Chapter 5

Socially-Conscious Management

It's Your Career

Source: Cattallina/Shutterstock.

A key to success in management and in your career is knowing how to make good decisions about ethical dilemmas.

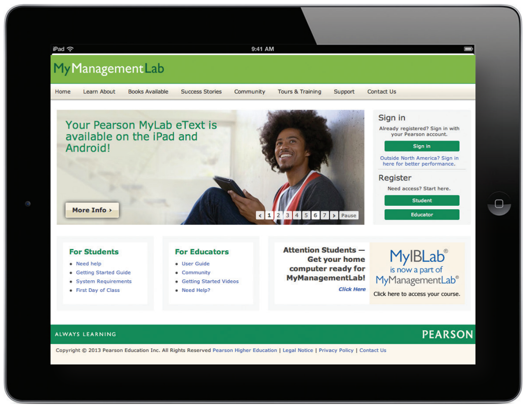
How to Be Ethical When No One Else Seems to Be

You make choices every day: Your boss asks you to do something questionable; you see a colleague doing something that violates a company rule or policy; you think about calling in sick because it's a beautiful day, and boy oh boy do you need a day off; you need to make copies of some personal documents and the company copier isn't monitored by anyone; you need to get some bills paid online and your boss is in meetings all day. Choices, choices, choices. What do you do?

When an ethical dilemma occurs at work—the place where you spend the vast majority of your week and the source of your income that pays your bills and provides benefits—it can be challenging to decide what to do. In addition to the chapter suggestions (see Exhibit 5-8), here are some ideas that might help nudge you to be ethical when no one else seems to be:

1. Make sure you have all the information you need to make a decision. *Sometimes, ethical "dilemmas" at work turn out to be nothing more than rumors or speculation about worst-case scenarios. "You can only do the right thing when you're not looking at things all wrong."[1] Get the facts, but use your discretion, patience, and common sense. Seek out advice from someone you trust and who you think is knowledgeable and wise.*

2. Recognize that we don't always act the way we think we're going to act when faced with an ethical dilemma.[2] *Most of us would say that we know we should be fair, be respectful, be trustworthy, be responsible, treat others as we want to be treated, etc. We have a set of values we want—and strive—to live by. What happens, though, is that when faced with an ethical dilemma, our "I" self rationalizes by saying: I don't want to lose my job, I don't want to be punished, I don't want to look foolish, etc. And so when something happens that we know is ethically questionable or even wrong, we "know" we should*



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Learning Objectives

SKILL OUTCOMES

5.1 ***Discuss*** *what it means to be socially responsible and what factors influence that decision.*

5.2 ***Explain*** *green management and how organizations can go green.*

5.3 ***Discuss*** *the factors that lead to ethical and unethical behavior.*

- **Develop your skill at** creating trust in work groups.

5.4 ***Describe*** *management's role in encouraging ethical behavior.*

- **Know how** to make good decisions about ethical dilemmas.

5.5 ***Discuss*** *current social responsibility and ethics issues.*

speak up or make it right. But we can't quite figure out how to do that, and then we explain it away by saying that it's okay that we acted the way we did. So, be aware of the way you "fool" yourself. Don't ignore or downplay ethical dilemmas.

*3. **TEST yourself.** When faced with an ethical dilemma, use these "tests:"[3]*

- *The Golden Rule Test: Would I want people to do this to me?*
- *The Truth Test: Does this action represent the whole truth and nothing but the truth?*
- *The Stench Test: Does this action "stink" when I contemplate doing it?*
- *The What-If-Everybody-Did-This Test: Would I want everyone to do this? Would I want to live in that kind of world?*
- *The Family Test: How would my parents/spouse/significant other/children feel if they found out I did this?*
- *The Conscience Test: Does this action go against my conscience? Will I feel guilty afterwards?*
- *The Consequences Test: Might this action have bad consequences? Might I regret doing this?*
- *The Front Page/Social Media Test: How would I feel if this action was reported on the front page of my hometown newspaper or splashed across social media outlets for all to see?*

Deciding how ethical and socially responsible an organization needs to be and when raises complicated issues managers may have to address as they plan, organize, lead, and control. As managers manage, these issues can and do influence their actions. Let's see what we can learn about social responsibility and ethics.

WHAT is social responsibility?

LO5.1 Organizations profess their commitment to sustainability and package their products in nonrecyclable materials. Companies have large pay inequities; however, the difference is often not linked to employee performance, but to entitlement and "custom." Large global corporations lower their costs by outsourcing to countries where human rights are not a high priority and justify it by saying they're bringing in jobs and helping to strengthen the local economies. Businesses facing a difficult economic environment offer employees reduced hours and early retirement packages. Are these companies being socially responsible? Managers regularly face decisions that have a dimension of social responsibility in areas such as employee relations, philanthropy, pricing, resource conservation, product quality and safety, and doing business in countries that devalue human rights. What does it mean to be socially responsible?

From Obligations to Responsiveness to Responsibility

The concept of *social responsibility* has been described in different ways. For instance, it's been called "profit making only," "going beyond profit making," "any discretionary corporate activity intended to further social welfare," and "improving social or environmental conditions."[4] We can understand it better if we first compare it to two similar concepts: social obligation and social responsiveness.[5] **Social obligation** is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. The organization does what it's obligated to do and nothing more. This idea reflects the **classical view** of social responsibility, which says that management's only social responsibility is to maximize profits. The most outspoken advocate of this approach is economist and Nobel laureate Milton Friedman. He argued that managers' primary responsibility is to operate the business in the best interests of the stockholders, whose primary concerns are financial.[6] He also argued that when managers decide to spend the organization's resources for "social good," they add to the costs of doing business, which have to be passed on to consumers through higher prices or absorbed by stockholders through smaller dividends. Friedman doesn't say that organizations shouldn't be socially responsible, but his interpretation of social responsibility is to maximize profits for stockholders—a view still held by some today. An advisory firm that works with major corporations says, "Companies would achieve more social good by simply focusing on the bottom line rather than social responsibility programs."[7]

social obligation
When a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities

classical view
The view that management's only social responsibility is to maximize profits

The other two concepts—social responsiveness and social responsibility—reflect the **socioeconomic view**, which says that managers' social responsibilities go beyond making profits to include protecting and improving society's welfare. This view is based on the belief that corporations are *not* independent entities responsible only to stockholders, but have an obligation to the larger society. An example is Laureate Education, which is a for-profit educational company. Laureate claims that its objective is to have a "positive effect for society and students by offering diverse education programs both online and at campuses around the world."[8] Organizations around the world have embraced this view, as shown by a survey of global executives in which 84 percent said that companies must balance obligations to shareholders with obligations to the public good.[9] But how do these two concepts differ?

socioeconomic view
The view that management's social responsibility goes beyond making profits to include protecting and improving society's welfare

Social responsiveness is when a company engages in social actions in response to some popular social need. Managers are guided by social norms and values and make practical, market-oriented decisions about their actions.[10] For instance, Ford Motor Company became the first automaker to endorse a federal ban on sending text messages while driving. A company spokesperson explained that research has found that activities, such as text messaging, distract a drivers' eyes from watching the road and traffic and contribute to an increased risk of getting in an accident.[11] By supporting this ban, company managers "responded" to what they felt was an important social need. After Hurricane Katrina, Procter & Gamble sent mobile laundromats to

social responsiveness
When a firm engages in social actions in response to some popular social need

New Orleans. Employees and volunteers washed and folded laundry for residents whose homes were destroyed. In 2014, Boeing arranged 10 flights transporting more than 54,000 pounds of medical supplies and equipment to patients in Ethiopia, Kenya and Thailand; educational books and computers to schools in Ethiopia; toys to orphans in Iraq; and winter clothing, blankets and quilts to the displaced and needy in Bangladesh, Iraq and Thailand.[12]

Pfizer Consumer Healthcare employees volunteered with Habitat of Humanity in response to the needs of residents who lost their homes during Hurricane Sandy on the U.S. East Coast. This disaster-relief effort of rebuilding homes destroyed by the storm is part of Pfizer's Advil Relief in Action initiative that celebrates volunteers who work to improve the lives of others.
Source: Diane Bondareff/Invision for Pfizer Consumer Healthcare/AP Images

A socially *responsible* organization views things differently. It goes beyond what it's obligated to do or chooses to do because of some popular social need and does what it can to help improve society because it's the right thing to do. We define **social responsibility** as a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.[13] Our definition assumes that a business obeys the law and cares for its stockholders, but adds an ethical imperative to do those things that make society better and not to do those that make it worse. A socially responsible organization does what is right because it feels it has an ethical responsibility to do so. For example, according to our definition, home builder Prime Five Homes in Los Angeles, California, would be described as socially responsible. Prime Five Homes builds environmentally friendly homes, which they sell for profit. The company directs a portion of these proceeds to its nonprofit organization named Dream Builders Project. Dream Builders Project supports a variety of social causes including anti–human trafficking campaigns. CEO Mayer Dahan says: "The Dream Builders Project is setting new standards for the nonprofit industry, and acting as a seamless link for individuals and corporations to give back."[14]

social responsibility
A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society

So how should we view an organization's social actions? A U.S. business that meets federal pollution control standards or that doesn't discriminate against employees over the age of 40 in job promotion decisions is meeting its social obligation because laws mandate these actions. However, when it provides on-site childcare facilities for employees or packages products using recycled paper, it's being socially responsive. Why? Working parents and environmentalists have voiced these social concerns and demanded such actions.

For many businesses, their social actions are better viewed as socially responsive, rather than socially responsible (at least according to our definition). However, such actions are still good for society. For example, Unilever recently met its "zero waste" target for operations in 600 factories, warehouses, and offices in 70 countries, using recycling and recovery techniques to keep all waste from landfills. France's Sodexo will switch to using cage-free eggs only in all food operations by 2025.[15] These types of actions are in response to societal concerns.

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *Honest Tea: Corporate Social Responsibility* and to respond to questions.

Watch It 1!

Should Organizations Be Socially Involved?

Other than meeting their social obligations (which they *must* do), should organizations be socially involved? One way to look at this question is by examining arguments for and against social involvement. Several points are outlined in Exhibit 5-1.[16]

Numerous studies have examined whether social involvement affects a company's economic performance.[17] Although most found a small positive relationship, no generalizable conclusions can be made, because these studies have shown that relationship is affected by various contextual factors such as firm size, industry, economic conditions, and regulatory environment.[18] Another concern was causation. If a study showed that social involvement and economic performance were positively related,

Exhibit 5-1
Arguments For and Against Social Responsibility

FOR

Public expectations
Public opinion now supports businesses pursuing economic and social goals.

Long-run profits
Socially responsible companies tend to have more secure long-run profits.

Ethical obligation
Businesses should be socially responsible because responsible actions are the right thing to do.

Public image
Businesses can create a favorable public image by pursuing social goals.

Better environment
Business involvement can help solve difficult social problems.

Discouragement of further governmental regulation
By becoming socially responsible, businesses can expect less government regulation.

Balance of responsibility and power
Businesses have a lot of power and an equally large amount of responsibility is needed to balance against that power.

Stockholder interests
Social responsibility will improve a business's stock price in the long run.

Possession of resources
Businesses have the resources to support public and charitable projects that need assistance.

Superiority of prevention over cures
Businesses should address social problems before they become serious and costly to correct.

AGAINST

Violation of profit maximization
Business is being socially responsible only when it pursues its economic interests.

Dilution of purpose
Pursuing social goals dilutes business's primary purpose—economic productivity.

Costs
Many socially responsible actions do not cover their costs and someone must pay those costs.

Too much power
Businesses have a lot of power already; if they pursue social goals, they will have even more.

Lack of skills
Business leaders lack the necessary skills to address social issues.

Lack of accountability
There are no direct lines of accountability for social actions.

this correlation didn't necessarily mean that social involvement *caused* higher economic performance—it could simply mean that high profits afforded companies the "luxury" of being socially involved.[19] Such methodological concerns can't be taken lightly. In fact, one study found that if the flawed empirical analyses in these studies were "corrected," social responsibility had a neutral impact on a company's financial performance.[20] Another found that participating in social issues not related to the organization's primary stakeholders was negatively associated with shareholder value.[21] A reanalysis of several studies concluded that managers can afford to be (and should be) socially responsible.[22]

Another way to view social involvement and economic performance is by looking at socially responsible investing (SRI) funds, which provide a way for individual investors to support socially responsible companies. Typically, these funds use some type of **social screening**; that is, they apply social and environmental criteria to investment decisions. For instance, SRI funds usually will not invest in companies involved

social screening
Applying social criteria (screens) to investment decisions

in liquor, gambling, tobacco, nuclear power, weapons, price fixing, fraud, or in companies that have poor product safety, employee relations, and environmental track records. The number of socially screened mutual funds has grown from 55 to 205, and assets in these funds have grown to more than $10.6 trillion—an amount that equals the combined GDPs of Brazil and India.[23] But more important than the total amount invested in these funds is that the Social Investment Forum reports that the performance of most SRI funds is comparable to that of non-SRI funds.[24]

So what can we conclude about social involvement and economic performance? It appears that a company's social actions *don't hurt* its economic performance. Given political and societal pressures to be socially involved, managers probably need to take social issues and goals into consideration as they plan, organize, lead, and control.

GREEN management and sustainability

LO5.2 Nike Inc. launched an app called Making, which allows its design engineers to see the environmental effects of their material choices on water, energy and waste, and chemistry.[25] The Fairmont Hotel chain generated a lot of buzz over its decision to set up rooftop beehives to try to help strengthen the population of honeybees, which have been mysteriously abandoning their hives and dying off by the millions worldwide. This Colony Collapse Disorder could have potentially disastrous consequences since one-third of the food we eat comes from plants that depend on bee pollination. At Toronto's Fairmont Royal York, six hives are home to some 360,000 bees that forage in and around the city *and* produce a supply of award-winning honey.[26] The hotel chain now maintains beehives at 16 of its hotels. Bee honey is an ingredient in some of the menu items, including honey walnut bread, and in the *Beetini*, the hotel's house cocktail.[27] Did you know that planning a driving route with more right-hand turns than left can save you money? UPS does. That's just one of many stats the global logistics leader can quote about how research-based changes in its delivery route design contribute to the sustainability of the planet.[28] Being green is in!

Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions. Although some groups were concerned with conserving natural resources, about the only reference to saving the environment was the ubiquitous printed request "Please Don't Litter." However, a number of environmental disasters brought a new spirit of environmentalism to individuals, groups, and organizations. Increasingly, managers have begun to consider the impact of their organization on the natural environment, which we call **green management**. What do managers need to know about going green?

FYI

- 75 percent of workplaces have at least one green technology practice.[29]

green management
Managers consider the impact of their organization on the natural environment

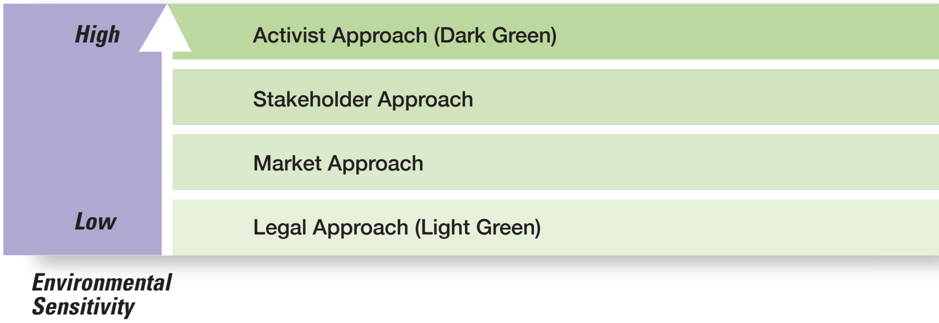
How Organizations Go Green

Managers and organizations can do many things to protect and preserve the natural environment.[30] Some do no more than what is required by law; that is, they fulfill their social obligation. However, others have radically changed their products and production processes. For instance, the Swedish packaging company Tetra Pak is pioneering a new technique for using bioplastic materials in its shelf-stable packaging. This breakthrough is helping the company reduce its carbon footprint and reduce the use of traditional fossil fuel-derived plastics as it produces more than 180 billion packages yearly. Emirates Airlines isn't simply investing in solar power and special lighting to reduce energy use and emissions, it's explaining its efforts in a yearly environmental sustainability report.[31] Although interesting, these examples don't tell us much about how organizations go green. One model uses the terms *shades of green* to describe the different environmental approaches that organizations may take.[32] (See Exhibit 5-2.)

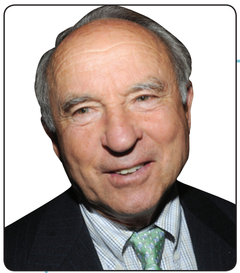
The first approach, the *legal (or light green) approach,* is simply doing what is required legally. In this approach, which illustrates social obligation, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations without legal challenge and that's the extent of their being green.

Exhibit 5-2
Green Approaches

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



LEADER making a DIFFERENCE


Source: Brad Barket/Getty Images

Yvon Chouinard *is a self-taught blacksmith who, in 1957, started crafting mountain-climbing pitons he and other climbing enthusiasts used as anchors on risky climbs.[33] His hardware became so popular that he would go on to found the outdoor-clothing company Patagonia. As his company grew, Chouinard realized that everything his company did had an effect—mostly negative—on the environment. Today, he defines the company's mission in eco-driven terms: "To use business to inspire and implement solutions to the environmental crisis." Chouinard has put environmental activism at the forefront of his company. Since 1985, Patagonia has donated 1 percent of its annual sales to grassroots environmental groups and has gotten more than 1,300 companies to follow its lead as part of its "1% for the Planet" group. He recognizes that "every product, no matter how much thought goes into it, has a destructive impact on Earth." But nonetheless, he keeps doing what he does because "it's the right thing to do."* What can you learn from this leader making a difference?

As an organization becomes more sensitive to environmental issues, it may adopt the *market approach* and respond to environmental preferences of customers. Whatever customers demand in terms of environmentally friendly products will be what the organization provides. For example, SC Johnson Company collaborated with a European company to develop an environmentally friendly alternative to the original formulation of Saran Wrap, which had come under criticism for containing polyvinyl chloride (PVC). Even though the reformulated Saran Wrap product does not work as well as the original in keeping food odors within the wrapping, S. C. Johnson decided not to return to the original formulation despite consumer preferences. S. C. Johnson's CEO Fisk Johnson III based this decision on the belief that trustworthiness is the most important quality that any company has.[34] This is a good example of social responsiveness, as is the next approach.

In the *stakeholder approach*, an organization works to meet the environmental demands of multiple stakeholders such as employees, suppliers, or community. For instance, Hewlett-Packard and Panasonic have several corporate environmental programs in place for their supply chain (suppliers), product design and product recycling (customers and society), and work operations (employees and community).

Finally, if an organization pursues an *activist* (*or dark green*) *approach*, it looks for ways to protect the earth's natural resources. The activist approach reflects the highest degree of environmental sensitivity and illustrates social responsibility. For example, Belgian company Ecover produces ecological cleaning products in a near-zero-emissions factory. This factory (the world's first ecological one) is an engineering marvel with a huge grass roof that keeps things cool in summer and warm in winter and a water treatment system that runs on wind and solar energy. The company chose to build this facility because of its deep commitment to the environment.

Evaluating Green Management Actions

As businesses become "greener," they often release detailed reports on their environmental performance. More than 7,500 companies around the globe now voluntarily report their efforts in promoting environmental sustainability using the guidelines developed by the Global Reporting Initiative (GRI). These reports, which can be found on the GRI website (www.globalreporting.org), describe the numerous green actions of these organizations. A recent study revealed that 90 percent of the world's 250 largest companies reported information about their corporate responsibility initiatives.[35] Also, 154 U.S. companies voluntarily signed the American Business Act on Climate Pledge to demonstrate their additional commitment to promoting environmental sustainability.[36] Among the companies signing the pledge, Berkshire Hathaway Energy promised to retire more than 75 percent of its coal-fueled generating capacity in Nevada by 2019.

Another way organizations show their commitment to being green is through pursuing standards developed by the nongovernmental International Organization for Standardization (ISO). Although ISO has developed more than 18,000 international standards, it's probably best known for its ISO 9000 (quality management) and ISO 14000 (environmental management) standards. Organizations that want to become ISO 14000 compliant must develop a total management system for meeting environmental challenges. In other words, it must minimize the effects of its activities on the environment and continually improve its environmental performance. If an organization can meet these standards, it can state that it's ISO 14000 compliant—an accomplishment achieved by organizations in over 155 countries.

One final way to evaluate a company's green actions is to use the Global 100 list of the most sustainable corporations in the world (www.corporateknights.com).[37] To be named to this list—announced each year at the renowned World Economic Forum in Davos, Switzerland—a company has displayed a superior ability to effectively manage environmental and social factors. In 2016, European companies led the list with 53 Global 100 companies representing a variety of industries.[38] North American companies

let's get REAL

The Scenario:

Carol Borg is concerned about the waste at the coffee shop where she works as the assistant manager. She has made suggestions to the store manager on how the store could have less of a negative impact on the environment by taking steps such as encouraging customers to recycle their paper cups or by using ceramic cups for customers who aren't taking their coffee to go. However, the store manager insists that these ideas are too costly and refuses to invest in new recycling bins or ceramic cups.

What can Carol say to convince her manager that these are worthwhile investments?

Change is never easy, but a well-researched cost-benefit analysis that details the achievable cost savings and risk management strategy can change the challenge to "Go Green" into a positive opportunity.

Knowing the numbers is important: provide specifics on how much money the company would save, statistics on what competitors have done (are you a leader or behind the curve?), what—if any—government benefits are available, and how the change will be positive for the company's reputation and marketing opportunities in the community. Proposing a pilot program to test the green options will also allow for a practical comparative analysis of both practices and demonstrate that there's proof in the pudding—or coffee!

Karen Heger
Manager, Organizational
Development and Training

Source: Karen S. G. Heger

followed with 27. The remaining 20 spots were earned by companies from Asia, Africa, and Australia. The top three spots were taken by BMW (Germany), Dassault Systemes (France), and Outoec (Finland). Other companies on the 2016 list included Marks & Spencer Group (United Kingdom) and Coca-Cola Enterprises (USA).

MANAGERS and ethical behavior

LO5.3 One hundred fifty years. That was the maximum prison sentence handed to financier Bernard Madoff, who stole billions of dollars from his clients, by a U.S. district judge who called his crimes "evil." In Britain, which has been characterized by some critics as a "nanny state because of its purported high level of social control and surveillance," a controversy arose over the monitoring of garbage cans. Many local governments have installed monitoring chips in municipally distributed trash cans. These chips match cans with owners and can be used to track the weight of the bins, leading some critics to fear that the country is moving to a pay-as-you-go system, which they believe will discriminate against large families. A government report says that Iceland, hit hard by both the global economic meltdown and a pesky volcano, was "victimized by politicians, bankers, and regulators who engaged in acts of extreme negligence."[39] When you hear about such behaviors—especially after the high-profile financial misconduct at Enron, WorldCom, Lehman Brothers, and other organizations—you might conclude that businesses aren't ethical. Although that's not the case, managers—at all levels, in all areas, in all sizes and kinds of organizations—do face ethical issues and dilemmas. For instance, is it ethical for a pharmaceutical sales representatives to provide doctors with lavish gifts as an inducement to buy? Would it make a difference if the bribe came out of the sales rep's commission? Is it ethical for someone to use a company car for private use? How about using company e-mail for personal correspondence or using the company phone to make personal phone calls? As an employee, would it be all right to award a lucrative contract to a company in which you hold significant financial interest? What if you managed an employee who worked all weekend on an emergency situation and you told him to take off two days sometime later and mark it down as "sick days" because your company had a clear policy that overtime would not be compensated for any reason?[40] Would that be okay? How will you handle such situations? As managers plan, organize, lead, and control, they must consider ethical dimensions.

ethics
Principles, values, and beliefs that define what is right and wrong behavior

What do we mean by **ethics**? We're defining it as the principles, values, and beliefs that define right and wrong decisions and behavior.[41] Many decisions managers make require them to consider both the process and who's affected by the result.[42] To better understand the ethical issues involved in such decisions, let's look at the factors that determine whether a person acts ethically or unethically.

Factors That Determine Ethical and Unethical Behavior

Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things: his or her stage of moral development and other moderating variables, including individual characteristics and the organization's structural design, which we will discuss in a later section of the chapter, and the intensity of the ethical issue. (See Exhibit 5-3.) People who lack a strong moral sense are much less likely to do the wrong things if they're constrained by organizational rules or job descriptions that disapprove of such behaviors. Conversely, intensely moral individuals can be corrupted by an organizational structure that permits or encourages unethical practices. [43] Let's look more closely at these factors.

STAGE OF MORAL DEVELOPMENT Research divides moral development into three levels, each having two stages.[44] At each successive stage, an individual's moral judgment becomes less dependent on outside influences and more internalized.

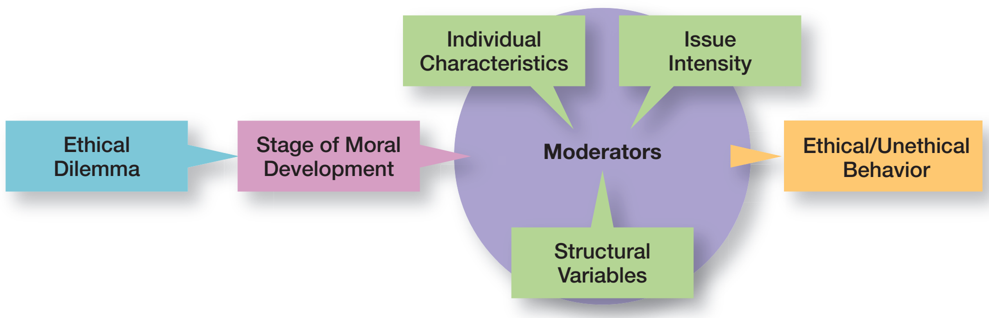


Exhibit 5-3
Factors That Determine Ethical and Unethical Behavior

At the first level, the *preconventional* level, a person's choice between right and wrong is based on personal consequences from outside sources, such as physical punishment, reward, or exchange of favors. At the second level, the *conventional* level, ethical decisions rely on maintaining expected standards and living up to the expectations of others. At the *principled* level, individuals define moral values apart from the authority of the groups to which they belong or society in general. The three levels and six stages are described in Exhibit 5-4.

What can we conclude about moral development?[45] First, people proceed through the six stages sequentially. Second, there is no guarantee of continued moral development. Third, the majority of adults are at stage four: They're limited to obeying the rules and will be inclined to behave ethically, although for different reasons. A manager at stage three is likely to make decisions based on peer approval; a manager at stage four will try to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a stage five manager is likely to challenge organizational practices that he or she believes to be wrong.

INDIVIDUAL CHARACTERISTICS Two individual characteristics—values and personality—play a role in determining whether a person behaves ethically. Each person comes to an organization with a relatively entrenched set of personal **values**, which represent basic convictions about what is right and wrong. Our values develop from a young age based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.[46] Although *values* and *stage of moral development* may seem similar, they're not. Values are broad and cover a wide range of issues; the stage of moral development is a measure of independence from outside influences.

Two personality variables have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. **Ego strength** measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right and be more consistent in their moral judgments and actions than those with low ego strength.

values
Basic convictions about what is right and wrong

ego strength
A personality measure of the strength of a person's convictions

FYI

- An organization devoted to global ethics says that societies share five core moral values—honesty, respect, responsibility, fairness, and compassion.[47]

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

Exhibit 5-4
Stages of Moral Development

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

Juliana Rotich has high ego strength. A native of Kenya, she believes in the transformational power of technology to address social problems. Determined to speed up the digital revolution in Africa, Rotich and her team of innovators have developed open disaster-mapping software, formed a technology hub in Nairobi, and created a new Internet connectivity device to overcome problems of poor reception and power outages in Africa.
Source: Robert Schlesinger/Picture Alliance/Robert Schles/Newscom

locus of control
A personality attribute that measures the degree to which people believe they control their own fate

Locus of control is the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus of control believe what happens to them is due to luck or chance. They're less likely to take personal responsibility for the consequences of their behavior and more likely to rely on external forces.[48]

STRUCTURAL VARIABLES An organization's structural design can influence whether employees behave ethically. Those structures that minimize ambiguity and uncertainty with formal rules and regulations and those that continuously remind employees of what is ethical are more likely to encourage ethical behavior. Other structural variables that influence ethical choices include goals, performance appraisal systems, and reward allocation procedures.

Although many organizations use goals to guide and motivate employees, those goals can create some unexpected problems. One study found that people who don't reach set goals are more likely to engage in unethical behavior, even if they do or don't have economic incentives to do so. The researchers concluded that "goal setting can lead to unethical behavior."[49] Examples of such behaviors abound—from companies shipping unfinished products just to reach sales goals or "managing earnings" to meet financial analysts' expectations, to schools excluding certain groups of students when reporting standardized test scores to make their "pass" rate look better.[50]

An organization's performance appraisal system also can influence ethical behavior. Some systems focus exclusively on outcomes, while others evaluate means as well as ends. When employees are evaluated only on outcomes, they may be pressured to do whatever is necessary to look good on the outcomes and not be concerned with how they got those results. Research suggests that "success may serve to excuse unethical behaviors."[51] The danger of such thinking is that if managers are more lenient in correcting unethical behaviors of successful employees, other employees will model their behavior on what they see.

Closely related to the organization's appraisal system is how rewards are allocated. The more that rewards or punishment depend on specific goal outcomes, the more employees are pressured to do whatever they must to reach those goals—perhaps to the point of compromising their ethical standards. New doctors take the Hippocratic Oath, which pledges that they will do no harm and they will follow ethical standards. However, in recent years, the news has been filled with stories about surgeons who have performed unnecessary surgeries. Dr. John Santa indicated that financial considerations explain why many unnecessary surgeries take place: "Doctors' income can hinge largely on the number of surgeries they do—and the revenue those procedures generate."[52] Tragically, unnecessary surgeries cause many patients to sustain major injuries or death.

ISSUE INTENSITY A student who would never consider breaking into an instructor's office to steal an accounting exam doesn't think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam. Similarly, a manager might think nothing about taking home a few office supplies, yet be highly concerned about the possible embezzlement of company funds. These examples illustrate the final factor that influences ethical behavior: the intensity of the ethical issue itself.[53]

As Exhibit 5-5 shows, six characteristics determine issue intensity or how important an ethical issue is to an individual: greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victim(s), and concentration of effect. These factors suggest that:

- the larger the number of people harmed
- the more agreement that the action is wrong
- the greater the likelihood that the action will cause harm
- the more immediately the consequences of the action will be felt

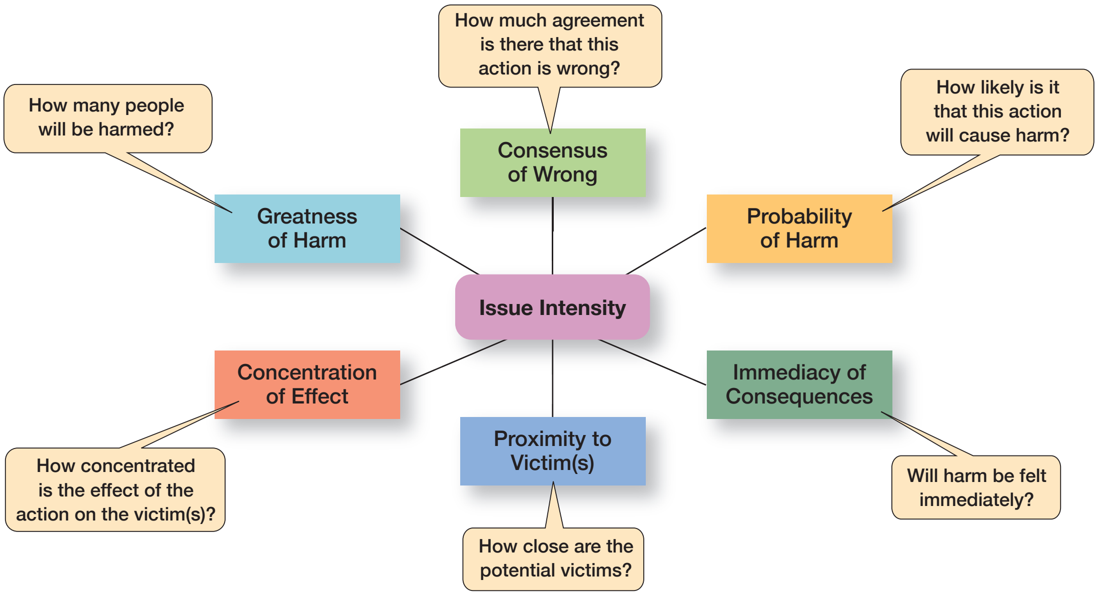


Exhibit 5-5
Issue Intensity

- the closer the person feels to the victim(s)
- the more concentrated the effect of the action on the victim(s)…

the greater the issue intensity or importance. When an ethical issue is important, employees are more likely to behave ethically.

Ethics—If your instructor is using Pearson MyLab Management, log onto **mymanagementlab.com** and test your *knowledge about being ethical.* **Be sure to refer back to the chapter opener!**

★ It's Your Career

Ethics in an International Context

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical behavior.[54]

Should Coca-Cola employees in Saudi Arabia adhere to U.S. ethical standards, or should they follow local standards of acceptable behavior? If Airbus (a European company) pays a "broker's fee" to an intermediary to get a major contract with a Middle Eastern airline, should Boeing be restricted from doing the same because such practices are considered improper in the United States? (Note: In the United Kingdom, the Law Commission, a governmental advisory body, has said that bribing officials in foreign countries should be a criminal offense. It said that claims of "it's local custom" should not be a reason for allowing it.[55]) British defense giant BAE, which has been the target of various bribery and corruption allegations, was ordered to "submit to the supervision of an ethics monitor and pay nearly $500 million to resolve the corruption allegations."[56]

In the case of payments to influence foreign officials or politicians, U.S. managers are guided by the Foreign Corrupt Practices Act (FCPA), which makes it illegal to knowingly corrupt a foreign official. However, even this law doesn't always reduce ethical dilemmas to black and white. In some countries, government bureaucrat salaries are low because custom dictates that they receive small payments from those they serve. Payoffs to these bureaucrats "grease the machinery" and ensure that things get done. The FCPA does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical *when* such payoffs are an accepted part of doing business in that country. Any action other than this is illegal. In 2013 (latest numbers available), the U.S. Department of Justice brought 12 FCPA enforcement actions, collecting approximately $143.1 million in fines.[57] Among the 12 companies, the average fine was $11.9 million. Within the first two months in 2016, five enforcement actions levied $838.7 million in fines.[58] VimpelCom, the Dutch telecommunications provider, is required to pay a $795 million fine because it violated the FCPA to win business in Uzbekistan.[59]

It's important for individual managers working in foreign cultures to recognize the social, cultural, and political-legal influences on what is appropriate and acceptable behavior.[60] And international businesses must clarify their ethical guidelines so that employees know what's expected of them while working in a foreign location, which adds another dimension to making ethical judgments.

Watch It 2!

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

Another guide to being ethical in international business is the United Nations Global Compact, which is an initiative created by the United Nations outlining principles for doing business globally in the areas of human rights, labor, the environment, and anti-corruption (see Exhibit 5-6). More than 12,000 participants and stakeholders

Exhibit 5-6

The Ten Principles of the United Nations Global Compact

The UN Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption:

Human Rights	
Principle 1:	Business should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
Principle 2:	Make sure they are not complicit in human rights abuses.
Labor Standards	
Principle 3:	Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4:	The elimination of all forms of forced and compulsory labor;
Principle 5:	The effective abolition of child labor; and
Principle 6:	The elimination of discrimination in respect to employment and occupation.
Environment	
Principle 7:	Business should support a precautionary approach to environmental challenges;
Principle 8:	Undertake initiatives to promote greater environmental responsibility; and
Principle 9:	Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	
Principle 10:	Business should work against corruption in all its forms, including extortion and bribery.

Source: United Nations Global Compact (www.unglobalcompact.org). Copyright © 2012 United Nations Global Compact.

from over 170 countries have committed to the UN Global Compact, making it the world's largest voluntary corporate citizenship initiative.[61] The goal of the UN Global Compact is a more sustainable and inclusive global economy. Organizations making this commitment do so because they believe that the world business community plays a significant role in improving economic and social conditions. In addition, the Organization for Economic Co-operation and Development (OECD) has made fighting bribery and corruption in international business a high priority. The centerpiece of its efforts is the Anti-Bribery Convention (or set of rules and guidelines), which was the first global instrument to combat corruption in cross-border business deals. To date, significant gains have been made in fighting corruption in the 41 countries that have ratified it.[62]

ENCOURAGING **ethical behavior**

LO5.4 The City of Los Angeles, California is suing Wells Fargo Bank based on allegations that the company has engaged in unlawful and fraudulent conduct: Bank employees routinely opened customer accounts without their authorization, and those accounts came with monthly fees. Los Angeles City Attorney Michael Feuer maintains that bank management was regularly "abusing employees and telling them 'to do whatever it takes' to reach quotas on the number of new accounts they must open."[63] You have to wonder what the firm's managers were thinking or doing while such ethically questionable decisions and actions were taking place, when they could have reconsidered whether sales targets were realistic.

Managers can do a number of things if they're serious about encouraging ethical behaviors—hire employees with high ethical standards, establish codes of ethics, lead by example, and so forth. By themselves, such actions won't have much of an impact. But if an organization has a comprehensive ethics program in place, it can potentially improve an organization's ethical climate. The key variable, however, is *potentially.* There are no guarantees that a well-designed ethics program or publically espoused values will lead to the desired outcome. For instance, Enron, often referred to as the "poster child" of corporate wrongdoing, outlined values in its final annual report

let's get REAL

Source: Justin Kidwell

Justin Kidwell
Management Consultant

The Scenario

All through university, Finlay Roberts wasn't sure what he really wanted to do. But now he had found what he thought was a great job, one where he could enhance his leadership skills in a competitive environment with teams of employees who sold security systems over the phone. What he soon discovered, though, was that competing to meet sales goals often led to unethical actions. After learning about ethics in pretty much every management class he took, Finlay wanted to show his employees that he was committed to an ethical workplace.

What advice would you give Finlay?

One of the cornerstones to professional success is to maintain and demonstrate strong ethics—often by exceeding the standards set by the organization. One potential path for Finlay is to remember that damaging the company's brand can risk destroying his career, but missing sales/performance targets will only impede his career. Over the long run, professionals with strong reputations will outlast those with questionable character.

that most would consider ethical—communication, respect, integrity, and excellence. Yet the way top managers behaved didn't reflect those values at all.[64] Here's another example: A recent study of United States Army management practices describes a "culture where deceptive information is both accepted and commonplace" where "officers become ethically numb."[65] It's quite disturbing and inconsistent with one of the organization's values: "Do what's right, legally and morally. Integrity is a quality you develop by adhering to moral principles. It requires that you do and say nothing that deceives others."[66] Now let's look at some specific ways that managers can encourage ethical behavior and create a comprehensive ethics program.

Employee Selection

Wanting to reduce workers' compensation claims, Hospitality Management Corp. did preemployment integrity testing at one hotel to see if the tests could "weed out applicants likely to be dishonest, take dangerous risks or engage in other undesirable behaviors." After six months, claims were down among new hires.[67]

The selection process (interviews, tests, background checks, and so forth) should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.[68] However, a carefully designed selection process isn't foolproof, and even under the best circumstances, individuals with questionable standards of right and wrong may be hired. That means having other ethics controls in place.

We learned in Chapter 7 that an organization's culture consists of the shared organizational values. These values reflect what the organization stands for and what it believes in as well as create an environment that influences employee behavior ethically or unethically. When it comes to ethical behavior, a culture most likely to encourage high ethical standards is one that's high in risk tolerance, control, and conflict tolerance. Employees in such a culture are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable.

FYI

- 70 percent of middle managers' performance is based, in part, on ethics and compliance.[69]

Because shared values can be powerful influences, many organizations are using **values-based management**, in which the organization's values guide employees in the way they do their jobs. For instance, Timberland is an example of a company using values-based management. With a simple statement, "Make It Better," employees at Timberland know what's expected and valued; that is, they find ways to "make it better"—whether it's creating quality products for customers, performing community service activities, designing employee training programs, or figuring out ways to make the company's packaging more environmentally friendly. As it says on the company's website, "Everything we do at Timberland grows out of our relentless pursuit to find a way to make it better." At Corning, Inc. one of the core values guiding employee behavior is integrity. Employees are expected to work in ways that are honest, decent, and fair. Timberland and Corning aren't alone in their use of values-based management. A survey of global companies found that a large number (more than 89 percent) said they had a written corporate values statement.[70] This survey also found that most of the companies believed their values influenced relationships and reputation, the top-performing companies consciously connected values with the way employees did their work, and top managers were important to reinforcing the importance of the values throughout the organization. Middle management plays an important role as well. One survey revealed that more than 98 percent of middle management is somewhat or extremely active in ensuring that daily business decisions and behaviors are in line with company values.[71]

values-based management
The organization's values guide employees in the way they do their jobs

Thus, an organization's managers do play an important role here. They're responsible for creating an environment that encourages employees to embrace the culture and the desired values as they do their jobs. In fact, research shows that the behavior of managers is *the single most important influence* on an individual's decision to act ethically or unethically.[72] People look to see what those in authority are doing and use that as a benchmark for acceptable practices and expectations.

But establishing an ethics culture is not an easy task. After the financial crisis in 2008, which resulted largely because of unethical practices of financial services companies, U.S. government regulators set out to change the compliance culture in those firms. Compliance with rules is expected to promote ethical practices. Despite good intentions, regulators have made little progress because there has been little agreement on what composes a culture of compliance or how to measure it. Susan Devers from LRN Advisory Services Group, an ethics and compliance consulting firm, said: "A lot of people think [culture] is another checklist item."[73] In addition, she endorses regulators' efforts, saying "it's good that regulators are focused on it … because it shows they are moving beyond checklists."[74]

Finally, as we discussed in Chapter 7, a strong culture exerts more influence on employees than does a weak one. If a culture is strong and supports high ethical standards, it has a powerful and positive influence on the decision to act ethically or unethically. For example, IBM has a strong culture that has long stressed ethical dealings with customers, employees, business partners, and communities.[78] To reinforce the importance of ethical behaviors, the company developed an explicitly detailed set of guidelines for business conduct and ethics. And the penalty for violating the guidelines? Disciplinary actions, including dismissal. IBM's managers continually reinforce the importance of ethical behavior and reinforce the fact that a person's actions and decisions are important to the way the organization is viewed.

Codes of Ethics and Decision Rules

George David, former CEO and chairman of Hartford, Connecticut–based United Technologies Corporation (UTC), believed in the power of a code of ethics. That's why UTC has always had one that was quite explicit and detailed. Employees know the company's

FUTURE VISION Building an Ethical Culture That Lasts

Let's start off with the bad news about the state of ethics in the U.S. workplace:

- 60 percent of misdeeds reported by workers involved someone with managerial authority.
- 24 percent of those observed misdeeds involved senior managers.
- In organizations with weak ethical cultures, 88 percent of workers reported seeing misconduct.[75]

Now, how about some better news:

- In organizations with strong ethical cultures, only 20 percent of workers reported seeing misconduct.[76]
- Companies on Ethisphere's World's Most Ethical Companies list had 20 percent greater profits and 6 percent better shareholder returns than did other companies.[77]

Ethics *is* a part of an organization's culture. And it's becoming ever more critical for businesses to "do things around here" ethically. Society expects it. Customers demand it. And with the speed and spread of news globally —bad and good—you can't hide! So what are the critical aspects of an ethical culture? Certainly, they encompass things like whether an organization's employees are trustworthy, reliable, fair, honest, compassionate, and respectful in dealings with customers, peers, and other stakeholders. But it's also whether managers at all levels talk about ethics and model appropriate behavior. Is ethical behavior reinforced? However, the responsibility for doing things ethically isn't just on managers' backs. In ethical cultures, organizational colleagues support one another in making ethical decisions and in doing ethical work. It can be an infectious type of atmosphere in which good people do good and the organization where they work prospers by achieving those greater profits and better shareholder returns. A win-win in anyone's book! This vision of an ethical workplace isn't just for the future; it's also important for today.

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

TALK ABOUT IT 1: Why do you think organizations with *weak* ethical cultures have four times as many workers witnessing misconduct?

TALK ABOUT IT 2: "Society expects it (ethical practices). Customers demand it." Discuss why you agree or disagree with this.

behavioral expectations, especially when it comes to ethics. UBS AG, the Swiss bank, also has an explicit employee code crafted by the CEO that bans staff from helping clients cheat on their taxes.[79] However, not all organizations have such explicit ethical guidelines.

code of ethics
A formal statement of an organization's primary values and the ethical rules it expects its employees to follow

Uncertainty about what is and is not ethical can be a problem for employees. A **code of ethics**, a formal statement of an organization's values and the ethical rules it expects employees to follow, is a popular choice for reducing that ambiguity. Research shows that 97 percent of organizations with more than 10,000 employees have a written code of ethics. Even in smaller organizations, nearly 93 percent have one.[80] And codes of ethics are becoming more popular globally. Research by the Institute for Global Ethics says that shared values such as honesty, fairness, respect, responsibility, and caring are pretty much universally embraced.[81] In addition, a survey of businesses in 22 countries found that 78 percent have formally stated ethics standards and codes of ethics; and more than 85 percent of *Fortune* Global 200 companies have a business code of ethics.[82]

What should a code of ethics look like? It should be specific enough to show employees the spirit in which they're supposed to do things, yet loose enough to allow for freedom of judgment. A survey of companies' codes of ethics found their content tended to fall into three categories, as shown in Exhibit 5-7.[83]

Unfortunately, codes of ethics may not work as well as we think they should. A survey of employees in U.S. businesses found that 41 percent of those surveyed had

Exhibit 5-7
Codes of Ethics

Cluster 1. Be a Dependable Organizational Citizen

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

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

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

Cluster 3. Be Good to Customers

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

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

Exhibit 5-8
A Process for Addressing Ethical Dilemmas

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

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

Step 3: Which **personal, organizational,** and **external factors** are important in this decision?

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

Step 5: What is my **decision** and how will I act on it?

observed ethical or legal violations in the previous 12 months, including such things as conflicts of interest, abusive or intimidating behavior, and lying to employees. And 37 percent of those employees didn't report observed misconduct.[84] Does this mean that codes of ethics shouldn't be developed? No. However, in doing so, managers should use these suggestions:[85]

1. Organizational leaders should model appropriate behavior and reward those who act ethically.
2. All managers should continually reaffirm the importance of the ethics code and consistently discipline those who break it.
3. The organization's stakeholders (employees, customers, and so forth) should be considered as an ethics code is developed or improved.
4. Managers should communicate and reinforce the ethics code regularly.
5. Managers should use the five-step process (see Exhibit 5-8) to guide employees when faced with ethical dilemmas.

Leadership at the Top

In 2011, Tim Cook was named CEO of Apple Inc. Although it's an extremely successful company, Apple is viewed by some as the epitome of greedy capitalism with no concern for how its products are manufactured. Cook, who was named one of the 100 Most Influential People in Business Ethics by *Ethisphere*, has increased the company's focus on supply chain ethics and compliance issues. It was the first technology company to join the Fair Labor Association, which means that organization can now review the labor practices within the company's supply chain. In addition, at a recent annual stockholders' meeting with investors and journalists, Cook, who was challenged by a spokesperson from a conservative think tank to explain how the company's sustainability efforts were in the best interests of shareholders, bluntly and clearly said that Apple wasn't just about making a profit and that "We want to leave the world better than we found it."[86]

Doing business ethically requires a commitment from managers at all levels, but especially the top level. Why? Because they're the ones who uphold the shared values and set the cultural tone. They're role models in terms of both words and actions, though what they *do* is far more important than what they *say.* If top managers, for example, take company resources for their personal use, inflate their expense accounts, or give favored treatment to friends, they imply that such behavior is acceptable for all employees.

Top managers also set the tone by their reward and punishment practices. The choices of whom and what are rewarded with pay increases and promotions send a strong signal to employees. As we said earlier, when an employee is rewarded for achieving impressive results in an ethically questionable manner, it indicates to others that those ways are acceptable. When an employee does something unethical, managers must punish the offender and publicize the fact by making the outcome visible to everyone in the organization. This practice sends a message that doing wrong has a price and it's not in employees' best interests to act unethically!

Job Goals and Performance Appraisal

Employees in three Internal Revenue Service offices were found in the bathrooms flushing tax returns and other related documents down the toilets. When questioned, they openly admitted doing it, but offered an interesting explanation for their behavior. The employees' supervisors had been pressuring them to complete more work in less time. If the piles of tax returns weren't processed and moved off their desks more quickly, they were told their performance reviews and salary raises would be adversely affected. Frustrated by few resources and an overworked computer system, the employees decided to "flush away" the paperwork on their desks. Although these employees knew what they did was wrong, it illustrates how powerful unrealistic goals and performance appraisals can be.[87] Recall the allegations about Wells Fargo management putting undue pressure on employees to meet lofty sales quotas. Under the stress of unrealistic goals, otherwise ethical employees may feel they have no choice but to do whatever is necessary to meet those goals. Also, goal achievement is usually a key issue in performance appraisal. If performance appraisals focus only on economic goals, ends will begin to justify means. To encourage ethical behavior, both ends *and* means should be evaluated. For example, a manager's annual review of employees might include a point-by-point evaluation of how their decisions measured up against the company's code of ethics as well as how well goals were met.

FYI

- 81 percent of companies provide ethics training.[88]

Ethics Training

More organizations are setting up seminars, workshops, and similar ethics training programs to encourage ethical behavior. Such training programs aren't without controversy, as the primary concern is whether ethics can be taught. Critics stress that the effort is pointless because people establish their individual value systems when they're young. Proponents note, however, that several studies have shown that values can be learned after early childhood. In addition, they cite evidence that shows that teaching ethical problem solving can make an actual difference in ethical behaviors;[89] that training has increased individuals' level of moral development;[90] and that, if nothing else, ethics training increases awareness of ethical issues in business.[91]

How can ethics be taught? Let's look at an example involving global defense contractor Lockheed Martin, one of the pioneers in the case-based approach to ethics training.[92] Lockheed Martin's employees take annual ethics training courses delivered by their managers. The main focus of these short courses features department or job-specific issues. In each department, employee teams review and discuss the cases and then apply an "Ethics Meter" to "rate whether the real-life decisions were ethical, unethical, or somewhere in between." For example, one of the possible ratings on the Ethics Meter, "On Thin Ice," is explained as "bordering on unethical and should raise a red flag." After the teams have applied their ratings, managers lead discussions about the ratings and examine why the company's core ethics principles were or were not applied in the cases. In addition to its ethics training, Lockheed Martin has a widely used written code of ethics, an ethics helpline that employees can call for guidance on ethical issues, and ethics officers based in the company's various business units.

An innovative training video called "Ethics Idol" teaches Cisco Systems' employees how to deal with ethical problems at work. Featured on Cisco's intranet, the video presents ethical scenarios from Cisco's Code of Business Conduct that are evaluated by judges, asks employees questions related to which judge's answer they agree with, and then shows the official Cisco answer.
Source: AP Photo/Paul Sakuma

Independent Social Audits

The fear of being caught can be an important deterrent to unethical behavior. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase that likelihood. Such audits can be regular evaluations or they can occur randomly with no prior announcement. An effective ethics program probably needs both. To maintain integrity, auditors should be responsible to the company's board of directors and present their findings directly to the board. This arrangement gives the auditors clout and lessens the opportunity for retaliation from those being audited. Because the Sarbanes-Oxley Act holds businesses to more rigorous standards of financial disclosure and corporate governance, more organizations are finding the idea of independent social audits appealing. As the publisher of *Business Ethics* magazine stated, "The debate has shifted from *whether* to be ethical to *how* to be ethical."[93]

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment MGMT 4: Ethics.

Write It!

SOCIAL responsibility and ethics issues in today's world

LO5.5 Today's managers continue to face challenges in being socially responsible and ethical. Next, we examine three current issues: managing ethical lapses and social irresponsibility, social entrepreneurship, and promoting positive social change.

Managing Ethical Lapses and Social Irresponsibility

Even after public outrage over the Enron-era misdeeds, irresponsible and unethical practices by managers in all kinds of organizations haven't gone away, as you've observed with some of the questionable behaviors that took place at financial services firms such as Goldman Sachs and Lehman Brothers. But what's more alarming is what's going on "in the trenches," in offices, warehouses, and stores. One survey reported that among 5,000 employees 45 percent admitted falling asleep at work; 22 percent said they spread a rumor about a coworker; 18 percent said they snooped after hours; and 2 percent said they took credit for someone else's work.[94] Another study revealed that employee theft accounts for 43 percent of revenue loss in retail stores in the United States and 28 percent worldwide.[95] In the United States, that amounts to an annual loss of about $18 billion. The report also lists the reasons why there is so much employee theft. Key reasons include ineffective preemployment screening, less employee supervision, and easy sale of stolen merchandise.

Some interesting recent research suggests that men are more likely to act unethically than women in situations where failure could harm their sense of masculinity.[96] The researchers suggest that the reason is that losing a "battle, particularly in contexts that are highly competitive and historically male oriented, presents a threat to masculine competency. To ensure victory, men will sacrifice moral standards if doing so means winning."

Unfortunately, it's not just at work that we see such behaviors; they're prevalent throughout society. Studies show that most teenagers lie to their parents on more than 20 issues.[97] This activity is prevalent in many countries, including the United States, Chile, the Philippines, Italy, and Uganda. In China, the government is testing the use of drones to detect whether students are cheating on their college entrance exams.[98] Students feel extreme pressure to do well since performance on these exams determines the quality of university that Chinese students can enter. What do such statistics say about what managers may have to deal with in the future? It's not too far-fetched to say that organizations may have difficulty upholding high ethical standards when their future employees so readily accept unethical behavior.

What can managers do? Two actions seem particularly important: ethical leadership and protecting those who report wrongdoing.

ETHICAL LEADERSHIP Managers at Alibaba, the world's largest e-commerce company, recently discovered that four software engineers had created a program to get more than their fair share of an employee perk. The company gives each employee a free box of holiday mooncakes, and then sells leftover boxes at cost to employees. But after the engineers rigged the system to buy more than 100 boxes at the special low price, Alibaba managers fired them, saying it was "another reminder to our staff that every game comes with rules."[99] As this example illustrates, managers must provide ethical leadership. As we said earlier, what managers *do* has a strong influence on employees' decisions whether to behave ethically.[100] When managers cheat, lie, steal, manipulate, take advantage of situations or people, or treat others unfairly, what kind of signal are they sending to employees (or other stakeholders)? Probably not the one they want to send. Exhibit 5-9 gives some suggestions on how managers can provide ethical leadership.

Exhibit 5-9
Being an Ethical Leader

- Be a good role model by being ethical and honest.
  - Tell the truth always.
  - Don't hide or manipulate information.
  - Be willing to admit your failures.
- Share your personal values by regularly communicating them to employees.
- Stress the organization's or team's important shared values.
- Use the reward system to hold everyone accountable to the values.

whistle-blower
Individual who raises ethical concerns or issues to others

PROTECTION OF EMPLOYEES WHO RAISE ETHICAL ISSUES What would you do if you saw other employees doing something illegal, immoral, or unethical? Would you step forward? Many of us wouldn't because of the perceived risks. That's why it's important for managers to assure employees who raise ethical concerns or issues that they will face no personal or career risks. These individuals, often called **whistle-blowers**, can be a key part of any company's ethics program. For example, Sherron Watkins, who was a vice president at Enron, clearly outlined her concerns about the company's accounting practices in a letter to chairman Ken Lay. Her statement that, "I am incredibly nervous that we will implode in a wave of accounting scandals" couldn't have been more prophetic.[101] However, surveys show that most observers of wrongdoing don't report it, and that's the attitude managers have to address.[102] One of the reasons employees give for not blowing the whistle include the fear it might damage someone's career. This is a difficult position for an employee to be in. A U.S. Senate report stated that "Whistle-blowers often face the difficult choice between telling the truth and the risking of committing career suicide."[103] Other reasons include fear that it would make it harder to work with that individual, fear that he/she (the whistle-blower) wouldn't be taken seriously, fear of not having enough proof, thought someone else would report it, and fear of losing job or other retaliation.[104] So, how can employees be protected so they're willing to step up if they see unethical or illegal things occurring?

One way is to set up toll-free ethics hotlines. For instance, Dell has an ethics hotline that employees can call anonymously to report infractions that the company will then investigate.[105] In addition, managers need to create a culture where bad news can be heard and acted on before it's too late. Michael Josephson, founder of the Josephson Institute of Ethics (www.josephsoninstitute.org) said, "It is absolutely and unequivocally important to establish a culture where it is possible for employees to complain and protest and to get heard."[106] Even if some whistle-blowers have a personal agenda they're pursuing, it's important to take them seriously. Another way is to have in place a "procedurally just process," which means making sure the decision-making process is fair and that employees are treated respectfully about their concerns.[107] Backlash against whistle-blowers can be costly. For instance, Walter Tamosaitis, a former employee of Aecom (a contractor involved in the Hanford nuclear-weapons cleanup project) received a $4.1 million settlement of a lawsuit in which he claimed that the employer had punished him for speaking up.[108] Finally, federal legislation offers some legal protection. According to the Sarbanes-Oxley Act, any manager who retaliates against an employee for reporting violations faces a stiff penalty: a 10-year jail sentence.[109] Antiretaliation protections against whistle-blowers have been strengthened by the more recent Dodd-Frank Wall Street Reform Act. Unfortunately, despite this protection, fewer than two of every three employees felt they would be protected from retaliation, and about the same proportion fear losing their jobs if they do not meet performance targets.[110] At the present time, it's not a perfect solution, but it is a step in the right direction.

Try It!

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Simulation: *Management and Ethics* and get a better understanding of the challenges of managing ethically in organizations.

Social Entrepreneurship

The world's social problems are many and viable solutions are few. But numerous people and organizations are trying to do something. For instance, take John Schoch, the CEO of Profile Products, which is a profitable manufacturer and distributor of products for soil and water management. He decided to invest some of the company's resources to help address a global crisis—a lack of clean water. He established a nonprofit subsidiary of Profile Products that put millions of dollars into research and development of a product called ProCleanse, which is a water filtration device. Schoch has chosen to pursue a purpose as well as a profit.[111] He is an example of a **social entrepreneur**, an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches.[112] "What business entrepreneurs are to the economy, social entrepreneurs are to social change."[113] Social entrepreneurs want to make the world a better place and have a driving passion to make that happen. For example, Microsoft Corporation announced that it would donate $1 billion in cloud services to nonprofits and university researchers. Microsoft's goal is to provide the same computing tools that have allowed business firms to become more agile and tackle substantial technical challenges.[114] Also, social entrepreneurs use creativity and ingenuity to solve problems. For instance, Seattle-based PATH (Program for Appropriate Technology in Health) is an international nonprofit organization that uses low-cost technology to provide needed health-care solutions for poor, developing countries. By collaborating with public groups and for-profit businesses, PATH has developed simple life-saving solutions such as clean birthing kits, credit card–sized lab test kits, and disposable vaccination syringes that can't be reused. PATH has pioneered innovative approaches to solving global medical problems.[115]

Social entrepreneur Saba Gul (left), founder of the high-end handbag company Popinjay, created an organization that provides opportunities for impoverished women in her home country of Pakistan to transform their lives. She trains, employs, and pays artisan women a fair wage to embroider silk designs that are incorporated in Popinjay handbags.
Source: Rex Features/AP Images

social entrepreneur
An individual or organization that seeks out opportunities to improve society by using practical, innovative, and sustainable approaches

What can we learn from these social entrepreneurs? Although many organizations have committed to doing business ethically and responsibly, perhaps there is more they can do, as these social entrepreneurs show. Maybe, as in the case of PATH, it's simply a matter of business organizations collaborating with public groups or nonprofit organizations to address a social issue. Or maybe, as in the case of Microsoft, it's providing services where needed. Or it may involve nurturing individuals who passionately and unwaveringly believe they have an idea that could make the world a better place and simply need the organizational support to pursue it.

Businesses Promoting Positive Social Change

Since 1946, Target has contributed 5 percent of its annual income to support community needs, an amount that adds up to more than $3 million a week. And it's not alone in those efforts. "Over the past two decades, a growing number of corporations, both within and beyond the United States, have been engaging in activities that promote positive social change."[116] Businesses can do this in a couple of ways: through corporate philanthropy and through employee volunteer efforts.

CORPORATE PHILANTHROPY Corporate philanthropy can be an effective way for companies to address societal problems.[117] For instance, the breast cancer "pink" campaign and the global AIDS Red campaign (started by Bono) are ways that companies support social causes.[118] Many organizations also donate money to various causes that employees and customers care about. In 2014 (latest numbers available), the sum of corporate giving totaled over $18 billion in cash and products.[119] Other corporations have funded their own foundations to support various social issues. For example, Google's foundation—called DotOrg by its employees—supports five areas: developing systems to help predict and prevent disease pandemics, empowering the poor with information about public services, creating jobs by investing in small and midsized businesses in the developing world, accelerating the commercialization of plug-in cars, and making renewable energy cheaper than coal. Each year, DotOrg donates $100 million in grants, 80,000 hours to its charitable causes, and $1 billion in products.[120]

EMPLOYEE VOLUNTEERING EFFORTS Employee volunteering is another popular way for businesses to be involved in promoting social change. For instance, Dow Corning sent a small team of employees to rural India helping women "examine stitchery and figure out prices for garments to be sold in local markets."[122] PCL Construction holds Habitat for Humanity home-building projects. And, for the past 30 years, it has sponsored volunteer days for participation in the Brother's redevelopment Paint-A-Thon. PricewaterhouseCoopers employees renovated an abandoned school in Newark, New Jersey. Every VMWare employee is given five paid days off from work each year to volunteer in his or her community. Other businesses are encouraging their employees to volunteer in various ways. The Committee to Encourage Corporate Philanthropy says that more than 90 percent of its members had volunteer programs and almost half encouraged volunteerism by providing paid time off or by creating volunteer events. More than half of the companies provided a company-wide day of service domestically, and 30 percent offered a day of service internationally.[123] Many businesses have found that such efforts not only benefit communities, but enhance employees' work efforts and motivation.

Pierre Andre Senizergues, CEO and founder of the action sports footwear and apparel firm Sole Technology, hands out new shoes to homeless people and at-risk children during an annual Los Angeles Mission event. Aimed at making our world a better place, the firm's philanthropy includes giving time, money, shoes, and apparel to charities and supporting disaster relief efforts.
Source: David McNew/Getty Images

FYI

North American companies made philanthropic contributions totaling $1.04 billion to companies located on the following continents:[121]

- $88.37 million to Africa
- $374.47 million to Asia
- $410.23 million to Europe
- $168.36 million to Latin America and the Caribbean

WORKPLACE CONFIDENTIAL Balancing Work and Personal Life

Several business critics have proposed that business firms have a social responsibility to help employees balance their work demands with their family and personal commitments. A number of companies, usually large ones and often in high-tech industries, have responded by making work-life balance an important corporate goal. They've introduced flexible work hours; offered paid leaves for both new dads and moms; built on-site childcare facilities, and introduced similar policies that make it easier for employees to balance their personal life and work. But such workplace benefits are probably more the exception than the rule. Unfortunately, most of us face situations more accurately described as work-life imbalance.

If you're going to achieve balance, responsibility is most likely to fall largely on your own shoulders. So what can you do?

In an ideal world, you would seek a progressive employer that sees the benefits of providing its employees with the flexibility to balance work and personal responsibilities. As we've noted, there are such firms. *Fortune* magazine publishes an annual list of the 100 best companies to work for. Many of these companies make the *Fortune* list in large part because of their progressive human resource policies that include options to facilitate work-life balance.

Our next suggestion asks you to assess your priorities. What trade-offs are you prepared to make between your work and personal life? Keep in mind that the answer to this question often changes over time. At age 25, your career might be your highest priority and working 70 hours a week might be a price you're willing to pay to move up the career ladder. At 35, you might not feel the same way. There is nothing wrong with going "all in" on your job. Just realize that there are trade-offs. If you have high career aspirations, just recognize that you will need to make personal sacrifices. Consider where you want to be in 5, 10, 20, and even 30 years. If you decide that pursuing a rich personal life outside of work is important to you, consider this fact when seeking a job. And per Chapter 7, choose an organization whose culture is compatible with your values. If your non-work activities are your highest priority, choose an organization and a job where your preference will be honored.

Take a look back at the opening of Chapter 1. It provides a brief summary of time-management techniques. To successfully manage conflicts that might arise between your work and non-work life, few activities are more valuable than effective use of your time.

As noted in Chapter 1, time is a unique resource in that, if it's wasted, it can never be replaced. Importantly, every one of us is allotted the same 24 hours a day, seven days a week. Some people just use their allotments better than others. That is, they do a better job of managing their time. For instance, you can reduce work-life conflicts by prioritizing both work and personal activities by importance and urgency. Besides prioritizing activities, here are three addition time-management suggestions:

Follow the 10-90 principle. Most of us produce 90 percent of our results using only 10 percent of our time. It's easy to get caught in an activity trap and confuse actions with accomplishments. Those who use their time well make sure that the crucial 10 percent gets highest priority.

Know your productivity cycle. Each of us has a daily energy cycle that influences when we feel most productive or unproductive. Some of us are morning people, while others are late-afternoon or evening people. Don't fight your natural cycle. Understand it and use it to your advantage. Handle your most demanding problems during the high part of your energy cycle, when you are most alert and productive. Relegate routine and undemanding tasks to your low periods.

Group less important activities together. Set aside a regular time period each day to make phone calls, respond to e-mails, do follow-ups, and perform other kinds of "busy work." Ideally, this should be during your low cycle. This avoids duplication, waste, and redundancy; it also prevents trivial matters from crowding out high-priority tasks.

The following are a few additional practices that can help you balance your work-life commitments.

- ***Set specific time targets for leaving work***. Make it a habit to leave work at a set time each day. As this pattern is established, colleagues will become increasingly aware of your schedule and learn to interact with you during your specific work hours.
- ***Separate work and personal cell phones.*** Use two separate cell phones or cell accounts. Respond to your work number during working hours and your personal number at other times. Turn off your business phone when you're outside your work hours.

  Avoid checking e-mails or responding to work-related texts outside work hours. Don't let your work hours become 24/7. In our digital world, it's increasingly common for people to assume we're always available. Make clear to others that you separate your personal life from your work. In reality, most "urgent" messages aren't urgent. Most replies can be delayed 10 or 12 hours with minimal effects.
- ***Our final suggestion recognizes that working for others always requires giving up some degree of control.*** No matter how progressive your employer, the employment agreement implies a trade-off: You give up some of your freedom in return for compensation. You can potentially maximize control of your work-life conflicts by becoming your own boss. While this rarely lessens demands on your time, it can allow you to dictate how you will spend your time. You may end up working longer hours than you would if you worked for someone else, but that decision will be yours rather than someone else's. You'll be able to prioritize your commitments as you best see fit.

Based on M. A. O'Connor, "Corporate Social Responsibility for Work/Family Balance," *St. John's Law Review*, Fall 2005, pp. 1193–1220; T. Kalliath and P. Brough, eds., "Achieving Work-Life Balance," *Journal of Management and Organization*, Special Issue, July 2008, pp. 224–327; and B. Tracy, *Time Management* (New York: AMACOM, 2014).

Chapter 5 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objective

LO5.1 DISCUSS what it means to be socially responsible and what factors influence that decision.

Social obligation, which reflects the classical view of social responsibility, is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. Social responsiveness is when a firm engages in social actions in response to some popular social need. Social responsibility is a business's intention, beyond its economic and legal obligations, to pursue long-term goals that are good for society. Both of these reflect the socioeconomic view of social responsibility. Determining whether organizations should be socially involved can be done by looking at arguments for and against it. Other ways are to assess the impact of social involvement on a company's economic performance and evaluate the performance of SRI funds versus non-SRI funds. We can conclude that a company's social responsibility doesn't appear to hurt its economic performance.

LO5.2 EXPLAIN green management and how organizations can go green.

Green management is when managers consider the impact of their organization on the natural environment. Organizations can "go green" in different ways. The light green approach is doing what is required legally, which is social obligation. Using the market approach, organizations respond to the environmental preferences of their customers. Using the stakeholder approach, organizations respond to the environmental demands of multiple stakeholders. Both the market and stakeholder approaches can be viewed as social responsiveness. With an activist or dark green approach, an organization looks for ways to respect and preserve the earth and its natural resources, which can be viewed as social responsibility.

Green actions can be evaluated by examining reports that companies compile about their environmental performance, by looking for compliance with global standards for environmental management (ISO 14000), and by using the Global 100 list of the most sustainable corporations in the world.

LO5.3 DISCUSS the factors that lead to ethical and unethical behavior.

Ethics refers to the principles, values, and beliefs that define right and wrong decisions and behavior. The factors that affect ethical and unethical behavior include an individual's level of moral development (preconventional, conventional, or principled), individual characteristics (values and personality variables—ego strength and locus of control), structural variables (structural design, use of goals, performance appraisal systems, and reward allocation procedures), and issue intensity (greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victims, and concentration of effect).

Since ethical standards aren't universal, managers should know what they can and cannot do legally as defined by the Foreign Corrupt Practices Act. It's also important to recognize any cultural differences and to clarify ethical guidelines for employees working in different global locations. Finally, managers should know about the principles of the Global Compact and the Anti-Bribery Convention.

LO5.4 DESCRIBE management's role in encouraging ethical behavior.

The behavior of managers is the single most important influence on an individual's decision to act ethically or unethically. Some specific ways managers can encourage ethical behavior include paying attention to employee selection, creating an organizational culture that positively influences ethical behavior, having and using a code of ethics, recognizing the important ethical leadership role they play and how what they do is far more important than what they say, making sure that goals and the performance appraisal process don't reward goal achievement without taking into account how those goals were achieved, and using ethics training and independent social audits.

LO5.5 DISCUSS current social responsibility and ethics issues.

Managers can manage ethical lapses and social irresponsibility by being strong ethical leaders and by protecting employees who raise ethical issues. The example set by managers has a strong influence on whether employees behave ethically. Ethical leaders also are honest, share their values, stress important shared values, and use the reward system appropriately. Managers can protect whistle-blowers (employees who raise ethical issues or concerns) by encouraging them to come forward, by setting up toll-free ethics hotlines, and by establishing a culture in which employees can complain and be heard without fear of reprisal. Social entrepreneurs play an important role in solving social problems by seeking out opportunities to improve society by using practical, innovative, and sustainable approaches. Social entrepreneurs want to make the world a better place and have a driving passion to make that happen. Businesses can promote positive social change through corporate philanthropy and employee volunteering efforts.

Pearson MyLab Management

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

✪ REVIEW AND DISCUSSION QUESTIONS

5-1. Give reasons why you think an organization might not value social responsibility.

5-2. Many organizations around the world claim they are green. What criteria would you consider to objectively evaluate their green credentials?

5-3. How might the moral development of an individual affect their ethical stance?

5-4. How can internal and external locus of control influence work behaviors?

5-5. In April 2010, the Deepwater Horizon oil spill in the Gulf of Mexico caused the largest oil spill in history, at an estimated 4.9 million barrels of oil. Initial efforts to cap the well were declared successful; however, subsequent independent reports of continued oil leaks were ignored by BP (British Petroleum) and the NOAA (National Oceanic and Atmospheric Administration) until it was verified a month later. Did employees in BP and NOAA behave ethically in ignoring the reports?

5-6. What kind of protection can be afforded to whistle-blowers? Are these protective steps sufficient to encourage such actions in future?

5-7. "Ethical leaders are honest, share their values, stress important shared values, and use the reward system appropriately." Observe your college professors. Would you consider them to be ethical leaders? Discuss.

5-8. What can an organization do to encourage ethical behaviour?

Pearson MyLab Management

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

5-9. What is green management and how can organizations go green?

5-10. What would you include in an ethics training workshop?

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENTS

P I A PERSONAL INVENTORY ASSESSMENT

Ethical Leadership Assessment

Organizations need ethical leadership from all employees, but especially from managers. In this PIA, you'll see how much thought and effort goes into your being ethical in your workplace behavior.

ETHICS DILEMMA

A coworker takes credit for the excellent job you've performed. Frustrating! It's probably happened to you or someone you know. How did it happen? Perhaps you shared an idea with a coworker and then hear her present it as her own in a meeting. Or perhaps you worked during the weekend to ensure that a project report is completed on time and your coworker takes credit for your initiative. Or maybe you resolved a conflict with a customer, but your department head reports the resolution as his own.

5-11. What are some of the possible reasons for others taking credit for your work? Are any of the reasons justifiable? Why or why not?

5-12. Do you think that those who take credit for your work know that what they're doing is wrong?

5-13. How would you respond to your coworker or boss? Explain.

SKILLS EXERCISE Developing Your Building Trust Skill

About the Skill

Trust plays an important role in the manager's relationships with his or her employees.[124] Given the importance of trust in setting a good ethical example for employees, today's managers should actively seek to develop it within their work group.

Steps in Practicing the Skill

- ***Practice openness***. Mistrust comes as much from what people don't know as from what they do. Being open with employees leads to confidence and trust. Keep people informed. Make clear the criteria you use in making decisions. Explain the rationale for your decisions. Be forthright and candid about problems. Fully disclose all relevant information.
- ***Be fair***. Before making decisions or taking actions, consider how others will perceive them in terms of objectivity and fairness. Give credit where credit is due. Be objective and impartial in performance appraisals. Pay attention to equity perceptions in distributing rewards.
- ***Speak your feelings***. Managers who convey only hard facts come across as cold, distant, and unfeeling. When you share your feelings, others will see that you are real and human. They will know you for who you are and their respect for you is likely to increase.
- ***Tell the truth***. Being trustworthy means being credible. If honesty is critical to credibility, then you must be perceived as someone who tells the truth. Employees are more tolerant of hearing something "they don't want to hear" than of finding out that their manager lied to them.
- ***Be consistent***. People want predictability. Mistrust comes from not knowing what to expect. Take the time to think about your values and beliefs, and let those values and beliefs consistently guide your decisions. When you know what's important to you, your actions will follow, and you will project a consistency that earns trust.
- ***Fulfill your promises***. Trust requires that people believe that you are dependable. You need to ensure that you keep your word. Promises made must be promises kept.
- ***Maintain confidences***. You trust those whom you believe to be discreet and those on whom you can rely. If people open up to you and make themselves vulnerable by telling you something in confidence, they need to feel assured you won't discuss it with others or betray that confidence. If people perceive you as someone who leaks personal confidences or someone who can't be depended on, you've lost their trust.
- ***Demonstrate competence***. Develop the admiration and respect of others by demonstrating technical and professional ability. Pay particular attention to developing and displaying your communication, negotiation, and other interpersonal skills.

Practicing the Skill

Building trust in teams you work on for class projects is a great way to practice your skills in building trust. It's important to quickly develop trust among your teammates if the project is to succeed. Using the steps above, create a plan that you can use to more quickly build and maintain trust in team projects. Make a list of steps you can take at the beginning of the project to begin building trust. Next, make a list of behaviors you are willing to commit to during the team project in order to continue to build and maintain trust. For example, you may want to commit to responding to your teammates' communications within a certain time period. Implement your plans with your next team project.

WORKING TOGETHER Team Exercise

Around half of all businesses in the United Kingdom have between 1 and 9 percent of their employees donating toward charities from their salaries. Only 10 percent reported between 10 and 24 percent of their employees doing this. In the United Kingdom, charitable donations attract a like-for-like payment from the government, making such donations twice as valuable. It has been estimated that around 735,000 employees donated to charities directly from their pay. Working together in groups of three or four, consider ways in which an employer could encourage their workers to make charitable donations. How can the schemes be run? Create a series of suggestions and share your ideas with the rest of the class. While there are proven ways to promote this kind of giving, is it reasonable to expect employees to get involved?

MY TURN TO BE A MANAGER

- Go to the Global Reporting Initiative website (www.globalreporting.org) and choose three businesses from the list that have filed reports. Look at those reports and describe/evaluate what's in them. In addition, identify the stakeholders who might be affected and how they might be affected by the company's action.
- Identify three companies that are known for being socially responsible. List and compare the types of socially responsible behavior that each company engages in.
- Research careers in sustainability. Visit the Occupational Information Network (O*Net) at www.onetcenter.org and search for careers using the terms "sustainability" or "green management." Create a list of the types of jobs or careers you can pursue. Identify the skills and abilities that are required for a career in sustainability.
- Find five different examples of organizational codes of ethics. Using Exhibit 5-7, describe what each contains. Compare and contrast the examples.
- Using the examples of codes of ethics you found, create what you feel would be an appropriate and effective organizational code of ethics. In addition, create your own *personal code of ethics* you can use as a guide to ethical dilemmas.
- Over the course of two weeks, see what ethical "dilemmas" you observe. These could be ones you face personally, or they could be ones that others (friends, colleagues, other students talking in the hallway or before class, and so forth) face. Write these dilemmas down and think about what you might do if faced with that dilemma.
- Interview two different managers about how they encourage their employees to be ethical. Write down their comments and discuss how these ideas might help you be a better manager.

CASE APPLICATION 1 A Novel Wellness Culture

Menssana in corporesano. The one-thousand-year-old Latin saying represents the core idea of The Wellness Foundation, launched by Nerio Alessandri, founder of Italian wellness company Technogym. The goal is as simple as it is challenging: promoting a novel style of living in society, grounded in creating a perfect balance between physical, mental, and social components. In Europe, only 9 percent of the population participate in regular physical activity. The sedentary lifestyle is responsible for harmful effects such as an increase in the number of chronic pathologies, a huge deficit in governments' health budgets, and work absenteeism. The Wellness Foundation intends to address these problems by promoting scientific research, education, and tangible projects and by encouraging people of all generations to engage in regular physical activity. "Play Wellness," for example, is one of the most important projects promoted by the foundation. It is geared toward 10,000 children between 3 and 9 years of age in the city of Cesena (Emilia Romagna, Italy). It consists of 2,700 hours of physical activity at school with professional instructors, training for school teachers on the benefits of physical activity for children's growth, and the realization of end products detailing the benefits of physical activity for children.

The project is financially supported by Technogym, the official supplier of gym equipment for the Olympic Games as well as for major luxury hotel chains in the world such as the Mandarin Oriental and Four Seasons. The company employs more than 2,000 employees and counts the Real Madrid football players among its clients as well as celebrities such as Madonna and George Clooney. The goodness of this initiative has gained international recognition through its involvement with the "Let's Move!" campaign.[125]

DISCUSSION QUESTIONS

5-14. How can Technogym balance being socially responsible and focused on profits?

5-15. Would you describe Nerio Alessandri's approach as a social obligation, social responsiveness, or social responsibility? Explain.

5-16. It's time to think like a manager. Corporate social responsibility is wonderful, though often criticized as purely rhetorical and laden with subtle profit goals. How can a manager emphasize genuineness of corporate social responsibilities and activities in society?

5-17. Do you think the Wellness Foundation can boost Technogym's turnover? Why or why not?

CASE APPLICATION 2 Defeating the System: Ethics at Volkswagen

In one of the worst business ethics scandals in history, the world learned in 2015 that Volkswagen intentionally circumvented government exhaust emission tests for years by installing so called "defeat devices" on their clean diesel vehicles.[126] This revelation was a shock to many given the company's long-standing success in the auto industry. Volkswagen, one of the world's most recognized brands, was founded in 1937. The company is headquartered in Germany but employs more than half a million people around the world.

Researchers at West Virginia University (WVU) first discovered the violation when they started studying clean diesel engines. When they tested the performance of Volkswagen vehicles, they were surprised to find that on the road emissions exceeded government allowances by almost 40 times. Further investigation by the U.S. Environmental Protection Agency (EPA) found that the vehicles were actually equipped with software that could essentially trick emission testing systems. The diesel engines could detect when they were being tested for emissions and changed the vehicle's performance to improve testing results. Once on the road, the vehicle would switch out of the test mode, emitting excessive nitrogen oxide pollutants, as the WVU researchers found.

The EPA's finding covered about 500,000 cars sold in the United States only. But Volkswagen later admitted that about 11 million cars worldwide were fitted with this software. It will be a long time before Volkswagen realizes all of the damage of this ethical blunder. There will be legal sanctions from governments, private lawsuits, and consumer bans that will impact the company for a long time to come.

How could such a blatant ethical violation occur? It may take years to sort out who is to blame. CEO Martin Winterkorn, who resigned in response to the scandal, initially claimed not to know about the devices. While many high-ranking executives were suspended, no one is sure who knew about or authorized the software. In fact, some believe that the driven, performance-based culture may be more to blame than any individual.

Winterkorn, who reinforced the unique culture, has been described as a hard-driving perfectionist who was committed to securing the top spot among global car manufacturers. He was known to criticize employees publically, and this generated both fear among employees and the commitment to do whatever necessary to ensure the company's success. The company's culture has been described as "confident, cutthroat, and insular." It is possible that arrogance led Volkswagen managers to assume that U.S. government or other officials wouldn't discover the misleading emissions tests.

What's more problematic is Volkswagen's response to the scandal. The company first suggested a technical problem with the cars, but finally admitted the software devices were designed to cheat the system. Initially, the company reported only a limited number of cars were affected; however, as more details were uncovered, the company admitted more cars were fitted with the device and that these actions occurred over a longer period of time than originally reported. The company's faulty initial response to the scandal has clearly made the road ahead a bigger challenge for them. In fact, a recent poll of Americans' attitude toward 100 large companies put Volkswagen in last place.

DISCUSSION QUESTIONS

5-18. Are you surprised that an organization as large as Volkswagen was caught engaging in such unethical behavior? Do you agree that the organization's culture could have encouraged this behavior?

5-19. Are there structural variables that may have influenced the unethical behavior at Volkswagen?

5-20. Evaluate Volkswagen's actions based on the factors in Exhibit 5-5. How would you describe the issue intensity of Volkswagen's actions?

5-21. Moving forward, what do you think Volkswagen needs to do to avoid such an ethical lapse in the future?

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Chapter 6 Managing Change

It's Your Career

Source: 13ree.design/Shutterstock

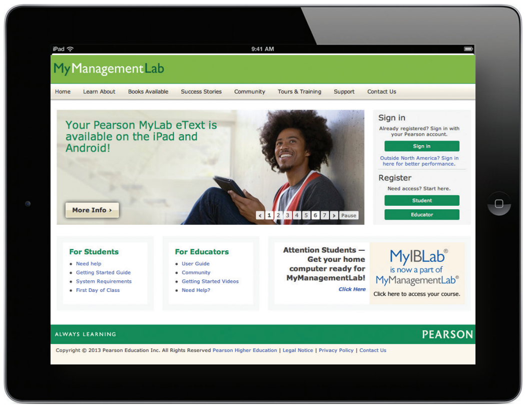
A key to success in management and in your career is knowing how to manage your stress.

Learning to Manage Your Stress

Are you stressed? Frequently stressed? With all the projects, deadlines, and pressure to get good grades, school can be an obvious source of stress. But the workplace can be (and will be!) just as stressful. Here are some statistics about workplace stress that will make you sit up and take notice: The average employee has 30 to 100 projects going on simultaneously; employees are interrupted seven times an hour and are distracted some 2.1 hours in a workday; and 40 percent of adults say that stressful events keep them awake at night.[1] It's no wonder we feel continually stressed. However, as you'll see later in this chapter, too much stress can have adverse consequences on your physical, emotional, and psychological well-being. That's why learning how to manage your stress is an important skill. Here are some suggestions for managing your stress:

*1. **Know your stress triggers.** What produces the stress you face? Keep a record for a couple of weeks of situations, events, and people linked to the stress you're feeling. What's causing the most stress and how are you responding to it? Is it someone who continually changes deadlines or expectations? Is it someone who doesn't do what they had promised to do? Is it continual interruptions or persistent noise? Examining your stress triggers may expose obvious sources of stress and may also highlight subtle but persistent causes of stress. Keeping a record of this can help you identify patterns and similarities in your stressors and how you react to them.*

*2. **Develop healthy responses.** Reduce stress by making healthy choices when you feel stress coming on. Alcohol, fast food, smoking, or continual snacking may help you feel better temporarily, but are probably not the healthiest choices you can make. Likewise, working long hours to finish a project might make you feel in control, but sleep deprivation can leave you vulnerable to even more stress. Also, when you're stressed by*



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Learning Objectives

SKILL OUTCOMES

6.1 ***Describe*** *making the case for change.*

6.2 ***Compare*** *and contrast views on the change process.*

6.3 ***Classify*** *areas of organizational change.*

6.4 ***Explain*** *how to manage change.*

- **Know how** to be change ready by overcoming your resistance to change.

6.5 ***Discuss*** *contemporary issues in managing change.*

- **Develop your skill** in change management so you can serve as a catalyst for change.

6.6 ***Describe*** *techniques for stimulating innovation.*

6.7 ***Explain*** *why managing disruptive innovation is important.*

time constraints, it's easy to skip physical activity (exercise), but regular exercise is a powerful stress reliever. Even short periods of exercise, which might be easier to fit into your schedule, can be beneficial.

3. Establish boundaries. *Our 24/7 digital world can be—and is—overwhelming. That's why you have to really fight the urge to keep checking your devices. But it's important to establish those boundaries if you're trying to manage your stress so you can be at your optimum best, whatever you're doing. Commit to perhaps not checking your email from home in the evening or putting your phone on silent while spending time with your friends or partner. Create some boundaries between your work (or school) life and your personal life.*

4. Improve time management skills. *Take a look back at Chapter 1's* It's Your Career *chapter opener. Improving your time management skills can help you feel less overwhelmed and out of control.*

In today's world, big companies and small businesses, universities and colleges, state and city governments, and even the military are forced to be innovative. Although innovation has always been a part of the manager's job, it has become even more important in recent years. In this chapter, we'll describe why innovation is important, how managers can manage innovation, and the impact of disruptive innovation. Because innovation is often closely tied to an organization's change efforts, let's start by looking at change and how managers manage change.

THE CASE for change

organizational change
Any alteration of people, structure, or technology in an organization

change agent
Someone who acts as a catalyst and assumes the responsibility for managing the change process

LO6.1 Most managers, at one point or another, will have to change some things in their workplace. We classify these changes as **organizational change**, which is any alteration of people, structure, or technology. Organizational changes need someone to act as a catalyst and assume the responsibility for managing the change process, as our opener described—that is a **change agent**. Change agents can be a manager within the organization but could also be a nonmanager—for example, a change specialist from the human resources department or even an outside consultant.[2] For major changes, an organization often hires outside consultants to provide advice and assistance. Because they're from the outside, they can provide an objective perspective that insiders may lack. But outside consultants have a limited understanding of the organization's history, culture, operating procedures, and people. They're also more likely to initiate drastic change than insiders because they don't have to live with the repercussions after the change is implemented. In contrast, internal managers may be more thoughtful, but possibly overcautious, because they must live with the consequences of their decisions.

Managers serve as effective change agents because they have a good understanding of their organization's history, culture, procedures, employees, and customers. They act as catalysts in initiating change, lead and manage the change process, and develop plans to implement change.
Source: Pressmaster/Shutterstock

Managers at the Ford Motor Company are taking on the role of change agent. Making changes has become necessary as peoples' needs and preferences for travel are shifting. The company recently conducted a series of experiments to better understand customers' and prospective customers' needs and preferences.[3] Ford's experiments revealed differences in how members of the younger generation prefer to get around compared to members of older generations. As a result, Ford is broadening its scope from selling cars and trucks to include car-sharing services, offering foldable electric bikes that can be charged while in the vehicle, and an app that determines the best mode of transportation to a destination (for example, driving part of the way, then, riding a bike for the remainder). Needless to say, the company has had to make some organizational changes as it has entered into the business of providing alternative transportation modes. Ford's managers are doing what managers everywhere must do—implementing change.

If it weren't for change, a manager's job would be relatively easy. Planning would be simple because tomorrow would be no different from today. The issue of effective organizational design would also be resolved because the environment would not be uncertain and there would be no need to redesign the structure. Similarly, decision making would be dramatically streamlined because the outcome of each alternative could be predicted with almost certain accuracy. But that's not the way it is. Change is an organizational reality.[4] Organizations face change because external and internal factors create the forces for change (see Exhibit 6-1). Let's review major external and internal factors associated with change.

Exhibit 6-1
External and Internal Forces for Change

External

- Changing consumer needs and wants
- New governmental laws
- Changing technology
- Economic changes

Internal

- New organizational strategy
- Change in composition of workforce
- New equipment
- Changing employee attitudes

External Factors

CHANGING CONSUMER NEEDS AND WANTS Ford Motor Company understands the importance of being responsive to its customers. The company's experiments will also enable them to attract a new breed of customers, helping to secure the company's future. But sometimes a company may make changes that fail to meet customer preferences. Burger King recently learned that lesson by rapidly expanding its menu with items that were not popular with its customers. It had to drop its lower calorie fries called "Satisfries" and its apple cranberry salads after one year because of poor sales. Burger King's president Jose Cil admitted "it's not what our guests were looking for."[5]

NEW GOVERNMENTAL LAWS Government laws require changes in how managers must conduct business. Five broad categories of governmental laws include truth-in-advertising, employment and labor fair practices, environmental protection, privacy, and safety and health. For example, in Singapore, where some employers have difficulty filling jobs because of legal restrictions on foreign workers, the government offers subsidies for testing robots in the workplace. Now the Chilli Padi Nonya Café is one of several restaurants to test a robot in the dining room. In China, businesses managers must pay close attention to changing employment laws affecting the minimum wage and open-ended labor contracts, among other factors.[6]

CHANGING TECHNOLOGY What do the Chevrolet Volt and the Tesla Motors Model S have in common? Both are examples of electric-powered vehicles. Compared to gas-powered vehicles, electric cars have shorter driving ranges; however, ongoing research and development into improving battery capacity to extend their range is a high priority. While most electric vehicles rely on lithium-ion batteries, Toyota and Volkswagen are considering alternatives, including solid state batteries, in order to extend driving ranges.[8]

FYI

- 78 percent of U.S. chief executive officers are concerned that overregulation represents threats to their companies' growth prospects.[7]

ECONOMIC CHANGES Managers must respond to changes in economic forces. Consider the impact of an economic recession. According to the U.S. Bureau of Labor Statistics, recessions are characterized by a general slowdown in economic activity, a downturn in the business cycle, and a reduction in the amount of goods and services produced and sold.[9] The so-called Great Recession (2007–2009) was considered to be one of the more severe recessions felt worldwide. In the United States, the unemployment rate jumped from 5 percent to 10.8 percent. In response, executives in many organizations sought to protect profits by cutting costs, which often included mass employee layoffs. Although unavoidable, these management practices contributed to the severity of the recession because unemployed individuals are less able to purchase discretionary goods and services. Ironically, the increase in unemployment and subsequent drop in sales often led management to implement further cost-cutting practices.

Economic changes, of course, are not limited to the U.S. context. Forecasts for slower economic growth in China have prompted China's Labor Ministry to call for "steady and cautious control" over minimum wage increases.[10] The rationale behind this practice is to help companies manage rising labor costs. With these actions come long-term risks: Chinese consumers' ability to purchase many goods and services will likely diminish and companies will have to consider additional cost-cutting methods such as reductions in hiring.

Internal Factors

NEW ORGANIZATIONAL STRATEGY For decades, Walgreens' strategy focused on increasing its number of retail stores. In most cities, you can find multiple Walgreens stores located just a couple of miles apart. The costs of maintaining so many stores are substantial, putting downward pressures on profit levels. Company management reconsidered its strategy of adding stores. In its place, the company refocused its strategy to improving the customer service experience and providing more competitive product pricing. The latter became necessary particularly as large retailers like Walmart offer prescription medication and similar nonprescription items at a price advantage.

CHANGE IN COMPOSITION OF WORKFORCE Through the decades, the U.S. workforce has become more diverse. In Chapter 3, we saw the challenges managers face when managing a workforce that is diverse based on surface-level variables, including age and race, as well as deep-level variables, including differences in values, personality, and work preferences. A key challenge entails orchestrating these differences to maintain an inclusive culture that focuses on productivity.

Architectural design firms benefit from new 3-D printing equipment by dramatically reducing the time it takes to create hand-made building models. Invented by Charles Hull, the equipment produces accurate, highly detailed, and full-color physical 3-D models printed from digital data that help architects, contractors, and clients envision building projects.
Source: MBI/Alamy Stock Photo

NEW EQUIPMENT In 1983, American engineer Charles Hull invented the first three-dimensional (3D) printer, which is based on the technology of transforming liquid polymers into solid objects.[11] Only recently has this technology become highly refined. Now, more and more companies are using 3D printers to create product prototypes. For example, the medical industry more easily creates customized prosthetics and implants.[12] And, Apple uses 3D printer technology to create the casings for its laptops.

Technological changes are particularly making their marks on health care. These technologies include advances in genomics, biotechnology, robotics, connected care, and artificial intelligence. Advances in robotic technology, for example, is changing how surgeons perform some surgical procedures. As a case in point, the world-renowned Cleveland Clinic offers robotically assisted heart surgery. This technology enables cardiothoracic surgeons to use computer consoles to control surgical instruments and minimize the invasiveness of some surgeries.

CHANGING EMPLOYEE ATTITUDES A recent survey revealed that the attitudes of employees at organizations going through significant changes tend to be less favorable than at more stable companies.[13] Where change is happening, the largest differences are in attitudes toward company leadership and company image. But, not all employees in changing organizations have less favorable attitudes. Those who prefer stability are less likely to try new technology or embrace change than employees who are open to change. Changing attitudes challenge managers to adopt methods to support employees through organizational changes.

THE CHANGE **process**

LO6.2 Two very different metaphors can be used to describe the change process.[14] One metaphor envisions the organization as a large ship crossing a calm sea. The ship's captain and crew know exactly where they're going because they've made the trip many times before. Change comes in the form of an occasional storm, a brief distraction in an otherwise calm and predictable trip. In this calm waters metaphor, change is seen as an occasional disruption in the normal flow of events. In another metaphor, the organization is seen as a small raft navigating a raging river with uninterrupted white-water rapids. Aboard the raft are half a dozen people who have never worked together before, who are totally unfamiliar with the river, who are unsure of their eventual destination, and who, as if things weren't bad enough, are traveling at night. In the white-water rapids metaphor, change is normal and expected and managing it is a continual process. These two metaphors present very different approaches to understanding and responding to change. Let's take a closer look at each one.

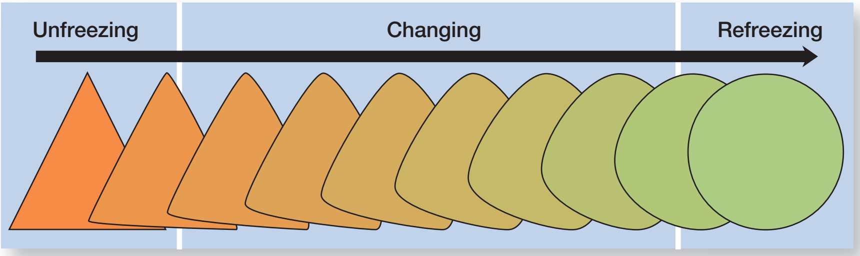


Exhibit 6-2
The Three-Step Change Process

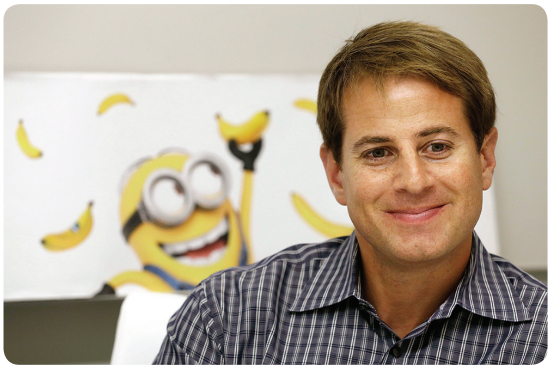
Calm Waters Versus White-Water Rapids Metaphors

THE CALM WATERS METAPHOR At one time, the calm waters metaphor was fairly descriptive of the situation managers faced. It's best understood by using Kurt Lewin's three-step change process.[15] (See Exhibit 6-2.)

According to Lewin, successful change can be planned and requires *unfreezing* the status quo, *changing* to a new state, and *refreezing* to make the change permanent. The status quo is considered equilibrium. To move away from this equilibrium, unfreezing is necessary. Unfreezing can be thought of as preparing for the needed change. It can be done by increasing the *driving forces,* which are forces pushing for change; by decreasing the *restraining forces*, which are forces that resist change; or by combining the two approaches.

Once unfreezing is done, the change itself can be implemented. However, merely introducing change doesn't ensure that it will take hold. The new situation needs to be *refrozen* so that it can be sustained over time. Unless this last step is done, there's a strong chance that employees will revert back to the old equilibrium state—that is, the old ways of doing things. The objective of refreezing, then, is to stabilize the new situation by reinforcing the new behaviors.

Lewin's three-step process treats change as a move away from the organization's current equilibrium state. It's a calm waters scenario where an occasional disruption (a "storm") means planning and implementing change to deal with the disruption. Once the disruption has been dealt with, however, things continue on under the new changed situation. This type of environment isn't what most managers face today. Still, we can find some illustrations of the calm water metaphor, for instance, the 2015 Germanwings Airlines plane crash. The copilot of a Germanwings international flight from Barcelona–El Prat Airport in Spain to Düsseldorf Airport in Germany intentionally crashed the plane into a mountain, killing all passengers and crew members. The captain left the cockpit for a short period. When he tried to re-enter the cockpit using a security code, he quickly learned that the copilot disabled this security measure using cockpit controls. Civil aviation authorities in several countries, including Australia, Germany, and New Zealand, responded to this tragic disruption by implementing new rules that require two crewmembers to be present in the cockpit of commercial aircraft at all times. Germanwings immediately complied with this ruling and continued to operate flights.



David Newman is the director of the new Target Technology Innovation Center in San Francisco. Target competes in a white-water rapids environment where major changes in technology and shopping behavior continue to reshape retailing. Newman and his team of innovators study evolving technologies and interactive devices to improve Target's performance and customers' shopping experiences online and in stores.
Source: Jeff Chiu/AP Images

WHITE-WATER RAPIDS METAPHOR An expert on weather patterns has said, "There are some times when you can predict weather well for the next 15 days. Other times, you can only really forecast a couple of days. Sometimes you can't predict the next two hours." Today's business climate is turning out to be a lot like that two-hour weather scenario. "The pace of change in our economy and our culture is accelerating and our visibility about the future is declining."[16]

As senior vice president and general manager of Connected Energy, a unit of Cisco, Laura Ipsen's company works on developing energy ecosystems for the smart-grid market. She describes her job as follows, "My job is like having to put together a 1,000-piece puzzle, but I don't have the box top with the picture of what it looks like, and some of the pieces are missing."[17] Susan Whiting, chair of Nielsen Media Research, the company best known for its television ratings, recognizes that the media research business isn't what it used to be. The Internet, video on demand, cell phones, iPads, digital video recorders, music and news streaming services, and other changing technologies have made data collection much more challenging. Whiting says, "If you look at a typical week I have, it's a combination of trying to lead a company in change in an industry in change."[18]

These examples illustrate what change is like in our second change metaphor—white-water rapids. It's also consistent with a world that's increasingly dominated by information, ideas, and knowledge.[19]

Here's what managing change might be like for you in a white-water rapids environment. The college you're attending has the following rules: Courses vary in length. When you sign up, you don't know how long a course will run. It might go for 2 weeks or 15 weeks. Furthermore, the instructor can end a course at any time with no prior warning. If that isn't challenging enough, the length of the class changes each time it meets: Sometimes the class lasts 20 minutes; other times it runs for 3 hours. And the time of the next class meeting is set by the instructor during this class. There's one more thing: All exams are unannounced, so you have to be ready for a test at any time. To succeed in this type of environment, you'd have to respond quickly to changing conditions. Students who are overly structured or uncomfortable with change wouldn't succeed.

Increasingly, managers are realizing that their job is much like what a student would face in such a college. The stability and predictability of the calm waters metaphor don't exist. Disruptions in the status quo are not occasional and temporary, and they are not followed by a return to calm waters. Many managers never get out of the rapids.

Is the white-water rapids metaphor an exaggeration? Probably not! Although you'd expect a chaotic and dynamic environment in high-tech industries, even organizations in non-high-tech industries are faced with constant change. Take the case of Dunkin' Donuts. You might think that the food and beverage industry couldn't be all that complex—after all, coffee and baked goods such as donuts and bagels appear to be fairly uncomplicated—but that impression would be wrong. Dunkin' Donuts management has had several challenges to confront.[20] First, there's the challenge of developing products that will appeal to a wide range of global customers. For instance, the company has had to adjust its menu to appeal to its customers in other countries. For example, you can get a kai young donut in Thailand, which is a donut topped with dried, shredded chicken and Thai chili paste. Second, the company is struggling with increased operating costs due to the rising minimum wage in some parts of the United States, particularly in New York City where the rate is rising from $10.50 to $15.00 in 2018. This increase will translate into a 71 percent increase in the cost of employee compensation.[21] Third, slow customer service has been a concern. Management has responded by organizing prep stations to be more efficient to meet on-the-go morning schedules.[22]

Today, any organization that treats change as the occasional disturbance in an otherwise calm and stable world runs a great risk. Too much is changing too fast for an organization or its managers to be complacent. It's no longer business as usual. And managers must be ready to efficiently and effectively manage the changes facing their organization or their work area.

Reactive versus Proactive Change Processes

As students, you have taken many tests. Now think about a difficult course that you have taken and the experiences of your classmates taking the same class. Most students find the material to be difficult and they're concerned about performing poorly on the midterm exam. We might see two types of behavior patterns emerge. One group might go through the course struggling with the material in silence. They do nothing about it and later perform poorly on the midterm exam. Only after receiving the poor grade do they ask their professor for guidance to help them prepare for the final exam. These students are *reacting* to a situation (difficult course material).

Another group of students takes the initiative right away when they realize the material is difficult to master. These students visit the professor during her office hours, participate in a study group, and work on practice problem sets together. This group of students has initiated preparation well ahead of the midterm exam, and represents an example of a *proactive* change process. We can find these same patterns in organizations. The civil aviation authorities illustrate a reactive change process in direct response to the Germanwings crash, and the Ford Motor Company's experiments describe a proactive change process.

AREAS of change

LO6.3 Have you seen (or used) the 3M Co.'s Command picture-hanging hooks (which can actually be used to hang many different items)? They're an easy-to-use, relatively simple product consisting of plastic hooks and sticky foam strips. The manufacturing process, however, was far from simple. The work used to be done in four different states and take 100 days. However, a couple of years ago, the company's former CEO decided to start "untangling its hairballs" by streamlining complex and complicated production processes. Needless to say, a lot of changes had to take place. Today, those Command products are produced at a consolidated production "hub" in a third less time.[23] 3M Co. was up for the "hairball" challenge and focused its change efforts on its people and processes.

Managers face four main areas of change: strategy, structure, technology, and people (see Exhibit 6-3). Changing *strategy* signifies a change in how managers ensure the success of the company. Changing *structure* includes any change in structural variables such as reporting relationships, coordination mechanisms, employee empowerment, or job redesign. Changing *technology* encompasses modifications in the way work is performed or the methods and equipment that are used. Changing *people* refers to changes in attitudes, expectations, perceptions, and behavior of individuals or groups.

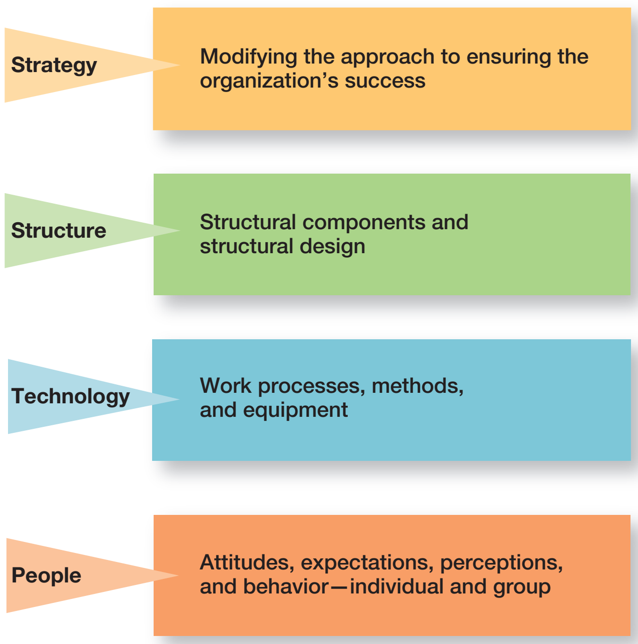


Exhibit 6-3
Four Types of Change

Strategy

Failure to change strategy when circumstances dictate could undermine a company's success. Let's consider the example of Ryanair, which is a regional airline based in Europe. Just more than 30 years old, the airline started out with a strategy to differentiate itself from the competition by offering low-cost airfares. Lower fares came with spartan cabin décor, hefty fees for baggage handling, snacks, and the use of the restroom facilities while onboard. The airline developed a poor reputation for customer service. It was a case of the customer almost never being right! Through the years, this strategy proved to undermine the airline's reputation and financial performance because of competitors who didn't skimp on amenities. With new, aggressive competitors, the company realized that a change in strategy was essential. At the center of the new strategy was raising customer service quality, including cutting out many extra fees. Michael O'Leary, Ryanair's CEO admitted: "If I had only known that being nicer to our customers was good for business I would have done it years ago."[24] Had the company maintained its original strategy, Ryanair probably would no longer exist.

Structure

Jin Zhiguo, chairman of China's Tsingtao Brewery, understands how important structural change can be. When the company shifted from a government-run company to a market-led company, many changes had to take place. He says, "Having worked for a state-owned enterprise, our people weren't used to competing for jobs or to being replaced for performance."[25] The change from a bureaucratic and risk-averse company to one that could compete in a global market required structural changes such as decentralizing decision making.

Unfortunately, not all bureaucratic organizations can change easily. For instance, the U.S. Postal Service has been losing substantial amounts of money for years. In fiscal year 2015, the Postal Service reported a $5.1 billion loss, which extends the losing streak to the last nine years. There are many reasons for the Postal Service's poor performance, including the growth of e-mail, competition from package delivery services such as FedEx, and the rapidly growing costs of providing health care to its retirees. The Postal Service's leadership recognizes the need to grow the business, but that's easier said than done. Postmaster General Megan Brennan said, "…we will also need the enactment of legislation that makes our retiree health benefit system affordable and that provides for increased pricing and product flexibility."[26] The influence of labor unions and various government regulations have created an organizational structure that is difficult to change, even though Postal Service management recognizes the necessity of doing so.

Changes in the external environment or in organizational strategies often lead to changes in the organizational structure, but not always as we just learned about the U.S. Postal Service. Because an organization's structure is defined by how work gets done and who does it, managers can alter one or both of these *structural components.* For instance, departmental responsibilities could be combined, organizational levels eliminated, or the number of persons a manager supervises could be increased. More rules and procedures could be implemented to increase standardization. Or employees could be empowered to make decisions so decision making could be faster.

Another option would be to make major changes in the actual *structural design.* For instance, when Hewlett-Packard acquired Compaq Computer, product divisions were dropped, merged, or expanded. Structural design changes also might include, for instance, a shift from a functional to a product structure or the creation of a project structure design. Avery-Dennis Corporation, for example, revamped its structure to a new design that arranges work around teams.

Technology

Managers can also change the technology used to convert inputs into outputs. Most early management studies dealt with changing technology. For instance, scientific management techniques involved implementing changes that would increase production efficiency. Today, technological changes usually involve the introduction of new equipment, tools, or methods; automation; or computerization.

For example, software company Visia Solutions developed a quality assurance program for Ford Motor Company. Assembly workers in Ford's Valencia, Spain, manufacturing facility wear a small device on their wrists that enables them to ensure that vehicle specifications are correct. According to Ford of Europe's manufacturing vice president, "The ability to simply consult a smartphone screen to check any aspect of a vehicle's quality and specification helps to guarantee highest levels of product quality, and improves work processes and manufacturing efficiency."[27]

Managers of Wellness Corporate Solutions use employee hikes and group office exercises as organizational development methods to bring about changes in employee attitudes and behaviors regarding physical fitness, nutrition, and mental health. The OD methods help employees learn how other employees think and work and improve the quality of their interpersonal work relationships.
Source: Chikwendiu/The Washington Post/ Getty Images

Automation is a technological change that replaces certain tasks done by people with tasks done by machines. Robotic technology has been incorporated in many business settings. For instance, FANUC America Corporation has developed robotic devices for use in many settings, including manufacturing and warehouse product distribution. Walk through any large home improvement store such as the Home Depot. Did you think that workers piled those dozens of 50-pound bags of cement onto the pallets? Probably not. Robotic equipment placed those bags onto pallets in preparation for shipment to the stores.

The most visible technological changes have come from computerization. Most organizations have sophisticated information systems. For instance, supermarkets and other retailers use scanners that provide instant inventory information and many are starting to accept mobile payments such as Apple Pay and PayPal. Also, most offices are computerized. At BP p.l.c., for example, employees had to learn how to deal with the personal visibility and accountability brought about by an enterprise-wide information system. The integrative nature of this system meant that what any employee did on his or her computer automatically affected other computer systems on the internal network.[28] At the Benetton Group SpA, computers link its manufacturing plants outside Treviso, Italy, with the company's various sales outlets and a highly automated warehouse. Now, product information can be transmitted and shared instantaneously, a real plus in today's environment.[29]

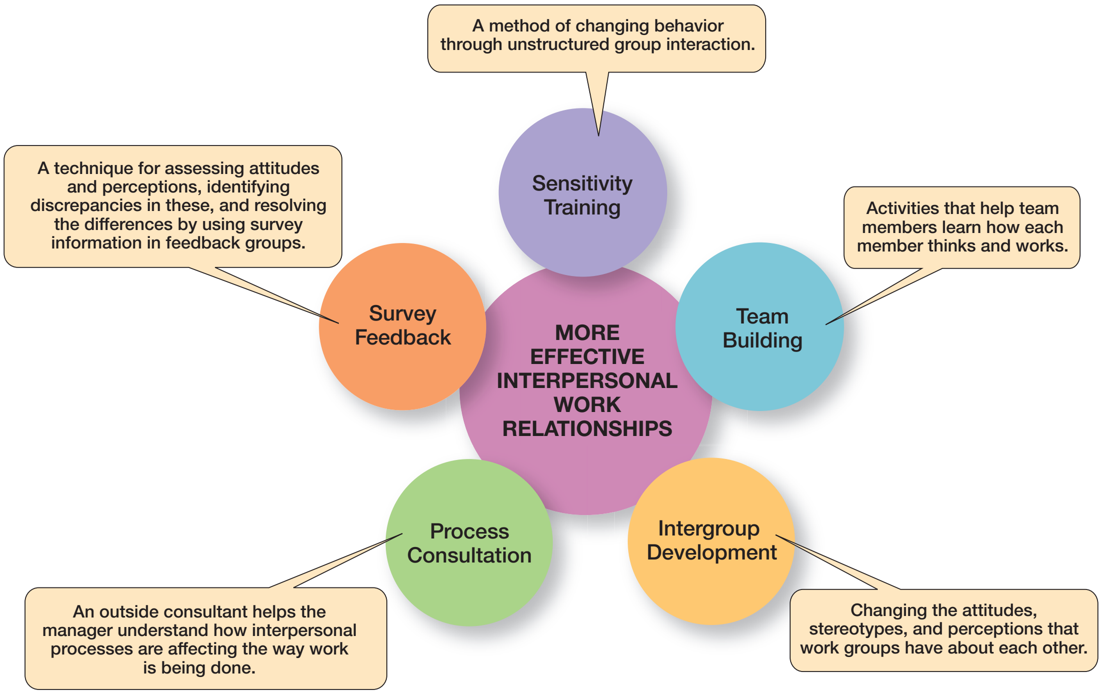
People

Changing people involves changing attitudes, expectations, perceptions, and behaviors—something that's not easy to do. **Organizational development (OD)** is the term used to describe change methods that focus on people and the nature and quality of interpersonal work relationships.[30] The most popular OD techniques are described in Exhibit 6-4. Each seeks to bring about changes in the organization's people and make them work together better. For example, executives at Scotiabank, one of Canada's Big Five banks, knew that the success of a new customer sales and service strategy depended on changing employee attitudes and behaviors. Managers used different OD techniques during the strategic change, including team building, survey feedback, and intergroup development. One indicator of how well these techniques worked in getting people to change was that every branch in Canada implemented the new strategy on or ahead of schedule.[31]

organizational development (OD)
Change methods that focus on people and the nature and quality of interpersonal work relationships

Much of what we know about OD practices has come from North American research. However, managers need to recognize that some techniques that work for U.S. organizations may not be appropriate for organizations or organizational divisions based in other countries.[32] For instance, a study of OD interventions showed that "multirater [survey] feedback as practiced in the United States is not embraced in Taiwan" because the cultural value of "saving face is simply more powerful than the value of receiving feedback from subordinates."[33] What's the lesson for managers? Before using the same OD techniques to implement behavioral changes, especially across different countries, managers need to be sure they've taken into account cultural characteristics and whether the techniques "make sense for the local culture."

Exhibit 6-4
Popular OD Techniques



MANAGING **change**

LO6.4 We know it's better for us to eat healthy and to be active, yet few of us follow that advice. We resist making changes in our lifestyle. Volkswagen Sweden and ad agency DDB Stockholm did an experiment to see if they could get people to change their behavior and take the healthier option of using the stairs instead of riding an escalator.[34] How? They put a working piano keyboard on a stairway in a Stockholm subway station to see if commuters would use it. The experiment was a resounding success as stair traffic rose 66 percent. The lesson—people can change if you make the change appealing.

Change can be a threat to people in an organization. Organizations can build up inertia that motivates people to resist changing their status quo, even though change might be beneficial. Why do people resist change, and what can be done to minimize their resistance?

Why Do People Resist Change?

It's often said that most people hate any change that doesn't jingle in their pockets. This resistance to change is well documented.[35] Why *do* people resist change? The main reasons include uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.[36]

Change replaces the known with uncertainty. No matter how much you may dislike attending college, at least you know what's expected of you. When you leave college for the world of full-time employment, you'll trade the known for the unknown. Employees in organizations are faced with similar uncertainty. For example, when quality control methods based on statistical models are introduced into manufacturing plants, many quality control inspectors have to learn the new methods. Some may fear that they will be unable to do so and may develop a negative attitude toward the change or behave poorly if required to use them.

Another cause of resistance is that we do things out of habit. Every day when you go to school or work, you probably go the same way, if you're like most people. We're creatures of habit. Life is complex enough—we don't want to have to consider the full range of options for the hundreds of decisions we make every day. To cope with this complexity, we rely on habits or programmed responses. But when confronted with change, our tendency to respond in our accustomed ways becomes a source of resistance.

The third cause of resistance is the fear of losing something already possessed. Change threatens the investment you've already made in the status quo. The more people have invested in the current system, the more they resist change. Why? They fear the loss of status, money, authority, friendships, personal convenience, or other economic benefits they value. Consider what happened when Commonwealth Bank in Australia introduced an "activity-based" workplace to improve teamwork. The company replaced the traditional arrangement of permanent desk assignments with desks and meeting spaces assigned as needed from day to day. Recognizing that employees might feel disconnected from colleagues in this new work environment, bank managers laid the groundwork a year in advance with informational meetings and communications. After the changeover, managers continued to offer "settling in" support while employees became accustomed to the new workspace arrangement.[37]

A final cause of resistance is a person's belief that the change is incompatible with the goals and interests of the organization. For instance, an employee who believes that a proposed new job procedure will reduce product quality can be expected to resist the change. This type of resistance actually can be beneficial to the organization if expressed in a positive way.

Techniques for Reducing Resistance to Change

When managers see resistance to change as dysfunctional, what can they do? Several strategies have been suggested in dealing with resistance to change. These approaches

let's get REAL

The Scenario:

Jayden Hunter doesn't understand why it is so difficult for the dispatchers to adapt to the new company tracking system. Jayden is a manager at a trucking company and about six months ago the company implemented a new software system to track transportation assignments. However, he has found that the dispatchers aren't using the new system, reverting back to the paper tracking system they used in the past because they say it is easier.

What can Jayden do to convince his staff to give the new system a chance?

Systems changes require a planned process as well as transparent and frequent communication. It is imperative that those who are most affected by the change—the users of the system—understand why the change is happening, how the change will benefit their roles and responsibilities (WIIFM—What's In It For Me), and most importantly, how they are a part of the process. Since the change has already happened, opening communication about these three items is important and can be done through town hall meetings, which encourage discussion and provide answers, and focus groups, which can get to the heart of issues and determine solutions together rather than in a silo. When it's clear employees are not on the same page as management, listening is half the battle to the solution, and then the rubber must hit the road: Enact agreed-upon solutions in a timely manner that allow for an effective and successful transition to the new system.

Karen Heger
Manager, Organizational
Development and Training

Source: Karen S. G. Heger

Exhibit 6-5
Techniques for Reducing Resistance to Change

Technique	When Used	Advantage	Disadvantage
Education and communication	When resistance is due to misinformation	Clear up misunderstandings	May not work when mutual trust and credibility are lacking
Participation	When resisters have the expertise to make a contribution	Increase involvement and acceptance	Time-consuming; has potential for a poor solution
Facilitation and support	When resisters are fearful and anxiety ridden	Can facilitate needed adjustments	Expensive; no guarantee of success
Negotiation	When resistance comes from a powerful group	Can "buy" commitment	Potentially high cost; opens doors for others to apply pressure too
Manipulation and co-optation	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	Can backfire, causing change agent to lose credibility
Coercion	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	May be illegal; may undermine change agent's credibility

include education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. These tactics are summarized here and described in Exhibit 6-5. Managers should view these techniques as tools and use the most appropriate one, depending on the type and source of the resistance.

Education and communication can help reduce resistance to change by helping employees see the logic of the change effort. This technique, of course, assumes that much of the resistance lies in misinformation or poor communication. The use of social media might be useful as part of an overall communication plan. A recent study found that 55 percent of participants who had experienced change in the workplace expressed a desire that their employer provide more social media engagement.[38] In addition, 42 percent preferred having more face-to-face communication. These findings suggest that both the use of technology and conventional methods in communicating change should be part of a plan to deliver information about change.

Participation involves bringing those individuals directly affected by the proposed change into the decision-making process. Their participation allows these individuals to express their feelings, increase the quality of the process, and increase employee commitment to the final decision.

Facilitation and support involve helping employees deal with the fear and anxiety associated with the change effort. This help may include employee counseling, therapy, new skills training, or a short paid leave of absence.

Negotiation involves exchanging something of value for an agreement to lessen the resistance to the change effort. This resistance technique may be quite useful when the resistance comes from a powerful source.

Manipulation and co-optation refer to covert attempts to influence others about the change. It may involve distorting facts to make the change appear more attractive.

Finally, *coercion* can be used to deal with resistance to change. Coercion involves the use of direct threats or force against the resisters.

★ It's Your Career

Change Readiness—If your instructor is using Pearson MyLab Management, log onto **mymanagementlab.com** and test your *change readiness knowledge.* **Be sure to refer back to the chapter opener!**

CONTEMPORARY issues in managing change

LO6.5 Change occurs in most workplaces. The pace of change varies substantially from place to place, and frequent change can create a stressful environment for employees. That's why Todd Thibodeaux, president and CEO of CompTIA, has furnished offices and conference rooms with game consoles. He encourages employees to play games, which he views as having few, if any, drawbacks. Thibodeaux maintains: "It's an amazing team-building mechanism, particularly when people from around the company gather around a console in a single room."[39] And, Thibodeaux credits gaming for stress relief, which helps boost employee performance. Employee stress is one of the major critical concerns for managers today. In this section, we're going to discuss stress and two other critical concerns—effectively implementing and leading change and creating a culture for change. Let's look first at leading organizational change.

FYI

- Only 43 percent of change initiatives achieved the desired goal.[41]

Leading Change

Organizational change is an ongoing daily challenge. In a global study of organizational changes in more than 2,000 organizations in Europe, Japan, and the United States, 82 percent of the respondents had implemented major information systems changes; 74 percent had created horizontal sharing of services and information; 65 percent had implemented flexible human resource practices; and 62 percent had introduced decentralized operational decisions.[40] Each of these major changes entailed numerous other changes in structure, technology, and people. When changes are needed, who makes them happen? Who manages them? Although you may think it's just top-level managers, actually managers at *all* organizational levels should be involved in the change process.

Even with the involvement of all levels of managers, change efforts don't always work the way they should. In fact, a global study of organizational change concluded that "hundreds of managers from scores of U.S. and European companies [are] satisfied with their operating prowess . . . [but] dissatisfied with their ability to implement change."[42]

How can managers make change happen successfully? They can (1) make the organization change capable, (2) understand their own role in the process, and (3) give individual employees a role in the change process. Let's look at each of these suggestions.

In an industry where growth is slowing and competitors are becoming stronger, United Parcel Service (UPS) prospers. How? By embracing change! Managers spent a decade creating new worldwide logistics businesses because they anticipated slowing domestic shipping demand. They continue change efforts in order to exploit new opportunities.[43] UPS is what we call a *change-capable organization*. What does it take to be a change-capable organization? Exhibit 6-6 summarizes the characteristics.

The second component of making change happen successfully is for managers to recognize their own important role in the process. Managers can, and do, act as change agents. But their role in the change process includes more than being catalysts for change; they must also be change leaders. When organizational members resist change, it's the manager's responsibility to lead the change effort. But even when there's no resistance to the change, someone has to assume leadership. That someone is managers.

The final aspect of making change happen successfully revolves around getting all organizational members involved. Successful organizational change is not a one-person job. Individual employees are a powerful resource in identifying and addressing change issues. "If you develop a program for change and simply hand it to your people, saying, 'Here, implement this,' it's unlikely to work. But when people help to build something, they will support it and make it work."[44] Managers need to encourage employees to be change agents—to look for those day-to-day improvements and changes that individuals and teams can make. For instance, a study of organizational

Exhibit 6-6
Change-Capable Organizations

- ***Link the present and the future.*** Think of work as more than an extension of the past; think about future opportunities and issues and factor them into today's decisions.
- ***Make learning a way of life.*** Change-friendly organizations excel at knowledge sharing and management.
- ***Actively support and encourage day-to-day improvements and changes.*** Successful change can come from the small changes as well as the big ones.
- ***Ensure diverse teams.*** Diversity ensures that things won't be done like they've always been done.
- ***Encourage mavericks.*** Because their ideas and approaches are outside the mainstream, mavericks can help bring about radical change.
- ***Shelter breakthroughs.*** Change-friendly organizations have found ways to protect those breakthrough ideas.
- ***Integrate technology.*** Use technology to implement changes.
- ***Build and deepen trust.*** People are more likely to support changes when the organization's culture is trusting and managers have credibility and integrity.
- ***Couple permanence with perpetual change.*** Because change is the only constant, companies need to figure out how to protect their core strengths during times of change.
- ***Support an entrepreneurial mindset.*** Many younger employees bring a more entrepreneurial mindset to organizations and can serve as catalysts for radical change.

change found that 77 percent of changes at the work group level were reactions to a specific, current problem or to a suggestion from someone outside the work group, and 68 percent of those changes occurred in the course of employees' day-to-day work.[45]

Try It!

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Simulation: *Change* and get a better understanding of the challenges of managing change in organizations.

Creating a Culture for Change

Korean Air CEO Cho Yang-Ho had a challenging change situation facing him. He wanted to transform his airline's image of an accident-prone airline from a developing country to that of a strong international competitor.[46] His main focus was on improving safety above all else, which meant making significant changes to the organization's culture. What made his task even more challenging was Korea's hierarchical culture that teaches Koreans to be deferential toward their elders and superiors. Cho says, "It (the hierarchical culture) exists in all Oriental culture." His approach to changing his company's culture involved implementing a "systems approach aimed at minimizing the personality-driven, top-down culture that is a legacy of Korean business managers who place emphasis on intuition and responding to orders." The cultural change must have worked. Korean Air is now one of the world's largest commercial cargo carriers, and it has earned a four-star rating (out of five possible stars) from a London aviation firm that rates airlines on quality.

The fact that an organization's culture is made up of relatively stable and permanent characteristics tends to make it very resistant to change.[47] A culture takes a long time to form, and once established it tends to become entrenched. Strong cultures are particularly resistant to change because employees have become so committed to them. For instance, IBM was not amenable to change because it had developed an entrenched culture based on tradition. It didn't take long for Lou Gerstner, who was CEO of IBM from 1993 to 2002, to discover the power of a strong culture. Gerstner, the first outsider to lead IBM, needed to overhaul the ailing, tradition-bound company if it was going to regain its role as the dominant player in the computer industry. However, accomplishing that feat in an organization that prided itself on its long-standing culture was Gerstner's biggest challenge. He said, "I came to see in my decade at IBM that culture isn't just one aspect of the game—it *is* the game."[48] Over time, if a certain culture becomes a handicap, a manager might be able to do little to change it, especially in the short run. Even under the most favorable conditions, cultural changes have to be viewed in years, not weeks or even months.

UNDERSTANDING THE SITUATIONAL FACTORS What "favorable conditions" facilitate cultural change? One is that *a dramatic crisis occurs*, such as an unexpected financial setback, the loss of a major customer, or a dramatic technological innovation by a competitor. Such a shock can weaken the status quo and make people start thinking about the relevance of the current culture. Another condition may be that *leadership changes hands.* New top leadership can provide an alternative set of key values and may be perceived as more capable of responding to the crisis than the old leaders were. Another is that *the organization is young and small*. The younger the organization, the less entrenched its culture. It's easier for managers to communicate new values in a small organization than in a large one. Finally, the *culture is weak*. Weak cultures are more receptive to change than strong ones.[51]

LEADER making a DIFFERENCE

Source: Stuart Isett/Polaris/Newscom

When the news broke late summer 2013 that Microsoft's CEO (Steve Ballmer) was stepping down, the search for his replacement was on. Analysts said that whoever the replacement was, that individual would face the challenge of "rebooting Microsoft's corporate culture, in which charting the safe but profitable course . . . too often wins out over innovation . . . ."[49] ***Satya Nadella*** *is that person. Named CEO in February 2014, Nadella is a 22-year veteran of Microsoft. His new "slogan" is innovation, innovation, innovation. When asked what his plans are for the software giant, he answered with that one word, innovation. How does he plan to make innovation part of the culture? By "ruthlessly removing any obstacles that allow us to be innovative; every individual to innovate."[50]* What can you learn from this leader making a difference?

MAKING CHANGES IN CULTURE If conditions are right, how do managers change culture? No single action is likely to have the impact necessary to change something ingrained and highly valued. Managers need a strategy for managing cultural change, as described in Exhibit 6-7. These suggestions focus on specific actions that managers can take. Following them, however, is no guarantee that the cultural change efforts will succeed. Organizational members don't quickly let go of values that they understand and that have worked well for them in the past. Change, if it comes, will be slow. Also, managers must stay alert to protect against any return to old, familiar traditions.

Employee Stress

As a student, you've probably experienced stress—class projects, exams, even juggling a job and school. Then, there's the stress associated with getting a decent job after graduation. But even after you've landed that job, stress isn't likely to stop. For many employees, organizational change creates stress. An uncertain environment

Exhibit 6-7
Changing Culture

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

characterized by time pressures, increasing workloads, mergers, and restructuring has created a large number of employees who are overworked and stressed.[52] In fact, depending on which survey you look at, the number of employees experiencing job stress in the United States ranges anywhere from 40 percent to 80 percent.[53] However, workplace stress isn't just an American problem. Global studies indicate that some 50 percent of workers surveyed in 16 European countries reported that stress and job responsibility have risen significantly over a five-year period; 35 percent of Canadian workers surveyed said they are under high job stress; in Australia, cases of occupational stress jumped 21 percent in a one-year period; more than 57 percent of Japanese employees suffer from work-related stress; some 83 percent of call-center workers in India suffer from sleeping disorders; and a study of stress in China showed that managers are experiencing more stress.[54] Another interesting study found that stress was the leading cause of people quitting their jobs. Surprisingly, however, employers were clueless. They said that stress wasn't even among the top five reasons why people leave and instead wrongly believed that insufficient pay was the main reason.[55]

stress
The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities

WHAT IS STRESS? **Stress** is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities.[56] Stress isn't always bad. Although it's often discussed in a negative context, stress can be positive, especially when it offers a potential gain. For instance, functional stress allows an athlete, stage performer, or employee to perform at his or her highest level at crucial times.

However, stress is more often associated with constraints and demands. A constraint prevents you from doing what you desire; demands refer to the loss of something desired. When you take a test at school or have your annual performance review at work, you feel stress because you confront opportunity, constraints, and demands. A good performance review may lead to a promotion, greater responsibilities, and a higher salary. But a poor review may keep you from getting the promotion. An extremely poor review might lead to your being fired.

FYI

- A recent study revealed that workplace stress is roughly as hazardous to one's health as secondhand smoke.[57]

stressors
Factors that cause stress

WHAT CAUSES STRESS? Stress can be caused by personal factors and by job-related factors called **stressors**. Clearly, change of any kind—personal or job-related—has the potential to cause stress because it can involve demands, constraints, or opportunities. Organizations have no shortage of factors that can cause stress. Pressures to avoid errors or complete tasks in a limited time period, changes in the way reports are filed, a demanding supervisor, and unpleasant coworkers are a few examples. Let's look at five categories of organizational stressors: task demands, role demands, interpersonal demands, organization structure, and organizational leadership.

Task demands are factors related to an employee's job. They include the design of a person's job (autonomy, task variety, degree of automation), working conditions, and the physical work layout. Work quotas can put pressure on employees when their "outcomes" are perceived as excessive.[58] The more interdependence between an employee's tasks and the tasks of others, the greater the potential for stress. *Autonomy*, on the other hand, tends to lessen stress. Jobs in which temperatures, noise, or other working conditions are dangerous or undesirable can increase anxiety. So, too, can working in an overcrowded room or in a visible location where interruptions are constant.

role conflicts
Work expectations that are hard to satisfy

role overload
Having more work to accomplish than time permits

role ambiguity
When role expectations are not clearly understood

Role demands relate to pressures placed on an employee as a function of the particular role he or she plays in the organization. **Role conflicts** create expectations that may be hard to reconcile or satisfy. **Role overload** is experienced when the employee is expected to do more than time permits. **Role ambiguity** is created when role expectations are not clearly understood and the employee is not sure what he or she is to do. Sandi Peterson, group worldwide chairman of Johnson & Johnson, states the importance of goal setting to help employees understand their roles, particularly during organizational change: "Defining a clear set of goals for your team demonstrates that there is an end in sight. However, it's crucial during this time to move through the transition in phases."[59]

Interpersonal demands are pressures created by other employees. Lack of social support from colleagues and poor interpersonal relationships can cause considerable stress, especially among employees with a high social need.

Organization structure can increase stress. Excessive rules and an employee's lack of opportunity to participate in decisions that affect him or her are examples of structural variables that might be potential sources of stress.

Organizational leadership represents the supervisory style of the organization's managers. Some managers create a culture characterized by tension, fear, and anxiety. They establish unrealistic pressures to perform in the short run, impose excessively tight controls, and routinely fire employees who don't measure up. This style of leadership filters down through the organization and affects all employees.

Personal factors that can create stress include family issues, personal economic problems, and inherent personality characteristics. Because employees bring their personal problems to work with them, a full understanding of employee stress requires a manager to be understanding of these personal factors.[60] Evidence also indicates that employees' personalities have an effect on how susceptible they are to stress. The most commonly used labels for these personality traits are Type A and Type B.

Type A personality is characterized by chronic feelings of a sense of time urgency, an excessive competitive drive, and difficulty accepting and enjoying leisure time. The opposite of Type A is **Type B personality**. Type Bs don't suffer from time urgency or impatience. Until quite recently, it was believed that Type As were more likely to experience stress on and off the job. A closer analysis of the evidence, however, has produced new conclusions. Studies show that only the hostility and anger associated with Type A behavior are actually associated with the negative effects of stress. And Type Bs are just as susceptible to the same anxiety-producing elements. For managers, it is important to recognize that Type A employees are more likely to show symptoms of stress, even if organizational and personal stressors are low.

Type A personality
People who have a chronic sense of urgency and an excessive competitive drive

Type B personality
People who are relaxed and easygoing and accept change easily

WHAT ARE THE SYMPTOMS OF STRESS? We see stress in a number of ways. For instance, an employee who is experiencing high stress may become depressed, accident prone, or argumentative; may have difficulty making routine decisions; may be easily distracted, and so on. Employees in companies where downsizing is occurring tend to get ill at twice the rate of employees whose jobs are secure.[61] As Exhibit 6-8 shows, stress symptoms can be grouped under three general categories: physical, psychological, and behavioral. All of these can significantly affect an employee's work.

In Japan, there's a stress phenomenon called *karoshi*, which is translated literally as "death from overwork," and *karojisatsu*, which refers to suicide related to overwork.[62] During the late 1980s, "several high-ranking Japanese executives still in their prime years suddenly died without any previous sign of illness."[63] As Japanese multinational companies expand operations to China, Korea, and Taiwan, it's feared that the karoshi culture may follow. Recently, Yumi Nakata, a Japanese blogger, commented on one

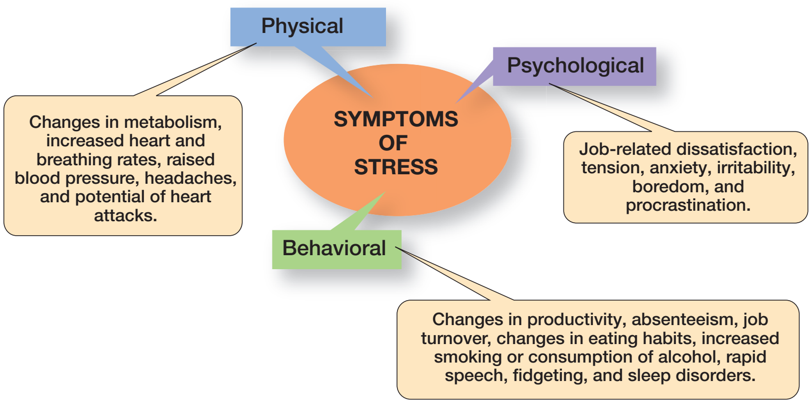


Exhibit 6-8
Symptoms of Stress

reason for karojisatsu: "Japan can be a very stressful society to live in as the employment system is very rigid, and it is not easy for those who have been laid off to find another job."[64]

Similar intense pressures are evident in China where *guolaosi* refers to "death by overwork." Approximately 600,000 Chinese workers die from work-related stress each year.[65] According to Yang Heqing, dean of the School of Labor Economics at the Capital University of Economics and Business in Beijing, "in China there is still the belief that you do things for the development of the good of the nation, for the development of the economy, to forget yourself."[66]

HOW CAN STRESS BE REDUCED? As mentioned earlier, not all stress is dysfunctional. Because stress can never be totally eliminated from a person's life, managers want to reduce the stress that leads to dysfunctional work behavior. How? Through controlling certain organizational factors to reduce job-related stress, and to a more limited extent, offering help for personal stress.

Things managers can do in terms of job-related factors begin with employee selection. Managers need to make sure an employee's abilities match the job requirements. When employees are in over their heads, their stress levels are typically high. A realistic job preview during the selection process can minimize stress by reducing ambiguity over job expectations. Improved organizational communications will keep ambiguity-induced stress to a minimum. Similarly, a performance planning program such as MBO (management by objectives) will clarify job responsibilities, provide clear performance goals, and reduce ambiguity through feedback. Job redesign is also a way to reduce stress. If stress can be traced to boredom or to work overload, jobs should be redesigned to increase challenge or to reduce the workload. Redesigns that increase opportunities for employees to participate in decisions and to gain social support also have been found to reduce stress.[67] For instance, at U.K. pharmaceutical maker GlaxoSmithKline, a team-resilience program in which employees can shift assignments, depending on people's workload and deadlines, has helped reduce work-related stress by 60 percent.[68] And Royal Dutch Shell found that its resilience training program has been successful. Data show positive effects of training for up to four years.[69]

Stress from an employee's personal life raises two problems. First, it's difficult for the manager to control directly. Second, ethical considerations include whether the manager has the right to intrude—even in the most subtle ways—in an employee's personal life. If a manager believes it's ethical and the employee is receptive, the manager might consider several approaches. Employee *counseling* can provide stress relief. Employees often want to talk to someone about their problems, and the organization—through its managers, in-house human resource counselors, or free or low-cost outside professional help—can meet that need. Companies such as Marathon Petroleum, Target, and PepsiCo provide extensive counseling services for their employees. A *time management program* can help employees whose personal lives suffer from a lack of planning to sort out their priorities.[70] (See Chapter 1 opener on pages 38–39 for suggestions on efficiently managing your time.) Still another approach is organizationally sponsored *wellness programs.* For example, Phillips 66 works with WebMD as their wellness partner and includes services such as WebMD Health Coaching. This service enables employees to have confidential phone meetings with a health expert. Oftentimes, corporate leaders endorse the use of wellness programs. Warren Buffett, chairman of Berkshire Hathaway, says, "There is no question that workplace wellness is worth it. The only question is whether you're going to do it today or tomorrow. If you keep saying you're going to do it tomorrow, you'll never do it."[71]

Watch It 1!

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *East Haven Fire Department: Managing Stress* and to respond to questions.

WORKPLACE **CONFIDENTIAL** Coping with Job Stress

We asked several dozen recent college graduates whether they had experienced job stress and, if so, what was the source. Almost all said they had. Here are a few of their responses: "I've got ridiculous deadlines to meet;" "They let several people in my department go, and two of us had to absorb their work;" "Business is slow and there are rumors of layoffs;" and "I hoped to take my two-week vacation next month but I can't. Too much work to do."

These recent graduates don't appear to be unusual. Numerous studies indicate that *job stress* is far and away the major source of stress for American adults. For instance, a recent survey found that 83 percent of American workers said they were stressed at work. And what was stressing them out? Their answers included unreasonable workloads, poor compensation, frustration with coworkers, commuting, working in a job that was not their first choice, poor work-life balance, lack of opportunity for advancement, and fear of being fired or laid off. Interestingly, those aged 18 to 29 indicated the highest stress levels due largely, they said, to work and job stability concerns.

So if you're among those stressing out at work, what can you do to help reduce that stress? Here's what the experts suggest:

Time management. Start with time management. As noted in Chapter 1, effective time management can allow you to be more efficient, get more things done, and help to reduce workload-based stress. We know that many people manage their time poorly. If you're well-organized, you can often accomplish twice as much as the person who is poorly organized. So an understanding and utilization of basic time-management principles can help you better cope with tensions created by job demands.

Work breaks. A growing body of research shows that simply taking breaks from work at routine intervals can facilitate psychological recovery and significantly reduce stress. If you work at a desk or a fixed workstation, for both reducing stress and your general health, get up at least every half-hour and walk around for a few minutes.

Deep-relaxation techniques. You can teach yourself to reduce tension through deep-relaxation techniques such as deep breathing. The objective is to reach a state of deep physical relaxation, in which you focus all your energy on release of muscle tension.

Deep breathing is one of the simplest techniques for addressing stress. The technique requires you to avoid shallow breaths and to learn to breathe from the abdomen. This technique works on neuromuscular functioning and leads to relaxing the neuromuscular system.

An extension of deep breathing is progressive muscle relaxation. With this technique, you assume a comfortable position and begin to breathe deeply. Then you relax groups of muscles one at a time, beginning with the feet and working up.

Deep relaxation for 15 to 20 minutes a day releases strain and provides a pronounced sense of peacefulness, as well as significant changes in heart rate, blood pressure, and other physiological factors.

Meditation. While meditation is another form of relaxation, we separate it out because of its wide popularity and long history as a stress-reducing practice. Meditation has been done for thousands of years and continues to be a well-recognized approach to stress reduction. It's a group of self-regulated techniques you use to refocus your attention through concentration to attain a subjective, even "blissful," state that proponents describe as calmness, clarity, and concentration. Although meditation is done in many forms, a popular Western variety has individuals blank out their mind and stop conscious thinking. This is often combined with a mantra or focusing on an object. Advocates of meditation report that it increases calmness and physical relaxation, improves psychological balance, and enhances overall health and well-being.

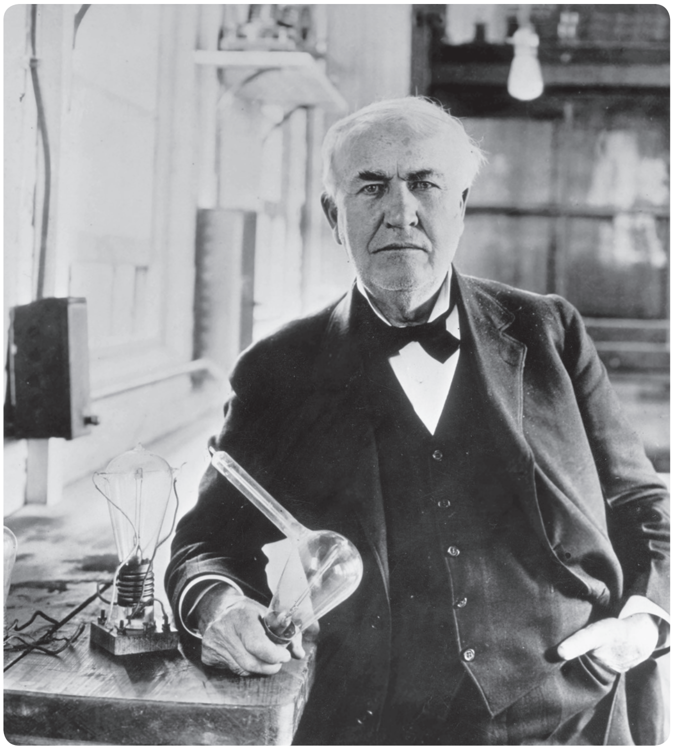
Yoga. The American Yoga Association suggests that a few yoga exercises practiced daily help to regulate breathing and relax the body. Exercises, such as the sun salutation sequence of poses, have been shown to be particularly helpful because they encourage you to breathe deeply and rhythmically.

Imagery. When life and work seem to overwhelm you, try putting your mind in a more peaceful place. Think of the most peaceful and serene location that you can envision—such as a quiet Caribbean beach, a peaceful setting in a forest, or a sailboat on a calm lake. Then close your eyes and imagine yourself there. So, using the beach example, imagine the waves gently coming ashore, the rhythmic sounds of the waves, the smell of salt air, and the warm sun on your skin. Then apply some of the relaxation techniques described previously.

Physical exercise. Physicians have recommended noncompetitive physical exercise—such as aerobics, Pilates, walking, jogging, swimming, and riding a bicycle—as a way to deal with excessive stress levels. These activities increase lung capacity, lower the resting heart rate, and provide a mental diversion from work pressures, effectively reducing work-related levels of stress.

Social support network. Finally, friends, family, or work colleagues can provide an outlet when stress levels become excessive. Expanding your social support network provides someone to hear your problems and offer a perspective on a stressful situation more objective than your own.

Source: C. J. Hobson and L. DeLunes, "Efficacy of Different Techniques for Reducing Stress: A Study Among Business Students in the United States," *International Journal of Management*, August 2009, pp. 186–196; M. Clayton, *Brilliant Stress Management: How to Manage Stress in Any Situation* (New York: FT Press, 2012); "Work Stress on the Rise: 8 in 10 Americans Are Stressed About Their Jobs, Survey Finds," *HuffingtonPost Healthy Living*, April 10, 2013; H. Hanna, *Stressaholic: 5 Steps to Transform Your Relationship with Stress* (Hoboken, NJ: Wiley, 2014); and H. Anisman, *Stress and Your Health: From Vulnerability to Resilence* (Hoboken, NJ: Wiley-Blackwell, 2015).



Innovation was the foundation of Thomas Edison's highly successful business enterprise. To stimulate innovation, Edison established an industrial research and development facility for creating new products and adapting them to the needs of users. His invention of a long-lasting electric light bulb and a power grid system to generate and deliver electricity brought power and light to individual homes and offices through the United States.
Source: Mondadori Portfolio/Getty Images

STIMULATING **Innovation**

LO6.6 Thomas A. Edison once said: "I find out what the world needs. Then I go ahead and try to invent it."[72] Today, innovation is the foundation of highly successful organizations. In fact, Ajay Banga, CEO of MasterCard, maintains that "innovation is the key to continued success."[73] In the dynamic, chaotic world of global competition, organizations must create new products and services and adopt state-of-the-art technology if they're going to compete successfully.[74]

What companies come to mind when you think of successful innovators? Maybe it's Apple with its iPad, iPhone, iPod, Apple Pay, and its wide array of computers. Maybe it's Google with its continually evolving Web platform. And Google is a good example of the new, faster pace of innovation. The company runs 50 to 200 online search experiments with users at any given time. In one instance, Google asked selected users how many search results they'd like to see on a single screen. The reply from the users was more, many more. So Google ran an experiment that tripled the number of search results per screen to 30. The result: traffic declined because "it took about a third of a second longer for search results to appear—a seemingly insignificant delay that nonetheless upset many of the users."[76] Google tried something new and quickly found out it wasn't something they wanted to pursue. Even Procter & Gamble, the global household and personal products giant, is doing the "vast majority of our concept testing online, which has created truly substantial savings in money and time," according to the company's global consumer and market knowledge officer.[77] What's the secret to the success of these and other innovator champions? What can other managers do to make their organizations more innovative? In the following sections, we'll try to answer those questions as we discuss the factors behind innovation.

FYI

- Only 28 percent of organizations consider themselves innovative.[75]

Creativity Versus Innovation

The definition of innovation varies widely, depending on who you ask. For instance, the Merriam-Webster dictionary defines innovation as "the introduction of something new" and "a new idea, method, or device; novelty." The CEO of the company that makes Bubble Wrap says, "It means inventing a product that has never existed." To the CEO of Ocean Spray Cranberries, it means "turning an overlooked commodity, such as leftover cranberry skins into a consumer snack like Craisins."[78] We're going to define it by first looking at the concept of creativity. **Creativity** refers to the ability to combine ideas in a unique way or to make unusual associations between ideas.[79] A creative organization develops unique ways of working or novel solutions to problems. But creativity by itself isn't enough. The outcomes of the creative process need to be turned into useful products or work methods, which is defined as **innovation**. Thus, the innovative organization is characterized by its ability to generate new ideas that are implemented into new products, processes, and procedures designed to be useful—that is, to channel creativity into useful outcomes. When managers talk about changing an organization to make it more creative, they usually mean they want to stimulate and nurture innovation.

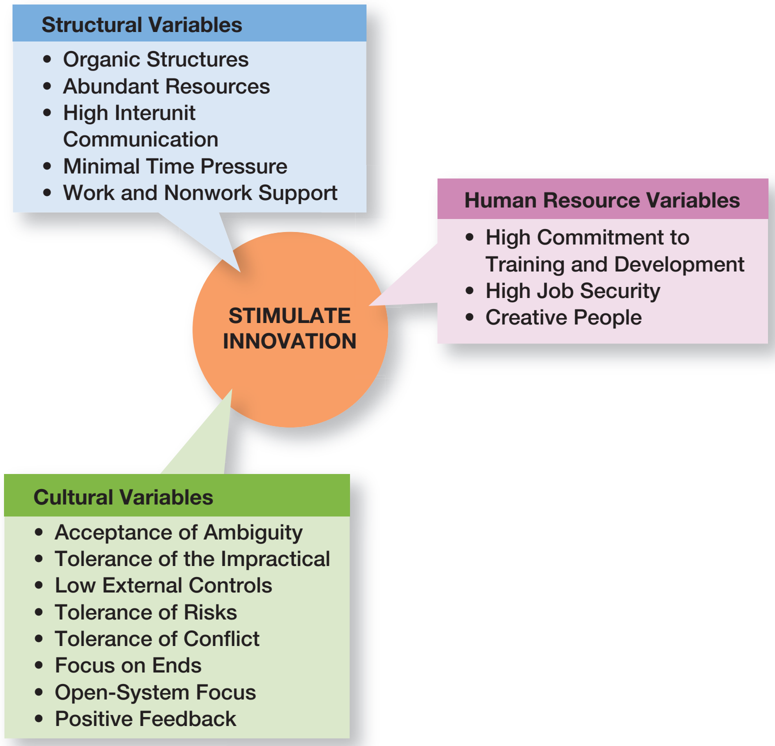
creativity
The ability to combine ideas in a unique way or to make unusual associations between ideas

innovation
Taking creative ideas and turning them into useful products or work methods

Stimulating and Nurturing Innovation

The systems model (see Management History Module, p. 75) can help us understand how organizations become more innovative.[80] Getting the desired outputs (innovative products and work methods) involves transforming inputs. These inputs include creative people and groups within the organization. But having creative people isn't enough. It takes the right environment to help transform those inputs into innovative products or work methods. This "right" environment—that is, an environment that stimulates innovation—includes three variables: the organization's structure, culture, and human resource practices. (See Exhibit 6-9.)

Exhibit 6-9
Innovation Variables



FUTURE VISION The Internet of Things

The "Internet of Things" (IoT) allows everyday "things" to generate and store data about their own performance and share that information across the Internet.[81] From industrial machines to kitchen appliances, the world of the IoT is growing quickly. With an estimated 21 billion IoT devices in our lives by the year 2020, the IoT is an innovation that businesses need to figure out how to embrace and benefit from. It is challenging to imagine how innovations resulting from the IoT could impact our daily lives.

We already have wearable technology that tracks how many steps we take and gives us advice on how to change to more healthy behaviors. But what if your refrigerator could take inventory of its own contents and restock itself by ordering food online to be delivered to your home? Or if your car knows you are on the way to a meeting and detects an upcoming traffic jam, so it sends a message to the meeting organizers to let them know you'll be late? The possibilities that the IoT provides are endless.

The IoT will not only provide us more products and services, but it also has potential to disrupt the supply chain in every industry. It can improve efficiency of manufacturing, customer service, and distribution. Manufactured products can diagnose their own problems and contact the manufacturer for solutions. These smart, connected products will challenge companies to rethink almost everything. Companies may need to change manufacturing processes, IT processes, logistics, marketing, and sales. Furthermore, these changes will require more intense coordination across these areas. So while the IoT is full of opportunities for businesses, the changes ahead will also create many challenges.

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

TALK ABOUT IT 1: Can you imagine some future innovations that the Internet of Things could create?

TALK ABOUT IT 2: How can organizations prepare for the changes in processes that the Internet of Things will require?

FYI

- 65 percent of companies innovate by integrating both the past and the future.[82]

STRUCTURAL VARIABLES An organization's structure can have a huge impact on innovativeness. Research into the effect of structural variables on innovation shows five things.[83] First, an organic-type structure positively influences innovation. Because this structure is low in formalization, centralization, and work specialization, it facilitates the flexibility and sharing of ideas that are critical to innovation. Second, the availability of plentiful resources provides a key building block for innovation. With an abundance of resources, managers can afford to purchase innovations, can afford the cost of instituting innovations, and can absorb failures. For example, at Smart Balance, Inc., the heart-healthy food developer uses its resources efficiently by focusing on product development and outsourcing almost everything else, including manufacturing, product distribution, and sales. The company's CEO says this approach allows them to be "a pretty aggressive innovator" even during economic downturns.[84] Third, frequent communication between organizational units helps break down barriers to innovation.[85] Cross-functional teams, task forces, and other such organizational designs facilitate interaction across departmental lines and are widely used in innovative organizations. For instance, Pitney Bowes, the mail and documents company, uses an electronic meeting place called IdeaNet, where its employees can collaborate and provide comments and input on any idea they think will help create new sources of revenue, improve profitability, or add new value for customers. IdeaNet isn't just an electronic suggestion box or open forum; employees are presented with specific idea challenges. A recent one involved how to expand its mail service business into new segments. Hundreds of employees from multiple functions and business units weighed in with ideas, and eight promising ideas were generated.[86] Fourth, innovative organizations try to minimize extreme time pressures on creative activities despite the demands of white-water rapids environments. Although time pressures may spur people to work harder and may make them feel more creative, studies show that it actually causes them to be less creative.[87] Companies such as Google, 3M, and Hewlett-Packard actually urge staff researchers to spend a chunk of their workweek on self-initiated projects, even if those projects are outside the individual's work area of expertise.[88] Finally, studies have shown that an employee's creative performance was enhanced when an organization's structure explicitly supported creativity. Beneficial kinds of support included things like encouragement, open communication, readiness to listen, and useful feedback.[89]

Watch It 2! If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *iRobot: Creativity and Innovation* and to respond to questions.

CULTURAL VARIABLES "Throw the bunny" is part of the lingo used by a product development team at toy company Mattel. It refers to a juggling lesson where team members learn to juggle two balls and a stuffed bunny. Most people easily learn to juggle two balls but can't let go of that third object. Creativity, like juggling, is learning to let go—that is, to "throw the bunny." And for Mattel, having a culture where people are encouraged to "throw the bunny" is important to its continued product innovations.[90]

Innovative organizations tend to have similar cultures.[91] They encourage experimentation, set creativity goals, reward both successes and failures, and celebrate mistakes. An innovative organization is likely to have the following characteristics.

- *Accept ambiguity*. Too much emphasis on objectivity and specificity constrains creativity.
- *Tolerate the impractical*. Individuals who offer impractical, even foolish, answers to what-if questions are not stifled. What at first seems impractical might lead to innovative solutions. Encourage entrepreneurial thinking.[92]
- *Keep external controls minimal*. Rules, regulations, policies, and similar organizational controls are kept to a minimum.

- *Tolerate risk*. Employees are encouraged to experiment without fear of consequences should they fail.[93] "Failure, and how companies deal with failure, is a very big part of innovation."[94] Treat mistakes as learning opportunities. You don't want your employees to fear putting forth new ideas. In an uncertain economic environment, it's especially important that employees don't feel they have to avoid innovation and initiative because it's unsafe for them to do so. A recent study found that one fear employees have is that their coworkers will think negatively of them if they try to come up with better ways of doing things. Another fear is that they'll "provoke anger among others who are comfortable with the status quo."[95] In an innovative culture, such fears are not an issue.
- *Tolerate conflict*. Diversity of opinions is encouraged. Harmony and agreement between individuals or units are *not* assumed to be evidence of high performance.
- *Focus on ends rather than means*. Goals are made clear, and individuals are encouraged to consider alternative routes toward meeting the goals. Focusing on ends suggests that several right answers might be possible for any given problem.[96]
- *Provide positive feedback*. Managers provide positive feedback, encouragement, and support so employees feel that their creative ideas receive attention.
- *Exhibit empowering leadership*. Be a leader who lets organizational members know that the work they do is significant. Provide organizational members the opportunity to participate in decision making. Show them you're confident they can achieve high performance levels and outcomes. Being this type of leader will have a positive influence on creativity.[97]

These Google Inc. employees working at the company's offices in Berlin, Germany, are encouraged to accept the inevitability of failure as part of the way to be innovative and successful. Google nurtures a culture of innovation that tolerates risks, encourages experimentation, and views mistakes as learning opportunities.
Source: Krisztian Bocsi/Bloomberg/Getty Images

let's get REAL

The Scenario:

The challenge to find new candidates is at the top of Katie Franklin's priority list. As a branch manager for a national temporary employee agency, Katie must lead her team to keep their database full of high-quality candidates to make sure the agency can quickly provide temporary employees to their clients on short notice. At the last staff meeting, Katie's team had a lot of creative ideas on how to recruit new candidates. However, a few weeks later none of the ideas have been developed and implemented. Creative ideas are great, but without implementation, they can't help the business.

How can Katie help her employees turn their creative ideas into innovative new practices?

Sounds like too many ideas with too little accountability. Bring the team back together and narrow the list of creative ideas down to a more manageable list, engaging the entire team in the dialogue. With only a few ideas to work through, delegate a leader and discuss the next best step for each one, jotting down a brief outline of action items, resources needed and due dates. Regularly check in with the team, removing roadblocks and discussing challenges. With employee time and resources at stake, if the idea is not producing results, you will want to know early on and put those resources toward the more successful ideas.

Christina Moser
Strategic Account Manager

Source: Christina Moser

idea champion
Individual who actively and enthusiastically supports new ideas, builds support, overcomes resistance, and ensures that innovations are implemented

HUMAN RESOURCE VARIABLES In this category, we find that innovative organizations actively promote the training and development of their members so their knowledge remains current; offer their employees high job security to reduce the fear of getting fired for making mistakes; and encourage individuals to become **idea champions**, actively and enthusiastically supporting new ideas, building support, overcoming resistance, and ensuring that innovations are implemented. Research finds that idea champions have common personality characteristics: extremely high self-confidence, persistence, energy, and a tendency toward risk taking. They also display characteristics associated with dynamic leadership. They inspire and energize others with their vision of the potential of an innovation and through their strong personal conviction in their mission. Denise Morrison, president and CEO of the Campbell Soup Company, is a good example of an idea champion. "There is power in helping people get excited about what they do, and inspiring and motivating them to unleash their full potential."[98] They're also good at gaining the commitment of others to support their mission. Ivanka Trump, EVP of development and acquisitions at Trump Organization, explains that "leadership is the ability to articulate a vision and unite a team of passionate people to bring that goal to life."[99] In addition, idea champions have jobs that provide considerable decision-making discretion. This autonomy helps them introduce and implement innovations in organizations.[100]

Innovation and Design Thinking

We introduced you to the concept of design thinking in Chapter 2 on decision making. Undoubtedly, a strong connection exists between design thinking and innovation. "Design thinking can do for innovation what TQM did for quality."[101] Just as TQM provides a process for improving quality throughout an organization, design thinking can provide a process for coming up with things that don't exist. When a business approaches innovation with a design-thinking mentality, the emphasis is on getting a deeper understanding of what customers need and want. The toy company LEGO, creator and manufacturer of LEGO building blocks since 1958, is an excellent example of an innovative company that employs design thinking. The company literally listens to what consumers prefer as well as what they don't prefer. Ricco Rejnholdt Krog, a design director at LEGO, states: "We're really listening [to the children], we're paying attention to what they say."[102] He gave the example that LEGO made changes to a police station box set "after a Chinese child complained there weren't enough get-away possibilities to make for exciting 'cops and robbers' play."[103] Moreover, LEGO leadership recognizes that children use digital technology—video games, iPads and smartphones—as part of their play activities.[104] The company has since created a line of programmable robots, including the popular R3PTAR.

A design-thinking mentality also entails knowing customers as real people with real problems—not just as sales targets or demographic statistics. But it also entails being able to convert those customer insights into real and usable products. For instance, at Intuit, the company behind TurboTax software, founder Scott Cook felt "the company wasn't innovating fast enough,"[105] so he decided to apply design thinking. He called the initiative "Design for Delight," and it involved customer field research to understand their "pain points"—that is, what most frustrated them as they worked in the office and at home. Then, Intuit staffers brainstormed (they nicknamed it "painstorm") a "variety of solutions to address the problems and experiment with customers to find the best ones." For example, one pain point uncovered by an Intuit team was how customers could take pictures of tax forms to reduce typing errors. Some younger customers, used to taking photos with their smartphones, were frustrated that they couldn't just complete their taxes on their mobiles. To address this, Intuit developed a mobile app called SnapTax, which the company says has been downloaded more than a million times since it was introduced in 2010. That's how design thinking works in innovation.

DISRUPTIVE Innovation

LO6.7 Twenty-five years ago, every Main Street and shopping mall in the United States had a bookstore. Chains like Borders and Barnes & Noble had hundreds of locations. In addition, there were literally thousands of small bookstores scattered across America. Then along came Amazon.com. Amazon offered book buyers a million-plus titles at super-low prices, all accessible without leaving the comfort of home. Amazon single-handedly disrupted the brick-and-mortar bookstore.

Definition

Disruptive innovation describes innovations in products, services or processes that radically change an industry's rules of the game.[106] Oftentimes, a smaller company with fewer resources successfully challenges established companies.[107] Those smaller companies prove themselves to be disruptive by serving overlooked segments of possible consumers with products or services at relatively low prices. Although the term "disruptive innovation" is relatively new, the concept isn't. For instance, economist Joseph Shumpeter used the term "creative destruction" more than 70 years ago to describe how capitalism builds on processes that destroy old technologies but replaces them with new and better ones.[108] That, in essence, is disruptive innovation.

disruptive innovation
Innovations in products, services or processes that radically change an industry's rules of the game

In practice, disruptive innovation has been around for centuries. Vanderbilt's railroads disrupted the sailing-ship business. Alexander Bell's telephone rang the death-knell for Western Union's telegraphy. Ford and other automobile builders destroyed horse-drawn-buggy manufacturers. As Exhibit 6-10 illustrates, there is no shortage of businesses that have suffered at the expense of disruptive innovation.

It's helpful to distinguish disruptive innovation from sustaining innovation. When most of us think of innovations, we tend to think of things like the introduction of the high-definition television, back-up cameras on cars, fingerprint technology on

Exhibit 6-10
Examples of Past Disruptive Innovators

Established Business	Disruptor
Compact disc	Apple iTunes
Carbon paper	Xerox copy machine
Canvas tennis shoes	Nike athletic shoes
Portable radio	Sony Walkman
Sony Walkman	Apple iPod
Typewriters	IBM PC
Weekly news magazines	CNN
TV networks	Cable and Netflix
Local travel agencies	Expedia
Stockbrokers	eTrade
Traveler's checks	ATMs and Visa
Encyclopedias	Wikipedia
Newspaper classified ads	Craig's List
AM/FM radio stations	Sirius XM
Tax preparation services	Intuit's Turbo Tax
Yellow Pages	Google
Paper maps	Garmin's GPS
Paperback books	Kindle
Lawyers	Legal Zoom
Taxis	Uber

sustaining innovation
Small and incremental changes in established products rather than dramatic breakthroughs

smartphones, or Double Stuf Oreos. These are examples of **sustaining innovation** because they sustain the status quo. They represent small and incremental changes in established products rather than dramatic breakthroughs. While the original television set disrupted the radio industry, high-def TV just improved the quality of the TV picture.

Why Disruptive Innovation Is Important

It's often said that "success breeds success." But success can also breed failure. How? Companies that are successful tend to grow. With growth comes expanded size. And as we'll describe, large size frequently makes successful companies vulnerable to disruptive competitors.

Large organizations create rules and regulations to standardize operations. They create multiple departments with defined areas of responsibility. And they create socialization processes—like new-employee orientations and corporate handbooks—that convey to employees "the way we do things around here." The result is that these successful organizations establish entrenched cultures and values that, on one hand, guide employees, but, on the other hand, also act as constraints on change. Companies like Kodak, Polaroid, and Woolworths were iconic companies in their day that became hostage to their previous successes—and it led to their eventual decline.

New ideas for products or services that differ significantly from the status quo are a threat to the established power structure within large companies. And as we'll elaborate later, entrenched cultures tend to be threatened by disruptive ideas. For instance, when Ross Perot worked for IBM and suggested that the company move into the computer services' business, he was told that IBM sold computer hardware, not services. Perot resigned, created EDS Corp. to provide computer support, and became a billionaire. Similarly, when Xerox engineers invented the computer mouse and the graphical user interface, which would ultimately become the standard for personal computers, Xerox executives dismissed these products with "we're in the copying business," and then literally gave the inventions to Steve Jobs and Apple. Jobs then featured these innovations on Apple's Mac computer.

The fact is that disruptive innovations are a threat to many established businesses, and responding with sustaining innovations isn't enough. Making incremental improvements to the BlackBerry smartphone, for instance, couldn't help its manufacturer compete against the far superior iOS and Android devices from Apple and Samsung. Of course, all "disruptive" innovations don't succeed. The radical nature of the changes they initiate implies a high level of risk. The Segway "personal transporter" was introduced with much fanfare. It was hyped as a replacement to the automobile for short trips. It didn't happen. Similarly, the Google Glass wearable computer was promoted as a hands-free disruptive replacement for a smartphone, but it failed in the marketplace.

Who's Vulnerable?

So which businesses are most vulnerable to disruptive innovations? The answer, as alluded to previously, is large, established, and highly profitable organizations. Why? Because they have the most to lose and are most vested in their current markets and technologies.

Successful organizations focus on what they do best. They repeat what has succeeded in the past, and they put their resources into the ventures that have the highest probability of generating maximum profits. Small markets, which typically describe those applicable to early disruptive innovations, don't fit with the growth needs of large organizations. Importantly, large organizations have distinct cultures and values that define their capabilities and limit their ability to move into new products or markets. Sears' management, for instance, might have seen a need for discount department stores in the 1970s, but it didn't have the personnel, buying channels, structure, or low-cost locations to move into this market. Upstart Walmart didn't have those limitations and was able to radically disrupt the market. Similarly, Tesla was able to conceive, design, and produce an electric car in a time frame and at a quality level that could never have been done by a General Motors.

Disruptive innovations, especially at the beginning, typically apply to emerging or small markets and project lower profits than a firm's mainline products. And their novelty has little or no appeal to the organization's most profitable customers. Ken Olson, founder of Digital Equipment Corporation, said in 1977, "there is no reason anyone would want a computer in their home." What he was acknowledging was that he couldn't see investing DEC resources into microcomputers when his company was making huge profits from selling much larger systems. And his customers were perfectly happy with DEC's larger systems. So large and successful companies are motivated to repeat what has succeeded in the past and invest in ideas that offer the highest probability of generating maximum profits—and those aren't disruptive innovations. This is why, for instance, VW, Honda, and Toyota were able to disrupt the U.S. auto market by introducing compact cars. GM, Ford, and Chrysler were initially reluctant to pursue this market segment because they made their money making big cars.

Which businesses or occupations are currently in the throes of disruptive innovation? Here's a few: bank tellers (to ATMs), camera manufacturers (smartphones), financial services (to online providers), and travel agents (to online travel services). Which others may be vulnerable in the near future? General Motors (the Google car), actuaries (computer algorithms), maintenance personnel (robotics), truck drivers (self-driving vehicles), model builders (3-D printers), and pipeline workers and oil drillers (renewable energy) are vulnerable.

Implications

Disruptive innovation has the potential to upend entrepreneurs, corporate managers, and even your career plans. Let's take a specific look at what the future might hold for each.

FOR ENTREPRENEURS. Think opportunity! Entrepreneurs thrive on change and innovation. Major disruptions open the door for new products and services to replace established and mature businesses. If you're looking to create a new business with a large potential upside, look for established businesses that can be disrupted with a cheaper, simpler, smaller, or more convenient substitute.

"Despite their endowments in technology, brand names, manufacturing prowess, management experience, distribution muscle, and just plain cash, successful companies populated by good managers have a genuinely hard time doing what does not fit their model for how to make money."[109] So lack of resources, which create high barriers of entry into established markets, isn't a critical liability for entrepreneurs. The small size of new entrepreneurial firms typically comes with low overhead and a minimal cost structure, which can translate into a huge competitive advantage. Large companies come with big overhead; bureaucratic rules, regulations, and hierarchies that limit flexibility and speed of response; and entrenched cultures that are highly effective at killing ideas that don't fit neatly into their current business models.

FOR CORPORATE MANAGERS. For managers in large, successful businesses, the challenge to disruptive innovation is to create an appropriate response. Contrary to popular belief, management in these organizations is not powerless. They can become disruptive innovators themselves. But the evidence is overwhelming that their disruptive response must be carried out by a separate group that is physically and structurally disconnected from the businesses' main operations. "With few exceptions, the only instances in which mainstream firms have successfully established a timely position in a disruptive technology were those in which the firms' managers set up an autonomous organization charged with building a new and independent business around the disruptive technology."[110] This can be achieved by either creating a new business from scratch or acquiring a small company and keeping it separate.

These separate groups are frequently referred to as **skunk works**—defined as a small group within a large organization, given a high degree of autonomy and

skunk works
A small group within a large organization, given a high degree of autonomy and unhampered by corporate bureaucracy, whose mission is to develop a project primarily for the sake of radical innovation

unhampered by corporate bureaucracy, whose mission is to develop a project primarily for the sake of radical innovation. These skunk works, in effect, are entrepreneurial operations running inside a large company. Their small size allows employees to be enthusiastic about their mission and to see the impact of their efforts. To be successful, however, they can't carry the cultural values or cost structure of the main organization. They need enough autonomy so that they don't have to compete with projects in the primary organization for resources.

IBM succeeded in developing a personal computer by creating a product team and locating it in Florida—some 1,200 miles from IBM's headquarters in Armonk, New York. Steve Jobs created a separate and autonomous unit at Apple to develop the Macintosh computer. And in 2010, Google created the X Lab, a semisecret facility located a half mile from the company's corporate headquarters, whose 50-member team was assigned the challenge of developing a self-driving car. In contrast, Johnson & Johnson has aggressively bought numerous small companies, kept them independent, and provided them with a large degree of autonomy.

FOR CAREER PLANNING. What career advice can we offer you in a disruptive world? Here are some suggestions:

Never get comfortable with a single employer. You can't build your hopes on working in one organization for your entire career. There are no longer any secure jobs, and the days of an organization providing employees with lifetime employment are mostly gone. So, your first loyalty should be to yourself and making yourself marketable.

Keep your skills current. Disruptive technologies will continue to make established jobs and professions obsolete. To keep yourself marketable, you need to keep your skills current. Learning no longer ends when you finish school. You need to make a continual commitment to learning new things.

You are responsible for your future. Don't assume your employer is going to be looking out for your long-term interests. Your personal skill development, career progression, and retirement plans are all decisions that you need to make. Don't delegate your future to someone else. You need to actively manage your career.

Take risks while you're young. Few people have achieved great results without taking a risk. They quit a secure job, or went back to school, or moved to a new city, or started a business. While risks don't always pay off, setbacks or failures are much easier to recover from when you're 25 than when you are 55.

Chapter 6 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO6.1 DESCRIBE making the case for change.

Organizational change is any alteration of people, structure, or technology. A change agent acts as a catalyst and assumes responsibility for the change process. External forces that create the need for change include changing consumer needs and wants, new governmental laws, changing technology, and economic changes. Internal forces that create a need for change include a new organizational strategy, a change in the composition of the workforce, new equipment, and changing employee attitudes.

LO6.2 COMPARE and contrast views on the change process.

The calm waters metaphor suggests that change is an occasional disruption in the normal flow of events and can be planned and managed as it happens. Lewin's three-step model says change can be managed by unfreezing the status quo (old behaviors), changing to a new state, and refreezing the new behaviors. In the white-water rapids metaphor, change is ongoing and managing it is a continual process. Organizations can take a reactive or a proactive change process approach.

LO6.3 CLASSIFY areas of organizational change.

Organizational change can focus on strategy, structure, technology, or people. Changing strategy signifies a change in how managers ensure the success of the company. Changing structure involves any changes in structural components or structural design. Changing technology involves introducing new equipment, tools, or methods; automation; or computerization. Changing people involves changing attitudes, expectations, perceptions, and behaviors. Organizational development is the term used to describe change methods that focus on people and the nature and quality of interpersonal relationships.

LO6.4 EXPLAIN how to manage change.

People resist change because of uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.

The techniques for reducing resistance to change include education and communication (educating employees about and communicating to them the need for the change), participation (allowing employees to participate in the change process), facilitation and support (giving employees the support they need to implement the change), negotiation (exchanging something of value to reduce resistance), manipulation and co-optation (using negative actions to influence), and coercion (using direct threats or force).

LO 6.5 DISCUSS contemporary issues in managing change.

Managers at all levels of the organization must lead the change process through making the organization change capable, understanding their own role in the process, and giving individual employees a role in the change process. An organization's culture is made up of relatively stable and permanent characteristics, which makes it difficult to change. Managers can create a culture of change through understanding the situational factors that facilitate change. Managers must have a strategy for managing cultural change, which includes being positive role models; creating new stories, symbols, and rituals; selecting, promoting, and supporting employees who adopt the new values; redesigning socialization processes; changing the reward system; clearly specifying expectations; shaking up current subcultures; and getting employees to participate in change.

Organizational change can cause employees to experience stress. Stress is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities. To help employees deal with stress, managers can address job-related factors by making sure an employee's abilities match the job requirements, improve organizational communications, use a performance planning program, or redesign jobs. Addressing personal stress factors is trickier, but managers could offer employee counseling, time management programs, and wellness programs.

LO6.6 DESCRIBE **techniques for stimulating innovation.**

Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Innovation is turning the outcomes of the creative process into useful products or work methods. Important structural variables that impact innovation include an organic-type structure, abundant resources, frequent communication between organizational units, minimal time pressure, and support. Important cultural variables include accepting ambiguity, tolerating the impractical, keeping external controls minimal, tolerating risk, tolerating conflict, focusing on ends not means, using an open-system focus, providing positive feedback, and being an empowering leader. Important human resource variables include high commitment to training and development, high job security, and encouraging individuals to be idea champions.

A close and strong connection exists between design thinking and innovation. It involves knowing customers as real people with real problems and converting those insights into usable and real products.

LO6.7 EXPLAIN **why managing disruptive innovation is important.**

Disruptive innovation exists when a smaller company with fewer resources is able to successfully challenge established incumbent businesses. Disruptive innovation presents an asset to organizations that recognize the market potential of the technology. Companies can become a victim of disruptive innovation when they choose to conduct business as usual.

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✪ REVIEW AND DISCUSSION QUESTIONS

6-1. Identify and discuss the four key internal forces of change.

6-2. With an example, explain the term organizational development.

6-3. What are the three ways to address people's resistance to change?

6-4. Distinguish between role overload and role ambiguity with the help of examples.

6-5. What are the common techniques that can be used to minimize resistance to change?

6-6. Why do people resist change, even though they may carry the potential for a better tomorrow? Discuss.

6-7. Job stress is a major problem for employees working in many organizations today. What causes job stress and what can a manager do to reduce job-related stress for employees? Discuss.

6-8. Is it possible for managers to spot the warning signs of stress among their employees? Discuss.

> **Pearson MyLab Management**
>
> If your professor has assigned these, go to **mymanagementlab.com** for the following Assisted-graded writing questions:
>
> **6-9.** Explain how you would handle employees fearful and anxious about change.
>
> **6-10.** Describe the structural, cultural, and human resources variables that are necessary for innovation.

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENTS

PERSONAL INVENTORY ASSESSMENT

Are You a Type A Personality?

Do you think you're a Type A personality? Take this PIA and find out so you can better control the negative aspects of being a Type A!

ETHICS DILEMMA

Change usually involves some kind of modification in the way a business does things. Invariably it means alterations in products or services, and processes. Research seems to suggest that organizations undergo some form of change every three years. Within that three-year cycle there are constant minor changes taking place. The fact is that change often means restructuring, redundancies, and alterations in working practices. Change can alter almost everything and challenges people's perceptions.[111]

6-11. Why is it absolutely necessary to ensure that change is managed in an ethical way?

6-12. What is the role of a change agent and how does it ensure that change is achieved ethically?

SKILLS EXERCISE Developing Your Change Management Skill

About the Skill

Managers play an important role in organizational change. That is, they often serve as a catalyst for the change—a change agent. However, managers may find that change is resisted by employees. After all, change represents ambiguity and uncertainty, or it threatens the status quo. How can this resistance to change be effectively managed? Here are some suggestions.[112]

Steps in Practicing the Skill

- ***Assess the climate for change.*** One major factor in why some changes succeed while others fail is the readiness for change. Assessing the climate for change involves asking several questions. The more affirmative answers you get, the more likely it is that change efforts will succeed. Here are some guiding questions:
  a. Is the sponsor of the change high enough in the organization to have power to effectively deal with resistance?
  b. Is senior management supportive of the change and committed to it?
  c. Do senior managers convey the need for change, and is this feeling shared by others in the organization?
  d. Do managers have a clear vision of how the future will look after the change?
  e. Are objective measures in place to evaluate the change effort, and have reward systems been explicitly designed to reinforce them?
  f. Is the specific change effort consistent with other changes going on in the organization?
  g. Are managers willing to sacrifice their personal self-interests for the good of the organization as a whole?
  h. Do managers pride themselves on closely monitoring changes and actions by competitors?
  i. Are managers and employees rewarded for taking risks, being innovative, and looking for new and better solutions?
  j. Is the organizational structure flexible?
  k. Does communication flow both down and up in the organization?
  l. Has the organization successfully implemented changes in the past?
  m. Are employees satisfied with, and do they trust, management?
  n. Is a high degree of interaction and cooperation typical between organizational work units?
  o. Are decisions made quickly, and do they take into account a wide variety of suggestions?
- ***Choose an appropriate approach for managing the resistance to change.*** In this chapter, six strategies have been suggested for dealing with resistance to change—education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. Review Exhibit 6-5 (p. 224) for the advantages and disadvantages and when it is best to use each approach.

- ***During the time the change is implemented and after the change is completed, communicate with employees regarding what support you may be able to provide.*** Your employees need to know you are there to support them during change efforts. Be prepared to offer the assistance that may be necessary to help them enact the change.

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 suggestions for managing resistance to change.

You're the nursing supervisor at a community hospital employing both emergency room and floor nurses. Each of these teams of nurses tends to work almost exclusively with others doing the same job. In your professional reading, you've come across the concept of cross-training nursing teams and giving them more varied responsibilities, which in turn has been shown to improve patient care while lowering costs. You call the two team leaders, Sue and Scott, into your office to discuss your plan to have the nursing teams move to this approach. To your surprise, they're both opposed to the idea. Sue says she and the other emergency room nurses feel they're needed in the ER, where they fill the most vital role in the hospital. They work special hours when needed, do whatever tasks are required, and often work in difficult and stressful circumstances. They think the floor nurses have relatively easy jobs for the pay they receive. Scott, leader of the floor nurses team, tells you that his group believes the ER nurses lack the special training and extra experience that the floor nurses bring to the hospital. The floor nurses claim they have the heaviest responsibilities and do the most exacting work. Because they have ongoing contact with the patients and their families, they believe they shouldn't be pulled away from vital floor duties to help ER nurses complete their tasks. Now—what would you do?

WORKING TOGETHER Team Exercise

Let's see how creative you can be! Form teams of 3–4 people. From the list below, choose one activity to complete (or your professor may assign you one).

- How could you recycle old keys? Come up with as many suggestions as you can. (The more the better!)
- Think about different uses for a golf tee. Be as creative as possible as you list your suggestions.
- List different ways that a brick can be used. See how many ideas you can come up with. Think beyond the obvious.

MY TURN TO BE A MANAGER

- Choose two organizations you're familiar with and assess whether these organizations face a calm waters or white-water rapids environment. Write a short report describing these organizations and your assessment of the change environment each faces. Be sure to explain your choice of change environment.
- Reflect on a significant change you've experienced in your life (for example, moving to a new school, going to college, or a family problem such as a divorce). Did you resist the change? Why? Did you use any strategies to adjust to the change? What could you have done differently? Write your reflection and make note of how you could effectively manage future changes in your life.
- Choose an organization with which you're familiar (employer, student organization, family business, etc.). Describe its culture (shared values and beliefs). Select two of those values/beliefs and describe how you would go about changing them. Put this information in a report.
- When you find yourself experiencing dysfunctional stress, write down what's causing the stress, what stress symptoms you're exhibiting, and how you're dealing with the stress. Keep this information in a journal and evaluate how well your stress reducers are working and how you could handle stress better. Your goal is to get to a point where you recognize that you're stressed and can take positive actions to deal with the stress.
- Visit www.testmycreativity.com to take an assessment to measure your creativity. What is your level of creativity in comparison with others? What are your strengths? Your weaknesses? Do you agree with the assessment?
- Research information on how to be a more creative person. Write down suggestions in a bulleted-list format and be prepared to present your information in class.
- Is innovation more about (1) stopping something old or (2) starting something new? Prepare arguments supporting or challenging each view.

CASE APPLICATION 1 A. S. Watson Group

Founded in 1828, the A. S. Watson Group began as a small dispensary in southern China's Guangdong Province. In 1841, the dispensary was relocated to Hong Kong, and the company officially traded under the name A. S. Watson & Company since the 1870s. In 1981, it was acquired by Hutchinson Whampoa—a Hong Kong conglomerate controlled by business magnate Sir Ka-Shing Li. Benefiting from Hutchinson Whampoa's solid economic strength, A. S. Watson launched a number of mergers and acquisitions in Asia and Europe in the late 1990s. For example, in 2000, it entered the United Kingdom by acquiring Savers Health & Beauty. In 2002, the company expanded its European business by acquiring Dutch Kruidvat Group. In 2014, Singapore's Temasek, a state-owned investment company, paid $5.7 billion to acquire a 25 percent stake in Ka-shing's Watson. Today, A. S. Watson Group is one of the largest health and beauty retail groups with more than 12,000 stores operating in more than 30 countries. Its business spans from health and beauty products and luxury perfumeries and cosmetics to food, beverages (fine wine, bottled water, fruit juice, and tea drinks), and electronic products.[113]

Despite the successes, managers at A. S. Watson Group find it difficult to integrate newly acquired businesses with existing ones. How to transfer a local pharmacy into a global health and beauty retail group is a huge challenge for the company's senior managers. Effective procurement, efficient logistics, and distribution systems can help to achieve positive financial returns in the retail industry. Indeed, many retailers endeavour to maintain efficient distribution systems, lower labor costs, and firm-level economies that give them bargaining powers over their suppliers in order to cut costs. Compared to many other big players in this field who rely on price wars and low costs to gain sales revenue and expand market share, A. S. Watson is gaining competitive advantage by providing unique shopping experiences to its customers.

In recent years, A. S. Watson Group highlighted its uniqueness with the proposition to help customers to "Look Good, Feel Great, and Have Fun." A. S. Watson Group adopts a set of employee training modes to not only improve staff's product knowledge, sales, and service skills but also to promote the group's business philosophy to each employee. The top management team believes that appropriate training will facilitate employees to understand the company's strategy and, hence, smooth its change from a regional company to a global retailer.

Following these managerial techniques, A. S. Watson Group has expanded its business in a creative way. The company introduced a "personal care store" concept in more than 15 Asian countries and regions, offering food, drugs, and health and beauty products. Compared to traditional "one-stop" supermarkets (e.g., Walmart, Tesco, and Carrefour) and local cosmetics boutiques, an A. S. Watson Group personal care store emphasizes excellent customer services and sells its own brand products. Although its own brands account for an average of 15 percent of all sales in the retail sector in developed countries, this branding strategy was at the introduction stage in Asian countries in the 1990s. This new business model caters to local emerging middle-class tastes and thus sets up the new industrial standard in many Asian countries. So what have made A. S. Watson Group and its personal care stores successful in Asia? The economic strength from its parent company? Its international mergers and acquisition strategy? Or managerial capabilities that enable A. S. Watson Group to identify market niches in Asian economies and then creatively implement a "personal care store" concept to fill the niche? It seems like there is no single answer to this question. A. S. Watson Group was the first retailer to realize the importance of the emerging middle-class customers and develop a business model to meet their needs. However, such first-movers advantage will not be sustainable as competitors can easily imitate its business model. Into its 175th year of operation, the firm's continued success depends on its competency to provide innovative products and services in response to individual market preferences.

DISCUSSION QUESTIONS

6-13. What kind of change processes did A. S. Watson Group experience since the late 1990s? Discuss the activities that were conducted to smooth the change.

6-14. What's your interpretation of the company's philosophy "Look Good, Feel Great, and Have Fun"? How does such philosophy make A. S. Watson Group's personal care store differ from its competitors?

6-15. What could other companies learn from A. S. Watson Group's "new business model"?

6-16. What underpins A. S. Watson Group's success?

CASE APPLICATION 2 The iPhone: A Technology Disruptor

In early 2007, after 30 years as a computer company, Apple Computers, Inc. became Apple, Inc., dropping "Computer" from the company name.[114] Apple would still make computers, but with the introduction of the iPhone, Apple became more than just a computer company. The iPhone, which further developed the iPod by merging it with a cell phone, was about to disrupt the entire personal computing industry. The introduction of the iPhone clearly threatened the smartphones on the market at the time; however, the iPhone's impact ultimately was broader than anyone could have predicted. Essentially, the iPhone was a game changer, creating a new mobile computing market.

The iPhone initially competed with smartphones such as the BlackBerry and it was immediately successful because it was a better product. However, the iPhone moved on to create competition in the laptop computer market due to a key feature, a new way to access the Internet. Far easier and more convenient than the laptop, the iPhone connected users to the Internet on the go with easy, touchscreen technology. Ultimately the iPhone was the catalyst for a new mobile computing market as the product merged cellphone and Internet services into a single device.

Within a year of the launch of the iPhone, there were 5.4 million users, and developers created more than 17,000 "web applications" now known as "apps." This new app market changed the way we look at software. Instead of software created by a small number of large software development companies, the evolution of the app created a new mini-economy of software developers. This new market led to a new group of entrepreneurs creating businesses around mobile applications. Before the iPhone, companies such as Twitter and Snapchat could not have existed.

The introduction of apps allowed consumers to create a customized product with their iPhone as users could download apps based on their own needs and preferences. The demand for customization and easy access led technology companies to respond, essentially shifting the direction of the personal computing industry. The iPhone led to the development of the iPad and the entire tablet market. The laptop market also responded by integrating the features that consumers prefer, including the ability to install apps and touchscreen access.

The iPhone created a disruption in the technology world through its innovative business model that created a new market for access to the Internet. App developers and phone users were connected and the impact shifted not only the cellphone industry, but also challenged the laptop market. Apple isn't finished yet. With the company's innovations, the mobile computing market continues to evolve, most recently with the introduction of the Apple Watch. What's next?

DISCUSSION QUESTIONS

6-17. Are you surprised about the impact that the iPhone has had on the technology marketplace? Why or why not?

6-18. Why is the iPhone considered a disruptive innovation?

6-19. Apple is known as an innovative company. Why do you think Apple has been able to stimulate innovation successfully?

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Chapter 7

Constraints on Managers

It's Your Career

Source: Robuart/Shutterstock.

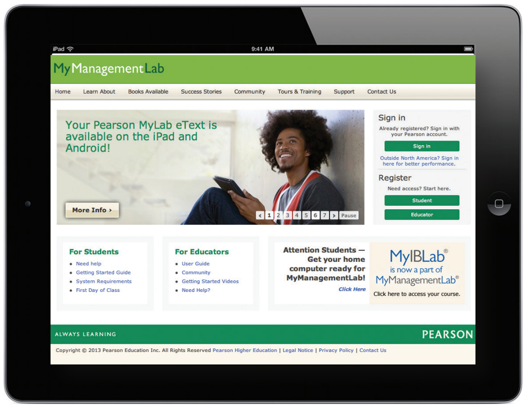
A key to success in management and in your career is knowing how to "read" an organization's culture so you can find one in which you'll be happy.

Reading an Organization's Culture: Find One Where You'll Be Happy

Wouldn't it be nice to one day find a job you enjoy in an organization you're excited to go to every day (or at least most days!)? Although other factors influence job choice, an organization's culture can be an important indicator of "fit." Organizational cultures differ and so do individuals. Being able to "read" an organization's culture should help you find one that's right for you. By matching your personal preferences to an organization's culture, you are more likely to find satisfaction in your work, are less likely to leave, and have a greater probability of getting positive performance evaluations. Here's a list of things you can do to "read" culture:

*1. **Do background work.** Check out the company's website. What impression do you get from it? Are corporate values listed? Mission statement? Look for current news items about the company, especially for evidence of high turnover or recent management shake-ups. Look for clues in stories told in annual reports and other organizational literature. Get the names of former employees if you can and talk with them. You might also talk with members of professional trade associations to which the organization's employees belong.*

*2. **Observe the physical surroundings and corporate symbols.** Pay attention to logos, signs, posters, pictures, photos, style of dress, length of hair, degree of openness between offices, and office furnishings and arrangements. Where do employees park? What does the physical condition of the building and offices look like? What does the office layout look like? What activities are encouraged or discouraged by the physical layout? What do these things say about what the organization values? Could you see yourself working there—and enjoying it?*



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Learning Objectives

SKILL OUTCOMES

7.1 ***Contrast*** *the actions of managers according to the omnipotent and symbolic views.*

7.2 ***Describe*** *the constraints and challenges facing managers in today's external environment.*

- **Develop your skill** at scanning the environment so you can anticipate and interpret changes taking place.

7.3 ***Discuss*** *the characteristics and importance of organizational culture.*

- **Know how** to read and assess an organization's culture.

7.4 ***Describe*** *current issues in organizational culture.*

3. How would you characterize the people you meet? *Are they formal? Casual? Serious? Jovial? Open? Restrained in providing information? What stories are repeated? Are jokes/anecdotes used in conversation? How are employees addressed? What do job titles say about the organization? Does the organization's hierarchy appear to be strict or loose? What do these things say about what the organization values?*

4. Look at the organization's HR manual (if you can). *Are there formal rules and regulations? How detailed are they? What do they cover? Could you see yourself working within these parameters?*

5. Ask questions of the people you meet. *For instance: What's the background of current senior managers? Were they promoted from within or hired from the outside? What does the organization do to get new employees up and running? How is job success defined/determined? What rituals are important, and what events get commemorated? Why? Can you describe a decision that didn't work out well, and what the consequences were for that decision maker? Could you describe a crisis or critical event that occurred recently in the organization and how top management responded? What do these things say about what the organization values?*

When you apply for a job, much about the organization's culture is right there for you to see. Know the clues to look for and decide if it's for you!

In this chapter, we're going to look at culture and other important aspects of management's context. We'll examine the challenges in the external environment and discuss the characteristics of organizational culture. But before we address these topics, we first need to look at two perspectives on how much impact managers actually have on an organization's success or failure.

THE MANAGER: omnipotent or symbolic?

LO7.1 Is one CEO better than three? LG Electronics, a South Korean company with 77,000 employees working in 125 nations, appointed three top executives as co-CEOs in 2014. After less than three years, however, LG named one of the three as sole company CEO. The firm also streamlined its management structure in India and other regions. The goal: to speed up decision making in the face of fierce competition, difficult economic conditions, and other challenges.[1]

How much difference *does* a manager make in how an organization performs? The dominant view in management theory and society in general is that managers are directly responsible for an organization's success or failure. We call this perspective the **omnipotent view of management**. In contrast, others have argued that much of an organization's success or failure is due to external forces outside managers' control. This perspective is called the **symbolic view of management**. Let's look at each perspective to try and clarify just how much credit or blame managers should get for their organization's performance.

omnipotent view of management
The view that managers are directly responsible for an organization's success or failure

symbolic view of management
The view that much of an organization's success or failure is due to external forces outside managers' control

The Omnipotent View

In Chapter 1, we stressed how important managers were to organizations. Differences in an organization's performance are assumed to be due to the decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor performance, and lead their organizations. When profits are up, managers take the credit and are rewarded with bonuses, stock options, and the like. When profits are down, top managers are often fired in the belief that "new blood" will bring improved results. For instance, Twitter Chief Executive Jack Dorsey fired the head of engineering, summoning "bold rethinking" as the company's growth has slowed.[2] In the omnipotent view, someone has to be held accountable when organizations perform poorly regardless of the reasons, and that "someone" is the manager. Of course, when things go well, managers also get the credit—even if they had little to do with achieving the positive outcomes.

This view of managers as omnipotent is consistent with the stereotypical picture of the take-charge business executive who overcomes any obstacle in seeing that the organization achieves its goals. And this view isn't limited to business organizations. It also explains turnover among college and professional sports coaches, who are considered the "managers" of their teams. Coaches who lose more games than they win are usually fired and replaced by new coaches who are expected to correct the poor performance.

The Symbolic View

In the 2000s, online auction site eBay was the picture of success. Growing rapidly, the company's stock value rose at a healthy pace, satisfying shareholders. However, interest in online auctions has declined more recently, which poses a threat to eBay's long-term viability. In a short period, eBay's stock price declined more than 80 percent in value. The company diversified its business portfolio by acquiring PayPal and creating web design services for companies. Still, eBay has been struggling to remain competitive, particularly as competition from firms such as Amazon.com intensified. Was declining performance due to the managers' decisions and actions, or was it due to external circumstances beyond their control? The symbolic view would suggest the latter.

The symbolic view says that a manager's ability to affect performance outcomes is influenced and constrained by external factors.[3] According to this view, it's unreasonable to expect managers to significantly affect an organization's performance. Instead, performance is influenced by factors over which managers have little control, such as the economy, customers, governmental policies, competitors' actions, industry conditions, and decisions made by previous managers.

This view is labeled "symbolic" because it's based on the belief that managers symbolize control and influence.[4] How? By developing plans, making decisions, and

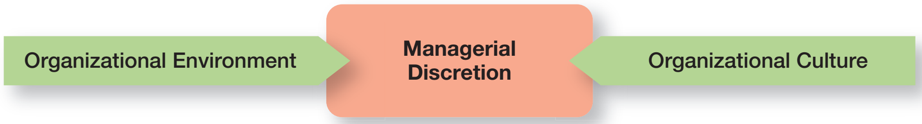


Exhibit 7-1
Constraints on Managerial Discretion

engaging in other managerial activities to make sense out of random, confusing, and ambiguous situations. However, the actual part that managers play in organizational success or failure is limited according to this view.

In reality, managers are neither all-powerful nor helpless. But their decisions and actions are constrained. As you can see in Exhibit 7-1, external constraints come from the organization's environment and internal constraints come from the organization's culture.

THE EXTERNAL ENVIRONMENT: constraints and challenges

LO7.2 Digital technology has disrupted all types of industries—from financial services and retail to entertainment and automotive. Choosing to embrace these changes, BMW borrowed a page from Apple's playbook and decided to replace its old way of doing things at dealerships.[5] Rather than the standard rows of cars, banners, and showroom cubicles, BMW has brought in "BMW Geniuses" to help shoppers better understand and to demonstrate the complex technology now in cars. Other car manufacturers are doing similar things. For instance, General Motors has worked with its dealerships to install "connection centers" in showrooms. Anyone who doubts the impact the external environment has on managing just needs to look at what's happened in the automotive industry and many other industries during the last few years.

The term **external environment** refers to factors and forces outside the organization that affect its performance. As shown in Exhibit 7-2, it includes several different components. The economic component encompasses factors such as interest rates, inflation, changes in disposable income, stock market fluctuations, and business cycle stages. The demographic component is concerned with trends in population characteristics such as age, race, gender, education level, geographic location, income, and family composition. The political/legal component looks at federal, state, and local laws as well as global laws and laws of other countries. It also includes a country's political conditions and stability. The sociocultural component is concerned with societal and cultural factors such as values, attitudes, trends, traditions, lifestyles, beliefs, tastes, and patterns of behavior. The technological component is concerned with scientific or industrial innovations. The global component encompasses those issues associated with globalization and a world economy. Although all these components pose potential constraints on managers' decisions and actions, we're going to take a closer look at two of them—the economic and demographic—by looking at how changes taking place in those components constrain managers and organizations. Then, we'll wrap up this section by examining environmental uncertainty and stakeholder relationships.

external environment
Those factors and forces outside the organization that affect its performance

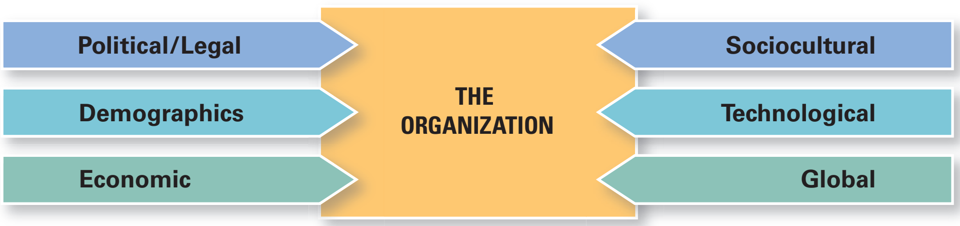


Exhibit 7-2
Components of External Environment

Kiyoshi Kimura, the owner of a Japanese sushi restaurant chain, poses with a 441-pound bluefin tuna he bought at a Tokyo fish market for $117,306. The rising costs of bluefin tuna and other fish as ingredients of sushi are a volatile economic factor faced by sushi restaurateurs due in part to the growing popularity of sushi throughout the world and the overfishing of some sushi fish.
Source: Tomohiro Ohsumi/Getty Images

The Economic Environment

Like many global businesses, Nestlé is facing increased commodity costs.[6] The maker of products from Crunch chocolate bars to Nescafé coffee to Purina pet food has seen the price of chocolate, for instance, increase by nearly 30 percent in five years. Overall, Nestlé spends more than $30 billion a year on raw materials. To get a better feel for what that number reflects, think about this: annually, the company purchases about 10 percent of the world's coffee crop, 12 million metric tons of milk, and more than 300,000 tons of cocoa. Rising costs are also affecting the cost of sushi. Higher global demand for fish and the Japanese and U.S. currency exchange rates are influencing prices.[7]

Commodity (raw materials) costs are just one of the many volatile economic factors facing organizations. Managers need to be aware of the economic context so they can make the best decisions for their organizations.

THE GLOBAL ECONOMY AND THE ECONOMIC CONTEXT The lingering global economic challenges—once described as the "Great Recession" by some analysts—began with turmoil in home mortgage markets in the United States, as many homeowners found themselves unable to make their mortgage payments.[8] The problems soon affected businesses as credit markets collapsed. All of a sudden, credit was no longer readily available to fund business activities. And due to our globally connected world, it didn't take long for economic troubles in the United States to spread to other countries. The slow, fragile recovery of global economies has continued to be a constraint on organizational decisions and actions. Christine Lagarde, the Managing Director of the International Monetary Fund, said that while the global economy appears to be strengthening, global growth is still sluggish.[9] In addition, the World Economic Forum identified two significant risks facing business leaders and policy makers over the next decade: severe income disparity and chronic fiscal imbalances.[10] Let's take a quick look at the first of these risks, economic inequality, since it reflects that it's not just the economic numbers, but also societal attitudes that can constrain managers.

ECONOMIC INEQUALITY AND THE ECONOMIC CONTEXT Seven in 10 people in the world live on $10 or less per day.[11] A Pew Research Center poll found that majorities in each of 44 countries surveyed believe that the gap between rich and poor is a "big problem," and in 28 of the nations, majorities believe that the gap is a "very big problem."[12] Why has this issue become so sensitive? After all, those who worked hard and were rewarded because of their hard work or innovativeness have long been admired. And yes, an income gap has always existed. In the United States, that gap between the rich and the rest has been one of the highest among developed countries. For the past 40 years, income for the top 1 percent of earners increased 200 percent while income for the bottom fifth increased only 48 percent.[13] However, our acceptance of an ever-increasing income gap may be diminishing.[14] As economic growth has languished and sputtered, and as people's belief that anyone could grab hold of an opportunity and have a decent shot at prosperity has wavered, social discontent over growing income gaps has increased. The bottom line is that business leaders need to recognize how societal attitudes in the economic context also may create constraints as they make decisions and manage their businesses.[15]

The Demographic Environment

Demography is destiny. Have you ever heard this phrase? What it means is that the size and characteristics of a country's population can have a significant effect on what it's able to achieve and on virtually every aspect of life including politics, economics, and culture. This should make it obvious why it's important to examine demographics. Age is a particularly important demographic since the workplace often has different age groups all working together.

Baby Boomers. Gen Y. Post-Millennials. Maybe you've heard or seen these terms before. Population researchers use these terms to refer to three of the more well-known age groups found in the U.S. population. Baby Boomers are those individuals born between 1946 and 1964. So much is written and reported about "boomers" because there are so many of them. The sheer number of people in that cohort means they've significantly affected every aspect of the external environment (from the educational system to entertainment/lifestyle choices to the Social Security system and so forth) as they've cycled through the various life stages.

Gen Y (or the "Millennials") is typically considered to encompass those individuals born between 1978 and 1994. As the children of the Baby Boomers, this age group is also large in number and making its imprint on external environmental conditions as well. From technology to clothing styles to work attitudes, Gen Y is making its imprint on workplaces.

Gen Y is an important demographic at Facebook, where most employees are under 40. The company values the passion and pioneering spirit of its young employees who embrace the challenges of building groundbreaking technology and of working in a fast-paced environment with considerable change and ambiguity.
Source: Paul Sakuma/AP Images

Then, we have the Post-Millennials—the youngest identified age group—basically teens and middle-schoolers.[16] This group has also been called the iGeneration, primarily because they've grown up with technology that customizes everything to the individual.[17] Population experts say it's too early to tell whether elementary school–aged children and younger are part of this demographic group or whether the world they live in will be so different that they'll comprise a different demographic cohort.[18] Although this youngest group has not officially been "named," some are referring to them as "Gen Z" or the "touch-screen generation."[19]

Demographic age cohorts are important to our study of management because, as we said earlier, large numbers of people at certain stages in the life cycle can constrain decisions and actions taken by businesses, governments, educational institutions, and other organizations. Demographics not only looks at current statistics, but also looks to the future. For instance, recent analysis of birth rates shows that the vast majority of babies born worldwide are from Africa and Asia.[20] And here's an interesting fact: India has one of the world's youngest populations, with more males under the age of 5 than the entire population of France. And by 2050, it's predicted that China will have more people age 65 and older than

FUTURE VISION Tomorrow's Workplace: Sustainability and You

One external factor that has the capacity to affect all the components of the external environment as shown in Exhibit 7-2 is the *natural* environment. (Note: It's easy to confuse the term "external environment" with the term "natural environment" because people often talk about environmental problems and environmental damage, words which are typically used to describe the natural environment. As you've read, however, we use the term "external environment" specifically to refer to those factors and forces outside the organization that affect its performance.)

So why are we bringing up and discussing the natural environment? Because tomorrow's workplace is likely to be influenced by and focused on sustainability programs and strategies as many global businesses pursue solutions to current and potential environmental problems. Sustainability, and particularly natural environment sustainability, has become a mainstream issues for organizations.

As managers look for ways to pursue sustainability, there are many workplace elements that would affect their efforts. From property decisions (facility design, workspace design, energy usage, office locations, etc.) to technology decisions (data storage, networking capabilities, computing devices, etc.) to people decisions (where and how employees will do their work), sustainability implications must be taken into consideration. As these decisions are made with sustainability as the goal, there's likely to arise fascinating new ways of working.

As you can see, being a truly sustainable organization encompasses many factors that would need to be planned, organized, and implemented in order to find the best sustainability solutions that could be integrated into its very culture and workplace. (For more information about sustainability, see Chapter 5.)

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

TALK ABOUT IT 1: How might employees benefit from a workplace that's sustainability-focused?

TALK ABOUT IT 2: What challenges might employees face in a workplace that's sustainability-focused?

the rest of the world combined and the highest life expectancy (88.1 years) in the world.[21] Consider the impact of such population trends on future organizations and managers.

How the External Environment Affects Managers

Knowing *what* the various components of the external environment are and examining certain aspects of that environment are important to managers. However, understanding *how* the environment affects managers is equally as important. We're going to look at three ways the environment constrains and challenges managers—first, through its impact on jobs and employment; next, through the environmental uncertainty that is present; and finally, through the various stakeholder relationships that exist between an organization and its external constituencies.

JOBS AND EMPLOYMENT As any or all external environmental conditions (economic, demographic, technological, globalization, etc.) change, one of the most powerful constraints managers face is the impact of such changes on jobs and employment—both in poor conditions and in good conditions. The power of this constraint was painfully obvious during the last global recession as millions of jobs were eliminated and unemployment rates rose to levels not seen in many years. Businesses have been slow to reinstate jobs, creating continued hardships for those individuals looking for work.[22] Years later, there is also evidence that companies are again cutting spending and instituting large layoffs. For example, Yahoo Inc. and a few other large companies announced layoffs totaling about 14,000 workers.[23] Many college grads have struggled to find jobs or ended up taking jobs that don't require a college degree.[24] Other countries face the same issues. Although such readjustments aren't bad in and of themselves, they do create challenges for managers who must balance work demands and having enough of the right types of people with the right skills to do the organization's work.

Not only do changes in external conditions affect the types of jobs that are available, they affect how those jobs are created and managed. For instance, many employers use

let's get REAL

The Scenario:

As the administrative manager at a small consulting firm, David Garcia continues to face staffing challenges. He must recruit and hire the right number of consultants to be prepared for upcoming projects. The economy seems to be heading in the right direction, and the firm's client base is growing. David wants to ensure that the firm is able to continue to maintain appropriate staffing to meet future business needs.

Source: Kelly Nelson

Kelly Nelson
Organizational Development and Training Manager

How can David stay informed about the impact the external environment will have on his business?

Understanding and anticipating changes in the external environment is a key factor that impacts a business leader's ability to influence the company's success and to strategically plan workforce levels. Having a diverse network can help a business leader stay abreast of upcoming challenges or opportunities. Connecting with customers, competitors, and other industry professionals through industry functions or community events is one way to develop a diverse network. Additionally, more formal methods, such as market research or scenario planning, are proactive actions so that when external shifts occur in the environment, the business is prepared to adjust quickly.

flexible work arrangements to meet work output demand.[25] For instance, work tasks may be done by freelancers hired to work on an as-needed basis, or by temporary workers who work full-time but are not permanent employees, or by individuals who share jobs. Keep in mind that such responses have come about because of the constraints from the external environment. As a manager, you'll need to recognize how these work arrangements affect the way you plan, organize, lead, and control. This whole issue of flexible work arrangements has become so prevalent and part of how work is done in organizations that we'll address it in other chapters as well.

ASSESSING ENVIRONMENTAL UNCERTAINTY Another constraint posed by external environments is the amount of uncertainty found in that environment, which can affect organizational outcomes. **Environmental uncertainty** refers to the degree of change and complexity in an organization's environment. The matrix in Exhibit 7-3 shows these two aspects.

environmental uncertainty
The degree of change and complexity in an organization's environment

The first dimension of uncertainty is the degree of change. If the components in an organization's environment change frequently, it's a *dynamic* environment. If change is minimal, it's a *stable* one. A stable environment might be one with no new competitors, few technological breakthroughs by current competitors, little activity by pressure groups to influence the organization, and so forth. For instance, Almarai, based in Saudi Arabia, faces a relatively stable environment for its food products. One external concern is ongoing competition from local and regional competitors. Another concern is changes in government policies that are leading to higher costs for electricity and water. Almarai is therefore focusing on improving efficiencies to boost profitability and arranging long-term supply sources through its international subsidiaries.[26] Another concern is the use of e-cigarettes, which rely on lithium batteries rather than fire. In contrast, the recorded music industry faces a dynamic (highly uncertain and unpredictable) environment. Digital formats and music-downloading sites turned the industry upside down and brought high levels of uncertainty. And now, music streaming services such as Spotify and Pandora have added doubt to the equation.

If change is predictable, is that considered dynamic? No. Think of department stores that typically make one-quarter to one-third of their sales in November and December. The drop-off from December to January is significant. But because the change is predictable, the environment isn't considered dynamic. When we talk about degree of change, we mean change that's unpredictable. If change can be accurately anticipated, it's not an uncertainty for managers.

The other dimension of uncertainty describes the degree of **environmental complexity**, which looks at the number of components in an organization's environment and the extent of the knowledge that the organization has about those

environmental complexity
The number of components in an organization's environment and the extent of the organization's knowledge about those components

Exhibit 7-3
Environmental Uncertainty Matrix

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

LEADER making a DIFFERENCE

Source: Newscom

PepsiCo has experienced continual growth during the nine years ***Indra Nooyi*** *has held the reins as CEO, reporting a 4 percent increase in organic revenue in just the last year.*[27] *Under Nooyi's leadership, PepsiCo is focusing on the shift in the external environment that includes a more health-conscious customer population. When Nooyi stepped in as CEO, PepsiCo's core products were soda and chips, the ultimate junk food. Nooyi insisted on taking a long-term view for the company and created three categories of products to allow the company to hold onto their historic focus while providing healthier options. Now the company's "fun for you" product line includes their traditional soda and chip fare. The "better for you" products include healthier versions of those products, and the "good for you" products are healthy options such as oatmeal and orange juice. Nooyi's leadership was key in shifting to these new product offerings. For example, she hired a chief design officer to use design thinking to explore the user experience with PepsiCo's products and support new product development. Nooyi believes in flawless execution and often focuses on small details. She asks a lot of questions and visits a market every week to look at the company's products on the shelf and also the competitor's products. Furthermore, she looks at them not only as a CEO, but also as a mom keeping the customer's perspective in view. She takes note of small details such as improperly shelved products and expects problems to be corrected quickly. A demanding leader, Nooyi is also characterized as sophisticated, witty, warm, and loyal. Her ability to take the long view and shift the company's strategy in response to the changing external environment, coupled with her effective management style, has secured her eighth year on* Fortune's *list of Most Powerful Women, landing in the number two spot in 2015.* What can you learn from this leader making a difference?

components. An organization with fewer competitors, customers, suppliers, government agencies, and so forth faces a less complex and uncertain environment. Organizations deal with environmental complexity in various ways. For example, Hasbro Toy Company simplified its environment by acquiring many of its competitors.

Complexity is also measured in terms of the knowledge an organization needs about its environment. For instance, managers at Pinterest must know a great deal about their Internet service provider's operations if they want to ensure their website is available, reliable, and secure for their customers. On the other hand, managers of college bookstores have a minimal need for sophisticated knowledge about their suppliers.

How does the concept of environmental uncertainty influence managers? Looking again at Exhibit 7-3, each of the four cells represents different combinations of degree of complexity and degree of change. Cell 1 (stable and simple environment) represents the lowest level of environmental uncertainty and cell 4 (dynamic and complex environment) the highest. Not surprisingly, managers have the greatest influence on organizational outcomes in cell 1 and the least in cell 4. Because uncertainty poses a threat to an organization's effectiveness, managers try to minimize it. Given a choice, managers would prefer to operate in the least uncertain environments. However, they rarely control that choice. In addition, the nature of the external environment today is that most industries are facing more dynamic change, making their environments more uncertain.

MANAGING STAKEHOLDER RELATIONSHIPS What makes YouTube an increasingly popular media outlet? On YouTube there are millions of videos available for entertainment and education as well as an outlet for social commentary. Anybody can make a video and post it to the YouTube website for others to enjoy. One factor in its success is in building relationships with its various stakeholders: viewers, celebrities and reality stars, public service groups, and others. The nature of stakeholder relationships is another way in which the environment influences managers. The more obvious and secure these relationships, the more influence managers will have over organizational outcomes.

stakeholders
Any constituencies in the organization's environment that are affected by an organization's decisions and actions

Stakeholders are any constituencies in the organization's environment affected by an organization's decisions and actions. These groups have a stake in or are significantly influenced by what the organization does. In turn, these groups can influence the organization. For example, think of the groups that might be affected by the decisions and actions of Starbucks—coffee bean farmers, employees, specialty coffee competitors, local communities, and so forth. Some of these stakeholders also, in turn, may influence decisions and actions of Starbucks' managers. The idea that organizations have stakeholders is now widely accepted by both management academics and practicing managers.[28]

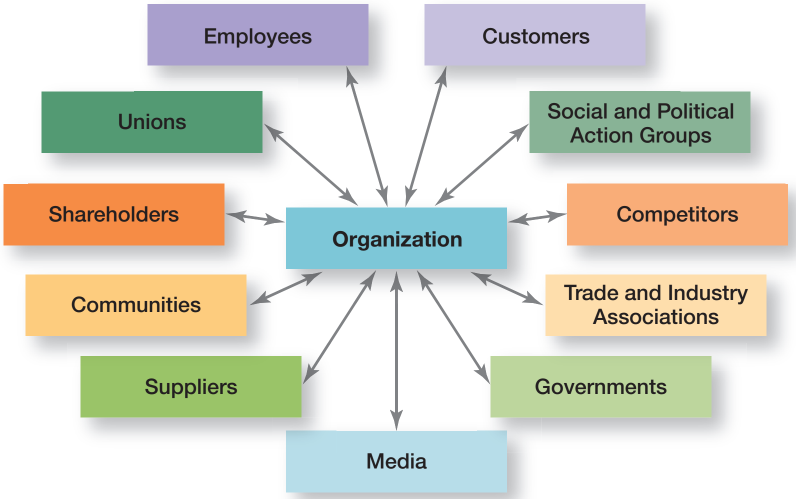


Exhibit 7-4
Organizational Stakeholders

Exhibit 7-4 identifies some of an organization's most common stakeholders. Note that these stakeholders include internal and external groups. Why? Because both can affect what an organization does and how it operates. For instance, the Dodd-Frank Act requires that many U.S. companies report their executives' compensation in publicly available sources and in a manner that can be easily comprehended by the public at large. How would this information affect stakeholders?

Why should managers even care about managing stakeholder relationships?[29] For one thing, it can lead to desirable organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degree of trust among stakeholders, and greater organizational flexibility to reduce the impact of change. But does it affect organizational performance? The answer is yes! Management researchers who have looked at this issue are finding that managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.[30]

Another reason for managing external stakeholder relationships is that it's the "right" thing to do. Because an organization depends on these external groups as sources of inputs (resources) and as outlets for outputs (goods and services), managers need to consider their interests as they make decisions. We'll address this issue in more detail in the chapter on corporate social responsibility.

FYI

- 84 percent of managers believe culture is critical to business success.
- 35 percent think their company's culture is effectively managed.[31]

ORGANIZATIONAL CULTURE: constraints and challenges

LO7.3 Each of us has a unique personality—traits and characteristics that influence the way we act and interact with others. When we describe someone as warm, open, relaxed, shy, or aggressive, we're describing personality traits. An organization, too, has a personality, which we call its *culture.* And that culture influences the way employees act and interact with others. An organization's culture can make employees feel included, empowered, and supported, or it can have the opposite effect. Because culture can be powerful, it's important for managers to pay attention to it.

What Is Organizational Culture?

Virgin Group, headquartered in London, owns a variety of businesses, from workout facilities and financial services to travel and telecommunications. The corporate culture reflects the influence of founder Sir Richard Branson, known for his entrepreneurial spirit and sense of adventure. Branson sets the tone for a positive workplace where individual initiative is valued and employees are encouraged to balance their professional and personal lives. He once staged a "corporate day," during which Virgin

Group employees had to arrive at 9 a.m. in formal business attire, address each other as "Mr." and "Mrs." rather than by first names, and make no personal calls or social media posts. The point was to give employees a taste of what it would be like in a company with a different culture. Another unusual aspect of Virgin's culture is a weekly "digital detox." For two hours every Wednesday, the email system in some businesses is turned off. Employees use that time to meet in person, sometimes discussing work matters during a "walking meeting" outdoors. This corporate culture nurtures collaboration and innovation—and inspires employee loyalty.[32]

organizational culture
The shared values, principles, traditions, and ways of doing things that influence the way organizational members act and that distinguish the organization from other organizations

Organizational culture has been described as the shared values, principles, traditions, and ways of doing things that influence the way organizational members act and that distinguish the organization from other organizations. In most organizations, these shared values and practices have evolved over time and determine, to a large extent, how "things are done around here."[33]

Our definition of culture implies three things. First, culture is a *perception.* It's not something that can be physically touched or seen, but employees perceive it on the basis of what they experience within the organization. Second, organizational culture is *descriptive.* It's concerned with how members perceive the culture and describe it, not with whether they like it. Finally, even though individuals may have different backgrounds or work at different organizational levels, they tend to describe the organization's culture in similar terms. That's the *shared* aspect of culture.

Research suggests seven dimensions that seem to capture the essence of an organization's culture.[34] These dimensions (shown in Exhibit 7-5) range from low to high, meaning it's not very typical of the culture (low) or is very typical of the culture (high). Describing an organization using these seven dimensions gives a composite picture of the organization's culture. In many organizations, one cultural dimension often is emphasized more than the others and essentially shapes the organization's personality and the way organizational members work. For instance, at Tesla Motors, the focus is product innovation (innovation and risk taking). Its innovation has led to the creation of batteries that enable its automobiles to travel greater distances on one charge than those of most other automobile manufacturers. In contrast, Southwest Airlines has made its employees a central part of its culture (people orientation). Exhibit 7-6 describes how the dimensions can create significantly different cultures.

Exhibit 7-5
Dimensions of Organizational Culture

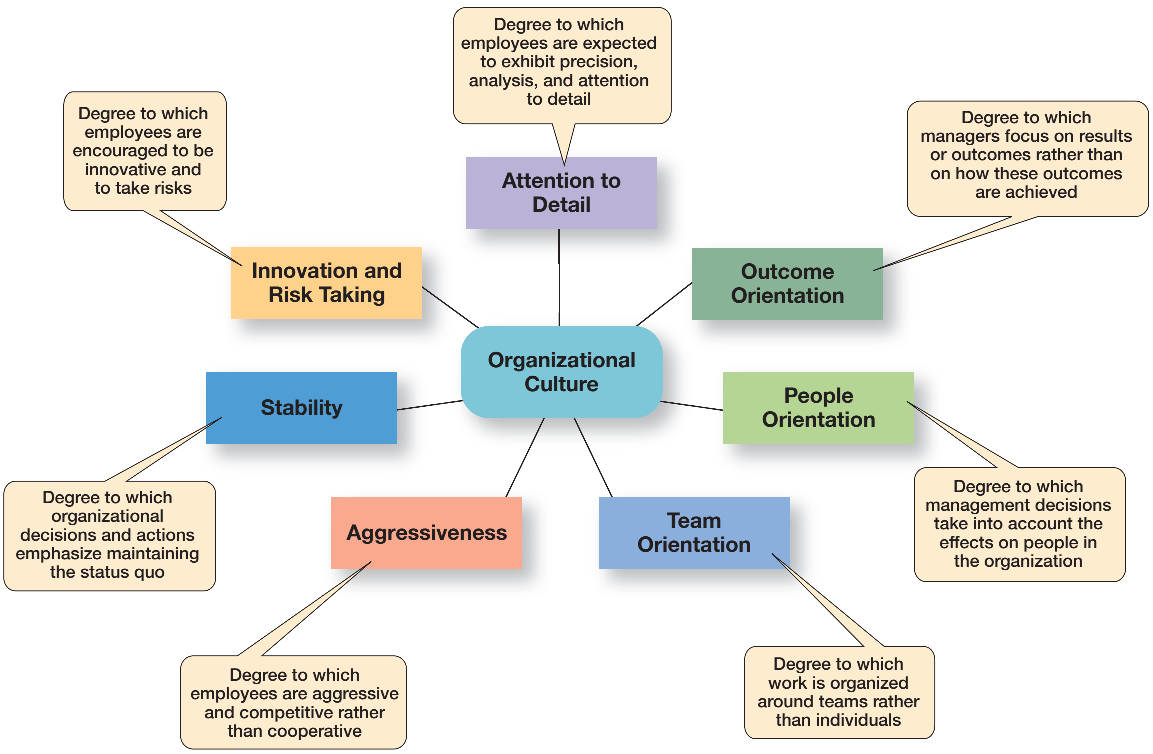
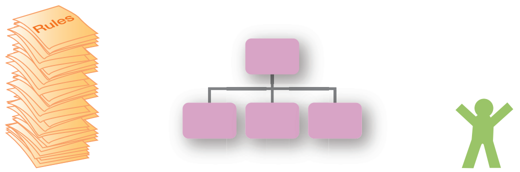


Exhibit 7-6
Contrasting Organizational Cultures

Organization A

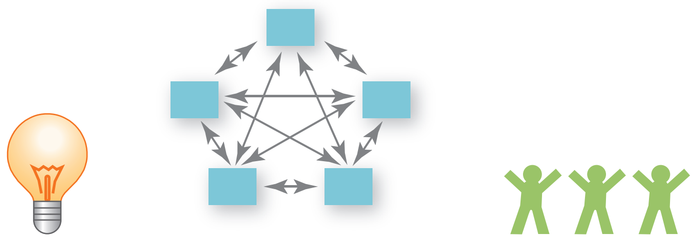


This organization is a manufacturing firm. Managers are expected to fully document all decisions, and "good managers" are those who can provide detailed data to support their recommendations. Creative decisions that incur significant change or risk are not encouraged. Because managers of failed projects are openly criticized and penalized, managers try not to implement ideas that deviate much from the status quo. One lower-level manager quoted an often-used phrase in the company: "If it ain't broke, don't fix it."

Employees are required to follow extensive rules and regulations in this firm. Managers supervise employees closely to ensure there are no deviations. Management is concerned with high productivity, regardless of the impact on employee morale or turnover.

Work activities are designed around individuals. There are distinct departments and lines of authority, and employees are expected to minimize formal contact with other employees outside their functional area or line of command. Performance evaluations and rewards emphasize individual effort, although seniority tends to be the primary factor in the determination of pay raises and promotions.

Organization B



This organization is also a manufacturing firm. Here, however, management encourages and rewards risk taking and change. Decisions based on intuition are valued as much as those that are well rationalized. Management prides itself on its history of experimenting with new technologies and its success in regularly introducing innovative products. Managers or employees who have a good idea are encouraged to "run with it," and failures are treated as "learning experiences." The company prides itself on being market driven and rapidly responsive to the changing needs of its customers.

There are few rules and regulations for employees to follow, and supervision is loose because management believes its employees are hardworking and trustworthy. Management is concerned with high productivity but believes this comes through treating its people right. The company is proud of its reputation as a good place to work.

Job activities are designed around work teams, and team members are encouraged to interact with people across functions and authority levels. Employees talk positively about the competition between teams. Individuals and teams have goals, and bonuses are based on achievement of outcomes. Employees are given considerable autonomy in choosing the means by which the goals are attained.

It's Your Career

Organizational Culture—If your instructor is using Pearson MyLab Management, log onto **mymanagementlab.com** and test your *organizational culture knowledge.* **Be sure to refer back to the chapter opener!**

Strong Cultures

strong cultures
Organizational cultures in which the key values are intensely held and widely shared

All organizations have cultures, but not all cultures equally influence employees' behaviors and actions. **Strong cultures**—those in which the key values are deeply held and widely shared—have a greater influence on employees than weaker cultures. (Exhibit 7-7 contrasts strong and weak cultures.) The more employees accept the organization's key values and the greater their commitment to those values, the stronger the culture. Most organizations have moderate to strong cultures; that is, there is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. The stronger a culture becomes, the more it affects the way managers plan, organize, lead, and control.[35] Recreational Equipment, Inc. (REI) is an example of a company with a strong culture. The company designs and sells outdoor gear and clothing. Management has established a strong culture based on the idea that its employees give "life to their purpose" and attributes success to their employees.[36] The company's commitment to outdoor adventure attracts outdoor-oriented employees who can relate to customers. Management gives employees the opportunity to submit a "challenge grant" proposal to support a challenging personal outdoor adventure (for example, a hiking expedition). Employees even receive two paid "Yay Days" twice per year to enjoy an outdoor activity or contribute to an environmental stewardship cause. Also, the company holds regular town hall meetings, which help management stay abreast of issues within the workplace, empowering employees to assist the company in successfully meeting business objectives.[37]

Apple's strong culture of product innovation and customer-responsive service reflects the core values of its visionary cofounder Steve Jobs. Jobs instilled these core values in all employees, from top executives to sales associates, such as the Genius Bar employee shown here training a customer at the Apple Store in Manhattan.
Source: Melanie Stetson Freeman/The Christian Science Monitor/AP Images

Why is having a strong culture important? For one thing, in organizations with strong cultures, employees are more loyal than employees in organizations with weak cultures.[38] Wehuns Tan, CEO of Wishabi, a Canadian technology company, states: "Culture is infectious—it's viral and it's central to accelerating your business."[39] Research also suggests that strong cultures are associated with high organizational

Exhibit 7-7
Strong Versus Weak Cultures

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

performance.[40] And it's easy to understand why. After all, if values are clear and widely accepted, employees know what they're supposed to do and what's expected of them, so they can act quickly to take care of problems.[41] However, the drawback is that a strong culture also might prevent employees from trying new approaches, especially when conditions change rapidly.[42]

Where Culture Comes From and How It Continues

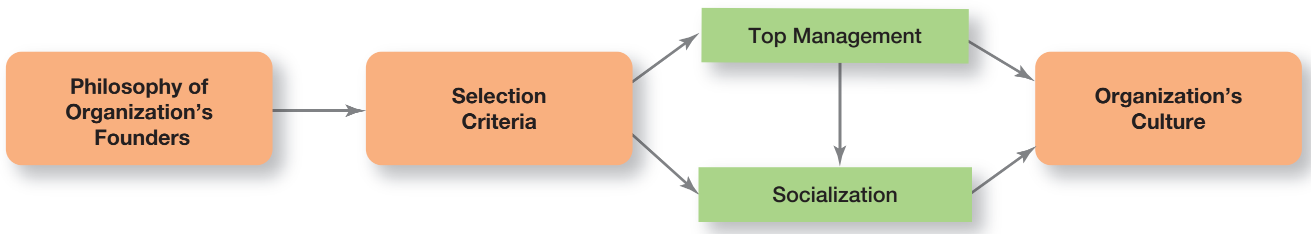
Exhibit 7-8 illustrates how an organization's culture is established and maintained. The original source of the culture usually reflects the vision of the founders. For instance, as we described earlier, W. L. Gore's culture reflects the values of founder Bill Gore. Company founders are not constrained by previous customs or approaches and can establish the early culture by articulating a vision of what they want the organization to be. Also, the small size of most new organizations makes it easier to instill that vision with all organizational members.

Once the culture is in place, however, certain organizational practices help maintain it. For instance, during the employee selection process, managers typically judge job candidates not only on the job requirements, but also on how well they might fit into the organization.[43] At the same time, job candidates find out information about the organization and determine whether they are comfortable with what they see.

The actions of top managers also have a major impact on the organization's culture. For instance, at CarMax, CEO Tom Folliard was a key member of the team that developed and launched CarMax. As one of the original developers of the company's unique and strong culture, Folliard is very focused on listening. He visits numerous stores every year, connecting with associates and answering questions and soliciting feedback. Does it work? You bet! CarMax has grown to be the nation's largest retailer of used vehicles by keeping associates happy, leading to happy customers.[44] The company has been on *Fortune*'s "100 Best Companies to Work For" list since 2006. Through what they say and how they behave, top managers establish norms that filter down through the organization and can have a positive effect on employees' behaviors. For instance, IKEA's leaders have set ambitious goals for protecting the planet. When employees see managers recycling leftover packaging or watch their workplace switch to solar panels, they understand that IKEA's managers are truly committed to sustainability. Consumers are getting the message, too, and their purchases are helping IKEA continue to expand profitably despite expensive sustainability projects.[45] However, as we've seen in numerous corporate ethics scandals, the actions of top managers also can lead to undesirable outcomes. Just look at Volkswagen. In 2015, evidence surfaced that revealed the company had created a device to intentionally lower harmful by-products from its diesel engines during emissions testing.

Exhibit 7-8

Establishing and Maintaining Culture



let's get REAL

The Scenario:

Paulo, the manager of a Web communications agency, is discovering that hiring employees can be frustrating. His last three hires are having trouble fitting in with the other 12 employees. For instance, one of the individuals—who's actually been there for six months now—doesn't want to jump in and help out the other team members when a deadline is fast approaching. And this same person doesn't say anything in team meetings and lets everyone else make decisions. And then there's the way they dress. "I don't expect them to 'suit up' or wear ties, but ripped cargo shorts and tattered flip-flops are a little too casual. Why don't these people 'get it'?"

Source: Alfonso Marrese

Alfonso Marrese
Retail Executive

What advice about organizational culture would you give Paulo?

During the interview process, Human Resources needs to explain the company's brand values and how the company works as a team to meet goals. Depending on what level or position the candidate is being hired for, maybe a second interview with a senior manager would help to see if the candidate will fit in with the group. During the interview process, dress code, policies and procedures should be explained to the candidate. During the first week or two on the job, the manager should be giving the new hire feedback on how he/she is doing. If there are any issues, they need to be addressed.

Watch It 1!

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

socialization
The process that helps employees adapt to the organization's culture

Finally, organizations help employees adapt to the culture through **socialization**, a process that helps new employees learn the organization's way of doing things. For instance, new employees at Starbucks stores go through 24 hours of intensive training that helps turn them into brewing consultants (baristas). They learn company philosophy, company jargon, and even how to assist customers with decisions about beans, grind, and espresso machines. One benefit of socialization is that employees understand the culture and are enthusiastic and knowledgeable with customers.[46] Another benefit is that it minimizes the chance that new employees who are unfamiliar with the organization's culture might disrupt current beliefs and customs.

How Employees Learn Culture

Employees "learn" an organization's culture in a number of ways. The most common are stories, rituals, material artifacts and symbols, and language.

STORIES Organizational "stories" typically contain a narrative of significant events or people, including such things as the organization's founders, rule breaking, reactions to past mistakes, and so forth.[47] Many Disney employees have heard the story that Walt Disney once said to an employee: "My brother won't give me money to make movies. Can you help get more money out of the park (Disneyland)?"[48] This question prompted Disney managers to come up with ideas to generate more revenue. When such ideas translated into higher revenue, Walt Disney provided those individuals with lavish rewards (Ferraris and substantial cash). Those rewards prompted managers to come up with additional ideas, which led to more additional revenue and more lavish rewards. Such stories help convey what's important and provide examples that people can learn from. Every LEGO employee knows that the company's name derives from the Danish phrase *leg godt*, meaning "play well." They also know the story of how the firm nearly went broke early this century, hurt by competition from electronic toys and expensive product experiments. A new CEO got LEGO back on track by focusing employees on "play experiences," meaning how children actually play with brick sets. Soon LEGO was launching one hit product after another, including the hugely popular LEGO Friends for girls. Now, when employees work on product innovations, they bring bins of bricks, talk about "play experiences," and sing the theme from *The LEGO Movie* as a team-building exercise.[49] To help employees learn the culture, organizational stories anchor the present in the past, provide explanations and legitimacy for current practices, exemplify what is important to the organization, and provide compelling pictures of an organization's goals.[50]

RITUALS In the early days of Facebook, founder Mark Zuckerberg had an artist paint a mural at company headquarters showing children taking over the world with laptops. Also, he would end employee meetings by pumping his fist in the air and leading employees in a chant of "domination." Although the cheering ritual was intended to be something simply fun, other company executives suggested he drop it because it made him seem silly, and they feared that competitors might cite it as evidence of monopolistic goals.[51] Some rituals are rites of passage for new employees. Boston-based Gentle Giant Moving Company has new recruits run the steps at Harvard Stadium as a test of fitness and determination.[52] Other rituals are outwardly focused on supporting charitable causes. For instance, Convergint Technologies sponsors an annual "Social Responsibility Day," during which time the business closes for employees to engage in a day of community service.[53] That's the power that rituals can have in shaping what employees believe is important. Corporate rituals are repetitive sequences of activities that express and reinforce the important values and goals of the organization. One corporate ritual practiced throughout the hotel company Marriott International is a 15-minute meeting at the start of every shift. For a global business that employs hundreds of thousands of people, this meeting is an opportunity to build teamwork at the local level and have fun at the same time. Depending on the hotel, these brief meetings usually include a few announcements, followed by stretching or music for a positive start to the workday. Marriott's corporate culture focuses on satisfying employees and managers at all levels and providing opportunities for professional growth so everyone in the organization will have the skills and motivation to satisfy hotel guests. Another hallmark of the corporate culture is a high degree of empowerment, enabling Marriott to grow quickly in competitive markets like India because of the ability to attract and retain talented managers. Marriott has won employer excellence awards in India, Indonesia, Japan, Malaysia, Australia, and many other regions. Its multifaceted Take Care wellness program, adapted to each culture, helps employees stay physically and mentally fit, with local "Wellness Champions" offering support and guidance. Once a year, the company holds its highest-visibility ritual: the Marriott Awards of Excellence, honoring top-performing individuals and teams from around the world. These rituals, local and international, are embedded in the corporate culture to "keep our employees engaged and happy to come to work," says the Chief Human Resources Officer.[54] But rituals don't have to be this elaborate. For instance, at Minneapolis-based Salo LLC, employees ring an office gong when a deal is signed.[55]

German carmaker BMW helps employees learn about its culture by telling the "story of 1959"—the year when BMW almost went bankrupt. To keep the company afloat, managers asked employees to help them implement a turnaround plan. The employees shown here signing a new car model they produced signifies the powerful role they continue to play in BMW's success.
Source: Andreas Gebert/EPA/Newscom

MATERIAL ARTIFACTS AND SYMBOLS When you walk into different businesses, do you get a "feel" for what type of work environment it is—formal, casual, fun, serious, and so forth? These reactions demonstrate the power of material symbols or artifacts in creating an organization's personality.[56] The layout of an organization's facilities, how employees dress, the types of automobiles provided to top executives, and the availability of corporate aircraft are examples of material symbols. Others include the size of offices, the elegance of furnishings, executive "perks" (extra benefits provided to managers such as health club memberships, use of company-owned facilities, and so forth), employee fitness centers or on-site dining facilities, and reserved parking spaces for certain employees. At WorldNow, a business that helps local media companies develop new online distribution channels and revenue streams, an important material symbol is an old dented drill that the founders purchased for $2 at a thrift store. The drill symbolizes the company's culture of "drilling down to solve problems." When an employee is presented with the drill in recognition of outstanding work, he or she is expected to personalize the drill in some way and devise a new rule for caring for it. One employee installed a Bart Simpson trigger; another made the drill wireless by adding an antenna. The company's "icon" carries on the culture even as the organization evolves and changes.[57]

Material symbols convey to employees who is important and the kinds of behavior (for example, risk taking, conservative, authoritarian, participative, individualistic, and so forth) that are expected and appropriate.

Watch It 2!

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled *Inside Google's Culture and Leadership: New Book Tells 'How Google Works'* and to respond to questions.

LANGUAGE Many organizations and units within organizations use language as a way to identify and unite members of a culture. By learning this language, members attest to their acceptance of the culture and their willingness to help preserve it. For instance, when managers and employees at OCBC Bank in Singapore talk about a culture of "life-long learning," they are referring to how the organization values personal and professional development for everyone. OCBC Bank has a catalog of more than 100 courses for employees, covering on-the-job skills like customer service and personal-growth interests like financial planning. It also invites employees over 50 years old to continue life-long learning through courses on digital literacy, physical fitness, and nutrition.[58]

Over time, organizations often develop unique terms to describe equipment, key personnel, suppliers, customers, processes, or products related to its business. New employees are frequently overwhelmed with acronyms and jargon that, after a short period of time, become a natural part of their language. Once learned, this language acts as a common denominator that bonds members.

How Culture Affects Managers

Houston-based Apache Corp. has become one of the best performers in the independent oil-drilling business because it has fashioned a culture that values risk taking and quick decision making. Potential hires are judged on how much initiative they've

WORKPLACE **CONFIDENTIAL** Adjusting to a New Job or Work Team

Almost all of us have made transitions in our lives. Maybe your parents moved and you had to make new friends and adjust to a new school. Or you joined a new church, social club, or sports team. As a result, you'd think that most of us would be pretty confident and successful in making the transition into a new job. This is often not the case, especially for younger employees.

For our discussion, we'll focus on the outsider-to-insider transition and both external (between organizations) and internal (between horizontal departments or vertical promotions) adjustments.

The importance of this issue is underlined by research that tells us that the typical individual changes jobs 10.2 times over 20 years—so you need to be prepared to do a lot of adjusting to new work situations.

One of your goals in any new job situation should be to make the adjustment successful. What does that entail? You've made a successful transition if, after six months in your new position, you can say that you feel comfortable, confident, and accepted by your peers. And the evidence tells us that this is most likely to occur where you know what is required to function in your job, you have confidence that you have the knowledge and skills to perform it, and you know what the job demands are in terms of relationships with others. Moreover, successful adjustment should result in satisfaction with your job and a minimal degree of anxiety and stress.

Successful adjustment should begin by assessing the new situation. Assuming you have concluded that the job is a good fit for you, you need to determine the following: What's the history of the organization or work unit? Which individuals are held in high esteem and what factors—age, experience, specific skills, personality, contacts in high places—have led to their influence? And what does the culture value? Learning to read the organization's culture—as addressed at the opening of this chapter—can provide you with answers to many of these questions.

Organizations have a variety of socialization options that they use to shape employees and help them adjust to the organization. Let's briefly review some options and consider their impact on you:

Formal vs. Informal. Specific orientation and training programs are examples of formal socialization. The informal variety puts new employees directly into the job.

Individual vs. Collective. When you're grouped with others and processed through an identical set of experiences, it's collective. Most small organizations socialize new members individually.

Fixed vs. Variable. A fixed schedule establishes standardized time targets for transition—such as a six-month probationary period or a rotational training program. Variable schedules have no advance notice of transitions—for instance, you'll be promoted when you're "ready."

Serial vs. Random. In serial socialization, you'll have a role model who will train and encourage you. Apprenticeship and mentoring programs are examples. In random socialization, you're left on your own to figure things out.

Investiture vs. Divestiture. When the organization wants to affirm and support your qualities and qualifications, they basically leave you alone. But in divestiture, the organization will attempt to strip away certain characteristics. For instance, fraternities and sororities use divestiture rites when they put "pledges" through rituals to shape new members into the proper role.

As you move into your new job, be aware that the socialization programs, or lack of such programs, you'll be exposed to will have a significant influence on your adjustment. For instance, if you see yourself as a conformist and want a job that fits you, choose a job that relies on institutional socialization—one that is formal, collective, fixed, serial, and shapes you through divestiture rites. In contrast, if you see yourself as a "wave-maker" who likes to develop your own approaches to problems, choose a job that focuses on individualized socialization—one that is informal, individual, variable, random, and affirms your uniqueness through investiture.

The evidence indicates most people end up more satisfied with, and committed to, their job when they go through institutional socialization. This is largely because its structured learning helps reduce the uncertainty inherent in a new situation and smooths transition into the new job.

An additional insight on new-job adjustment is the value of organizational insiders as a valuable resource for information. Colleagues, supervisors, and mentors are more useful as sources for accurate information about your job and the organization than formal orientation programs or organizational literature. People give you a better and more accurate reading of "the ropes to skip and the ropes to know."

Finally, don't forget the power of first impressions. A positive first impression on your boss and new colleagues can both speed up and smooth your transition. Think about the image you want to convey and make sure your dress, posture, attitude, and speech fit that image.

So what are the specific implications of all this? How can you use this information to increase the probability that you'll have a successful adjustment in a new job? The answer is to focus on those things you can control. First, to summarize, choose a job where the socialization process matches up well with your personality. And based on the evidence, choosing a job with institutionalized socialization will reduce uncertainty, lessen stress, and facilitate adjustment. Second, use insiders to provide background information and to reduce surprises. Lastly, start off on the right foot by making a good first impression. If colleagues like and respect you, they are more likely to share with you key insights into the organization's values and culture.

Based on B. Ashforth, "Socialization and Newcomer Adjustment: The Role of Organizational Context," *Human Relations*, July 1998, pp. 897–926; H. D. Cooper-Thomas and N. Anderson, "Organizational Socialization: A New Theoretical Model and Recommendations for Future Research and HRM Practices in Organizations," *Journal of Managerial Psychology*, vol. 21, no. 5, 2006, pp. 492–516; and T. N. Bauer et al., "Newcomer Adjustment During Organizational Socialization: A Meta-Analytic Review of Antecedents, Outcomes, and Methods," *Journal of Applied Psychology*, May 2007, pp. 707–721.

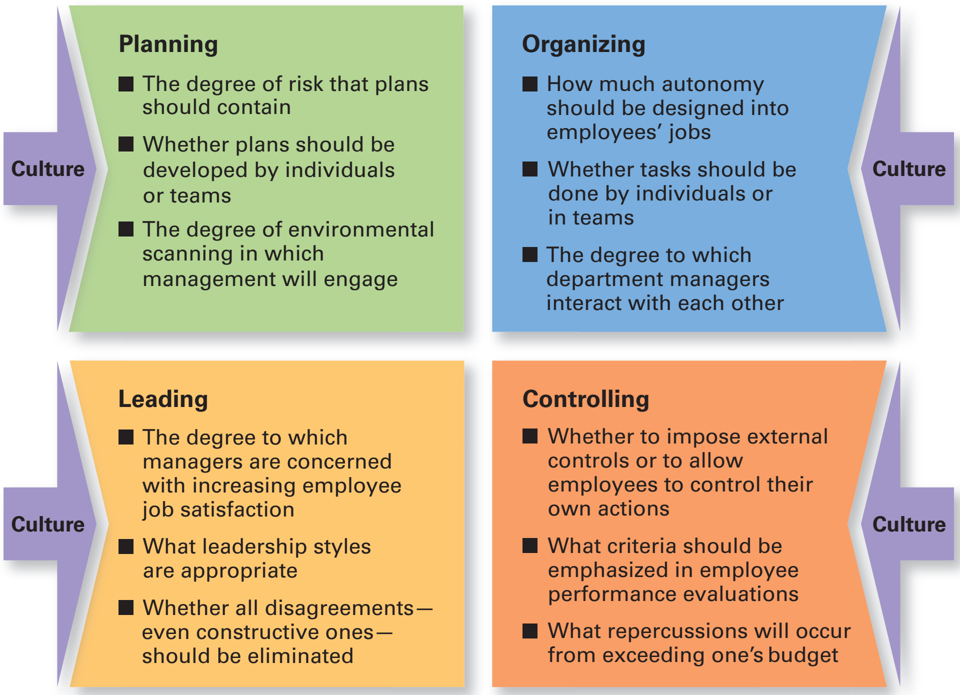
shown in getting projects done at other companies. And company employees are handsomely rewarded if they meet profit and production goals.[59] Because an organization's culture constrains what they can and cannot do and how they manage, it's particularly relevant to managers. Such constraints are rarely explicit. They're not written down. It's unlikely they'll even be spoken. But they're there, and all managers quickly learn what to do and not do in their organization. For instance, you won't find the following values written down, but each comes from a real organization.

- Look busy, even if you're not.
- If you take risks and fail around here, you'll pay dearly for it.
- Before you make a decision, run it by your boss so that he or she is never surprised.
- We make our product only as good as the competition forces us to.
- What made us successful in the past will make us successful in the future.
- If you want to get to the top here, you have to be a team player.

The link between values such as these and managerial behavior is fairly straightforward. Take, for example, a so-called "ready-aim-fire" culture. In such an organization, managers will study and analyze proposed projects endlessly before committing to them. However, in a "ready-*fire*-aim" culture, managers take action and then analyze what has been done. Or, say an organization's culture supports the belief that profits can be increased by cost cutting and that the company's best interests are served by achieving slow but steady increases in quarterly earnings. Managers are unlikely to pursue programs that are innovative, risky, long term, or expansionary. In an organization whose culture conveys a basic distrust of employees, managers are more likely to use an authoritarian leadership style than a democratic one. Why? The culture establishes for managers appropriate and expected behavior. For example, Banco Santander, whose headquarters are located 20 kilometers from downtown Madrid, has been described as a "risk-control freak." The company's managers adhered to "banking's stodgiest virtues—conservatism and patience." However, it's those values that triggered the company's growth from the sixth largest bank in Spain to the leading bank in the euro zone.[60]

As shown in Exhibit 7-9, a manager's decisions are influenced by the culture in which he or she operates. An organization's culture, especially a strong one, influences and constrains the way managers plan, organize, lead, and control.

Exhibit 7-9
Types of Managerial Decisions Affected by Culture



CURRENT issues in organizational culture

LO7.4 Nordstrom, the specialty retail chain, is renowned for its attention to customers. Nike's innovations in athletic shoe and apparel technology are legendary. Tom's of Maine is known for its commitment to doing things ethically and spiritually. How have these organizations achieved such reputations? Their organizational cultures have played a crucial role. Let's look at three current cultural issues: creating an innovative culture, creating a customer-responsive culture, and creating a sustainability culture.

Creating an Innovative Culture

You may not recognize IDEO's name, but you've probably used a number of its products. As a product design firm, it takes the ideas that corporations bring it and turns those ideas into reality. Some of its creations range from the first commercial mouse (for Apple) to the first stand-up toothpaste tube (for Procter & Gamble), to Michelob beer packaging (for Anheuser-Busch), to kitchen design concepts (for IKEA). It's critical that IDEO's culture support creativity and innovation.[61] And you might actually own and use products from another well-known innovative organization—Apple.[62] From its founding in 1976 to today, Apple has been on the forefront of product design and development. They've brought us Mac, iPod, iTunes, iPhone, and the iPad, which have changed the way you read and interact with materials such as this text. Although both these companies are in industries where innovation is critical to success, the fact is that any successful organization needs a culture that supports innovation. How important is culture to innovation? In a survey of senior executives, over half said that the most important driver of innovation for companies was a supportive corporate culture.[63] But not every company has established an adequate culture to foster innovation. In a survey of employees, about half expressed that a culture of management support is very important to the generation of innovative ideas, but only 20 percent believe that management actually provides such support.[64]

What does an innovative culture look like? According to Swedish researcher Goran Ekvall, it would be characterized by the following:

- **Challenge and involvement**—Are employees involved in, motivated by, and committed to the long-term goals and success of the organization?
- **Freedom**—Can employees independently define their work, exercise discretion, and take initiative in their day-to-day activities?
- **Trust and openness**—Are employees supportive and respectful of each other?
- **Idea time**—Do individuals have time to elaborate on new ideas before taking action?
- **Playfulness/humor**—Is the workplace spontaneous and fun?
- **Conflict resolution**—Do individuals make decisions and resolve issues based on the good of the organization versus personal interest?
- **Debates**—Are employees allowed to express opinions and put forth ideas for consideration and review?
- **Risk taking**—Do managers tolerate uncertainty and ambiguity, and are employees rewarded for taking risks?[65]

A supportive corporate culture at BuzzFeed is an important driver of innovation. The digital media firm's co-founder and CEO Jonah Peretti (left) created a culture of autonomy, collaboration, learning, open communication, and intelligent risk taking that allows employees to adapt quickly to constant changes in the business environment.
Source: Francesco Guidicini/Newscom

Creating a Customer-Responsive Culture

Internet retailer Amazon.com is fanatical about customer service—and for good reason. The company's self-proclaimed "customer obsession" contributes to a high level of customer satisfaction. Nearly 60 percent of customers surveyed reported excellent

Exhibit 7-10
Creating a Customer-Responsive Culture

Characteristics of Customer-Responsive Culture	Suggestions for Managers
Type of employee	Hire people with personalities and attitudes consistent with customer service: friendly, attentive, enthusiastic, patient, good listening skills
Type of job environment	Design jobs so employees have as much control as possible to satisfy customers, without rigid rules and procedures
Empowerment	Give service-contact employees the discretion to make day-to-day decisions on job-related activities
Role clarity	Reduce uncertainty about what service-contact employees can and cannot do by continual training on product knowledge, listening, and other behavioral skills
Consistent desire to satisfy and delight customers	Clarify organization's commitment to doing whatever it takes, even if it's outside an employee's normal job requirements

customer service, while fewer than 2 percent reported poor customer service.[66] Amazon.com has a reputation of putting customer satisfaction before profits; yet, its stock price has increased through the years, and it experienced a 25 percent increase in sales in 2014. When customer service translates into these types of results, of course managers would want to create a customer-responsive culture![67]

What does a customer-responsive culture look like?[68] Exhibit 7-10 describes five characteristics of customer-responsive cultures and offers suggestions as to what managers can do to create that type of culture.

Try It!

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the *Simulation: Organizational Culture* and see how well you can apply the ideas of organizational culture.

Creating a Sustainability Culture

In Chapter 1, we 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. For many companies, sustainability is developed into the organization's overall culture. Tish Lascelle, Johnson & Johnson's Senior Director of Environment, said, "Sustainability is embedded in our culture. It's been a part of who we are for more than 65 years, long before the notion of sustainability became trendy."[69]

Companies can create rituals to create and maintain sustainability cultures. Earlier in this chapter, we referred to Convergint Technologies' "Social Responsibility Day." Alternatively, managers may use rewards. For instance, global polystyrene leader, Styron LLC, has more than 2,000 employees at 20 plants worldwide with annual sales of $5 billion. Management begins each corporate meeting with the topic of sustainability. Employees' bonuses are tied to meeting sustainability goals. Management's efforts seem to be working: Recently, Styron introduced a recycled-content grade of polycarbonate at the Chinaplas trade show in Guangzhou, China.[70]

Chapter 7 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO7.1 CONTRAST the actions of managers according to the omnipotent and symbolic views.

According to the omnipotent view, managers are directly responsible for an organization's success or failure. The symbolic view argues that much of an organization's success or failure is due to external forces outside managers' control. The two constraints on managers' discretion are the organization's culture (internal) and the environment (external). Managers aren't totally constrained by these two factors since they can and do influence their culture and environment.

LO7.2 DESCRIBE the constraints and challenges facing managers in today's external environment.

The external environment includes those factors and forces outside the organization that affect its performance. The main components include economic, demographic, political/legal, sociocultural, technological, and global. Managers face constraints and challenges from these components because of the impact they have on jobs and employment, environmental uncertainty, and stakeholder relationships.

LO7.3 DISCUSS the characteristics and importance of organizational culture.

The seven dimensions of culture are attention to detail, outcome orientation, people orientation, team orientation, aggressiveness, stability, and innovation and risk taking. In organizations with strong cultures, employees are more loyal and performance tends to be higher. The stronger a culture becomes, the more it affects the way managers plan, organize, lead, and control. The original source of a culture reflects the vision of organizational founders. A culture is maintained by employee selection practices, the actions of top managers, and socialization processes. Also, culture is transmitted to employees through stories, rituals, material symbols, and language. These elements help employees "learn" what values and behaviors are important as well as who exemplifies those values. The culture affects how managers plan, organize, lead, and control.

LO7.4 DESCRIBE current issues in organizational culture.

The characteristics of an innovative culture are challenge and involvement, freedom, trust and openness, idea time, playfulness/humor, conflict resolution, debates, and risk taking. A customer-responsive culture has five characteristics: outgoing and friendly employees; jobs with few rigid rules, procedures, and regulations; empowerment; clear roles and expectations; and employees who are conscientious in their desire to please the customer. Companies that achieve business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into business strategies may develop sustainability into the organization's overall culture.

REVIEW AND DISCUSSION QUESTIONS

7-1. Is there a real difference between an omnipotent manager and a "good" manager? Explain.

7-2. What does the term external environment mean? Which external environmental factor is more important for a manager to pay attention to?

7-3. Would a manager's job be fundamentally different if the same person were to work in different companies in the same industry?

7-4. How is a shareholder different from a stakeholder? If a stakeholder can hold no shares or any ownership in the organization, why then would the managers care about stakeholder relationships?

7-5. Distinguish between people and team orientation as dimensions of organizational culture.

7-6. Why is strong culture likely to have a greater influence on employees compared to weak culture?

7-7. What are the four common ways an organization communicates its culture to employees?

7-8. How can an innovative culture be characterized according to Goran Ekvall?

Pearson MyLab Management

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

7-9. Why is it important for managers to understand the external environmental components?

7-10. Identify and describe an example of a typical organization with a) an attention to detail culture; and b) an outcome orientated culture.

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENTS

P I A PERSONAL INVENTORY ASSESSMENT

What's My Comfort with Change?

As you saw in this chapter, change is a big part of the external environment and an organization's culture. This PIA will assess how comfortable you are with change.

ETHICS DILEMMA

Technological or process developments de-skill the global workforce. Take factory-built, flat-pack furniture—there seems to be no future for the role of an experienced carpenter. Similarly in the automobile industry, some vehicles have on-board computers that simply run a program to diagnose a problem. What will skilled mechanics employed in such industries do in the future? Many technologically advanced products, such as mobile phones, simply cannot be repaired, they are disposable. The qualified technicians' days may be numbered. In almost every industry this trend continues to accelerate.

7-11. Is it ethical that skilled workers are being replaced in industries?

7-12. Is deskilling inevitable? Machinery has been replacing humans for some generations now. Suggest types of activities where machines do a better job.

7-13. Would you consider it a priority to save people's jobs or would you follow this trend and automate the entire production?

SKILLS EXERCISE Developing Your Environmental Scanning Skill

About the Skill

Anticipating and interpreting changes that take place in the environment is an important skill managers need. Information that comes from scanning the environment can be used in making decisions and taking actions. And managers at all levels of an organization need to know how to scan the environment for important information and trends.

Steps in Practicing the Skill

You can be more effective at scanning the environment if you use the following suggestions:[71]

- ***Decide which type of environmental information is important to your work.*** Perhaps you need to know changes in customers' needs and desires, or perhaps you need to know what your competitors are doing. Once you know the type of information you'd like to have, you can look at the best ways to get that information.
- ***Regularly read and monitor pertinent information.*** There is no scarcity of information to scan, but what you need to do is read pertinent information sources. How do you know information sources are pertinent? They're pertinent if they provide you with the information you identified as important.
- ***Incorporate the information you get from your environmental scanning into your decisions and actions.*** Unless you use the information you're getting, you're wasting your time getting it. Also, the more you use information from your environmental scanning, the more likely it is that you'll want to continue to invest time and other resources into gathering it. You'll see that this information is important to your ability to manage effectively and efficiently.
- ***Regularly review your environmental scanning activities.*** If you're spending too much time getting information you can't use, or if you're not using the pertinent information you've gathered, you need to make some adjustments.
- ***Encourage your subordinates to be alert to information that is important.*** Your employees can be your "eyes and ears" as well. Emphasize to them the importance of gathering and sharing information that may affect your work unit's performance.

Practicing the Skill

Whether you are currently a manager or not one quite yet, you can practice environmental scanning to learn about relevant considerations in the external environment. Identify several different sources of business information and start practicing regularly collecting information from those sources. Subscribe to a news feed or follow a news organization on Twitter. Incorporate checking the external environment somewhere in your daily routine.

WORKING TOGETHER Team Exercise

Managers take steps to help new employees learn a company's culture. However, as you learned at the beginning of this chapter, it is a good idea to learn about a culture before you accept a job at a new company. It is important to find a work culture that aligns with your values and work style. In groups of three or four students, discuss the different types of organizational cultures. If you have work experience, share what the culture was like at your company. After you have discussed a variety of elements of culture, consider how you could learn about culture in the interview process. Create a list of questions that you could ask an employer in order to understand the culture at the company. Be prepared to share some of your questions with the class.

MY TURN TO BE A MANAGER

- Find two current examples in any popular business periodicals of the omnipotent and symbolic views of management. Write a paper describing what you found and how the two examples you found represent these views of management.
- Consider a business that you frequent (for example, a restaurant or coffee shop) and review the six aspects of the external environment discussed in the text. Create a list of factors in the external environment that could affect the management of the business you selected.
- Choose an organization with which you're familiar or one you would like to know more about. Create a table identifying potential stakeholders of this organization. Then indicate what particular interests or concerns these stakeholders might have.
- If you belong to a student organization, evaluate its culture by answering the following: How would you describe the culture? How do new members learn the culture? How is the culture maintained? If you don't belong to a student organization, talk to another student who does and evaluate it using the same questions.

CASE APPLICATION 1 Tesco: Time to Refocus

Founded in 1919, Tesco has been a business success story. With its core business focusing on food retail, in just under a century, Tesco has grown from a market-stall in the East End of London into the largest supermarket in the United Kingdom, and the third largest globally. In 2012–13, Tesco boasted group sales of £72.4 billion, with £2 billion profit before tax.

At the end 2014, Dave Lewis, who had been Tesco's CEO for only three weeks till then, sent an email to the company's staff members saying that the organization's culture had to change. He said that Tesco needed to focus on its customers and work hard on being open, honest, and transparent. Most people in his position would have probably waited more than three weeks before recommending such sweeping changes, especially for something as significant as the organizational culture. So what caused Mr. Lewis to make such a dramatic public announcement? Put simply, a financial scandal.

With significant issues, related to the drive for growth and positive market results, being brought to light by a whistle-blower, at the end of September 2014, Tesco had to make an embarrassing announcement—they had overstated their mid-year profits by £250 million, later revising this to £263 million.

The issues faced were twofold. In order to improve its own financial position, Tesco delayed its payments to some of its suppliers and it had also been including payments from suppliers as profit. It appeared that these payments were made against suppliers getting more favorable positioning for their products and more shelf space. Tesco's announcement resulted in an 8 percent fall in the share price, wiping £1.5 billion off the company's market value. A total of £3 billion was wiped off the share price in the three weeks following the announcement. On top of this, both the Grocery Code Adjudicator (an independent body set up to oversee the relationship between suppliers and supermarkets) and the Serious Fraud Office (SFO), the section of U.K. law enforcement focusing on serious or complex fraud and corruption, announced that they would be carrying out an investigation into the matter.

When you look at company documents from this period, this type of activity would seem out of step with the culture of the organization. In 2013, the then-CEO, Philip Clarke, stated that the company should do all it could to earn stakeholder loyalty and trust. In fact, the 2013 annual report identified poor relations with suppliers as a reputational risk and reaffirmed the company's aim to comply with the Groceries Supply Code of Practice. However, the satisfaction of customers and other stakeholders was replaced by a drive to meet financial targets and maintain share value.

In January 2016, Christine Tacon, the Grocery Code Adjudicator, released her report. It didn't make for a pleasant reading for Tesco management. She found evidence of internal emails that suggested staff members should not make payments to suppliers before a certain date, in order to temporarily improve margins and ensure that the company was not seen to be underperforming against targets. A list explaining how the staff could help Tesco reach mid-year targets was uncovered, which included an instruction not to pay money owed. Some payments were delayed by nearly two years and in some cases the supplier simply gave up asking!

Following the overstatement in 2014, 125 institutional funds filed a joint lawsuit for £100 million, and Tesco is still under investigation by the SFO. It may be some time before a new culture of trust and transparency will be allowed to flourish; however, Tesco seems to have seen the error of its ways. The company has improved its communication channels with suppliers, a majority of whom now say they have a more positive relationship with Tesco than they did previously.[72]

DISCUSSION QUESTIONS

7-14. Which stakeholder groups are affected by the financial scandal discussed in the case?

7-15. How could the omnipotent and symbolic management perspectives explain Tesco's financial scandal?

7-16. How is the email sent to staff members linked to Dave Lewis' view that the organization's culture needs to change?

7-17. Imagine you are looking to join Tesco. How would the organizational story of this scandal affect your decision? Consider both the scandal and how it was managed.

CASE APPLICATION 2 The Sky is the Limit

Between November 2015 and 2016, the United Kingdom saw online sales increase by 24.9 percent. So why was December 7, 2016, a special delivery day for the country? For the answer, you need to look to the skies. One Amazon customer had to wait for only 13 minutes to receive his Amazon streaming media player and a bag of popcorn, the first products delivered in the United Kingdom by a drone.

Five months earlier, Amazon announced it would be working with the British government to test drone delivery. Though in its latent stage, Amazon Prime Air has big plans for the future. Apart from developing the system in the United Kingdom, it is also looking into the feasibility of drone delivery other countries.

However, there are still many issues to overcome. For example, the United Kingdom has specific rules regarding the use of drones—drones must fly at a height of 400 feet (122 m) or less, and must avoid flying within 150 metres of congested areas and 50 metres of a person or structure. Even with these rules in place, there have been a number of worrying incidents. In April 2016, a British Airways flight reported hitting a drone while approach the Heathrow Airport, and the U.K. Airprox Board (an organization tasked with monitoring U.K. air safety) investigated 23 near-miss incidents between April and October 2015, 12 of which were in serious risk of collision.

Drone testing is certainly not exclusive to Amazon nor restricted just to the United Kingdom. In the United States, the first delivery approved by the Federal Aviation Administration (FAA) took place in 2015. An Australian-built drone made three short trips to successfully deliver 4.5 kg of medical equipment. Walmart estimated that 70 percent of the U.S. population is within 5 miles of one of their stores and, in October 2015, it applied to the authorities for permission to test drone home deliveries. From September 2016, hungry diners at Virginia Tech have been able to have their Chipotle burrito delivered by a Google drone. While Google appears to be grounding its drone venture with partner Starbucks, it is still looking at possibilities in Ireland, where the rules governing drone use are less stringent.

Though government legislations are a concern, they are not the only external challenges. Who will be the main users of this new delivery system? This may in part be a generational issue and organizations are trying to figure out whether the more tech-savvy Post-Millenials are the most likely to accept delivery by air. With some countries predicting significant increases in life expectancy and an aging, less mobile population, the demand for home delivery from this age group may also increase. These, and many other external factors, present managers with some tricky decisions to make in planning, capital spend, marketing, and recruitment.

The U.K. Amazon tests are limited to the delivery of items of 2.7 kg or less. While this limit may appear quite restrictive, it is believed to account for around 90 percent of Amazon sales. But what if you wanted to send something bigger? Or perhaps even someone? In January 2016, Chinese firm Ehang unveiled the *Ehang 184* passenger drone. The company claims that this eight-propeller electric drone can carry a passenger for up to 23 minutes. The machine, given clearance for testing in Nevada, United States, is capable of a vertical lift-off of up to 3.5 km (11,500 feet) and speed of up to 100 kmph (63 mph). However, it is unclear whether there will be a market for a personal drone-delivery system. Even the economics are questionable—a drone delivers one parcel at a time while a delivery truck can deliver several hundred parcels across 120 destinations.

However, the development of drone technology offers an innovative alternative to delivery problems. With consumers increasingly looking for convenience and speed, it is likely that more businesses will be considering drone delivery in the future.[73]

DISCUSSION QUESTIONS

7-18. What immediate and long-term issues can managers face in organizations that embrace this new drone technology?

7-19. In the case, many of the organizations operate in different countries. Will the external forces vary between countries?

7-20. When considering the employment of drone technology, are there any demographic environmental forces to consider? Consider the differences between the baby boomers and the iGeneration.

7-21. Which stakeholder groups do Amazon need to consider for this new venture? Who do you think has the greatest influence over them?

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PART 2 Management Practice

A Manager's Dilemma

One of the biggest fears of a food service company manager has to be the hepatitis A virus, a highly contagious virus transmitted by sharing food, utensils, cigarettes, or drug paraphernalia with an infected person. Food service workers aren't any more susceptible to the illness than anyone else, but an infected employee can easily spread the virus by handling food, especially cold foods. The virus, which is rarely fatal, can cause flulike illness for several weeks. There is no cure for hepatitis A, but a vaccine can prevent it. Jim Brady, manager of a restaurant, is facing a serious dilemma. He recently learned one of his cooks could have exposed as many as 350 people to hepatitis A during a five-day period when he was at work. The cook was thought to have contracted the virus through an infant living in his apartment complex. Because children usually show no symptoms of the disease, they can easily pass it on to adults. Jim has a decision to make. Should he go public with the information, or should he only report it to the local health department as required by law?

Using what you learned in Part 2, and especially in Chapter 5, what would you do in this situation?

Global Sense

A vice president for engineering at a major chip manufacturer who found one of his projects running more than a month late felt that perhaps the company's Indian engineers "didn't understand the sense of urgency" in getting the project completed. In the Scottish highlands, the general manager of O'Bryant's Kitchens is quite satisfied with his non-Scottish employees—cooks who are German, Swedish, and Slovak, and waitresses who are mostly Polish. Other highland hotels and restaurants also have a large number of Eastern European staff. Despite the obvious language barriers, these Scottish employers are finding ways to help their foreign employees adapt and be successful. When the manager of a telecommunications company's developer forum gave a presentation to a Finnish audience and asked for feedback, he was told, "That was good." Based on his interpretation of that phrase, he assumed it must have been just an okay presentation—nothing spectacular. However, since Finns tend to be generally much quieter and more reserved than Americans, that response actually meant, "That was great, off the scale." And the owner of a Chicago-based manufacturing company, who now has two factories in Suzhou, China, is dealing with the challenges that many companies moving to China face: understanding the way their Chinese employees view work and nurturing Chinese managerial talent.

It's not easy being a successful global manager, especially when it comes to dealing with cultural differences. Those cultural differences have been described as an "iceberg," of which we only see the top 15 percent, mainly food, appearance, and language. Although these elements can be complicated, it's the other 85 percent of the "iceberg" that's not apparent initially that managers need to be especially concerned about. What does that include? Workplace issues such as communication styles, priorities, role expectations, work tempo, negotiation styles, nonverbal communication, attitudes toward planning, and so forth. Understanding these issues requires developing a global mindset and skill set. Many organizations are relying on cultural awareness training to help them do just that.

Discuss the following questions in light of what you learned in Part 2:

- *What global attitude do you think would most encourage, support, and promote cultural awareness? Explain.*
- *Would legal-political and economic differences play a role as companies design appropriate cultural awareness training for employees? Explain.*
- *Is diversity management related to cultural awareness? Discuss.*
- *Pick one of the countries mentioned above and do some cultural research on it. What did you find out about the culture of that country? How might this information affect the way a manager in that country plans, organizes, leads, and controls?*
- *What advice might you give to a manager who has little experience globally?*

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Continuing Case

Starbucks—Basics of Managing in Today's Workplace

As managers manage in today's workplace, they must be aware of some specific integrative issues that can affect the way they plan, organize, lead, and control. The characteristics and nature of these integrative issues will

These customers are enjoying "the Starbucks experience" at a coffee shop in Guangzhou, China. Starbucks sees an enormous potential for growth in China, where 140 cities have a population exceeding one million people. While expanding in China and other global markets, Starbucks managers must take into account the cultural, economic, legal, and political aspects of different markets as they plan, organize, lead, and control.
Source: Imaginechina/Associated Press

influence what managers and other employees do and how they do it. And more importantly, it will affect how efficiently and effectively managers do their job of coordinating and overseeing the work of other people so that goals—organizational and work-level or work-unit—can be accomplished. What are these integrative managerial issues, and how does Starbucks accommodate and respond to them as they manage in today's workplace? In this part of the Continuing Case, we're going to look at Starbucks' external environment/organizational culture, global business, diversity, and social responsibility/ethical challenges.

Starbucks—Defining the Terrain: Culture and Environment

As managers manage, they must be aware of the terrain or broad environment within which they plan, organize, lead, and control. The characteristics and nature of this "terrain" will influence what managers and other employees do and how they do it. And more importantly, it will affect how efficiently and effectively managers do their job of coordinating and overseeing the work of other people so that goals—organizational and work-level or work-unit—can be accomplished. What does Starbucks' terrain look like, and how is the company adapting to that terrain?

An organization's culture is a mix of written and unwritten values, beliefs, and codes of behavior that influence the way work gets done and the way people behave in organizations. And the distinct flavor of Starbucks' culture can be traced to the original founders' philosophies and Howard Schultz's unique beliefs about how a company should be run. The three friends (Jerry Baldwin, Gordon Bowker, and Zev Siegl) who founded Starbucks in 1971 as a store in Seattle's historic Pike Place Market district did so for one reason: They loved coffee and tea and wanted Seattle to have access to the best. They had no intention of building a business empire. Their business philosophy, although never written down, was simple: "Every company must stand for something; don't just give customers what they ask for or what they think they want; and assume that your customers are intelligent and seekers of knowledge." The original Starbucks was a company passionately committed to world-class coffee and dedicated to educating its customers, one-on-one, about what great coffee can be. It was these qualities that ignited Howard Schultz's passion for the coffee business and inspired him to envision what Starbucks could become. Schultz continues to have that passion for his business—he is the visionary and soul behind Starbucks. He visits at least 30 to 40 stores a week, talking to partners (employees) and to customers. His ideas for running a business have been called "unconventional," but Schultz doesn't care. He says, "We can be extremely profitable and competitive, with a highly regarded brand, and also be respected for treating our people well." One member of the company's board of directors says about him, "Howard is consumed with his vision of Starbucks. That means showing the good that a corporation can do for its workers, shareholders, and customers."

The company's mission and guiding principles (which you can find at www.starbucks.com) are meant to guide the decisions and actions of company partners from top to bottom. They also have significantly influenced the organization's culture. Starbucks' culture emphasizes keeping employees motivated and content. One thing that's been important to Howard Schultz from day one is the relationship he has with his employees. He treasures those relationships and feels they're critically important to the way the company develops its relationships with its customers and the way it is viewed by the public. He says, "We know that our people are the heart and soul of our success." Starbucks' 235,000-plus employees worldwide serve millions of customers each week. That's a lot of opportunities to either satisfy or disappoint the customer. The experiences customers have in the stores ultimately affect the company's relationships with its customers. That's why Starbucks has created a unique relationship with its employees. Starbucks provides a set of generous employee benefits, referred to as "Your Special Blend," to all employees who work more than 20 hours a week: health care benefits and a compensation plan that includes stock options. Schultz says, "The most important thing I ever did was give our partners (employees) bean stock (options to buy the company's stock). That's what sets us apart and gives us a higher-quality employee, an employee that cares more." In 2015, the company announced that it would pay for most employees (currently, about 140,000 out of 235,000-plus) to earn a bachelor's degree from Arizona State University's online course offerings. The program is called the College Achievement Program. CEO Howard Schultz believes that "by giving our partners access to four years of full tuition reimbursement, we will provide them a critical tool for lifelong opportunity." Also, he believes the company's educational benefits will enable more educated workers to participate in the labor force.

It's clear that Starbucks cares about its employees. For instance, when three Starbucks employees were murdered in a botched robbery attempt in Washington, D.C., Schultz immediately flew there to handle the situation. In addition, he decided that all future profits from that store would go to organizations working for victims' rights and violence prevention. Another example of the company's concern: Starbucks recently announced that it was committed to hiring 10,000 veterans and military spouses over the next five years.

As a global company with revenues of $19.2 billion, Starbucks' executives recognize they must be aware of the impact the environment has on their decisions and actions. Starbucks began lobbying legislators in Washington, D.C., on issues including lowering trade barriers, health care costs, and tax breaks. It's something that Schultz didn't really want to do, but he recognized that such efforts could be important to the company's future.

Global Challenges

You could say that Starbucks has been a global business from day one. While on a business trip in 1983 to Milan, Howard Schultz (who worked in marketing for Starbucks' original founders and is now the company's CEO) experienced firsthand Italy's coffee culture and had an epiphany about how such an approach might work back home in the United States. Now, almost 40 years later, Starbucks stores are found in 68 countries, including stores from China and Australia to the Netherlands and Switzerland. Doing business globally, as Chapter 3 points out, can be challenging. Since much of the company's future growth prospects are global, the company has targeted some markets for additional global expansion, including China, Brazil, and Vietnam. Schultz is clear about the fact that his company sees China as the number one growth opportunity for Starbucks. During a visit in late 2011, a government official informed him that 140 cities in China now have a population exceeding one million people. That's a lot of potential coffee drinkers buying cups of Starbucks coffee and other Starbucks products! But in China and all of its global markets, Starbucks must be cognizant of the economic, legal–political, and cultural aspects that characterize those markets. For instance, in Europe—the "birthplace of café and coffeehouse culture"—Starbucks is struggling, even after a decade of doing business there. Take France, where Starbucks has been since 2004 and has 76 stores. It has never made a profit. Of course, part of that could be attributed to the debt crisis and sluggish economy. And rents and labor costs are notoriously high. Yet the biggest challenge for Starbucks may be trying to appeal to the vast array of European tastes. The company's chief of Starbucks operations for Europe, the Middle East, and Africa decided to take an "anthropological tour" to get a better feel for the varying wants and needs of coffee lovers in Europe. Although it was initially thought that the well-established coffeehouse culture in places like Paris or Vienna might be what customers wanted, what was discovered instead was that customers wanted the "Starbucks experience." But even that means different things in different markets. For instance, the British drink take-away (to-go) coffee, so Starbucks is planning for hundreds of drive-through locations there. In the rest of Europe, Starbucks plans to put many new sites in airports and railway stations on the continent.

In 2016, Starbucks announced that it would open stores in Italy even though some are skeptical about whether it will be successful. Orlando Chiari, owner of a century-old coffee shop, expressed his skepticism: "We worship coffee in Italy, while Americans drink coffee on the go in large cups." Mr. Chiari elaborated. "It's two extremely different cultures." Although the growth potential seems real, cultural challenges still remain, not only in Europe but in Starbucks' other markets as well. The company is recognizing that not every customer wants a standardized experience. So, as Starbucks continues its global expansion, it's attempting to be respectful of the cultural differences.

Managing Diversity and Inclusion

Not only does Starbucks attempt to be respectful of global cultural differences, it is committed to being an organization that embraces and values diversity in how it does business. The company-wide diversity strategy encompasses four areas: customers, suppliers, partners (employees), and communities. Starbucks attempts to make the Starbucks experience accessible to all customers and to respond to each customer's unique preferences and needs. Starbucks' supplier diversity program works to provide opportunities for developing a business relationship to women- and minority-owned suppliers. As far as its partners, the company is committed to a workplace that values and respects people from diverse backgrounds. The most current company diversity statistics available show that 33 percent of employees are minorities and 64 percent are women. And Starbucks aims to enable its partners to do their best work and to be successful in the Starbucks environment. The company does support partner networks (what we call employee resource groups in Chapter 4). Some of the current ones include Starbucks Access Alliance, a forum for partners with disabilities; Starbucks Armed Forces Support Network, which supports veterans and those currently in the armed forces and their families; and the Starbucks Black Partner Network, which strengthens relationships and connections among partners of African descent. Finally, Starbucks supports diversity in its local neighborhoods and global communities through programs and investments that deepen its ties in those areas. Although Starbucks is committed to practicing and valuing diversity, by no means is it perfect. For instance, an Americans with Disabilities Act case was filed against a specific Starbucks store by a job applicant who had short height because of the condition of dwarfism. The store management refused to hire her for a barista job even though she claimed she could do the job using a step stool. And they did not even offer to try this accommodation. Starbucks quickly settled the case and agreed to provide training to managers on proper ADA procedures. The company's response earned praise from the Equal Employment Opportunity Commission for its prompt resolution of the issue.

Starbucks has often extended its reach to embrace diversity in local communities. With good intentions, the CEO launched the "Race Together" campaign to encourage discussion and understanding of longstanding societal racial and ethnic divides. Following Schultz's instructions, Starbucks' workers wrote "race together" on beverage cups. Widespread negative sentiment flooded social media. Some posts expressed that it wasn't Starbucks' place to foster this complex and deeply emotion-laden discussion. Shortly thereafter, Starbucks terminated this campaign.

Social Responsibility and Ethics

Doing good coffee is important to Starbucks, but so is doing good. Starbucks takes its social responsibility and ethical commitments seriously. In 2001, the company began issuing an annual corporate social responsibility report, which addresses the company's decisions and actions in relation to its products, society, the environment, and the workplace. These reports aren't simply a way for Starbucks to brag about its socially responsible actions, but are intended to stress the importance of doing business in a responsible way and to hold employees and managers accountable for their actions.

Starbucks focuses its corporate responsibility efforts on three main areas: ethical sourcing (buying), environmental stewardship, and community involvement. Starbucks approaches ethical sourcing from the perspective of helping the farmers and suppliers who grow and produce their products use responsible growing methods and helping them be successful, thus promoting long-term sustainability of the supply of quality coffee. It's a win-win situation. The farmers have a better (and more secure) future and Starbucks is helping create a long-term supply of a commodity they depend on. Environmental stewardship has been one of the more challenging undertakings for Starbucks, especially when you think about the number of disposable containers generated by the more than three billion customers served annually. And front-of-the-store waste is only half the battle. Behind-the-counter waste is also generated in the form of cardboard boxes, milk jugs, syrup bottles, and, not surprisingly, coffee grounds. Even with recycling bins provided, one wrong item in a recycle bin can make the whole thing unrecyclable to a hauler. Despite this, the company has made significant strides in recycling. In a 2010 test program, 100,000 paper coffee cups were made into new ones. The company's goal by 2015 was to recycle all four-billion-plus cups sold annually. An ambitious goal, for sure. It wasn't able to meet that goal, as customer recycling is available at only 39 percent of its company-operated stores. However, the company has made progress possible only through a cooperative effort with other companies in the materials value chain (even competitors) to find recycling solutions that work. Starbucks is totally committed to being a good environmental steward. Finally, Starbucks has always strived to be a good neighbor by providing a place for people to come together and by committing to supporting financially and in other ways the communities where its stores are located. Partners (and customers, for that matter) are encouraged to get involved in volunteering in their communities. In addition, the Starbucks Foundation, which started in 1997 with funding for literacy programs in the United States and Canada, now makes grants to a wide variety of community projects and service programs.

Starbucks is also very serious about doing business ethically. In fact, it was named to the 2016 list of World's Most Ethical Companies, as it has been for the last 10 years. From the executive level to the store level, individuals are expected and empowered to protect Starbucks' reputation through how they conduct business and how they treat others. And individuals are guided by the *Standards of Business Conduct,* a resource created for employees in doing business ethically, with integrity and honesty. These business conduct standards cover the workplace environment, business practices, intellectual property and proprietary information, and community involvement. A flow-chart model included in the standards document is used to illustrate an ethical decision-making framework for partners. Despite the thorough information in the standards, if partners face a situation where they're unsure how to respond or where they want to voice concerns, they're encouraged to seek out guidance from their manager, their partner resources representative, or even the corporate office of business ethics and compliance. The company also strongly states that it does not tolerate any retaliation against or victimization of any partner who raises concerns or questions.

Innovation, Innovation

Starbucks has always thought "outside the box." From the beginning, it took the concept of the corner coffee shop and totally revamped the coffee experience. And the company has always had the ability to roll out new products relatively quickly. Starbucks invests heavily in R&D (research and development). It received the 2014 Outstanding Corporate Innovator (OCI) Award; honorees were chosen for corporate commitment to innovation as a strategy to grow their businesses. Starbucks' System to Accelerate Results (STAR) process has enabled the company to test and measure new products and measure customer interest. In 2015, Starbucks was recognized by *Forbes* magazine as one of the 100 most innovative companies in the world.

A glimpse of Starbucks' innovation process can be seen in how it approaches the all-important Christmas season, since "Starbucks has Christmas down to a science." It takes many months of meetings and tastings before rolling out the flavors and aromas. For the 2011 season, the process started in October 2010, when customers had the opportunity to fill out in-store and online surveys used to gauge their "mindset." In mid-December 2010, Schultz—who has final approval on all new products and themes—reviewed the 2011 theme. And things better be "Christmas-perfect." In March 2011, the 2011 theme (Let's Merry) was approved. By mid-March, the "core holiday team" started to meet weekly. On June 1, production cranked up on the company's seasonal red cups (which were introduced in 1997 and remain very popular). By the end of June, the holiday team had assembled a mock-up of a Starbucks café for Schultz to review and approve. By mid-August, all of the in-store signs, menu boards, and window decals were on their way to the printer. All of these pieces came together for the full holiday rollout on November 15, 2011. It's important to get everything right for this season. Want proof? The company had revenues of almost $3 billion during the holiday quarter. That's a lot of Christmas cheer!

The company's product innovation process must be doing something right, as many of its Christmas products have been popular for years. For instance, the company's Christmas Blend debuted in 1985. The Gingerbread Latte was a Christmas 2000 innovation. The Caramel Brulée Latte came out during the 2009 holiday season. During the Christmas 2011 season, customers got their first taste of the Skinny Peppermint Mocha—a nod to the trend of healthier, but still tasty, products—and the line of petite desserts, which were introduced to commemorate the company's 40th birthday. But obviously, given Starbucks' outcomes, it's not only the Christmas products that have been successful. One of Starbucks' creations was a line of light-roasted coffee beans and brews. And the popularity of energy drinks led the company to create a line of "natural" energy drinks called Refreshers. The new fruity, carbonated drink that's high in antioxidants will get its energy boost from unroasted green coffee extract. Schultz told shareholders that the company is continuing to create lots of Starbucks products that "live outside of our stores." Starbucks Refreshers are sold at 160,000 grocery stores and made-to-order versions are sold in Starbucks stores.

Discussion Questions

P2-1. Do you think Howard Schultz views his role more from the omnipotent or from the symbolic perspective? Explain.

P2-2. What has made Starbucks' culture what it is? How is that culture maintained?

P2-3. Does Starbucks encourage a customer responsive culture? An ethical culture? Explain.

P2-4. Describe some of the specific and general environmental components that are likely to impact Starbucks.

P2-5. How would you classify the uncertainty of the environment in which Starbucks operates? Explain.

P2-6. What stakeholders do you think Starbucks might be most concerned with? Why? What issue(s) might each of these stakeholders want Starbucks to address?

P2-7. Why do you think Howard Schultz is uncomfortable with the idea of legislative lobbying? Do you think his discomfort is appropriate? Why or why not?

P2-8. What types of global economic and legal–political issues might Starbucks face as it does business globally?

P2-9. You're responsible for developing a global cultural awareness program for Starbucks' executives who are leading the company's international expansion efforts. Describe what you think will be important for these executives to know.

P2-10. Using information from the case and information you pull from Starbucks' website, what global attitude do you think Starbucks exhibits? Defend your choice.

P2-11. Pick one of the countries mentioned as an important target for Starbucks. Make a bulleted list of economic, political-legal, and cultural characteristics of this country.

P2-12. What workforce challenges might Starbucks face in global markets in regard to its partners?

P2-13. How does Starbucks manage diversity? What is Starbucks doing to manage diversity in each of the four areas: customers, suppliers, partners, and communities?

P2-14. With more than 235,000 partners worldwide, what challenges would Starbucks face in making sure its diversity values are practiced and adhered to?

P2-15. Starbucks defines diversity on its website in the form of an equation:

Diversity = Inclusion + Equity + Accessibility.

Explain what you think this means. What do you think of this definition of diversity?

P2-16. What other workplace diversity initiatives discussed in Chapter 3 (besides employee resource groups) might be appropriate for an organization like Starbucks?

P2-17. Go to the company's website, www.starbucks.com, and find the latest corporate social responsibility report. Choose one of the key areas in the report (or your professor may assign one of these areas). Describe and evaluate what the company has done in this key area.

P2-18. What do you think of Starbucks' goal to recycle all four billion cups sold annually by 2015? What challenges did it face in meeting that goal?

P2-19. Why is the concept of "empowering" employees important in doing business ethically?

P2-20. Again, go to the company's website. Find the *Standards of Business Conduct* document. First, what's your impression of this document? Then, choose one topic from one of the main areas covered. Describe what advice is provided to partners.

P2-21. What do you think the company's use of the term *partners* instead of employees implies? What's your reaction to this? Do you think it matters what companies call their employees? (For instance, Walmart calls its employees *associates*.) Why or why not?

P2-22. Howard Schultz is adamant about providing the best "Starbucks experience" to each and every customer. As a store manager, how would you keep your employees from experiencing high levels of stress when lines are out the door and customers want their Starbucks now?

P2-23. Would you classify Starbucks' environment as more calm waters or white-water rapids? Explain. How does the company manage change in this type of environment?

P2-24. Using Exhibit 6-9, describe Starbucks' innovation environment.

P2-25. Review the company's mission and guiding principles (at www.starbucks.com). Explain how these might affect the following: managing its external environment and its organizational culture, global efforts, diversity efforts, social responsibility and ethics issues, and change and innovation issues.

Notes for the Part 2 Continuing Case

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Chapter 8

Planning and Goal-Setting

It's Your Career

Source: Davooda/Shutterstock

A key to success in management and in your career is knowing how to set goals, professionally and personally.

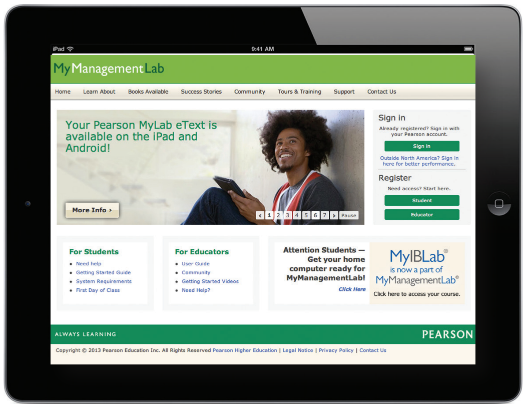
You Gotta Have Goals

It's been said that if you don't know where you're going, any road will get you there. It has also been said that the shortest distance between two points is a straight line. These two sayings emphasize the importance of goals. Organizations want people who can get things done. And goal-setting is an essential component of long-term career success. Successful athletes, businesspeople, and achievers in all fields use goals (a) to focus their efforts, (b) as short-term motivation, and (c) to build self-confidence as goals are successfully completed. You need to do the same thing. So how can you be better at setting goals? Here are some suggestions:

*1. **Identify what you'd like to do or achieve in important life areas** such as career, financial, education, family, physical, public service/community involvement, and so forth. Focus on your most important broad goals. Try to identify where or what you'd like to be in 5 years, 10 years, 20 years. What is your dream? Your vision? If you're having trouble doing that, try thinking about what you don't want (I don't want to be working for someone else), and then turn that around to find your goal (I'd like to start my own business).*

*2. **Make your goals actionable.** Although having broad, visionary goals is important, you need to set smaller goals with more specific, achievable actions. You can do this by:*

- *WRITING YOUR GOALS DOWN. Something about writing the goals makes them more real and gives them more force. Plus, having a visual reminder can be very motivating!*
- *USING THE S.M.A.R.T. APPROACH. This means you write goals that are Specific, Measurable, Attainable, Relevant (or Realistic), and Time-trackable. Using this approach forces you to set goals that aren't just daydreams or that are unrealistic.*



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Learning Objectives

SKILL OUTCOMES

8.1 ***Define*** *the nature and purposes of planning.*

8.2 ***Classify*** *the types of goals organizations might have and the plans they use.*

8.3 ***Compare*** *and contrast approaches to goal-setting and planning.*

- **Know how** to set goals personally and create a useful, functional to-do list.
- **Develop your skill** at helping your employees set goals.

8.4 ***Discuss*** *contemporary issues in planning.*

- *AVOIDING GOALS THAT ARE ambiguous, overly ambitious or unrealistic, undocumented, and planless (without a plan).*

3. Make your plans for reaching those goals. *Setting goals is important, but so is deciding how you're going to achieve them. Your plans, just like your goals, need to be short term and long term. Having and using to-do lists can be productive. (Be sure to check out what this skill involves at the end of the chapter on pages 306-307.)*

4. Determine how you'll measure progress toward your goal. *You need to think about how you will know you've achieved a goal. It's easy for some goals; for instance, getting your MBA degree. You measure progress by whether you're completing all necessary coursework and other requirements that will eventually lead to being awarded that degree. Other goals may not be quite that easy to measure for progress. However, having some way to assess progress is important to staying on track. It's also important that when you do achieve a goal (or goals), you enjoy the satisfaction of having done so. Reward yourself appropriately!*

5. Review your goals periodically. *Are the goals that you set still appropriate? Do they reflect your changing priorities or experiences? As your life and career circumstances change, change your goals to reflect that.*

You may think "planning" is relevant to large companies, but not something that's relevant to you right now. But when you figure out your class schedule for the next term or when you decide what you need to do to finish a class project on time, you're planning. And planning is something that all managers need to do. Although what they plan and how they plan may differ, it's still important that they do plan. In this chapter, we present the basics: what planning is, why managers plan, and how they plan.

THE WHAT AND WHY of planning

LO8.1 In 2006, the Colombian government hired contractor Chicago Bridge and Iron NV to increase the capacity of state-controlled Ecopetrol's Cartagena oil refinery daily output from 80,000 barrels to 165,000 barrels. More than 10 years later, the company has successfully met its production goal; however, the cost to get there was double the $4 billion budget. Colombian President Manuel Santos expressed outrage, but says he's not responsible for the cost overrun. Instead, he's placed blame on former Colombian President Álvaro Uribe, whose administration started the project, and the contractor. Mr. Uribe announced on social media that the Santos's government "now wants to wash its hands."[1] Could the contractors and Colombian government have planned better?

What Is Planning?

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

As we stated in Chapter 1, **planning** involves defining the organization's goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate work activities. It's concerned with both ends (what) and means (how).

When we use the term "planning," we mean formal planning. In formal planning, specific goals covering a specific time period are defined. These goals are written and shared with organizational members to reduce ambiguity and create a common understanding about what needs to be done. Finally, specific plans exist for achieving these goals.

Why Do Managers Plan?

Planning seems to take a lot of effort. So why should managers plan? We can give you at least four reasons:

1. *Planning provides direction* to managers and nonmanagers alike. When employees know what their organization or work unit is trying to accomplish and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross-purposes and prevent the organization from efficiently achieving its goals.
2. *Planning reduces uncertainty* by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. Although planning won't eliminate uncertainty, managers plan so they can respond effectively.
3. *Planning minimizes waste and redundancy.* When work activities are coordinated around plans, inefficiencies become obvious and can be corrected or eliminated.
4. *Planning establishes the goals or standards* used in controlling. When managers plan, they develop goals and plans. When they control, they see whether the plans have been carried out and the goals met. Without planning, there would be no goals against which to measure work effort.

Planning contributes to the profitable performance of Recreational Equipment, Inc. Formal expansion plans have helped REI grow from one store in 1944 to become a major retailer of outdoor gear with more than 130 stores, 10,000 employees, and annual sales of $2 billion. Shown here are employees at an REI store opening in New York City's SoHo shopping district.
Source: Matt Peyton/AP Images

Planning and Performance

Is planning worthwhile? Numerous studies have looked at the relationship between planning and performance.[2] Although most have shown generally positive relationships, we can't say that organizations that formally plan always outperform those that don't plan. But *what* can we conclude?

First, generally speaking, formal planning is associated with positive financial results—higher profits, higher return on assets, and so forth. Second, it seems that doing a good job planning and implementing those plans play a bigger part in high performance than how much planning is done. Next, in those studies where formal planning didn't lead to higher performance, the external environment often was the culprit. When external forces—think governmental regulations or powerful labor unions—constrain managers' options, it reduces the impact planning has on an organization's performance. Finally, the planning-performance relationship seems to be influenced by the planning time frame. It seems that at least four years of formal planning is required before it begins to affect performance.

FYI

- 38 percent of leaders say planning for next year is a challenge.[3]

GOALS **and plans**

LO8.2 Planning is often called the primary management function because it establishes the basis for all the other things managers do as they organize, lead, and control. It involves two important aspects: goals and plans.

Goals (objectives) are desired outcomes or targets.[4] They guide management decisions and form the criteria against which work results are measured. That's why they're often described as the essential elements of planning. You have to know the desired target or outcome before you can establish plans for reaching it. **Plans** are documents that outline how goals are going to be met. They usually include resource allocations, schedules, and other necessary actions to accomplish the goals. As managers plan, they develop both goals and plans.

goals (objectives)
Desired outcomes or targets

plans
Documents that outline how goals are going to be met

Types of Goals

It might seem that organizations have a single goal. Businesses want to make a profit and not-for-profit organizations want to meet the needs of some constituent group(s). However, a single goal can't adequately define an organization's success. And if managers emphasize only one goal, other goals essential for long-term success are ignored. Also, as we discussed in Chapter 5, using a single goal such as profit may result in unethical behaviors because managers and employees will ignore other aspects of their jobs in order to look good on that one measure.[5] In reality, all organizations have multiple goals. For instance, businesses may want to increase market share, keep employees enthused about working for the organization, and work toward more environmentally sustainable practices. And a church provides a place for religious practices, but also assists economically disadvantaged individuals in its community and acts as a social gathering place for church members.

We can classify most company's goals as either strategic or financial. Financial goals are related to the financial performance of the organization, while strategic goals are related to all other areas of an organization's performance. For instance, discount retailer Dollar General announced its plan to demonstrate sales growth of 7 percent to 10 percent in 2016, with earnings per share (profit divided by the total number of company stock shares) to increase by 10 percent to 15 percent.[6] And here's an example of a strategic goal from the United Nations World Food Programs: to ensure that no child goes to bed hungry.[7]

The goals just described are **stated goals**—official statements of what an organization says, and what it wants its stakeholders to believe, its goals are. However, stated goals—which can be found in an organization's charter, annual report, public relations announcements, or in public statements made by managers—are often conflicting and influenced by what various stakeholders think organizations should do. For instance, Nike's goal is "delivering inspiration and innovation to every athlete." Canadian company EnCana's vision is to "be the world's high performance benchmark independent oil and gas company." The Chipotle restaurant chain states that one of its goals is to serve "food with integrity."[8] Such statements are vague and probably better represent management's public relations skills than being meaningful guides to what the organization is actually trying to accomplish. It shouldn't be surprising then to find that an organization's stated goals are often irrelevant to what actually goes on.[9]

stated goals
Official statements of what an organization says, and what it wants its various stakeholders to believe, its goals are

If you want to know an organization's **real goals**—those goals an organization actually pursues—observe what organizational members are doing. Actions define

real goals
Goals that an organization actually pursues, as defined by the actions of its members

let's get REAL

The Scenario:

Tommy and Kate Larkin recently started a restaurant and specialty food store in northern California. The store also sells wine and locally made crafts. Although the business does well during the summer tourist months, things get pretty lean from October to April when visitor numbers dwindle. The Larkins felt that the potential opportunities in this location were good.

What types of plans do the Larkins need to survive the off-season?

The slow season is a wonderful time for a business owner. This is the perfect opportunity for brand and business development. If a new website needs to be designed, this is the time to do it. If new recipes need to be tested, this would be the perfect time to run trials. Research and development during these months could make the busy season even more profitable. The "business development" season also presents a great opportunity to deepen ties in the community, and it is the prime time to diversify business offerings. Perhaps the restaurant could focus on hosting events on site or catering off-site meals, making themselves more valuable to the local community rather than depending so heavily on tourism. Finally, it is a great time for the owners to rest, recover, and rejuvenate themselves from the last season and gear up for the next.

Source: Prudence Rufus

Prudence Rufus
Business Owner/Photographer

priorities. For example, universities may say their goal is limiting class sizes, facilitating close student-faculty relations, and actively involving students in the learning process, but then they put students into 300+ student lecture classes! Knowing that real and stated goals may differ is important for recognizing what you might otherwise think are management inconsistencies.

Types of Plans

The most popular ways to describe organizational plans are breadth (strategic versus operational), time frame (short-term versus long-term), specificity (directional versus specific), and frequency of use (single use versus standing). As Exhibit 8-1 shows, these types of plans aren't independent. That is, strategic plans are usually long-term, directional, and single use, whereas operational plans are usually short-term, specific, and standing. What does each include?

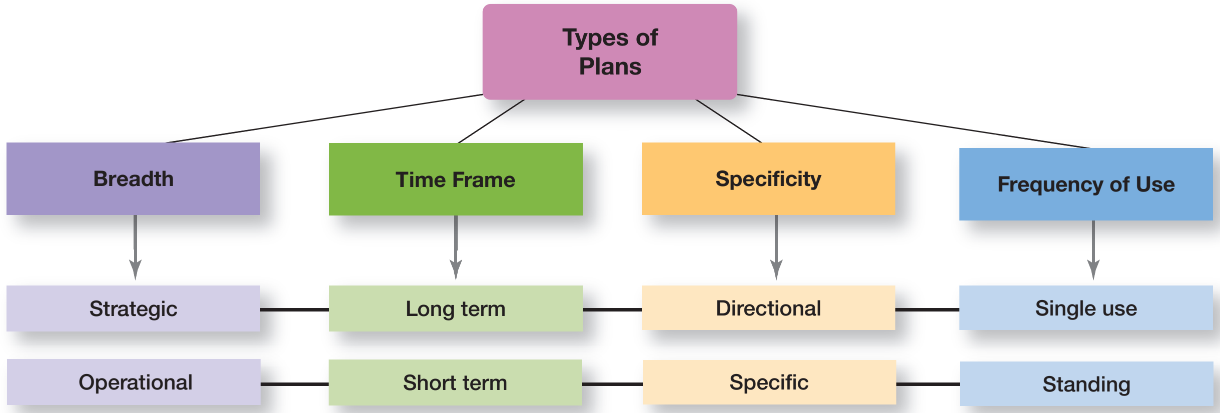
strategic plans
Plans that apply to the entire organization and establish the organization's overall goals

Strategic plans are plans that apply to the entire organization and establish the organization's overall goals. For example, the strategic plan of Egyptian Transport and Commercial Services Company (Egytrans) is to "make integrated transport easy, safe, and cost-effective," by providing its business customers with world-class transport and logistics services. This multi-year plan identifies new markets with significant profit opportunity and sets goals for increasing revenue, improving cost efficiencies, and service innovations for future growth.[10] Plans that encompass a particular operational area of the organization are called **operational plans**. The operational plans of Egytrans guide decisions about new products and business units to support the strategic plan.[11] These two types of plans differ because strategic plans are broad while operational plans are narrow.

operational plans
Plans that encompass a particular operational area of the organization

The number of years used to define short-term and long-term plans has declined considerably because of environmental uncertainty. Long term used to mean anything over seven years. Try to imagine what you're likely to be doing in seven years, and you

Exhibit 8-1
Types of Plans



can begin to appreciate how difficult it would be for managers to establish plans that far in the future. We define **long-term plans** as those with a time frame beyond three years.[12] The U.S. National Aeronautical Space Administration's long-term goal is to answer some basic questions. What's out there in space? How do we get there? What will we find?[13] **Short-term plans** cover one year or less. Any time period in between would be an intermediate plan. Although these time classifications are fairly common, an organization can use any planning time frame it wants. For instance, Dollar General stated a short-term plan to increase store sales and profitability in 2016.

long-term plans
Plans with a time frame beyond three years

short-term plans
Plans covering one year or less

Intuitively, it would seem that specific plans would be preferable to directional, or loosely guided, plans. **Specific plans** are clearly defined and leave no room for interpretation. A specific plan states its objectives in a way that eliminates ambiguity and problems with misunderstanding. A manager who seeks to increase his or her unit's work output by 8 percent over a given 12-month period might establish specific procedures, budget allocations, and schedules of activities to reach that goal. For example, Rolls-Royce's marine equipment business announced a specific plan to save costs by eliminating 800 jobs in several countries, which amounts to 17 percent of its total workforce.[14]

specific plans
Plans that are clearly defined and leave no room for interpretation

However, when uncertainty is high and managers must be flexible in order to respond to unexpected changes, directional plans are preferable. **Directional plans** are flexible plans that set out general guidelines. They provide focus but don't lock managers into specific goals or courses of action. For example, at the Morning Star Company, professional employees self-manage their relationships with colleagues, customers, and suppliers without specific directions from company executives. These employees are simply expected to hold themselves accountable to achieve the company's mission, which is "to produce tomato products and services which consistently achieve the quality and service expectations of our customers in a cost effective, environmentally responsible manner."[15] Keep in mind, however, that the flexibility of directional plans must be weighed against the lack of clarity of specific plans.

directional plans
Plans that are flexible and set out general guidelines

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

Watch It 1!

Some plans that managers develop are ongoing while others are used only once. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. For instance, when Walmart wanted to expand the number of its stores in China, top-level executives formulated a single-use plan as a guide. In contrast, **standing plans** are ongoing plans that provide guidance for activities

single-use plan
A one-time plan specifically designed to meet the needs of a unique situation

standing plans
Ongoing plans that provide guidance for activities performed repeatedly

performed repeatedly. Standing plans include policies, rules, and procedures, which we defined in Chapter 2. As an example, France's LVMH has a standing plan to handle issues under its ethical code of conduct, which applies to employees and to suppliers. The plan guides managers at the luxury products group as they examine potential conflicts of interest and other ethical concerns.[16]

LEADER making a DIFFERENCE

Source: Kim White/Reuters

Jeff Bezos, *founder and CEO of Amazon.com, understands the importance of goals and plans. As a leader, he exudes energy, enthusiasm, and drive.[17] He's fun loving (his legendary laugh has been described as a flock of Canadian geese on nitrous oxide) but has pursued his vision for Amazon with serious intensity and has demonstrated an ability to inspire his employees through the ups and downs of a rapidly growing company. When Bezos founded the company as an online bookstore, his goal was to be the leader in online retailing. Now 20 years later, Amazon has become the world's general store, selling not only books, CDs, and DVDs, but LEGOs, power drills, and Jackalope Buck taxidermy mounts, to name a few of the millions of products you can buy.* What can you learn from this leader making a difference?

SETTING goals and developing plans

LO8.3 Taylor Haines has just been elected president of her business school's honor society. She wants the organization to be more actively involved in the business school than it has been. Francisco Garza graduated from Tecnologico de Monterrey with a degree in marketing and computers three years ago and went to work for a regional consulting services firm. He recently was promoted to manager of an eight-person social media development team and hopes to strengthen the team's financial contributions to the firm. What should Taylor and Francisco do now? Their first step should be to set goals.

Approaches to Setting Goals

As we stated earlier, goals provide the direction for all management decisions and actions and form the criteria against which actual accomplishments are measured. Everything organizational members do should be oriented toward achieving goals. These goals can be set either through a traditional process or by using management by objectives.

traditional goal-setting
An approach to setting goals in which top managers set goals that then flow down through the organization and become subgoals for each organizational area

In **traditional goal-setting**, goals set by top managers flow down through the organization and become subgoals for each organizational area. This traditional perspective assumes that top managers know what's best because they see the "big picture." And the goals passed down to each succeeding level guide individual employees as they work to achieve those assigned goals. If Taylor were to use this approach, she would see what goals the dean or director of the school of business had set and develop goals for her group that would contribute to achieving those goals. Or take a manufacturing business, for example. The president tells the vice president of production what he expects manufacturing costs to be for the coming year and tells the marketing vice president what level he expects sales to reach for the year. These goals are passed to the next organizational level and written to reflect the responsibilities of that level, passed to the next level, and so forth. Then, at some later time, performance is evaluated to determine whether the assigned goals have been achieved. Although the process is supposed to happen in this way, in reality it doesn't always do so. Turning broad strategic goals into departmental, team, and individual goals can be a difficult and frustrating process.

Another problem with traditional goal-setting is that when top managers define the organization's goals in broad terms—such as achieving "sufficient" profits or increasing "market leadership"—these ambiguous goals have to be made more specific as they flow down through the organization. Managers at each level define the goals and apply their own interpretations and biases as they make them more

WORKPLACE CONFIDENTIAL When You Face a Lack of Clear Directions

Today's workplace is often described as exhibiting rapid change. New competitors pop out of nowhere. Innovative ideas disrupt established businesses. Products and services find their life cycles increasingly shortened. And employees are finding themselves having to cope with change and the ambiguity that comes with it.

While some people thrive on ambiguity, most of us find it frustrating and stressful. This is particularly true at work. What does my boss want me to do? What's a priority and what can wait? When problems arise, whom should I see for help? How far can I go without overstepping my job responsibilities?

There are essentially two solutions to a lack of clear directions. One is a boss who offers explicit and precise guidelines. He or she tells you, in unambiguous terms, what your job entails. In your boss's leadership role, the lines of where your job responsibilities start and end are made perfectly clear to you. The other solution is a formal position description.

Reducing ambiguity can be largely facilitated by having a written position description. This is a statement of the essential components of your job—what work is to be performed, your primary duties and responsibilities, and the criteria that will be used to evaluate your performance. Most large organizations will have position descriptions available.

Ideally, your employer has a position description for your job. One might exist but you may have never received it when you took your job. If so, ask your boss or human resource department for a copy.

There is strong evidence indicating that position descriptions provide role clarity and that employees who have role clarity are much more likely to be engaged with the work they're doing. Of course, these position descriptions need to be updated regularly to reflect the changing nature of work and specific jobs. You might suggest to your boss that, following your annual performance evaluation, the two of you sit down, assess the changes that have taken place in the past year, and then update your position description to reflect if, or how, these changes have reshaped your job responsibilities.

But let's assume a position description for your job doesn't exist and your boss doesn't excel at providing you with clear directives. What then? Consider creating a position description in partnership with your boss. Explain to your boss how a detailed position description can help you do your job better and reduce your dependence on him or her. Importantly, if this document is truly to be effective, it needs to contain shared expectations. That is, it has to be created in cooperation with your boss so he or she "owns" the final document with you.

Realistically, even with a great boss who provides clear directions or a detailed position description, there will still be times when you'll feel a lack of clear directions. Here are three suggestions that can help you through these times:

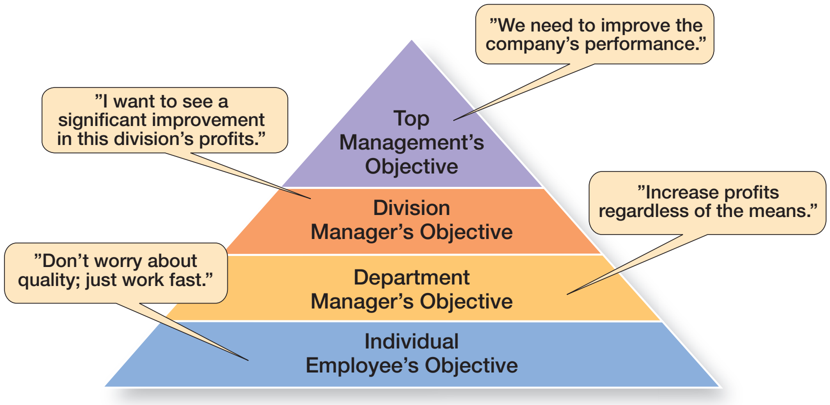
Suppress your urge to control things. No matter how much we want to control those things around us, we have to accept that there are elements of our life that we can't control. This is certainly true in relation to work. In terms of our concern here, we rarely get to choose our boss. And you may find that it's not realistic to impose structure—in the terms of a position description—in a culture where they have never existed. Add in the fact that, in many organizations, changes are occurring so rapidly that the valid life span of a position description may be only a few months or even weeks. End result: You need to learn to accept the reality that you can't control everything related to your job.

Learn to act without the complete picture. Rational decision making assumes that problems are clear and unambiguous, and that you know all possible alternatives and consequences. That's not the real world of work; hence, you will rarely, if ever, have all the information you need when making a decision. You need to accept that you will regularly face ambiguous situations and you will have to take actions without clear directions either from your boss, colleagues, or a procedure manual.

You can make decisions based on the information you have, even if the information isn't complete. Don't be afraid to make a mistake. Often, a wrong decision is better than no decision. Don't be gun shy, or as one executive once described a colleague: "It was always, 'ready, aim, aim, aim, aim.' He was afraid to pull the trigger!" You don't want to become characterized as someone who's afraid to do anything without your boss's direction or without first getting his or her approval. If you're going to move ahead in the organization and be seen as a leader, you will have to take assertive action under conditions of ambiguity. And that means your decisions are not always going to be proven correct. Live with it! Baseball players who fail 60 percent of the time end up in the Hall of Fame.

Source: Based on J. A. Breaugh and J. P. Colihan, "Measuring Facets of Job Ambiguity: Construct Validity Evidence," *Journal of Applied Psychology*, March 1994, pp. 191–202; "Position Description Essential for Role Clarity and Engagement," hrdaily online, July 16, 2012; and C. Shaw, "Dealing with Ambiguity: The New Business Imperative," LinkedIn online, August 29, 2013.

Exhibit 8-2
The Downside of Traditional Goal-Setting



specific. However, what often happens is that clarity is lost as the goals make their way down from the top of the organization to lower levels. Exhibit 8-2 illustrates what can happen. But it doesn't have to be that way. For example, top managers at Swisscom, a leading telecommunications provider in Switzerland, understand the importance of focusing all 21,000 employees on the firm's main goals and strategies. Knowing that technology is advancing rapidly, they also expect the workforce to react quickly to changing market conditions, with the strategic goals in mind. So Swisscom's managers create operational plans for short-term projects and set deadlines measured in terms of days or weeks, rather than over many months or years. Every other week, employee teams meet to assess success and determine next steps to ensure that innovations are implemented with speed and quality. By giving employees the information and ability to make decisions and innovate within the framework of the goals and strategy, Swisscom is maintaining its competitiveness and meeting the needs of its customers.[18]

means-ends chain
An integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next level

When the hierarchy of organizational goals is clearly defined, as it is at Carrier-Carlyle Compressor, it forms an integrated network of goals, or a **means-ends chain**. Higher-level goals (or ends) are linked to lower-level goals, which serve as the means for their accomplishment. In other words, the goals achieved at lower levels become the means to reach the goals (ends) at the next level. And the accomplishment of goals at that level becomes the means to achieve the goals (ends) at the next level and on up through the different organizational levels. That's how traditional goal-setting is supposed to work.

management by objectives (MBO)
A process of setting mutually agreed-upon goals and using those goals to evaluate employee performance

Instead of using traditional goal-setting, many organizations use **management by objectives (MBO)**, a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. If Francisco were to use this approach, he would sit down with each member of his team and set goals and periodically review whether progress was being made toward achieving those goals. Companies such as Adobe, GE, and Microsoft have replaced traditional performance ratings with MBO programs. Adobe refers to its MBO program as Check In. Each year, employees and managers meet to establish goals. Then, at least every two months, employees check in with their managers to discuss their progress. At the end of the year, managers meet for a "rewards check-in" session where they discuss how well employees attained their goals, and pay increases and bonuses are awarded based on goal attainment. According to Donna Morris, Adobe's global senior vice president of people and places, "Managers are empowered to make those decisions," says Morris. "HR isn't involved."[19]

MBO programs have four elements: goal specificity, participative decision making, an explicit time period, and performance feedback.[20] Instead of using goals to make sure employees are doing what they're supposed to be doing, MBO uses goals to motivate them as well. The appeal is that it focuses on employees working to accomplish goals they've had a hand in setting. Exhibit 8-3 lists the steps in a typical MBO program.

Exhibit 8-3
Steps in MBO

Step 1: The organization's ***overall objectives*** and ***strategies*** are formulated.

Step 2: Major objectives are allocated among ***divisional and departmental units.***

Step 3: Unit managers ***collaboratively set specific objectives*** for their units with their managers.

Step 4: Specific objectives are collaboratively set with ***all department members.***

Step 5: ***Action plans,*** defining how objectives are to be achieved, are specified and agreed upon by managers and employees.

Step 6: The action plans are ***implemented.***

Step 7: Progress toward objectives is ***periodically reviewed,*** and ***feedback is provided.***

Step 8: Successful achievement of objectives is reinforced by ***performance-based rewards.***

Does MBO work? Studies have shown that it can increase employee performance and organizational productivity. For example, one review of MBO programs found productivity gains in almost all of them.[21] But is MBO relevant for today's organizations? If it's viewed as a way of setting goals, then yes, because research shows that goal-setting can be an effective approach to motivating employees.[22]

CHARACTERISTICS OF WELL-WRITTEN GOALS Goals aren't all written the same way. Some are better than others at making the desired outcomes clear. For instance, in 2009 Samsung Electronics announced specific lofty goals in its written plan titled "Vision 2020." By 2020, it plans to achieve $400 billion in sales, becoming first in the global IT industry, and growing into a top 10 global company.[23] These

let's get REAL

Source: Christina Moser

Christina Moser
Strategic Account Manager

The Scenario:

Jerry Kennedy is sitting down with his new manager to discuss his recent promotion to a line supervisor at a manufacturing plant. The plant is expecting a lot of growth in the next year, and Jerry will have many challenges in his new role. Jerry's manager starts the meeting by asking Jerry to work on writing some specific goals for the upcoming year. Jerry is hesitant to work on writing goals as he feels he has a lot to learn and a lot of work to do. Writing goals seems like a waste of time.

What would you tell Jerry about the value of setting goals for his new role?

Setting goals improves focus and is a catalyst for success, which makes it even more valuable for someone who feels overwhelmed in a new role. Knowing that the plant is expecting growth in the next year, Jerry will need to produce results quickly. Once Jerry writes out his goals, he can begin to detail the steps and milestones to achieve them. He should also make them SMART—specific, measurable, achievable, realistic and time-bound. For example, one of his goals might be to learn the new payroll system for employee timekeeping in the next 30 days.

Exhibit 8-4
Well-Written Goals

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear as to a time frame
- Challenging yet attainable
- Written down
- Communicated to all necessary organizational members

FYI

A survey of managers revealed:
- 51 percent said they could secure resources to pursue attractive opportunities outside their strategic objectives, and
- only 11 percent said all their company's strategic priorities have the resources they need for success.[25]

are ambitious but specific goals. Managers should be able to write well-written work goals. What makes a "well-written" work goal?[24] Exhibit 8-4 lists the characteristics.

STEPS IN GOAL-SETTING Managers should follow five steps when setting goals.

1. *Review the organization's mission, or purpose.* A **mission** is a broad statement of an organization's purpose that provides an overall guide to what organizational members think is important. Managers should review the mission before writing goals because goals should reflect that mission. For instance, the Coca-Cola Company's mission entails the following: To refresh the world, to inspire moments of optimism and happiness, and to create value and make a difference.[26]
2. *Evaluate available resources.* You don't want to set goals that are impossible to achieve given your available resources. Even though goals should be challenging, they should be realistic. After all, if the resources you have to work with won't allow you to achieve a goal no matter how hard you try or how much effort is exerted, you shouldn't set that goal. That would be like the person with a $50,000 annual income and no other financial resources setting a goal of building an investment portfolio worth $1 million in three years. No matter how hard he or she works at it, it's not going to happen.
3. *Determine the goals individually or with input from others.* The goals reflect desired outcomes and should be congruent with the organizational mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment.
4. *Write down the goals and communicate them to all who need to know.* Writing down and communicating goals forces people to think them through. The written goals also become visible evidence of the importance of working toward something.
5. *Review results and whether goals are being met.* If goals aren't being met, change them as needed.

mission
The purpose of an organization

Once the goals have been established, written down, and communicated, a manager is ready to develop plans for pursuing the goals.

It's Your Career

Goal-Setting—If your instructor is using **Pearson MyLab Management**, log onto *mymanagementlab.com* and test your *goal-setting knowledge.* **Be sure to refer back to the chapter opener!**

Developing Plans

The process of developing plans is influenced by three contingency factors and by the planning approach followed.

CONTINGENCY FACTORS IN PLANNING Three contingency factors affect the choice of plans: organizational level, degree of environmental uncertainty, and length of future commitments.[27]

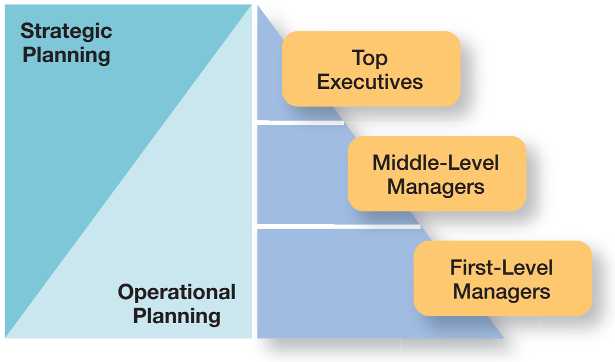


Exhibit 8-5

Planning and Organizational Level

Exhibit 8-5 shows the relationship between a manager's level in the organization and the type of planning done. For the most part, lower-level managers do operational planning while upper-level managers do strategic planning.

The second contingency factor is environmental uncertainty. When uncertainty is high, plans should be specific, but flexible. Managers must be prepared to change or amend plans as they're implemented. At times, they may even have to abandon the plans.[28] For example, office supply chain Staples, Inc. recently engaged in a takeover bid of its competitor Office Depot, Inc. Its goal is to gain greater market share; however, the U.S. government filed a lawsuit to prevent the acquisition. Staples is considering an alternative plan if they lose the lawsuit, and the company's CEO Ron Sargent says: "We've been working on Plan B for several months at this point."[29]

The last contingency factor also is related to the time frame of plans. The **commitment concept** says that plans should extend far enough to meet those commitments made when the plans were developed. Planning for too long or too short a time period is inefficient and ineffective. For instance, Walmart, like many businesses during the 2008–2009 recession cut staff. Yet, it continued to add stores that need to be stocked and restocked with merchandise. With fewer employees, however, merchandise is piling up in stockrooms, shelves are going unstocked, checkout lines are longer, and fewer employees are in the store itself to help customers.[30] How does this illustrate the commitment concept? By deciding to cut staff, Walmart "committed" to the consequences of that decision—good and bad.

IBM replaced its traditional annual top-down planning process with an ongoing planning approach that involves employees from line managers to senior executives. The new approach enables IBM to explore and identify customer needs, new markets, technologies, and competitors from around the world and to create new ventures such as the IBM Watson Group for developing and commercializing cognitive computing innovations.
Source: Jon Simon/Newscom

commitment concept
Plans should extend far enough to meet those commitments made when the plans were developed

Approaches to Planning

Swisscom works closely with key suppliers, including Huawei, to jointly plan new technology for improving telecommunications services. At the U.K. retailer John Lewis, which is employee-owned, top managers discuss major plans and policies with the 15-member Partnership Board of employees. Executives at Inditex, the Spanish parent company of Zara and other thriving retail chains, seek input from small groups of employees and listen closely to store managers during the planning process, especially when preparing for the design and introduction of new products. In each of these situations, planning is done a little differently.[31]

In the traditional approach, planning is done entirely by top-level managers who often are assisted by a **formal planning department**, a group of planning specialists whose sole responsibility is to help write the various organizational plans. Under this approach, plans developed by top-level managers flow down through other organizational levels, much like the traditional approach to goal-setting. As they flow down through the organization, the plans are tailored to the particular needs of each level. Although this approach makes managerial planning thorough, systematic, and coordinated, all too often the focus is on developing "the plan"—a thick binder (or binders)

formal planning department
A group of planning specialists whose sole responsibility is helping to write organizational plans

full of meaningless information that's stuck on a shelf and never used by anyone for guiding or coordinating work efforts. In fact, in a survey of managers about formal top-down organizational planning processes, more than 75 percent said their company's planning approach was unsatisfactory.[32] A common complaint was that "plans are documents that you prepare for the corporate planning staff and later forget." Although this traditional top-down approach to planning is used by many organizations, it can be effective only if managers understand the importance of creating documents that organizational members actually use, not documents that look impressive but are ignored.

Another approach to planning is to involve more organizational members in the process. In this approach, plans aren't handed down from one level to the next, but instead are developed by organizational members at the various levels and in the various work units to meet their specific needs. For instance, at Dell, employees from production, supply management, and channel management meet weekly to make plans based on current product demand and supply. In addition, work teams set their own daily schedules and track their progress against those schedules. If a team falls behind, team members develop "recovery" plans to try to get back on schedule.[33] When organizational members are more actively involved in planning, they see that the plans are more than just something written down on paper. They can actually see that the plans are used in directing and coordinating work.

CONTEMPORARY issues in planning

LO8.4 The second floor of the 21-story Hyundai Motor headquarters buzzes with data 24 hours a day. That's where you'd find the company's Global Command and Control Center (GCCC), which is modeled after the CNN newsroom with numerous "computer screens relaying video and data keeping watch on Hyundai operations around the world." Managers get information on parts shipments from suppliers to factories. Cameras watch assembly lines and closely monitor the company's massive Ulsan, Korea, factory looking for competitors' spies and any hints of labor unrest. The GCCC also keeps tabs on the company's R&D activities in Europe, Japan, and North America. Hyundai can identify problems in an instant and react quickly. The company is all about aggressiveness and speed and is representative of how a successful twenty-first-century company approaches planning.[34]

We conclude this chapter by addressing three contemporary issues in planning. Specifically, we're going to look at how managers can plan effectively in dynamic environments; how managers can use environmental scanning, especially competitive intelligence; and how digital tools can be used to assist in planning activities.

Try It!

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Simulation: *Planning* and get a better understanding of the challenges of planning in organizations.

FYI

- About half of all new businesses survive 5 years or more and one-third survive 10 years or more.[35]

How Can Managers Plan Effectively in Dynamic Environments?

As we saw in Chapter 7, the external environment is continually changing. For instance, cloud computing storage is revolutionizing all kinds of industries from financial services to health care to engineering.[36] Social networking sites are used by companies to connect with customers, employees, and potential employees. Amounts spent on eating out instead of cooking at home are predicted to start rising after years of decline during the economic downturn. And experts believe that China and India are transforming the twenty-first-century global economy.

How can managers effectively plan when the external environment is continually changing? We already discussed uncertain environments as one of the contingency factors that affect the types of plans managers develop. Because dynamic environments are more the norm than the exception, let's look at how managers can effectively plan in such environments.

In an uncertain environment, managers should develop plans that are specific, but flexible. Although this may seem contradictory, it's not. To be useful, plans need some specificity, but the plans should not be set in stone. Managers need to recognize that planning is an ongoing process. The plans serve as a road map, although the destination may change due to dynamic market conditions. They should be ready to change directions if environmental conditions warrant. This flexibility is particularly important as plans are implemented. Managers need to stay alert to environmental changes that may impact implementation and respond as needed. Keep in mind, also, that even when the environment is highly uncertain, it's important to continue formal planning in order to see any effect on organizational performance. It's the persistence in planning that contributes to significant performance improvement. Why? It seems that, as with most activities, managers "learn to plan," and the quality of their planning improves when they continue to do it.[37] Finally, make the organizational hierarchy flatter to effectively plan in dynamic environments. This means allowing lower organizational levels to set goals and develop plans because there's little time for goals and plans to flow down from the top. Managers should teach their employees how to set goals and to plan and then trust them to do it. And you need look no further than California's Silicon Valley to find a company that effectively understands this. In 2003, professional networking website LinkedIn was launched. The company initially struggled to enlist subscribers, sometimes adding only 20 per day, but it has since grown to more than 400 million subscribers in approximately 200 countries.[38] LinkedIn achieved success quickly, becoming profitable after three years in business, and, in its fifth year, unveiled versions of its website in Spanish and French. Today, LinkedIn specializes in "Online Professional Network, Jobs, People Search, Company Search, Address Book, Advertising, Professional Identity, and Group Collaboration."[39] The company empowers employees to take responsibility for managing projects that will enhance the LinkedIn's products and service delivery through the LinkedIn INCubator program. "It's a little bit like a venture capital thing," says Kevin Scott, LinkedIn's senior vice president for engineering. "When we find something we really like, we want to make it successful. . . . To have [cofounder and executive chairman] Reid Hoffman sit down with you one-on-one to help you make your hack successful is great."[40] If Hoffman approves the project, the employee gets matched up with an executive mentor. Then, the employee builds a team and directs the project. According to Florina Grosskurth, who runs the company's engineering programs, "LinkedIn sees [in]cubator projects as small investments that have the potential to become big wins for the company."[41]

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *CH2MHill: Planning* and to respond to questions.

Watch It 2!

How Can Managers Use Environmental Scanning?

Crammed into a small Shanghai apartment that houses four generations of a Chinese family, Indra Nooyi, chairman and CEO of PepsiCo, Inc., asked the inhabitants several questions about "China's rapid development, their shopping habits, and how they feel about Western brands." This visit was part of an "immersion" tour of China for Ms. Nooyi, who hoped to strengthen PepsiCo's business in emerging markets. She said, "I wanted to look at how people live, how they eat, what the growth possibilities are."[42] The information gleaned from her research—a prime example of environmental scanning up close and personal—will help in establishing PepsiCo's future goals and plans.

A manager's analysis of the external environment may be improved by **environmental scanning**, which involves screening information to detect emerging trends. One of the fastest-growing forms of environmental scanning is

environmental scanning
Screening information to detect emerging trends

Operating in a dynamic global environment, the Swedish music-streaming service Spotify gathers information about competitors such as Google's YouTube and Apple's Beats in the United States, Deezer in France, and SoundCloud in Germany. Competitive intelligence helps Spotify managers and employees develop plans for new business ventures such as its video-streaming service.
Source: Melanie Stetson Freeman/The Christian Science Monitor/AP Images

competitor intelligence, gathering information about competitors that allows managers to anticipate competitors' actions rather than merely react to them.[43] It seeks basic information about competitors: Who are they? What are they doing? How will what they're doing affect us?

Many who study competitive intelligence suggest that much of the competitor-related information managers need to make crucial strategic decisions is available and accessible to the public.[44] In other words, competitive intelligence isn't corporate espionage. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, want ads, newspaper reports, information on the Internet, and industry studies are readily accessible sources of information. Specific information on an industry and associated organizations is increasingly available through electronic databases. Managers can literally tap into this wealth of competitive information by purchasing access to databases. Attending trade shows and debriefing your own sales staff also can be good sources of information on competitors. In addition, many organizations even regularly buy competitors' products and ask their own employees to evaluate them to learn about new technical innovations.[45]

competitor intelligence
Gathering information about competitors that allows managers to anticipate competitors' actions rather than merely react to them

In a changing global business environment, environmental scanning and obtaining competitive intelligence can be quite complex, especially since information must be gathered from around the world. However, one thing managers could do is subscribe to news services that review newspapers and magazines from around the globe and provide summaries to client companies.

Managers do need to be careful about the way information, especially competitive intelligence, is gathered to prevent any concerns about whether it's legal or ethical.[46] For instance, Agilent Technologies is suing former employee Emily Leproust and her new employer Twist Bioscience for stealing trade secrets, which enables the company to manufacture genes quicker and more economically. Agilent's lead attorney Daniel Petrocelli said: "This was a highly orchestrated scheme to misappropriate Agilent's intellectual property and violate its valuable rights. We will vigorously protect the company's interests."[47]

Competitive intelligence becomes illegal corporate spying when it involves the theft of proprietary materials or trade secrets by any means. The Economic Espionage Act makes it a crime in the United States to engage in economic espionage or to steal a trade secret. Difficult decisions about competitive intelligence arise because often there's a fine line between what's considered legal and ethical and what's considered legal but unethical. Although the top manager at one competitive intelligence firm contends that 99.9 percent of intelligence gathering is legal, there's no question that some people or companies will go to any lengths—some unethical—to get information about competitors.[48]

Digital Tools

Increasingly, we're finding that companies are making strategic changes based on data, as distinct from day-to-day decisions. These leaders understand the importance of business intelligence in their planning process. **Business intelligence** refers to a variety of data that managers can use to make more effective strategic decisions. Sources of business intelligence are company records, industry trends, and competitors' financial (for example, profits) or market (for example, market penetration) data.

business intelligence
data that managers can use to make more effective strategic decisions

How do managers make sense of vast amounts of data? Managers can use digital tools to make sense of business intelligence data. **Digital tools** refer to technology, systems, or software that allow the user to collect, visualize, understand, or analyze data. Specific examples of digital tools include software such as Microsoft Excel, online services such as Google Analytics, or networks that connect computers and people, such as social media.

digital tools
technology, systems, or software that allow the user to collect, visualize, understand, or analyze data

FUTURE VISION Using Social Media for Environmental Scanning

While most companies have a strategy to use social media for marketing, many companies have expanded their use of social media to support organizational planning.[49] A growing number of social media sites are providing businesses with real-time information to support environmental scanning efforts.

Social media is particularly valuable in collecting competitor intelligence. Businesses can identify emerging trends by monitoring online conversations and other information transmitted via social media. For example, through LinkedIn you might learn that a competitor is expanding a certain division as more people update their profiles indicating they are joining an organization. Or you could identify a competitor's strategic promotions or hires that might reflect a shift in their business.

It may seem like a daunting task to monitor social media; however, businesses can use new software tools and analytic techniques to learn about competitors, suppliers, and customers. For example, software can be used to calculate "buzz volume," which isolates relevant messages about a specific company's brand online. Small businesses in particular could benefit from social media as local happenings are often shared on Twitter or other sites, even if they don't make it to traditional news sources.

To effectively gather business intelligence from social media, organizations should take a strategic approach, otherwise it is easy to get buried in the overwhelming amount of information that exists. This unprecedented access to immediate and endless information could shift how businesses conduct organizational planning. Business managers must be able to shift plans quickly in response to trends or other intelligence identified via social media scanning efforts.

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

TALK ABOUT IT 1: With so much information available through social media, how can businesses focus their efforts to scan for relevant information?

TALK ABOUT IT 2: How can a business determine if information gathered from social media is reliable?

Increasingly, digital tools enable managers to make decisions based on a variety of *quantitative information*, much of which we refer to as big data. In Chapter 2, we defined big data as the vast amount of quantifiable information that can be analyzed by highly sophisticated data processing. It's important to reiterate that managers make plans using their understanding of *qualitative information*, including internal factors such as how organizational culture influences employee motivation, and external factors, such as why competitors have adopted new technology to advance their organizational objectives. Digital tools, while increasingly important, should complement current planning approaches rather than replace them. Let's briefly review three of the more prevalent digital tools available today.

DATA VISUALIZATION TOOLS What do pie charts, bar charts, and trend lines have in common? They're methods to organize and summarize data for visual display. For example, managers can use bar charts to display profits for several industries across multiple years. Tableau is an example of a company that 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.

CLOUD COMPUTING **Cloud computing** refers to storing and accessing data on the Internet rather than on a computer's hard drive or a company's network. The cloud is just a metaphor for the Internet.[50] Salesforce.com is an example of a company that provides cloud services to businesses. The company offers Customer Success Platform, which helps clients collect, analyze, and distribute customer information. This service permits integration of multiple data sources into a single location, enabling companies to make timely decisions.

cloud computing
Refers to storing and accessing data on the Internet rather than on a computer's hard drive or a company's network.

INTERNET OF THINGS In the *Future Vision* feature in Chapter 6, we described the **Internet of Things (IoT)**, which allows everyday "things" to generate and store data about their own performance and share that information across the Internet. For instance, tire manufacturer Michelin created the EFFIFUEL service. EFFIFUEL relies on experts and digital tools to help companies reduce fuel costs. Sensors placed in vehicles collect data on fuel consumption, tire pressure, temperature, speed, and location. These data are sent to a cloud service and fuel experts then analyze the data and make recommendations to fleet managers regarding how to use less fuel when driving. The EFFIFUEL service has been able to help fleet managers save about 2 liters of fuel for every 100 kilometers driven.[51]

Internet of things
Allows everyday "things" to generate and store and share data across the Internet

In sum, business intelligence has become an increasingly important asset for strategic planning. Digital tools enable managers to make sense of the data. However, while these tools are increasingly important, they should complement current planning approaches rather than replace them.

Chapter 8 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO8.1 DEFINE the nature and purposes of planning.

Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing plans for organizational work activities. The four purposes of planning include providing direction, reducing uncertainty, minimizing waste and redundancy, and establishing the goals or standards used in controlling. Studies of the planning-performance relationship have concluded that formal planning is associated with positive financial performance, for the most part; it's more important to do a good job of planning and implementing the plans than doing more extensive planning; the external environment is usually the reason why companies that plan don't achieve high levels of performance; and the planning-performance relationship seems to be influenced by the planning time frame.

LO8.2 CLASSIFY the types of goals organizations might have and the plans they use.

Goals are desired outcomes. Plans are documents that outline how goals are going to be met. Goals might be strategic or financial, and they might be stated or real. Strategic plans apply to the entire organization, while operational plans encompass a particular functional area. Long-term plans are those with a time frame beyond three years. Short-term plans cover one year or less. Specific plans are clearly defined and leave no room for interpretation. Directional plans are flexible and set out general guidelines. A single-use plan is a one-time plan designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly.

LO8.3 COMPARE and contrast approaches to goal-setting and planning.

In traditional goal-setting, goals are set at the top of the organization and then become subgoals for each organizational area. MBO (management by objectives) is a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. Well-written goals have six characteristics: They are (1) written in terms of outcomes, (2) measurable and quantifiable, (3) clear as to time frame, (4) challenging but attainable, (5) written down, and (6) communicated to all organizational members who need to know them. Goal-setting involves these steps: review the organization's mission; evaluate available resources; determine the goals individually or with input from others; write down the goals and communicate them to all who need to know them; and review results and change goals as needed. The contingency factors that affect planning include the manager's level in the organization, the degree of environmental uncertainty, and the length of future commitments. The two main approaches to planning include the traditional approach, which has plans developed by top managers that flow down through other organizational levels and which may use a formal planning department. The other approach is to involve more organizational members in the planning process.

LO8.4 DISCUSS contemporary issues in planning.

One contemporary planning issue is planning in dynamic environments, which usually means developing plans that are specific but flexible. Also, it's important to continue planning, even when the environment is highly uncertain. Finally, because there's little time in a dynamic environment for goals and plans to flow down from the top, lower organizational levels should be allowed to set goals and develop plans. Another contemporary planning issue involves using environmental scanning to help do a better analysis of the external environment. One form of environmental scanning, competitive intelligence, can be especially helpful in finding out what competitors are doing. Organizations can gather business intelligence using a variety of digital tools to collect and analyze quantitative and qualitative data to support decision making.

Pearson MyLab Management

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

✪ REVIEW AND DISCUSSION QUESTIONS

8-1. Explain what studies have shown about the relationship between planning and performance.

8-2. Planning takes a lot of effort. Why do you think people should engage in it?

8-3. Define the term goal and explain how planning fits into an organization's goal.

8-4. What are organizational goals? How many types are there? How would you discern an organization's actual goals?

8-5. Outline the five steps required for setting goals in an organization. Explain how they work.

8-6. What is the fastest-growing area of environmental scanning? What does it provide to an organization?

8-7. Setting organizational goals is an important step in planning. What are the approaches to setting organizational goals? Which do you consider the best?

8-8. Hyundai's Global Command and Control Center (GCCC) have cameras strategically placed across its centers to monitor assembly lines. This helps identify problems and respond quickly. What drives Hyundai to plan this way?

Pearson MyLab Management

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

8-9. Describe how the owner of an SME could use environmental scanning.

8-10. The late Peter Drucker, an eminent management author, coined the SMART format for setting goals back in 1954: S (specific), M (measurable), A (attainable), R (relevant), and T (time-bound). Are these still relevant today? Discuss.

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENTS

P I A PERSONAL INVENTORY ASSESSMENT

Tolerance of Ambiguity Scale

Managers often have to deal with ambiguous situations, which can make effective planning very challenging. In this PIA, you'll assess your level of tolerance for ambiguity.

ETHICS DILEMMA

While important, rules may sometimes create more problems than they resolve. Websites like TripAdvisor are valuable for tourism, providing businesses with greater exposure. The problem is not all reviews are positive. Recently a hotel in Blackpool, England, fined two guests £100 for leaving scathing comments on TripAdvisor. On enquiry, the hotel had reportedly informed them that this was a policy—to charge guests who leave bad reviews.[52] The couple was later refunded. Another example is a Canadian hotel routinely criticized for its strict rules—guests required to go to sleep by 10 PM and a "no talking" policy in its corridors and public areas. After 11 PM, the hotel's staff would patrol the site, threatening people with the non-return of their deposit. If noise was heard from within any of the rooms, the reception would call. Many reviews suggested that the reception was downright rude. Despite this, the hotel's rooms were regarded as clean and the breakfast reasonable.

8-11. To what extent do you think it's ethical for businesses to impose such strict rules on guests?

8-12. Would it be legal for the hotel to exclude some customers from the restrictions?

8-13. How would you react if a business imposed overly restrictive rules on you?

SKILLS EXERCISE Making a To-Do List That Works and Using It

Do you have lots to do and limited time in which to do it? That sounds familiar, doesn't it! One tool that many successful people use is a to-do list. Lists can be useful because they: help organize and make sense of what needs to be done; keep details of work/life events; track progress; and help overcome procrastination. Making a to-do list that works and then using it is a skill that every manager needs to develop.

Steps in Practicing the Skill

- ***Break project(s) into smaller tasks and prioritize those tasks.*** When you have a major project to complete, spend some time up front identifying as many of the sequential tasks necessary to complete that project. Also, prioritize, prioritize, prioritize. It's the only way to get done what's most important.
- ***Be realistic about your to-do list.*** Whether your to-do list is daily, weekly, or monthly—or all of these—you've got to realize that interruptions will and do happen. Don't overestimate what you can get done. And you will face conflicting priorities. Reprioritize when this happens.
- ***Know and pay attention to your own time and energy.*** Develop your own personal routines. You know when you're the most productive. Those are the times you need to do your most important tasks. Or maybe you need to do the task you like least first. You'll want to get it done faster so you can move on to tasks that you enjoy doing.
- ***Know your biggest time wasters and distractions.*** We all have them, whether they're found online or on the television or elsewhere. (And you probably already know what yours are!) Also, realize you probably can't (nor do you want to) eliminate them. But do be leery of them, especially when you're trying to get something done or need to get something done.
- ***Let technology be a tool, not a distraction.*** Find an app (or written approach) that works FOR YOU. There are many available. And don't constantly try out new ones—that, in itself, wastes precious time. Find one that works for your needs and your personal situation and that you'll USE.
- ***Conquer the e-mail/instant messaging challenge.*** Although coworkers communicate in many ways in organizations, e-mail and instant messaging are popular *and* can be overwhelming to deal with when you're trying to accomplish work tasks. Again, you need to find what works best for you. Some ideas for "conquering" this distraction include:

- Check only at certain times during the day.
- Maybe avoid e-mail first thing in the morning because it's so easy to get sidetracked.
- Come up with a system for responding—if a response can be given in less than three minutes (or whatever time control you choose), respond immediately; if it can't, set the e-mail/message aside for later when you have more time. And a good rule: the faster your response time, the shorter the e-mail.
- Weed out any "subscriptions" that you're not reading/using. You know, those you thought sounded really interesting and you end up deleting immediately anyway. So, don't even get them—unsubscribe.
- Use your e-mail system tools—filters that move e-mails to folders, canned responses, auto-responders, and so forth—to manage your e-mail messages.

Practicing the Skill

The best way to practice this skill is to pick a project (school, work, personal) that you're facing and try to use the above suggestions. To get better at using to-do lists, you've just got to jump in, create them, and most importantly use them to guide what you do and when you do it. Commit to making your to-do list a habit by referring to it on a daily basis for at least a month.

WORKING TOGETHER **Team Exercise**

Effective goal writing requires practice. Think about something you would like to accomplish in the future. It could be something related to your job, school, or an organization you are involved with, or something in your personal life. Next, put your goal in writing. Pair up with another student and share your goal. Give each other feedback on your goals. Refer to Exhibit 8-4—does the goal have the characteristics of well-written goals? Discuss with each other your future plans to accomplish the goal.

MY TURN TO BE A MANAGER

- Practice setting goals for various aspects of your personal life such as academics, career preparation, family, hobbies, and so forth. Set at least two short-term goals and at least two long-term goals for each area.
- For these goals that you have set, write out plans for achieving those goals. Think in terms of what you will have to do to accomplish each. For instance, if one of your academic goals is to improve your grade-point average, what will you have to do to reach it?
- Write a personal mission statement. Although this may sound simple to do, it's not going to be simple or easy. Our hope is that it will be something you'll want to keep, use, and revise when necessary and that it will help you be the person you'd like to be and live the life you'd like to live. Start by doing some research on personal mission statements. There are some wonderful Web resources that can guide you. Good luck!
- Interview three managers about the types of planning they do. Ask them for suggestions on how to be a better planner. Write a report describing and comparing your findings.
- Choose two companies, preferably in different industries. Research the companies' websites and find examples of goals they have stated. (Hint: A company's annual report is often a good place to start.) Evaluate these goals. Are they well-written? Rewrite those that don't exhibit the characteristics of well-written goals so that they do.
- Effective managers are always screening information to look for emerging trends that might affect their industries. Start looking for trends in an industry you are interested in by subscribing to a variety of social media sources that are related to the industry.

CASE APPLICATION 1 Hermès: Delivering change

Hermès is a pan-European courier company with over 40 years' experience in the business. It operates primarily in the United Kingdom, Austria, Germany, Italy, and Russia. In the United Kingdom, Hermès handles more than 245 million parcels a year. It relies on the growing "gig economy" employment trend with over 10,000 self-employed couriers and a network of 4,500 Parcel Shops. Hermès provides door-to-door services for any leading retailers including Next, ASOS, John Lewis, and Tesco.

With a large and disparate workforce, planning and control is the key element in ensuring that the network remains effective and robust. Hermès needed a way to move the day-to-day management of their U.K. courier network to decision makers on the ground. Given the unpredictable demands on th courier network, Hermès needed to be able to reallocate delivery rounds quickly if one courier was overloaded and another in an adjacent area had capacity to take up the extra work.

In the United Kingdom, there are 1.8 million unique postcode addresses. Hermès has allocated the 10,000 couriers to a number of these postcodes. The network is, therefore, extremely granular and subject to enormous changes on a daily basis. While initially employing a centralized system to create and update courier rounds, Hermès realized this was time consuming and that the delivery maps produced became outdated by the time the couriers started their deliveries. Hermès needed a management-planning tool to optimize its network and assess what-if scenarios.

In designing the new tools, Hermès decided to opt for a dynamic online mapping system that allowed them to create, view, organize, and manage the courier rounds. The key elements include the viewing tools (allowing users to visualize the territories and courier rounds), the planning and operations tool (allows field management to change the structure of territories and submit their suggestions for approval), and the scenario planning tool (allows the central operations team to optimize and model territories to identify any possible efficiencies to the structure). The new planning system enables the 200 field managers to make subtle and real-time adjustments to their operative areas on a local and tactical level. It also allows the central management a chance to look at the impact and effectiveness of the changes and then approve the changes in a matter of minutes.

The key benefits of the new planning tools had a direct and positive impact on the goals of the organisation. There were operational savings (expenses and delivery costs were cut) and an improvement in service performance and efficiency. Courier turnover dropped as network members had a more even workload. It provided a holistic view of the network, allowed peak planning, and a continuous review of the network. Field managers can access the system via an iPad and they can make and see their planning changes immediately.

The new planning system is scalable; so as Hermès continues to grow, they recognize the need to make continuous and significant changes to their network structure. The system allows Hermès to visualize and identify existing and potential problems and model solutions for them. The system allows Hermès to pledge that every parcel entering the U.K. Hermès network by December 21, 2016, would have at least one delivery attempt, or Hermès would refund the delivery charge.[53]

DISCUSSION QUESTIONS

8-14. How can a planning and mapping software help Hermès to achieve a 95 percent first-time delivery target?

8-15. How can planning ensure that Hermès continues to meet its delivery targets in the future and at times when there is bad weather or high peak-demand?

8-16. Would it be valuable for Hermès to gather competitive intelligence? Why or why not?

8-17. What other trends in the courier deliveries could affect the industry in the future?

CASE APPLICATION 2 Shifting Direction

As the global leader in satellite navigation equipment, Garmin Ltd. recently hit a milestone number. It has sold more than 100 million of its products to customers—from motorists to runners to geocachers and more—who depend on the company's equipment to "help show them the way." Despite this milestone, the company's core business is in decline due to changing circumstances.[54] In response, managers at Garmin, the biggest maker of personal navigation devices, are shifting direction. Many of you probably have a dashboard-mounted navigation device in your car, and chances are it might be a Garmin. However, a number of cars now have "dashboard command centers which combine smartphone docking stations with navigation systems." Sales of Garmin devices have declined as consumers increasingly use their smartphones for directions and maps. However, have you ever tried to use your smartphone navigation system while holding a phone to look at its display? It's dangerous to hold a phone and steer. Also, GPS apps can "crash" if multiple apps are running. That's why Olathe, the Kansas-based company, is taking explicitly aggressive actions to team up with automakers to embed its GPS systems in car dashboards. Right now, its biggest in-dash contract is with Chrysler, and its Uconnect dashboard system is found in several models of Jeep, Dodge, and Chrysler vehicles. Garmin also is working with Honda and Toyota for dashboard systems in the Asian market.

Despite these new market shifts, customers have gotten used to the GPS devices, and they've become an essential part of their lives. That's why Garmin's executive team still believes there's a market for dedicated navigation systems. It's trying to breathe some life into the product with new features, better designs, and more value for the consumer's money. For instance, some of the new features include faster searching for addresses or points of interest, voice-activated navigation, and highlighting exit services such as gas stations and restaurants.

DISCUSSION QUESTIONS

8-18. What role do you think goals would play in planning the change in direction for the company? List some goals you think might be important. (Make sure these goals have the characteristics of well-written goals.)

8-19. What types of plans would be needed in an industry such as this one? (For instance, long-term plans or short-term plans, or both?) Explain why you think these plans would be important.

8-20. What contingency factors might affect the planning Garmin executives have to do? How might those contingency factors affect the planning?

8-21. What planning challenges do you think Garmin executives face with continuing to be the global market leader? How should they cope with those challenges?

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Chapter 9

Strategic Planning

It's Your Career

Source: Login/Fotolia

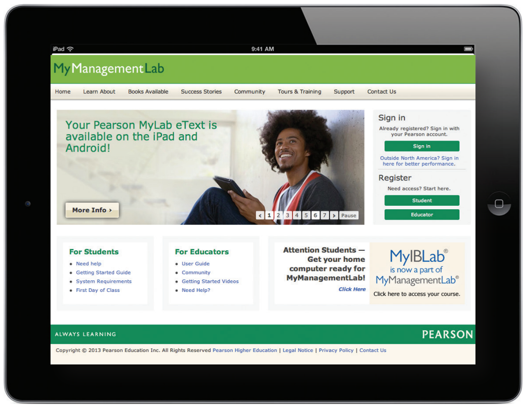
Learning Your Strengths and Weaknesses: Accentuate the Positive

Do you know your individual personal strengths and weaknesses? You need to! Why? One important reason is that interviewers commonly ask what you consider your strengths and weaknesses and you want to be prepared to answer those questions and demonstrate your level of self-knowledge and self-awareness. Another reason is that in today's knowledge-work world, you need to find, know, and leverage your workplace strengths so you can be the best employee possible. Finally, by knowing your strengths and weaknesses you can size up where you stand in your career and make good decisions about what you need to do to keep advancing. So here are some suggestions to help you learn your strengths and weaknesses so you can accentuate your positive attributes and minimize or compensate for your weaknesses:

A key to success in management and in your career is knowing how to identify, evaluate, and make the best use of your personal strengths and weaknesses.

*1. **Focus first on identifying your strengths.** Your strengths are your individual personal positive attributes and characteristics. As you look at your strengths, assess the following: skills (what you are good at), interests (what you enjoy doing), educational background (what qualifications you have), your values (what things are important to you), and your personality (what characteristics you have). As you evaluate these, think in terms of what sets you apart. What things do you like to do? What things do you do well? What things do you do better than others? It's also helpful to ask others you trust what they see as your strengths.*

*2. **Take a look at your weaknesses.** Your weaknesses are your individual personal negative attributes and characteristics, and it's never easy to look for those. Nobody likes to admit that they have weaknesses. But it is important to know the areas where you need improvement. What things could you improve about yourself? What are your negative*



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Learning Objectives

SKILL OUTCOMES

9.1 Define *strategic management and explain why it's important.*

9.2 Explain *what managers do during the six steps of the strategic management process.*

- **Know how** to identify your own personal strengths and weaknesses and deal with them.
- **Develop your skill** at strategic planning.

9.3 Describe *the three types of corporate strategies.*

9.4 Describe *competitive advantage and the competitive strategies organizations use to get it.*

9.5 Discuss *current strategic management issues.*

personal/work habits? What things do you not like to do? What professional or career skills/training/education/qualifications are you lacking, the possession of which would make you a more valuable employee? Are you lacking career direction or focus? What things do others do better than you do? Again, it's helpful to ask others you trust what they see as your weaknesses.

3. As noted in Chapter 9's "It's Your Career" and "Workplace Confidential," develop a strategy to do something about your strengths and weaknesses. *What actions can you take to get the job you want or to best meet the requirements of your current job or a promotion you're seeking? Accentuate your positives! You want to leverage, emphasize, and capitalize on your strengths. This might involve strengthening a specific skill or attribute. Or it could mean following the great advice given in a commencement speech at MIT by Dropbox founder Drew Houston, "The most successful people are obsessed with solving an important problem, something that matters to them. They remind me of a dog chasing a tennis ball."*[1] *What's your tennis ball? What things grab your attention in a way you can't resist and how can you exploit those passions in your work life and career?*

Minimize or compensate for your weaknesses. Improve upon your weaker skills, attitudes, habits, or qualifications to increase your present and future job opportunities.

4. Update your list of strengths and weaknesses periodically. *As you gain new experiences and as your life circumstances change, you'll want to revise your list of strengths and weaknesses. Sharpen your self-awareness so you can craft the kind of life—professionally and personally—you want to live.*

The importance of having good strategies can be seen daily if you pay attention to what's happening in the world of business. Managers must recognize market opportunities to exploit, take steps to correct company weaknesses, or formulate new and hopefully more effective strategies to be strong competitors. How they manage those strategies will play an important role in a company's ability to reach its goals.

STRATEGIC management

LO9.1

- Online retailer Zalando is considering an alliance with Uber to make it easier for customers to return unwanted merchandise.
- Kroger Company and CVS Health Corporation are planning to replace conventional eggs with cage-free eggs, promising shareholders higher profits.
- Japan's NTT Data Corporation plans to purchase Dell's information technology service, which will expand sales outside Japan.
- Amazon, Google, and Microsoft are waging a price war on cloud services.
- Al Jazeera is closing its American cable channel and laying off 10 percent of its workforce to lower operating costs.[2]

These are just a few of the business news stories from a single week, and each one is about a company's strategies. Strategic management is very much a part of what managers do. In this section, we want to look at what strategic management is and why it's important.

What Is Strategic Management?

The cell phone industry is a good place to see what strategic management is all about. Blackberry successfully sold cellular products in the 1990s that appealed to the business market. In 2007, the introduction of Apple's iPhone posed a significant threat to Blackberry's success. The quality of the iPhone's hardware was vastly superior to Blackberry smartphones, and Apple enabled developers to create a diverse set of apps, making the iPhone more appealing to a broader audience. However, Blackberry stayed the course by focusing on business enterprise and it made little effort to help developers create apps for the Blackberry operating system. It's not surprising that, today, the iPhone accounts for more than 40 percent of the U.S. market while Blackberry's share is less than 1 percent. Why the difference in performance? Because of different strategies and competitive abilities.[3] Apple has excelled by effectively managing strategies while Blackberry has struggled by not effectively managing its strategies.

Strategic management is what managers do to develop the organization's strategies. It's an important task involving all the basic management functions—planning, organizing, leading, and controlling. What are an organization's **strategies**? They're the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.[4]

strategic management
What managers do to develop the organization's strategies

strategies
The plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals

business model
How a company is going to make money

One term often used in strategic management is **business model**, which simply is how a company is going to make money. It focuses on two things: (1) whether customers will value what the company is providing and (2) whether the company can make any money doing that.[5] For instance, Jeff Bezos pioneered a new business model for selling books to consumers directly online instead of selling through bookstores. Did customers "value" that? Absolutely! Did Amazon make money doing it that way? Not at first, but now, absolutely! What began as the world's biggest bookstore is now the world's biggest everything store. As managers think about strategies, they need to think about the economic viability of their company's business model. (Check out the Developing Your Business Planning Skill at the end of the chapter on p. 334.)

Why Is Strategic Management Important?

As the home of Spider-Man, Captain America, and other iconic characters, Marvel Entertainment, LLC, has long been the comic book world's biggest player. But in the mid-1990s the comics market crashed, Marvel went broke, and there was no superpower strong enough to stave off bankruptcy. But fear not! After restructuring, our hero changed its approach, focusing on movies rather than paper and ink. Today, Iron Man, the Avengers, Spider-Man, and X-Men are all billion-dollar franchises, and the company's master plan—to connect many of its characters in a single cinematic universe—has turned it into one of pop culture's most powerful brands. The managers behind Marvel seem to understand the importance of strategic management.

Using strategic management has helped Marvel Entertainment achieve higher levels of organizational performance. When market demand for its comic books declined, the company broadened its focus from print readership to a wider audience of moviegoers by featuring Spider-Man and other comic book characters in films.
Source: COLUMBIA PICTURES/MARVEL ENTERTAINMENT/John Bramley/Album/Newscom

Why is strategic management so important? There are three reasons. The most significant one is that it can make a difference in how well an organization performs. Why do some businesses succeed and others fail, even when faced with the same environmental conditions? (Remember our Blackberry and Apple example.) Research has found a generally positive relationship between strategic planning and performance.[6] In other words, it appears that organizations that use strategic management do have higher levels of performance. And that fact makes it pretty important for managers!

Another reason it's important has to do with the fact that managers in organizations of all types and sizes face continually changing situations (as we discussed in Chapter 6). They cope with this uncertainty by using the strategic management process to examine relevant factors and decide what actions to take. For instance, as business executives across a wide spectrum of industries coped with the global recession, they focused on making their strategies more flexible. At Office Depot, for example, store managers throughout the company told corporate managers that cash-strapped consumers no longer wanted to buy pens or printer paper in bulk. So the company created special displays promoting single Sharpie pens and introduced five-ream packages of paper, half the size of the normal big box of paper.[7]

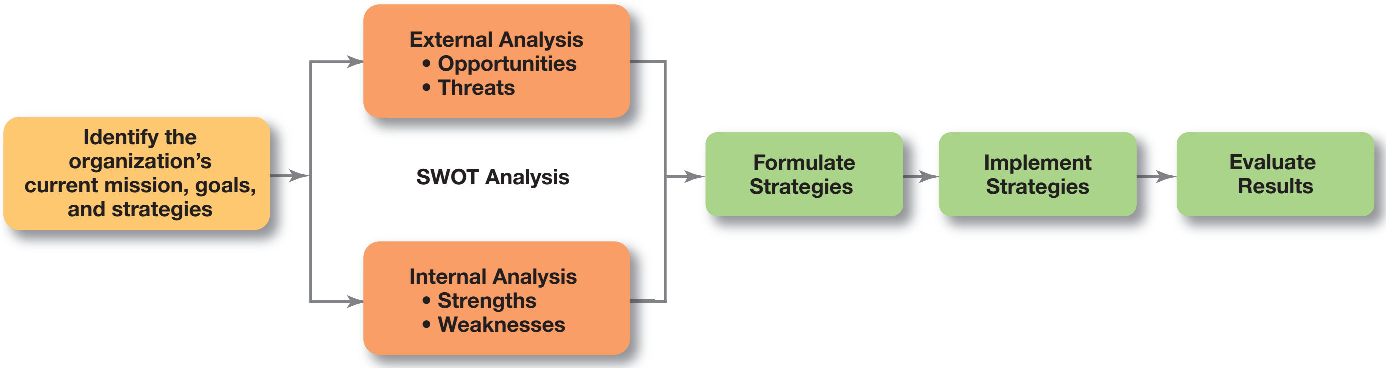
Finally, strategic management is important because organizations are complex and diverse. Each part needs to work together toward achieving the organization's goals; strategic management helps do this. For example, with more than 2.1 million employees worldwide working in various departments, functional areas, and stores, Walmart Stores, Inc., uses strategic management to help coordinate and focus employees' efforts on what's important as determined by its goals.

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

Watch It 1!

Today, both business organizations and not-for-profit organizations use strategic management. For instance, the nonprofit Royal Flying Doctors Service (RFDS) in Australia sees ever-increasing urgency for the medical and dental services it has been providing to people in remote locations since 1928.[8] Facing difficult challenges such as economic pressures, competitive programs, and new technology, the RFDS units spread from coast to coast recently came together in a joint venture structure for closer collaboration and unified management. Through strategic management, the nonprofit can more effectively plan to address the needs of the people it serves and leverage all organizational resources for higher efficiency.[9] Just as important, strategic management enables RFDS to prepare for even more productive fundraising efforts. Half of the nonprofit's funding comes from government sources, with the remainder of the money contributed by corporate sponsors and individuals. Clearly, strategic management is vital as RFDS expands beyond 280,000 annual patient contacts, acquires new equipment, and trains new staff to fulfill its mission.[10] Strategic management will continue to be important to its operation. Although strategic management in not-for-profits hasn't been as well researched as it has been for for-profit organizations, we know it's important for them as well.

Exhibit 9-1
Strategic Management Process



THE STRATEGIC **management process**

strategic management process
A six-step process that encompasses strategic planning, implementation, and evaluation

LO9.2 The **strategic management process** (see Exhibit 9-1) is a six-step process that encompasses strategy planning, implementation, and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important! Even the best strategies can fail if management doesn't implement or evaluate them properly.

Step 1: Identifying the Organization's Current Mission, Goals, and Strategies

mission
The purpose of an organization

Every organization needs a **mission**—a statement of its purpose. Defining the mission forces managers to identify what it's in business to do. But sometimes that mission statement can be too limiting. For example, Nike's mission is to "bring inspiration and innovation to every athlete in the world."[11] Not everybody plays one or more sports, which is why Nike wisely defines athlete more broadly. "If you have a body, you are an athlete." Had Nike not expanded its mission statement in this way, it surely would have compromised its overall appeal, sales, and profits. What *should* a mission statement include? Exhibit 9-2 describes some typical components.

Exhibit 9-2
Components of a Mission Statement

Source: Based on R. R. Davic, *Strategic Management*, 13th ed. (Upper Saddle River, NJ: Pearson Education, Inc., 2011.)

Customers:	Who are the firm's customers?
Markets:	Where does the firm compete geographically?
Concern for survival, growth, and profitability:	Is the firm committed to growth and financial stability?
Philosophy:	What are the firm's basic beliefs, values, and ethical priorities?
Concern for public image:	How responsive is the firm to societal and environmental concerns?
Products or services:	What are the firm's major products or services?
Technology:	Is the firm technologically current?
Self-concept:	What are the firm's major competitive advantage and core competencies?
Concern for employees:	Are employees a valuable asset of the firm?

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment *MGMT 11: Mission Statement.*

Write It 1!

Step 2: Doing an External Analysis

What impact might the following trends have for businesses?

- With the passage of the national health care legislation, every big restaurant chain must now post calorie information on their menus and drive-through signs.
- Cell phones are now used by customers more for data transmittal and retrieval than for phone calls and the number of smartphones and tablet computers continues to soar.
- The unemployment rate has been declining.
- More young adults are earning college degrees according to data released from the U.S. Department of Education.[13]

We described the external environment in Chapter 7 as an important constraint on a manager's actions. Analyzing that environment is a critical step in the strategic management process. Managers do an external analysis so they know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In an external analysis, managers should examine the economic, demographic, political/legal, sociocultural, technological, and global components to see the trends and changes. For example, Aetna now offers customized health insurance because consumers want more control over the design and cost of their plans. The company's external analysis revealed that Internet websites such as *WebMD* help many people to become more savvy health care consumers, and national health care legislation promises lower insurance costs.[14]

Once they've analyzed the environment, managers need to pinpoint opportunities that the organization can exploit and threats that it must counteract or buffer against. **Opportunities** are positive trends in the external environment; **threats** are negative trends.

Let's take a look at ongoing strategic opportunities and threats in the pharmaceutical industry. Patent protection laws provide U.S. pharmaceutical companies with the opportunity to recoup research and development costs and generate profits from the sale of its products. For up to several years, the U.S. government grants pharmaceutical companies the right to be the exclusive provider of their own patented products. Without exclusivity provisions, pharmaceutical companies such as Wyeth Pharmaceuticals would be placed at a competitive disadvantage because other pharmaceutical companies would manufacture and distribute a therapeutically equivalent product at a lower cost. For example, Wyeth Pharmaceuticals developed Protonix, a product that treats gastroesophageal reflux disease. The company enjoyed exclusivity protection until 2011. The expiration of an exclusivity clause posed a threat for Wyeth Pharmaceuticals; yet, this was an opportunity for more pharmaceutical companies to compete for market share. On the other hand, consider the strategy of GlaxoSmithKline, which is based in the United Kingdom but markets pharmaceutical products worldwide. The company decided not to file for patent protection in countries where incomes are extremely low, because its long-term strategy is to expand access to pharmaceutical treatments to as many people as possible. This is how the company establishes itself in emerging markets, builds goodwill, and prepares for future profits.[15]

Step 3: Doing an Internal Analysis

Now we move to the internal analysis, which provides important information about an organization's specific resources and capabilities. An organization's **resources** are its assets—financial, physical, human, and intangible—that it uses to develop,

FYI

- Only 41 percent of employees know what their company stands for.[12]

opportunities
Positive trends in the external environment

threats
Negative trends in the external environment

resources
An organization's assets that are used to develop, manufacture, and deliver products to its customers

capabilities
An organization's skills and abilities in doing the work activities needed in its business

core competencies
The organization's major value-creating capabilities that determine its competitive weapons

strengths
Any activities the organization does well or its unique resources

weaknesses
Activities the organization does not do well or resources it needs but does not possess

manufacture, and deliver products to its customers. They're "what" the organization has. On the other hand, its **capabilities** are its skills and abilities in doing the work activities needed in its business—"how" it does its work. The major value-creating capabilities of the organization are known as its **core competencies**.[16] Both resources and core competencies determine the organization's competitive weapons. For instance, transportation giant Norfolk Southern's CEO indicates that "we believe we have the right strategic plan to streamline operations, accelerate growth, and enhance value for shareholders."[17] The leadership plans to leverage the company's two core competencies—superior customer service and reliability—to meet the company's strategic goals.

After completing an internal analysis, managers should be able to identify organizational strengths and weaknesses. Any activities the organization does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities the organization doesn't do well or resources it needs but doesn't possess.

It's Your Career

Personal Strengths/Weaknesses—If your instructor is using Pearson MyLab Management, log onto **mymanagementlab.com** and test your knowledge about learning your *personal strengths/weaknesses.* **Be sure to refer back to the chapter opener!**

SWOT analysis
An analysis of the organization's strengths, weaknesses, opportunities, and threats

The combined external and internal analyses are called the **SWOT analysis**, an analysis of the organization's *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. After completing the SWOT analysis, managers are ready to formulate appropriate strategies—that is, strategies that (1) exploit an organization's strengths and external opportunities, (2) buffer or protect the organization from external threats, or (3) correct critical weaknesses.

let's get REAL

The Scenario:

Emily's Bakery found success quickly. Emily Smith was surprised by how fast the bakery, started just three years ago, became profitable. The growth was mostly due to timing and location. She just happened to open in a busy neighborhood around the same time a competing bakery closed because the owner wanted to relocate to a new city. However, over the last few months sales have slowed a little, and Emily has had some time to think about the future. She needs to figure out her next step and thinks maybe she needs a strategic plan for her business, but she isn't sure where to start.

How should Emily start her strategic planning process?

The strategic plan will be the company's road map that future decisions will be based on, and effectively planning the strategy at the beginning is a critical step. A starting point to begin the process is analyzing the current state of the business. This includes outlining strengths and weaknesses and identifying external factors that could pose threats or opportunities for growth. With this information, the business leader can then begin planning the desired future state by developing short- and long-term goals and aligning these with the company culture, available resources, and realistic time frames to develop an actionable plan.

Kelly Nelson
Organizational Development and Training Manager

Source: Kelly Nelson

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment *MKTG 2: SWOT Analysis.*

Write It 2!

Step 4: Formulating Strategies

As managers formulate strategies, they should consider the realities of the external environment and their available resources and capabilities in order to design strategies that will help an organization achieve its goals. The three main types of strategies managers will formulate include corporate, competitive, and functional. We'll describe each shortly.

Step 5: Implementing Strategies

Once strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, performance will suffer if the strategies aren't implemented properly.

Step 6: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have the strategies been at helping the organization reach its goals? What adjustments are necessary? For example, after assessing the results of previous strategies and determining that changes were needed, Xerox CEO Ursula Burns made strategic adjustments to regain market share and improve her company's bottom line. The company cut jobs, sold assets, and reorganized management.

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment *MGMT 7: Planning (Business Plan Research).*

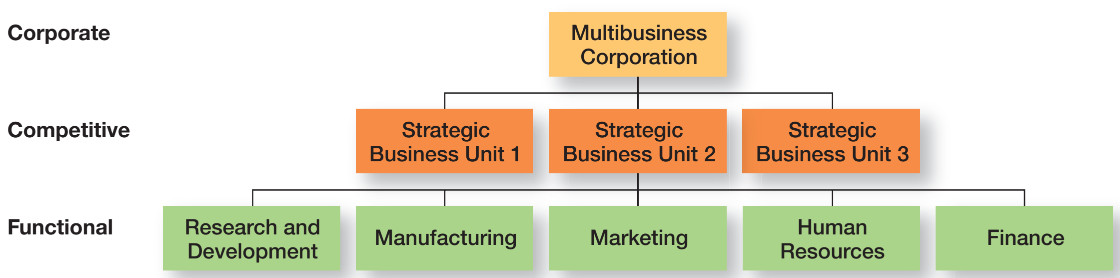
Write It 3!

CORPORATE strategies

LO9.3 As we said earlier, organizations use three types of strategies: corporate, competitive, and functional. (See Exhibit 9-3.) Top-level managers typically are responsible for corporate strategies, middle-level managers for competitive strategies, and lower-level managers for the functional strategies. In this section, we'll look at corporate strategies.

Exhibit 9-3

Types of Organizational Strategies



WORKPLACE CONFIDENTIAL Developing a Career Strategy

The concept of strategy is not limited to managers and organizations. You can use it to "think strategically" about your career.

Let's start by acknowledging that, if you're reading this book, you are likely either at an early point in starting to build a career or considering a new career direction. Either way, your career plans are a top priority. Here are some suggestions for helping you develop a career plan.

Start by creating your own SWOT analysis. What are your strengths? What talents have you developed that give you a comparative advantage to others? Are you good with numbers, an excellent writer, a smooth talker, an outstanding debater, uniquely creative? And what qualities can give you an edge-up? Consider your work experience, education, technical knowledge, networking contacts, and personal characteristics, like your work ethic or self-discipline. Think hard about what differentiates you and what might give you an advantage. Next, consider your weaknesses. None of us are without them. Try to be honest with yourself and identify those things that either others do better than you or that you tend to avoid. Examples might include a lack of work experience, a low GPA, lack of specific job knowledge, weak communication skills, or previous legal problems. Now move to consider opportunities and threats that you see in the job market. Where are the growth industries? Examples, for instance, might include health care, solar energy, counterterrorism, or Internet businesses. All appear to have strong growth opportunities. Then focus on organizations within these industries that might benefit from this growth. Finally, look for geographic opportunities. What cities or towns appear to offer above-average job growth? Of course, you also want to look at the other side. Which are the declining industries, downsizing or stagnant organizations, and shrinking job markets? Integrating this analysis should provide you with a blueprint of where you're likely to find the best career opportunities.

Now, let's talk about fit. By this, we mean the match between you and specific jobs and the match between you and specific organizational cultures. The former we call the person-job fit and the latter the person-organization fit. Here's an obvious, but often overlooked, observation: Not everyone is fit for certain jobs or certain organizations. Regardless of the opportunity, one size does not fit all.

In Chapter 15, Holland's personality-job fit theory is discussed. In essence, the theory proposes six personality types and argues that people who are in jobs congruent with their personality are more satisfied with their jobs and less likely to quit. We suggest that you look over these six personalities, see which one best describes you, and use the information to guide you in selecting a job that best fits you.

The person-organization fit essentially argues that people are attracted and selected by organizations that match their values, and they leave organizations that are not compatible with their personalities. So, for instance, if you tend to be high on the extroversion scale, you're likely to fit well with aggressive and team-oriented cultures; if you're high on agreeableness, you match up better with a supportive organizational culture than one focused on aggressiveness; and if you're open to new experiences, you'll fit better into organizations that emphasize innovation rather than standardization.

One final suggestion: Don't delegate your future to someone else. You are responsible for your personal career plan, your career progression, and your eventual retirement. In the 1950s and 1960s, most people either didn't think about shaping their career to maximize their potential or assumed that this was the responsibility of their employer. Even retirement programs were essentially designed by your employer, controlled by your employer, and nontransferable between employers. While they did offer predictability, they also put control of an employee's future in the hands of the employer. In today's disruptive world, your career is in your hands. Never get comfortable with a single employer. Keep your skills current and think long term. Continually ask yourself: How will each job I take help to build a pattern of accomplishment? How will this job and my next one get me to where I eventually want to be?

Sources: Based on W. Arthur Jr., S. T. Bell, A.J. Villado, and D. Doverspike, "The Use of Person-Organization Fit in Employment Decision-Making: An Assessment of Its Criterion-Related Validity," *Journal of Applied Psychology*, July 2006, pp. 786–801; D. A. McKay and D. M. Tokar, "The HEXACO and Five-Factor Models of Personality in Relation to RIASEC Vocational Interests," *Journal of Vocational Behavior*, October 2012, pp. 138–149; L. Quast, "How to Conduct a Personal SWOT Analysis," *Forbes* online, *www.Forbes.com*, April 15, 2013; and M. Martin, "Conducting a Personal SWOT Analysis for Your Career," *Business News Daily*, November 25, 2015.

What Is Corporate Strategy?

A **corporate strategy** is one that determines what businesses a company is in or wants to be in and what it wants to do with those businesses. It's based on the mission and goals of the organization and the roles that each business unit of the organization will play. We can see both of these aspects with PepsiCo, for instance. Its mission: To be the world's premier consumer products company focused on convenient foods and beverages. It pursues that mission with a corporate strategy that has put it in different businesses, including its PepsiCo Americas Beverage (beverage business), PepsiCo Americas Foods (snack and prepared foods businesses including Frito-Lay and Quaker Oats), and then its global businesses—PepsiCo Europe and PepsiCo Asia/Middle East/Africa. The other part of corporate strategy is when top managers decide what to do with those businesses: grow them, keep them the same, or renew them.

corporate strategy
An organizational strategy that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses

What Are the Types of Corporate Strategy?

The three main types of corporate strategies are growth, stability, and renewal. Let's look at each type.

growth strategy
A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es)

GROWTH Even though Amazon.com is the world's largest retailer, it continues to grow internationally and in the United States.[18] A **growth strategy** is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es). Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using concentration, vertical integration, horizontal integration, or diversification.

An organization that grows using *concentration* focuses on its primary line of business and increases the number of products offered or markets served in this primary business. For instance, Buick has used concentration as a strategy to work toward becoming a luxury automobile brand. In the United States, the brand's sales have increased nearly 25 percent, outselling Audi and closing the sales gap with BMW.[19] Another example of a company using concentration is Bose Corporation of Framingham, Massachusetts, which focuses on developing innovative audio products. It has become one of the world's leading manufacturers of speakers for home entertainment, automotive, and professional audio markets with annual sales of more than $3 billion.

A company also might choose to grow by *vertical integration*, either backward, forward, or both. In backward vertical integration, the organization becomes its own supplier so it can control its inputs. For instance, Walmart plans to build a dairy-processing plant in Indiana to supply private-label milk to hundreds of its stores at a lower cost than purchasing milk from an outside supplier.[21] In forward vertical integration, the organization becomes its own distributor and is able to control its outputs. For example, Apple has more than 400 retail stores worldwide to distribute its products.

LEADER making a DIFFERENCE

Source: dpa picture alliance/Alamy Stock Photo

***Mary Barra** became the first female CEO of a major automaker in 2014 when she was promoted to the top spot at General Motors (GM), leading a company that generates $150 billion in annual revenue and has over 219,000 employees.[20] The daughter of a GM tool and die maker, Barra is considered a "lifer" at GM, starting her career there more than 30 years ago as a co-op student. She stepped into the CEO role while GM was still recovering from a bankruptcy and government bailout, and soon faced a massive vehicle recall. In just a short time, however, Barra started leading GM in a positive strategic direction. In addition to shifting what she characterized as a dysfunctional corporate culture that allowed an ignition switch problem that led to the recall of 2.6 million vehicles in 2014, she also has laid out a clear strategic direction for the company. Her growth strategy addresses personal mobility in a broad sense instead of focusing on just cars, essentially asking, How will people get from point A to point B in the future? Her plan outlines strategies to address the growing consumer interest in car sharing, emerging alternate transportation options, promises of zero emissions, and autonomous driving. Barra's achievements so far at GM earned her the top spot on* Fortune's *Most Powerful Women list in 2015. She is characterized as energetic yet down-to-earth. She is well-liked within the company, noted for her strong communication skills and emotional intelligence. Barra is also considered a change agent within GM, which is particularly impressive given that she essentially grew up in the company.* What can you learn from this leader making a difference?

In *horizontal integration*, a company grows by combining with competitors. For instance, NMC Healthcare, which is based in the United Arab Emirates, recently acquired Al Zahra Hospital in Sharjah. NMC is continuing its expansion throughout the Gulf region, and the acquisition of this large, private hospital complements the company's existing medical facilities and construction plans. Spain's Banco Santandor has acquired a number of banks in different nations, including Portugal, for global growth and efficiency. But government regulators often scrutinize mergers, with an eye toward preserving competition. When competitors Vodafone and Liberty Global wanted to merge their Netherlands cable and mobile telecommunications businesses, they had to obtain the approval of European Union regulators. The merger was only approved after Vodafone agreed to divest its Netherlands fixed-line telephone business to allay concerns about competition.[22] Other countries may have similar restrictions. For instance, the European Commission, the "watchdog" for the European Union, conducted an in-depth investigation into Unilever's acquisition of the body and laundry care units of Sara Lee.

Finally, an organization can grow through *diversification*, either related or unrelated. Related diversification happens when a company combines with other companies in different, but related, industries. For example, Google has acquired a number of businesses (some 150 total), including YouTube, DoubleClick, Nest, and Motorola Mobility. Although this mix of businesses may seem odd, the company's "strategic fit" is its information search capabilities and efficiencies. Unrelated diversification is when a company combines with firms in different and unrelated industries. For instance, the Tata Group of India has businesses in chemicals, communications and IT, consumer products, energy, engineering, materials, and services. Again, an odd mix. But in this case, there's no strategic fit among the businesses.

STABILITY The Boeing Company has many aspirations. One of them illustrates a stability strategy: ". . . to continue building strength-on-strength to deliver on our existing plans and commitments."[23] A **stability strategy** is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization doesn't grow, but doesn't fall behind, either.

stability strategy
A corporate strategy in which an organization continues to do what it is currently doing

renewal strategy
A corporate strategy designed to address declining performance

RENEWAL In 2013, AMR (American Airlines' parent) lost almost $1.8 billion. Hewlett-Packard lost $12 billion, JCPenney lost over $985 million, and many energy and technology services companies faced serious financial issues with huge losses. When an organization is in trouble, something needs to be done. Managers need to develop strategies, called **renewal strategies**, that address declining performance. The two main types of renewal strategies are retrenchment and turnaround strategies. A *retrenchment strategy* is a short-run renewal strategy used for minor performance problems. This strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again. For instance, Biogen reduced its workforce by 11 percent to cut costs.[24] With those savings, the company has increased spending for research and development and for marketing Tecfidera, its potentially highly profitable multiple-sclerosis drug. When an organization's problems are more serious, more drastic action—the *turnaround strategy*—is needed. Managers do two things for both renewal strategies: cut costs and restructure organizational operations. However, in a turnaround strategy, these measures are more extensive than in a retrenchment strategy. For example, the CIT Group's declining profits prompted management to cut costs by $125 million and sell the company's aircraft financing business unit to more effectively focus on commercial lending and leasing.[25]

After nearly collapsing in 2003, the Danish firm Lego named Jorgen Vig Knudstorp as CEO to lead a new team of managers in developing a renewal strategy. Part of Knudstorp's successful turnaround strategy included cutting costs by trimming Lego's product line, restructuring its supply chain, and refocusing on the company's core product of unique plastic bricks.
Source: Edgar Su/Reuters Pictures

How Are Corporate Strategies Managed?

When an organization's corporate strategy encompasses a number of businesses, managers can manage this collection, or portfolio, of businesses using a tool called a corporate portfolio matrix. This matrix provides a framework for understanding diverse businesses and helps managers establish priorities for allocating resources.[26] The first portfolio matrix—the **BCG matrix**—was developed by the Boston Consulting Group and introduced the idea that an organization's various businesses could be evaluated and plotted using a 2 × 2 matrix to identify which ones offered high potential and which were a drain on organizational resources.[27] The horizontal axis represents market share (low or high), and the vertical axis indicates anticipated market growth (low or high). A business unit is evaluated using a SWOT analysis and placed in one of the four categories, which are as follows:

BCG matrix
A strategy tool that guides resource allocation decisions on the basis of market share and growth rate of SBUs

- **Stars:** High market share/High anticipated growth rate
- **Cash Cows:** High market share/Low anticipated growth rate
- **Question Marks:** Low market share/High anticipated growth rate
- **Dogs:** Low market share/Low anticipated growth rate

What are the strategic implications of the BCG matrix? The dogs should be sold off or liquidated as they have low market share in markets with low growth potential. Managers should "milk" cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in stars and question marks with strong potential to improve market share. Heavy investment in stars will help take advantage of the market's growth and help maintain high market share. The stars, of course, will eventually develop into cash cows as their markets mature and sales growth slows. The hardest decision for managers relates to the question marks. After careful analysis, some will be sold off and others strategically nurtured into stars.

COMPETITIVE strategies

LO9.4 A **competitive strategy** is a strategy for how an organization will compete in its business(es). For a small organization in only one line of business or a large organization that has not diversified into different products or markets, its competitive strategy describes how it will compete in its primary or main market. For organizations in multiple businesses, however, each business will have its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like. For example, GE has different competitive strategies for its businesses, which include GE Aviation (aircraft engines), GE Healthcare (ultrasound equipment), consumer appliances (washers and dryers), and many products in diverse industry sectors. When an organization is in several different businesses, those single businesses that are independent and that have their own competitive strategies are referred to as **strategic business units (SBUs)**.

competitive strategy
An organizational strategy for how an organization will compete in its business(es)

strategic business unit (SBU)
The single independent businesses of an organization that formulate their own competitive strategies

The Role of Competitive Advantage

Michelin has mastered a complex technological process for making superior radial tires. Apple has created the world's best and most powerful brand using innovative design and merchandising capabilities.[28] The Ritz-Carlton hotels have a unique ability to deliver personalized customer service. Each of these companies has created a competitive advantage.

Developing an effective competitive strategy requires an understanding of **competitive advantage**, which is what sets an organization apart—that is, its distinctive edge.[29] That distinctive edge can come from the organization's core competencies by doing something that others cannot do or doing it better than others can do it. For example, Rolls-Royce has a competitive advantage because of its skills at giving customers exactly what they want—a hand-crafted, ultraluxurious automobile, which can be customized to suit unique color, interior, and equipment preferences. Or competitive advantage can come from the company's resources because the organization has something its competitors do not have. For instance, Walmart's state-of-the-art information system allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Walmart has turned into a cost advantage.

competitive advantage
What sets an organization apart; its distinctive edge

At this Dolce & Gabbana store in Moscow, a saleswoman helps a customer select a leather handbag. Personalized service combined with high-quality products create a competitive advantage for Dolce & Gabbana, which designs and produces distinctive luxury apparel, leather goods, footwear, and accessories that it sells at its elegant retail stores throughout the world.
Source: Andrey Rudakov/Bloomberg/Getty Images

QUALITY AS A COMPETITIVE ADVANTAGE When W. K. Kellogg started manufacturing his cornflake cereal in 1906, his goal was to provide his customers with a high-quality, nutritious product that was enjoyable to eat. That emphasis on quality is still important today. Every employee has a responsibility to maintain the high quality of Kellogg products. If implemented properly, quality can be a way for an organization to create a sustainable competitive advantage.[30] That's why many organizations apply quality management concepts in an attempt to set themselves apart from competitors. If a business is able to continuously improve the quality and reliability of its products, it may have a competitive advantage that can't be taken away.[31]

DESIGN THINKING AS A COMPETITIVE ADVANTAGE In today's world, consumers can find just about anything they want online. And those consumers also expect a greater variety of choices and faster service when ordering online than ever before. One company that recognized the opportunities—and challenges—of this is Kiva Systems.[32] Kiva makes autonomous robots used in flexible automation systems that are critical to companies' strategic e-commerce efforts. By doing this efficiently, the company's robots can gather goods within minutes of an order and deliver them to warehouse pickworkers, who can then ship up to four times more packages in an hour. Kiva (which was recently acquired by Amazon) also has "taught" its robots to move cardboard boxes to the trash compactor and to assist in gift-wrapping.

Here's a company that understands the power of design thinking—defined in Chapter 2 as approaching management problems the way designers approach design problems. Using design thinking means thinking in unusual ways about what the business is and how it's doing what it's in business to do—or as one person said, "solving wicked problems with creative resolutions by thinking outside existing alternatives and creating new alternatives."[33] After all, who would have thought to "teach" robots to help wrap gifts so that e-commerce warehouse fulfillment could be made even more efficient? However, as important as design thinking is to the design of amazing products, it also means recognizing that "design" isn't just for products or processes but for any organizational work problems that can arise. That's why a company's ability to use design thinking in the way its employees and managers strategically manage can be a powerful competitive tool.

FUTURE VISION Big Data as a Strategic Weapon

Big data can be an effective counterpart to the information exchange generated through social media. All the enormous amounts of data collected about customers, partners, employees, markets, and other quantifiables can be used to respond to the needs of these same stakeholders. With big data, managers can measure and know more about their businesses and "translate that knowledge into improved decision making and performance."[34] Case in point: When Walmart began looking at its enormous database, it noticed that when a hurricane was forecasted, not only did sales of flashlights and batteries increase, but so did sales of Pop-Tarts. Now, when a hurricane is threatening, stores stock Pop-Tarts with other emergency storm supplies at the front entrance. This helps them better serve customers and drive sales.[35] By helping a business do what it's in business to do—compete successfully—and attract and satisfy its customers in order to achieve its goals, big data is a critical strategic weapon for organizations in the future.

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

TALK ABOUT IT 1: What strategic connection(s) do you see between big data and social media?

TALK ABOUT IT 2: What ethical obstacles might big data present? How can managers overcome those obstacles?

SOCIAL MEDIA AS A COMPETITIVE ADVANTAGE Many organizations are making substantial investments in social media because its use can provide a competitive advantage. L'Oréal uses social media for competitive advantage in several ways. First, the French beauty company is forging long-term relationships with "influencers," popular social-media users who have large followings on Instagram, Twitter, and other networks. Not only can L'Oréal tap their insights for product and marketing ideas, it can also reach a wider and more diverse audience through these influencers. Second, the company uses social media to deliver a steady stream of content valued by the audience, such as how-to makeup instructions, product demonstrations, updates on beauty trends, and answers to questions or concerns. With 25 million likes for its main Facebook page, plus tens of thousands of followers on its multiple Twitter, Instagram, YouTube, and Snapchat accounts, L'Oréal knows how to engage its target customers. Clearly, L'Oréal understands that using social media strategically can build competitive advantage worldwide.[36]

Successful social media strategies should (1) help people—inside and outside the organization—connect and (2) reduce costs or increase revenue possibilities or both. As managers look at how to strategically use social media, it's important to have goals and a plan. For instance, at global banking firm Wells Fargo & Co., executives realized that social media tools don't just "exist for their own sake" and that they wanted ". . . to know how we can use them to enhance business strategy."[37] Now Wells Fargo uses blogs, wikis, and other social media tools for a variety of specific needs that align with their business goals.

It's not just for the social connections that organizations are employing social media strategies. Many are finding that social media tools can boost productivity.[38] For example, many physicians are tapping into online postings and sharing technologies as part of their daily routines. Collaborating with colleagues and experts allows them to improve the speed and efficiency of patient care. At Trunk Club, an online men's clothes shopping service that sends out, on request, trunks to clients with new clothing items, the CEO uses a software tool called Chatter to let the company's personal shoppers know about hot new shipments of shoes or clothes. He says that when he "chats" that information out to the team, he immediately sees the personal shoppers putting the items into customers' "trunks."[39] When used strategically, social media can be a powerful competitive weapon!

FYI

- 52 percent of managers say social media are important/somewhat important to their business.

SUSTAINING COMPETITIVE ADVANTAGE Every organization has resources (assets) and capabilities (how work gets done). So what makes some organizations more successful than others? Why do some professional baseball teams consistently win championships or draw large crowds? Why do some organizations have consistent and continuous growth in revenues and profits? Why do some colleges, universities, or departments experience continually increasing enrollments? Why do some companies consistently appear at the top of lists ranking the "best," or the "most admired," or the "most profitable"? The answer is that not every organization is able to effectively exploit its resources and to develop the core competencies that can provide it with a competitive advantage. And it's not enough simply to create a competitive advantage. The organization must be able to sustain that advantage; that is, to keep its edge despite competitors' actions or evolutionary changes in the industry. But that's not easy to do! Market instabilities, new technology, and other changes can challenge managers' attempts at creating a long-term, sustainable competitive advantage. However, by using strategic management, managers can better position their organizations to get a sustainable competitive advantage.

Many important ideas in strategic management have come from the work of Michael Porter.[40] One of his major contributions was explaining how managers can create a sustainable competitive advantage. An important part of doing this is an industry analysis, which is done using the five forces model.

FIVE FORCES MODEL In any industry, five competitive forces dictate the rules of competition. Together, these five forces determine industry attractiveness and profitability, which managers assess using these five factors:

1. *Threat of new entrants*. How likely is it that new competitors will come into the industry?
2. *Threat of substitutes*. How likely is it that other industries' products can be substituted for our industry's products?
3. *Bargaining power of buyers*. How much bargaining power do buyers (customers) have?
4. *Bargaining power of suppliers*. How much bargaining power do suppliers have?
5. *Current rivalry*. How intense is the rivalry among current industry competitors?

Choosing a Competitive Strategy

Once managers have assessed the five forces and done a SWOT analysis, they're ready to select an appropriate competitive strategy—that is, one that fits the competitive strengths (resources and capabilities) of the organization and the industry it's in. According to Porter, no firm can be successful by trying to be all things to all people. He proposed that managers select a strategy that will give the organization a competitive advantage, either from having lower costs than all other industry competitors or by being significantly different from competitors.

When an organization competes on the basis of having the lowest costs (costs or expenses, not prices) in its industry, it's following a *cost leadership strategy*. A low-cost leader is highly efficient. Overhead is kept to a minimum, and the firm does everything it can to cut costs. For example, you won't find many frills in Ross Stores. "We believe in "no frills"—no window displays, mannequins, fancy fixtures or decorations in our stores so we can pass more savings on to our customers."[41] Low overhead costs allow Ross to sell quality apparel and home items at 20 to 60 percent less than most department store prices, and the company is profitable.[42]

A company that competes by offering unique products that are widely valued by customers is following a *differentiation strategy*. Product differences might come from exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. Practically any successful consumer product or service can be identified as an example of the differentiation strategy; for instance, 3M Corporation (product quality and innovative design); Coach (design and brand image); Apple (product design); and L.L.Bean (customer service). L.L.Bean allows customers to return merchandise at any time if not completely satisfied: "We make pieces that last, and if they don't, we want to know about it. So if it's not working or fitting or standing up to its task, we'll take it back. L.L. himself always said that he didn't consider a sale complete 'until goods are worn out and the customer still satisfied.'"[43]

Although these two competitive strategies are aimed at the broad market, the final type of competitive strategy—the *focus strategy*—involves a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment or niche. Segments can be based on product variety, customer type, distribution channel, or geographical location. For example, Denmark's Bang & Olufsen, whose revenues exceed $490 million, focuses on high-end audio equipment sales. Whether a focus strategy is feasible depends on the size of the segment and whether the organization can make money serving that segment.

What happens if an organization can't develop a cost or a differentiation advantage? Porter called that being *stuck in the middle* and warned that's not a good place to be. An organization becomes stuck in the middle when its costs are too high to compete with the low-cost leader or when its products and services aren't differentiated enough to compete with the differentiator. Getting unstuck means choosing which competitive advantage to pursue and then doing so by aligning resources, capabilities, and core competencies.

Although Porter said you had to pursue either the low cost or the differentiation advantage to prevent being stuck in the middle, more recent research has shown that organizations *can* successfully pursue both a low cost and a differentiation advantage and achieve high performance.[44] Needless to say, it's not easy to pull off! You have to keep costs low *and* be truly differentiated. But companies such as Southwest Airlines, Colgate-Palmolive, Inc., and Boeing have been able to do it.

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment *MGMT 13: Strategic Decision Making (Competitive Marketing Strategy)*.

Write It 4!

Before we leave this section, we want to point out the final type of organizational strategy, the **functional strategies**, which are the strategies used by an organization's various functional departments to support the competitive strategy. For example, when R. R. Donnelley & Sons Company, a Chicago-based printer, wanted to become more competitive and invested in high-tech digital printing methods, its marketing department had to develop new sales plans and promotional pieces, the production department had to incorporate the digital equipment in the printing plants, and the human resources department had to update its employee selection and training programs. We don't cover specific functional strategies in this book because you'll cover them in other business courses you take.

functional strategy
A strategy used by an organization's various functional departments to support the competitive strategy

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Simulation: *Strategic Management* and get a better understanding of the challenges of managing strategy in organizations.

Try It!

CURRENT strategic management issues

LO9.5 There's no better example of the strategic challenges faced by managers in today's environment than the recorded music industry. Overall, sales of CDs have plummeted in the last decade. As a *Billboard* magazine article title stated so plainly, "Is 2014 the Year Digital Takes Over?"[45] Not only has this trend impacted music companies, but music retailers as well. Retailers have been forced to look to other products to replace the lost revenue. For instance, Best Buy, the national electronics retailer, experimented with selling musical instruments. Other major music retailers, such as Walmart, have shifted selling space used for CDs to other departments. Survival means finding ways to diversify. Managers are struggling to find strategies that will help their organizations succeed in such an environment. Many have had to shift into whole new areas of business.[46] But it isn't just the music industry that's dealing with strategic challenges. Managers everywhere face increasingly intense global competition and high performance expectations by investors and customers. How have they responded to these new realities? In this section, we look at three current strategic management issues, including the need for strategic leadership, the need for strategic flexibility, and how managers design strategies to emphasize e-business, customer service, and innovation.

The Need for Strategic Leadership

"Amazon is so serious about its next big thing that it hired three women to do nothing but try on size 8 shoes for its Web reviews. Full time." Hmmmm . . . now that sounds like a fun job! What exactly is Amazon's CEO Jeff Bezos thinking? Having conquered the book publishing, electronics, and toy industries (among others), his next target is high-end clothing. And he's doing it as he always does—all out."[47]

An organization's strategies are usually developed and overseen by its top managers. An organization's top manager is typically the CEO (chief executive officer). This individual usually works with a top management team that includes other executive or senior managers such as a COO (chief operating officer), CFO (chief financial officer), CIO (chief information officer), and other individuals who may have various titles. Traditional descriptions of the CEO's role in strategic management include being the "chief" strategist, structural architect, and developer of the organization's information/control systems.[48] Other descriptions of the strategic role of the "chief executive" include key decision maker, visionary leader, political actor, monitor and interpreter of environment changes, and strategy designer.[49]

let's get REAL

The Scenario:

Caroline Fulmer was just promoted to executive director of a municipal art museum in a medium-sized city in the Midwest. Although she's very excited about her new position and what she hopes to accomplish there, she knows the museum's board is adamant about solidifying the organization's strategic future. Although she knows they feel she's capable of doing so since they hired her for the position, she wants to be an effective strategic leader.

Source: Denise Nueva

Denise Nueva
Art Director

What skills do you think Caroline will need to be an effective strategic leader?

To be an effective strategic leader, Caroline must be able to manage day-to-day processes of the museum while keeping in mind the big picture of the organization's mission. With this mission in mind, Caroline must align her team of likewise talented individuals to share her passion and commitment. Lastly, it is important for Caroline to remain an unbiased leader and quickly identify and work through issues that may arise.

No matter how top management's job is described, you can be certain that from their perspective at the organization's upper levels, it's like no other job in the organization. By definition, top managers are ultimately responsible for every decision and action of every organizational employee. One important role that top managers play is that of strategic leader. Organizational researchers study leadership in relation to strategic management because an organization's top managers must provide effective strategic leadership. What is **strategic leadership**? It's the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization.[50] How can top managers provide effective strategic leadership? Eight key dimensions have been identified.[51] (See Exhibit 9-4.) These dimensions include determining the organization's purpose or vision; exploiting and maintaining the organization's core

strategic leadership
The ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization

Exhibit 9-4
Effective Strategic Leadership

Sources: Based on J. P. Wallman, "Strategic Transactions and Managing the Future: A Druckerian Perspective," *Management Decision*, vol. 48, no. 4, 2010, pp. 485–499; D. E. Zand, "Drucker's Strategic Thinking Process: Three Key Techniques," *Strategy & Leadership*, vol. 38, no. 3, 2010, pp. 23–28; and R. D. Ireland and M. A. Hitt, "Achieving and Maintaining Strategic Competitiveness in the 21st Century: The Role of Strategic Leadership," *Academy of Management Executive*, February 1999, pp. 43–57.

competencies; developing the organization's human capital; creating and sustaining a strong organizational culture; creating and maintaining organizational relationships; reframing prevailing views by asking penetrating questions and questioning assumptions; emphasizing ethical organizational decisions and practices; and establishing appropriately balanced organizational controls. Each dimension encompasses an important part of the strategic management process.

The Need for Strategic Flexibility

Not surprisingly, the economic recession changed the way that many companies approached strategic planning.[52] For instance, at Spartan Motors, a maker of specialty vehicles, managers used to draft a one-year strategic plan and a three-year financial plan, reviewing each one every financial quarter. However, CEO John Sztykiel felt that type of fixed approach led to a drastic drop in sales and profits. Now, the company uses a three-year strategic plan that the top management team updates every month.[53] And at J. C. Penney Company, an ambitious five-year strategic growth plan rolled out in 2007 was put on hold as the economy floundered.[54] In its place, the CEO crafted a tentative "bridge" plan to guide the company. This plan worked as the company improved its profit margins and did not have to lay off any employees.

Berkshire Hathaway CEO Warren Buffett is known for admitting his mistakes. He said "I will commit more errors; you can count on that."[55] And Amazon's Jeff Bezos told company shareholders that Amazon is the"best place in the world to fail at," while adding that negative outcomes are inevitable in experimentation: "Given a 10 percent chance of a 100 times payoff, you should take that bet every time. But you're still going to be wrong nine times out of ten."[56] You wouldn't think that smart individuals who are paid lots of money to manage organizations would make mistakes when it comes to strategic decisions. But even when managers use the strategic management process, there's no guarantee that the chosen strategies will lead to positive outcomes. Reading any of the current business periodicals would certainly support this assertion! But the key is responding quickly when it's obvious the strategy isn't working. In other words, they need **strategic flexibility**—that is, the ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision isn't working. Given the highly uncertain environment that managers face today, strategic flexibility seems absolutely necessary! Exhibit 9-5 provides suggestions for developing such strategic flexibility.

FYI

Share of managers who say their companies adapt quickly to changing market conditions:

- Only 30 percent shift funds across units to support strategy.
- Only 20 percent shift people across units to support strategy.
- Only 22 percent exit declining businesses or unsuccessful initiatives.[57]

strategic flexibility
The ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision was a mistake

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *2010 Joie de Vivre Hospitality: Strategic Management* and to respond to questions.

Watch It 2!

Exhibit 9-5
Developing Strategic Flexibility

- *Encourage leadership unity* by making sure everyone is on the same page.
- *Keep resources fluid* and move them as circumstances warrant.
- *Have the right mindset* to explore and understand issues and challenges.
- Know what's happening with strategies currently being used by *monitoring and measuring results*.
- Encourage employees to *be open about disclosing and sharing negative information.*
- *Get new ideas and perspectives from outside* the organization.
- Have *multiple alternatives* when making strategic decisions.
- *Learn from mistakes.*

Sources: Based on Y. L. Doz and M. Kosonen, "Embedding Strategic Agility: A Leadership Agenda for Accelerating Business Model Renewal," *Long Range Planning*, April 2010, pp. 370–382; E. Lewis, D. Romanaggi, and A. Chapple, "Successfully Managing Change During Uncertain Times," *Strategic HR Review*, vol. 9, no. 2, 2010, pp. 12–18; and K. Shimizu and M. Hitt, "Strategic Flexibility: Organizational Preparedness to Reverse Ineffective Strategic Decisions," *Academy of Management Executive*, November 2004, pp. 44–59.

Important Organizational Strategies for Today's Environment

ESPN.com gets more than 16 million unique users a month. Sixteen million! That's almost twice the population of New York City. And its popular online business is just one of many of ESPN's businesses. Originally founded as a television channel, ESPN is now into original programming, radio, online, publishing, gaming, X Games, ESPY Awards, ESPN Zones, global, and is looking to move into more local sports coverage.[58] Company president John Skipper "runs one of the most successful and envied franchises in entertainment" and obviously understands how to successfully manage its various strategies in today's environment! We think three strategies are important in today's environment: e-business, customer service, and innovation.

E-BUSINESS STRATEGIES Managers use e-business strategies to develop a sustainable competitive advantage.[59] A cost leader can use e-business to lower costs in a variety of ways. For instance, it might use online bidding and order processing to eliminate the need for sales calls and to decrease sales force expenses; it could use Web-based inventory control systems that reduce storage costs; or it might use online testing and evaluation of job applicants.

A differentiator needs to offer products or services that customers perceive and value as unique. For instance, a business might use Internet-based knowledge systems to shorten customer response times, provide rapid online responses to service requests, or automate purchasing and payment systems so that customers have detailed status reports and purchasing histories.

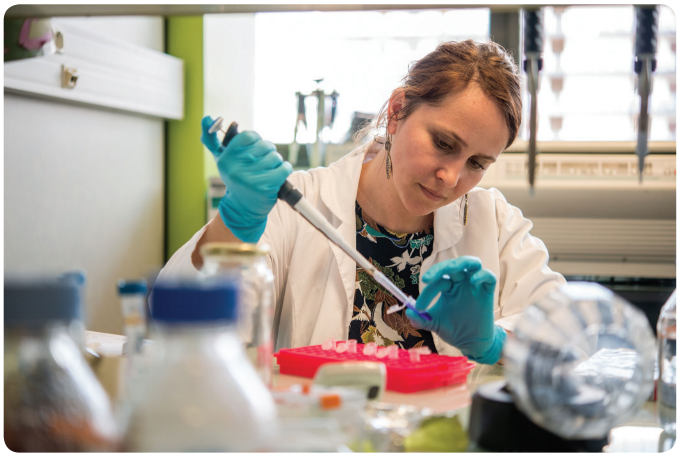
Finally, because the focuser targets a narrow market segment with customized products, it might provide chat rooms or discussion boards for customers to interact with others who have common interests, design niche websites that target specific groups with specific interests, or use websites to perform standardized office functions such as payroll or budgeting.

Research also has shown that an important e-business strategy might be a clicks-and-bricks strategy. A clicks-and-bricks firm is one that uses both online (clicks) and traditional stand-alone locations (bricks).[60] For example, Walgreens established an online site for ordering prescriptions, but some 90 percent of its customers who placed orders on the Web preferred to pick up their prescriptions at a nearby store rather than have them shipped to their home. So its "clicks-and-bricks" strategy has worked well! Other retailers, such as Walmart, The Container Store, and Home Depot, are transforming their stores into extensions of their online operations by adding Web return centers, pickup locations, free shipping outlets, and payment booths.[61]

CUSTOMER SERVICE STRATEGIES Companies emphasizing excellent customer service need strategies that cultivate that atmosphere from top to bottom. Such strategies involve giving customers what they want, communicating effectively with them, and providing employees with customer service training. Let's look first at the strategy of giving customers what they want.

It shouldn't surprise you that an important customer service strategy is giving customers what they want, which is a major aspect of an organization's overall marketing strategy. For instance, New Balance Athletic Shoes gives customers a truly unique product: shoes in varying widths. No other athletic shoe manufacturer has shoes for narrow or wide feet and in practically any size.[62]

Having an effective customer communication system is an important customer service strategy. Managers should know what's going on with customers. They need to find out what customers liked and didn't like about their purchase encounter—from their interactions with employees to their experience with the actual product or service. It's also important to let customers know if something is going on with the company that might affect future purchase decisions. Finally, an organization's culture is important to providing excellent customer service. This typically requires that employees be trained to provide exceptional customer service. For example, Singapore Airlines is well-known for its customer treatment. "On everything facing the customer, they do not scrimp," says an analyst based in Singapore.[63] Employees are expected to "get service right," leaving employees with no doubt about the expectations as far as how to treat customers.



Dr. Aurelie Juhem is a scientist and research director at Ecrins Therapeutics, a start-up biotechnology firm in France that specializes in the discovery of new bioactive molecules. At Ecrins, basic scientific research and development is the strategic approach to innovation. Juhem's research led to the discovery of a new molecule with anti-cancer properties.
Source: BONY/SIPA/AP Images

INNOVATION STRATEGIES When Procter & Gamble purchased the Iams pet food business, it did what it always does—used its renowned research division to look for ways to transfer technology from its other divisions to make new products.[64] One outcome of this cross-divisional combination: a new tartar-fighting ingredient from toothpaste that's included in all of its dry adult pet foods.

As this example shows, innovation strategies aren't necessarily focused on just the radical, breakthrough products. They can include applying existing technology to new uses. And organizations have successfully used both approaches. What types of innovation strategies do organizations need in today's environment? Those strategies should reflect their innovation philosophy, which is shaped by two strategic decisions: innovation emphasis and innovation timing.

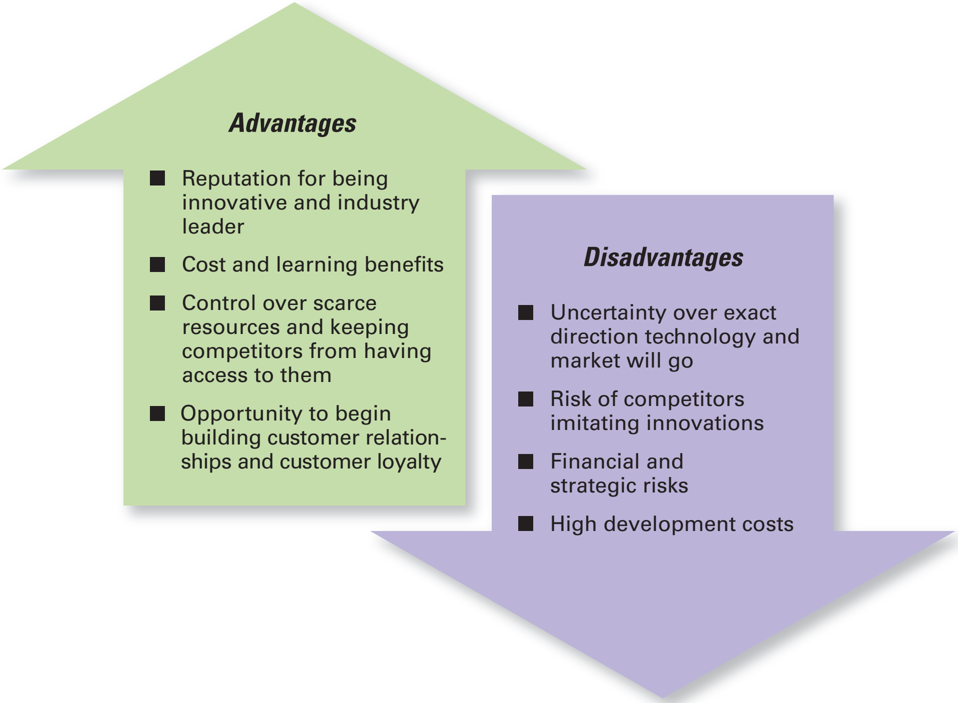
Managers must first decide where the emphasis of their innovation efforts will be. Is the organization going to focus on basic scientific research, product development, or process improvement? Basic scientific research requires the most resource commitment because it involves the nuts-and-bolts work of scientific research. In numerous industries (for instance, genetics engineering, pharmaceuticals, information technology, or cosmetics), an organization's expertise in basic research is the key to a sustainable competitive advantage. However, not every organization requires this extensive commitment to scientific research to achieve high performance levels. Instead, many depend on product development strategies. Although this strategy also requires a significant resource investment, it's not in areas associated with scientific research. Instead, the organization takes existing technology and improves on it or applies it in new ways, just as Procter & Gamble did when it applied tartar-fighting knowledge to pet food products. Both of these first two strategic approaches to innovation (basic scientific research and product development) can help an organization achieve high levels of differentiation, which can be a significant source of competitive advantage.

Finally, the last strategic approach to innovation emphasis is a focus on process development. Using this strategy, an organization looks for ways to improve and enhance its work processes. The organization innovates new and improved ways for employees to do their work in all organizational areas. This innovation strategy can lead to lower costs, which, as we know, also can be a significant source of competitive advantage.

Once managers have determined the focus of their innovation efforts, they must decide their innovation timing strategy. Some organizations want to be the first with innovations, whereas others are content to follow or mimic the innovations. An organization that's first to bring a product innovation to the market or to use a new process innovation is called a **first mover**. Being a first mover has certain strategic advantages and disadvantages, as shown in Exhibit 9-6. Some organizations pursue this route, hoping to develop a sustainable competitive advantage. For example, Yum! Brands was the first major fast-food company to establish itself in China when it opened a KFC restaurant in Beijing's Tiananmen Square. Now it has more than 5,000 KFC restaurants in over 1,100 cities throughout China. Others have successfully developed a sustainable competitive advantage by being the followers in the industry. They let the first movers pioneer the innovations and then mimic their products or processes. For instance, Visicorp pioneered the development and marketing of Visicalc, the first desktop spreadsheet program. Its success ended abruptly after Lotus Development created 1-2-3, a more versatile spreadsheet program offering database and graphical chart functions. Eventually, Microsoft developed a superior product—Excel, for its

first mover
An organization that's first to bring a product innovation to the market or to use a new process innovation

Exhibit 9-6
First Mover Advantages and Disadvantages



Windows platform—with a graphical interface and more powerful features. Which approach managers choose depends on their organization's innovation philosophy and specific resources and capabilities.

Chapter 9 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO9.1 DEFINE strategic management and explain why it's important.

Strategic management is what managers do to develop the organization's strategies. Strategies are the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals. A business model is how a company is going to make money. Strategic management is important for three reasons. First, it makes a difference in how well organizations perform. Second, it's important for helping managers cope with continually changing situations. Finally, strategic management helps coordinate and focus employee efforts on what's important.

LO9.2 EXPLAIN what managers do during the six steps of the strategic management process.

The six steps in the strategic management process encompass strategy planning, implementation, and evaluation. These steps include the following: (1) identify the current mission, goals, and strategies; (2) do an external analysis; (3) do an internal analysis (steps 2 and 3 collectively are known as SWOT analysis); (4) formulate strategies; (5) implement strategies; and (6) evaluate strategies. Strengths are any activities the organization does well or its unique resources. Weaknesses are activities the organization doesn't do well or resources it needs. Opportunities are positive trends in the external environment. Threats are negative trends.

LO9.3 DESCRIBE **the three types of corporate strategies.**

A growth strategy is when an organization expands the number of markets served or products offered, either through current or new businesses. The types of growth strategies include concentration, vertical integration (backward and forward), horizontal integration, and diversification (related and unrelated). A stability strategy is when an organization makes no significant changes in what it's doing. Both renewal strategies—retrenchment and turnaround—address organizational weaknesses leading to performance declines. The BCG matrix is a way to analyze a company's portfolio of businesses by looking at a business's market share and its industry's anticipated growth rate. The four categories of the BCG matrix are cash cows, stars, question marks, and dogs.

LO9.4 DESCRIBE **competitive advantage and the competitive strategies organizations use to get it.**

An organization's competitive advantage is what sets it apart, its distinctive edge. A company's competitive advantage becomes the basis for choosing an appropriate competitive strategy. Porter's five forces model assesses the five competitive forces that dictate the rules of competition in an industry: threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and current rivalry. Porter's three competitive strategies are as follows: cost leadership (competing on the basis of having the lowest costs in the industry), differentiation (competing on the basis of having unique products that are widely valued by customers), and focus (competing in a narrow segment with either a cost advantage or a differentiation advantage).

LO9.5 DISCUSS **current strategic management issues.**

Managers face three current strategic management issues: strategic leadership, strategic flexibility, and important types of strategies for today's environment. Strategic leadership is the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization and includes eight key dimensions. Strategic flexibility—that is, the ability to recognize major external environmental changes, to quickly commit resources, and to recognize when a strategic decision isn't working—is important because managers often face highly uncertain environments. Managers can use e-business strategies to reduce costs, to differentiate their firm's products and services, to target (focus on) specific customer groups, or to lower costs by standardizing certain office functions. Another important e-business strategy is the clicks-and-bricks strategy, which combines online and traditional, standalone locations. Strategies managers can use to become more customer oriented include giving customers what they want, communicating effectively with them, and having a culture that emphasizes customer service. Strategies managers can use to become more innovative include deciding their organization's innovation emphasis (basic scientific research, product development, or process development) and its innovation timing (first mover or follower).

✪ REVIEW AND DISCUSSION QUESTIONS

9-1. Why is strategic management important to managers? Discuss.

9-2. Distinguish between an organization's external opportunities and its threats.

9-3. There are three different types of corporate strategies. Do you think all corporate strategies revolve around growth? Why or why not?

9-4. Explain how managers can use a BCG Matrix to manage strategies by analyzing a corporate portfolio.

9-5. In how many ways can managers create a competitive advantage so that they can compete against their industry rivals?

9-6. Describe the role of competitive advantage. How can Porter's competitive strategies help an organization develop a competitive advantage?

9-7. Creating a competitive advantage over rivals is advantageous, but it's only a matter of time before they catch up, or changes in the industry nullifies the advantage. How does an organization sustain its competitive advantage?

9-8. Describe first-mover advantage and provide examples.

Pearson MyLab Management

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

9-9. Explain why strategic management is important.

9-10. How does strategic management direct the basic management functions?

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENT

P I A PERSONAL INVENTORY ASSESSMENT

Creative Style Indicator

Good strategic decision makers are creative in formulating and implementing strategies. Take this PIA and get a better feel for your creative style.

ETHICS DILEMMA

The luxury goods market is incredibly lucrative. Most studies on counterfeiting have tended to focus on the supply side. In recent years, however, there has been greater interest in studies pertaining to the demand side of the counterfeit business. There are many different reasons why people are motivated to consume counterfeit products. Clearly the status symbol created by the brand is one motivator. People want to buy into it even if they can't afford to buy the brand itself. The second reason is related to the channel of distribution. Often these brands are simply not available in the local market or are only available in select stores. Perhaps the most important reason is the price. Consumers tend to buy fake goods in order to avoid paying what they perceive to be inflated prices.[65]

9-11. Are customers victims of deception when they buy counterfeit goods or is it something different? Are they in some way complicit?

9-12. Would you knowingly buy counterfeit goods? Explain.

9-13. Consumers will buy counterfeit products purely for its visual attributes and functions, and not the quality. Do you think this would create a problem?

SKILLS EXERCISE Developing Your Business Planning Skill

About the Skill

An important step in starting a business or in determining a new strategic direction is preparing a business plan.[66] Not only does the business plan aid in thinking about what to do and how to do it, but it can be a sound basis from which to obtain funding and resources.

Steps in Practicing the Skill

- ***Describe your company's background and purpose.*** Provide the history of the company. Briefly describe the company's history and what this company does that's unique. Describe what your product or service will be, how you intend to market it, and what you need to bring your product or service to the market.

- ***Identify your short- and long-term goals.*** What is your intended goal for this organization? Clearly, for a new company three broad objectives are relevant: creation, survival, and profitability. Specific objectives can include such things as sales, market share, product quality, employee morale, and social responsibility. Identify how you plan to achieve each objective, how you intend to determine whether you met the objective, and when you intend the objective to be met (e.g., short or long term).
- ***Do a thorough market analysis.*** You need to convince readers that you understand what you are doing, what your market is, and what competitive pressures you'll face. In this analysis, you'll need to describe the overall market trends, the specific market you intend to compete in, and who the competitors are. In essence, in this section you'll perform your SWOT analysis.
- ***Describe your development and production emphasis.*** Explain how you're going to produce your product or service. Include time frames from start to finish. Describe the difficulties you may encounter in this stage as well as how much you believe activities in this stage will cost. Provide an explanation of what decisions (e.g., make or buy?) you will face and what you intend to do.
- ***Describe how you'll market your product or service.*** What is your selling strategy? How do you intend to reach your customers? In this section, describe your product or service in terms of your competitive advantage and demonstrate how you'll exploit your competitors' weaknesses. In addition to the market analysis, provide sales forecasts in terms of the size of the market, how much of the market you can realistically capture, and how you'll price your product or service.
- ***Put together your financial statements.*** What's your bottom line? Investors want to know this information. In the financial section, provide projected profit-and-loss statements (income statements) for approximately three to five years, a cash flow analysis, and the company's projected balance sheets. In the financial section, give thought to how much start-up costs will be and develop a financial strategy—how you intend to use funds received from a financial institution and how you'll control and monitor the financial well-being of the company.
- ***Provide an overview of the organization and its management.*** Identify the key executives, summarizing their education, experience, and any relevant qualifications. Identify their positions in the organization and their job roles. Explain how much salary they intend to earn initially. Identify others who may assist the organization's management (e.g., company lawyer, accountant, board of directors). This section should also include, if relevant, a subsection on how you intend to deal with employees. For example, how will employees be paid, what benefits will be offered, and how will employee performance be assessed?
- ***Describe the legal form of the business.*** Identify the legal form of the business. For example, is it a sole proprietorship, a partnership, a corporation? Depending on the legal form, you may need to provide information regarding equity positions, shares of stock issued, and the like.
- ***Identify the critical risks and contingencies facing the organization.*** In this section, identify what you'll do if problems arise. For instance, if you don't meet sales forecasts, what then? Similar responses to such questions as problems with suppliers, inability to hire qualified employees, poor-quality products, and so on should be addressed. Readers want to see if you've anticipated potential problems and if you have contingency plans. This is the "what if" section.
- ***Put the business plan together.*** Using the information you've gathered from the previous nine steps, it's now time to put the business plan together into a well-organized document. A business plan should contain a cover page that shows the company name, address, contact person, and numbers at which the individual can be reached. The cover page should also contain the date the business was established and, if one exists, the company logo. The next page of the business plan should be a table of contents. Here you'll want to list and identify the location of each major section and subsection in the business plan. Remember to use proper outlining techniques. Next comes the executive summary, the first section the readers will actually read. Thus, it's one of the more critical elements of the business plan, because if the executive summary is poorly done, readers may not read any further. In a two- to three-page summary, highlight information about the company, its management, its market and competition, the funds requested, how the funds will be used, financial history (if available), financial projections, and when investors can expect to get their money back (called the exit). Next come the main sections of your business plan; that is, the material you've researched and written about in steps 1 through 9. Close out the business plan with a section that summarizes the highlights of what you've just presented. Finally, if you have charts, exhibits, photographs, tables, and the like, you might want to include an appendix in the back of the business plan. If you do, remember to cross-reference this material to the relevant section of the report.

Practicing the Skill

You have a great idea for a business and need to create a business plan to present to a bank. Choose one of the following products or services, or choose a product or service of your own. Draft the parts of your plan that describe how you will price and market it (see step 5) and that identify critical risks and contingencies (see step 9).

1. Haircuts at home (you make house calls)
2. Olympic snowboarding computer game for consoles and mobile devices
3. Online apartment rental listing
4. Voice-activated house alarm

WORKING TOGETHER Team Exercise

Organizational mission statements—are they a promise, a commitment, or just a ball of hot air? Form small groups of three to four individuals and find examples of three different organizational mission statements. Your first task is to evaluate the mission statements. How do they compare to the components listed in Exhibit 9-2? Would you describe each as an effective mission statement? Why or why not? How might you rewrite each mission statement to make it better? Your second task is to use the mission statements to describe the types of corporate and competitive strategies each organization might use to fulfill that mission statement. Explain your rationale for choosing each strategy.

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- Using current business periodicals, find two examples of each of the corporate and competitive strategies. Write a description of what these businesses are doing and how it represents that particular strategy.
- Pick five companies from the latest version of *Fortune*'s "Most Admired Companies" list. Research these companies and identify their (a) mission statement, (b) strategic goals, and (c) strategies used.
- Consider several businesses from which you purchase products or services on a regular basis. Identify the business model for each business.
- Customer service, social media, and innovation strategies are particularly important to managers today. We described specific ways companies can pursue these strategies. Your task is to pick customer service, e-business, or innovation and find one example for each of the specific approaches in that category. For instance, if you choose customer service, find an example of (a) giving customers what they want, (b) communicating effectively with them, and (c) providing employees with customer service training. Write a report describing your examples.

CASE APPLICATION 1 Fast Fashion

When Amancio Ortega, a Spanish former bathrobe maker, opened his first Zara clothing store, his business model was simple: sell high-fashion look-alikes to price-conscious Europeans.[67] After succeeding in this, he decided to tackle the outdated clothing industry in which it took six months from a garment's design to consumers being able to purchase it in a store. What Ortega envisioned was "fast fashion"—getting designs to customers quickly. And that's exactly what Zara has done!

The company has been described as having more style than Gap, faster growth than Target, and logistical expertise rivaling Walmart's. Zara, owned by the Spanish fashion retail group Inditex SA, recognizes that success in the fashion world is based on a simple rule—get products to market quickly. Accomplishing this, however, isn't so simple. It involves a clear and focused understanding of fashion, technology, and their market, *and* the ability to adapt quickly to trends.

Inditex, the world's largest fashion retailer by sales worldwide, has seven chains: Zara (including Zara Kids and Zara Home), Pull and Bear, Massimo Dutti, Stradivarius, Bershka, Oysho, and Uterqüe. The company has more than 6,340 stores in 87 countries, although Zara pulls in more than 60 percent of the company's revenues. Despite its global presence, Zara is not yet a household name in the United States, with just 45 stores open, including a flagship store in New York City.

What is Zara's secret to excelling at fast fashion? It takes approximately two weeks to get a new design from drawing board to store floor. And stores are stocked with new designs twice a week as clothes are shipped directly to the stores from the factory. Thus, each aspect of Zara's business contributes to the fast turnaround. Sales managers at "the Cube"—what employees call their futuristic-looking headquarters—sit at a long row of computers and scrutinize sales at every store. They see the hits and the misses almost instantaneously. They ask the in-house designers, who work in teams, sketching out new styles and deciding which fabrics will provide the best combination of style and price, for new designs. Once a design is drawn, it's sent electronically to Zara's factory across the street, where a clothing sample is made. To minimize waste, computer programs arrange and rearrange clothing patterns on the massive fabric rolls before a laser-guided machine does the cutting. Zara produces most of its designs close to home—in Morocco, Portugal, Spain, and Turkey. Finished garments are returned to the factory within a week. Finishing touches (buttons, trim, detailing, etc.) are added, and each garment goes through a quality check. Garments that don't pass are discarded while those that do pass are individually pressed. Then, garment labels (indicating to which country garments will be shipped) and security tags are added. The bundled garments proceed along a moving carousel of hanging rails via a maze of tunnels to the warehouse, a four-story, five-million-square-foot building (about the size of 90 football fields). As the merchandise bundles move along the rails, electronic bar code tags are read by equipment that send them to the right "staging area," where specific merchandise is first sorted by country and then by individual store, ensuring that each store gets exactly the shipment it's supposed to. From there, merchandise for European stores is sent to a loading dock and packed on a truck with other shipments in order of delivery. Deliveries to other locations go by plane. Some 60,000 items each hour—more than 2.6 million items a week—move through this ultrasophisticated distribution center. And this takes place with only a handful of workers, who monitor the entire process. The company's just-in-time production (an idea borrowed from the auto industry) gives it a competitive edge in terms of speed and flexibility.

Despite Zara's success at fast fashion, its competitors are working to be faster. But CEO Pablo Isla isn't standing still. To maintain Zara's leading advantage, he's introducing new methods that enable store managers to order and display merchandise faster and is adding new cargo routes for shipping goods. Also, the company recently announced that it's developing a new logistics hub that will be able to distribute almost half a million garments daily to its stores on five continents. Zara's CEO says that this new facility will lay the groundwork for continued rapid expansion worldwide. And the company has finally made the jump into online retailing. One analyst forecasts that the company could quadruple sales, with a majority of that coming from online sales.

DISCUSSION QUESTIONS

9-14. How is strategic management illustrated by this case story?

9-15. How might SWOT analysis be helpful to Inditex executives? To Zara store managers?

9-16. What competitive advantage do you think Zara is pursuing? How does it exploit that competitive advantage?

9-17. Do you think Zara's success is due to external or internal factors or both? Explain.

9-18. What strategic implications does Zara's move into online retailing have? (Hint: Think in terms of resources and capabilities.)

CASE APPLICATION 2 A Simple Strategy at Costco

Costco launched the warehouse shopping model when it opened its first location in 1976, requiring customers to purchase an annual membership in order to shop at the store.[68] The first location was called Price Club and initially sold only to small businesses. More than 40 years later, Costco is one of the nation's top retailers and the nation's largest membership warehouse chain. They operate more than 700 warehouses located around the world, with more than 80 million members and over $116 billion in annual revenues. In addition to demonstrating steady growth throughout its history, the company consistently performs better than competitors. For example, Costco's sales per square foot are nearly 70 percent higher than their closest competitor, Sam's Club.

So how has Costco achieved this level of success? Experts agree that Costco's simple strategy has allowed the company to persist, even in challenging times. In fact, some say Costco has the best business model in the retail industry. The company's strategies that differentiate it from its competitors are to treat employees well, limit the number of items it sells, and keep markups low.

Costco clearly values its employees. The company pays its employees on average 40 percent higher than competitors and offers health care insurance to all employees who work more than 20 hours per week. The company is also known for promoting from within, with 98 percent of their store managers and many of their company executives having started out as stock clerks or cashiers. These efforts have helped build a loyal and hard-working employee base that actively contributes to building a profitable bottom line. Furthermore, low employee turnover helps save the company in recruiting and training expenses. The company's average annual turnover rate is about 5 percent, compared to the average turnover rate of about 20 percent in the rest of the retail industry.

Costco also has a sales strategy that has contributed to its success. They only sell a limited number of brands and, as a result, they are able to increase sales volume that leads to purchasing discounts. For example, Costco only carries four brands of toothpaste, compared to about 60 brands you'd find on the shelf at Walmart. Thus, the company is able to purchase those four brands in significant volumes, which allows them to negotiate with the product manufacturers for discounts. The company then passes along those savings to their customers through lower prices. Costco prices items at no more than 15 percent above their purchasing price. This markup strategy assures they are offering the lowest price possible, which is what draws customers and creates a loyal customer base.

Sticking with these simple strategies has helped Costco build their retail empire. Can the company continue their growth trajectory and maintain their leadership position in the retail industry? There is some speculation that as consumers build confidence in online shopping, Costco and other brick-and-mortar retailers will face declining sales due to the competition. Costco has responded to this threat by expanding the diversity of their inventory, offering deep discounts on high-ticket items such as jewelry, electronics, and even cars. Such tactics help to encourage membership by making the company the go-to location for purchases that consumers prefer to make in person. And while they are there, they can pick up some toothpaste at a pretty good price.

DISCUSSION QUESTIONS

9-19. How is Costco's business model different from other retailers such as Walmart and Sam's Club? Why do you think Costco's strategy works?

9-20. Beyond lower turnover, how else does Costco benefit from treating its employees well?

9-21. Are you surprised that Costco sells cars? How does offering diverse products help the company attract new members?

9-22. Costco now has a comprehensive website and sells online. Is this a threat to Costco's business model? Is there a downside to selling online?

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Chapter 10

Fostering Entrepreneurship

It's Your Career

Source: Alvin555/Shutterstock

A key to success in management and your career is knowing how to take control of your career.

Being Entrepreneurial Even If You Don't Want to Be an Entrepreneur

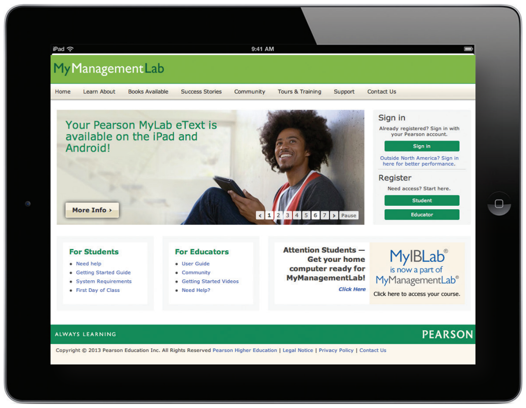
As a student, you are learning which course topics most interest you and where your future lies. Deciding on a career is an essential first step. To get where you'd like to go, you must develop a plan that will help you to meet your career objectives. We suggest you might want to think "entrepreneurial" in developing your career strategy. What does that mean?

*1. **Take control of your career.** Don't let what your parents or friends say limit your options. And don't put your future wholly into the hands of your employer. Make it your responsibility to plan and execute your career future.*

*2. **Think outside the box.** Look for opportunities that others might have missed. What works for creating a business can also work for creating a career.*

*3. **Assess your strengths and talents.** As noted in Chapter 9's "It's Your Career," we all have specific strengths and weaknesses. Being honest with yourself—and acknowledging that we're all not great at everything—can allow you to avoid pursuing opportunities where you have no competitive advantage. But it can additionally help you to see, and invest in, those areas where you do have the advantage.*

*4. **Don't be afraid to fail.** As we will address in this chapter's "Workplace Confidential," setbacks are not failures. They are failures only if you don't learn from them. Finding your right road often first requires you to run into a few dead-ends.*



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Learning Objectives

***10.1 Define** entrepreneurship and explain why it's important.*

***10.2 Explain** what entrepreneurs do in the planning process for new ventures.*

- **Know how** to think creatively about solving a common problem.
- **Develop your skill** for writing an executive summary for effectively communicating novel ideas.

***10.3 Describe** the six legal forms of organization and the choice of appropriate organizational structure.*

***10.4 Describe** how entrepreneurs lead organizations.*

***10.5 Explain** how managers control organizations for growth, downturns, and exiting the venture.*

Sarah Tulin is an entrepreneur. She is the cofounder of Oxie Innovations. The company sells a portable air cleaner that is worn under the shirt collar. The product is unique because it uses real-time sensors and an interactive mobile app. Tulin got the idea one day when she found herself in a cloud of bus smoke and decided to find a better alternative to uncomfortable face masks. Her product also effectively reduces asthma sufferers' dependence on expensive medication. *Forbes* has named Tulin as one of its most impressive young entrepreneurs while *Fortune* named her one of the most promising female entrepreneurs of 2015.

THE CONTEXT of entrepreneurship

LO10.1 In this chapter, we're going to look at the activities of entrepreneurs like Sarah Tulin. Let's begin by defining *entrepreneurship*.

What Is Entrepreneurship?

Entrepreneurship is the process of starting new businesses, generally in response to opportunities. Entrepreneurs are pursuing opportunities by changing, revolutionizing, transforming, or introducing new products or services. For example, Nanxi Liu, founder of start-up Nanoly Bioscience, recognized the challenges of refrigerating vaccines, which is necessary to maintain potency. Nanoly Bioscience develops and distributes polymers that allow vaccines to be stored without refrigeration. This innovation enables doctors to provide lifesaving vaccinations in developing countries where millions die from preventable diseases.

entrepreneurship
The process of starting new businesses, generally in response to opportunities

entrepreneurial ventures
Organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals

small business
An organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices; and has relatively little impact on its industry

self-employment
Individuals who work for profit or fees in their own business, profession, trade, or farm

Many people think that entrepreneurial ventures and small businesses are one and the same, but they're not. Some key differences distinguish the two. Entrepreneurs create **entrepreneurial ventures**—organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals. On the other hand, a **small business** is one that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices; and has relatively little impact on its industry.[1] A small business isn't necessarily entrepreneurial because it's small. To be entrepreneurial means that the business must be innovative, seeking out new opportunities. Even though entrepreneurial ventures may start small, they pursue growth. Some new small firms may grow, but many remain small businesses, by choice or by default.

Entrepreneurship Versus Self-Employment?

Many people confuse entrepreneurship with self-employment. Are they the same? The answer is: sometimes. Let's start by defining self-employment.

Self-employment refers to individuals who work for profit or fees in their own business, profession, trade, or farm.[2] This arrangement focuses on established professions such as electricians and insurance agents. For comparison, recall that we described entrepreneurship as the process of capitalizing on opportunities by starting new businesses for the purposes of changing, revolutionizing, transforming, or introducing new products or services. Now let's consider three points of comparison.

First, entrepreneurs and self-employed individuals understand market needs. For instance, Mark recognizes demand for house-cleaning services, and he decides to start a business cleaning houses for a fee. There is nothing revolutionary about cleaning houses (though it is a worthy endeavor). Mark is *self-employed*. In contrast, Nanxi Liu is an entrepreneur because she saw an opportunity to make vaccinations available to individuals where refrigeration is not available. Serving market needs provides both Mark and Nanxi the opportunity to provide services or products at a profit.

Second, entrepreneurs may be self-employed or they become employees of the company they have started. As we described earlier, entrepreneur Sarah Tulin turned her portable air purifier idea into Oxie Innovations, where she is the CEO. Self-employed persons always work for themselves. They are not paid employees of another company, and they rely on their own initiative to ensure income generation. Also, self-employed individuals make all the business decisions about how the work gets done. Finally, self-employment does not preclude having one or more employees. For example, Mark's cleaning business took off and he realized he couldn't handle everything himself. So Mark hires two individuals, better enabling him to meet clients' needs.

Third, tax requirements and certain laws require that both entrepreneurs and self-employed individuals create a legally recognized organization. There are several types, which we'll discuss later in the chapter. For instance, Mark may set up a sole proprietorship, while Nanxi's company is registered as a corporation.

Why Is Entrepreneurship Important?

Entrepreneurship is, and continues to be, important to every industry sector in the United States and in most advanced countries.[3] Its importance in the United States can be shown in three areas: innovation, number of new start-ups, and job creation.

INNOVATION Innovating is a process of changing, experimenting, transforming, and revolutionizing, and is a key aspect of entrepreneurial activity. The "creative destruction" process that characterizes innovation leads to technological changes and employment growth. Entrepreneurial firms act as "agents of change" by providing an essential source of new and unique ideas that may otherwise go untapped.[4] Statistics back this up. The National Science Foundation reports that small firms generate nearly three times the number of patents per research and development dollar spent than do large organizations.[5] In addition, small firms produce approximately 30 times more patents per employee than large patenting firms.[6] These statistics are further proof of how important small business is to innovation in America.

NUMBER OF NEW START-UPS Because all businesses—whether they fit the definition of entrepreneurial ventures or not—were new start-ups at one point in time, the most suitable measure we have of the important role of entrepreneurship is to look at the number of new firms over a period of time. Data collected by the U.S. Bureau of Labor Statistics shows that the growth rate of new start-ups has been steady every year since 2005. Estimates for 2014, the latest available data, showed that approximately 200,000 new businesses were created every three months![7]

JOB CREATION We know that job creation is important to the overall long-term economic health of communities, regions, and nations. The latest figures show that small businesses accounted for most of the net new jobs. In fact, over the last 20 years, small businesses have created some 63 percent of the net new jobs.[8] And recent numbers show that 48.9 percent of U.S. workers were employed by small businesses.[9] Small organizations have been creating jobs at a fast pace even as many of the world's largest and well-known global corporations continued to downsize. These numbers reflect the importance of entrepreneurial firms as job creators.

GLOBAL ENTREPRENEURSHIP What about entrepreneurial activity outside the United States? What kind of impact has it had? An annual assessment of global entrepreneurship called the Global Entrepreneurship Monitor (GEM) studies the impact of entrepreneurial activity on economic growth in various countries. The GEM 2015/2016 report covered 60 countries that were divided into three clusters identified by phase of economic development: factor-driven economies, efficiency-driven economies, and innovation-driven economies. What did the researchers find? One of the principal aspects that GEM examines is "total early-stage entrepreneurial activity (TEA)," or the proportion of people who are involved in setting up a business. Generally, as economic development increases, the overall levels of TEA decline. With large variations found in the three different categories, however, it's obvious that countries have unique types of conditions that influence entrepreneurial activity. The GEM report concludes, however, that entrepreneurship is important for economic development.[10]

The Entrepreneurial Process

Entrepreneurs must address four key steps as they start and manage their entrepreneurial ventures.

The first is *exploring the entrepreneurial context.* The context includes the realities of today's economic, political/legal, social, and work environment. It's important to look at each of these aspects of the entrepreneurial context because they determine the "rules" of the game and which decisions and actions are likely to meet with success. Also, it's through exploring the context that entrepreneurs confront the next critically important step in the entrepreneurial process—*identifying opportunities and possible competitive advantages.* We know from our definition of entrepreneurship that the pursuit of opportunities is an important aspect.

Once entrepreneurs have explored the entrepreneurial context and identified opportunities and possible competitive advantages, they must look at the issues involved with actually bringing their entrepreneurial venture to life. Therefore, the next step in the entrepreneurial process is *starting the venture.* Included in this phase are researching the feasibility of the venture, planning the venture, organizing the venture, and launching the venture.

Finally, once the entrepreneurial venture is up and running, the last step in the entrepreneurial process is *managing the venture*, which an entrepreneur does by managing processes, managing people, and managing growth. We can explain these important steps in the entrepreneurial process by looking at what it is that entrepreneurs do.

What Do Entrepreneurs Do?

Describing what entrepreneurs do isn't an easy or simple task! No two entrepreneurs' work activities are exactly alike. In a general sense, entrepreneurs create something new, something different. They search for change, respond to it, and exploit it.

Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with start-up issues. In exploring the entrepreneurial context, entrepreneurs gather information, identify potential opportunities, and pinpoint possible competitive advantage(s). Then, armed with this information, the entrepreneur researches the venture's feasibility—uncovering business ideas, looking at competitors, and exploring financing options.

After looking at the potential of the proposed venture and assessing the likelihood of pursuing it successfully, the entrepreneur proceeds to plan the venture. Planning includes such activities as developing a viable organizational mission, exploring organizational culture issues, and creating a well-thought-out business plan. Once these planning issues have been resolved, the entrepreneur must look at organizing the venture, which involves choosing a legal form of business organization, addressing other legal issues such as patent or copyright searches, and coming up with an appropriate organizational design for structuring how work is going to be done.

Only after these start-up activities have been completed is the entrepreneur ready to actually launch the venture. Such a launch involves setting goals and strategies, and establishing the technology-operations methods, marketing plans, information systems, financial-accounting systems, and cash flow management systems.

Once the entrepreneurial venture is up and running, the entrepreneur's attention switches to managing it. What's involved with actually managing the entrepreneurial venture? An important activity is managing the various processes that are part of every business: making decisions, establishing action plans, analyzing external and internal environments, measuring and evaluating performance, and making needed changes. Also, the entrepreneur must perform activities associated with managing people, including selecting and hiring, appraising and training, motivating, managing conflict, delegating tasks, and being an effective leader. Finally, the entrepreneur must manage the venture's growth, including such activities as developing and designing growth strategies, dealing with crises, exploring various avenues for financing growth, placing a value on the venture, and perhaps even eventually exiting the venture.

FYI

A growing number of people consider entrepreneurship an attractive career option:[11]

- 51 percent believe there exist good opportunities for starting a business
- 80 percent who plan to start a business in the next three years are doing something about it (for example, leasing space)

Social Responsibility and Ethics Issues Facing Entrepreneurs

As they launch and manage their ventures, entrepreneurs are faced with the often-difficult issues of social responsibility and ethics. Just how important are these issues to entrepreneurs? An overwhelming majority of respondents (95 percent) in a study of small companies believed that developing a positive reputation and relationship in communities where they do business is important for achieving business goals.[12] However, despite the importance these individuals placed on corporate citizenship, more than half lacked formal programs for connecting with their communities. In fact, some 70 percent of the respondents admitted that they failed to consider community goals in their business plans.

Yet, some entrepreneurs take their social responsibilities seriously. For example, Deane Kirchner, George Wang, and Kiah Williams cofounded SIRUM, which stands for Supporting Initiatives to Redistribute Unused Medicine. The group recognized that unexpired medications worth billions of dollars are discarded while underfunded medical clinics do not have the means to purchase medication for low-income patients. Kirchner and her team use a digital platform for hospitals and clinics to find matches, and SIRUM then ships medication to where it's needed most. "Our goal is to save lives by saving unused medications," says Kirchner. "We thought we could use technology to bridge this gap between surplus and need."[13]

Other entrepreneurs have pursued opportunities with products and services that protect the global environment. For example, PurposeEnergy of Woburn, Massachusetts, developed a technology that removes waste by-products from the beer brewing industry and changes them to renewable natural gas, treated water, and organic fertilizer. Another company, Botl of Toronto, Canada, sells a biodegradable portable water filter. Founder Emily Wilkinson sought to protect the environment by reducing the

WORKPLACE CONFIDENTIAL Dealing with Risks

Former hockey great Wayne Gretzky captured the importance of risk taking when he said, "You miss 100 percent of the shots you never take." His message: You have to risk failure to achieve success.

The easy route in life is to stay the course and not make waves. This typically means making choices that provide predictable outcomes and minimal threats to your known world: staying in the town you grew up in; keeping the same job for your entire career; going to your "regular" vacation spot every year; maintaining constant hobbies and interests; and so on. You might think that by minimizing change, you minimize risk. As you'll see, if you think that's true, there's a good chance you're wrong.

Risk has both positive and negative outcomes. Risk-avoiders tend to emphasize its negative aspects. Risk-seekers focus on the positives. You need to understand when to take risks, when to avoid them, and how to turn risk taking to your advantage.

Let's begin with a brief analysis of risk perception. That is, what shapes your perception of risk? There are four elements you want to consider: uncertainty, gains, losses, and your risk profile. Uncertainty reflects doubt or acknowledging the unknown. As uncertainty increases, decisions become more risky. As such, we try to avoid uncertainty or minimize its influence. We do this by accumulating as much appropriate information as possible. A potential risk outcome is derived by comparing gains and losses. Larger anticipated gains are preferred over smaller gains and smaller potential losses to larger losses. Riskiness increases as possible returns become smaller or potential losses appear larger. You want to take on risks where the potential gains exceed potential losses—and the larger the gain, the better. So you have to answer the question: Is it worth the risk? Finally, you need to take into consideration your risk profile. What's your risk tolerance? People differ in their willingness to take chances. Low-risk-seekers are likely to identify, value, and choose decision options that have low chances for failure. Right or wrong, that often means choosing alternatives that contain minimal change from the status quo. High-risk-takers, on the other hand, are more likely to identify, value, and choose alternatives that are unique and that have a greater chance of failing.

Now let's turn our attention to the positive aspects of risk. There are few truisms in life, but one is, with the exception of those lucky enough to be born into wealth, you can't achieve success in this world without taking risks. Oprah Winfrey, Jeff Bezos, Dustin Hoffman, Bill Clinton, Ray Kroc, Dolly Parton, Steve Jobs, I.M. Pei—they all took risks. They quit a job, they moved to a new city, they started a business, they ran for political office. They did something that made them vulnerable and exposed themselves to rejection and failure. We're not proposing here that risk taking guarantees success. Clearly, it doesn't. What we are saying is that it's hard to become successful without giving up some security and taking a chance.

As we noted, we all don't have the same tolerance for risk. If you see yourself as a risk taker, your concern should be focused on keeping your risk taking under control. You want to take calculated risks and avoid throwing caution to the wind. For those of you who tend to be risk-averse, the following should be relevant.

If you tend to be risk averse, remind yourself that it's easier to take risks while you're young. Setbacks and failures are much easier to recover from when you're 25 than when you're 55. In fact, in comparing risk-taking propensity among people between ages 22 and 58, it was found that both risk taking and the value placed upon risk was negatively related to age. That is, as we get older, we tend to become more conservative toward assuming risk. This is probably because older individuals perceive themselves as having more to lose. So leverage your "youth and inexperience." If you're going to quit a job or start a business, consider doing it sooner rather than later. It's easier to accept a setback when you're young and you're more likely to become risk averse as you get older.

For those who fear failure, you need to be reminded that setbacks are not fatal. The landscape is littered with people who confronted early failure but rebounded to phenomenal success. Walt Disney was fired from the Kansas City Star because his editor felt he "lacked imagination and had no good ideas." Oprah Winfrey was fired from her first television job in Baltimore for getting "too emotionally invested in her stories." Sam Walton failed in his early attempts at retailing but eventually hit it big with Walmart. A film executive made the following assessment at seeing one of Fred Astaire's first screen tests: "can't sing; can't act; slightly balding; can dance a little." Theodor Geisel, aka Dr. Seuss, had his first book rejected by 27 different publishers. And Steven Spielberg was rejected multiple times by the University of Southern California School of Cinematic Arts.

Nothing in our discussion should be interpreted as promoting unrestrained risk taking. Risk taking needs to be undertaken thoughtfully, intelligently, selectively, and with careful consideration of probabilities. Options with minimal chance of success, regardless of payoffs, are gambles and should be avoided. However, you don't want to miss opportunities with good chances of success just because they have potential for failure.

Sources: Based on V. H. Vroom and B. Pahl, "Relationship Between Age and Risk Taking Among Managers," *Journal of Applied Psychology*, October 1971, pp. 399–405; J. G. March and Z. Shapira, "Managerial Perspectives on Risk and Risk-Taking," *Management Science*, November 1987, pp. 1404–1418; and J. F. Yates and E. R. Stone, "The Risk Construct," in *Risk-Taking Behavior*, ed. J. F. Yates (Chichester, UK: Wiley, 1992), pp. 1–25.

amount of plastic waste going into landfills. Rather than using and disposing one plastic container of filtered bottled water after another, consumers can quickly filter tap water by dropping the filter in any container filled with tap water and then shaking it.

Ethical considerations also play a role in decisions and actions of entrepreneurs. Entrepreneurs do need to be aware of the ethical consequences of what they do. The example they set—particularly for other employees—can be profoundly significant in influencing behavior.

If ethics are important, how do entrepreneurs stack up? Unfortunately, not well! In a survey of employees from different sizes of businesses who were asked if they thought their organization was highly ethical, 20 percent of employees at companies with 99 or fewer employees disagreed.[14]

FUTURE VISION The Growth of Social Businesses

Tomorrow's new business is more likely to get its start from a desire to do good in the world than a desire to make big money.[15] We learned about social entrepreneurs in Chapter 5 and know that they start ventures that make the world a better place. We are going to see more of them, and a growing number will seek to be financially sustainable by incorporating a for-profit business model. In the last 10 years we have seen a growth in businesses that are focused on both profit and purpose, and the trend is expected to continue. Rather than separating revenue-generating and philanthropy, many start-ups are integrating them and finding that they can generate greater impact and sustain the business longer.

For example, Blake Mycoskie, founder of TOMS shoes (Case Application 1 in Chapter 5) wanted to help children in Argentina who needed shoes. He could have started a not-for-profit organization to raise money to purchase shoes, but instead, he started a for-profit business that donates a pair of shoes for every pair purchased. The result? A sustainable business model that has donated more than 50 million pairs of shoes in just 10 years, far more than the few hundred pairs of shoes his initial investment in the company would have provided.

In addition to the fact that it works financially, the growth in social businesses is expected because future entrepreneurs—the millennial generation—are not motivated by profit alone. Why do they have interest in making social change? Some suggest that their access to the Internet growing up has led to an increased awareness of global issues and social concerns. They have connected themselves to world problems such as poverty, gender inequity, climate change, and terrorism. Another view is that they were raised to question consumerism and believe they can make change in the world. Pursuing profit while focusing on a social purpose may be the way future entrepreneurs will be able to make that change.

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

TALK ABOUT IT 1: How can a social entrepreneur decide if they should make their venture a for-profit or not-for-profit business?

TALK ABOUT IT 2: Do you think consumers are skeptical of for-profit businesses that claim to have a social cause as a mission?

START-UP and planning issues

LO10.2 Although pouring a bowl of cereal may seem like a simple task, even the most awake and alert morning person has probably ended up with cereal on the floor. Philippe Meert, a product designer based in Erpe-Mere, Belgium, has come up with a better way. Meert sensed an opportunity to correct the innate design flaw of cereal boxes and developed the Cerealtop, a plastic cover that snaps onto a cereal box and channels the cereal into a bowl.[16]

The first thing that entrepreneurs like Philippe Meert must do is to identify opportunities and possible competitive advantages. Once they've identified the opportunities, they're ready to start the venture by researching its feasibility and then planning for its launch. These start-up and planning issues are what we're going to look at in this section.

Identifying Environmental Opportunities and Competitive Advantage

How important is the ability to identify environmental opportunities? Consider the following: More than 4 million baby boomers turn 50 every year. Almost 8,000 turned 60 each day starting in 2006. More than 57.5 million baby boomers are projected to be alive in 2030, which would put them between the ages of 66 and 84. J. Raymond Elliott, CEO of Zimmer Holdings, is well aware of that demographic trend. Why? His company, which makes orthopedic products, including reconstructive implants for hips, knees, shoulders, and elbows, sees definite marketing opportunities.[18]

In 1994, when Jeff Bezos first saw that Internet usage was increasing by 2,300 percent a month, he knew that something dramatic was happening. "I hadn't seen growth that fast outside of a Petri dish," he said. Bezos was determined to be a part of it. He quit his successful career as a stock market researcher and hedge fund manager on Wall Street and pursued his vision for online retailing, now the Amazon.com website.[19]

What would you have done had you seen that type of number somewhere? Ignored it? Written it off as a fluke? The skyrocketing Internet usage that Bezos observed and the recognition of the Baby Boomer demographic by Elliott's Zimmer Holdings are prime examples of identifying environmental opportunities. Remember the discussion in Chapter 9 that described how opportunities are positive trends in external environmental factors. These trends provide unique and distinct possibilities for innovating and creating value. Entrepreneurs need to be able to pinpoint these pockets of opportunities that a changing context provides. After all, "organizations do not see opportunities, individuals do."[20] And they need to do so quickly, especially in dynamic environments, before those opportunities disappear or are exploited by others.[21]

The late Peter Drucker, a well-known management author, identified seven potential sources of opportunity that entrepreneurs might look for in the external context.[22] These include the unexpected, the incongruous, the process need, industry and market structures, demographics, changes in perception, and new knowledge.

1. *The unexpected.* When situations and events are unanticipated, opportunities can be found. The event may be an unexpected success (positive news) or an unexpected failure (bad news). Either way, it may present opportunities for entrepreneurs to pursue. For instance, Sony cofounder Masaru Ibuka wanted to listen to music while on long international flights, but portable music players did not exist at the time.[23] In 1979, he asked engineers to develop a portable device for personal use. Ibuka was impressed with the results, which led him to present the device to Sony Chairman Akio Morita. It's believed that Ibuka said, "Try this. Don't you think a stereo cassette player that you can listen to while walking around is a good idea?"[24] At the time, there were doubts that anyone would want to listen to music while walking. Despite these reservations, the unexpected interest in portable music players proved to be an opportunity giving way to the highly successful Sony Walkman.
2. *The incongruous.* When something is incongruous, it exhibits inconsistencies and incompatibilities in the way it appears. Things "ought to be" a certain way, but aren't. When conventional wisdom about the way things should be no longer holds true, for whatever reason, opportunities are present. Entrepreneurs who are willing to "think outside the box"—that is, to think beyond the traditional and conventional approaches—may find pockets of potential profitability. Herb Kelleher, founder and president of Southwest Airlines, recognized incongruities in the way that commercial airlines catered to the traveling public. Most airlines focused on providing full service, including meals, to business travelers on routes between large business hubs. Ticket prices were high, but business

FYI

- 43.5 percent of Americans saw an opportunity to start a business last year.
- 55.9 percent of Americans thought they were capable of launching a company.
- 8.9 percent of Americans took material steps to start a business.[17]

The unexpected interest in portable music players presented an opportunity that Sony cofounders Akio Morita (shown here) and Masaru Ibuka pursued and developed into the Sony Walkman. By allowing people to listen to music wherever and whenever they wanted, the Walkman became one of the company's most successful brands.
Source: Neal Ulevich/AP Photo

travelers could absorb the cost. Although this approach was profitable, it ignored the opportunity to serve leisure travelers who wanted to travel between smaller cities (not business hubs). Kelleher knew that a better way was possible. His company offered lower fares with no-frill service.[25] Southwest Airlines has been profitable ever since. Another example of how the incongruous can be a potential source of entrepreneurial opportunity is Fred Smith, founder of FedEx, who recognized in the early 1970s the inefficiencies in the delivery of packages and documents. His approach was: Who says that overnight delivery isn't possible? Smith's recognition of the incongruous led to the creation of FedEx, now a multibillion-dollar corporation.

3. *The process need.* What happens when technology doesn't immediately come up with the "big discovery" that's going to fundamentally change the nature of some product or service? What happens is the emergence of pockets of entrepreneurial opportunity in the various stages of the process as researchers and technicians continue to work for the monumental breakthrough. Because the full leap hasn't been possible, opportunities abound in the tiny steps. Take the medical products industry, for example. Although researchers haven't yet discovered a cure for cancer, many successful entrepreneurial biotechnology ventures have been created as knowledge about a possible cure continues to grow. Some process needs are more easily addressed. Decades ago, a variety of inventors developed technology that led to the creation of ATMs in the late 1960s.[26] As customers became more comfortable with self-service banking, ATMs became ubiquitous. Later, the Internet gave way to full-service, online banking.
4. *Industry and market structures.* When changes in technology change the structure of an industry and market, existing firms can become obsolete if they're not attuned to the changes or are unwilling to change. Even changes in social values and consumer tastes can shift the structures of industries and markets. These markets and industries become open targets for nimble and smart entrepreneurs. For instance, while working part-time at an auto body shop while finishing his engineering graduate degree, Joe Born wondered if the industrial paint buffer used to smooth out a car's paint job could be used to smooth out scratches on CDs. He tried it out on his favorite Clint Black CD that had been ruined, and the newly polished CD played flawlessly. After this experience, Born spent almost four years perfecting his disc repair kit invention, the SkipDr.[27] The arena of the Internet provides several good examples of existing industries and markets being challenged by upstart entrepreneurial ventures. For instance, eBay has prospered as an online intermediary between buyers and sellers. eBay's CEO says that the company's job is connecting people, not selling them things. And connect them, they do! The online auction firm has more than 160 million active users.[28]
5. *Demographics.* The characteristics of the world population are changing. These changes influence industries and markets by altering the types and quantities of products and services desired and customers' buying power. Although many of these changes are fairly predictable if you stay alert to demographic trends, others aren't as obvious. Either way, significant entrepreneurial opportunities can be realized by anticipating and meeting the changing needs of the population. For example, WebMD has been successful partly because it anticipated the needs of the aging population. WebMD publishes news and information about human health and well-being for health care providers and consumers. Pharmaceutical companies also recognize the importance of demographic trends, which has led to substantial advertising on WebMD.[29]
6. *Changes in perception.* Perception is one's view of reality. When changes in perception take place, the facts do not vary, but their meanings do. Changes in perception get at the heart of people's psychographic profiles—what they value, what they believe in, and what they care about. Changes in these attitudes and values create potential market opportunities for alert entrepreneurs. For example, think about your perception of healthy foods. Changes in our perception of whether certain food groups are good has brought about product and service opportunities for entrepreneurs to recognize and capture. For instance, John

Mackey started Whole Foods Market in Austin, Texas, as a place for customers to purchase food and other items free of pesticides, preservatives, sweeteners, and cruelty. Now, as the world's number one natural foods chain, Mackey's entrepreneurial venture consists of about 275 stores in the United States, Canada, and the United Kingdom.[30] Airbnb cofounders Brian Chesky, Nathan Blecharczyk, and Joe Gebbia changed the perception that short-term home and apartment rentals to strangers is a bad idea. Brian Chesky said "It's about people and experiences. At the end of the day, what we're trying to do is bring the world together. You're not getting a room, you're getting a sense of belonging."[31] In a few short years, the company began generating billions of dollars in revenue.

7. *New knowledge.* New knowledge is a significant source of entrepreneurial opportunity. Although not all knowledge-based innovations are significant, new knowledge ranks pretty high on the list of sources of entrepreneurial opportunity! It takes more than just having new knowledge, though. Entrepreneurs must be able to do something with that knowledge and to protect important proprietary information from competitors. For example, French scientists are using new knowledge about textiles to develop a wide array of innovative products to keep wearers healthy and smelling good. Neyret, the Parisian lingerie maker, created lingerie products woven with tiny perfume microcapsules that stay in the fabric through about ten washings. Another French company, Francital, developed a fabric treated with chemicals to absorb perspiration and odors.[32]

Being alert to entrepreneurial opportunities is only part of an entrepreneur's initial efforts. He or she must also understand competitive advantage. As we discussed in Chapter 9, when an organization has a competitive advantage, it has something that other competitors don't; does something better than other organizations; or does something that others can't. Competitive advantage is a necessary ingredient for an entrepreneurial venture's long-term success and survival. Getting and keeping a competitive advantage is tough. However, it is something that entrepreneurs must consider as they begin researching the venture's feasibility.

FYI

Where entrepreneurs said their idea for a business came from:[34]

- 34.3 percent said sudden insight/chance
- 23.5 percent said following a passion
- 11.8 percent said a suggestion or collaboration
- 11.8 percent said somebody else's product or service
- 10.8 percent said market research
- 7.8 percent said "other"

Researching the Venture's Feasibility—Ideas

On a trip to New York, Miho Inagi got her first taste of the city's delicious bagels. After her palate-expanding experience, she had the idea of bringing bagels to Japan. Five years after her first trip to New York and a subsequent apprenticeship at a New York bagel business, Miho opened Maruichi Bagel in Tokyo. After a struggle to get the store up and running, it now has a loyal following of customers.[33]

It's important for entrepreneurs to research the venture's feasibility by generating and evaluating business ideas. Entrepreneurial ventures thrive on ideas. Generating ideas is an innovative, creative process. It's also one that will take time, not only in the beginning stages of the entrepreneurial venture, but throughout the life of the business. Where do ideas come from?

Dissatisfaction with current mops on the market that were difficult to rinse and ineffective in absorbing messes was the source of Joy Mangano's entrepreneurial venture. To make mopping floors easier and more effective, Mangano developed Miracle Mop, a durable cotton product with an easy-to-use wringing mechanism.
Source: John Lamparski/WireImage/Getty Images

GENERATING IDEAS As this data shows, entrepreneurs cite unique and varied sources for their ideas. Another survey found that "working in the same industry" was the major source of ideas for an entrepreneurial venture (60 percent of respondents).[35] Other sources cited in this survey included personal interests or hobbies, looking at familiar and unfamiliar products and services, and opportunities in external environmental sectors (technological, sociocultural, demographics, economic, or legal-political).

What should entrepreneurs look for as they explore these idea sources? They should look for limitations of what's currently available, new and different approaches, advances and breakthroughs, unfilled niches, or trends and changes. For example, Joy let's get REAL

Source: Whitney Portman

The Scenario:

Nick Rossi is excited to start working on his business plan to pursue his dream of opening a music store. He plans to sell mostly guitars, but thinks he should also sell some percussion instruments and a wide variety of accessories. However, he still has some research to do on the feasibility of his ideas. His competition is one area that he needs to explore further.

Whitney Portman
Senior Marketing Communications Manager

What should Nick learn about his competitors?

Learning about your competitive set is a key component to the success of your business plan. First, start with researching direct competitors, then expand to indirect competitors, either in close geographical proximity or online. How long have they been in business? What did they start out selling and how have they expanded? What's been the biggest contributors to their success and failures? You can learn a lot from those that have come before you. Then you should also consider future competitors: Are there any innovations on the horizon that would threaten your business plan? How can you safeguard against them? The goal is to determine where the unmet need is in the marketplace. What are customers looking for that the current competitive landscape does not offer? Once you can answer that question, you've identified your opportunity.

Mangano, creator of the Miracle Mop, wanted to make mopping floors easier. She came up with the idea of a loop construction of the mop head fibers and a twisting wringing mechanism to keep hands out of the dirty water. The Miracle Mop became an instant success, selling more than 18,000 units in less than 30 minutes when introduced on TV shopping network QVC.[36]

EVALUATING IDEAS Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. Each of these assessments will provide an entrepreneur with key information about the idea's potential. Exhibit 10-1 describes some questions that entrepreneurs might ask as they evaluate potential ideas.

Exhibit 10-1
Evaluating Potential Ideas

Personal Considerations	Marketplace Considerations
• Do you have the capabilities to do what you've selected? • Are you ready to be an entrepreneur? • Are you prepared emotionally to deal with the stresses and challenges of being an entrepreneur? • Are you prepared to deal with rejection and failure? • Are you ready to work hard? • Do you have a realistic picture of the venture's potential? • Have you educated yourself about financing issues? • Are you willing and prepared to do continual financial and other types of analyses?	• Who are the potential customers for your idea: who, where, how many? • What similar or unique product features does your proposed idea have compared to what's currently on the market? • How and where will potential customers purchase your product? • Have you considered pricing issues and whether the price you'll be able to charge will allow your venture to survive and prosper? • Have you considered how you will need to promote and advertise your proposed entrepreneurial venture?

Exhibit 10-2
Feasibility Study

A. Introduction, historical background, description of product or service
1. Brief description of proposed entrepreneurial venture
2. Brief history of the industry
3. Information about the economy and important trends
4. Current status of the product or service
5. How you intend to produce the product or service
6. Complete list of goods or services to be provided
7. Strengths and weaknesses of the business
8. Ease of entry into the industry, including competitor analysis

B. Accounting considerations
1. Pro forma balance sheet
2. Pro forma profit and loss statement
3. Projected cash flow analysis

C. Management considerations
1. Personal expertise—strengths and weaknesses
2. Proposed organizational design
3. Potential staffing requirements
4. Inventory management methods
5. Production and operations management issues
6. Equipment needs

D. Marketing considerations
1. Detailed product description
2. Identify target market (who, where, how many)
3. Describe place product will be distributed (location, traffic, size, channels, etc.)
4. Price determination (competition, price lists, etc.)
5. Promotion plans (role of personal selling, advertising, sales promotion, etc.)

E. Financial considerations
1. Start-up costs
2. Working capital requirements
3. Equity requirements
4. Loans—amounts, type, conditions
5. Breakeven analysis
6. Collateral
7. Credit references
8. Equipment and building financing—costs and methods

F. Legal considerations
1. Proposed business structure (type; conditions, terms, liability, responsibility; insurance needs; buyout and succession issues)
2. Contracts, licenses, and other legal documents

G. Tax considerations: sales/property/employee; federal, state, and local

H. Appendix: charts/graphs, diagrams, layouts, résumés, etc.

A more structured evaluation approach that an entrepreneur might want to use is a **feasibility study**—an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility. Not only is a well-prepared feasibility study an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one, it also can serve as a basis for the all-important business plan.

feasibility study
An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

A feasibility study should give descriptions of the most important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of these elements. Exhibit 10-2 provides an outline of a possible approach to a feasibility study. Yes, it covers a lot of territory and takes a significant amount of time, energy, and effort to prepare it. However, an entrepreneur's potential future success is worth that investment.

Researching the Venture's Feasibility—Competitors

Part of researching the venture's feasibility is looking at the competitors. What would entrepreneurs like to know about their potential competitors? Here are some possible questions:

What types of products or services are competitors offering?
What are the major characteristics of these products or services?
What are their products' strengths and weaknesses?
How do they handle marketing, pricing, and distribution?
What do they attempt to do differently from other competitors?
Do they appear to be successful at it? Why or why not?
What are they good at?
What competitive advantage(s) do they appear to have?
What are they not so good at?
What competitive disadvantage(s) do they appear to have?
How large and profitable are these competitors?

For instance, the CEO of The Children's Place carefully examined the competition as he took his chain of children's clothing stores nationwide. Although he faces stiff competition from the likes of GapKids, JCPenney, and Gymboree, he feels that his company's approach to manufacturing and marketing will give it a competitive edge.[37]

Once an entrepreneur has this information, he or she should assess how the proposed entrepreneurial venture is going to "fit" into this competitive arena. Will the entrepreneurial venture be able to compete successfully? This type of competitor analysis becomes an important part of the feasibility study and the business plan. If, after all this analysis, the situation looks promising, the final part of researching the venture's feasibility is to look at the various financing options. This step isn't the final determination of how much funding the venture will need or where this funding will come from but is simply gathering information about various financing alternatives.

Researching the Venture's Feasibility—Financing

Getting financing isn't always easy. For instance, Matthew Griffin, cofounder of Baker's Edge, funded his company with personal savings and a business line of credit. Griffin recalls: "What we experienced is that outside investment takes notice only after you have considerable traction. Ironically, we only had offers after we didn't need the start-up money."[38]

Because funds likely will be needed to start the venture, an entrepreneur must research the various financing options. Possible financing options available to entrepreneurs are shown in Exhibit 10-3.

Try It! If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Simulation: *Entrepreneurship*.

Exhibit 10-3
Possible Financing Options

- Entrepreneur's personal resources (personal savings, home equity, personal loans, credit cards, etc.)
- Financial institutions (banks, savings and loan institutions, government-guaranteed loan, credit unions, etc.)
- **Venture capitalists**—external equity financing provided by professionally managed pools of investor money
- **Angel investors**—a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
- **Initial public offering (IPO)**—the first public registration and sale of a company's stock
- National, state, and local governmental business development programs
- Unusual sources (television shows, judged competitions, crowdfunding, etc.)

venture capitalists
External equity financing provided by professionally managed pools of investor money

angel investors
A private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture

initial public offering (IPO)
The first public registration and sale of a company's stock

Developing a Business Plan

Planning is also important to entrepreneurial ventures. Once the venture's feasibility has been thoroughly researched, the entrepreneur then must look at planning the venture. The most important thing that an entrepreneur does in planning the venture is developing a **business plan**—a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited.

business plan
A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

For many would-be entrepreneurs, developing and writing a business plan seems like a daunting task. However, a good business plan is valuable. It pulls together all of the elements of the entrepreneur's vision into a single coherent document. The business plan requires careful planning and creative thinking. But if done well, it can be a convincing document that serves many functions. It serves as a blueprint and road map for operating the business. And the business plan is a "living" document, guiding organizational decisions and actions throughout the life of the business, not just in the start-up stage.

If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six major areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

EXECUTIVE SUMMARY The executive summary summarizes the key points that the entrepreneur wants to make about the proposed entrepreneurial venture. These points might include a brief mission statement; primary goals; brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; nature of the business; concise product or service descriptions; brief explanations of market niche, competitors, and competitive advantage; proposed strategies; and selected key financial information.

ANALYSIS OF OPPORTUNITY In this section of the business plan, an entrepreneur presents the details of the perceived opportunity. Essentially, details include (1) sizing up the market by describing the demographics of the target market, (2) describing and evaluating industry trends, and (3) identifying and evaluating competitors.

ANALYSIS OF THE CONTEXT Whereas the opportunity analysis focuses on the opportunity in a specific industry and market, the context analysis takes a much broader perspective. Here, the entrepreneur describes the broad external changes and trends taking place in the economic, political-legal, technological, and global environments.

DESCRIPTION OF THE BUSINESS In this section, an entrepreneur describes how the entrepreneurial venture is going to be organized, launched, and managed. It includes a thorough description of the mission statement; a description of the desired organizational culture; marketing plans including overall marketing strategy, pricing, sales tactics, service-warranty policies, and advertising and promotion tactics; product development plans such as an explanation of development status, tasks, difficulties and risks, and anticipated costs; operational plans including a description of proposed geographic location, facilities and needed improvements, equipment, and work flow; human resource plans including a description of key management persons, composition of board of directors, including their background experience and skills, current and future staffing needs, compensation and benefits, and training needs; and an overall schedule and timetable of events.

FINANCIAL DATA AND PROJECTIONS Every effective business plan contains financial data and projections. Although the calculations and interpretation may be difficult, they are absolutely critical. No business plan is complete without financial information. Financial plans should cover at least three years and contain projected income statements, pro forma cash flow analysis (monthly for the first year and quarterly for the next two), pro forma balance sheets, breakeven analysis, and cost controls. If major equipment or other capital purchases are expected, the items, costs, and available collateral should be listed. All financial projections and analyses should include explanatory notes, especially where the data seem contradictory or questionable.

SUPPORTING DOCUMENTATION For this important component of an effective business plan, the entrepreneur should back up his or her descriptions with charts, graphs, tables, photographs, or other visual tools. In addition, it might be important to include information (personal and work-related) about the key participants in the entrepreneurial venture.

Just as the idea for an entrepreneurial venture takes time to germinate, so does the writing of a good business plan. It's important for the entrepreneur to put serious thought and consideration into the plan. It's not an easy thing to do. However, the resulting document should be valuable to the entrepreneur in current and future planning efforts.

The Sharing Economy

Have you ever wanted the companionship of a dog, but because you don't have the time or money to keep one, you "rent" one every weekend? Have you ever rented someone else's bike? Answering yes to either question probably means that you have participated in the sharing economy.

sharing economy
Business arrangements that are based on people sharing something they own or providing a service for a fee

The **sharing economy** refers to business arrangements that are based on people sharing something they own or providing a service for a fee. Airbnb (described earlier in the chapter), Bark'N'Borrow, TaskRabbit, and Liquidity are examples of businesses that operate in the sharing economy. You can say that many of those businesses are

let's get REAL

Source: Matt O'Rourke

Matt O'Rourke
Supply Chain Engineer

The Scenario:

Isabella Sanchez is excited about her idea for a new business on campus. She wants to start a car-sharing business where students who own cars can connect with students who are willing to pay a fee to borrow the car. She came up with the idea after a friend who just was hired for an internship asked her if she knew anyone with a car that he could borrow to get to his new job. Isabella knows many students who have cars who don't need them every day and could also use a little extra money. Her business idea is to make the matches and make money by charging a small percentage of the "rental" fee. It seems like it would work, but she isn't sure if it can make enough money to make it worth her time.

How can Isabella evaluate the feasibility of her idea?

An important first step would be to gauge her idea through market research. How many students are looking to rent cars, and how often? Are the students with cars willing to rent them out on an as-needed basis? A business won't be successful without a solid group of customers. She could also consider conducting a trial of the new service with a small team of people. This would help her gain valuable insight and feedback to understand the feasibility and potential success of her idea.

entrepreneurial ventures because they offer consumers desirable alternatives to conventional options. For instance, Bark'N'Borrow has an app that enables pet lovers to share their dogs with other animal lovers.[39] Liquidity is a bike-sharing service. While some of these businesses are recent start-ups (Bark'N'Borrow), established businesses (Airbnb) are thriving. In Airbnb's case, many people prefer to rent a room in a stranger's house because it is a less expensive alternative to staying in a hotel.

If your professor has assigned this, go to **www.mymanagementlab.com** to watch a video titled: *Our Labor of Love* and to respond to questions.

Watch It 1!

ORGANIZING issues

LO10.3 Roy Ng, chief operating officer of Twilio in San Francisco, California, redesigned his organization's structure by transforming it into an employee-empowered company. He wanted to drive authority down through the organization so employees were responsible for their own efforts. One way he did this was by creating employee teams to handle specific projects. He says, "Small teams allow for autonomy, rapid experimentation and innovation. Small teams have enabled Twilio's ability to grow and scale, and at the same time maintain the same level of passion, hunger, resourcefulness and productivity our founding team had on day one."[40]

Once the start-up and planning issues for the entrepreneurial venture have been addressed, the entrepreneur is ready to begin organizing the entrepreneurial venture. Then, the entrepreneur must address five organizing issues: the legal forms of organization, organizational design and structure, human resource management, stimulating and making changes, and the continuing importance of innovation.

Legal Forms of Organization

The first organizing decision that an entrepreneur must make is a critical one. It's the form of legal ownership for the venture. The two primary factors affecting this decision are taxes and legal liability. An entrepreneur wants to minimize the impact of both of these factors. The right choice can protect the entrepreneur from legal liability as well as save tax dollars, in both the short run and the long run.

What alternatives are available? The three basic ways to organize an entrepreneurial venture are sole proprietorship, partnership, and corporation. However, when you include the variations of these basic organizational alternatives, you end up with six possible choices, each with its own tax consequences, liability issues, and pros and cons. These six choices are sole proprietorship, general partnership, limited liability partnership (LLP), C corporation, S corporation, and limited liability company (LLC). Let's briefly look at each one with their advantages and drawbacks. (Exhibit 10-4 summarizes the basic information about each organizational alternative.)

SOLE PROPRIETORSHIP A **sole proprietorship** is a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts. The legal requirements for establishing a sole proprietorship consist of obtaining the necessary local business licenses and permits. In a sole proprietorship, income and losses "pass through" to the owner and are taxed at the owner's personal income tax rate. The biggest drawback, however, is the unlimited personal liability for any and all debts of the business.

sole proprietorship
A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts

GENERAL PARTNERSHIP A **general partnership** is a form of legal organization in which two or more business owners share the management and risk of the business. Even though a partnership is possible without a written agreement, the potential and inevitable problems that arise in any partnership make a written partnership agreement drafted by legal counsel a highly recommended thing to do.

general partnership
A form of legal organization in which two or more business owners share the management and risk of the business

Exhibit 10-4
Legal Forms of Business Organization

Structure	Ownership Requirements	Tax Treatment	Liability	Advantages	Drawbacks
Sole proprietorship	One owner	Income and losses "pass through" to owner and are taxed at personal rate	Unlimited personal liability	*Low start-up costs* Freedom from most regulations *Owner has direct control* All profits go to owner *Easy to exit business*	Unlimited personal liability *Personal finances at risk* Miss out on many business tax deductions *Total responsibility* May be more difficult to raise financing
General partnership	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Unlimited personal liability	*Ease of formation* Pooled talent *Pooled resources* Somewhat easier access to financing *Some tax benefits*	*Unlimited personal liability* Divided authority and decisions *Potential for conflict* Continuity of transfer of ownership
Limited liability partnership (LLP)	Two or more owners	Income and losses "pass through" to partner and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited, although one partner must retain unlimited liability	Good way to acquire capital from limited partners	*Cost and complexity of forming can be high* Limited partners cannot participate in management of business without losing liability protection
C corporation	Unlimited number of shareholders; *no limits on types of stock or voting arrangements*	Dividend income is taxed at corporate and personal shareholder levels; *losses and deductions are corporate*	Limited	*Limited liability* Transferable ownership *Continuous existence* Easier access to resources	*Expensive to set up* Closely regulated *Double taxation* Extensive record keeping *Charter restrictions*
S corporation	Up to 75 shareholders; *no limits on types of stock or voting arrangements*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocation to partners*	Limited	*Easy to set up* Enjoy limited liability protection and tax benefits of partnership *Can have a tax-exempt entity as a shareholder*	Must meet certain requirements *May limit future financing options*
Limited liability company (LLC)	Unlimited number of "members"; *flexible membership arrangements for voting rights and income*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited	Greater flexibility Not constrained by regulations on C and S corporations *Taxed as partnership, not as corporation*	Cost of switching from one form to this can be high *Need legal and financial advice in forming operating agreement*

LIMITED LIABILITY PARTNERSHIP (LLP) The **limited liability partnership (LLP)** is a legal organization formed by general partner(s) and limited partner(s). The general partners actually operate and manage the business. They are the ones who have unlimited liability. At least one general partner is necessary in an LLP, but any number of limited partners are allowed. These partners are usually passive investors, although they can make management suggestions to the general partners. They also have the right to inspect the business and make copies of business records. The limited partners are entitled to a share of the business's profits as agreed to in the partnership agreement, and their risk is limited to the amount of their investment in the LLP.

limited liability partnership (LLP)
A form of legal organization consisting of general partner(s) and limited liability partner(s)

C CORPORATION Of the three basic types of ownership, the corporation (also known as a C corporation) is the most complex to form and operate. A **corporation** is a legal business entity that is separate from its owners and managers. Many entrepreneurial ventures are organized as a **closely held corporation**, which, very simply, is a corporation owned by a limited number of people who do not trade the stock publicly. Whereas the sole proprietorship and partnership forms of organization do not exist separately from the entrepreneur, the corporation does. The corporation functions as a distinct legal entity and, as such, can make contracts, engage in business activities, own property, sue and be sued, and of course, pay taxes. A corporation must operate in accordance with its charter and the laws of the state in which it operates.

corporation
A legal business entity that is separate from its owners and managers

closely held corporation
A corporation owned by a limited number of people who do not trade the stock publicly

S CORPORATION The **S corporation** (also called a subchapter S corporation) is a specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met. The S corporation has been the classic organizing approach for getting the limited liability of a corporate structure without incurring corporate tax. However, this form of legal organization must meet strict criteria. If any of these criteria are violated, a venture's S status is automatically terminated.

S corporation
A specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met

LIMITED LIABILITY COMPANY (LLC) The **limited liability company (LLC)** is a relatively new form of business organization that's a hybrid between a partnership and a corporation. The LLC offers the liability protection of a corporation, the tax benefits of a partnership, and fewer restrictions than an S corporation. However, the main drawback of this approach is that it's quite complex and expensive to set up. Legal and financial advice is an absolute necessity in forming the LLC's **operating agreement**, the document that outlines the provisions governing the way the LLC will conduct business.

limited liability company (LLC)
A form of legal organization that's a hybrid between a partnership and a corporation

operating agreement
The document that outlines the provisions governing the way an LLC will conduct business

SUMMARY OF LEGAL FORMS OF ORGANIZATION The organizing decision regarding the legal form of organization is an important one because it can have significant tax and liability consequences. Although the legal form of organization can be changed, it's not an easy thing to do. An entrepreneur needs to think carefully about what's important, especially in the areas of flexibility, taxes, and amount of personal liability in choosing the best form of organization.

Organizational Design and Structure

The choice of an appropriate organizational structure is also an important decision when organizing an entrepreneurial venture. At some point, successful entrepreneurs find that they can't do everything alone. More people are needed. The entrepreneur must then decide on the most appropriate structural arrangement for effectively and efficiently carrying out the organization's activities. Without some suitable type of organizational structure, the entrepreneurial venture may soon find itself in a chaotic situation.

In many small firms, the organizational structure tends to evolve with little intentional or deliberate planning by the entrepreneur. For the most part, the structure may be simple—one person does whatever is needed. As the entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, employees are brought on board to perform certain functions or duties that the entrepreneur can't handle. These individuals tend to perform those same functions as the company grows. Then, as the entrepreneurial venture continues to grow, each of these functional areas may require managers and employees.

With the evolution to a more deliberate structure, the entrepreneur faces a whole new set of challenges. All of a sudden, he or she must share decision making and operating responsibilities. This transition is typically one of the most difficult things for an entrepreneur to do—letting go and allowing someone else to make decisions. *After all*, he or she reasons, *how can anyone know this business as well as I do*? Also, what might have been a fairly informal, loose, and flexible atmosphere that worked well when the organization was small may no longer be effective. Many entrepreneurs are greatly concerned about keeping that "small company" atmosphere alive even as the venture grows and evolves into a more structured arrangement. But having a structured organization doesn't necessarily mean giving up flexibility, adaptability, and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

Organizational design decisions in entrepreneurial ventures revolve around the six key elements of organizational structure discussed in Chapter 11: work specialization, departmentalization, chain of command, span of control, amount of centralization-decentralization, and amount of formalization. Decisions about these six elements will determine whether an entrepreneur designs a more mechanistic or organic organizational structure (concepts also discussed in Chapter 11). When would each be preferable? A mechanistic structure would be preferable when cost efficiencies are critical to the venture's competitive advantage, when more control over employees' work activities is important, if the venture produces standardized products in a routine fashion, and when the external environment is relatively stable and certain. An organic structure would be most appropriate when innovation is critical to the organization's competitive advantage; for smaller organizations where rigid approaches to dividing and coordinating work aren't necessary; if the organization produces customized products in a flexible setting; and where the external environment is dynamic, complex, and uncertain.

Human Resource Management

As an entrepreneurial venture grows, additional employees will need to be hired to perform the increased workload. As employees are brought on board, the entrepreneur faces certain human resource management (HRM) issues. Two HRM issues of particular importance to entrepreneurs are employee recruitment and employee retention.

EMPLOYEE RECRUITMENT An entrepreneur wants to ensure that the venture has the people to do the required work. Recruiting new employees is one of the biggest challenges that entrepreneurs face. In fact, the ability of small firms to successfully recruit appropriate employees is consistently rated as one of the most important factors influencing organizational success.

Entrepreneurs, particularly, are looking for high-potential people who can perform multiple roles during various stages of venture growth. They look for individuals who "buy into" the venture's entrepreneurial culture—individuals who have a passion for the business. Unlike their corporate counterparts who often focus on filling a job by matching a person to the job requirements, entrepreneurs look to fill in critical skills gaps. They're looking for people who are exceptionally capable and self-motivated, flexible, multiskilled, and who can help grow the entrepreneurial venture.[41] While corporate managers tend to focus on using traditional HRM practices and techniques, entrepreneurs are more concerned with matching characteristics of the person to the values and culture of the organization; that is, they focus on matching the person to the organization.

EMPLOYEE RETENTION Getting competent and qualified people into the venture is just the first step in effectively managing the human resources. An entrepreneur wants to keep the people he or she has hired and trained. Founder and CEO Scott Signore of Matter Communications, a public relations agency based in Newburyport, Massachusetts, understands the importance of having good people on board and keeping them. Signore says: "There's a lot of credit to share amongst our team for embracing a healthy, energetic, fun culture that sets us apart as a PR agency."[42] For instance, one of the benefits is "Summer Fridays," which includes a beer keg on tap in the kitchen and an early closing time. Its fun culture has helped land the company a spot on the *Boston Globe's* Top Places to Work list for three years in a row. Katie Johnston, *Boston Globe* workplace reporter, said: "The winning companies have developed innovative ways to engage and motivate their workers, which often serves as a key factor in innovation and leads to better professional performance."[43] This type of HRM approach helps keep employees loyal and productive.

A unique and important employee retention issue entrepreneurs must deal with is compensation. Whereas traditional organizations are more likely to view compensation from the perspective of monetary rewards (base pay, benefits, and incentives), smaller entrepreneurial firms are more likely to view compensation from a total rewards perspective. For these firms, compensation encompasses psychological rewards, learning opportunities, and recognition in addition to monetary rewards (base pay and incentives).[44]

Initiating Change

We know that the context facing entrepreneurs is one of dynamic change. Both external and internal forces (see Chapter 6) may bring about the need for making changes in the entrepreneurial venture. Entrepreneurs need to be alert to problems and opportunities that may create the need to change. In fact, of the many hats an entrepreneur wears, that of change agent may be one of the most important.[45] If changes are needed in the entrepreneurial venture, often it is the entrepreneur who first recognizes the need for change and acts as the catalyst, coach, cheerleader, and chief change consultant. Change isn't easy in any organization, but it can be particularly challenging for entrepreneurial ventures. Even if a person is comfortable with taking risks—as entrepreneurs usually are—change can be hard. That's why it's important for an entrepreneur to recognize the critical role he or she plays in stimulating and implementing change. For instance, Jayna Cooke, CEO of Chicago-based Eventup, is well aware of the important role she plays in stimulating and implementing changes. As the leading online tool for matching event planners with venues, Cooke had to continually look for ways to keep her company competitive. The company's business model was not working, and it needed to be fixed before the company went out of business. Cooke says being competitive means "being agile, . . . figuring out where we needed to go from there without being rigid and stuck in our old ways, because being rigid leads to problems."[46] One change was simplifying the fee structure.

During any type of organizational change, an entrepreneur also may have to act as chief coach and cheerleader. Because organizational change of any type can be disruptive and scary, the entrepreneur must explain the change to employees and encourage change efforts by supporting employees, getting them excited about the change, building them up, and motivating them to put forth their best efforts.

Finally, the entrepreneur may have to guide the actual change process as changes in strategy, technology, products, structure, or people are implemented. In this role, the entrepreneur answers questions, makes suggestions, gets needed resources, facilitates conflict, and does whatever else is necessary to get the change(s) implemented.

The Importance of Continuing Innovation

In today's dynamically chaotic world of global competition, organizations must continually innovate new products and services if they want to compete successfully. Innovation is a key characteristic of entrepreneurial ventures and, in fact, it's what makes the entrepreneurial venture "entrepreneurial."

What must an entrepreneur do to encourage innovation in the venture? Having an innovation-supportive culture is crucial. What does such a culture look like?[47] It's one in which employees perceive that supervisory support and organizational reward systems are consistent with a commitment to innovation. It's also important in this type of culture that employees not perceive their workload pressures to be excessive or unreasonable. And research has shown that firms with cultures supportive of innovation tend to be smaller, have fewer formalized human resource practices, and have less abundant resources.[48]

LEADING issues

LO10.4 The employees at the software firm ClearCompany have to be flexible. Everyone is expected to contribute ideas. CEO and cofounder Andre Lavoie said: "One way to give employees more [creative] freedom over how they work is to shift the focus from to-do lists and deadlines to goals and objectives—quantity to quality." In return, Lavoie is a supportive leader who gives his employees considerable latitude.[49]

Leading is an important function of entrepreneurs. As an entrepreneurial venture grows and people are brought on board, an entrepreneur takes on a new role—that of a leader. In this section, we want to look at what's involved with the leading function. First, we're going to look at the unique personality characteristics of entrepreneurs. Then we're going to discuss the important role entrepreneurs play in motivating employees through empowerment and leading the venture and employee teams.

Personality Characteristics of Entrepreneurs

Think of someone you know who is an entrepreneur. Maybe it's someone you personally know, or maybe it's someone like Bill Gates of Microsoft. How would you describe this person's personality? One of the most researched areas of entrepreneurship has been the search to determine what—if any—psychological characteristics entrepreneurs have in common, what types of personality traits entrepreneurs have that might distinguish them from nonentrepreneurs, and what traits entrepreneurs have that might predict who will be a successful entrepreneur.

Is there a classic "entrepreneurial personality"? Trying to pinpoint specific personality characteristics that all entrepreneurs share presents the same problem as identifying the trait theories of leadership—that is, being able to identify specific personality traits that *all* entrepreneurs share. This challenge hasn't stopped entrepreneurship researchers from listing common traits, however. For instance, one list of personality characteristics included the following: high level of motivation, abundance of self-confidence, ability to be involved for the long term, high energy level, persistent problem solver, high degree of initiative, ability to set goals, and moderate risk-taker. Another list of characteristics of "successful" entrepreneurs included high energy level, great persistence, resourcefulness, the desire and ability to be self-directed, and relatively high need for autonomy.

Another development in defining entrepreneurial personality characteristics was the proactive personality scale to predict an individual's likelihood of pursuing entrepreneurial ventures. We introduce the proactive personality trait in Chapter 15. A **proactive personality** is a trait of individuals who are more prone to take actions to influence their environment—that is, they're more proactive. Obviously, an entrepreneur is likely to exhibit proactivity as he or she searches for opportunities and acts to take advantage of those opportunities. Various items on the proactive personality scale were found to be good indicators of a person's likelihood of becoming

proactive personality
A personality trait that describes individuals who are more prone to take actions to influence their environments

an entrepreneur, including gender, education, having an entrepreneurial parent, and possessing a proactive personality. In addition, studies have shown that entrepreneurs have greater risk propensity than do managers. However, this propensity is moderated by the entrepreneur's primary goal. Risk propensity is greater for entrepreneurs whose primary goal is growth versus those whose focus is on producing family income.

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

Watch It 2!

Motivating Employees Through Empowerment

At Sapient Corporation (creators of Internet and software systems for e-commerce and automating back-office tasks such as billing and inventory), cofounders Jerry Greenberg and J. Stuart Moore recognized that employee motivation was vitally important to their company's ultimate success.[50] They designed their organization so individual employees are part of an industry-specific team that works on an entire project rather than on one small piece of it. Their rationale was that people often feel frustrated when they're doing a small part of a job and never get to see the whole job from start to finish. They figured people would be more productive if they got the opportunity to participate in all phases of a project.

When you're motivated to do something, don't you find yourself energized and willing to work hard at doing whatever it is you're excited about? Wouldn't it be great if all of a venture's employees were energized, excited, and willing to work hard at their jobs? Having motivated employees is an important goal for any entrepreneur, and employee empowerment is an important motivational tool entrepreneurs can use.

Although it's not easy for entrepreneurs to do, employee empowerment—giving employees the power to make decisions and take actions on their own—is an important motivational approach. Why? Because successful entrepreneurial ventures must be quick and nimble, ready to pursue opportunities and go off in new directions. Empowered employees can provide that flexibility and speed. When employees are empowered, they often display stronger work motivation, better work quality, higher job satisfaction, and lower turnover.

For example, employees at Butler International, Inc., a technology consulting services firm based in Montvale, New Jersey, work at client locations. President and CEO Ed Kopko recognized that employees had to be empowered to do their jobs if they were going to be successful.[51] Another entrepreneurial venture that found employee empowerment to be a strong motivational approach is Stryker Instruments in Kalamazoo, Michigan, a division of Stryker Corporation. Each of the company's production units is responsible for its operating budget, cost reduction goals, customer-service levels, inventory management, training, production planning and forecasting, purchasing, human resource management, safety, and problem solving. In addition, unit members work closely with marketing, sales, and R&D during new product introductions and continuous improvement projects. Says one team supervisor, "Stryker lets me do what I do best and rewards me for that privilege."[52]

Empowerment is a philosophical concept that entrepreneurs have to "buy into." This doesn't come easily. In fact, it's hard for many entrepreneurs to do. Their life is tied up in the business. They've built it from the ground up. But continuing to grow the entrepreneurial venture is eventually going to require handing over more responsibilities to employees. How can entrepreneurs empower employees? For many entrepreneurs, it's a gradual process.

Entrepreneurs can begin by using participative decision making in which employees provide input into decisions. Although getting employees to participate in decisions isn't quite taking the full plunge into employee empowerment, at least it's a way to begin tapping into the collective array of employees' talents, skills, knowledge, and abilities.

Recognized worldwide for its outstanding customer service, the Ritz-Carlton Hotel Company gives employees empowerment training that teaches them how to anticipate guest needs and provide service that ensures complete guest satisfaction. The hotelier involves employees in planning their work and in identifying and resolving problems.
Source: Toshifumi Kitamura/Getty Images

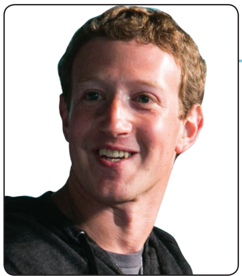
Another way to empower employees is through delegation—the process of assigning certain decisions or specific job duties to employees. By delegating decisions and duties, the entrepreneur is turning over the responsibility for carrying them out.

When an entrepreneur is finally comfortable with the idea of employee empowerment, fully empowering employees means redesigning their jobs so they have discretion over the way they do their work. It's allowing employees to do their work effectively and efficiently by using their creativity, imagination, knowledge, and skills.

If an entrepreneur implements employee empowerment properly—that is, with complete and total commitment to the program and with appropriate employee training—results can be impressive for the entrepreneurial venture and for the empowered employees. The business can enjoy significant productivity gains, quality improvements, more satisfied customers, increased employee motivation, and improved morale. Employees can enjoy the opportunities to do a greater variety of work that is more interesting and challenging.

In addition, employees are encouraged to take the initiative in identifying and solving problems and doing their work. For example, the Ritz-Carlton hotel invests heavily in empowerment training. It starts with teaching employees about the Customer Loyalty Anticipation Satisfaction System, which is designed to fulfill "even the unexpressed wishes and needs of our guests."[53] The Ritz Carton is serious about customer satisfaction. Most employees have the authority to spend up to $2,000 each day per guest to resolve any complaint.

LEADER making a DIFFERENCE



Source: Kristoffer Tripplaar / Alamy

With over a billion average daily users, Facebook has come a long way from an idea in ***Mark Zuckerberg's*** *college dorm room in 2004.*[54] *The Facebook founder took the title of CEO at just 19 years old and has grown the company to generate now more than $12 billion in annual revenue and employ more than 12,000 people.*

While Zuckerberg has made some mistakes along the way, he has learned from them and demonstrated a natural leadership ability that has made his company a success. He has a clear mission for the company that keeps employees focused on building systems that connect people. Zuckerberg has created what he calls a "hacker culture" that rewards creative problem solving and rapid decision making. He pays attention to the details, sometimes finding problems on Facebook before anyone else; and he keeps his coding skills sharp, often fixing problems himself. His employees say that he is inquisitive, persistent, and good at effectively deploying resources. Zuckerberg is demanding, but is also passionate about his work. He believes strongly in teamwork, relying on his executive team for support while still encouraging debate. His hard work has been rewarded. The initial public offering (IPO) of Facebook in 2012 made Zuckerberg the world's youngest self-made billionaire. What can you learn from this leader making a difference?

The Entrepreneur as Leader

The last topic we want to discuss in this section is the role of the entrepreneur as a leader. In this role, the entrepreneur has certain leadership responsibilities in leading the venture and in leading employee work teams.

LEADING THE VENTURE Today's successful entrepreneur must be like the leader of a jazz ensemble known for its improvisation, innovation, and creativity. Max DePree, former head of Herman Miller, Inc., a leading office furniture manufacturer known for its innovative leadership approaches, said it best in his book, *Leadership Jazz*. "Jazz band leaders must choose the music, find the right musicians, and perform—in public. But the effect of the performance depends on so many things—the environment, the volunteers playing in the band, the need for everybody to perform as individuals and as a group, the absolute dependence of the leader on the members of the band, the need for the followers to play well. . . . The leader of the jazz band has the beautiful opportunity to draw the best out of the other musicians. We have much to learn from jazz band leaders, for jazz, like leadership, combines the unpredictability of the future with the gifts of individuals."[55]

The way an entrepreneur leads the venture should be much like the jazz leader—drawing the best out of other individuals, even given the unpredictability of the situation. One way an entrepreneur leads is through the vision he or she creates for the organization. In fact, the driving force through the early stages of the entrepreneurial venture is often the visionary leadership of the entrepreneur. The entrepreneur's ability to articulate a coherent, inspiring, and attractive vision of the future is a key test of his or her leadership. But if an entrepreneur can articulate such a vision, the results can be worthwhile. A study contrasting visionary and nonvisionary companies showed that visionary companies outperformed the nonvisionary ones by six times on standard financial criteria, and their stocks outperformed the general market by 15 times.[56]

LEADING EMPLOYEE WORK TEAMS As we will show in Chapter 12, many organizations—entrepreneurial and otherwise—are using employee work teams to perform organizational tasks, create new ideas, and resolve problems.

Employee work teams tend to be popular in entrepreneurial ventures. An *Industry Week* Census of Manufacturers showed that nearly 68 percent of survey respondents used teams to varying degrees.[57] The three most common teams respondents said they used included empowered teams (teams that have the authority to plan and implement process improvements), self-directed teams (teams that are nearly autonomous and responsible for many managerial activities), and cross-functional teams (work teams composed of individuals from various specialties who work together on various tasks).

These entrepreneurs also said that developing and using teams is necessary because technology and market demands are forcing them to make their products faster, cheaper, and better. Tapping into the collective wisdom of the venture's employees and empowering them to make decisions just may be one of the best ways to adapt to change. In addition, a team culture can improve the overall workplace environment and morale.

For team efforts to work, however, entrepreneurs must shift from the traditional command-and-control style to a coach-and-collaboration style (refer to the discussion of team leadership in Chapter 16). Entrepreneurs must recognize that individual employees can understand the business and can innovate just as effectively as they can. For example, at Marque, Inc., of Goshen, Indiana, CEO Scott Jessup recognized that he wasn't the smartest guy in the company as far as production problems were concerned, but he was smart enough to realize that if he wanted his company to expand its market share in manufacturing medical-emergency-squad vehicles, new levels of productivity needed to be reached. He formed a cross-functional team—bringing together people from production, quality assurance, and fabrication—that could spot production bottlenecks and other problems and then gave the team the authority to resolve the constraints.[58]

CONTROL issues

LO10.5 Philip McCaleb still gets a kick out of riding the scooters his Chicago-based company, Genuine Scooter Co., makes. However, in building his business, McCaleb has had to acknowledge his own limitations. As a self-described "idea" guy, he knew that he would need someone else to come in and ensure that the end product was *what* it was supposed to be, *where* it was supposed to be, and *when* it was supposed to be there.[59]

Entrepreneurs must look at controlling their venture's operations in order to survive and prosper in both the short run and long run. Those unique control issues that face entrepreneurs include managing growth, managing downturns, and exiting the venture.

Managing Growth

Growth is a natural and desirable outcome for entrepreneurial ventures. Growth is what distinguishes an entrepreneurial venture. Entrepreneurial ventures pursue growth. Growing slowly can be successful, but so can rapid growth.

Growing successfully doesn't occur randomly or by luck. Successfully pursuing growth typically requires an entrepreneur to manage all the challenges associated with growing—in other words, planning, organizing, and controlling for growth.

PLANNING FOR GROWTH Although it may seem we've reverted back to discussing planning issues instead of controlling issues, actually controlling is closely tied to planning, as we will discuss in Chapter 18 (see Exhibit 18-1). And the best growth strategy is a well-planned one.[60] Ideally, the decision to grow doesn't come about spontaneously, but instead is part of the venture's overall business goals and plan. Rapid growth without planning can be disastrous. Entrepreneurs need to address growth strategies as part of their business planning but shouldn't be overly rigid in that planning. The plans should be flexible enough to exploit unexpected opportunities that arise. With plans in place, the successful entrepreneur must then organize for growth.

ORGANIZING FOR GROWTH The key challenges for an entrepreneur in organizing for growth include finding capital, finding people, and strengthening the organizational culture. Norbert Otto is the founder of Sport Otto, an online business based in Germany that sold almost $2 million worth of skates, skis, snowboards, and other sporting goods on eBay. As the company grows, Otto is finding that he has to be more organized.[61]

Having enough capital is a major challenge facing growing entrepreneurial ventures. The money issue never seems to go away, does it? It takes capital to expand. The processes of finding capital to fund growth are much like going through the initial financing of the venture. Hopefully, at this time, the venture has a successful track record to back up the request. If it doesn't, it may be extremely difficult to acquire the necessary capital. That's why we said earlier that the best growth strategy is a planned one.

Part of that planning should be how growth will be financed. For example, the Boston Beer Company, America's largest microbrewer and producer of Samuel Adams beer, grew rapidly by focusing almost exclusively on increasing its top-selling product line. However, the company was so focused on increasing market share that it had few financial controls and an inadequate financial infrastructure. During periods of growth, cash flow difficulties would force company chairman and brewmaster Jim Koch to tap into a pool of unused venture capital funding. However, when a chief financial officer joined the company, he developed a financial structure that enabled the company to manage its growth more efficiently and effectively by setting up a plan for funding growth.[62]

Inadequate financial controls and infrastructure resulted in cash flow problems for Boston Beer Company's popular Samuel Adams beer. Hiring a chief financial officer who developed a financial structure and plan for funding rapid growth helped the brewer manage Samuel Adams' rapid growth more efficiently and effectively.
Source: David Koh/AP Photo

Another important issue that a growing entrepreneurial venture needs to address is finding people. If the venture is growing quickly, this challenge may be intensified because of time constraints. It's important to plan the numbers and types of employees needed as much as possible in order to support the increasing workload of the growing venture. It may also be necessary to provide additional training and support to employees to help them handle the increased pressures associated with the growing organization.

Finally, when a venture is growing, it's important to create a positive, growth-oriented culture that enhances the opportunities to achieve success, both organizationally and individually. Encouraging the culture can sometimes be difficult to do, particularly when changes are rapidly happening. However, the values, attitudes, and beliefs that are established and reinforced during these times are critical to the entrepreneurial venture's continued and future success. Exhibit 10-5 lists some suggestions that entrepreneurs might use to ensure that their venture's culture is one that embraces and supports a climate in which organizational growth is viewed as desirable and important. Keeping employees focused and committed to what the venture is doing is critical to the ultimate success of its growth strategies. If employees

Exhibit 10-5

Achieving a Supportive, Growth-Oriented Culture

- Keep the lines of communication open—inform employees about major issues.
- Establish trust by being honest, open, and forthright about the challenges and rewards of being a growing organization.
- Be a good listener—find out what employees are thinking and facing.
- Be willing to delegate duties.
- Be flexible—be willing to change your plans if necessary.
- Provide consistent and regular feedback by letting employees know the outcomes—good and bad.
- Reinforce the contributions of each person by recognizing employees' efforts.
- Continually train employees to enhance their capabilities and skills.
- Maintain the focus on the venture's mission even as it grows.
- Establish and reinforce a "we" spirit that supports the coordinated efforts of all the employees and helps the growing venture be successful.

don't "buy into" the direction the entrepreneurial venture is headed, it's unlikely the growth strategies will be successful.

CONTROLLING FOR GROWTH Another challenge that growing entrepreneurial ventures face is reinforcing already established organizational controls. Maintaining good financial records and financial controls over cash flow, inventory, customer data, sales orders, receivables, payables, and costs should be a priority of every entrepreneur—whether pursuing growth or not. However, it's particularly important to reinforce these controls when the entrepreneurial venture is expanding. It's all too easy to let things "get away" or to put them off when there's an unrelenting urgency to get things done. Rapid growth—or even slow growth—does not eliminate the need to have effective controls in place. In fact, it's particularly important to have established procedures, protocols, and processes and to use them. Even though mistakes and inefficiencies can never be eliminated entirely, an entrepreneur should at least ensure that every effort is being made to achieve high levels of productivity and organizational effectiveness. For example, at Green Gear Cycling, cofounder Alan Scholz recognized the importance of controlling for growth. How? By following a "Customers for Life" strategy, which meant continually monitoring customer relationships and orienting organizational work decisions around their possible impacts on customers. Through this type of strategy, Green Gear hopes to keep customers for life. That's significant because they figured that, if they could keep a customer for life, the value would range from $10,000 to $25,000 per lifetime customer.[63]

Managing Downturns

Although organizational growth is a desirable and important goal for entrepreneurial ventures, what happens when things don't go as planned—when the growth strategies don't result in the intended outcomes and, in fact, result in a decline in performance? Significant challenges can come in managing the downturns.

Nobody likes to fail, especially entrepreneurs. However, when an entrepreneurial venture faces times of trouble, what can be done? How can downturns be managed successfully? The first step is recognizing that a crisis is brewing.

RECOGNIZING CRISIS SITUATIONS An entrepreneur should be alert to the warning signs of a business in trouble. Some signals of potential performance decline include inadequate or negative cash flow, excess number of employees, unnecessary and cumbersome administrative procedures, fear of conflict and taking risks, tolerance of work incompetence, lack of a clear mission or goals, and ineffective or poor communication within the organization.[64]

Another perspective on recognizing performance declines revolves around what is known as the **"boiled frog" phenomenon**, in which subtly declining situations

"boiled frog" phenomenon
A perspective on recognizing performance declines that suggests watching out for subtly declining situations

are difficult to recognize.[65] The "boiled frog" is a classic psychological response experiment. In one case, a live frog that's dropped into a boiling pan of water reacts instantaneously and jumps out of the pan. But in the second case, a live frog that's dropped into a pan of mild water that is gradually heated to the boiling point fails to react and dies. A small firm may be particularly vulnerable to the boiled frog phenomenon because the entrepreneur may not recognize the "water heating up"—that is, the subtle decline of the situation. When changes in performance are gradual, a serious response may never be triggered or may be initiated too late to intervene effectively in the situation.

So what does the boiled frog phenomenon teach us? It teaches us that entrepreneurs need to be alert to signals that the venture's performance may be worsening. Don't wait until the water has reached the boiling point before you react. Using this metaphor, it actually may be possible to save the frog. Justin Spring, cofounder of Adept Digital Marketing, encourages entrepreneurs to think about something he calls a "reverse frog pot theory": "I think that cooking frogs can also be a powerful metaphor for how *success* happens."[66] He goes on to say: "My success today isn't due to one single event, acquisition, sale or decision. It's due to a combination of all the small wins, minor setbacks and uneventful hard-working hours."

DEALING WITH DOWNTURNS, DECLINES, AND CRISES Although an entrepreneur hopes to never have to deal with organizational downturns, declines, or crises, a time may come when he or she must do just that. After all, nobody likes to think about things going bad or taking a turn for the worse. But that's exactly what the entrepreneur should do—think about it *before* it happens (refer to feedforward control in Chapter 18).[67] It's important to have an up-to-date plan for covering crises. It's like mapping exit routes from your home in case of a fire. An entrepreneur wants to be prepared before an emergency hits. This plan should focus on providing specific details for controlling the most fundamental and critical aspects of running the venture—cash flow, accounts receivable, costs, and debt. Beyond having a plan for controlling the venture's critical inflows and outflows, other actions would involve identifying specific strategies for cutting costs and restructuring the venture.

Write It!

If your professor has assigned this, go to **www.mymanagementlab.com** to complete the Writing Assignment *BIZ 17: New Business Management.*

Exiting the Venture

Getting out of an entrepreneurial venture may seem to be a strange thing for entrepreneurs to do. However, the entrepreneur may decide at some point that it's time to move on. That decision may be based on the fact that the entrepreneur hopes to capitalize financially on the investment in the venture—called **harvesting**—or that the entrepreneur is facing serious organizational performance problems and wants to get out, or even on the entrepreneur's desire to focus on other pursuits (personal or business). The issues involved with exiting the venture include choosing a proper business valuation method and knowing what's involved in the process of selling a business.[68]

harvesting
Exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture

BUSINESS VALUATION METHODS Valuation techniques generally fall into three categories: (1) asset valuations, (2) earnings valuations, and (3) cash flow valuations.[69] Setting a value on a business can be a little tricky. In many cases, the entrepreneur has sacrificed much for the business and sees it as his or her "baby." Calculating the value of the baby based on objective standards such as cash flow or some multiple of net profits can sometimes be a shock. That's why it's important for an entrepreneur who wishes to exit the venture to get a comprehensive business valuation prepared by professionals.

OTHER IMPORTANT CONSIDERATIONS IN EXITING THE VENTURE Although the hardest part of preparing to exit a venture is valuing it, other factors also should be considered.[70] These factors include being prepared, deciding who will sell the business, considering the tax implications, screening potential buyers, and deciding whether to tell employees before or after the sale. The process of exiting the entrepreneurial venture should be approached as carefully as the process of launching it. If the entrepreneur is selling the venture on a positive note, he or she wants to realize the value built up in the business. If the venture is being exited because of declining performance, the entrepreneur wants to maximize the potential return.

Chapter 10 PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO10.1 DEFINE entrepreneurship and explain why it's important.

Entrepreneurship is the process of starting new businesses, generally in response to opportunities. Entrepreneurial ventures are different from small businesses. Entrepreneurial ventures are characterized by innovative practices and have growth and profitability as their main goals, whereas a small business is one that is independently owned, operated, and financed; has fewer than 100 employees; doesn't engage in any new or innovative practices and has relatively little impact on its industry. Entrepreneurship is also not the same as self-employment. Entrepreneurship is important because it brings forward innovative ideas, creates new start-up firms, and creates jobs. Entrepreneurs must explore the entrepreneurial context, identify opportunities and possible competitive advantages, start the venture, and manage the venture. Entrepreneurs must also manage concerns related to social responsibility and ethics.

LO10.2 EXPLAIN what entrepreneurs do in the planning process for new ventures.

Entrepreneurs must identify environmental opportunities and competitive advantage. They must research a venture's feasibility, first generating and then evaluating ideas. A feasibility study is an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility. This analysis includes looking at the competitors, determining how to get financing, and developing a business plan. The business plan should include an executive summary, an analysis of the opportunity, an analysis of the context, a description of the business, financial data and projections, and supporting documentation. The sharing economy that is emerging is creating many new entrepreneurial opportunities through people sharing something they own or providing a service for a fee.

LO10.3 DESCRIBE the six legal forms of organization and the choice of appropriate organizational structure.

Two primary factors that affect the decision about how to organize a business are taxes and legal liability. In a sole proprietorship, the owner maintains sole and complete control over the business and is personally liable for business debts. In a general partnership, two or more owners share the management and risk of the business. A limited liability partnership is formed by general partner(s) and limited partner(s). A corporation (C corporation) is a legal business entity that is separate from its owners and managers. It is a closely held corporation when it is owned by a limited number of people who do not trade the stock publically. An S corporation is a corporation that is unique because the owners are taxed as a partnership as long as certain criteria are met. A limited liability company (LLC) is a hybrid between a partnership and a corporation. As an organization grows, the entrepreneur must decide on an appropriate structure for the organization. The entrepreneur must also face human resource management issues such as employee recruitment and employee retention. Entrepreneurs must be open to initiating change and must also continue to innovate.

LO10.4 DESCRIBE how entrepreneurs lead organizations.

While there is no specific personality characteristic that all entrepreneurs have, researchers suggest that there are several personality traits that are more common among entrepreneurs. These include a high level of motivation, an abundance of self-confidence, the ability to be involved for the long term, and a high energy level. Entrepreneurs are often persistent problem solvers; have a high degree of initiative; have the ability to set goals; are moderate risk-takers; possess great persistence, resourcefulness, the desire and ability to be self-directed; and have a relatively high need for autonomy. Entrepreneurs may also have a proactive personality trait, which means they are more prone to take actions to influence their environment. Entrepreneurs motivate employees through empowerment. Entrepreneurs must lead the venture and also lead employee work teams.

LO10.5 EXPLAIN how managers control organizations under different circumstances.

Entrepreneurs must manage growth through planning for growth, organizing for growth, and controlling for growth. Entrepreneurs must manage downturns through recognizing crisis situations and then dealing with downturns, declines, and crisis. At some point an entrepreneur may determine that it is time to exit a venture in order to capitalize financially on the investment (called harvesting) because the entrepreneur is facing serious organizational performance problems or because the entrepreneur wants to pursue other business or personal opportunities. To do so, the entrepreneur must use a method to value the business and consider a variety of other important factors in the process.

Pearson MyLab Management

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

✪ REVIEW AND DISCUSSION QUESTIONS

10-1. What do you think would be the hardest thing about being an entrepreneur? What do you think would be the most fun?

10-2. How many options are there for a new entrepreneur to start up their business venture?

10-3. Would a good manager be a good entrepreneur? Discuss.

10-4. Why do you think many entrepreneurs find it hard to step aside and let others manage their business?

10-5. Do you think a person can be taught to be an entrepreneur? Why or why not?

Pearson MyLab Management

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

10-6. Researchers have identified a set of characteristics associated with the entrepreneurial profile. Based on your personality and traits, do you fit the profile? Would you make a successful entrepreneur? Explain, citing specific ways you match or diverge from the profile.

10-7. It took four years for Airbnb to build an inventory of 600,000 rooms (World Economic Forum). It took the hotel chain, Hilton, 93 years to achieve the same goal. Outline a workable model for a sharing economy venture.

PREPARING FOR: My Career

PERSONAL INVENTORY ASSESSMENTS

PERSONAL INVENTORY ASSESSMENT

Innovative Attitude Scale

To become an entrepreneur you have to have confidence in your innovative abilities. Take this PIA to understand your attitude toward innovation.

ETHICS DILEMMA

Everyone *can* make mistakes, but sometimes these can have severe consequences. The employees of the insurance company Aviva Investor's asset management division simultaneously received an email from the company's HR department, which stated that they had been dismissed with immediate effect. Unfortunately, the email should have been sent to only one of the 1,300 employees in the division. Instead, the email informed all employees in the asset management division to hand over any company property and to maintain confidentiality after their dismissal. As shocked employees tried to come to terms with the news, they received a second email that retracted the earlier statement and issued an apology for the company's error.[71]

10-9. Do you think it is ethical to dismiss anyone by email?

10-10. What might have happened if the mistake had not been spotted?

SKILLS EXERCISE Developing Grit

Those who succeed as entrepreneurs have at least one thing in common; they possess grit.[72] Having grit means you have the perseverance and passion for long-term goals. When you have grit, you work hard and maintain effort and interest even after facing failure or adversity. Some say having grit means you have mental toughness. It is a trait that brings together other qualities such as optimism, self-discipline, and self-motivation. You must have talent to accomplish your goals, but you must also have focused and sustained use of that talent over time in order to accomplish difficult goals. Grit helps entrepreneurs because they often face challenges and setbacks in the process of launching a venture. An entrepreneur with grit will continue working hard, even in the face of seemingly endless obstacles.

Steps in Practicing the Skill

- ***Practice your resilience:*** Resilience is the ability to bounce back. As you are faced with an obstacle, notice your reaction to the challenge. Are you ready to quit? If so, it is time to build your resilience. Learn from your mistake and make yourself give it another try instead of giving up.
- ***Pursue your passion:*** Figure out what you are passionate about in life and pursue it. Our passions inspire us and give us the internal drive to keep moving forward. Identifying and pursuing your passion can help develop your perseverance.
- ***Practice positive self-talk:*** Grit means you have a strong belief in yourself. By engaging in positive self-talk, you can develop the internal motivation to keep moving forward even as you face obstacles. Remind yourself of your abilities and be your own biggest cheerleader. With every challenge you face, make sure you encourage yourself to keep moving forward with a positive attitude.
- ***Build in practice time:*** Understand that anything significant you are going to accomplish in life is going to take time and effort. When working toward a goal, you must consider how you can practice whatever it is you are trying to accomplish. For example, if you have the dream to open a restaurant, spend some time working in other restaurants in order to really understand the business before jumping in on your own.
- ***Put together a support team:*** Identify some trusted friends and let them know you are working on developing grit. Share with them your future goals and what you want to work toward. Ask them to encourage you and make sure you call them for support when you are feeling like you might want to give up.

Practicing the Skill

Identify a challenging goal you would like to attain. You can start small, but make sure it is something that will test your abilities. For example, have you ever considered running a 5k race? Getting an A in your next statistics course? What is something significant you would like to accomplish? Once you set your goal, use the steps above as you work toward your goal. Once you accomplish your goal, move on to a new one. As you overcome the challenges along the way, you will find yourself developing grit. And then you can accomplish anything!

WORKING TOGETHER Team Exercise

Have you ever considered starting a business? Take a few minutes and brainstorm business ideas that you could start on your campus. What are problems that could be solved? Considering the idea of the sharing economy, what are things that students could share or a service you could provide for a fee? What kinds of products or services would students be willing to purchase? Get together in groups of three or four students and share your business ideas. Pick one idea to explore further. What would be your competitive advantage? Is the idea feasible? Who would be your competitors? Would it require financing to get started? Make a few notes on what you would write as an executive summary for a business plan for your idea. Be prepared to share with the class.

MY TURN TO BE A MANAGER

- To be an entrepreneur, you must first have an idea. Entrepreneurs get their ideas from many sources; however, an idea often hits when the entrepreneur steps out of his or her own comfort zone. Start by exposing yourself to new ideas and information. Subscribe to social media feeds for websites or journals in a wide variety of disciplines such as science, technology, sports, and the arts. Take as many classes outside of your own major that you can. Attend diverse events and network with people from a wide variety of backgrounds. Keep an idea journal with interesting ideas or information that you come across on a daily basis.
- Explore the innovations or business ideas of others. Visit www.springwise.com, a website that discovers and shares innovative ideas from around the world and www.socialbusiness.org, a website that shares ideas and businesses that are creating positive social change. Add your thoughts and reflections on what you learn to your idea journal.
- Interview an entrepreneur. Ask how he or she discovered his or her business idea. What challenges did he or she face in starting the business? What do you think made the business succeed?
- Look online to find local resources or organizations that support entrepreneurs. Make a list of the resources that are available to entrepreneurs in your area.

Rachel Nilsson, founder of Rags to Raches, appeared on the television show *Shark Tank* seeking $200,000 for 10 percent equity to fund her clothing company for kids. She cut a $200,000 deal with Robert Herjavec for 15% of Rags to Raches, and, in less than a month after appearing on *Shark Tank,* her daily sales quintupled. The funding helped Nilsson turn her venture into a million-dollar clothing brand.
Source: Michael Desmond/Getty Images

- One of the biggest challenges start-ups face is obtaining funding. While only a very few businesses are able to obtain funding through the popular television show *Shark Tank,* you can learn a lot by watching how the "sharks" or venture capitalists on the show's panel make decisions on which ideas to invest in. Go online and watch an episode of the show. Take note of why the sharks decide to invest in a particular business and why they let some contestants leave empty handed.

CASE APPLICATION 1 The Fear of Failure

Aspiring entrepreneurs are told not to fear failure. In fact, they are often told to embrace failure, that it is an important part of the entrepreneurial process. You must fail before you can succeed! But is it true? Do you really have to experience failure before you can find success? And what is it about failing that helps you succeed in the future?

Many successful entrepreneurs throughout history experienced failure first.[73] Before starting Microsoft, Bill Gates and friend Paul Allen launched Traf-O-Data, a company that used a computerized microprocessor to analyze data from traffic counters that were placed on roads. The intent was to support government traffic engineers' efforts to optimize traffic and end road congestion. But the equipment did not work correctly during their big presentation to local county officials, and the company eventually folded. Good thing, as the pair did go on to create the software used so widely around the world.

Worth $20.4 billion, Jack Ma is the wealthiest person in China. He is the founder of Alibaba, the world's largest e-commerce company, which has over 100 million shoppers a day. However, at one point he couldn't even get a job. After failing the college entrance exams three times, his decision to just get a job instead didn't work out either. He was turned down by 30 companies, including a new franchise of KFC that was opening near his home. KFC had 24 applicants for 23 jobs, and Ma was the one who didn't make the cut. Eventually he launched Alibaba, creating not only a job for himself, but also jobs for more than 30,000 other people who now work there.

At some point you've probably read an article from the successful online journal *The Huffington Post*. Founder Arianna Huffington experienced some significant failures prior to launching the journal. After she wrote a successful first book, her second book proposal was rejected 26 times. She also unsuccessfully ran for governor of California in 2003, before eventually starting *The Huffington Post* in 2005. Since then she has been recognized consistently in Forbes' Most Influential Women in Media and in 2015 ranked 61st on Forbes' 100 Most Powerful Women list.

You are familiar with Blogger and Twitter, but you probably haven't heard of Evan Williams' other ventures, Pyra Labs and Odeo. Blogger was a side project that Williams started while trying to build his first company Pyra Labs. Financial challenges led to the closing of Pyra Labs, but Williams was able to keep Blogger going. Odeo was going to be a podcasting company, but the platform wasn't as good as Williams' team hoped, and Apple's timing of opening the podcast section of the iTunes store led to the company's closing. Fortunately Williams and his cofounders had Twitter in the works at the time.

There are, of course, many failures that we don't hear about because that's where the story ends. So why do some entrepreneurs succeed after failure, while others just fail? Some say it depends on the entrepreneur's mindset. Is the entrepreneur's mindset fixed, or growth oriented? A fixed mindset assumes failure means lack of ability. As a result, failure leads to being more risk averse and eventually giving up. In contrast, entrepreneurs with a growth mindset learn from failure. They don't attribute failure to a fixed trait; rather, they are more likely to analyze a failure more deeply and more effectively apply learning to the next problem or challenge. The fact is, most entrepreneurs aren't going to be successful with their first idea or venture. Those who are successful ultimately are those who stand back up, dust themselves off, learn something from the failure, and try again.

DISCUSSION QUESTIONS

10-10. Why do so many entrepreneurs experience failure?

10-11. Do you think someone could be an immediate success when starting a business? Or is a first failure really necessary?

10-12. Is a growth mindset something you are born with? Or, can you develop a growth mindset?

CASE APPLICATION 2 The Right Recipe for Entrepreneurs: Fifteen

In 2002, British restaurateur and television celebrity-chef, James Trevor "Jamie" Oliver opened Fifteen, a nonprofit restaurant and bar in London. This restaurant offers jobs to unemployed teenagers and every year it allows a group to graduate as chefs from the kitchen. All the profits earned from the business are ploughed back into the training and development of the youth.[74]

Oliver is the author of several best-selling cookery books and is the owner of various restaurant chains. In 2017, Richtopia listed him as the third most influential British entrepreneur with a net worth of around $310 million. As a father of five children, Oliver has expressed the importance of healthy eating. He has been involved in a number of controversial schemes to improve the diet of children, to reduce sugar in foods, and to encourage home cooking rather than a reliance on packaged foods.

Having few formal qualifications and being dyslexic, Oliver wanted the purpose of the chain to be a source of inspiration for disadvantaged young people, including those who are unemployed, homeless, and with drug or alcohol dependencies. With one new restaurant launched in Amsterdam, 2004, and Cornwall, 2006, Oliver's Fifteen Foundation aims to open more such restaurants across the world.

However, in January 2017, Oliver announced that he would be closing six of his restaurants by the end of the first quarter. The CEO of Jamie Oliver Restaurant Group, Simon Blagden, blamed the decision on the uncertainty arising out of Brexit and the United Kingdom's decision to leave the European Union (EU). The closures affected around 5 percent of the chain's total workforce. Most of those who were affected found alternative employment in other restaurants under the chain.

Oliver's success is based not only on his talent as a chef, but also on his behaviour. He can be abrupt, but consumers connect with his down-to-Earth approach. He isn't scared of taking risks and has invested millions of dollars into the Fifteen project. He has spent a great deal of his time and money to help successfully convince numerous British children to give up fast food. Where necessary, he has taken government assistance for investments of more than $400 million toward school meals—improvement of facilities, recipes, and training.

Oliver has often admitted that he could have retired many years ago, but instead has decided to invest in social enterprises to promote healthy food and encourage the youth in the cooking industry.

DISCUSSION QUESTIONS

10-13. Entrepreneurs are important because of the impact they have on the world around them. List and explain the different ways that Fifteen benefits its community.

10-14. What characteristics do you think Jamie Oliver has that have helped make his various enterprises a success?

10-15. The decision to close some of the restaurants would have been a difficult one for Oliver to have made. How should an entrepreneur tackle such downturns?

10-16. Many entrepreneurs want to grow their businesses. How can an entrepreneur, like Oliver, develop their ventures in the future?

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PART 3 Management Practice

A Manager's Dilemma

Habitat for Humanity is a nonprofit, ecumenical Christian housing ministry dedicated to building affordable housing for individuals dealing with poverty or homelessness. Habitat's approach is simple. Families in need of decent housing apply to a local Habitat affiliate. Homeowners are chosen based on their level of need, their willingness to become partners in the program, and their ability to repay the loan. And that's the unique thing about Habitat's approach. It's not a giveaway program. Families chosen to become homeowners have to make a down payment and monthly mortgage payments, and invest hundreds of hours of their own labor into building their Habitat home. And they have to commit to helping build other Habitat houses. Habitat volunteers (maybe you've been involved on a Habitat build) provide labor and donations of money and materials as well.

Social service organizations often struggle financially to provide services that are never enough to meet the overwhelming need. Habitat for Humanity, however, was given an enormous financial commitment—$100 million—from an individual who had worked with Habitat and seen the gift it offers to families in poverty. That amount of money means that Habitat can have a huge impact now and in the future. But the management team wants to use the gift wisely—a definite planning, strategy, and control challenge.

Pretend you're part of that management team. Using what you've learned in the chapters on planning and strategic management in Part 3, what five things would you suggest the team focus on? Think carefully about your suggestions to the team.

Global Sense

Manufacturers have spent years building low-cost global supply chains. However, when those businesses are dependent on a global supply chain, any unplanned disruptions (political, economic, weather, natural disaster, etc.) can wreak havoc on plans, schedules, and budgets. The Icelandic Eyjafjallajokull volcano in 2010 and the Japanese earthquake/tsunami and Thailand flooding in 2011 are still fresh in the minds of logistics, transportation, and operations managers around the globe. Although unexpected problems in the supply chain have always existed, now the far-reaching impact of something happening not in your own facility but thousands of miles away has created additional volatility and risk for managers and organizations. For instance, when the Icelandic volcano erupted, large portions of European airspace were shut down for more than a week, which affected air traffic worldwide. At BMW's plant in Spartanburg, South Carolina, air shipments of car components were delayed and workers' hours had to be scaled back and plans made for a possible shutdown of the entire facility. During the Thailand floods in late 2011, industrial parks that manufactured semiconductors for companies like Apple and Samsung were underwater and crawling with crocodiles. After the 2011 Japanese earthquake and tsunami shut down dozens of contractors and subcontractors that supply many parts to the auto and technology industries, companies like Toyota, Honda, and Hewlett-Packard had to adjust to critical parts shortages.

Discuss the following questions in light of what you learned in Part 3:

- *You see the challenges associated with a global supply chain; what are some of the benefits of it? What can managers do to minimize the impact of such disruptions?*
- *What types of plans would be best in these unplanned events?*
- *As Chapter 9 asks, how can managers plan effectively in dynamic environments?*
- *Could SWOT analysis be useful in these instances? Explain.*
- *How might managers use scenario planning in preparing for such disasters? (Scenario planning is discussed in the Planning and Control Techniques module)*

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Continuing Case

Starbucks—Planning

All managers plan. The planning they do may be extensive or it may be limited. It might be for the next week or month, or it might be for the next couple of years. It might cover a work group or it might cover an entire division or the entire organization. No matter what type or extent of planning a manager does, the important thing is that planning takes place. Without planning, there would be nothing for managers to organize, lead, or control.

Based on Starbucks' numerous achievements, there's no doubt that managers have done their planning. Let's take a look.

During a presentation at the Starbucks biennial investor conference, CEO Howard Schultz stands before a large photograph of the first Starbucks Reserve Roastery & Tasting Room. With the first store opened in Seattle, the Roastery is an innovative concept that integrates coffee roasting, coffee education, a café, a restaurant, and a retail store that features the Starbucks small-lot Reserve coffee line. Starbucks' expansion plan to open 100 more Roastery stores throughout the world will help the company achieve its financial goal of reaching $30 billion in annual revenue by 2019.
Source: Ted S. Warren/AP Photo

Company Goals

In 2016, Starbucks had over 31,000 stores in more than 70 countries. The company continues to add stores, planning for 30,000 worldwide by 2019. Of the planned expansion, 2,500 new stores will be added in China. Starbucks successfully opened a new type of store in Seattle that combines a roastery along with a café. It is set to open a similar facility in New York City, which will be the company's largest store yet at 20,000 square feet. CEO Howard Schultz said, "In New York, we want to take elements from what we originally created and build something even bigger and bolder, celebrating coffee and craft in a completely unique and differentiated way."[1] Starbucks' financial goals are ambitious, including revenue growth of 10 percent to 13 percent and $30 billion in annual revenue by 2019. In addition to the quantitative/fiscal goals, Starbucks focuses on continuing to develop new coffee/tea/juice/bakery products in multiple forms and staying true to its global social responsibilities. Starbucks' ambition is to rank among the world's most admired brands and enduring companies through its "laser focus on disciplined execution and robust innovation" and to maintain Starbucks' standing as one of the most recognized brands in the world.

Company Strategies

Starbucks has been called the most dynamic retail brand over the last two decades. It has been able to rise above the commodity nature of its product and become a global brand leader by reinventing the coffee experience. Over 60 million times a week, a customer receives a product (hot drink, chilled drink, food, etc.) from a Starbucks partner. It's a reflection of the success that Howard Schultz has had in creating something that never really existed in the United States—café life. And in so doing, he created a cultural phenomenon. Starbucks is changing what we eat and drink. It's shaping how we spend our time and money.

Starbucks has found a way to appeal to practically every customer demographic, as its customers cover a broad base. It's not just the affluent or the urban professionals and it's not just the intellectuals or the creative types who frequent Starbucks. You'll find soccer moms, construction workers, bank tellers, and office assistants at Starbucks. And despite the high price of its products, customers pay it because they think it's worth it. What they get for that price is some of the finest coffee available commercially, custom preparation, and, of course, that Starbucks ambiance—the comfy chairs, the music, the aromas, the hissing steam from the espresso machine—all invoking that warm feeling of community and connection that Schultz experienced on his first business trip to Italy and knew instinctively could work elsewhere.

As the world's number one specialty coffee retailer, Starbucks' portfolio includes goods and services under its flagship Starbucks brand and the Teavana, Tazo Tea, Seattle's Best Coffee, Starbucks VIA, Starbucks Refreshers, Evolution Fresh, La Boulange, and Verismo brands. Recent product introductions include a Cherry Blossom Frappuccino®, a single-origin coffee from Indonesia, and a Chocolate Cookie Dough Cake Pop.

Here's something you might be surprised at. You can expect to get carded at your neighborhood Starbucks soon. What? Starbucks is making a more intentional move into wine and beer sales. The company tested the concept at a single Seattle store in 2010 and now offers alcohol at 26 locations, where store sales have shown a significant increase during the time of day when alcohol is offered. The "Starbucks' Evenings" concept offers selected adult beverages (beer and wine . . . tailored to regional taste preferences) and an expanded food menu after 4 P.M. So, the plan is to roll out Starbucks' Evenings to thousands of stores over the next several years.

Starbucks' loyalty program continues to distinguish it from competitors, and it is an integral part of the company's growth strategy. Its My Starbucks Rewards™ has almost 12 million active members with more than $4 billion loaded onto the cards. And the company has made a huge investment in mobile payments, accounting for more than four million transactions every week in the United States. Its Starbucks Card apps for Android phones and iPhones have been hugely popular. The company also announced enhancements to its loyalty program by offering a new prepaid Starbucks Card. Cardholders can use the card anywhere Visa cards are accepted, and earn two "stars" for every dollar spent, which they can redeem for beverage or food items at any Starbucks store. In addition to building customer loyalty, the company states that expanding the program "is just the beginning of Starbucks opening up its digital ecosystem as well as extending its payment platform."

Starbucks' primary competition comes from quick-service restaurants and specialty coffee shops. McDonalds, for one, has invested heavily in its McCafé concept, which offers coffee, real fruit smoothies, shakes, and frappés. And there are numerous specialty coffee shops, but most of these tend to be in local markets only.

Discussion Questions

P3-1. Make a list of Starbucks' goals. Describe what type of goal each is. Then, describe how that stated goal might affect how the following employees do their job: (a) a part-time store employee—a barista—in Omaha; (b) a quality assurance technician at the company's roasting plant in Amsterdam; (c) a regional sales manager; (d) the executive vice president of global supply chain operations; and (e) the CEO.

P3-2. Discuss the types of growth strategies that Starbucks has used. Be specific.

P3-3. What competitive advantages do you think Starbucks has? What will it have to do to maintain those advantages?

P3-4. Do you think the Starbucks brand can become too saturated—that is, extended to too many different products? Why or why not?

P3-5. What companies might be good benchmarks for Starbucks? Why? What companies might want to benchmark Starbucks? Why?

P3-6. Describe how the following Starbucks managers might use forecasting, budgeting, and scheduling (be specific): (a) a retail store manager; (b) a regional marketing manager; (c) the manager for global development; and (d) the CEO.

P3-7. Describe Howard Schultz as a strategic leader.

P3-8. Is Starbucks "living" its mission? (You can find the company mission on its website at www.starbucks.com.) Discuss.

P3-9. What ethical and social responsibility issues can you see with Starbucks' decision to sell alcohol after 4 P.M.? Think in terms of the various stakeholders and how those stakeholders might respond to this strategy?

Notes for the Part 3 Continuing Case

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