ethic, reliability, loyalty, mentoring skills that help younger co-workers, and friendly and helpful service that results in high customer satisfaction.

Source: Peter Byrne/PA Wire/AP Images

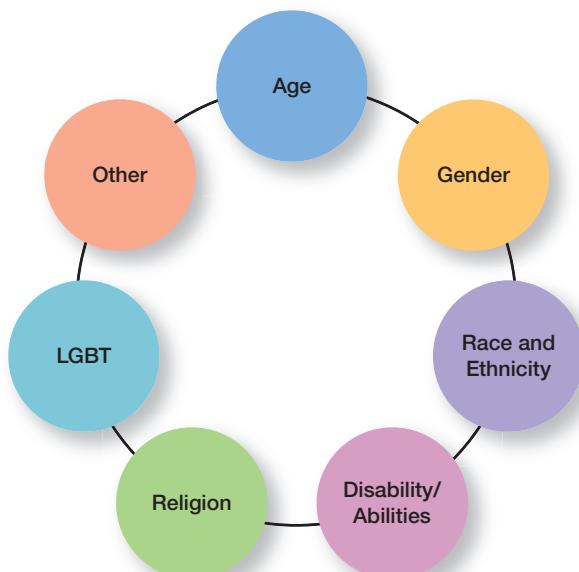
Exhibit 4-4**Global Aging: How Much Do You Know?**

1. True or False: At age 65, life expectancy is expected to be an additional 20 years.
2. The world's older population (60 and older) is expected to change from 841 million in 2013 to _____ people in 2050?
 - a. decrease to 500 million
 - b. decrease to 750 million
 - c. increase to 1.5 billion
 - d. increase to 2 billion
3. Which of the world's continents has the highest percentage of older people (age 60 or older)?
 - a. North America
 - b. Latin America
 - c. Europe
 - d. Asia
4. True or False: The worldwide median age was 27 in 2015.
5. Which country had the world's highest percentage of older people in 2013?
 - a. Sweden
 - b. Japan
 - c. China
 - d. Italy

Answers to quiz:

1. **True.** At age 60, people worldwide can expect to live an additional 20 years. That number is smaller in least developed countries (17 years) and higher in more developed countries (23 years). According to the United Nations, African countries and Asian countries (excluding Japan) are examples of least developed countries. The United States and Sweden are examples of more developed countries.
2. **d.** The number of older people is expected to be approximately 2 billion people in 2050.
3. **c.** Four of the top five countries with the greatest percentage of older people (age 60 or older) are located on the European continent: Italy (26.9%), Germany (26.8%), and Bulgaria and Finland (26.1%).
4. **False.** The worldwide median age was estimated to be about 30 in 2015. That age was 24 in 1950, and it is expected to reach 36 by 2050.
5. **b.** Japan, with 32 percent of its population aged 60 or over, has supplanted Italy as the world's oldest major country.

Sources: Based on CIA World Factbook, www.cia.gov/library/publications/the-world-factbook/, 2016; "World Population Ageing," by Department of Economic and Social Affairs Population Division, from United Nations, 2013.

Exhibit 4-5**Types of Diversity Found in Workplaces**

As we saw in the last section, the aging population is a major critical shift taking place in the workforce. Many people over 50 are enthusiastic and productive workers, contrary to the sometimes negative stereotypes. To accommodate the aging workforce, more organizations are changing their approach to mandatory retirement, and government policies are also being adjusted. In South Korea, where more than 20 percent of the population will be 65 or older by 2026, the country has increased the official retirement age from 55 to 60. Yet age discrimination remains a major concern for employees and employers, as well as a legal and regulatory challenge. Australia is one of many nations strengthening plans to encourage older workers to remain in the workforce while vigorously enforcing laws against discrimination.³⁴

One issue with older workers is the perception that people have of those workers. Perceptions such as they're sick more often and they can't work as hard or as fast as younger employees—perceptions that are inaccurate. Employers have mixed feelings about older workers.³⁵ On the positive side, they believe that older workers bring a number of good qualities to the job, including experience, judgment, a strong work ethic, and a commitment to doing quality work. Also, some companies recognize the value of these attributes. For instance, global bank Barclays launched an internship program for persons age 50 or older. The bank's management believes that the real life experience of older workers will benefit their business.³⁶

Although the Barclays example shows promise for utilizing the knowledge, skills, and experience of older workers, there remain many employers who also view older workers as not being flexible or adaptable and being more resistant to new technology. The challenge for managers is overcoming those misperceptions of older workers and the widespread belief that work performance and work quality decline with age.

Another issue that also supports the need for effectively managing workplace age diversity is that when Baby Boomers do retire, experts point out that some industries will face severe shortages of qualified employees. "Many of today's growth industries require a higher level of technical competence in quantitative reasoning, problem solving, and communication skills...and the United States simply does not have enough students who are getting solid math and science education."³⁷ Organizations that do not plan for such a future may find themselves struggling to find a competent workforce, diverse or not.

Finally, the aging population is not the only age-related issue facing organizations. Some 50 million Generation Xers juggle work and family responsibilities. And now some 76 million members of Generation Y (often referred to as Millennials) are either already in or poised to enter the workforce.³⁸ These Gen Yers will make up about 75 percent of the global workforce by 2025.³⁹ Having grown up in a world where they've had the opportunity to experience many different things, Gen Y workers bring their own ideas and approaches to the workplace. For instance, one study revealed that Millennials are 71 percent more likely to focus on teamwork, 28 percent more likely to focus on business impact, and 22 percent more likely to focus on a culture of connection. In contrast, non-Millennials are 31 percent more likely to focus on equity; 28 percent more likely to focus on acceptance, tolerance and fairness of opportunity; and 26 percent more likely to focus on integration.⁴⁰ Given these differences, managers face the challenges of creating and maintaining a culture of inclusivity. According to this study, "unfortunately, millennials are currently less engaged than members of older generations because organizations are falling short in these areas."⁴¹ Managers need to ensure that they take into account differing norms between generations. Effectively managing an organization's diverse age groups can lead to their working well with each other, learning from each other, and taking advantage of the different perspectives and experiences that each has to offer. It can be a win-win situation for all.

Gender

Women (49.5%) and men (50.5%) now each make up almost half of the workforce.⁴² Yet gender diversity issues are still quite prevalent in organizations. Take the gender pay gap. The latest information shows that women's median earnings were



IBM India staged a leadership conference to encourage its female employees in the workplace and to enhance their leadership and networking skills. IBM's key diversity efforts in the advancement of women focuses on mentoring and coaching programs that help them develop their careers and on creating an environment that balances their professional and personal needs.

Source: Ajaz Rahi/AP Images



- Most regions of the world continue to face challenges in increasing women's representation at all levels: Asia is expected to have the lowest representation of women in 2025.⁵²

83 percent of male full-time wage and salary workers.⁴³ *The Wall Street Journal* cites a recent study which determined that about 8 percent of the wage gap cannot be explained by job-related factors, concluding that discrimination may be the reason.⁴⁴ Other issues involve career start and progress. Research by Pew Research Center shows that young women now place more importance on having a high-paying career or profession than do young men.⁴⁵ Yet, although 57 percent of today's college students are women, and women now collect nearly 60 percent of four-year degrees and are just as likely to have completed college and hold an advanced degree, inequities persist.⁴⁶ Research by Catalyst found that men start their careers at higher levels than women. And after starting out behind, women don't ever catch up. Men move up the career ladder further and faster as well.⁴⁷ A

study by Mercer revealed that women make up only 35 percent of the average company's workforce at the professional level and above.⁴⁸ A study by the Pew Research Center found that more women are not in executive positions because they are held to higher standards.⁴⁹ However, leaving women behind may be to companies' detriment. One study found some support that having more women in executive positions improves firm performance.⁵⁰ Finally, misconceptions, mistaken beliefs, and unsupported opinions still exist about whether women perform their jobs as well as men do. You can see why gender diversity issues are important to attend to. So what *do* we know about differences between men and women in the workplace?

First of all, few, if any, important differences between men and women affect job performance.⁵¹ No consistent male-female differences exist in problem-solving ability, analytical skills, competitive drive, motivation, sociability, or learning ability. Psychological research has found minor differences: Women tend to be more agreeable and willing to conform to authority, while men are more aggressive and more likely to have expectations of success.

Another area where we also see differences between genders is in preference for work schedules, especially when the employee has preschool-age children. To accommodate their family responsibilities, working mothers are more likely to prefer part-time work, flexible work schedules, and telecommuting. They also prefer jobs that encourage work-life balance.

One question of much interest as it relates to gender is whether men and women are equally competent as managers. Research evidence indicates that a "good" manager is still perceived as predominantly masculine.⁵³ But the reality is that women tend to use a broader, more effective range of leadership styles to motivate and engage people. They usually blend traditional masculine styles—being directive, authoritative, and leading by example—with more feminine ones that include being nurturing, inclusive, and collaborative. Men tend to rely primarily on masculine styles.⁵⁴ Another study showed that women managers were significantly more likely than their male counterparts to coach and develop others and to create more committed, collaborative, inclusive, and, ultimately, more effective teams. This study also found that women were more likely to foster genuine collaboration while males were far more likely to view negotiations and other business transactions as zero-sum games.⁵⁵ A recent Gallup survey concluded, "Organizations should hire and promote more female managers. Female managers in the U.S. exceed male managers at meeting employees' essential workplace requirements. And female managers themselves are more engaged at work than their male counterparts."⁵⁶ Despite this, according to another Gallup survey, Americans—male and female—still prefer a male boss, although 41 percent of the respondents said they had no preference.⁵⁷

What should you take away from this discussion? Not that either women or men are the superior employees, but rather a better appreciation for why it's important for organizations to explore the strengths that both women and men bring to an

organization and the barriers they face in contributing fully to organizational efforts. And it's important to note that many companies are "grooming more women for the corner office." The pool of highly qualified women continues to grow as those who have received advanced degrees and worked in the corporate world are moving up through the ranks. In fact, research by McKinsey & Co. found that 24 percent of senior vice presidents at 58 big companies are women.⁵⁸

If your professor has assigned this, go to www.mymanagementlab.com to complete the *Simulation: HR & Diversity* and get a better understanding of the challenges of diversity in organizations.



Race and Ethnicity

Roll the calendar back to the year 2000. The Coca-Cola Company has just agreed to an enormous settlement of \$192.5 million for a class-action racial discrimination lawsuit.⁵⁹ Court documents describe a company atmosphere in which black employees "formed informal networks to provide 'sanity checks' and diversity efforts were not considered a high priority by senior management." Also, as the number of African American hires declined, a "number of highly educated and trained African-Americans at the company noted receiving unfavorable treatment, thus creating the impression that Coke was a high-risk environment for high-potential and aggressive African-Americans." Now, fast-forward to 2013. The Coca-Cola Company is named by *Diversity Inc.* magazine as number 2 on the list of Top 10 Companies for blacks and number 10 on the Top 10 Companies for Latinos. How did the company make such a drastic turnaround?

Since being sued for racial discrimination, Coca-Cola has made considerable strides in its diversity efforts at all levels and in all areas. Commitment from top executives became and remains a cornerstone for managing diversity at the company. CEO Muhtar Kent (who was not CEO at the time of the discrimination problems) says, "Building a diverse and inclusive workforce is central to our 2020 Vision, which calls for us to 'achieve true diversity' throughout our business." Kent also personally signs off on executive compensation tied to diversity goals and actions. Coca-Cola's chief diversity officer, Steve Bucherati, has managed the company's diversity programs for years. He has been described as a strong and devoted advocate for inclusion and routinely provides Coke's board of directors with reports about diversity initiatives and outcomes. Coca-Cola has recognized that diversity can greatly benefit the company in many ways. CEO Kent says, "The real power of diversity is the synergies that are created when different people and cultures come together united behind a common goal of winning and creating shared value. Extraordinary things truly happen."

Many other companies have had similar racial issues. There's a long and controversial history in the United States and in other parts of the world over race and how people react to and treat others of a different race.⁶⁰ Race and ethnicity are important types of diversity in organizations. We're going to define **race** as the biological heritage (including physical characteristics such as one's skin color and associated traits) that people use to identify themselves. Most people identify themselves as part of a racial group. Such racial classifications are an integral part of a country's cultural, social, and legal environments. The racial and ethnicity choices in the most recent U.K. Census included 16 classifications: white (with choices such as British or Irish), mixed/multiple ethnic group (choices such as white and black Caribbean or white and Asian), Asian/Asian British (such as Indian, Pakistani, Bangladeshi, Chinese, and other Asian), Black/African/Caribbean/Black British (African, Caribbean, other black), and choices in an "other ethnic group" category. However, these categories may change in the next U.K. Census as the government tests ways to allow people to more accurately describe their racial and ethnic backgrounds.⁶¹ **Ethnicity** is related to race, but it refers to social traits—such as one's cultural background or allegiance—that are shared by a human population.

race

The biological heritage (including skin color and associated traits) that people use to identify themselves

ethnicity

Social traits (such as cultural background or allegiance) that are shared by a human population

As we saw earlier in Exhibit 4-3, the racial and ethnic diversity of the U.S. population is increasing at an exponential rate. We're also seeing this same effect in the composition of the workforce. Most of the research on race and ethnicity as they relate to the workplace has looked at hiring decisions, performance evaluations, pay, and workplace discrimination.⁶² However, much of that research has focused on the differences in attitudes and outcomes between whites and African Americans. Minimal study has been done on issues relevant to Asian, Hispanic, and Native American populations. Let's look at a few key findings.

One finding is that individuals in workplaces tend to favor colleagues of their own race in performance evaluations, promotion decisions, and pay raises. Although such effects are small, they are consistent. Next, research shows substantial racial differences in attitudes toward affirmative action, with African Americans favoring such programs to a greater degree than whites. Other research shows that African Americans generally do worse than whites in decisions related to the workplace. For instance, in employment interviews, African Americans receive lower ratings. In the job setting, they receive lower job performance ratings, are paid less, and are promoted less frequently. However, no statistically significant differences between the two races are observed in absenteeism rates, applied social skills at work, or accident rates. As you can see, race and ethnicity issues are a key focus for managers in effectively managing workforce diversity.

Disability/Abilities

According to the U.S. Census Bureau, people with disabilities are the largest minority in the United States. Estimates vary, but it's believed that there are some 19.8 million working-age Americans with disabilities. And that number continues to increase as military troops return from Iraq and Afghanistan.⁶³

The year 1990 was a watershed year for persons with disabilities. That was the year the Americans with Disabilities Act (ADA) became law. The ADA prohibits

let's get REAL

The Scenario

Katie Harris is a manager in a branch office of a large insurance claims company. She manages a diverse team of 15 people. One of her team members stopped in to tell her that "several of them were upset that other team members were talking in their native language throughout the day." Their complaint? They felt it was "rude" for coworkers to speak another language at work, and it made the other team members feel excluded and uncomfortable.

What should Katie do to resolve this issue?

Katie should have a conversation with the team members who were speaking in their native language to understand why they were speaking in their native language throughout the day. She should provide them with feedback that there are some coworkers who feel uncomfortable with this situation. Katie should definitely ask them for a solution on how to avoid this in the future. She should express that, as long as the conversation is work related, all coworkers need to be involved as communication is key in a work environment. Any other type of conversations can be spoken in their native language offstage; for example, at lunch or breaks.

Claudia Gutierrez
Service Manager



Source: Claudia Gutierrez

discrimination against an individual who is “regarded as” having a disability and requires employers to make reasonable accommodations so their workplaces are accessible to people with physical or mental disabilities and enable them to effectively perform their jobs. With the law’s enactment, individuals with disabilities became a more representative and integral part of the U.S. workforce.

One issue facing managers and organizations is that the definition of disability is quite broad. The U.S. Equal Employment Opportunity Commission classifies a person as disabled if he or she has any physical or mental impairment that substantially limits one or more major life activities. For instance, deafness, chronic back pain, AIDS, missing limbs, seizure disorder, schizophrenia, diabetes, and alcoholism would all qualify. However, since these conditions have almost no common features, it’s been difficult to study how each condition affects employment. It’s obvious that some jobs cannot be accommodated to a disability. For instance, the law recognizes that a visually impaired person could not be an airline pilot, a person with severe cerebral palsy could not be a surgeon, and a person with profound mobility constraints could not be a firefighter. However, computer technology and other adaptive devices have shattered many employment barriers for other employees with disabilities.

A survey by the Society for Human Resource Management found that 61 percent of the HR professionals responding said that their organizations now include disabilities in their diversity and inclusion plans. However, only 47 percent said that their organizations actively recruit individuals with disabilities. And 40 percent said that their senior managers demonstrate a strong commitment to do so.⁶⁴ Even after 20-plus years of the ADA, organizations and managers still have fears about employing disabled workers. A survey by the U.S. Department of Labor looked at these unfounded fears.⁶⁵ Exhibit 4-6 describes some of those fears as well as the reality; that is, what it’s really like. Let’s look at one company’s experience. Walgreens has hired individuals with mental and physical disabilities to work at its distribution center in Anderson, South Carolina.⁶⁶ These employees work in one of three departments: case check-in (where merchandise initially comes in), de-trash (where merchandise is unpacked), or picking (where products are sorted into tubs based on individual store orders). Using an innovative approach that included job coaches, automated processes, and comprehensive training, Walgreens now has a capable and trusted workforce. The company’s senior vice president of distribution said, “One thing we found is they (the disabled employees) can all

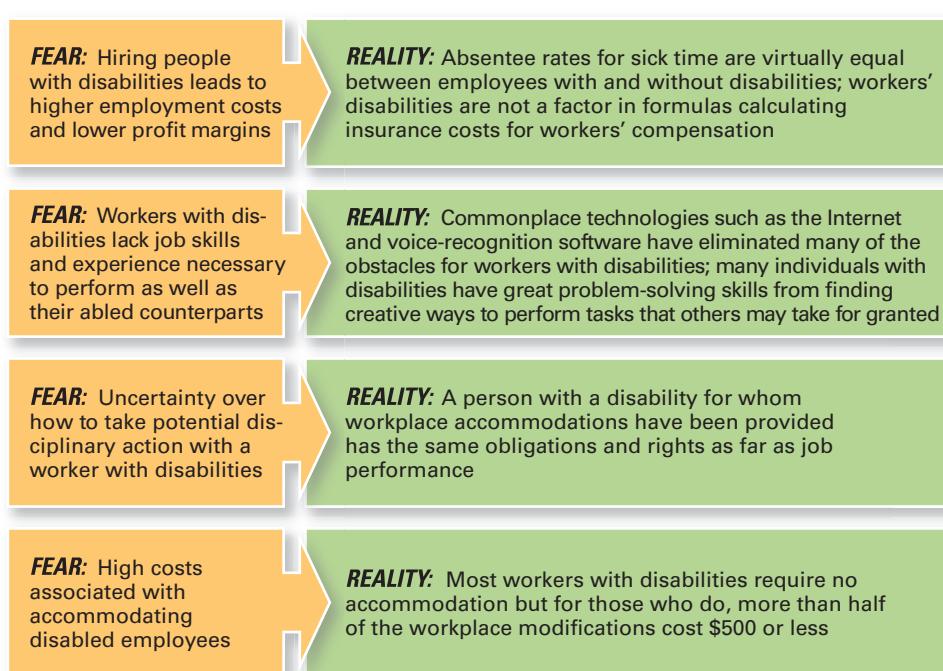


Exhibit 4-6

Employers’ Fears About Disabled Workers

Sources: Based on R. Braum, “Disabled Workers: Employer Fears Are Groundless,” *Bloomberg BusinessWeek*, October 2, 2009; and “Survey of Employer Perspectives on the Employment of People with Disabilities,” U.S. Department of Labor/Office of Disability Employment Policy, November 2008.



Omar Troy is one of a team of baristas employed by Asbury Automotive to staff coffee cafes for customers at its car dealerships. The program, called Café Blends: Blending Autism into the Workplace, focuses on hiring and training autistic young adults and on educating other employees about the disability and ways they can help integrate the baristas in the workplace.

Source: Robin Nelson/ZUMA Press/Alamy

do the job. What surprised us is the environment that it's created. It's a building where everybody helps each other out.”

Increasingly, there are companies that specialize in preparing the disabled for employment. For instance, Specialisterne, a Danish company, focuses on training and placing autistic individuals for high-tech careers. Computer Aid is one of the companies that has hired autistic individuals who were trained by Specialisterne. Ernie Dianastasis, the managing director of Computer Aid, maintains, “The individuals I've hired are phenomenal. People on the autism spectrum are loyal, reliable, and have a high degree of accuracy in their work.”⁶⁷

In effectively managing a workforce with disabled employees, managers need to create and maintain an environment in which employees feel comfortable disclosing their need for accommodation. Those accommodations, by law, need to enable individuals with disabilities to perform their jobs but they also need to be perceived as equitable by those not disabled. That's the balancing act that managers face.

Religion

In her sophomore year at college, Umme-Hani Khan worked for three months as a stock clerk at a Hollister clothing store in San Francisco.⁶⁸ One day, she was told by her supervisors to remove the head scarf that she wears in observance of Islam (known as a *hijab*) because it violated the company's “look policy” (which instructs employees on clothing, hair styles, makeup, and accessories they may wear to work). She refused on religious grounds and was fired one week later. Like a number of other Muslim women, she filed a federal job discrimination complaint. A spokesperson for Abercrombie & Fitch (Hollister's parent company) said, “If any Abercrombie associate identifies a religious conflict with an Abercrombie policy...the company will work with the associate in an attempt to find an accommodation.” Although that's a step in the right direction, Abercrombie & Fitch was found guilty of religious discrimination in another case when it chose not to hire a Muslim job applicant because she wore a hijab.⁶⁹

Title VII of the Civil Rights Act prohibits discrimination on the basis of religion (as well as race/ethnicity, country of origin, and sex). Today, it seems that the greatest religious diversity issue in the United States revolves around Islam, especially after 9/11.⁷⁰ Islam is one of the world's most popular religions, and over 2 million Muslims live in the United States. For the most part, U.S. Muslims have attitudes similar to those of other U.S. citizens. However, there are real and perceived differences. For instance, nearly 4 in 10 U.S. adults admit they harbor negative feelings or prejudices toward U.S. Muslims, and 52 percent believe U.S. Muslims are not respectful of women.

Religious beliefs also can prohibit or encourage work behaviors. Many conservative Jews believe they should not work on Saturdays. Some Christians do not want to work on Sundays. Religious individuals may believe they have an obligation to express their beliefs in the workplace, making it uncomfortable for those who may not share those beliefs. Some pharmacists have refused to give out certain kinds of contraceptives on the basis of their beliefs. Similarly, in 2015, Kentucky state clerk Kim Davis refused to issue marriage licenses to same-sex couples until she was directed by court order not to interfere with same-sex couples' constitutional rights to marriage. Ms. Davis refused to issue same-sex marriage licenses because homosexuality is not supported by her religion.

As you can see, religion and religious beliefs can generate misperceptions and negative feelings. The latest EEOC statistics showed that 3,502 religious-based complaints were filed in 2015.⁷¹ In accommodating religious diversity, managers need to recognize and be aware of different religions and their beliefs, paying special attention to when certain religious holidays fall. Try to accommodate, when at all possible, employees who have special needs or requests, but do so in such a way that other employees don't view it as “special treatment.”

LGBT: Sexual Orientation and Gender Identity

The acronym LGBT—which refers to lesbian, gay, bisexual, and transgender people—relates to the diversity of sexual orientation and gender identity.⁷² Sexual orientation has, in fact, been called the “last acceptable bias.”⁷³ We want to emphasize that we’re not condoning this perspective, but what the comment refers to is that most people understand that racial and ethnic stereotypes are off-limits. Still, it’s not unusual to hear derogatory comments about gays or lesbians—in fact, negative attitudes toward LGBT are not uncommon.⁷⁴ How many LGBT people are in the overall population? It’s difficult to know, exactly. Some governments are actually trying to find out by including questions about sexual identity on national census forms. Already, some estimates are becoming available. For instance, the Office for National Statistics reports that 1.7 percent of the U.K. population identifies as lesbian, gay, or bisexual; of those people, most were in the age category of 16 to 24.⁷⁵

A growing number of nations are adopting laws banning discrimination against LGBT people. For example, in the European Union, the Employment Equality Directive requires all member states to introduce legislation making it unlawful to discriminate on grounds of sexual orientation.⁷⁶ Despite the progress, much more needs to be done. One study found more than 40 percent of gay and lesbian employees indicated they had been unfairly treated, denied a promotion, or pushed to quit their job because of their sexual orientation.⁷⁷ Another study found that “closeted” LGBTs who felt isolated at work were 73 percent more likely to leave their job within three years than “out” workers.⁷⁸ This statistic is not surprising based on the results of a third study: More than one-third of LGBT workers felt they had to lie about their personal lives at work, and about the same percentage felt exhausted from the time and energy needed to hide their gender identity.⁷⁹

Employers take differing approaches to employing LGBT people. Sometimes companies band together to push for change as a group, as happened recently in Japan. Thirty businesses, including Panasonic, Sony, and Dai-ichi Life Insurance, jointly developed standards that individual firms can copy or adapt as policies for making LGBT employees more welcome in Japanese workplaces.⁸⁰ Another approach is to take the initiative by setting goals for increasing the number of LGBT people employed, as part of the drive for diversity and inclusion in the workplace. The British Broadcasting Corporation (BBC), for example, has pledged to meet a target of having LGBT employees comprise 8 percent of its workforce within a few years. The BBC’s other diversity targets include increasing the percentage of women to 50 percent of its workforce and the percentage of disabled people to 8 percent.⁸¹ Other businesses are showing support for LGBT employees through personnel policies and practices. Not only does the Swedish communications tech giant Ericsson promote equal opportunity in employment and professional development for LGBT people, it encourages the formation of LGBT networking groups to foster a deeper sense of connection. The company has a global diversity council with representatives from each geographic region, plus local diversity councils in each area where Ericsson operates. These councils include LGBT employees in programs aimed at improving inclusion and understanding, as well as reducing unconscious biases within the workforce.⁸²

As with most of the types of diversity we’ve discussed in this section, managers need to look at how best to meet the needs of their LGBT employees. They need to respond to employees’ concerns while also creating a safe and productive work environment for all.

Other Types of Diversity

As we said earlier, diversity refers to *any* dissimilarities or differences that might be present in a workplace. Other types of workplace diversity that managers might confront and have to deal with include socioeconomic background (social class and income-related factors), team members from different functional areas or organizational units, physical attractiveness, obesity/thinness, job seniority, or intellectual abilities. Each of these types of diversity also can affect how employees are treated in the workplace. Again, managers everywhere need to ensure that all employees—no matter the similarities or dissimilarities—are treated fairly and given the opportunity and support to do their jobs to the best of their abilities.

FUTURE VISION

Diversity of Thought

What does diversity mean to you? Your response might depend on when you were born.⁸³ According to a recent study from Deloitte and the Billie Jean King Leadership Initiative, those born between about 1980 and 2000, known as the Millennial generation, may have a different definition of diversity than do older generations. Instead of thinking of diversity as those surface-level differences including demographic characteristics such as gender or race, the Millennial generation focuses more on deep-level differences, quickly taking to this expanded view of diversity. The researchers suggest that unlike Baby Boomers and Generation X, the Millennials are already comfortable with diversity in the traditional sense and don't necessarily see the need for organizational efforts to build awareness around diversity. However, they do see the value in a different kind of diversity that directly impacts business outcomes. Millennials believe in what is often called diversity of thought. People join organizations with a wide range of experiences that shape how they think. People attend different schools and grow up in different parts of the world. They come to the workplace with different backgrounds, cultural experiences, and personalities. All of

these experiences and traits develop cognitive viewpoints that are wide and varied. Diversity of thought creates significant potential value to organizations if effectively cultivated. Diverse thinkers in an organization can help guard against groupthink and give organizations an advantage through more innovation and creative problem solving. Given that Millennials will make up nearly 75 percent of the workforce by the year 2025, it seems that organizations need to look more closely at this deep-level definition of diversity. Valuing diversity means openness to different perspectives, and those coming to the workplace with varied experiences can bring with them this diversity of thought.

If your professor has chosen to assign this, go to www.mymanagementlab.com to discuss the following questions.

 **TALKABOUT IT 1:** Do you agree that diverse cognitive viewpoints benefit organizations? What kind of challenges could diverse thinking create for organizations?

 **TALK ABOUT IT 2:** How can managers cultivate diversity of thought?

CHALLENGES in managing diversity

L04.4

Nooses, racist graffiti, and Confederate battle flags should have been enough to warrant action. However, the discovery that he was paid less as a painter than white workers is what finally prompted an African American employee to complain to his employer, Texas-based Turner Industries Group LLC.⁸⁴ Soon after filing the complaint, he was fired. His complaints, along with those of seven other employees, "have led the federal government to conclude there was evidence of racial discrimination." Despite the benefits that we know workforce diversity brings to organizations, managers still face challenges in creating accommodating and safe work environments for diverse employees. In this section, we're going to look at two of those challenges: personal bias and the glass ceiling.

Personal Bias

Women drivers. Smokers. Working mothers. Football players. Blondes. Female president of the United States. Hispanic. Blue-collar worker. What impressions come to mind when you read these words? Based on your background and experiences, you probably have pretty specific ideas and things you would say, maybe even to the point of characteristics you think that all smokers or all working mothers or all Hispanics share. Each of us has biases—often hidden from others.⁸⁵ Employees can and do bring such ideas about various groups of people with them into the workplace. Such ideas can lead to prejudice, discrimination, and stereotypes—all of which shape and influence our personal biases. And research is pointing to a troubling fact: Eliminating bias is a lot more difficult than previously thought.⁸⁶

Bias is a term that describes a tendency or preference toward a particular perspective or ideology. It's generally seen as a "one-sided" perspective. Our personal biases

bias

A tendency or preference toward a particular perspective or ideology

cause us to have preconceived opinions about people or things. Such preconceived opinions can create all kinds of inaccurate judgments and attitudes. Let's take a look at how our personal biases affect the way we view and respond to diversity.

One outcome of our personal biases can be **prejudice**, a preconceived belief, opinion, or judgment toward a person or a group of people. Our prejudice can be based on all the types of diversity we discussed: race, gender, ethnicity, age, disability, religion, sexual orientation, or even other personal characteristics.

A major factor in prejudice is **stereotyping**, which is judging a person on the basis of one's perception of a group to which he or she belongs. For instance, "married persons are more stable employees than single persons" is an example of stereotyping. Keep in mind, though, that not all stereotypes are inaccurate. For instance, asking someone in accounting about a budgeting problem you're having would be an appropriate assumption and action. However, many stereotypes—red-haired people have a bad temper, elderly drivers are the most dangerous, working mothers aren't as committed to their careers as men are, and so forth—are factual and distort our judgment.

Both prejudice and stereotyping can lead to someone treating others who are members of a particular group unequally. That's what we call **discrimination**, which is when people act out their prejudicial attitudes toward people who are the targets of their prejudice. You'll find in Exhibit 4-7 definitions and examples of different types of discrimination. Many of these actions are prohibited by law, so you won't find them discussed in employee handbooks or organizational policy statements. However, you can still see these actions in workplaces. "As discrimination has increasingly come under both legal scrutiny and social disapproval, most overt forms have faded, which may have resulted in an increase in more covert forms like incivility or exclusion."⁸⁷

Discrimination, whether intentional or not, can lead to serious negative consequences for employers, as illustrated by the example we discussed at the beginning of this chapter and section. But it's not just the potential financial consequences organizations and managers face for discriminatory actions. It's the reduced employee productivity, negative and disruptive interpersonal conflicts, increased employee turnover, and overall negative climate that can lead to serious problems for managers. Even if an organization has never had an employment discrimination lawsuit filed against it, managers need to aggressively work to eliminate unfair discrimination.

Glass Ceiling

Pretend you've just finished your MBA degree. It's not been easy. Your graduate classes were challenging, but you feel well-prepared for and excited about that first post-MBA job. If you're female, that first job for 60 percent of you will be an entry-level position. However, if you're male, only 46 percent of you would start out in an entry-level position.⁸⁸ And 2 percent of women would make it to the CEO or senior executive position, although 6 percent of men would. "Although entry into occupations such as accounting, business, and law happens at about the same rate for men and women, evidence is mounting that women's and men's career paths begin to divide soon after."⁸⁹ This issue can be seen with minorities as well. Only a small percentage of both male and female Hispanics and African Americans have made it into management positions in the United States. What's going on here? After all these years of "equal opportunity," why do we still see statistics like these?

prejudice

A preconceived belief, opinion, or judgment toward a person or a group of people

stereotyping

Judging a person based on a perception of a group to which that person belongs

discrimination

When someone acts out their prejudicial attitudes toward people who are the targets of their prejudice

LEADER making a DIFFERENCE



Source: Juan Manuel Vargas/AP Images

Dr. Rohini Anand, senior vice president and global chief diversity officer at Sodexo, says her job is to carry out the vision that "diversity and inclusion would result in Sodexo being able to identify and develop the best talent and create an environment where employees could thrive and deliver outstanding service solutions to clients and customers."⁹⁰ Anand, who grew up in India, was "surrounded by others who looked like me, but had variation by socioeconomic status or religion." It was when she moved to the United States that she was first perceived as a minority, which led her to the work she does today. After earning her PhD from the University of Michigan, Anand worked in various corporate and government positions and came to Sodexo in 2003. Under her intelligent and compassionate leadership, the company is consistently in the top two or three on DiversityInc's Top Companies for Diversity list. And it's easy to see why. From the CEO down, there is a strong commitment to integrating diversity and inclusion throughout the organization. What can you learn from this leader making a difference?

Exhibit 4-7

Forms of Discrimination

Type of Discrimination	Definition	Examples from Organizations
Discriminatory policies or practices	Actions taken by representatives of the organization that deny equal opportunity to perform or unequal rewards for performance	Older workers may be targeted for layoffs because they are highly paid and have lucrative benefits. ^a
Sexual harassment	Unwanted sexual advances and other verbal or physical conduct of a sexual nature that create a hostile or offensive work environment	Salespeople at one company went on company-paid visits to strip clubs, brought strippers into the office to celebrate promotions, and fostered pervasive sexual rumors. ^b
Intimidation	Overt threats or bullying directed at members of specific groups of employees	African American employees at some companies have found nooses hanging over their work stations. ^c
Mockery and insults	Jokes or negative stereotypes; sometimes the result of jokes taken too far	Arab Americans have been asked at work whether they were carrying bombs or were members of terrorist organizations. ^d
Exclusion	Exclusion of certain people from job opportunities, social events, discussions, or informal mentoring; can occur unintentionally	Many women in finance claim they are assigned to marginal job roles or are given light workloads that don't lead to promotion. ^e
Incivility	Disrespectful treatment, including behaving in an aggressive manner, interrupting the person, or ignoring his or her opinions	Female lawyers note that male attorneys frequently cut them off or do not adequately address their comments. ^f

Notes:

a. J. Levitz and P. Shishkin, "More Workers Cite Age Bias After Layoffs," *Wall Street Journal*, March 11, 2009, pp. D1-D2.

b. W. M. Bulkeley, "A Data-Storage Titan Confronts Bias Claims," *Wall Street Journal*, September 12, 2007, pp. A1, A16.

c. D. Walker, "Incident with Noose Stirs Old Memories," *McClatchy-Tribune Business News*, June 29, 2008; and D. Solis, "Racial Horror Stories Keep EEOC Busy," *Knight-Ridder Tribune Business News*, July 30, 2005, p. 1.

d. H. Ibish and A. Stewart, *Report on Hate Crimes and Discrimination Against Arab Americans: The Post-September 11 Backlash, September 11, 2001–October 11, 2001* (Washington, DC: American-Arab Anti-Discrimination Committee, 2003).

e. A. Raghavan, "Wall Street's Disappearing Women," *Forbes*, March 16, 2009, pp. 72–78.

f. L. M. Cortina, "Unseen Injustice: Incivility as Modern Discrimination in Organizations."

Source: S. Robbins and T. Judge, *Organizational Behavior*, 15th ed., Prentice Hall, p. 43.

glass ceiling

The invisible barrier that separates women and minorities from top management positions



- 57 percent of women feel that unconscious bias is the greatest barrier they face in the workplace.⁹⁴

First used in a *Wall Street Journal* article in the 1980s, the term **glass ceiling** refers to the invisible barrier that separates women and minorities from top management positions.⁹¹ The idea of a "ceiling" means something is blocking upward movement and the idea of "glass" is that whatever's blocking the way isn't immediately apparent. Many biases and stereotypes about women reinforce the glass ceiling. For instance, "[a male's] interaction with a woman comes with a reputation risk that can damage careers—'there's more than just a professional relationship between the two.'"⁹²

Research on the glass ceiling has looked at identifying the organizational practices and interpersonal biases that have blocked women's advancement. Findings from those studies have ranged from lack of mentoring to sex stereotyping, views that associate masculine traits with leader effectiveness, and bosses' perceptions of family-work conflict.⁹³

Another perspective on why there are so few top women leaders in many fields was offered by a highly successful woman—Sheryl Sandberg, former vice president of Google and currently the chief operating officer of Facebook. In her book, *Lean In*,

Sandberg suggests that there's a "leadership ambition gap"—that is, women don't get top jobs because they don't really want to.⁹⁵ She suggests that women "lean in" and be as assertive as men are in pushing forward their careers.⁹⁶

Whatever is believed to be the reason why so few women reach the executive level, and as others have said, it's time to shatter the glass ceiling for all employees. *Every* employee should have the opportunity to work in a career in which they can use their skills and abilities and to have a career path that allows them to progress as far as they want to go. Getting to that end, however, isn't going to be easy. As we'll see in the next section, there are a number of workplace diversity initiatives that organizations can implement to work toward that end.

WORKPLACE diversity initiatives

L04.5 Marriott International takes diversity seriously. A company spokesperson said that "we leverage our core values to embed diversity and inclusion so deeply that it is integral to how we do business globally."⁹⁷ Arne Sorenson, the company's president and CEO, is a visible force and advocate for diversity both in the company and externally. For instance, he publically spoke against Indiana's anti-LGBT Religious Freedom Restoration Act, saying: "This is just plain wrong and . . . and we will not stand for it . . . the notion that you can tell businesses that somehow they are free to discriminate is not right."⁹⁸ The company also has mandatory diversity training every month and a number of employee resource groups that provide input and advice. Their diversity management efforts have earned the company the number 13 spot on the Top 50 Companies for Diversity list for 2015.

As the Marriott example shows, some businesses *are* effectively managing diversity. In this section, we look at various workplace diversity initiatives; however, before we start discussing these, we first look at the legal framework within which diversity efforts take place.

The Legal Aspect of Workplace Diversity

Would workplaces have evolved to the level of diversity that currently exists without federal legislation and mandates?⁹⁹ Although it's an interesting question, the fact is that federal laws *have* contributed to some of the social change we've seen over the last 50-plus years. Exhibit 4-8 describes the major equal employment opportunity laws with which organizations must comply. Failure to do so, as we have seen in some of the examples we've described, can be costly and damaging to an organization's bottom line and reputation. It's important that managers know what they can and cannot do legally and ensure that all employees understand as well.

However, effectively managing workplace diversity needs to be more than understanding and complying with federal laws. Organizations that are successful at managing diversity use additional diversity initiatives and programs. We're going to look at four of these: top management commitment, mentoring, diversity skills training, and employee resource groups.

Top Management Commitment to Diversity

Today's increasingly competitive marketplace underscores the reality that creating a diverse workplace has never been more important. It's equally important to make diversity and inclusion an integral part of the organization's culture. "A sustainable diversity and inclusion strategy must play a central role in decision making at the highest leadership level and filter down to every level of the company."¹⁰⁰ How do organizational leaders do that?

One of the first things to do is make sure that diversity and inclusion are part of the organization's purpose, goals, and strategies. Look back at our chapter opener. That's one of the things that the Coca-Cola Company does. Even during economically challenging times, an organization needs a strong commitment to diversity and inclusion programs. Diversity needs to be integrated into every aspect of the business—from the



- 67 percent of mid- to senior-level businesswomen said mentorship was highly important in helping advance and grow their careers.
- 63 percent have never had a formal mentor.¹⁰¹

Exhibit 4-8

Major Equal Employment Opportunity Laws

Year	Law or Ruling	Description
1963	Equal Pay Act	Prohibits pay differences for equal work based on gender
1964 (amended in 1972)	Civil Rights Act, Title VII	Prohibits discrimination based on race, color, religion, national origin, or gender
1967 (amended in 1978)	Age Discrimination in Employment Act	Prohibits discrimination against employees 40 years and older
1973	Rehabilitation Act	Prohibits discrimination against a qualified person with a disability in the federal government as well as retaliation against a person who complained about discrimination
1978	Pregnancy Discrimination Act	Prohibits discrimination against women in employment decisions on the basis of pregnancy, childbirth, and related medical decisions
1990	Americans with Disabilities Act	Prohibits discrimination against individuals who have disabilities or chronic illnesses; also requires reasonable accommodations for these individuals
1991	Civil Rights Act of 1991	Reaffirms and tightens prohibition of discrimination and gives individuals right to sue for punitive damages
1993	Family and Medical Leave Act	Gives employees in organizations with 50 or more employees up to 12 weeks of unpaid leave each year for family or medical reasons
2008	Genetic Information Nondiscrimination Act	Prohibits discrimination against employees or applicants because of genetic information (one's own or family members' genetic tests)
2009	Lilly Ledbetter Fair Pay Act	Changes the statute of limitations on pay discrimination to 180 days from each paycheck

Source: U.S. Equal Employment Opportunity Commission, www.eeoc.gov.

workforce, customers, and suppliers to products, services, and the communities served. Policies and procedures must be in place to ensure that grievances and concerns are addressed immediately. Finally, the organizational culture needs to be one where diversity and inclusion are valued, even to the point where, like Marriott International, individual performance is measured and rewarded on diversity accomplishments.

Mentoring

One of the consequences of having few women and minorities in top corporate leadership positions is that lower-level diverse employees lack someone to turn to for support or advice. That's where a mentoring program can be beneficial. **Mentoring** is a process whereby an experienced organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé). Mentors usually provide two unique forms of mentoring functions: career development and social support.¹⁰²

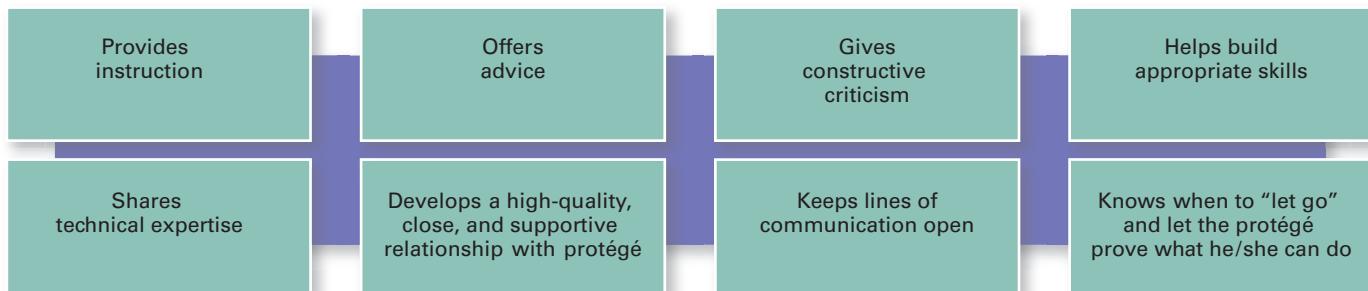
Andrea Jung, former CEO of Avon Products, the first woman to hold that job in the female-oriented products company, said her male mentor (previous CEO James Preston) had the most influence on her career.¹⁰³ A study by Catalyst of male mentors to women found that men who impeded or who were indifferent to the progress of women viewed the workplace as a zero-sum game where promotion of women came at

mentoring

A process whereby an experienced organizational member (a mentor) provides advice and guidance to a less experienced member (a protégé)

Exhibit 4-9

What a Good Mentor Does



Sources: Based on J. Prime and C. A. Moss-Racusin, "Engaging Men in Gender Initiatives: What Change Agents Need to Know," *Catalyst*, www.catalyst.org, 2009; T. J. DeLong, J. J. Gabarro, and R. J. Lees, "Why Mentoring Matters in a Hypercompetitive World," *Harvard Business Review*, January 2008, pp. 115–121; S. N. Mehta, "Why Mentoring Works," *Fortune*, July 9, 2001, p. 119; and D. A. Thomas, "Race Matters: The Truth About Mentoring Minorities," *Harvard Business Review*, April 2001, pp. 99–107.

the expense of men. However, one thing that stood out among men who championed women was a strong sense of fairness.¹⁰⁴

A good mentoring program would be aimed at all employees with high potential to move up the organization's career ladder. Exhibit 4-9 looks at what a good mentor does. If an organization is serious about its commitment to diversity, it needs to have a mentoring program in place.

Mentors and Protégés—If your instructor is using Pearson MyLab Management, log onto mymanagementlab.com and test your *mentor-protégé* knowledge. Be sure to refer back to the chapter opener!



Diversity Skills Training

"The only thing in human DNA is to discriminate. It's a part of normal human tribal behavior."¹⁰⁵ In a chapter on managing diversity, you might be surprised to find a statement like this. However, it reflects reality. Our human nature is to not accept or approach anyone who is different from us. But it doesn't make discrimination of any type or form acceptable. And we live and work in a multicultural context. So the challenge for organizations is to find ways for employees to be effective in dealing with others who aren't like them. That's where **diversity skills training**—specialized training to educate employees about the importance of diversity and teach them skills for working in a diverse workplace—comes in. Millions of dollars are spent on this effort annually, much of it on training.¹⁰⁶

Most diversity skills training programs start with *diversity awareness training*. During this type of training, employees are made aware of the assumptions and biases they may have. Once we recognize that, we can look at increasing our sensitivity and openness to those who are different from us. Sounds simple, but it's not. However, if people can be taught to recognize that they're prejudging people and to consciously address that behavior, then the diversity awareness training has been successful. The next step is *diversity skills training*, in which people learn specific skills on how to communicate and work effectively in a diverse work environment. At Sodexo, the food services/facilities management company, employee diversity training is an important part of its diversity management program.

diversity skills training

Specialized training to educate employees about the importance of diversity and teach them skills for working in a diverse workplace

Employee Resource Groups

Kellogg Company, the cereal corporation, is a pioneer in workplace diversity. More than 100 years ago, company founder W. K. Kellogg employed women in the workplace and reached across cultural boundaries. That commitment to diversity continues



A gospel choir employee resource group at Nissan's automotive plant in Canton, Mississippi, brings together a diverse group of employees, from technicians to salaried workers, who all share a love of singing. Nissan's top managers are committed to employee diversity initiatives that also include mentoring and skills training.

Source: Rogelio V. Solis/AP Images

employee resource groups
Groups made up of employees connected by some common dimension of diversity

today. The company's CEO attributes much of the company's success to the wide variety of histories, experiences, ideas, and perspectives employees have brought to the business.¹⁰⁷ Kellogg's has been very supportive of its various **employee resource groups**, made up of employees connected by some common dimension of diversity. Such groups typically are formed by the employees themselves, not the organizations. However, it's important for organizations to recognize and support these groups.

Employee resource groups (also called employee networks or affinity groups) have become quite popular. Why are they so prevalent? The main reason is that diverse groups have the opportunity to see that their existence is acknowledged and that they have the support of people within and outside the group. Individuals in a minority often feel invisible and not important in the overall organizational scheme of things. Employee resource groups provide an opportunity for those individuals to have a voice. For instance, Prudential, a financial services and insurance company, has seven employee resource groups—some are Abled & Disabled Associates Partnering Together (ADAPT); Prudential Military Veterans Network (VETNET); Employee Association of Gay Men, Lesbians, Bisexual, Transgender & Allies (EAGLES); and the newest—Generations—which focuses on generational diversity. These groups demonstrate a commitment to empowering, leveraging, and fostering the development of the individual members of the resource group. Through these employee resource groups, those in a minority find they're not alone—and that can be a powerful means of embracing and including all employees, regardless of their differences.

Chapter 4

PREPARING FOR: Exam/Quizzes

CHAPTER SUMMARY **by Learning Objectives**

L04.1

DEFINE workplace diversity and explain why managing it is so important.

Workplace diversity is the ways in which people in an organization are different from and similar to one another. Managing workforce diversity is important for three reasons: (1) people management benefits—better use of employee talent, increased quality of team problem-solving efforts, and ability to attract and retain diverse employees; (2) organizational performance benefits—reduced costs, enhanced problem-solving ability, and improved system flexibility; and (3) strategic benefits—increased understanding of a diverse marketplace, potential to improve sales and market share, and competitive advantage.

L04.2

DESCRIBE the changing workplaces in the United States and around the world.

The main changes in the workplace in the United States include the total increase in the population; the changing components of the population, especially in relation to racial/ethnic groups; and an aging population. The most important changes in the global population include the total world population and the aging of that population.

L04.3

EXPLAIN the different types of diversity found in workplaces.

The different types of diversity found in workplaces include age (older workers and younger workers), gender (male and female), race and ethnicity (racial and ethnic

classifications), disability/abilities (people with a disability that limits major life activities), religion (religious beliefs and religious practices), sexual orientation and gender identity (gay, lesbian, bisexual, and transgender), and other (for instance, socioeconomic background, team members from different functional areas, physical attractiveness, obesity, job seniority, and so forth).

L04.4

DISCUSS the challenges managers face in managing diversity.

The two main challenges managers face are personal bias and the glass ceiling. Bias is a tendency or preference toward a particular perspective or ideology. Our biases can lead to prejudice, which is a preconceived belief, opinion, or judgment toward a person or a group of people; stereotyping, which is judging a person on the basis of one's perception of a group to which he or she belongs; and discrimination, which is when someone acts out prejudicial attitudes toward people who are the targets of that person's prejudice. The glass ceiling refers to the invisible barrier that separates women and minorities from top management positions.

L04.5

DESCRIBE various workplace diversity management initiatives.

It's important to understand the role of federal laws in diversity. Some of these laws include Title VII of the Civil Rights Act, the Americans with Disabilities Act, and Age Discrimination in Employment Act. Workplace diversity management initiatives include top management commitment to diversity; mentoring, which is a process whereby an experienced organizational member provides advice and guidance to a less experienced member; diversity skills training; and employee resource groups, which are groups made up of employees connected by some common dimension of diversity.

Pearson MyLab Management

Go to mymanagementlab.com to complete the problems marked with this icon .

★ REVIEW AND DISCUSSION QUESTIONS

- 4-1. How has workforce diversity changed since the 1960s, particularly in the West?
- 4-2. Identify the three main challenges of having workforce diversity in an organization.
- 4-3. Which countries experience a “demographic dividend,” and what does this mean? Is it sustainable or not?
- 4-4. Do you think religion can affect work behaviors?
- 4-5. Look around you and summarize the different forms of diversity you can find at your university.
- 4-6. Different ethnicity causes problems associated with diversity management. Discuss.
- 4-7. Are laws, federal or otherwise, necessary for supporting diversity initiatives?
- 4-8. Who is responsible for doing more to break the glass ceiling barrier for women and minorities?

Pearson MyLab Management

If your professor has assigned these, go to mymanagementlab.com for the following Assisted-graded writing questions:

4-9. What is workforce diversity, and why is managing it so important?

4-10. What would you include in a diversity training program? Justify your suggestions.

PREPARING FOR: My Career

★ PERSONAL INVENTORY ASSESSMENTS



Multicultural Awareness Scale

It's highly likely that you'll be employed in an organization with a diverse workforce. How aware are you of other

cultures and other cultural contexts? Complete this PIA and find out.

★ ETHICS DILEMMA

An unexpected ethical issue arose when Hungary, Romania, and Bulgaria joined the European Union (EU). The start of the free movement of workers across the EU meant that workers from these countries could effectively undercut the domestic workforce. Wages in Eastern Europe were considerably lower than its Western counterparts, but recruitment agencies actively hired to help businesses drive down their salary and wage bills. With unemployment being relatively high in France, the United Kingdom, and

Spain, for example, recruiters offered high-quality workers a fraction of the domestic rates. Locals were being priced out of the job market.

- 4-11. Do you think the Eastern Europeans were being exploited by the recruitment agencies?
- 4-12. Should a country ever adopt a “locals first” policy in terms of employment opportunity? Does legal migration only imply flooding lucrative job markets?

SKILLS EXERCISE Developing Your Valuing Diversity Skill

About the Skill

Understanding and managing people who are similar to us can be challenging—but understanding and managing people who are dissimilar from us and from each other can be even tougher.¹⁰⁸ The diversity issues a manager might face are many. They may include issues such as communicating with employees whose familiarity with the language may be limited; creating career development programs that fit the skills, needs, and values of a particular group; helping a diverse team cope with a conflict over goals or work assignments; or learning which rewards are valued by different groups.

Steps in Practicing the Skill

- **Fully accept diversity.** Successfully valuing diversity starts with each individual accepting the principle of diversity. Accept the value of diversity for its own sake—not simply because it's the right thing to do. And it's important that you reflect your acceptance in all you say and do.
- **Recruit broadly.** When you have job openings, work to get a diverse applicant pool. Although referrals from current employees can be a good source of applicants, that source tends to produce candidates similar to the present workforce.
- **Select fairly.** Make sure the selection process doesn't discriminate. One suggestion is to use job-specific tests rather than general aptitude or knowledge tests. Such tests measure specific skills, not subjective characteristics.

- **Provide orientation and training for diverse employees.**

Making the transition from outsider to insider can be particularly difficult for a diverse employee. Provide support either through a group or through a mentoring arrangement.

- **Sensitize nondiverse employees.** Not only do you personally need to accept and value diversity, as a manager you need to encourage all your employees to do so. Many organizations do this through diversity training programs. In addition, employees can also be part of ongoing discussion groups whose members meet monthly to discuss stereotypes and ways of improving diversity relationships. The most important thing a manager can do is show by his or her actions that diversity is valued.

- **Strive to be flexible.** Part of valuing diversity is recognizing that different groups have different needs and values. Be flexible in accommodating employee requests.

- **Seek to motivate individually.** Motivating employees is an important skill for any manager; motivating a diverse workforce has its own special challenges. Managers must strive to be in tune with the background, cultures, and values of employees.

- **Reinforce employee differences.** Encourage individuals to embrace and value diverse views. Create traditions and ceremonies that promote diversity. Celebrate diversity

by accentuating its positive aspects. However, also be prepared to deal with the challenges of diversity such as mistrust, miscommunication, lack of cohesiveness, attitudinal differences, and stress.

Practicing the Skill

Read through the following scenario. Write down some notes about how you would handle the situation described. Be sure to refer to the eight behaviors described for valuing diversity.

Scenario

You have recently taken over the management of a team assigned to implement a new information technology system at your company. Read through the descriptions of the following employees who are on your team. Consider the steps you can take to ensure that your team successfully works together. What types of employee issues might you face as the team's manager? How can you ensure your team works together successfully and benefits from the diversity of the team? Make some notes of your plans on how you will manage your new team.

Lester. Lester is 57 years old, a college graduate, and has been with the company for more than 20 years. His two children are married, and he is a grandparent of three beautiful grandchildren. He lives in a condo with his wife, who

does volunteer work and is active in their church. Lester is healthy and likes to stay active, both physically and mentally.

Sanjyot. Sanjyot is a 30-year-old who joined the company after she came to the United States from Indonesia 10 years ago. She completed high school after moving to the United States and has begun to attend evening classes at a local community college. Sanjyot is a single parent with two children under the age of 8. Although her health is excellent, one of her children suffers from a severe learning disability.

Yuri. Yuri is a recent immigrant from one of the former Soviet republics and is new to the company. He is 42 and his English communication skills are quite limited. He is unmarried and has no children but feels obligated to send much of his paycheck to relatives back in his home country. As a result, he is willing to work extra hours to increase his pay.

Beth. Beth joined the company two years ago when she graduated from college. She is recently married and is very involved in the local community, volunteering with several local nonprofit organizations when she is not at work. She grew up in a nearby community and also has responsibility for caring for her aging parents who have recently developed several health problems.

WORKING TOGETHER Team Exercise

A challenge for organizations in managing diversity is how to recruit and hire a diverse workforce. In groups of three or four students, discuss opportunities to identify and attract a diverse job applicant pool for an organization. Consider

the different types of diversity and generate a list of ideas of where a company could publicize job openings in order to target more diverse applicants. Be prepared to share your ideas with the class.

MY TURN TO BE A MANAGER

- Describe your experiences with people from other backgrounds. What challenges have you faced? What have you learned that will help you in understanding the unique needs and challenges of a diverse workplace?
- Go to DiversityInc.com (www.diversityinc.com) and find the latest list of Top 50 Companies for Diversity. Select three companies from this list. Describe and evaluate what they're doing as far as workplace diversity is concerned.
- Think of times when you may have been treated unfairly because of stereotypical thinking. What stereotypes were being used? How did you respond to the treatment?
- The Job Accommodation Network is a free resource for employers to identify ways to provide work accommodations to allow disabled workers to be productive and hold a wider variety of jobs. Visit www.askjan.org and search the accommodation database to find examples of accommodations for specific disabilities.
- Assume you are designing a mentoring program for an organization. Conduct some research on mentoring programs that currently exist in different organizations and identify characteristics of an effective mentoring program.
- Pick one of the laws listed in Exhibit 4-8. Research that law looking for these elements: Whom does the law cover? What does the law prohibit? What are the consequences for violating the law?

CASE APPLICATION 1 An Ethical Hotel where Disabled People Can Find Their Way

In 2015, the Albergo Etico (Ethical Hotel), located in Asti, Northern Italy, opened its doors to the public and has quickly become a case of excellence in the management of disabled workers in the hospitality industry. The main characteristic of this hotel is that disabled workers represent a large part of the company's workforce. The hotel's management ensures that the employees are mentored throughout their tenure with the company and are supported in developing their personal and professional abilities.

This successful diversity management initiative began in 2006 with a project called "download." This was created by a group of friends who wanted to do something to improve the society they lived in and, particularly, to help Niccolò, a young man with Down syndrome, to complete work experience to validate his diploma in hospitality management. Niccolò began his internship working in the hotel and its restaurant, performing all core activities completed by the hotel staff, including working in the back and front offices and serving clients during meals. Through the hotel's support, Niccolò's development in his work and personal life were significant. He has reached a considerable degree of autonomy, now having his own key to the restaurant, serving as a mentor for newcomers to the business, and living independently.

Today, with help from charities like the Vodafone Foundation, the download project has implemented structured training and has seen more disabled workers joining Alberto Etico following Niccolò's example. The hotel hosts an Academy of Independence within its premises, allowing disabled people to work, learn, and live together for the entire duration of the three-year program. The hotel staff guides the trainees through all the different hotel functions to help build their skills. A fundamental moment of each day in training is the lunch where trainees and mentors take time to reflect on challenges of the morning. They also find time to relax and develop their relationships. The camaraderie between employees is incredibly strong and contributes in creating a unique climate of trust, respect, and collaboration that enable the workers to learn all the necessary skills to work in the hotel in a safe environment. Trainees are also encouraged to use these skills in their personal life, to strengthen their independence.

However, working in the hospitality industry is not always easy as the responsibilities and clients can be demanding. Therefore, hotel managers take into serious account the physical and mental well-being of their collaborators, especially of the disabled workers who need to strengthen their musculature to be able to perform all required tasks. To achieve this goal, the hotel's direction has decided to develop partnerships with local sport centers to let disabled workers practice regular sport and massage therapy to relax and reinforce their musculature. Disabled workers are initiated to jogging or Nordic walking who are sports particularly suitable for them as can be practiced with graduation and enable them to correct posture and body balance. Another suitable sport is the Judo that enables disabled workers to improve their equilibrium, movements, and coordination.

With organizations across the world recognizing the need to hire more differently abled people in their verticals, and envisaging business development in which they also play an important part, Albergo Etico is an illustrative example of how a company can be profitable and socially responsible at the same time. It was able to achieve this by not just hiring and training its staff, but by also providing a barrier-free and disabled-friendly work environment. Its efforts have received recognition from the President of the Italian Republic, the European Parliament, and Pope Francis, to name a few. The experience of Albergo Etico is a best practice in diversity management demonstrating that managing employees belonging to minority groups can follow traditional performance imperative exactly as other employees rather than the logics of compassion or compliance with laws and regulations, with positive repercussion on the entire organization, diverse workers, and the social community.¹⁰⁹

 **DISCUSSION QUESTIONS**

- 4-13. What challenges could a manager face in the long-term management of disabled workers?
- 4-14. What are the hotel's advantages of having its workforce being comprised largely of disabled workers? What are the potential drawbacks?
- 4-15. In your opinion, would a performance imperative approach or a compassionate approach be applicable to the management of disabled workers?
- 4-16. What do you think managers can do to let disabled workers find the “right place” in an organization? How can disabled employees help in this process? Explain.
- 4-17. How can other companies be sensitized to recruit more disabled workers? According to you, how would Albergo Etico inspire them? Explain.

CASE APPLICATION 2 Women in Management at Deutsche Telekom

Companies across Europe have a problem—a large gender gap in leadership.¹¹⁰ Men far outnumber women in senior business leadership positions. This dismal picture of sexism in Europe exists despite efforts and campaigns to try and ensure equality in the workplace. But one European company is tackling the problem head-on. Deutsche Telekom, Europe’s largest telecommunication company, says it intends to “more than double the number of women who are managers within five years.” In addition, it plans to increase the number of women in senior and middle management to 30 percent by the end of 2015. With this announcement, the company becomes the first member of the DAX 30 index of blue-chip German companies to introduce a gender quota. Deutsche’s chief executive René Obermann said, “Taking on more women in management positions is not about the enforcement of misconstrued egalitarianism. Having a greater number of women at the top will quite simply enable us to operate better.” In addition to its plans to intensify recruiting of female university graduates, Deutsche Telekom will need to make changes in its corporate policies and practices to attract and keep women in management positions. So what is Deutsche Telekom doing to achieve its goal of bringing more women into management positions? One action the company is taking is to increase and improve recruiting of female university graduates. In fact, the company has committed to having at least 30 percent of the places in executive development programs held by women. Other steps being taken by the company revolve around the work environment and work–family issues. The company plans to expand its parental-leave programs and introduce more flexible working hours for managers. Right now, less than 1 percent of the company’s managers work part time. In addition, the company plans to double the number of available places in company child-care programs. The company also has realized it needs to become more transparent in its selection and appointment processes and to monitor whether recruiting and retention goals have been reached. Despite its efforts, Deutsche Telekom and other German companies have struggled with gender goals. In 2012, only 4 percent of senior executives at Germany’s top 200 companies were female.

DISCUSSION QUESTIONS

- 4-18. What do you think of the “quota” approach that Deutsche Telekom is pursuing? What benefits and drawbacks does such an approach have?
- 4-19. What issues might Deutsche Telekom face in recruiting female university graduates? How could they address these issues?
- 4-20. What issues might the company face in introducing changes in work–family programs? How can these issues be addressed?
- 4-21. What workplace diversity initiatives, discussed in the chapter, might be appropriate for Deutsche Telekom? What would be involved in implementing these initiatives?

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