



FIFTH CANADIAN EDITION

# MANAGEMENT

JOHN R. SCHERMERHORN JR. • DANIEL G. BACHRACH • BARRY WRIGHT

WILEY



# Management

**Fifth Canadian Edition**



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# About the Authors

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Dr. Wright has more than 30 years of experience in the classroom. Prior to joining the faculty at Brock, he worked as a professor at St. Francis Xavier University and taught at the International Study Centre in Herstmonceux, United Kingdom, and at Queen's University in Kingston, Ontario. He has also worked as an administrator with the city of Red Deer, Alberta. During his career as an educator, Dr. Wright has received several excellence in teaching awards at both the undergraduate and graduate student levels.

At home in the classroom, Dr. Wright is also comfortable in the boardroom. He has served on several boards of directors, most recently as board chair of the Niagara Health System, and has also provided a variety of training and research consultations to numerous Canadian private and public organizations. These services have included the development and implementation of programs in leadership, teamwork, strategic planning, diversity management, and managing organizational change. Barry also provides one-on-one coaching sessions for senior executives who have expressed a desire for outside counsel.

He received his MA (Sport Psychology) and Ph.D. (Management) degrees from Queen's University. His academic research focuses on understanding and solving leadership challenges, studying change and its influence on organizational members, and creating effective work environments.

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International experience adds a unique global dimension to Dr. Schermerhorn's teaching and writing. He holds an

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A member of the Academy of Management, Dr. Schermerhorn was chairperson of the Management Education and Development Division. Management educators and students alike know him as author of *Exploring Management 4e* (Wiley, 2014) and *Management 12e* (Wiley, 2013), and co-author of *Organizational Behavior 4e* (Wiley, 2014). Dr. Schermerhorn has also published numerous articles, including ones in the *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Executive*, *Organizational Dynamics*, *Asia-Pacific Journal of Management*, *Journal of Management Development*, and *Journal of Management Education*.

Ohio University named Dr. Schermerhorn a University Professor, the university's highest campus-wide honour for excellence in undergraduate teaching. He is a popular guest speaker at colleges and universities. He is available for student lectures and classroom visits, as well as for faculty workshops on scholarly manuscript development, textbook writing, high engagement teaching, and instructional and curriculum innovations.

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(Access Capon, 2014), and senior co-author of *10 Don'ts on Your Digital Devices: The Non-Techie's Survival Guide to Digital Security and Privacy* (Apress, 2014). Dr. Bachrach also has published extensively in a number of academic journals, including *Organization Science*, *Journal of Applied Psychology*, *Strategic Management*

*Journal*, *Organizational Behavior and Human Decision Processes*, *Personnel Psychology*, *Journal of Management*, *Leadership Quarterly*, *Production and Operations Management*, *Journal of Operations Management*, *Journal of Supply Chain Management*, and *Journal of Personal Selling and Sales Management*.



As your career takes flight in today's global workplace, it will require careful personal aeronautical navigation. Sometimes the air currents are gentle and it's smooth flying. However, sometimes there are large updrafts and downdrafts that produce course-plotting challenges that need to be managed. No matter the conditions, a successful organization requires skilled leaders at the point and confident team members who know how to fly in formation.

With ever-changing technology and market conditions, facing pandemics and societal problems, yet also always open to innovation and opportunities, today's organizations must be nimble. It requires strategy, planning, teamwork, communication, and preparation to be able to change course quickly. It is no longer an option to remain on the ground staring at the sky; organizations know that taking a calculated yet safe flight path is the route to success.

As you embark on your learning journey, this text will give you a firm understanding of management theory and practices that will prepare you to launch your career, no matter which way the winds blow. Whether you want to become a captain or a valued team member, *Management 5e* presents the tools to succeed.

## New to *Management 5e*

*Management 5e* has been revised and updated with a focus on Canadian stories and timely real-world content, student engagement through critical thinking about business and personal career issues, and instructor opportunities for enriched classroom learning through activities and assignments.

*Timely content*—Every chapter has been updated. Examples of new and expanded coverage include: learning agility (Chapter 1), moral muteness (Chapter 3), design thinking and root cause analysis (Chapter 4), five Vs of big data management (Chapter 7), strategic control (Chapter 9), latent organizations (Chapter 11), nudge theory (Chapter 12), binational approaches to HR practices (Chapter 13), character leadership and power paradox (Chapter 14), willful blindness and progress principle (Chapter 15), six thinking hats (Chapter 17), and right-ear advantage and sense-making (Chapter 18).

*Student engagement features*—Student engagement is an embedded theme in *Management 5e*. Look for these features that bring life to disciplinary content: *Analysis*—Make Data Your Friend, *Choices*—Think before You Act, *Ethics*—Know Right from Wrong, *Insight*—Keep Learning about Yourself, and *Wisdom*—Learn from Role Models. Each feature is designed and visually presented to attract students' attention and engage them in reflection and critical thinking. These features are introduced at the beginning of each chapter as part of *What to Look for Inside: Management Is Real*.

*Enriched classroom opportunities*—The active and enriched classroom is also an embedded theme in *Management 5e*. Look for these opportunities that make it easy to bring text content to life in discussions, activities, and individual and team assignments: Evaluate Career Situations, Reflect on the Self-Assessment, Contribute to the Class Exercise, Manage a Critical Incident, Collaborate on the Team Activity, and Analyze the Case Study. These enriched instructional components are introduced at the very beginning of each chapter as part of *What to Look for Inside: Skills Make You Valuable*.

## *Management 5e* Philosophy

Today's students are tomorrow's leaders and managers. They are our hope for the future during the social transformations of a global pandemic, #me-too and Black Lives Matter movements, indigenous reconciliation, labour force migration, and concerns for the planet, all impacting and influencing work environments. New values and management approaches are appearing; organizations are changing forms and practices; jobs are being redefined and relocated; the impact of the information age is a major force in our lives; and the battles between globalization and protectionism are presenting major organizational and economic challenges.

*Management 5e* is designed to help students discover their true potential and accept personal responsibility for developing their career skills.

*Management 5e* and its rich selection of timely examples and thought-provoking features for analysis and reflection is designed for this new world of work. It is crafted to help students understand that management is real and is an everyday part of their lives. By engaging with *Management 5e*, students explore the essentials of management while also discovering their true potential for developing useful career skills. The content, pedagogy, and features of this edition have been carefully blended to support management educators who want their students to:

- understand and apply the principles of management,
- gain confidence in critical thinking,
- identify timely social and organizational issues,
- embrace lifelong learning for career success,
- become attractive internship and job candidates, and
- grow in career readiness.

## Management 5e Pedagogy

The pedagogical foundations of *Management 5e* are based on four constructive balances that are essential to higher education for business and management.

- **The balance of research insights with formative education.** As educators we must be willing to make choices when bringing the theories and concepts of our discipline to the attention of the introductory student. We cannot do everything in one course. The goal should be to make good content choices that set the best possible foundations for lifelong learning.

Our goal as educators should be to make good content and pedagogical choices that set the best possible foundations for lifelong learning.

- **The balance of management theory with management practice.** As educators we must understand the compelling needs of students to learn and appreciate the applications of the material they are reading and thinking about. We must continually bring to their attention interesting and relevant examples.
- **The balance of present understandings with future possibilities.** As educators we must continually search for the directions in which the real world of management is heading. We must select and present materials that can both point students in the right directions and help them develop the confidence and self-respect needed to pursue their goals.
- **The balance of what “can” be done with what is, purely and simply, the “right” thing to do.** As educators we are role models; we set an example for our students. We must be willing to take stands on issues relating to managerial ethics and social responsibility. We must be careful not to let the concept of “contingency” betray the need for positive action and accountability in managerial practice.

We are role models . . . we must be willing to take stands on issues such as managerial ethics and social responsibility.

Our students have pressing needs for direction as well as suggestion. They need application as well as information. They have needs for integration as well as presentation. And they have the need for confidence that comes from solid understanding. Our goal is to put into your hands and into those of your students a learning resource that can help meet these needs.

## Management 5e Highlights

*Management 5e* introduces the essentials of management as they apply to organizations and careers in a complex global society. The subject matter is carefully chosen to meet the

accreditation guidelines of the Association to Advance Collegiate Schools of Business (AACSB), while still allowing extensive flexibility to fit various course designs, class sizes, and delivery formats.

The timely content offers flexibility in meeting a wide variety of course objectives and instructor preferences. The material is organized into five logical parts—Management, Environment, Planning and Controlling, Organizing, and Leading. These parts and the accompanying material can be used in any order and combination. All content has been updated and enriched with new features and examples from the latest current events.

## Learning Model

The *Management 5e* learning model makes it easy for students to read, study, reflect, and use critical thinking. Their attention is focused on building management skills and competencies through active learning and on discovering that management issues and themes permeate current events that effect everyday living.

The *Management 5e* learning model makes it easy for students to study, reflect, and use critical thinking as they read.

Each chapter opens with a compelling photo and quote, followed by a learning dashboard that provides a *Chapter Quick Start* overview, list of *Learning Objectives*, and a *What to Look for Inside* directory in two parts: *Management Is Real*—with features on Choices, Insight, Analysis, Ethics, and Wisdom; and *Skills Make You Valuable*—with features to Evaluate, Reflect, Contribute, Manage, Collaborate, and Analyze. Figures provide visual support for student comprehension as concepts, theories, and terms are introduced. Selected figures also appear as interactives in the course. The *Management Learning Review* section at the end of each chapter helps students prepare for quizzes and exams by completing a *Learning Objective Summary* and *Self-Test*. Interactive self-assessments give students a chance to engage with some of the end-of-chapter questions in an online environment.

## Self-Reflection, Active Learning, and Critical Thinking

The *What to Look for Inside* guide in the learning dashboard points out the many features in *Management 5e* that provide students with important opportunities for self-reflection, active learning, and critical thinking. *Management Is Real* features current events, timely issues, and real people and situations to build awareness and stimulate personal reflection.

At the end of each chapter, *Skills Make You Valuable* features provide a variety of opportunities to build management skills through individual and team learning activities.

A sampling of the *Management Is Real* and *Skills Make You Valuable* features follows:

## What to Look for **Inside**

### Management Is Real

- 4.1 Analysis** Make Data Your Friend  
Social Attitudes Shift on Women at Work, but Concerns for Equality Persist
- 4.2 Ethics** Know Right from Wrong  
Offshore E-Waste Graveyards Bury a Problem
- 4.3 Insight** Keep Learning about Yourself  
Risk Taking Has Its Ups and Downs
- 4.4 Wisdom** Learn from Role Models  
The Westons Take the Cake
- 4.5 Choices** Think before You Act  
Sustainability Ranks Low among Global Executive Challenges

### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Tolerance for Ambiguity
- **Contribute** *to the Class Exercise:*  
The Future Workplace
- **Manage** *a Critical Incident:*  
It's Also about Respect
- **Collaborate** *on the Team Activity:*  
Organizational Commitment to Sustainability Scorecard
- **Analyze** *the Case Study:*  
Patagonia: Leading a Green Revolution

## Management 5e Exceptional Content in Any Media

Wiley online courseware is a teaching and learning platform that integrates text with interactive and multimedia content, online tools, and resources to provide a contemporary and appealing learning experience. Offering Wiley online courseware along with a stand-alone eText and practical printed text options allows the flexibility to suit any course format, whether it be face-to-face, a hybrid/blended learning environment, or an online class. Features include:

- a complete version of the eText
- Author videos: These videos summarize key points and provide examples and illustrations to enhance student engagement and understanding.

- Video cases: Video cases accompanying each chapter help to illustrate and expand on relevant topics and allow for further analysis and critical thinking. The videos are accompanied by teaching notes that provide starting points for lectures or for general class discussion.
- Management Weekly Updates: These timely updates keep you and your students updated and informed on the very latest in business news stories. Each week you will find links to five new articles, video clips, business news stories, and so much more with discussion questions to elaborate on the stories in the classroom.

## Acknowledgements

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I would like to offer my particular thanks to Dr. Linda Bramble, who was both innovative and instrumental in completing this edition. She is a talented writer and scholar and I am blessed to have had her partner with me on this project.

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I am grateful to the following colleagues who offered their perceptive and very useful feedback during development and contributed to the related supplements.

x Preface

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In closing, I would especially like to thank my family—my lovely wife Mary, darling daughters Monica and Kit, happy son John Emmett, father Herb, and in-laws Mona and Bob—who all offered hugs and help along the way. To all who are striving to make the world a better place, I dedicate this book.

**BARRY WRIGHT**  
St. Catharines, Ontario  
*August 2020*

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Sharply\_done/Getty Images

# Management Today

*Canada geese fly in formation to conserve energy and to improve communication on their long journeys. Likewise, good managers can help organizations reach their goals through coordination, communication, and leadership.*

We live and work in a very complex world. Unemployment and job scarcity, ethical missteps by business and government leaders, financial turmoil and uncertainty, environmental challenges, and complex global health, economic and

political issues are regularly in the news. Today's organizations are rapidly changing, as is the nature of work itself. Talent and technology reign supreme in the most desired jobs. Learning, performance, and flexibility are essential individual attributes; employers expect the best from us, and the best employers provide us with inspiring leadership and supportive work environments that provide respect, involvement, teamwork, and rewards.<sup>1</sup>

## Chapter Quick Start

Management is part of our everyday lives. We manage ourselves, we manage relationships, we manage families, and we manage teams and co-workers. Now is a good time to study the fundamentals of management, learn more about your capabilities, and start building skills for career and life success.

CHAPTER OUTLINE

LEARNING OBJECTIVES

1.1 Working Today

1.1 Summarize the challenges of developing and maintaining career readiness in the new economy.

1.2 Organizations

1.2 Describe what organizations are like as work settings.

1.3 Managers

1.3 Discuss what it means to be a manager.

1.4 The Management Process

1.4 Explain the functions, roles, and activities of managers.

1.5 Learning How to Manage

1.5 Summarize how we learn and use essential skills for career success.

What to Look for **Inside**

Management Is Real

- 1.1 **Analysis** Make Data Your Friend  
Multiple Generations Meet and Greet in the New World of Work
- 1.2 **Ethics** Know Right from Wrong  
Social Media Searches Linked with Discrimination in Hiring
- 1.3 **Wisdom** Learn from Role Models  
Tonia Jahshan Turned Over a New Leaf
- 1.4 **Choices** Think before You Act  
Want Vacation? Take as Much as You Want
- 1.5 **Insight** Keep Learning about Yourself  
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Skills That Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
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- **Contribute** *to the Class Exercise:*  
My Best Manager
- **Manage** *a Critical Incident:*  
Team Leader Faces Test
- **Collaborate** *on the Team Activity:*  
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- **Analyze** *the Case Study:*  
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1.1 Working Today

LEARNING OBJECTIVE 1.1

Summarize the challenges of developing and maintaining career readiness in the new economy.

Learn More About

- Talent • Technology • Globalization • Ethics
- Diversity • Careers and connections

In her book *The Shift: The Future of Work Is Already Here*, scholar Lynda Gratton describes why things are changing so quickly today and how young people can navigate their careers through these changes. “Technology shrinks the world but consumes all

of our time,” Gratton says. “Globalization means we can work anywhere, but must compete with people from everywhere.”<sup>2</sup> What does the changing nature of work mean as you plan for career entry and advancement? You can’t expect a guarantee of long-term employment in today’s workplace. More and more jobs have to be continually earned and re-earned through everyday performance and accomplishments. And in times of continuous change, you have to accept that your career will be defined by “flexibility,” “free agency,” “skill portfolios,” and “entrepreneurship.”

There is also no escaping the fact that your career success will require a lot of initiative, self-awareness, and continuous learning. The question is: Are you ready? Whether your answer is “Yes” or a tentative “Maybe,” this book and management course can help strengthen your career readiness.

Talent

A study by management scholars Charles O’Reilly and Jeffrey Pfeffer found that high-performing companies are better than

their competitors at getting extraordinary results from employees. “These companies have won the war for talent,” they argue, “not just by being great places to work—although they are that—but by figuring out how to get the best out of all of their people, every day.”<sup>3</sup>

People and their talents—what they know, what they learn, and what they achieve—are the crucial foundations for organizational performance. They represent what managers call **intellectual capital**, which is the combined brainpower and shared knowledge of an organization’s employees.<sup>4</sup> Intellectual capital is a strategic asset that organizations can use to transform human creativity, insight, and decision-making into performance. Intellectual capital is also a personal asset, one to be nurtured and continually updated. It is the package of intellect, skills, and capabilities that sets us apart, and that makes us valuable to potential employers.

Think about the personal implications of this *intellectual capital equation*: Intellectual Capital = Competency × Commitment.<sup>5</sup> What does it suggest in terms of developing your talents for career success? **Competency** represents your personal talents or job-related capabilities. Although extremely important, competency by itself won’t guarantee success. You have to be committed. **Commitment** represents how hard you work to apply your talents and capabilities to important tasks. Both are essential. Having one without the other won’t allow you to

achieve important career goals or to meet even basic performance requirements. It takes both competency and commitment to generate intellectual capital. Generational differences in views of work elements such as competency and commitment are discussed in Management Is Real 1.1.

Workplaces in today’s age of information, technology, and change are dominated by **knowledge workers** whose minds—their creativity and insight—are critical assets.<sup>6</sup> Futurist Daniel Pink says we will soon enter a *conceptual age* where a premium will be placed on “whole mind” competencies. Those who have them are both “high concept”—creative and good with ideas—and “high touch”—cheerful and good with relationships.<sup>7</sup> Management scholar and consultant Gary Hamel talks about a *creative economy*, “where even knowledge itself is becoming a commodity” and “the most important differentiator will be how fast you can create something new.”<sup>8</sup> Mastering these intellectual challenges requires ongoing development of multiple skill sets in order to keep your personal competencies aligned with—and at the forefront of—emerging job trends.

## Technology

Technology continuously tests our talents and intrudes into every aspect of our lives. Think about how much time you

### Management Is Real 1.1: Analysis | Make Data Your Friend

72 percent of college students want “a job where I can make an impact.”

#### Multiple Generations Meet and Greet in the New World of Work

Is the notion of a “9 to 5” job about to become a relic? What happens as younger workers advance into management? How can baby boomers and millennials work well with each other? The changing mix of ages and attitudes in the workplace is putting the pressure on traditional employment practices. Here are some survey data to consider.

- 60 percent of millennials change their first jobs after three years and employers spend \$15,000 to \$25,000 recruiting replacements.
- The best predictor of job loyalty for millennials is “a good culture fit.”
- 45 percent of millennials rate workplace flexibility higher than pay and 71 percent hope co-workers will become a “second family.”
- 68 percent of millennials get high scores for being enthusiastic about work, 45 percent for being team players, and 39 percent for being hard-working.
- 73 percent of boomer managers get high scores for being hard-working, 55 percent for being team players, 21 percent for flexibility, and 16 percent for inclusive leadership.
- 72 percent of college students say they want “a job where I can make an impact.”



Hero Images/Getty Images

- 60 percent of Generation-Zers want multiple check-ins from their managers weekly, if not daily.

#### What are the Implications?

How do these findings compare with your own career preferences or what you hear from people you know? How might this evidence influence your approach to seeking a job? What characteristics and practices define your ideal employer? What can employers do to attract and retain talented millennials while keeping older generations happy? Is what’s good for millennials necessarily good for everyone? How can managers effectively integrate people with varying needs and interests so employees from different generations work together with respect and pride?

spend on Zoom, Hangouts, Twitter, Snapchat, WeChat, Facebook, and more. We are continuously bombarded with advertisements for the latest developments—smart phones, smart apparel, smart cars, smart homes. We struggle to keep up with our social media involvements, stay connected with messaging, and deal with full email and voice mail inboxes. It is likely that, right now, you are reading this “book” on your favourite tablet or smart phone rather than in its traditional form. Given what has already happened with how we use technology, what will things look like tomorrow?

We are currently in the **fourth industrial age**, one where the cloud, mobile Internet, automation, robotics, and artificial intelligence are driving the forces of change. To succeed, it is critical to build and to maintain a high **Tech IQ**—the ability to use current technologies at work and in your personal life, combined with the commitment to keep yourself updated as technology continues to evolve. Whether you’re checking inventory, making a sale, ordering supplies, sourcing customers, prioritizing accounts, handling payrolls, recruiting new hires, or analyzing customer preferences, Tech IQ is indispensable. More and more people spend at least part of their workday telecommuting or working from home or in mobile offices. Workplaces are full of “virtual teams” with members who meet, access common databases, share information and files, make plans and decisions, solve problems together, and complete tasks without ever meeting face to face. Tech IQ is an essential foundation for succeeding in this fast-changing world of technological innovation.

Even finding work and succeeding in the job selection process today involves skilled use of technology. Poor communication, careless applications, and under-researched attempts do not work in the world of the electronic job search. Filling in your online profile with the right keywords does work. Many employers use sophisticated software to scan online profiles for indicators of real job skills and experiences that fit their needs. Most recruiters today also check social media for negative indicators about applicants.

## Globalization

National boundaries hardly count anymore in the world of business.<sup>9</sup> Over 1.9 million people in Canada work for foreign employers.<sup>10</sup> We buy Japanese cars like Toyota and Honda that are assembled in Canada. We buy appliances from the Chinese firm Haier and Tetley Tea from India’s Tata Group. Top managers at Starbucks, IBM, Sony, Ford, and other global companies have little need for the words “overseas” or “international” in their vocabulary. They operate as global businesses serving customers around the world. They source materials and talent wherever in the world it can be found at the lowest cost.

These are among the many consequences of **globalization**, which is the worldwide interdependence of resource flows, product markets, and business competition.<sup>11</sup> Under its influence, government leaders worry about the competitiveness of nations, just as corporate leaders worry about business competitiveness.<sup>12</sup> Countries and people are interconnected through labour markets, employment patterns, and financial

systems. We are no longer surprised to find that our customer service call is answered in Ghana, CT scans are read by a radiologist in India, and business records are maintained by accountants in the Philippines.

One controversial consequence of globalization is **job migration**, which is the shifting of jobs from one country to another. While Canada has been a net loser to job migration, countries like China, India, and the Philippines have been net gainers. Politicians and policy-makers regularly debate the costs of job migration as local jobs are lost and communities lose economic vitality. One side looks for new government policies to stop job migration and protect Canadian jobs. The other side calls for patience, arguing that the national economy will grow jobs in the long run as the global economy readjusts.

The flip side of job migration is **reshoring**, which is the shift of manufacturing and jobs back home from overseas. Rising global manufacturing and transportation costs, increasing labour costs in China and other manufacturing countries, growing worries about intellectual property protection in countries like China, and shortened supply chain lead times have led manufacturing firms such as Caterpillar, Ford, and General Electric to do more reshoring.<sup>13</sup> A recent report by BDO Canada, an accounting firm that provides business advisory services, comments on the growing tendency toward reshoring: “A firm’s proximity to its customers is once again becoming a strategic asset and competitive advantage.”<sup>14</sup>

## Ethics

It’s old news now that Bernie Madoff was sentenced to 150 years in jail for a Ponzi scheme costing investors billions of dollars. But the message is still timely and crystal clear: Commit white-collar crime and you will be punished.<sup>15</sup> Madoff’s crime did terrible harm to numerous individuals who lost their life savings, charitable foundations that lost millions in charitable gifts, and employees who lost their jobs. Our society also paid a large price as investors’ faith in the business system was damaged by the scandal. Although very high profile, the Madoff scandal was by no means a unique or isolated case of criminal behaviour by a lone executive. Fresh scandals involving companies like SNC Lavalin regularly make the news.

The issues we explore here deal with the broader notion of **ethics**—a code of moral principles that sets standards for conduct that is “good” and “right,” as well as “bad” and “wrong.”<sup>16</sup> At the end of the day we depend on individuals, working at all organizational levels, to conduct themselves in ethical ways. We also expect employers to act ethically (see Management Is Real 1.2). And even though ethics failures get most of the publicity, you’ll find many examples of managers who demonstrate moral leadership and integrity. Believing that most CEOs are overpaid, the former CEO of Dial Corporation, Herb Baum, once gave his annual bonus to the firm’s lowest-paid workers.<sup>17</sup> In his book *The Transparent Leader*, he argues that integrity is key to leadership success and that the responsibility for setting an organization’s ethical tone begins at the top. Shareholders in several companies in Canada are getting more aggressive when it comes to voting against excessive executive compensation.<sup>18</sup>

## Management Is Real 1.2: Ethics | Know Right from Wrong

Subtleties in social media postings can contribute to discrimination in the recruitment process.

### Social Media Searches Linked with Discrimination in Hiring

It's no secret that a growing number of employers (more than a third) browse the web and follow social media to gather information and impressions about job candidates. It is also well known that inappropriate postings can hurt you, so much so that people are increasingly editing controversial things they've done out of their public profiles.

New research reported from Carnegie Mellon University also suggests that subtle cues in social media postings can contribute to discrimination in the recruitment process. One of the researchers, Professor Alessandro Acquisti, says, "There is so much information we reveal about ourselves online, sometimes in ways we do not even realize."

Researchers distributed 4,000 resumés to job posting sites and associated the resumés with Facebook profiles offering hints—background photos and quotes, for example—about the candidates' religion (Muslim or Christian) and sexuality (gay or straight). Results showed that 17% of Christians received a call back while only 2% of Muslims did. Sexuality cues made no significant difference in call-back rates. It's against Canadian law to discriminate in hiring on the basis of religion or sexuality, but the researchers point out that discrimination based on what is discovered in social media investigations can be unconscious rather than intentional. Professor Acquisti says, "By and large, employers avoid asking questions about these traits in interviews. But now technology makes it easier to find that information." Other social media cues



Loic Venance/AFP/Getty Images

that may lead employers to discriminate are photos of women showing pregnancies or children, and applicant names that are associated with ethnic, racial, or religious communities.

#### What Do You Think?

Facebook offers privacy settings to shield from public consumption information intended only for friends. But does this go far enough to protect individual privacy? Is it ethical for employers to use social media to "peek" at the personal lives of prospective candidates? Should there be laws preventing them from doing so? What about individual responsibility? Given so much publicity about social media use by recruiters, shouldn't job seekers be informed and aware enough to screen out potentially harmful and discriminatory information? Are these job seekers at fault if negative consequences result when they don't?

One indicator of ethics in organizations is the emphasis given to social responsibility and sustainability practices. President and CEO Rob Wesseling of the Guelph-based company The Co-operators states, "We exist to provide financial security for Canadians and Canadian communities. And, we take a holistic view. It's not just financial security in terms of economics, but also social and environmental security which are critical to overall wellness." It is this strategy and focus that earned The Co-operators the top spot on the 2019 Corporate Knights Best 50 Corporate Citizens list in Canada.<sup>19</sup>

Another ethics indicator is the strength of **corporate governance**. Think of this as the active oversight of top management decisions, corporate strategy, and financial reporting by a company's board of directors.

## Diversity

The term **workforce diversity** describes the composition of a workforce in terms of gender, age, race, ethnicity, religion, sexual orientation, and able-bodiedness.<sup>20</sup> These demographics have changed considerably in recent years. Members of minority groups now constitute more than one-fifth of the

Canadian population,<sup>21</sup> and women make up almost half (47 percent) of the Canadian workforce.<sup>22</sup> By the year 2031, it is predicted that up to 14.1 million people will be members of a visible minority, approximately 3 in 10 Canadians. South Asians, including Indians, Pakistanis, and Sri Lankans, are expected to make up the largest visible minority group.<sup>23</sup> Statistics Canada projects that roughly 37 percent of the population will be at least 65 years old.

Despite these changes, the way we deal with diversity in the workplace remains complicated. Women now lead global companies like IBM, PepsiCo, Xerox, and Kraft, but they hold just 5 percent of the top jobs.<sup>24</sup> The proportion of women at the top is growing, but female CEOs also get fired at a higher rate than their male counterparts.<sup>25</sup>

Why aren't there more women, and people of colour, leading organizations? To what extent does diversity bias still influence recruitment and selection decisions? Researchers have found that resumés of applicants with white-sounding first names, such as Brett, receive 50 percent more responses from employers than equivalent resumés with black-sounding first names, such as Kareem.<sup>26</sup>

The stage for diversity bias is set by **prejudice**—the display of negative, irrational opinions and attitudes regarding

members of diverse populations. An example of bias is the lingering prejudice against working mothers. The non-profit Families and Work Institute reported that in 1977, 49 percent of men and 71 percent of women believed that mothers can be good employees; by 2008 the proportions had risen to 67 percent and 80 percent.<sup>27</sup> Don't you wonder why there isn't 100 percent support for working mothers? And how do you account for a study that sent faux resumé to recruiters and found that the least desirable candidates were women with children?<sup>28</sup> The inspiring story of one highly successful working mother is in Management Is Real 1.3.

Prejudice becomes active **discrimination** when members of some groups are unfairly treated and denied the full benefits of organizational membership. One example of discrimination is a manager inventing reasons not to interview a visible minority job candidate. Another example is a supervisor who refuses to promote a working mother for fear that parenting responsibilities will make it hard for her to do a good job. This thinking shows a subtle form of discrimination called the

**glass ceiling effect**, an invisible barrier or ceiling that prevents women and visible minorities from rising to top jobs.

Scholar Judith Rosener warns that discrimination of any sort leads to “undervalued and underutilized human capital.”<sup>29</sup> To avoid this problem, the position of chief diversity officer, or CDO, is gaining stature in organizations. Its presence recognizes that diversity is not only a moral issue but an opportunity for real performance gains. The job of CDO is to make sure the work environment allows women and members of other groups to flourish, and fully utilizes their talents.<sup>30</sup>

## Careers and Connections

When the economy is weak and employment markets are tight, the task of finding a career entry point can be daunting. It always pays to remember the importance of online resumé and job searches, and the power of social networking with established professionals. In addition, job seekers should

### Management Is Real 1.3: Wisdom | Learn from Role Models

“I’m going to start a company,” she announced one day.

#### Tonia Jahshan Turned Over a New Leaf

In 2006, Tonia Jahshan was working at a sales and marketing agency she ran with her father. Because of a personal tragedy, she was feeling lost and disengaged. She began reassessing her life—asking whether she really wanted to sell electrical equipment for the rest of her career.

To help change her dismal mood, she and her husband took some time off and left their home in Ancaster, Ontario, for a getaway to Halifax to spend some time at a bed and breakfast. That little trip changed her life. For breakfast the host served a cup of cream of Earl Grey tea. “I was blown away by the taste and smell,” Jahshan recalls. She was so enthusiastic about the tea that she and her husband drove to a little boutique an hour away to stock up and bring some home.

Within two weeks Tonia knew that those little leaves of aromatic pleasure were where her future would lie. “I’m going to start a company,” she announced to her husband. “I’m going to have tea parties and sell tea leaves ... And I’m calling it ‘Steeped Tea.’”

Her early success was tantalizing. To accomplish her vision, she turned to direct selling, similar to Avon or Tupperware parties, where people would have tea parties in their homes and build friendships. Jahshan knew she wanted a scalable business where people could earn on their own terms and she could grow the company as sales increased.

By 2010 her business was growing steadily, but she wasn’t making any money. Tonia set out to add a second-in-command to help clean up the books and streamline operations. She found the perfect candidate in her husband, who had just finished his MBA. Her husband joined the company as CEO and helped manage finances, negotiate with suppliers, streamline the product line, and build more efficient management systems.

In 2012, she took the risk of appearing on the TV show *Dragons’ Den*, where she boldly presented her business model and vision. The result was that Dragons David Chilton and Jim Treliving



Courtesy of Steeped Tea, Inc.

invested \$250,000 for 20 percent of the business. Although she had several years of very hard work, and she weathered some financially tight situations, today she has an award-winning business with annual sales of \$20 million and a workforce of 9,000 salespeople in Canada and the United States.

Tonia’s company has been recognized year over year as one of PROFIT 500 Canada’s Fastest-Growing Companies, and she was proclaimed as Canada’s #1 Female Entrepreneur by W100. She has also received the Ernst and Young Entrepreneurial Winning Women award and has been listed as 1 of 6 Women to Watch on *forbes.com*. Tonia lives in Hamilton, Ontario, with her husband Hatem and their three kids—Layla, Jenna, and Sami.<sup>31</sup>

#### Find Inspiration

Tonia Jahshan’s trajectory from salesperson to woman entrepreneur of the year is impressive. What career lessons are here for others to follow? Which special skills and personal characteristics may have helped Jahshan grow into a leadership role? She’s a young Canadian woman with three children and a husband. How can her success in an entrepreneurial environment serve as a role model for others?



consider internships as pathways to first-job placements. But everything still depends on the mix of skills you can offer a potential employer and how well you communicate those skills during the recruitment process. Picture yourself in a job interview. The recruiter asks this question: “What can you do for us?” How do you reply? Your answer can set the stage for career success ... or for something less.

British scholar and consultant Charles Handy uses the analogy of a **shamrock** to highlight the challenges of developing skill portfolios that fit the new workplace.<sup>32</sup> The first leaf in the shamrock is a core group of permanent, full-time employees who follow standard career paths. The number of people in this first leaf is shrinking.<sup>33</sup> They are being replaced by a second leaf of “freelancers” and “independent contractors” who offer specialized skills and talents on a contract basis, then change employers when projects are completed.<sup>34</sup> Full-time employees are also being replaced by a third leaf of temporary part-timers. They often work without benefits and are the first to lose their jobs when an employer runs into economic difficulties.

Most people hired today will have to be able to succeed in a **free-agent economy**, one where people change jobs more often and work on flexible contracts with a shifting mix of employers over time. Skills like those in the list below must be kept up to date and portable.<sup>35</sup> They can’t be gained once and then forgotten. They must be carefully maintained and upgraded all the time. All this places a premium on your capacity for **self-management**—being able to assess yourself realistically, recognize strengths and weaknesses, make constructive changes, and manage your personal development. Here are the early career survival skills to acquire.

- **Mastery:** You need to be good at something. You need to be able to contribute real value to your employer.
- **Networking:** You need to know people and get connected. Networking with others within and outside the organization is essential.
- **Entrepreneurship:** You must act as if you are running your own business, spotting ideas and opportunities and pursuing them.
- **Technology:** You have to embrace technology. You have to stay up to date and fully utilize all that is available.
- **Marketing:** You need to communicate your successes and progress—both yours personally and those of your work team.
- **Renewal:** You need to learn and change continuously, always improving yourself for the future.

Connections count for a lot in the free-agent economy. They open doors to opportunities and resources that otherwise wouldn’t be available. People with connections gain access to valuable information about potential jobs and often score more interviews and better jobs than those without connections. While in the past the best connections may have been limited to people who had gone to the “right” kinds of schools or came from the “right” kinds of families, this is no longer the case. **Social networking** tools—such as LinkedIn, Facebook, and WeChat that connect users with similar interests have become

the great equalizer. They make the process of connecting much easier and more democratic than ever before. Importantly, they are readily available ways for you to make connections that can help with job searches and career advancement.

## Learning Check

**LEARNING OBJECTIVE 1.1** Summarize the challenges of developing and maintaining career readiness in the new economy.

**Be Sure You Can** • describe how intellectual capital, ethics, diversity, globalization, technology, and the changing nature of careers influence working in the new economy • define *intellectual capital*, *workforce diversity*, and *globalization* • explain how prejudice, discrimination, and the glass ceiling can hurt people at work

## 1.2

# Organizations

**LEARNING OBJECTIVE 1.2**

Describe what organizations are like as work settings.

### Learn More About

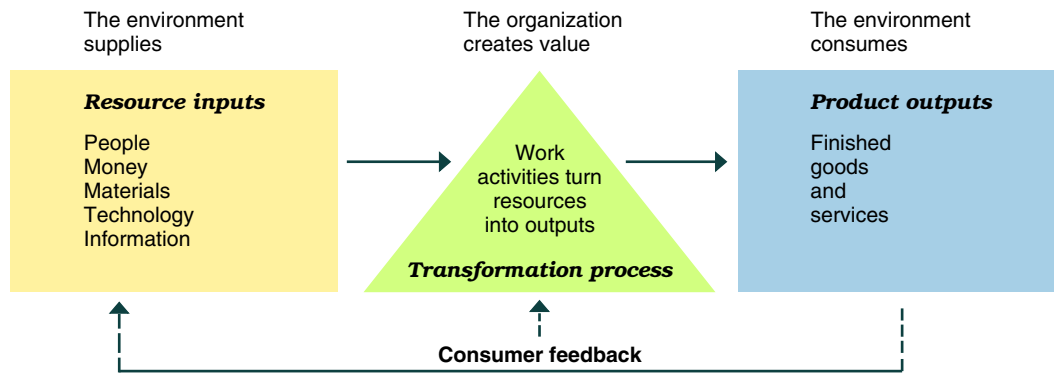
Organizational purpose • Organizations as systems • Organizational performance • Changing nature of organizations

In order to make good employment choices and perform well in a career, you need to understand the nature of organizations and recognize how they work as complex systems.

## Organizational Purpose

An **organization** is a collection of people working together to achieve a common purpose. It is a unique social phenomenon that enables its members to perform tasks far beyond the reach of individual accomplishment. This description applies to organizations of all sizes and types that make up the life of any community, from large corporations to small businesses, as well as such non-profit organizations as schools, government agencies, and hospitals.

The broad purpose of any organization is to provide goods or services of value to customers and clients. A clear sense of purpose tied to “quality products and services,” “customer satisfaction,” and “social responsibility” can be an important source of organizational strength and performance advantage. IBM’s former CEO, Samuel Palmisano, once said: “One simple way to assess the impact of any organization is to ask the question: How is the world different because it existed?”<sup>36</sup> Whole Foods



**FIGURE 1.1** Organizations as open systems interacting with their environments.

founder John Mackey answers by saying: “I think that business has a noble purpose. It means that businesses serve society. They produce goods and services that make people’s lives better.” On the Whole Foods website this is stated as a commitment to “Whole Foods—Whole People—Whole Planet.”<sup>37</sup>

A story recounted on a Disneyland blog provides an excellent example of an organization’s development of a “purpose.” Joseph Van Arsdale France, tasked with developing a training program for park employees, came up with a new idea for a purpose for Disneyland. As he was preparing to pitch his idea to Walt and Roy Disney, Van Arsdale France recalled, “My goal, as I saw it, was to get everyone we hired to share in an intangible dream, and not just working for a paycheck.” Van Arsdale France remembering the moment: “And here were top executives, all of them right there, and I had to get up and say, ‘And now our theme: the purpose of Disneyland is to create happiness for others.’ And you see, the beautiful thing about saying, ‘We’re going to create happiness’ was then I could say, ‘Look, you may park cars, clean up the place, sweep the place, work graveyard and everything else, but whatever you do is contributing to creating happiness for others.’” Van Arsdale France’s insight was to create a single, unifying purpose that connected every employee with the emotional aspirations of each guest, with the goal of making Disneyland the happiest place on earth.<sup>38</sup>

## Organizations as Systems

All organizations are **open systems** that interact with their environments. They do so in a continual process of obtaining resource inputs—people, information, resources, and

capital—and transforming them into outputs in the form of finished goods and services for customers.<sup>39</sup>

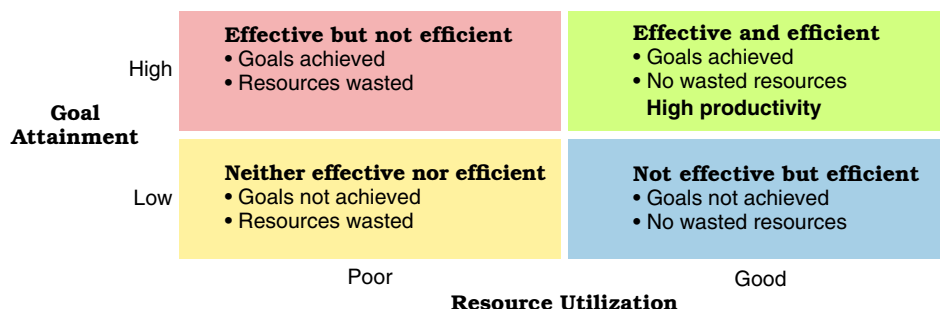
As shown in **Figure 1.1**, feedback from the environment indicates how well an organization is doing. When Starbucks started a customer blog, for example, requests for speedier service popped up. The company quickly made changes that eliminated requiring signatures on credit card charges less than \$25. Salesforce.com is another company that thrives on feedback. It set up a website called Idea Exchange to get customer suggestions, even asking them at one point to vote on a possible name change—the response was “No!”<sup>40</sup> Gathering and listening to customer feedback is important; without loyal customers, a business can’t survive.

## Organizational Performance

Organizations create value when they use resources well to produce good products and take care of their customers. When operations add value to the original cost of resource inputs, then a business organization can earn a profit—by selling a product for more than the costs of making it, and a non-profit organization can add wealth to society—by providing a public service like fire protection that is worth more than its cost.

One of the most common ways to assess performance by and within organizations is **productivity**. It measures the quantity and quality of outputs relative to the cost of inputs. And as **Figure 1.2** shows, productivity involves both performance effectiveness and performance efficiency.

**Performance effectiveness** is an output measure of task or goal accomplishment. If you are working as a software



**FIGURE 1.2** Productivity and the dimensions of organizational performance.

engineer for a computer game developer, performance effectiveness may mean that you meet a daily production target in terms of the quantity and quality of lines of code written. This productivity helps the company meet customer demands for timely delivery of high-quality gaming products.

**Performance efficiency** is an input measure of the resource costs associated with goal accomplishment. Returning to the gaming example, the most efficient software production is accomplished at a minimum cost in materials and labour. If you are producing fewer lines of code in a day than you are capable of, this amounts to inefficiency; if you make lots of mistakes that require extensive rewrites, this is also inefficient work. All such inefficiencies drive up costs and reduce productivity.

## Changing Nature of Organizations

Change is a constant feature of our society, and organizations are no exception. The following list shows some organizational trends and transitions relevant to the study of management.<sup>41</sup>

- *Focus on valuing human capital:* The premium is on high-involvement work settings that rally the knowledge, experience, and commitment of all members.
- *Demise of “command-and-control”:* Traditional top-down “do as I say” bosses are giving way to participatory bosses who treat people with respect.
- *Emphasis on teamwork:* Organizations are becoming less hierarchical and more driven by teamwork that pools talents for creative problem solving.
- *Pre-eminence of technology:* Developments in computer and information technology keep changing the way organizations operate and how people work.
- *Importance of networking:* Organizations and their members are networked for intense, real-time communication and coordination.
- *New workforce expectations:* The new generation of workers is attentive to performance merit, concerned for work-life balance, less tolerant of hierarchy, and more informal than previous generations.
- *Concern for sustainability:* Social values call for more attention to the preservation of natural resources for future generations and understanding how work affects human well-being.

### Learning Check

**LEARNING OBJECTIVE 1.2** Describe what organizations are like as work settings.

**Be Sure You Can** • describe how organizations operate as open systems • explain productivity as a measure of organizational performance • distinguish between performance effectiveness and performance efficiency • list several ways in which organizations are changing today

## 1.3 Managers

### LEARNING OBJECTIVE 1.3

Discuss what it means to be a manager.

#### Learn More About

- Importance of managers • Levels of managers
- Types of managers • Managerial performance
- Changing nature of managerial work

In an article titled “Putting People First for Organizational Success,” Jeffrey Pfeffer and John F. Veiga argue forcefully that organizations perform better when they treat their members better.<sup>42</sup> Managers in high-performing organizations don’t treat people as costs to be controlled; they treat them as valuable strategic assets to be carefully nurtured and developed. So, who are today’s managers and just what do they do?

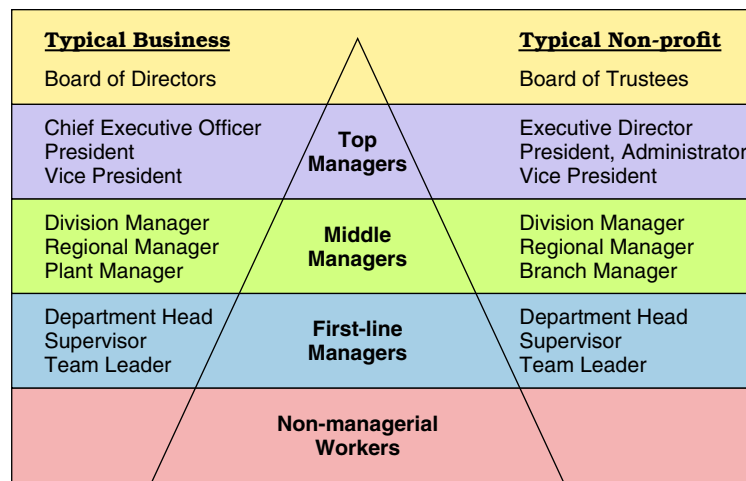
## What Is a Manager?

You find them in all organizations and with a wide variety of job titles—team leader, department head, supervisor, project manager, president, administrator, and more. We call them **managers**, people in organizations who directly support, supervise, and help activate the work efforts and performance accomplishments of others. Whether they are called direct reports, team members, work associates, or subordinates, these “other people” are the essential human resources whose contributions represent the real work of the organization. As pointed out by management scholar Henry Mintzberg, being a manager remains an important and socially responsible job. “No job is more vital to our society than that of the manager,” he says. “It is the manager who determines whether our social institutions serve us well or whether they squander our talents and resources.”<sup>43</sup>

## Levels of Managers

At the highest levels of business organizations, as shown in **Figure 1.3**, we find a **board of directors** whose members are elected by shareholders to represent their ownership interests. In non-profit organizations such as a hospital or university, this level is often called a *board of trustees*, and its members may be elected by local citizens, appointed by government bodies, or invited by existing members. The basic responsibilities of board members are the same in both business and the public sector—to make sure that the organization is always being well run and managed in a lawful and ethical manner.<sup>44</sup>

Common job titles just below the board level are chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), chief information officer (CIO), chief diversity officer (CDO), president, and vice president. These **top managers** constitute an executive team that reports to the board and is



**FIGURE 1.3** Management levels in typical business and non-profit organizations.

responsible for the performance of an organization as a whole or of one of its larger parts. It is common to find the members of an organization's top management team referred to as part of the *C-suite*.

Top managers are supposed to set strategy and lead the organization in a way that is consistent with its purpose and mission. They should pay special attention to the external environment and be alert to potential long-run problems and opportunities. The best top managers are strategic thinkers able to make good decisions under highly competitive and even uncertain conditions. A CEO at Procter & Gamble once said the job of top managers is to “link the external world with the internal organization ... make sure the voice of the consumer is heard ... shape values and standards.”<sup>45</sup>

Reporting to top managers are the **middle managers**, who are in charge of relatively large departments or divisions consisting of several smaller work units. Examples include clinic directors in hospitals; deans in universities; and division managers, plant managers, and regional sales managers in businesses. Job descriptions for middle managers may include working with top managers, coordinating with peers, and supporting lower-level team members to develop and pursue action plans that implement organizational strategies to accomplish key objectives.

A starting job in management typically involves serving as a **team leader** or supervisor—someone in charge of a small work group composed of non-managerial workers.<sup>46</sup> Typical job titles for these first-line managers include department head, team leader, and supervisor. The leader of an auditing team, for example, is considered a first-line manager, as is the head of an academic department in a university. Even though most people enter the workforce as technical specialists such as engineer, market researcher, or systems analyst, at some point they probably advance to positions of initial managerial responsibility.

## Types of Managers

Many types of managers comprise an organization. **Line managers** are responsible for work that makes a direct contribution to the organization's outputs. For example, the president, retail manager, and department supervisors of a local department store all have

line responsibilities. Their jobs in one way or another are directly related to the sales operations of the store. **Staff managers**, by contrast, use special technical expertise to advise and support the efforts of line workers. In a department store chain like Nordstrom or Hudson's Bay, the corporate director of human resources and chief financial officer would have staff responsibilities.

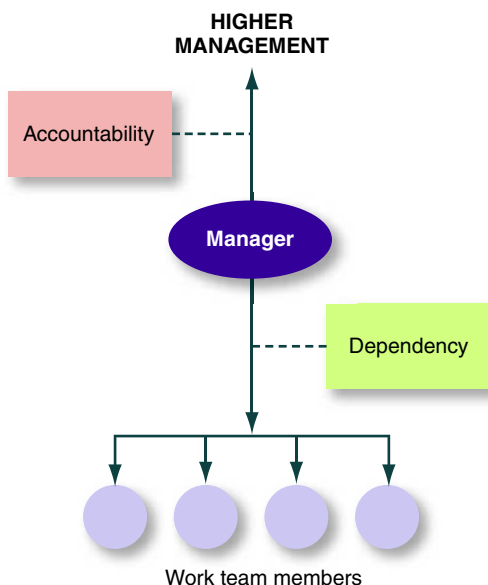
**Functional managers** have responsibility for a single area of activity such as finance, marketing, production, human resources, accounting, or sales. **General managers** are responsible for activities covering many functional areas. An example is a plant manager who oversees everything, including purchasing, manufacturing, human resources, finance, and accounting. In public or non-profit organizations, managers may be called **administrators**. Examples include hospital administrators, public administrators, and city administrators.

## Managerial Performance

All managers help people, working individually and in teams, to perform. They do this while being personally accountable for results achieved. **Accountability** is the requirement of one person to answer to a higher authority for performance results in his or her area of work responsibility. This accountability flows upward in the traditional organizational structure (**Figure 1.4**). The team leader is accountable to a middle manager, the middle manager is accountable to a top manager, and even the top manager is accountable through corporate governance to a board of directors or board of trustees.

But what, you might ask, constitutes excellence in managerial performance? When is a manager “effective”? A good answer is that **effective managers** successfully help others achieve both high performance and satisfaction in their work. This dual concern for performance and satisfaction introduces **quality of work life** (QWL) as an indicator of the overall quality of human experiences at work. A “high-QWL” workplace offers such things as respect, fair pay, safe conditions, opportunities to learn and use new skills, room to grow and progress in a career, and the protection of individual rights and wellness.

Scholar Jeffrey Pfeffer considers QWL a high-priority issue of human sustainability. Why, he asks, don't we give more attention



**FIGURE 1.4** Accountability in the traditional organization.

to human sustainability and “organizational effects on employee health and mortality”?<sup>47</sup> What do you think? Should managers be held accountable not just for performance accomplishments of their teams and work units, but also for the human sustainability of those who work with and for them? In other words, shouldn't productivity and quality of working life go hand in hand?

## Changing Nature of Managerial Work

Cindy Zollinger, president and CEO of Cornerstone Research, directly supervises more than 20 people. But, she says: “I don't

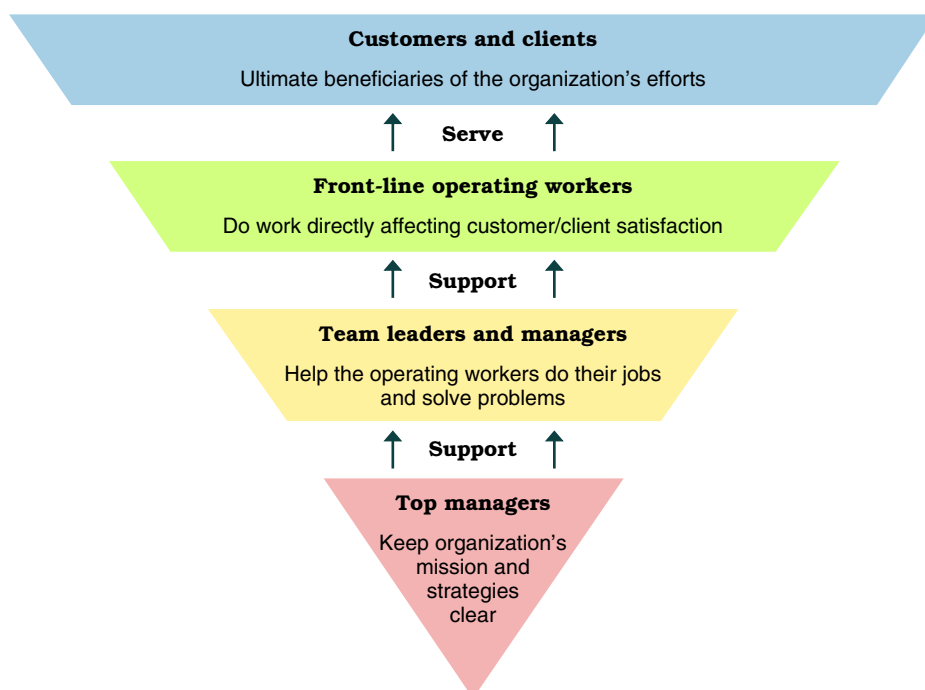
really manage them in a typical way; they largely run themselves. I help them in dealing with obstacles they face, or in making the most of opportunities they find.”<sup>48</sup> These comments describe a workplace where the best managers are known more for helping and supporting than for directing and order-giving. The words *coordinator*, *coach*, and *team leader* are heard as often as *supervisor* or *boss*.

The concept of the **upside-down pyramid** shown in **Figure 1.5** fits well with the changing mindset of managerial work today. Notice that the operating and front-line workers are at the top of the upside-down pyramid, just below the customers and clients they serve. They are supported in their work efforts by managers below them. These managers aren't just order-givers; they are there to mobilize and deliver the support others need to do their jobs best and serve customer needs. Sitting at the bottom are top managers and C-suite executives; their jobs are to support everyone and everything above them. The upside-down pyramid view leaves no doubt that the entire organization is devoted to serving customers and that the job of managers is to support the workers who make this possible.

### Learning Check

**LEARNING OBJECTIVE 1.3** Discuss what it means to be a manager.

**Be Sure You Can** • describe the various types and levels of managers • define *accountability* and *quality of work life*, and explain their importance to managerial performance • discuss how managerial work is changing today • explain the role of managers in the upside-down pyramid view of organizations



**FIGURE 1.5** The organization viewed as an upside-down pyramid.

## 1.4 The Management Process

### LEARNING OBJECTIVE 1.4

Explain the functions, roles, and activities of managers.

#### Learn More About

Functions of management • Managerial roles and activities • Managerial agendas and networks

The ultimate “bottom line” in every manager’s job is to help an organization achieve high performance by best utilizing its human and material resources. This is accomplished through the four **management process** functions of planning, organizing, leading, and controlling.

### Functions of Management

All managers, regardless of title, level, type, and organizational setting, are responsible for the four management functions shown in **Figure 1.6**. These functions are continually engaged in as a manager moves from task to task and opportunity to opportunity in his or her work.

**Planning** **Planning** is the process of setting performance objectives and determining what actions should be taken to accomplish them. Through planning, a manager identifies desired results—goals and objectives, and ways to achieve them—action plans.

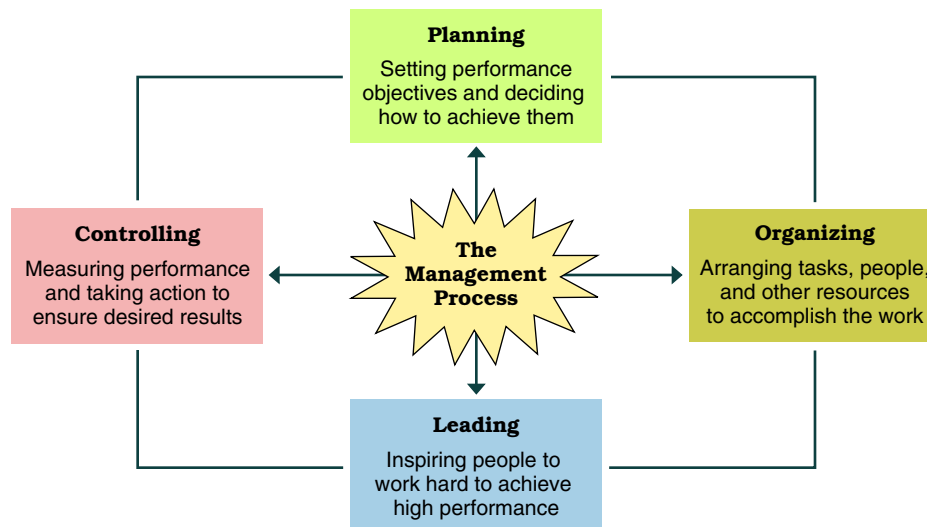
There was a time, for example, when top management at EY (previously Ernst & Young) became concerned about the firm’s retention of female professionals.<sup>49</sup> Then-chairman

Philip A. Laskawy launched a diversity task force with the planning objective to reduce turnover rates for women. When the task force began its work, this turnover was running some 22 percent per year, and it cost the firm about 150 percent of a departing employee’s annual salary to hire and train each replacement. Laskawy considered this performance unacceptable and put plans in place to improve it.

**Organizing** Once plans are set, they must be implemented. This begins with **organizing**, the process of assigning tasks, allocating resources, and coordinating the activities of individuals and groups to accomplish plans. Organizing is how managers put plans into action by defining jobs and tasks, assigning them to responsible persons, and then providing support such as technology, time, and other resources. One Canadian company’s innovative way of organizing employee time is discussed in Management Is Real 1.4.

Many organizations are being recognized for the plans they are making and the steps they are taking to build diverse and inclusive workplaces. For instance, the William Osler Health System in Brampton, Ontario, was recently recognized as one of Canada’s best diversity employers. Its Diversity Advisory Council rotates co-chairs in order to increase engagement and share additional diverse perspectives. Seventy employees volunteer as diversity champions who are responsible for adopting diversity and equity best practices. Most recently they created a multidisciplinary LGBTQ2+ advisory group with both clinical and non-clinical staff to develop guidelines for working with and caring for LGBTQ2+ communities. They also have diversity programs for people with disabilities, members of visible minorities, LGBTQ2+ newcomers, and members of linguistic, cultural, and religious minorities.<sup>50</sup>

**Leading** **Leading** is the process of arousing people’s enthusiasm and inspiring their efforts to work hard to fulfill plans and accomplish objectives. Managers lead by building commitments to a common vision, encouraging activities that



**FIGURE 1.6** Four functions of management—planning, organizing, leading, and controlling.

## Management Is Real 1.4: Choices | Think before You Act

“We trust our employees like owners and they pay that trust back to us, acting like owners.”

### Want Vacation? Take as Much as You Want

BuildDirect, a Vancouver-based company that sells home improvement and building materials at wholesale prices, offers its 300 employees access to unlimited paid vacation. CEO Jeff Booth believes in the integrity of his employees. “Instead of measuring hours we measure output.”

The policy means that all employees, even the staff in the warehouse, have access to the plan.

“We trust our employees like owners,” says Booth, “and they pay that trust back to us, acting like owners.” The only limitation

is they can take off no more than four consecutive weeks, as many times over the course of the year, although if a manager thought a request was reasonable, he or she could sign off for a longer period.

A policy of unlimited vacation is an indication of the changing nature of the workplace.

### What’s Your Take?

So, is this approach to vacation time something that more employers should be planning? Is it the next hot thing that will be sought by new graduates? What are the risks and limits for employers, if any? How about the “motivation” issues? Would this be appealing for you, something that would keep you productive and loyal? If unlimited vacation time is such a good idea, why aren’t more employers doing it?

support goals, and influencing others to do their best work on the organization’s behalf.

**Controlling** The management function of **controlling** is the process of measuring work performance, comparing results with objectives, and taking corrective action as needed. Managers exercise control by staying in active contact with people as they work, gathering and interpreting performance measurements, and using this information to make constructive changes. Control is indispensable in the management process. Things don’t always go as anticipated, and plans must often be modified and redefined to fit new circumstances.

At EY, Laskawy and Deborah K. Holmes, who was then the head of the firm’s Office of Retention, documented what the firm’s retention rates for women were when EY started the new programs. This gave them a clear baseline against which they were able to track progress. They regularly measured retention rates for women and compared them with the baseline. They were able to identify successes and pinpoint where they needed to further improve their work–life balance programs. Over time, collected data showed that turnover rates for women were reduced at all levels.

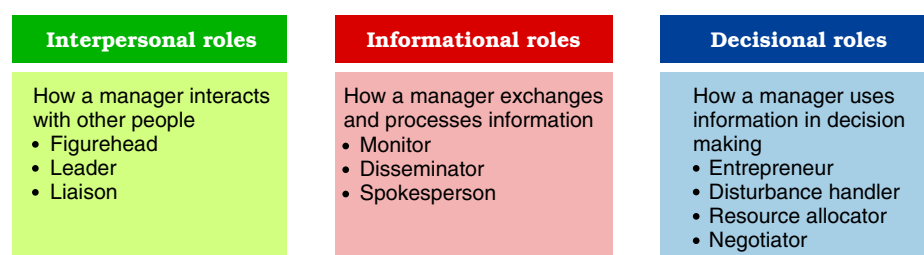
## Managerial Roles and Activities

The management process and its responsibilities of planning, organizing, leading, and controlling are more complicated than they appear at first glance. They must be successfully

accomplished during a workday that can be very challenging. In a classic book, *The Nature of Managerial Work*, McGill researcher Henry Mintzberg describes the daily work of corporate chief executives as follows: “There was no break in the pace of activity during office hours. The mail ... telephone calls ... and meetings ... accounted for almost every minute from the moment these executives entered their offices in the morning until they departed in the evenings.”<sup>51</sup> Today, we might add to Mintzberg’s list of executive preoccupations the relentless “work anytime and anywhere” demands of smart phones, ever-full email and voice mail inboxes, chat and instant message streams, and social media alerts.

**Managerial Roles** In trying to better understand the complex nature of managerial work, Mintzberg identified a set of roles commonly filled by managers.<sup>52</sup> Shown in **Figure 1.7**, they describe how managers must be prepared to succeed in a variety of interpersonal, informational, and decisional responsibilities.

A manager’s interpersonal roles involve interactions with people inside and outside the work unit. A manager fulfilling these roles will be a *figurehead*, modelling and setting forth key principles and policies; a *leader*, providing direction and instilling enthusiasm; and a *liaison*, coordinating with others. A manager’s informational roles involve the giving, receiving, and analyzing of information. A manager fulfilling these roles will be a *monitor*, scanning for information; a *disseminator*, sharing information; and a *spokesperson*, acting as official communicator. The decisional roles involve using information to make



**FIGURE 1.7** Mintzberg’s common roles filled by management.

decisions to solve problems or address opportunities. A manager fulfilling these roles will be a *disturbance handler*, dealing with problems and conflicts; a *resource allocator*, handling budgets and distributing resources; a negotiator, making deals and forging agreements; and an *entrepreneur*, developing new initiatives.

**Managerial Activities** Managers must not only master key roles, they must implement them in intense and complex work settings. Their work is busy, demanding, and stressful at all levels of responsibility. The managers Mintzberg studied had little time to themselves. In fact, unexpected problems and constant requests for meetings consumed almost all available time. A manager's workday consisted of long hours, an intense pace, fragmented and varied tasks, and having to juggle many communication media and interpersonal relationships. In short, their workdays were hectic; the pressure to continuously improve performance was all-encompassing.<sup>53</sup> Mintzberg summarized his observations this way: "The manager can never be free to forget the job, and never has the pleasure of knowing, even temporarily, that there is nothing else to do... Managers always carry the nagging suspicion that they might be able to contribute just a little bit more. Hence they assume an unrelenting pace in their work."<sup>54</sup>

## Managerial Agendas and Networks

*Scene:* On the way to a meeting, a general manager bumped into a colleague from another department. In a two-minute conversation she used this opportunity to (a) ask two questions and receive the information she needed; (b) reinforce their good relationship by sincerely complimenting the colleague on something he had recently done; and (c) get a commitment from the colleague to do something else that the general manager needed done. *Analysis:* This brief incident provides a glimpse of an effective general manager in action. It also portrays two activities that consultant and scholar John Kotter considers critical to a manager's success—agenda setting and networking.<sup>55</sup>

Through **agenda setting**, good managers develop action priorities that include goals and plans spanning long and short time frames. These agendas are usually incomplete and loosely connected in the beginning, but they become more specific as the manager uses information continually gleaned from many different sources. The agendas are always present in the manager's mind and are played out or pushed ahead whenever an opportunity arises, as in the preceding example.

Good managers implement their agendas by **networking**—building and maintaining positive relationships with people whose help may be needed to implement those agendas. Such networking creates **social capital**—the ability to attract support and help from others in order to get things done. In the earlier example, the general manager received help from a colleague who did not report directly to her. The manager's networks and social capital also include relationships she cultivates with peers, higher-level executives, subordinates, and members of their work teams, as well as with external customers, suppliers, and community representatives.

## Learning Check

**LEARNING OBJECTIVE 1.4** Explain the functions, roles, and activities of managers.

**Be Sure You Can** • define and give examples of each of the management functions—*planning, organizing, leading, and controlling* • explain Mintzberg's view of what managers do, including the 10 key managerial roles • explain Kotter's points on how managers use agendas and networks to fulfill their work responsibilities

## 1.5 Learning How to Manage

**LEARNING OBJECTIVE 1.5**

Summarize how we learn and use essential skills for career success.

### Learn More About

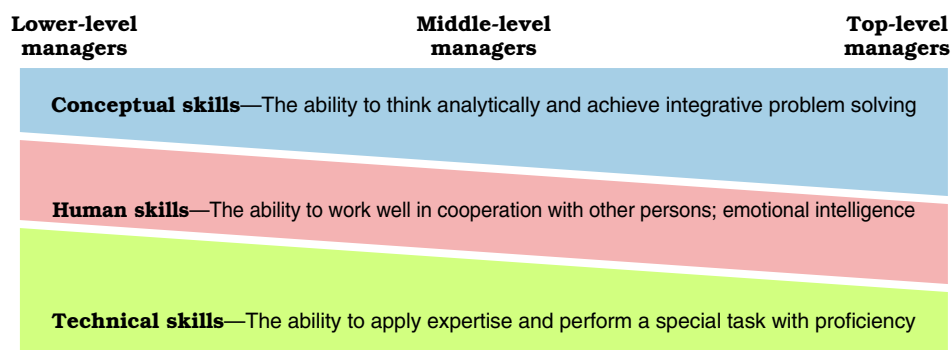
Lifelong learning • Management skills • Technical skills • Human and interpersonal skills • Critical-thinking skills

A survey of the CEOs of major employers like Accenture, Unilever, and Liberty Mutual Insurance revealed dissatisfaction with what they are seeing in business school students. Top criticisms were a lack of self-awareness, poor teamwork and critical-thinking skills, and an absence of creativity.<sup>56</sup> There's no doubt that career success in today's turbulent times depends greatly on **learning**—changing behaviour through experience. But learning begins with self-awareness—a real, unbiased understanding of one's strengths and weaknesses. And when it comes to self-awareness in a management context, the focus of the learning is on the skills and competencies required to help the manager to confidently deal with the complexities of human behaviour and problem solving in organizations.

## Lifelong Learning

As you read the various chapters and special features in this book and participate in course discussions and activities, be sure to self-assess in regard to your career readiness and the learning that might advance that success now and in the future. And don't forget, it's not just formal learning in the classroom that counts. The events of everyday life—from full-time and part-time jobs and customer interactions to teamwork in school, sports, and leisure activities—are rich in learning opportunities ... if you take advantage of them. There's a lot to be gained from making a sincere commitment to **lifelong learning**—the process of continuous learning from all of our daily experiences and opportunities. Is this a challenge you are confident in being able and eager to meet? Do you have what





**FIGURE 1.8** Katz's essential managerial skills—technical, human, and conceptual.

the world's largest executive recruiting firm, Korn/Ferry International, calls **learning agility**, defined as the “willingness to grow, to learn, to have insatiable curiosity”?<sup>57</sup>

## Management Skills

A **skill** is the ability to translate knowledge into action that results in desired performance.<sup>58</sup> Harvard scholar Robert L. Katz divides the essential, or baseline, skills of managers into three categories: technical, human, and conceptual.<sup>59</sup> He suggests that all three sets of skills are necessary for management success, and that their relative importance varies by level of managerial responsibility, as shown in **Figure 1.8**.

## Technical Skills

A technical skill is the ability to use a special proficiency or expertise to perform particular tasks that bring value to an employer. Accountants, engineers, market researchers, financial planners, and systems analysts, for example, possess technical skills within their areas of expertise. Knowing how to write a business plan with a cash flow projection, use statistics to analyze data from a market survey, update software on a computer network, and deliver a persuasive oral presentation are also technical skills. Although initially acquired through formal education, technical skills can become quickly outdated in today's world. It is important to nurture and develop them through ongoing learning that takes full advantage of training and job experiences.

Figure 1.8 shows that technical skills are very important at job entry and early career levels. As you look at this figure, take a quick inventory of your technical skills. You must be able to describe these to a prospective employer when interviewing for a new job. Get prepared by asking yourself this all-important self-assessment question: “What, exactly, can I do for a prospective employer?”

## Human and Interpersonal Skills

Recruiters today put a lot of emphasis on a job candidate's “soft” skills—things like the ability to communicate, collaborate, and network; to lead and contribute to teams; and to engage others with a spirit of trust, enthusiasm, and positivity.<sup>60</sup> Katz called the skills needed to work well in cooperation with

others human skills. As pointed out in Figure 1.8, the interpersonal nature of managerial work makes human skills consistently important across all levels of managerial responsibility.

A manager with good human skills will have a high degree of **emotional intelligence**, defined by scholar and consultant Daniel Goleman as the “ability to manage ourselves and our relationships effectively.”<sup>61</sup> Strength or weakness in emotional intelligence shows up as the ability to recognize, understand, and manage feelings while interacting and dealing with others. Someone high in emotional intelligence will know when her or his emotions are about to become disruptive, and act to control them. This same person will sense when another person's emotions are negatively influencing a relationship, and act to understand and better deal with them.<sup>62</sup> Check your interpersonal skills and emotional intelligence by asking and answering this self-assessment question: “Just how well do I relate with and work with others in team and interpersonal situations?” You can also use the tool shown in Management Is Real 1.5.

## Critical-Thinking Skills

The ability to think analytically is a conceptual skill. It involves the capacity to break problems down into smaller parts, see the relations between the parts, and recognize the implications of a problem with any one part for the others. We call this a critical-thinking skill, and it is a top priority for recruiters screening candidates for sought-after jobs.<sup>63</sup> Annmarie Neal, Vice President, Cisco Center for Collaborative Leadership within Human Resources, describes it as the ability to “approach problems as a learner as opposed to a knower” and as “taking issues and situations and problems and going to root components ... looking at it [a problem] from a systematic perspective and not accepting things at face value ... being curious about why things are the way they are and being able to think about why something is important.”<sup>64</sup>

Figure 1.8 shows that conceptual skills gain in importance as one moves up from lower to higher levels of management. This is because the problems faced at higher levels of responsibility are often ambiguous and unstructured, full of complications and interconnections, and lead to longer-term consequences. The end-of-chapter features—*Manage a Critical Incident* and *Analyze the Case Study*—are ways to further develop your conceptual skills in management. And the relevant self-assessment question to ask and honestly answer is: “Am I



**FIGURE 1.9** Using a Personal SWOT Analysis for Strategic Career Planning

developing the strong critical-thinking and problem-solving capabilities I will need for long-term career success?”

**Career Readiness Skills** This book is filled with future value. Virtually everything we will discuss can be applied to managing yourself in daily living as well as in a career. Now is the best time to give serious attention to your career readiness and start thinking about the strategic management of your future. The goal is to put skills, competencies, and aspirations together with learning agility so that you can always move forward with confidence, even as things change around you.

Take a good look at **Figure 1.9**. It shows a strategic management tool called SWOT analysis that can help you stay on track with career readiness. A good SWOT analysis identifies individual Strengths and Weaknesses, as well as environmental Opportunities

and Threats. When applied to you and your career, it is a powerful way to self-assess and self-regulate to achieve your goals.

## Learning Check

**LEARNING OBJECTIVE 1.5** Summarize how we learn and use essential skills for career success.

**Be Sure You Can** • discuss the career importance of learning and lifelong learning • define three essential managerial skills—*technical, human, and conceptual skills* • explain how these skills vary in importance across management levels • define *emotional intelligence* as an important human skill

## Management Is Real 1.5: Insight | Keep Learning about Yourself

Self-awareness helps us avoid seeing ourselves more favourably than is justified.

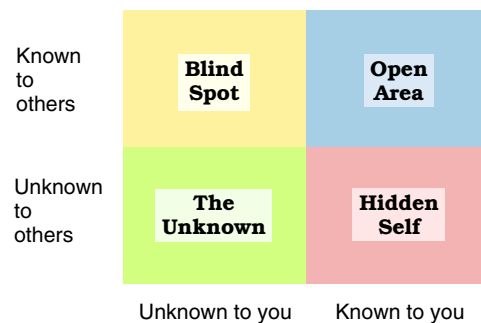
### Self-Awareness and the Johari Window

An important career skill, self-awareness can be easy to talk about but hard to master. Self-awareness helps us build on strengths and overcome weaknesses, and it helps us avoid seeing ourselves more favourably than is justified.

How often do you take a critical look at your attitudes, behaviours, skills, personal characteristics, and accomplishments? When was the last time you thought about them from a career perspective—trying to assess them both as you see them and as others do?

Exploring your *Johari Window* (see **Figure 1.10**) is one way to gain more self-awareness. It’s a way of comparing what we know about ourselves with what others know about us. The “open” areas known to ourselves and others are often small. The “blind spot,” “the unknown,” and the “hidden” areas can be quite large. They challenge our capacities for self-discovery.

Self-awareness is a pathway to adaptability, something we need to be always open to in changing times. The Johari Window reminds us that true self-awareness means not just knowing your idealized



**FIGURE 1.10** Johari Window

self—the person you want or hope to be. It also means knowing who you really are in the eyes of others and as defined by your actions.

#### Get to Know Yourself Better

Map your Johari Window. Make notes on your “Open Area” and “Hidden Self.” Speculate about your “Unknown.” Ask friends, family, and co-workers for insights to your “Blind Spot.” Write a summary of what you learn about possible career strengths and weaknesses.

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 1.1** Summarize the challenges of developing and maintaining career readiness in the new economy.

- Work in the new economy is increasingly knowledge based, and intellectual capital is the foundation of organizational performance.
- Organizations must value the talents of a workforce whose members are increasingly diverse with respect to gender, age, race and ethnicity, able-bodiedness, and lifestyles.
- The forces of globalization are bringing increased interdependencies among nations and economies, as customer markets and resource flows create intense business competition.
- Ever-present developments in information technology are reshaping organizations, changing the nature of work, and increasing the value of knowledge workers.
- Society has high expectations for organizations and their members to perform with commitment to high ethical standards and in socially responsible ways.
- Careers in the new economy require great personal initiative to build and maintain skill “portfolios” that are always up to date and valuable in a free-agent economy.

**For Discussion** What career risks and opportunities is globalization creating for today’s post-secondary graduates?

**LEARNING OBJECTIVE 1.2** Describe what organizations are like as work settings.

- Organizations are collections of people working together to achieve a common purpose.
- As open systems, organizations interact with their environments in the process of transforming resource inputs into product and service outputs.
- Productivity is a measure of the quantity and quality of work performance, with resource costs taken into account.
- High-performing organizations achieve both performance effectiveness in terms of goal accomplishment, and performance efficiency in terms of resource utilization.

**For Discussion** When is it acceptable to sacrifice performance efficiency for performance effectiveness?

**LEARNING OBJECTIVE 1.3** Discuss what it means to be a manager.

- Managers directly support and facilitate the work efforts of other people in organizations.

- Top managers scan the environment, create strategies, and emphasize long-term goals; middle managers coordinate activities in large departments or divisions; team leaders and supervisors support the performance of front-line workers at the team or work-unit level.
- Functional managers work in specific areas such as finance or marketing; general managers are responsible for larger multi-functional units; administrators are managers in public or non-profit organizations.
- The upside-down pyramid view of organizations places operating workers at the top, serving customer needs while being supported from below by various levels of management.
- The changing nature of managerial work emphasizes being good at coaching and supporting others, rather than simply directing and giving orders.

**For Discussion** In what ways should the work of a top manager differ from that of a team leader?

**LEARNING OBJECTIVE 1.4** Describe the functions, roles, and activities of managers.

- The management process consists of the four functions of planning, organizing, leading, and controlling.
- Planning sets the direction; organizing assembles the human and material resources; leading provides the enthusiasm and direction; controlling ensures results.
- Managers implement the four functions in daily work that is often intense and stressful, involving long hours and continuous performance pressures.
- Managerial success requires the ability to perform well in interpersonal, informational, and decision-making roles.
- Managerial success also requires the ability to build interpersonal networks and use them to accomplish well-selected task agendas.

**For Discussion** How might the upside-down pyramid view of organizations affect a manager’s approach to planning, organizing, leading, and controlling?

**LEARNING OBJECTIVE 1.5** Summarize how we learn and use essential skills for career success.

- Careers in the new economy demand continuous attention to lifelong learning that can come from, and be applied to, all aspects of daily experience and job opportunities.

- The three main types of skills considered essential for managers are broadly described as technical—the ability to use expertise; human—the ability to work well with other people, including emotional intelligence; and conceptual—the ability to analyze and solve complex problems with critical thinking.
- Human skills are equally important for all management levels, whereas conceptual skills gain importance at higher levels and technical skills gain importance at lower levels.

**For Discussion** Which management skills and competencies do you consider the most difficult to develop, and why?

## Chapter Glossary

**Accountability** The requirement to show performance results to a supervisor.

**Administrator** A manager in a public or non-profit organization.

**Agenda setting** The development of action priorities for accomplishing goals and plans.

**Board of directors** A group of people who are supposed to make sure an organization is well run and managed in a lawful and ethical manner.

**Commitment** The degree to which one works to apply their talents and capabilities to important tasks.

**Competency** One's personal talents or job-related capabilities.

**Conceptual skill** The ability to think analytically to diagnose and solve complex problems.

**Controlling** The process of measuring performance and taking action to ensure desired results.

**Corporate governance** The active oversight of management decisions and performance by a company's board of directors.

**Discrimination** The active denial of full benefits of organizational membership to members of certain groups.

**Effective manager** A manager who helps others achieve high performance and satisfaction at work.

**Emotional intelligence** The ability to manage ourselves and our relationships effectively.

**Ethics** The moral standards of what is "good" and "right" in one's behaviour.

**Fourth Industrial Age** Our current era, in which the cloud, mobile Internet, automation, robotics, and artificial intelligence are the driving forces of change.

**Free-agent economy** An economy in which people change jobs more often, and many work on independent contracts with a shifting mix of employers.

**Functional managers** Managers who are responsible for one area, such as finance, marketing, production, personnel, accounting, or sales.

**General managers** Managers who are responsible for complex, multifunctional units.

**Glass ceiling effect** An invisible barrier limiting career advancement of women and members of visible minorities.

**Globalization** The worldwide interdependence of resource flows, product markets, and business competition.

**Human skill** The ability to work well in cooperation with other people.

**Intellectual capital** The collective brainpower or shared knowledge of a workforce.

**Job migration** What occurs when firms shift jobs from a home country to foreign ones.

**Knowledge worker** Someone whose mind is a critical asset to employers.

**Leading** The process of arousing enthusiasm and inspiring efforts to achieve goals.

**Learning** A change in behaviour that results from experience.

**Lifelong learning** Continuous learning from daily experiences.

**Line managers** Managers who directly contribute to producing the organization's goods or services.

**Management process** Planning, organizing, leading, and controlling the use of resources to accomplish performance goals.

**Manager** A person who supports, activates, and is responsible for the work of others.

**Middle managers** Managers who oversee the work of large departments or divisions.

**Networking** The process of creating positive relationships with people who can help advance agendas.

**Open system** A system that transforms resource inputs from the environment into product outputs.

**Organization** A collection of people working together to achieve a common purpose.

**Organizing** The process of defining and assigning tasks, allocating resources, and providing resource support.

**Performance effectiveness** An output measure of task or goal accomplishment.

**Performance efficiency** An input measure of resource cost associated with goal accomplishment.

**Planning** The process of setting goals and objectives and making plans to accomplish them.

**Prejudice** The display of negative, irrational attitudes toward members of diverse populations.

**Productivity** The quantity and quality of work performance, with resource utilization considered.

**Quality of work life** The overall quality of human experiences in the workplace.

**Reshoring** What occurs when firms move jobs back home from foreign locations.

**Self-management** The ability to understand oneself, exercise initiative, accept responsibility, and learn from experience.

**Shamrock organization** An organization that operates with a core group of full-time long-term workers supported by others who work on contracts and part-time.

**Skill** The ability to translate knowledge into action that results in desired performance.

**Social capital** A capacity to get things done with the support and help of others.

**Social networking** The use of dedicated websites and applications to connect people having similar interests.

**Staff managers** Managers who use special technical expertise to advise and support line workers.

**Team leaders** Leaders who report to middle managers and supervise non-managerial workers.

**Tech IQ** The ability to use technology and to stay updated as technology continues to evolve.

**Technical skill** The ability to use expertise to perform a task with proficiency.

**Top managers** Managers who guide the performance of the organization as a whole or of one of its major parts.

**Upside-down pyramid** A view of organizations that shows customers at the top being served by workers who are supported by managers.

**Workforce diversity** Workers' differences in terms of gender, race, age, ethnicity, religion, sexual orientation, and able-bodiedness.

## Self-Test 1

### Multiple-Choice Questions

- The process of management involves the functions of planning, \_\_\_\_\_, leading, and controlling.
  - accounting
  - creating
  - innovating
  - organizing
- An effective manager achieves both high-performance results and high levels of \_\_\_\_\_ among people doing the required work.
  - turnover
  - effectiveness
  - satisfaction
  - stress
- Performance efficiency is a measure of the \_\_\_\_\_ associated with task accomplishment.
  - resource costs
  - goal specificity
  - product quality
  - product quantity
- The requirement that a manager answer to a higher-level boss for performance results achieved by a work team is called \_\_\_\_\_.
  - dependency
  - accountability
  - authority
  - empowerment
- Productivity is a measure of the quantity and \_\_\_\_\_ of work produced, relative to the cost of inputs.
  - quality
  - cost
  - timeliness
  - value
- \_\_\_\_\_ managers pay special attention to the external environment, looking for problems and opportunities and finding ways for the organization to best deal with them.
  - Top
  - Middle
  - Lower
  - First-line
- The accounting manager for a local newspaper would be considered a \_\_\_\_\_ manager, whereas the editorial director for sports would be considered a \_\_\_\_\_ manager.
  - general, functional
  - middle, top
  - staff, line
  - senior, junior
- When a team leader clarifies desired work targets and deadlines for members of a work team, he or she is fulfilling the management function of \_\_\_\_\_.
  - planning
  - delegating
  - controlling
  - supervising
- The process of building and maintaining good relationships with others who may help implement a manager's work agendas is called \_\_\_\_\_.
  - governance
  - networking
  - authority
  - entrepreneurship
- In Katz's framework, top managers tend to rely more on their \_\_\_\_\_ skills than do first-line managers.
  - human
  - conceptual
  - decision-making
  - technical
- The research of Mintzberg and others concludes that managers \_\_\_\_\_.
  - work at a leisurely pace
  - have blocks of private time for planning
  - are never free from the pressures of performance responsibility
  - have the advantages of flexible work hours
- When someone holds a negative attitude toward minorities, this is an example of \_\_\_\_\_. When a team leader with a negative attitude toward minorities makes a decision to deny advancement opportunities to an East Asian team member, this is an example of \_\_\_\_\_.
  - discrimination, prejudice
  - emotional intelligence, social capital
  - performance efficiency, performance effectiveness
  - prejudice, discrimination
- Trends in the new workplace include which of the following?
  - More emphasis by managers on giving orders.
  - More attention by organizations to valuing people as human assets.
  - Less teamwork.
  - Less concern for work-life balance among the new generation of workers.
- The manager's role in the "upside-down pyramid" view of organizations is best described as providing \_\_\_\_\_ so that workers can directly serve \_\_\_\_\_.
  - direction, top management
  - leadership, organizational goals
  - support, customers
  - agendas, networking goals
- The management function of \_\_\_\_\_ is being performed when a retail manager measures daily sales in the women's apparel department and compares them with daily sales targets.
  - planning
  - agenda setting
  - controlling
  - delegating

### Short-Response Questions

- Discuss the importance of ethics in the relationship between managers and the people they supervise.
- Explain how "accountability" operates in the relationship between (a) a team leader and her team members, and (b) the same team leader and her boss.
- Explain how the "glass ceiling effect" may disadvantage newly hired Aboriginal university graduates in a large corporation.
- What is globalization, and what are its implications for working in the new economy?

### Essay Question

- You have just been hired as the new head of an audit team for a national accounting firm. With four years of experience, you feel technically well prepared for the assignment. However, this is your first formal appointment as a "manager." Things are complicated at the moment. The team has 12 members of diverse demographic and cultural backgrounds, as well as work experience. There is an intense workload and lots of performance pressure. How will this situation challenge you to develop and use essential managerial skills and related competencies to manage the team successfully to high levels of auditing performance?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Opportunity with Foreign Employer

One of the plus sides of globalization is new jobs created by foreign employers setting up operations in local communities. How about you: Does it make any difference if you receive a job offer from a foreign employer such as Honda or a North American one such as Ford? Assume you just had an offer from Honda for a great job in Alliston, Ontario. Prepare a Job Hunter's Balance Sheet. On the left list the "pluses" and on the right the "minuses" of working for a foreign employer.

#### 2. Interviewing for Dream Job

It's time to take your first interview for a "dream" job. The interviewer is sitting across the table from you. She smiles, looks you in the eye,

and says: "You have a very impressive academic record and we're impressed with your extracurricular activities." But she then says: "Now tell me, just what can you do for us that will add value to the organization right from day one?" You're on the spot. How will you answer? What can you add to the conversation that clearly shows you have strong human and conceptual skills, not just technical ones?

#### 3. Supervising Old Friends

When people are promoted into management, they sometimes end up supervising friends and colleagues they previously worked with. This could happen to you. When it does, how can you best deal with this situation right from the start? What will you do to earn the respect of everyone under your supervision and set the foundations for what will become a well-regarded and high-performing work team?

## Reflect on the Self-Assessment

### Career Readiness "Big 20"

#### Instructions

Use this scale to rate yourself on the following "Big 20" personal characteristics for management and career success.<sup>65</sup>

- (S) Strong, I am very confident in my abilities in this domain.
- (G) Good, but I still have room to grow.
- (W) Weak, I really need work on this area.
- (U) Unsure, I just don't know.

#### Big 20 Personal Characteristics

1. *Inner work standards*: The ability to personally set and work to high performance standards.
2. *Initiative*: The ability to actively tackle problems and take advantage of opportunities.
3. *Analytical thinking*: The ability to think systematically and identify cause-effect patterns in data and events.
4. *Creative thinking*: The ability to generate novel responses to problems and opportunities.
5. *Reflective thinking*: The ability to understand yourself and your actions in the context of society.
6. *Social objectivity*: The ability to act free of racial, ethnic, gender, and other prejudices or biases.
7. *Social intelligence*: The ability to understand another person's needs and feelings.
8. *Emotional intelligence*: The ability to recognize and manage emotions.
9. *Cultural intelligence*: The ability to respect other cultures and work well in diverse cultural settings.

10. *Interpersonal relations*: The ability to work well with others and in teams.
11. *Self-confidence*: The ability to be consistently decisive and willing to take action.
12. *Self-objectivity*: The ability to evaluate realistically personal strengths, weaknesses, motives, and skills.
13. *Tolerance for uncertainty*: The ability to work in ambiguous and uncertain conditions.
14. *Adaptability*: The ability to be flexible and adapt to changes.
15. *Stress management*: The ability to get work done under stressful conditions.
16. *Stamina*: The ability to sustain long work hours.
17. *Communication*: The ability to communicate well orally and in writing.
18. *Impression management*: The ability to create and sustain a positive impression in the eyes of others.
19. *Introspection*: The ability to learn from experience, awareness, and self-study.
20. *Application*: The ability to apply learning and use knowledge to accomplish things.

#### Self-Assessment Scoring

Give yourself 1 point for each S, and half a point for each G. Do not give yourself points for W and U responses. Total your points and enter the result here [\_\_\_\_\_].

### Interpretation

This assessment is a good starting point for considering where and how you can further develop useful managerial skills and competencies. It offers a self-described profile of your personal management foundations—things that establish strong career readiness. The higher

you score the better. There shouldn't be too many 20s around. Ask someone you know to assess you on this instrument as well. You may be surprised at the differences between your score and the one they come up with.

## Contribute to the Class Exercise

### My Best Manager

#### Preparation

Working alone,

1. Make a list of the *behavioural attributes* that describe the “best” manager you have ever had. This could be someone you worked for in a full-time or part-time job, summer job, volunteer job, student organization, or elsewhere. If you have trouble identifying an actual manager, make a list of behavioural attributes of the manager you would most like to work for in your next job.
2. Make a list of the behavioural attributes that describe the “worst” manager you have ever had.
3. Write a short synopsis of things that this bad manager actually did or said that would qualify for “Believe it or not, it's really true!” status.

4. Using your list of attributes for your “best” manager, write a quick summary of the most important differences that quickly sort out your best from your worst.

#### Activity

Form into groups as assigned by your instructor, or work with a nearby classmate. Share your list of attributes and listen to the lists of others. Be sure to ask questions and make comments on items of special interest.

Work together in the group to create a master list that combines the unique attributes of the “best” and/or “worst” managers experienced by members. Have a spokesperson share that list with the rest of the class for further discussion. Share the “Believe it or not!” stories provided by group members.

## Manage a Critical Incident

### Team Leader Faces Test

#### Situation

It's happened again for the second time in a week. Charles walked into your cubicle and started a rant about not getting enough support from you as his team leader. Before you had a chance to say anything, he accused you of playing favourites in assigning projects and not giving him the respect, he deserved for his seniority and expertise. Then he gave you an angry look, turned around, and stomped off. You let it go the last time he exploded like this. And after cooling down, he came by later to apologize and give you a fist-bump of reconciliation. You've since learned, however, that the other team members have been on the receiving end of his outbursts and are starting to complain to one

another about him. Charles is your top software engineer and has a lot of technical expertise to offer the team and you. He's a valuable talent, but his behaviour has become intolerable. It's time for action.

#### Questions

How do you handle Charles and the full team in these circumstances? Does his behaviour call for direct confrontation between you and him? If so, how do you handle it? If not, how do you handle it? Is this something that the team as a whole needs to get involved with? If so, how do you proceed as team leader? How can you use each of the management functions to best deal with this situation? How can essential managerial skills help you succeed in this and similar situations?

## Collaborate on the Team Activity

### The Amazing Great Job Race

The incredible variety of jobs out there for the well-prepared candidate is almost unimaginable. But our lives have gotten busy—really complicated! We spend time with work, schoolwork, meetings, friends, family, video games, listening to music, watching television, surfing the Internet, going to concerts, social engagements, and so on. It seems like our calendars are always full with activities, leaving less time available to figure out what we really want from a first “real” job and a career.

You might say or hear: “I haven't got time for that—I need a job now ...!” It's easy to overestimate how much you can get done at the last minute. There may also be lots of uncertainty as to what kind of job you really want. Thinking about likes and dislikes, talents and areas of deficit, goals, aspirations, wants, needs, understanding yourself and what makes you happy—all take time. It also takes time spent in the right ways.

A job that looks really great to you might require a series of classes that you haven't taken, an internship that you haven't done, software that you don't know, or a foreign language you don't speak.

If you spend time thinking about what you want, searching for what's out there, and figuring out now what you'll need in order to be prepared when you graduate, you just might find yourself running, and winning, the Amazing Great Job Race.

### Instructions

1. *Reflect:* What classes have you enjoyed the most? What did you like most about them? How was your thinking challenged in these courses? What work experiences have been most satisfying for you? Why?
2. *Share:* Listen without criticism to how others in the group answered these reflection questions. Share your answers and

listen to the comments of others. Turn group discussion into a brainstorming session about the kinds of jobs each member might like to do and the careers they might pursue.

3. *Debate:* Push each other to identify baseline requirements for jobs that might be good fits for them. Ask: What classes would you need to take to be in a position to compete for these jobs? What kinds of internships would you need to participate in to gain experience and access? What tests and certifications might be necessary? How much time would these preparations take for you to be ready to compete for your best job with other candidates who might want it also?

## Analyze the Case Study

### Case 4.1 Vancity | Keeping Employees Happy and Healthy

Go to Management Cases for Critical Thinking at the end of the book to find this case.





Mohamed El-Shahed/Getty Images

# Management Learning Past to Present

*Great management isn't new and it isn't all about technology. People have created wonderful things for centuries, and management lessons are part of our history.*

In his book *The Evolution of Management Thought*, Daniel Wren traces management as far back as 5000 BCE, when the ancient Sumerians used written records to improve government and business activities.<sup>1</sup> Management was crucial in the construction of the Egyptian pyramids, the spread of the Roman Empire across the globe, and the renowned commercial success of 14th-century Venice. By the time of the start of the Industrial Revolution in the late 1700s, great social changes helped stimulate major manufacturing advances in basic products and consumer goods. Adam Smith's revolutionary (at the time) concepts of division of labour and task specialization accelerated

industrial development. By the beginning of the 20th century, Henry Ford had made mass production a core aspect of the emerging economy. Since then, both the science and practice of management have evolved considerably.<sup>2</sup>

Today's managers face challenges from what many call "the new industrial revolution."<sup>3</sup> This is a time full of technological and social uncertainties and opportunities. Perhaps more than ever it's a good time to reach back and remember the management learning that comes from the past. Many crucial insights can be taken from the history of management thought. It's a mistake to assume that our generation needs to invent best practices in management out of thin air. Instead, it is important to understand that there is a lot we can learn from history that can benefit us as we try to perfect new ideas and approaches to best match current business realities.

## Chapter Quick Start

Ancestry.com is a hugely popular website. It helps people learn more about their roots—and by extension, themselves. The history of management thought offers similar insights. In order to manage successfully today, and into the ever-changing future, it is critical to understand the insights and lessons of the past. Knowing where you're going requires knowledge of where you've been. That is our focus in this chapter.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 2.1 Classical Management Approaches

2.1 Describe the principal insights of classical management thinking.

#### 2.2 Behavioural Management Approaches

2.2 Identify key insights of the behavioural management approaches.

#### 2.3 Modern Management Foundations

2.3 Explain the core foundations of modern management theory and practice.

### What to Look for **Inside**

#### Management Is Real

- 2.1 **Analysis** Make Data Your Friend  
When #MeToo Becomes Catch 22
- 2.2 **Ethics** Know Right from Wrong  
Tracking Technology Monitors Worker Behaviour
- 2.3 **Wisdom** Learn from Role Models  
Former Marketing Executive Finds Fulfillment in the “Greening” of Canada
- 2.4 **Insight** Keep Learning about Yourself  
Make Your Learning Style Work for You
- 2.5 **Choices** Think before You Act  
Thinking about Office Engagement

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Managerial Assumptions
- **Contribute** *to the Class Exercise:*  
Evidence-Based Management Quiz
- **Manage** *a Critical Incident:*  
Theory X versus Theory Y
- **Collaborate** *on the Team Activity:*  
Management in Popular Culture
- **Analyze** *the Case Study:*  
Zara International | Fashion at the Speed of Light

## 2.1 Classical Management Approaches

### LEARNING OBJECTIVE 2.1

Describe the principal insights of classical management thinking.

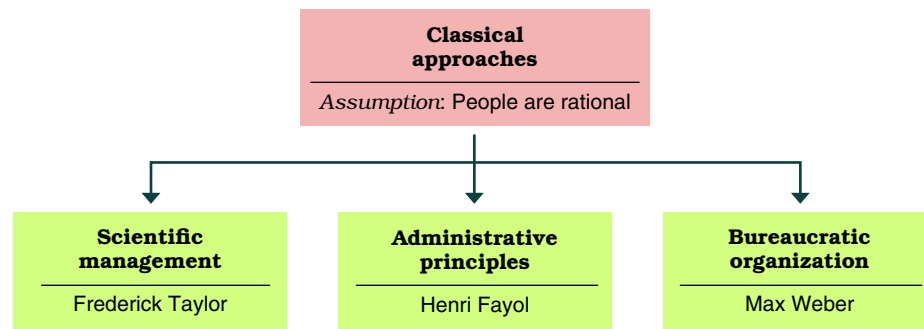
#### Learn More About

- Scientific management
- Administrative principles
- Bureaucratic organization

Our study of management begins with a focus on the three major classical approaches: (1) scientific management, (2) administrative principles, and (3) bureaucratic organization.<sup>4</sup> **Figure 2.1** ties each of these classical approaches to a prominent historical figure—Taylor, Fayol, or Weber. You can see that the classical approaches share a common assumption: People consider their opportunities rationally and do whatever is necessary to achieve the greatest personal and monetary gain.<sup>5</sup>

### Scientific Management

In 1911, Frederick W. Taylor published *The Principles of Scientific Management*, where he stated: “The principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for



**FIGURE 2.1** Major branches in the classical approach to management.

each employee.”<sup>6</sup> Taylor, often called the “father of scientific management,” noticed that workers often did their jobs with unnecessary motions and without a consistent approach. This resulted in inefficiency and low performance. He believed that this problem could be fixed if workers were taught to do their jobs in the most efficient way and then were helped and guided by supervisors to always work this way.

Taylor’s goal was to improve workers’ productivity. He used the concept of “time study” to analyze the motions and tasks required to do a job, and to develop the most efficient ways to perform that job. He then linked these job requirements to both worker training and support from supervisors in the form of precise direction, work assistance, and monetary incentives. Taylor’s approach, known as **scientific management**, includes four guiding principles.

1. Develop a “science” that includes rules of motion, standardized work implements, and proper working conditions for every job.
2. Carefully select workers with the right abilities for the job.
3. Carefully train workers to do the job and give them incentives to cooperate with the job “science.”
4. Support workers by carefully planning their tasks and by smoothing the way as they do their work.

Although Taylor called his approach “scientific” management, contemporary scholars have questioned his truthfulness in reporting and the scientific rigour of his studies.<sup>7</sup> But Taylor’s ideas still influence management thinking.<sup>8</sup> Some practical recommendations from scientific management are listed here:

- Make results-based compensation a performance incentive.
- Carefully design jobs with efficient work methods.
- Carefully select workers with the abilities to do these jobs.
- Train workers to perform jobs to the best of their abilities.
- Train supervisors to support workers so they can perform to the best of their abilities.

A contemporary example of the use of the scientific management approach is the United Parcel Service (UPS). UPS workers are guided by carefully calibrated productivity standards. Sorters at regional hubs are timed according to strict task requirements and are expected to load vans at a set number of

packages per hour. A GPS is used to plot the shortest delivery routes; delivery stops are registered in onboard computers that are studied to identify wasted time. Industrial engineers design explicit procedures for drivers—with 340 delivery and pickup rules, such as: avoid left turns in traffic, unbuckle seat belt with left hand, and walk at a “brisk” pace. Consistent with scientific management principles, efficiency is a top priority at UPS; saving a few seconds at each stop adds up to significant increases in productivity.<sup>9</sup>

One of the most enduring legacies of scientific management grew from Taylor’s interest in **motion study**, the science of reducing a job or a task to its most basic physical components. Two of his contemporaries, Frank and Lillian Gilbreth, pioneered the use of motion studies as a management tool.<sup>10</sup> In one famous case, the Gilbreths cut down the number of motions used by bricklayers and tripled their productivity!

Insights from scientific management have led to advances in job design, work standards, and incentive wage plans—all of which are techniques organizations use today. The next time you pass by a Taco Bell, think of the number 164, which is the average number of seconds from the point of order to taco-in-hand. Taco Bell measures performance based on both time and accuracy, which are linked to standardized systems for order taking, money handling, food preparation, and order delivery. Workers’ actions are carefully designed in assembly-line style, where each worker learns the script for his or her station and then delivers it over and over again. The whole process is supported by training, and rewards are given to employees for doing things the Taco Bell way.<sup>11</sup>

## Administrative Principles

In 1916, after a career in French industry, Henri Fayol published *Administration Industrielle et Générale*<sup>12</sup> in which he outlines his views on the management of organizations and workers. Fayol identifies five “rules” or “duties” of management, which support the four functions of management—planning, organizing, leading, and controlling—that we talk about today:

1. *Foresight*—to complete a plan of action for the future.
2. *Organization*—to provide and mobilize resources to implement the plan.

3. *Command*—to lead, select, and evaluate workers to get the best work toward the plan.
4. *Coordination*—to fit diverse efforts together and to ensure information is shared and problems solved.
5. *Control*—to make sure things happen according to plan and to take necessary corrective action.

Fayol believed that management could be taught. He wanted to improve the quality of management and defined 14 “principles” to help managers. A number of these principles still guide managers today. They include the *scalar chain principle*—there should be a clear and unbroken line of communication from the top to the bottom of the organization; the *unity of command principle*—each person should receive orders from only one boss; and the *unity of direction principle*—one person should be in charge of all activities that have the same performance objective.

## Bureaucratic Organization

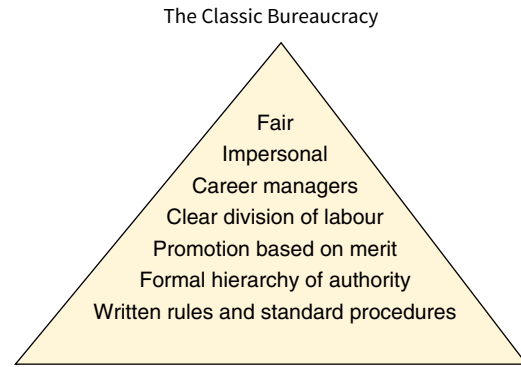
Max Weber was a late-19th-century German political economist who had a major impact on the fields of management and sociology. His ideas developed after noticing that organizations often performed poorly. Among other things, Weber noticed that employees often held positions of authority not because of their capabilities, but because of their “privileged” social status in German society. At the heart of Weber’s thinking was an ideal; an intentionally rational and very efficient form of organization called a **bureaucracy**.<sup>13</sup> It was founded on principles of logic, order, and legitimate authority. The defining characteristics of Weber’s bureaucratic organization are:

- *Clear division of labour*: Jobs are well defined, and workers are highly skilled at performing them.
- *Clear hierarchy of authority*: Authority and responsibility are well defined for each position, and each position reports to a higher level.
- *Formal rules and procedures*: Written guidelines direct behaviour and decisions in jobs, and written files are kept for historical record.
- *Impersonality*: Rules and procedures are impartially and uniformly applied, with no one receiving preferential treatment.
- *Careers based on merit*: Workers are selected and promoted on ability, competency, and performance, and managers are career employees of the organizations.

The characteristics of Weber’s bureaucracy are also shown in **Figure 2.2**.

Weber believed that organizations structured as bureaucracies would use resources more efficiently and treat employees more fairly than other systems. He wrote:<sup>14</sup>

The purely bureaucratic type of administrative organization ... is, from a purely technical point of view, capable of attaining the highest degree of efficiency. ... It is superior to any other form in precision, in stability, in the stringency



**FIGURE 2.2** Characteristics of Weber’s bureaucracy.

of its discipline, and in its reliability. It thus makes possible a particularly high degree of calculability of results for the heads of the organization and for those acting in relation to it.

Today we recognize that bureaucracy works well sometimes, but not all of the time. In fact, it’s common to hear the terms *bureaucracy* and *bureaucrat* used with negative connotations. We picture bureaucracies as being bogged down in excessive paperwork or “red tape,” slow to handle problems, rigid in the face of shifting customer needs, and high in resistance to change and employee apathy.<sup>15</sup> These are disadvantages for organizations that have to be flexible and adaptive to today’s rapidly changing circumstances. A major management challenge is to know when bureaucratic features work well and what the best alternatives are when they don’t. Later in the chapter we’ll call this *contingency thinking*.

### Learning Check

**LEARNING OBJECTIVE 2.1** Describe the principal insights of classical management thinking.

**Be Sure You Can** • state the underlying assumption of the classical management approaches • list the principles of Taylor’s scientific management • identify three of Fayol’s principles for guiding managerial action • list the key characteristics of bureaucracy and explain why Weber considered it an ideal form of organization • identify possible disadvantages of bureaucracy in today’s environment

## 2.2 Behavioural Management Approaches

**LEARNING OBJECTIVE 2.2**

Identify key insights of the behavioural management approaches.

### Learn More About

Follett's organizations as communities • The Hawthorne studies • Maslow's theory of human needs • McGregor's Theory X and Theory Y • Argyris's theory of adult personality

During the 1920s an emphasis on the human side of the workplace began to influence management thinking. Major branches in the behavioural—or human resource—approaches to management are shown in **Figure 2.3**. These include Follett's ideas about organizations as communities, the Hawthorne studies, Maslow's theory of human needs, and related ideas of Douglas McGregor and Chris Argyris. The behavioural approaches assume that people enjoy social relationships, respond to group pressures, and search for personal fulfillment. These historical foundations set the stage for what is now known as the field of **organizational behaviour**, the study of individuals and groups in organizations.

## Follett's Organizations as Communities

The work of Mary Parker Follett was part of an important transition from classical thinking to the new discipline of behavioural management. The book *Mary Parker Follett—Prophet of Management: A Celebration of Writings from the 1920s* offers an important reminder of the wisdom that can come from an understanding of history. Although Follett wrote a long time ago, her ideas are rich with foresight. She taught respect for workers' experience and knowledge, warned against the dangers of too much hierarchy, and called for visionary leadership. Follett was eulogized upon her death in 1933 as “one of the most important women America has yet produced in the fields of civics and sociology.”<sup>16</sup>

Follett thought of organizations as “communities” where managers and workers should labour in harmony without one party dominating the other, and with the freedom to talk

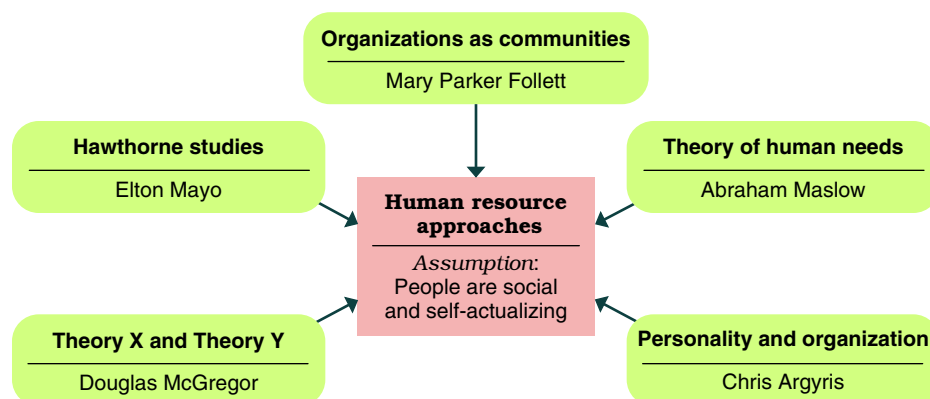
through and truly reconcile conflicts and differences. For her, groups were a way for individuals to combine their talents toward a greater good. She believed it was the job of managers to help workers cooperate with one another and to integrate their goals and interests.

Follett's emphasis on groups and her commitment to human cooperation are highly relevant themes today.<sup>17</sup> She believed that making every employee an owner in a business would create feelings of collective responsibility. Today, we address the same issues under such labels as *employee ownership*, *profit sharing*, and *gain-sharing plans*. She believed that business problems involve a wide variety of factors that must be considered in relationship to one another. Today, we talk about “systems” and “contingency thinking.” Follett also believed that businesses were service organizations and that private profits should always be considered vis-à-vis the public good. Today, we pursue the same issues using the labels *managerial ethics* and *corporate social responsibility*. (See Management Is Real 2.1.) Follett was, in many ways, a woman ahead of her time whose insights and philosophy bear on organizational practice today.

Recent work on organizations as communities by scholars Leon Prieto and Simone Phipps highlight the insights of Charles Clinton Spaulding, whom they refer to as the “Father of African American Management.”<sup>18</sup> Noting that the contributions of African Americans to the history of management had been overlooked, they studied Spaulding's experience as head of the North Carolina Mutual Life Insurance Company. What they found was an enlightened executive who started as a dishwasher and worked his way to the top of the largest African American business of his time.

Spaulding is described as a committed leader who helped people and communities, always tried to understand the complexities of management and organizations, and was generous in sharing his insights to help others become successful managers. He summarized his management approach in two articles published in 1927 in the *Pittsburgh Courier* setting out what he called the “eight necessities” of management.<sup>19</sup>

1. Cooperation and teamwork
2. Authority and responsibility
3. Division of labour



**FIGURE 2.3** Foundations in the behavioural or human resource approaches to management.

## Management Is Real 2.1: Analysis | Make Data Your Friend

“It’s not surprising that so few people file formal complaints given the high cost of complaining.”

### When #MeToo Becomes Catch 22

The #MeToo movement is no secret. But do you know the facts? Consider the following:

- 51% of women report being sexually harassed at work; 12% of men do.
- 51% of women say they’ve seen sexual harassment at work; 38% of men do.
- 24% of women say they are uncomfortable reporting sexual harassment; 12% of men say the same.
- 43% of women say they believe more media attention will decrease sexual harassment in the workplace; 29% don’t and 28% are not sure.

When it comes to the women who aren’t reporting sexual harassment at work, the reasons vary:

- 52% don’t want to create a “fuss.”
- 34% don’t believe it would make any difference.
- 28% are afraid of retribution.
- 19% feel shame or shared responsibility.

Consider data on sexual harassment claims filed with the Equal Employment Opportunity Commission. A study of four years’ worth of claims found that two-thirds of filers experienced retaliation—being transferred to different jobs or shifts, or being fired. Just 23% of complaints resulted in monetary awards, with



Pacific Press Agency/Alamy Stock Photo

the median compensation about \$10,000. One analyst says: “It’s not surprising that so few people file formal complaints given the high cost of complaining.”

### What Are the Implications?

Where do we go from here? When it comes to progress on sexual harassment, is the glass half empty or half full? Why are some employers unable or unwilling to actively embrace policies that create harassment-free work cultures? Is #MeToo capable of making a real difference in the everyday experiences of men and women at work? Will things change for the better as a new generation enters the workforce? What about you? Where in the #MeToo statistics are you, or will you be?

4. Adequate manpower
5. Adequate capital
6. Feasibility analysis
7. Advertising budget
8. Conflict resolution

In addition to covering administrative basics—labour, capital, and budgets, Spaulding’s eight necessities focus on respect for people and belief in community. His necessity of cooperation and teamwork recognizes that contributions come from all levels of organizations and that everyone must work together if they are to achieve common goals. His necessity of authority and responsibility reminds us that managers are responsible for what happens and are the ultimate arbiters of right and wrong. And, his necessity of conflict resolution focuses on a fundamental reality—people at work spend a lot of time interacting with one another, but not always successfully. Managers, therefore, must create a culture of cooperation “based on mutual goodwill and intelligence.”<sup>20</sup>

## The Hawthorne Studies

The shift toward behavioural thinking in management gained momentum in 1924 when the Western Electric Company

commissioned a research program to study worker productivity at the Hawthorne Works of the firm’s Chicago plant.<sup>21</sup> A team led by Harvard’s Elton Mayo set out to learn how economic incentives and workplace conditions affected workers’ output. But they concluded that unforeseen “psychological factors” somehow interfered with their experiments.

**Social Setting and Human Relations** One study focused on worker fatigue and output. Six assembly workers were isolated for intensive study in a special test room. Their production was measured as changes were made to the length of rest pauses, workdays, and work weeks. Results showed that productivity increased regardless of the changes. Researchers concluded that the new “social setting” in the test room made workers want to do a good job. They shared pleasant social interactions with one another and received special attention that made them feel important. They were given a lot of information and were frequently asked for their opinions. None of this was the case in their regular jobs. In other words, good “human relations” seemed to result in higher productivity.

Further studies of employee attitudes, interpersonal relations, and group dynamics also led to “complex” and “baffling” results. Factors like work conditions or wages were found to increase satisfaction for some workers and dissatisfaction for others. Some workers were willing to restrict their output to

## Management Is Real 2.2: Ethics | Know Right from Wrong

**“If our drivers have to veer off, they call and say we are taking a little personal time. It is changing their behaviour in a positive way.”**

### Tracking Technology Monitors Worker Behaviour

If you put technology together with scientific management, what do you get? For many in the trucking industry the answer is GPS tracking technology that monitors drivers to make sure they follow their engineered routes and aren't wasting—or even stealing—company time. How far should this tracking technology go and what ground rules should be followed?

At a small pest control company the general manager secretly installed GPS software on company-issued smart phones. This allowed him to track drivers. After noticing that one was stopping regularly at a single address, the manager confronted the driver and learned he was seeing a woman. The driver was fired. That was the first anyone knew the manager was using the tracking technology. Now, the manager says: “If our drivers have to veer off, they call and say they are taking a little personal time. It is changing their behaviour in a positive way.”

At one time, tracking technology cost thousands of dollars. Today it is much, much cheaper. All a company needs is a smart phone.

“Privacy issues with employer tracking devices are increasingly coming to the fore,” says David Graser, partner of McInnes Cooper and a Canadian privacy law expert.

Karen Thompson, the co-lead of the McCarthy Tétrault law firm's national cyber security, privacy, and data protection group, says “Canada's privacy laws afford employers the right to monitor their workforce under certain circumstances, such as when employees are working in remote areas. Not all monitoring technologies are malicious or sneaky.” The workers, however, must be informed that they are being tracked and agree to it. Canadian case



iStock.com/David Jones

law suggests that it would be difficult to justify tracking employees outside work hours without a strong business reason.

### What Do You Think?

Should the use of tracking technology to monitor employee behaviour be regulated by law? Or is it a practice that employers have rights to use at their discretion? Would you be comfortable being monitored when making outside sales calls, for example, or when using your company phone for private browsing and conversations? What message does the use of electronic monitoring communicate to employees? What are the limits to using technology this way, and does it have implications for workers' rights? How would you feel if your phone or computer had a tracking device on it that informed your parents what sites you'd visited, or what people you'd called? Would it matter if they were paying for these devices? Why or why not?

avoid upsetting the group, even if it meant sacrificing pay that could otherwise be earned by increasing output. How workers behave when they think no one is looking is discussed in Management Is Real 2.2.

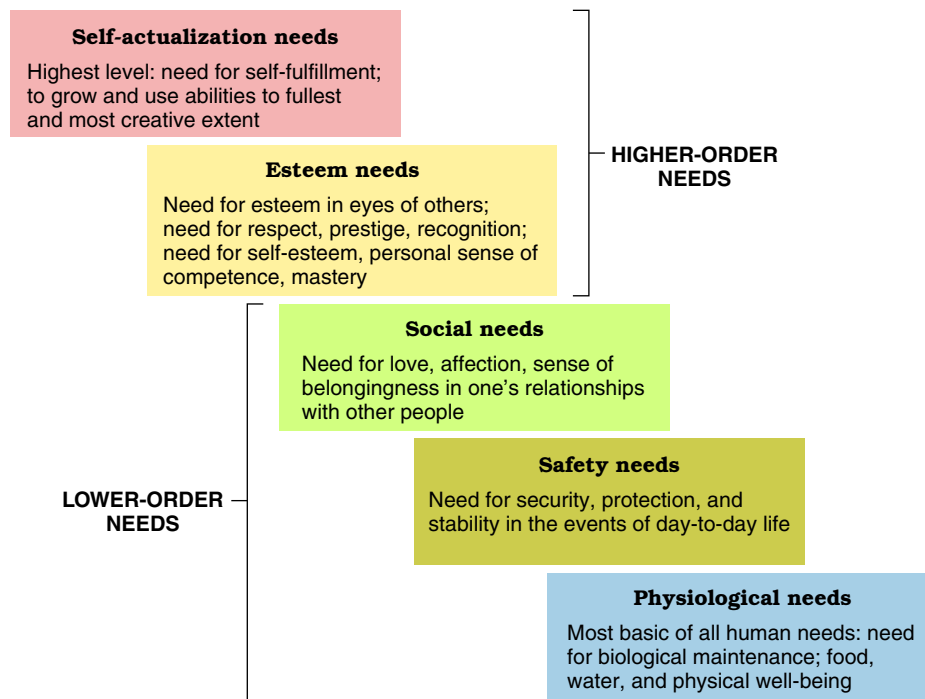
**Lessons of the Hawthorne Studies** Scholars now criticize the Hawthorne studies for poor research design and weak empirical support for the conclusions drawn.<sup>22</sup> Yet, despite these problems, the studies shifted managers' and researchers' attention toward social and human factors as drivers of productivity. They brought visibility to the idea that workers' feelings, attitudes, and relationships with co-workers affected their work, and that groups have important influences on individuals. They also identified the **Hawthorne effect**—the tendency of workers singled out for special attention to perform well—or better than anticipated—because of expectations created by the situation.

## Maslow's Theory of Human Needs

The work of psychologist Abraham Maslow, in the area of human “needs,” also has had a major impact on the behavioural

approach to management.<sup>23</sup> Maslow described a **need** as a physiological or psychological deficiency a person feels compelled to satisfy. Importantly, needs create tensions that can influence workers' attitudes and behaviours. Maslow placed needs into the hierarchy shown in **Figure 2.4**. From lowest to highest in what Maslow refers to as “order,” they are physiological, safety, social, esteem, and self-actualization needs.

Maslow's theory is based on two underlying principles—the **deficit principle** and the **progression principle**. The deficit principle applies to a satisfied need that does not motivate behaviour. People try to satisfy “deprived” needs or those for which there is a “deficit” (e.g., when I'm hungry, I seek to satisfy my hunger by eating—when I've finished eating, hunger doesn't motivate me anymore). The progression principle describes how the five levels of needs exist in a hierarchy of “prepotency.” A need at any level becomes active only when the next-lower-level need is satisfied (e.g., I'm thirsty and lonely—but I won't be motivated to chat with my friends until I've had something to drink). Maslow argued that people try to satisfy these five needs in sequence. They progress, step by step, from the lowest level in the hierarchy up to the highest. Along the way, a deprived need



**FIGURE 2.4** Maslow's hierarchy of human needs.

dominates attention and determines behaviour until it is satisfied. Then, the next-higher-level need is activated. At the level of self-actualization, the deficit and progression principles cease to operate. The more this need is satisfied, the stronger it grows.

Consistent with human relations thinking, Maslow's theory implies that managers who understand and help workers to satisfy their important needs at work will get more productivity out of their employees. Although scholars now recognize things are more complicated than this, Maslow's ideas are still relevant. Consider the case of volunteer workers at the local Red Cross, animal shelter, or other community organizations. What can be done to motivate workers who aren't paid? Maslow's ideas suggest that linking volunteer work with opportunities to satisfy higher-order needs like esteem and self-actualization might be a good strategy.

## McGregor's Theory X and Theory Y

Douglas McGregor was heavily influenced by both the Hawthorne studies and Abraham Maslow. In his classic book, *The Human Side of Enterprise*, McGregor argued that managers should give more attention to workers' social and self-actualizing needs.<sup>24</sup> He called on managers to shift their view of human nature away from a set of assumptions he called Theory X and toward ones he called Theory Y. You can check your own managerial assumptions by completing the self-assessment at the end of the chapter.

According to McGregor, managers with **Theory X** assumptions believe that employees generally dislike work, have little ambition, are irresponsible, resist change, and prefer to be led rather than to lead. In contrast, managers with **Theory Y** assumptions believe employees are willing to work hard, accept

responsibility, are capable of self-control and self-direction, and are imaginative and creative.

One important point regarding Theory X and Theory Y is that McGregor believed these assumptions create **self-fulfilling prophecies**. When managers behave consistent with the assumptions, he said, they end up encouraging employees to act in ways that confirm managers' original expectations.<sup>25</sup>

Managers with Theory X assumptions tend to act in a very directive, command-and-control, top-down way that gives employees little say over their work. These behaviours create passive, dependent, reluctant subordinates, who tend to do only what they are told to do or required to do, reinforcing the original Theory X viewpoint. In contrast, managers with Theory Y assumptions tend to behave in ways that engage workers, giving them more job involvement, freedom, and responsibility. This creates opportunities for employees to satisfy esteem and self-actualization needs, and they respond by performing with initiative and high performance, creating a positive self-fulfilling prophecy.<sup>26</sup>

Theory Y thinking is reflected in a lot of the ideas and developments discussed in this book, such as valuing diversity, employee engagement, self-managing teams, empowerment, and leadership. You need to ponder your Theory X and Y assumptions and think through their implications for how you behave as a manager and team leader. You also must be prepared to meet and work with others holding different assumptions.

## Argyris's Theory of Adult Personality

The ideas of Maslow and McGregor inspired the well-regarded scholar and business consultant Chris Argyris. In his book



## Management Is Real 2.3: Wisdom | Learn from Role Models

**Nudging Canadians to greener lifestyles.**

### Former Marketing Executive Finds Fulfillment in the “Greening” of Canada

By the time Andreas Souvaliotis was 40 he was the president of Canada’s largest marketing company; today he is one of the world’s leaders in changing people’s behaviour as it affects climate change. Yet, at one time this successful entrepreneur felt like a misfit.

“I have Asperger’s and that made me an unusual kid,” explains Souvaliotis. “Although I had an extremely bright math and musical brain, I felt lonely and isolated from others.” Living in Greece at the time, a Christian country, made him feel twice as isolated when he realized, at a young age, that he was also gay. When the opportunity came as a teenager to leave Greece, he packed up and moved to Canada, “where,” he says, “diversity is a national asset.”

When his offer to buy the marketing company he was leading failed in 2007, he didn’t know what he wanted to do next, until he saw a presentation by the environmentalist and former Vice President of the United States, Al Gore, speak to the issues surrounding

climate change and the need to change our behaviour in terms of the things we do and buy that affect our planet.

It struck Souvaliotis that one way to change people’s behaviour was to reward them for doing the right thing. He and a partner soon formed a little company that would become the world’s first eco-points program. Within two years, Air Miles, the largest loyalty rewards company in North America, asked if he could fuse his company within theirs. Soon the federal government asked if he could incorporate his incentive programs with its national efforts to get Canadians to live greener and healthier lives. In under a decade, prominent socially responsible leaders and organizations from all over the world, including the Prince of Wales, recognized his innovative work.

#### Find Inspiration

Can you identify a social problem in your community that might be addressed using Andreas Souvaliotis’s work as a model? How do you see yourself fulfilling higher-order needs in your future? Will earning good money at work be enough, or will your self-actualization require something more?

*Personality and Organization*, Argyris contrasts management practices found in traditional, bureaucratic organizations with the needs and capabilities of mature adults.<sup>27</sup> Argyris believed that common problems, such as absenteeism, turnover, apathy, alienation, and low morale, may be signs of a mismatch. He also argued that managers who treat employees as responsible adults will achieve the highest productivity. It’s the self-fulfilling prophecy notion again: If you treat people as grown-ups, that’s the way they’ll behave.

Consider these examples of how Argyris’s thinking differs from that of earlier management thinking. In scientific management, the principle of specialization assumes that people will work more efficiently as tasks become simpler and better defined. Argyris believed that this principle limits opportunities for self-actualization. In Weber’s bureaucracy, people work in a clear hierarchy of authority, with people at higher levels directing and controlling those at lower levels. Argyris worried that this creates dependent, passive workers who feel they have little control over their work environments. According to Fayol’s administrative principles, the concept of unity of direction assumes that efficiency increases when work is planned and directed by supervisors. Argyris argued that this may create conditions for psychological failure; conversely, psychological success is more likely when employees are allowed to define their own goals. Entrepreneurs like Andreas Souvaliotis in Management Is Real 2.3 achieve great things when they have total control over their work environment.

### Learning Check

**LEARNING OBJECTIVE 2.2** Identify key insights of the behavioural management approaches.

**Be Sure You Can** • explain Follett’s concept of organizations as communities • define the Hawthorne effect • explain how the Hawthorne findings influenced the development of management thought • explain how Maslow’s hierarchy of needs operates in the workplace • distinguish between Theory X and Theory Y assumptions, and explain why McGregor favored Theory Y • explain Argyris’s criticism that traditional organizational practices are inconsistent with mature adult personalities

## 2.3 Modern Management Foundations

### LEARNING OBJECTIVE 2.3

Explain the core foundations of modern management theory and practice.

#### Learn More About

Quantitative analysis and tools • Organizations as systems • Contingency thinking • Quality management • Evidence-based management

The concepts, models, and ideas discussed so far helped set the stage for continuing developments in management thought. They ushered in modern management approaches that include the use of quantitative analysis and tools, a systems

view of organizations, contingency thinking, commitment to quality management, and the importance of evidence-based management.

## Quantitative Analysis and Tools

The typical quantitative approach to management works like this: a problem is encountered, it is systematically analyzed, appropriate mathematical techniques are applied, and an optimum solution is identified. The following examples show this in action.

*Problem:* An oil exploration company is worried about future petroleum reserves in various parts of the world. *Quantitative approach—Mathematical forecasting* makes future projections for reserve sizes and depletion rates that are used in the planning process and oil prospecting strategies.

*Problem:* A “big box” retailer is trying to deal with decreasing profit margins by minimizing inventory costs, but must also avoid being “out of stock” for customers. *Quantitative approach—Inventory analysis* helps control inventories by mathematically determining how much inventory to automatically order and when to order it.

*Problem:* A grocery store is getting complaints from customers that wait times are too long for checkouts during certain times of the day. *Quantitative approach—Queuing theory* allocates service personnel and workstations based on alternative workload demands in a way that minimizes both customer wait times and personnel costs.

*Problem:* A manufacturer wants to maximize profits on the production of three different products on three different machines, each of which can only be used at distinct periods of times and for runs at different costs. *Quantitative approach—Linear programming* calculates how best to allocate production across the three machines.

*Problem:* A real estate developer wants to control costs and finish building an apartment complex on schedule. *Quantitative approach—Network models* break large tasks into smaller components and diagram them in step-by-step sequences. This allows project managers to analyze, plan, and control timetables for the completion of activity subsets.

Although quantitative analysis has always been useful in management, the availability of inexpensive, convenient, affordable computing is dramatically expanding its power. With the collection, storage, and analysis of data now easier than ever before, an area known as **analytics** is becoming indispensable to organizations of all types. Think of analytics as the systematic analysis of large databases—often called “big data”—to solve problems and make informed decisions.<sup>28</sup> Here are two examples.

*Problem—*Sales were flat and inventories were high at the Schwan Food Company. Delivery drivers were using six-week-old lists of customers’ prior orders to decide who to visit and what to offer them. *Solution—*The situation improved substantially after Schwan installed a new

analytics program. It churns vast amounts of historical data to predict customer preferences and sends daily sales recommendations directly to each driver’s tablet.

*Problem—*Software engineering talent is in short supply for Google and other high-tech companies. Competition for new hires is intense and retention is difficult as experienced engineers become poaching targets for rival firms. *Solution—*Google has an analytics tool that pools information from performance reviews, surveys, and pay and promotion histories, and uses a math formula (algorithm) to identify engineers who might be open to offers from other firms. Managers use this information to develop plans for retaining these talented engineers and reduce the likelihood that they will find competing offers attractive.<sup>29</sup>

## Organizations as Systems

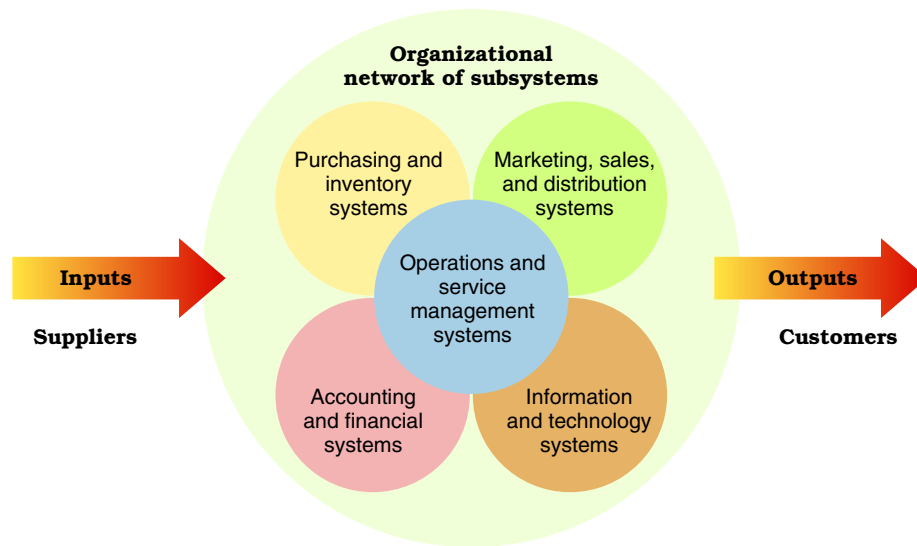
Organizations have long been described as cooperative systems that achieve great things by focusing resources and the contributions of many individuals toward a common purpose. In reality cooperation among people and different moving parts is imperfect and can be improved. That is why it’s critical to understand the full complexity of organizations as a **system** of interrelated parts or **subsystems** that work together to achieve common goals.<sup>30</sup>

Organizations function as **open systems** that interact with their environment in a continual process of transforming inputs—people, technology, information, money, and supplies—into outputs—goods and services. **Figure 2.5** shows how an organization functions as an interacting network of subsystems. The activities of these subsystems individually and collectively support the larger system to make things happen. The operations and service management subsystems anchor the transformation process, while linking with other subsystems such as purchasing, accounting, and sales. Organizations can only perform well when each subsystem both performs its tasks well and cooperates with other subsystems.

## Contingency Thinking

Successful managers identify and implement practices that best fit with the unique demands of different situations. This requires **contingency thinking** that matches actions with problems and opportunities specific to different people and settings. From a contingency perspective there is no “one best way” to manage in all circumstances. The challenge is to understand situational differences and respond to them in ways that fit with their unique characteristics.<sup>31</sup> Can you think of situations at work or at school where you need to adjust your interpersonal behaviour, for example, to succeed? What about your “learning style”—do you know how that will affect your success in the workplace? (See Management Is Real 2.4.)

Contingency thinking is an important theme in this book, and its implications extend to all of the management functions—from planning and controlling for diverse environmental conditions, to organizing for different strategies, to leading in different performance situations. A good illustration



**FIGURE 2.5** Organizations as complex networks of interacting subsystems.

takes us back once again to the concept of bureaucracy, which Weber offered as an ideal form of organization. But from a contingency perspective, bureaucracy is only one possible way of organizing. What turns out to be the “best” structure in any given situation will depend on a range of factors, including

environmental uncertainty, an organization’s primary technology, and the strategy being pursued. A tight bureaucracy works best when the environment is relatively stable and operations are predictable and uncomplicated. In complex and changing situations, more flexible structures are needed.<sup>32</sup>

**Management Is Real 2.4: Insight | Keep Learning about Yourself**

**There’s no right or wrong when it comes to learning styles. But we should recognize and understand them.**

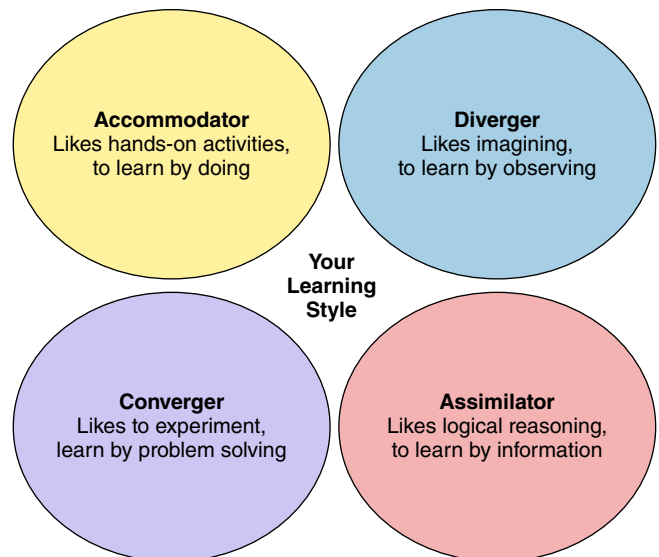
**Make Your Learning Style Work for You**

In light of all the complexities associated with modern management practice, it is important to know your own personal **learning style**. Think of learning style as how you like to learn through receiving, processing, and recalling new information.

We all tend to learn in slightly different ways. Look how some students do well in lecture classes, while others do not. But these others might excel in case study or project classes that emphasize discussion and problem solving rather than digesting information. David Kolb came up with the four learning styles shown in the figure in 1984.

There’s no right or wrong learning style; however, it is critical to recognize and understand some underlying differences. Some people learn by watching. They observe others and model what they see. Others learn by doing. They act and experiment, learning as they go. Some people are feelers, for whom emotions and values are very important. Others are thinkers who emphasize reason and analysis.

It’s a personal challenge to learn something new every day, and it’s a managerial challenge to consistently help employees learn as well. One of our most significant challenges is to always embrace experiences at school, at work, and in everyday living and try our best to learn from these experiences. Every employee is unique, most problem situations are complex, and key performance factors are constantly changing. Professional success is much more likely for managers who are excited to learn, and who are also excited to help others learn.



**Get to Know Yourself Better**

Look at the diagram of learning styles and think about your own preferences. Shade in each circle to show the degree to which that description best fits with your preferences. This snapshot of your personal learning style is good food for thought. Ask: (1) “What are the implications of my learning style for how I perform academically and how well I perform at work?” (2) “How does my learning style influence my relationships with others in study groups and work teams?” (3) “How does my learning style influence the kinds of information I pay the most attention to and the kind of information I tend to overlook?”

## Quality Management

The work of W. Edwards Deming is a cornerstone of the quality movement in management.<sup>33</sup> His story began in 1951, when he was invited to Japan to explain quality control techniques that had been developed in the United States. “When Deming spoke,” we might say, “the Japanese listened.” The principles he taught the Japanese were straightforward and they worked: Tally defects, analyze and trace them to the source, make corrections, and keep a record of what happens afterward. Deming’s approach emphasizes the use of statistical tools, commitment to quality assurance training, and constant innovation.<sup>34</sup>

These ideas contributed to the emergence of **total quality management**, or TQM, which incorporates quality principles in organizations’ strategic objectives. TQM principles are applied to all aspects of operations with a focus on meeting customers’ needs by doing things right the first time. Most TQM approaches begin with buy-in on a total quality commitment. This applies to all employees and every organizational subsystem—from resource acquisition and supply chain management, through production and into physical distribution of finished goods and services, and ultimately to customer relationships. The search for and commitment to quality reflects an emphasis on **continuous improvement**—always looking for new ways to improve on current practices. The key takeaway is that it is critical to never be satisfied; something always can and

should be improved—whether it is machines, people, processes, or relationships. Management Is Real 2.5 discusses the choices that employers must make when it comes to employee relationships.

**ISO certification** by the International Organization for Standardization in Geneva, Switzerland, has become a global stamp of approval for quality management. Businesses and non-profits that strive to be “world-class” are increasingly expected to have ISO certification. To obtain it, they undergo a rigorous assessment by independent auditors to determine whether ISO’s strict quality requirements have been met.

## Evidence-Based Management

Managers are always searching for practical answers to questions dealing with day-to-day dilemmas and situations.<sup>35</sup> What is the best performance appraisal method? What selection method works best for high-performance teams? How should a merit pay system be designed and implemented? When does directive leadership work best? How do you structure organizations for innovation? Given the importance of the answers to such questions, it is critical to be cautious and a bit skeptical when separating fads from facts and assumptions from informed insight based on empirical data and analysis.

In light of the complexity of work and organizations today, a critical concern of management scholars is that we may be

### Management Is Real 2.5: Choices | Think before You Act

**>55% of men say they are not sure how to interact with women at work.**

#### Thinking about Office Engagement

Things have changed in the workplace. The #MeToo movement has shed light on sexual harassment at work, and the facts speak for themselves. If you are not sure of the statistics, just check the feature box on Ethics found earlier in the chapter. Perhaps it’s a good time to take stock and offer men advice on how to interact with women at work without crossing the line.

The degree of uncertainty some men feel is shown by the fact that more than half the men surveyed in a Pew Research poll expressed discomfort serving as mentors to female co-workers, being alone with them at work, and meeting them at work-sponsored social occasions. A lot of opportunities for coaching, networking, and career advancement for women will be missed if men withdraw from such situations out of fear of having an interaction misinterpreted.

Some men and employers are turning to training as a way out of the “to interact ... or not to interact” dilemma. At a conference organized by AnitaB.org, men received advice on how to mentor and support female coworkers. The goal was to help attendees learn how to engage positively and not withdraw for fear of saying or doing something wrong. One female at the conference said: “I just want someone who has my back, listens to me communicate in my own way.”



laflor/E+/Getty Images

#### Your Take

Just what is the line that both men and women worry might be crossed in workplace interactions? Can you describe it in your own words? Could you, and are you willing to, describe this line to co-workers to create shared understandings of what is and is not okay for you? The workplace is a “team” place and organizations really can’t afford to have men withdrawing any more than they can afford to have women overlooked, degraded, or treated harmfully. So, what can we do? What are you looking for in an employer and organizational culture? Where does all this fit into your career aspirations and expectations?

too quick to accept the results of studies based on poor science or questionable evidence. And if research may be flawed or preliminary in terms of drawing firm conclusions, extra care needs to be taken interpreting and applying results to management practice.<sup>36</sup>

Scholars Jeffrey Pfeffer and Robert Sutton make the case for **evidence-based management** where management decisions are made based on “hard facts”—that is, about what really works—rather than on “dangerous half-truths”—things that sound good but lack solid evidence.<sup>37</sup> Pfeffer and Sutton want managers to be well informed and knowledgeable when making decisions. Evidence-based management is about managers “making decisions through the conscientious, explicit, and judicious use of four sources of information: practitioner expertise and judgment, evidence from the local context, a critical evaluation of the best available research evidence, and the perspectives of those people who might be affected by the decision.”<sup>38</sup> You may recognize incidents in your personal affairs where you make decisions based on less-than-complete information, or even hearsay. When you do, are you prepared to learn from experience and rely more on evidence-based decision-making in the future?

Management scholars support and inform evidence-based management by conducting solid and meaningful research using scientific methods, and by rigorously examining and reporting case studies and insights from managers’ experiences.<sup>39</sup> Some research carves out new and innovative territory while other research refines and extends knowledge that has come down in building-block fashion over time. You’ll notice that management research involves data collection and analysis in one form or another. But just because a research study uses data, that doesn’t necessarily make it solid and scientific. The following criteria are useful as a first step to determine whether or not good scientific methods have been used.

- A research question or problem is clearly identified.
- One or more hypotheses are stated to describe possible explanations.
- The research design provides a good test of the hypotheses.
- Data are rigorously gathered, analyzed, and interpreted.
- Hypotheses are accepted or rejected and conclusions made based on the evidence.

When research satisfies the scientific methods test, managers can be more confident accepting and applying results in actual practice. Gathering data from a sample of some 1,000 firms, for example, Pfeffer and a colleague studied the link between human resource management and organizational performance.<sup>40</sup> They found that firms using a mix of positive human resource management practices had more sales per employee and higher profits per employee than firms that did not. These positive practices included employment security, selective hiring, self-managed teams, high wages based on performance merit, training and skill development, minimal status differences, and shared information.<sup>41</sup>

## Learning Check

**LEARNING OBJECTIVE 2.3** Explain the core foundations of modern management theory and practice.

**Be Sure You Can** • define system, subsystem, and open system • apply these concepts to describe the operations of an organization in your community • define contingency thinking and give examples of how it is used by managers • describe evidence-based management and its link with scientific methods

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 2.1** Describe the principal insights of classical management thinking.

- Frederick Taylor’s four principles of scientific management focused on the need to carefully select, train, and support workers for individual task performance.
- Henri Fayol suggested that managers should learn what are now known as the management functions of planning, organizing, leading, and controlling.
- Max Weber described bureaucracy with its clear hierarchy, formal rules, and well-defined jobs as an ideal form of organization.

**For Discussion** Should Weber’s notion of the ideal bureaucracy be scrapped altogether, or is it still relevant today?

**LEARNING OBJECTIVE 2.2** Identify key insights of the behavioural management approaches.

- The behavioural approaches shifted management attention toward the human factor as a key element in organizational performance.
- Mary Parker Follett described organizations as communities within which members combine talents to work for a greater good.

- The Hawthorne studies suggested that work behaviour is influenced by social and psychological forces and that work performance may be improved by better “human relations.”
- Abraham Maslow’s hierarchy of human needs introduced the concept of self-actualization and the potential for people to experience self-fulfillment in their work.
- Douglas McGregor urged managers to shift away from Theory X and toward Theory Y thinking, which views people as independent, responsible, and capable of self-direction in their work.
- Chris Argyris pointed out that adults may react negatively when constrained by strict management practices and rigid organizational structures.

**For Discussion** How can a manager benefit by using insights from Maslow’s hierarchy of needs theory?

**LEARNING OBJECTIVE 2.3** Explain the core foundations of modern management theory and practice.

- Analytics that use advanced quantitative analysis techniques in decision sciences and operations management can help managers solve complex problems.

- Organizations are open systems that interact with their external environments, while consisting of many internal subsystems that must work together in a coordinated way to support the organization’s overall success.
- Contingency thinking avoids “one best way” arguments, instead recognizing the need to understand situational differences and respond appropriately to them.
- Quality management focuses on making a total commitment to product and service quality throughout an organization, maintaining continuous improvement and meeting worldwide quality standards such as ISO certification.
- Evidence-based management uses findings from rigorous scientific research to identify management practices for high performance.

**For Discussion** Can system and subsystem dynamics help describe and explain performance problems for an organization in your community?

## Chapter Glossary

**Analytics** The systematic analysis of large databases to solve problems and make informed decisions.

**Bureaucracy** A rational and efficient form of organization founded on logic, order, and legitimate authority.

**Contingency thinking** Thinking that tries to match management practices with situational demands.

**Continuous improvement** The constant search for new ways to improve work quality and performance.

**Deficit principle** The notion that a satisfied need does not motivate behaviour.

**Evidence-based management** Making decisions based on hard facts about what really works.

**Hawthorne effect** The tendency of persons singled out for special attention to perform better than expected.

**ISO certification** Conformance with a rigorous set of international quality standards.

**Learning style** The manner in which an individual prefers to learn through receiving, processing, and recalling new information.

**Motion study** The science of reducing a task to its basic physical motions.

**Need** A physiological or psychological deficiency that a person feels compelled to satisfy.

**Open system** A system that interacts with its environment and transforms resource inputs into outputs.

**Organizational behaviour** The study of individuals and groups in organizations.

**Progression principle** The notion that a need is activated only when the next-lower-level need is satisfied.

**Scientific management** A system of management that emphasizes careful alignment

of worker training, incentives, and supervisory support with job requirements.

**Self-fulfilling prophecy** The phenomenon of an expectation leading to its own fulfillment.

**Subsystem** A smaller component of a larger system.

**System** A collection of interrelated parts working together for a purpose.

**Theory X** The assumption that people dislike work, lack ambition, act irresponsibly, and prefer to be led.

**Theory Y** The assumption that people are willing to work, like responsibility, and are self-directed and creative.

**Total quality management** An organization-wide commitment to continuous improvement, product quality, and customer needs.

## Self-Test 2

### Multiple-Choice Questions

1. The assumption that people are complex with widely varying needs is most associated with the \_\_\_\_\_ management approaches.

- a. classical
- b. neoclassical
- c. behavioural
- d. modern

2. The father of scientific management is \_\_\_\_\_.

- a. Weber
- b. Taylor
- c. Mintzberg
- d. Katz

3. When the registrar of a university deals with students by an identification number rather than a name, which characteristic of bureaucracy is being displayed and what is its intended benefit?

- a. division of labour, competency
- b. merit-based careers, productivity
- c. rules and procedures, efficiency
- d. impersonality, fairness

4. If an organization was performing poorly and Henri Fayol was called in as a consultant, what would he most likely suggest to improve things?
- Teach managers to better plan and control.
  - Teach workers more efficient job methods.
  - Promote to management only the most competent workers.
  - Find ways to increase corporate social responsibility.
5. One example of how scientific management principles are applied in organizations today would be:
- conducting studies to increase efficiencies in job performance.
  - finding alternatives to a bureaucratic structure.
  - training managers to better understand worker attitudes.
  - focusing managers on teamwork rather than individual jobs.
6. The Hawthorne studies raised awareness of how \_\_\_\_\_ can be important influences on productivity.
- structures
  - human factors
  - physical work conditions
  - pay and rewards
7. Advice to study a job, carefully train workers to do that job, and link financial incentives to job performance would most likely come from \_\_\_\_\_.
- scientific management
  - contingency management
  - Henri Fayol
  - Abraham Maslow
8. The highest level in Maslow's hierarchy includes \_\_\_\_\_ needs.
- safety
  - esteem
  - self-actualization
  - physiological
9. Which management theorist would most agree with the statement "If you treat people as grown-ups they will perform that way"?
- Argyris
  - Deming
  - Weber
  - Fuller
10. When people perform in a situation as they are expected to, this is sometimes called the \_\_\_\_\_ Effect.
- Hawthorne
  - systems
  - contingency
  - open-systems
11. Resource acquisition and customer satisfaction are important when an organization is viewed as a(n) \_\_\_\_\_.
- bureaucracy
  - closed system
  - open system
  - pyramid
12. The loan-processing department would be considered a \_\_\_\_\_ of your local bank or credit union.
- subsystem
  - closed system
  - resource input
  - cost centre
13. When a manager notices that Sheryl has strong social needs and assigns her a job in customer relations and gives Farhad lots of praise because of his strong ego needs, the manager is displaying \_\_\_\_\_.
- systems thinking
  - Theory X
  - motion study
  - contingency thinking
14. Which is the correct match?
- Follet–analytics
  - McGregor–motion study
  - Deming–quality management
  - Maslow–Theory X and Y
15. When managers try to avoid hearsay and make decisions based on solid facts and information, this is known as \_\_\_\_\_.
- continuous improvement
  - evidence-based management
  - TQM
  - Theory X management

### Short-Response Questions

16. Explain how McGregor's Theory Y assumptions can create self-fulfilling prophecies consistent with the current emphasis on participation and involvement in the workplace.
17. How do the deficit and progression principles operate in Maslow's hierarchy-of-needs theory?
18. Define contingency thinking and give an example of how it might apply to management.
19. Explain why the external environment is so important in the open-systems view of organizations.

### Essay Question

20. Enrique Temoltzin has just been appointed the new manager of your local university bookstore. Enrique would like to make sure the store operates according to Weber's bureaucracy. Describe the characteristics of bureaucracy and answer this question: Is the bureaucracy a good management approach for Enrique to follow? Discuss the possible limitations of bureaucracy and the implications for managing people as key assets of the store.

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Paying a Summer Worker

It's summer job time and you've found something that just might suit you—handling technical support inquiries at a local Internet provider.

The regular full-time employees are paid by the hour. Summer hires like you fill in when they go on vacation. However, you will be paid by the call for each customer that you handle. How will this pay plan affect your work behaviour as a customer service representative? Is this summer pay plan a good choice by the management of the Internet provider?

## 2. Good Performance but No Pay Raises

As a manager in a small local firm you've been told that because of the poor economy workers can't be given any pay raises this year. You have some really hard-working and high-performing people on your team whom you were counting on giving solid raises to. Now what can you do? How can you use insights from Maslow's hierarchy of needs to solve this dilemma of finding suitable rewards for high performance?

## 3. I've Got This Great Idea

You've just come up with a great idea for improving productivity and morale in a shop that silkscreens T-shirts. You want to allow workers to work four 10-hour days if they want instead of the normal five-day/40-hour week. With the added time off, you reason, they'll be happier and more productive while working. But your boss isn't so sure. "Show me some evidence," she says. Can you design a research study that can be done in the shop to show whether your proposal is a good one?

## Reflect on the Self-Assessment

### Managerial Assumptions

#### Instructions

Read the following statements. Use the space in the margins to write "Yes" if you agree with the statement, or "No" if you disagree with it. Force yourself to take a Yes or No position.

1. Is good pay and a secure job enough to satisfy most workers?
2. Should a manager help and coach subordinates in their work?
3. Do most people like real responsibility in their jobs?
4. Are most people afraid to learn new things in their jobs?
5. Should managers let subordinates control the quality of their work?
6. Do most people dislike work?
7. Are most people creative?
8. Should a manager closely supervise and direct the work of subordinates?
9. Do most people tend to resist change?
10. Do most people work only as hard as they have to?

11. Should workers be allowed to set their own job goals?
12. Are most people happiest off the job?
13. Do most workers really care about the organization they work for?
14. Should a manager help subordinates advance and grow in their jobs?

#### Scoring

Count the number of yes responses to items 1, 4, 6, 8, 9, 10, 12.

Write that number here as [X = \_\_\_\_\_].

Count the number of yes responses to items 2, 3, 5, 7, 11, 13, 14.

Write that score here as [Y = \_\_\_\_\_].

#### Interpretation

This assessment provides insight into your orientation toward Douglas McGregor's Theory X (your "X" score) and Theory Y (your "Y" score) assumptions as discussed earlier in the chapter. You should review the discussion of McGregor's thinking in this chapter and consider the ways you are likely to behave toward other people at work. Think, in particular, about the types of "self-fulfilling prophecies" your managerial assumptions are likely to create.

## Contribute to the Class Exercise

### Evidence-Based Management Quiz

#### Instructions

1. For each of the following questions, answer "T" (true) if you believe the statement is backed by solid research evidence, or "F" (false) if you do not believe it is an evidence-based statement.<sup>42</sup>

- T F 1. Intelligence is a better predictor of job performance than having a conscientious personality.
- T F 2. Job candidates screened for values perform better than those screened for intelligence.
- T F 3. A highly intelligent person will have a hard time performing well in a low-skill job.
- T F 4. "Integrity tests" are good predictors of whether employees will steal, be absent, or take advantage of their employers in other ways.
- T F 5. Goal setting is more likely to result in improved performance than is participation in decision-making.
- T F 6. Errors in performance appraisals can be reduced through proper training.

- T F 7. People behave in ways that show pay is more important to them than what they indicate on surveys.
- T F 8. People hired through employee referrals have better retention rates than those hired from other recruiting sources.
- T F 9. Workers who get training and development opportunities at work tend to have lower desires to change employers.
- T F 10. Being "realistic" in job interviews and telling prospective employees about both negative and positive job aspects improves employee retention.

2. Share your answers with others in your assigned group. Discuss the reasons members chose the answers they did; arrive at a final answer to each question for the group as a whole.
3. Compare your results with these answers "from the evidence."
4. Engage in a class discussion of how commonsensical answers can sometimes differ from answers provided by evidence. Ask: What are the implications of this discussion for management practice?



## Manage a Critical Incident

### Theory X versus Theory Y

#### Situation

You've been at Magnetar Logistics Solutions for nine years and earned a reputation for leading a team that gets done what you say will get done when you say it will get done. Now your sales team is close to landing a new seven-figure contract with an established client, Peterson Warehousing, Inc. You brought Peterson on board six years ago and have since grown and nurtured the relationship, and gotten to know this client in depth. One of the reasons you've achieved so much over the years is that you've always trusted your team members and given them the room and support they need to operate in their own way. They've repaid you by coming through time and time again with top quality solutions that always matched clients' needs. But Peterson is a different case—at least it seems that way to you—it's your baby and it's a big account. You know Peterson better than anyone else, and now you're facing a very hard deadline in only weeks, which will determine whether or not you get the new contract. At this point you're doing a lot of close supervision

on this project and not giving team members very much space to operate. There are many complexities with Peterson that you're worried the team will overlook, but which you are on top of. The team as a whole is starting to feel the impact of your switch in management style.

#### Questions

1. What are the consequences of your shifting management style midstream on this project ... for success with the client? ... for your team? ... for your reputation as a successful manager?
2. Is a hands-on Theory X approach the best way to go here, or have you made a miscalculation?
3. Should you back off and return to the Theory Y assumptions that worked well in the past?
4. Is it too late to revert to your normal approach?
5. How can you infuse your Peterson expertise into the project while still keeping team members motivated and satisfied with your leadership?

## Collaborate on the Team Activity

### Management in Popular Culture

Movies, television shows, and music display a lot about our popular culture. Many deal with work situations and themes—things like leadership, team dynamics, attitudes, personalities—that are topics of the management course. Management learning is readily available in popular culture. We just have to look for it.

#### Team Task

Choose one or more topics from this or a prior chapter and discuss popular culture examples that offer insights into them. Select one to share with the class at large in a multimedia presentation. Be sure to include a strong justification for your choice.

#### Suggestions

- Listen to music. Pick out themes that reflect important management concepts and theories. Identify what their messages say about management and working today.
- Watch movies, YouTube videos, and television episodes and advertisements. Look for the workplace issues and management themes.
- Read the comics. Compare and contrast management and working themes in two or three popular comic strips.
- Create your own alternative to the above suggestions.

## Analyze the Case Study

### Case 2.1 Zara International | Fashion at the Speed of Light

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.



iStock.com/Troels Graugaard

## Ethics and Social Responsibility

**“Corporations are a legal fiction. You have to deter bad individual conduct within corporations. People who did the conduct are going to be held accountable.”**

**Benjamin Lawsky, New York’s Banking Regulator**

Who doesn’t want strong ethics, social responsibility, and principled leadership in business, government, and all of the organizations of our society? But isn’t it easy to become cynical when the news reports yet another scandal and shows photos of some financial figure, corporate executive, or government official doing the “perp walk” into the police station? Why do some people and organizations fall prey to avarice and greed, while others are positive role models for ethical practices and admirable behaviour? In business, think of the good examples set by Canadian Tire, TD Bank, and McCain Foods, which were named among Canada’s most reputable companies by *Canadian Business*. Surely there are others right in your local community.

The actions of organizations are ultimately driven by the people who run them. Principled—or ethical—behaviour by

the people at the top and at all levels is the real differentiator between organizations that do good things and those that don’t. When criticizing Toyota Motor Corporation for misleading consumers about vehicle safety issues, for example, U.S. District Court Judge William H. Pauley declared that corporate misconduct is driven by people. He urged prosecutors “to hold those individuals responsible for making these decisions accountable.”<sup>1</sup> There’s no doubt that managers hold special ethical responsibilities in this regard. Consider this reminder from Desmond Tutu, retired archbishop of Capetown, South Africa, and winner of the Nobel Peace Prize:

**You are powerful people. You can make this world a better place where business decisions and methods take account of right and wrong as well as profitability.... You must take a stand on important issues: the environment and ecology, affirmative action, sexual harassment, racism and sexism, the arms race, poverty, the obligations of the affluent West to its less-well-off sisters and brothers elsewhere.<sup>2</sup>**

# Chapter Quick Start

From the classroom to the meeting room to the boardroom and on into the family room, we often find ourselves confronting complex and controversial issues. We live in a world where information flows freely and actions are closely scrutinized. It's easy to get caught up in dilemmas that put values and ethics to the test. And it's not going to get any easier in the future. This chapter is an opportunity to think about ethics in our personal lives and at work, as well as in the responsibilities organizations have to society.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

### 3.1 Ethics

**3.1** Define ethics and describe the foundations of ethical behaviour.

### 3.2 Ethics in the Workplace

**3.2** Discuss ethical dilemmas and common ethics issues in the workplace.

### 3.3 Maintaining High Ethical Standards

**3.3** Describe approaches to maintaining high ethical standards.

### 3.4 Social Responsibility

**3.4** Explain social responsibility and corporate governance.

## What to Look for **Inside**

### Management Is Real

- 3.1 Insight** Keep Learning about Yourself  
Individual Character Is a Confidence Builder
- 3.2 Analysis** Make Data Your Friend  
Manager Behaviour Key to Ethical Workplace
- 3.3 Ethics** Know Right from Wrong  
Interns Are Suing Their Employers for Back Pay
- 3.4 Wisdom** Learn from Role Models  
Vancity Tops Corporate Responsibility Lists Nationwide
- 3.5 Choices** Think before You Act  
Europe Turns to Quotas to Get Women on Boards

### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Terminal Values
- **Contribute** *to the Class Exercise:*  
Confronting Ethical Dilemmas
- **Manage** *a Critical Incident:*  
Dealing with a Global Supply Chain
- **Collaborate** *on the Team Activity:*  
Stakeholder Maps
- **Analyze** *the Case Study:*  
Tentree International | A Canadian Firm Dedicated to Protecting

3.1

## Ethics

### LEARNING OBJECTIVE 3.1

Define ethics and describe the foundations of ethical behaviour.

### Learn More About

- Laws and values as influences on ethical behaviour
- Alternative views of ethics
  - Cultural issues in ethical behaviour

How many times a day do you ask this question: What should I do about this situation? How often do you consider “ethics” when formulating your answer? **Ethics** is defined as the moral code of principles that sets standards of good and bad, or right and wrong, in one’s conduct.<sup>3</sup> An individual’s moral code is influenced by a variety of sources including family, friends, local culture, religion, educational institutions, and individual experiences.<sup>4</sup> Importantly, ethics help people make moral choices. An ethical framework gives us confidence when taking action in difficult situations, and encourages **ethical behaviour** that is accepted as “good” and “right” in the context of the governing moral code.

## Laws and Values as Influences on Ethical Behaviour

Individuals often assume that anything that is legal should be considered ethical. Slavery was once legal in the United States, and laws once permitted only men to vote.<sup>5</sup> But that doesn’t mean these practices were ethical. Sometimes legislation lags behind changes in a society’s moral position. The delay makes it possible for something to be legal during a time when most people think it should be illegal.<sup>6</sup> On the flip side, some actions or activities may be illegal when many or most people think they should be legal. High-profile examples include gay marriage, which has been legal in Canada since 2005, and marijuana, which has been legal for medical use since 2016 and for recreational use since 2018, when the *Cannabis Act* came into effect. Although the law serves as a broad-stroke benchmark, social complexity and change may call for a more nuanced approach to determine whether behaviour is ethical or not.

By the same token, just because an action is not strictly illegal doesn’t make it ethical.<sup>7</sup> Matching up behaviour to the “letter of the law” doesn’t guarantee that one’s actions are ethical. Is it truly ethical, for example, for an employee to take longer than necessary to do a job? ... to call in sick in order to take a day off work for leisure? ... to fail to report rule violations or anti-social behaviour by a co-worker? Although none of these acts is strictly illegal, many would consider them to be unethical.

Most ethical problems in the workplace arise when people are asked to do, or find they are about to do, something that violates their personal beliefs. For some, if the act is legal, they

proceed without worrying about it. For others, the ethical test goes beyond legality and into the domain of personal **values**—the underlying beliefs and attitudes that help influence individual behaviour.

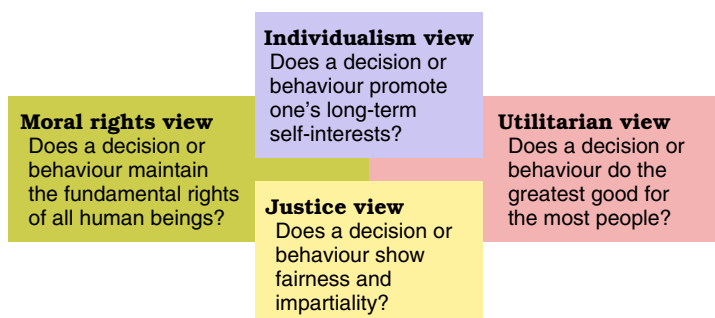
The psychologist Milton Rokeach distinguishes between “terminal” and “instrumental” values.<sup>8</sup> **Terminal values** are preferences about desired ends, such as the goals one strives to achieve in life. Examples of terminal values are self-respect, family security, freedom, and happiness. **Instrumental values** are preferences regarding the means for accomplishing these ends. Among the instrumental values are honesty, ambition, imagination, and self-discipline.

Although value patterns for individuals tend to be very enduring, values also vary significantly from person to person. This can result in different interpretations of what behaviour is ethical or unethical, even in what might be thought of as a clear-cut situation like taking an exam. After encountering cheating problems, an ethics professor once told business school students they were emphasizing means over ends: “The academic values of integrity and honesty in your work can seem to be less relevant than the instrumental goal of getting a good job.”<sup>9</sup> And when about 10 percent of an MBA class was caught cheating on a take-home final, some argued the behaviour should be expected from students taught to value collaboration, teamwork, and mobile communications. Others argued that the instrumental values driving such behaviour were totally unacceptable—it was an individual exam, the students cheated, and they should be penalized.<sup>10</sup>

## Alternative Views of Ethics

**Figure 3.1** shows four views of ethical behaviour—the utilitarian, individualism, moral rights, and justice views.<sup>11</sup> Each view offers a slightly different way to assess whether a behaviour in a given situation is ethical or unethical, and each has its drawbacks. Examining issues through all four viewpoints provides a more complete picture of the ethicality of a decision than reliance on a single point of view alone.

**Utilitarian View** The **utilitarian view** considers ethical behaviour to be that which delivers the greatest good to the greatest number of people. Based on the work of 19th-century philosopher John Stuart Mill, this results-oriented view



**FIGURE 3.1** Four views of ethical behaviour.

assesses the moral implications of actions in terms of their consequences. Managers, for example, are inclined to use profits, efficiency, and other performance criteria to judge what is best for the most people. An executive leading a firm facing hard financial times may decide to cut 30 percent of the workforce to keep the company profitable and save the jobs of remaining workers. She could justify this decision based on a utilitarian view of business ethics. But she can't know for sure if the economy will get better or worse, nor can she accurately measure the social and economic consequences for those losing their jobs.

**Individualism View** The **individualism view** of ethical behaviour is based on the belief that one's primary commitment should be to advance long-term self-interests. The basic idea is that society will be best off if everyone acts in ways that maximize their own utility or happiness. The assumption is that people are self-regulating in the quest for long-term individual advantage. For example, lying and cheating for short-term gain should not be tolerated, because if everyone behaved this way, then no one's long-term interests would be served. The individualism view is supposed to promote honesty and integrity. But not everyone has the same capacity or desire to self-control. If only a few individuals driven by greed take advantage of the freedom allowed by this approach, trust in the system dissolves. One executive described this as the tendency to "push the law to its outer limits" and "run roughshod over other individuals to achieve one's objectives."<sup>12</sup>

**Moral Rights View** Behaviour is ethical under a **moral rights view** when it respects and protects the fundamental rights of people. The teachings of John Locke and Thomas Jefferson uphold the rights of all people to life, liberty, and fair treatment under the law as sacred. In organizations today, the moral rights view bears on employees' right to privacy, due process, free speech, health, safety, and freedom of conscience. It is evidenced at the global level by the Universal Declaration of Human Rights, which was principally drafted by Canadian John Peters Humphrey and was passed by the United Nations General Assembly in 1948.<sup>13</sup> Selections from the Declaration follow.

- All human beings are born free and equal in dignity and rights.
- Everyone has the right to life, liberty, and security of person.
- No one shall be held in slavery or servitude.
- No one shall be subjected to torture or to cruel, inhuman, or degrading treatment or punishment.
- All are equal before the law and are entitled without any discrimination to equal protection of the law.

Although the moral rights view emphasizes individual rights, it does not address whether the outcomes associated with protecting those rights are beneficial to the majority of society. What happens, for example, when someone's right to free speech makes the workplace uncomfortable for others or offends a key customer or stakeholder of the organization?

**Justice View** The **justice view** maintains that behaviour is ethical when people are treated impartially, according to legal rules and standards. This approach defines the ethics of a decision based on whether it is "equitable" for everyone affected.<sup>14</sup> Justice issues in organizations often focus on four dimensions: procedural, distributive, interactional, and commutative justice.<sup>15</sup>

**Procedural justice** concerns the degree to which policies and rules are fairly applied to all individuals. For example, does a sexual harassment charge levied against a senior executive receive the same full hearing as one made against a first-level supervisor? **Distributive justice** deals with the degree to which outcomes (e.g., rewards, vacation time) are allocated fairly across all employees without respect to individual characteristics such as ethnicity, race, gender, age, or other individual characteristics. For example, are women and members of visible minorities treated fairly when pay raises and promotions are made? Do universities allocate a proportionate share of scholarships to male and female students?

**Interactional justice** concerns the degree to which people treat one another with dignity and respect. For example, does a bank loan officer take the time to fully explain to an applicant why he or she was turned down for a loan?<sup>16</sup> **Commutative justice** focuses on the fairness of exchanges or transactions. Things are fair if all parties have access to relevant information and obtain some benefit.<sup>17</sup> Does a bank loan officer make it clear, for example, that an applicant may have difficulty repaying the loan if interest rates increase and the applicant's income does not?

## Cultural Issues in Ethical Behaviour

*Situation:* A 12-year-old boy is working in a garment factory in Bangladesh. He is the sole income earner for his family. He often works 12-hour days and was once burned badly by a hot iron. One day he is fired. His employer had been given an ultimatum by a major Canadian customer: "No child workers if you want to keep our contracts." The boy says, "I don't understand. I do my job very well. My family and I need the money." *Question:* Should the boy be allowed to work?

This difficult and perplexing situation is one example of the many ethics challenges faced in international business. Former Levi Strauss CEO Robert Haas once said that an ethical problem "becomes even more difficult when you overlay the complexities of different cultures and value systems that exist throughout the world."<sup>18</sup> Those who believe that behaviour in foreign settings should be guided by the classic rule of "when in Rome, do as the Romans do" reflect an ethical position known as **cultural relativism**.<sup>19</sup> This is the belief that there is no one right way to behave and that ethical behaviour is always determined by its cultural context. A Canadian business executive guided by rules of cultural relativism, for example, would argue that the use of child labour is acceptable in another country as long as it is consistent with local laws and customs.

**Figure 3.2** contrasts cultural relativism with **moral absolutism**. This is the belief that if a behaviour or practice is not ethical in one's home environment, it is not acceptable



**FIGURE 3.2** Cultural relativism and moral absolutism in international business ethics.

**Source:** Developed from Thomas Donaldson, “Values in Tension: Ethics Away from Home,” *Harvard Business Review*, vol. 74 (September–October 1996), pp. 48–62.

anywhere else. Moral absolutism holds that ethical standards are universal and should apply absolutely across cultures and national boundaries. In the former example, the Canadian executive would not do business in a setting where child labour was used since it is unacceptable at home. Critics of the absolutist approach maintain it is a form of **ethical imperialism**, an attempt to impose one culture’s ethical standards on others.

Business ethicist Thomas Donaldson finds fault with both cultural relativism and moral absolutism. He argues instead that certain fundamental rights and ethical standards can be preserved at the same time that values and traditions of a given culture are respected.<sup>20</sup> Core values or “hyper-norms” that should transcend cultural boundaries include respect for human dignity, basic rights, and good citizenship. Donaldson believes international business practices can be tailored to local and regional cultural contexts while upholding these core values. In the case of child labour, the Canadian executive might take steps so that children working in a factory under contract to his or her business are provided daily schooling, as well as employment.<sup>21</sup>

## Learning Check

**LEARNING OBJECTIVE 3.1** Define ethics and describe the foundations of ethical behaviour.

**Be Sure You Can** • define *ethics* • explain why obeying the law is not necessarily the same as behaving ethically • explain the difference between terminal and instrumental values • identify the four alternative views of ethics • contrast cultural relativism with moral absolutism

## 3.2 Ethics in the Workplace

**LEARNING OBJECTIVE 3.2**

Discuss ethical dilemmas and common ethics issues in the workplace.

### Learn More About

Ethical dilemmas • Influences on ethical decision-making • Rationalizations for unethical behaviour

The real test of ethics occurs when individuals encounter a situation that challenges their personal values and standards. Often ambiguous and unexpected, these ethical challenges are inevitable. Everyone has to be prepared to deal with them, even students. A college student gets a job offer and accepts it, only to get a better offer two weeks later. Is it right for her to reject the first job to accept the second? A student knows that his roommate submitted a term paper purchased on the Internet. Is it right for the student not to tell the instructor? One student confides to another that a faculty member promised her a high final grade in return for a favorable course evaluation. Is it right for the confidant to inform the instructor’s department head?

## Ethical Dilemmas

An **ethical dilemma** is a situation that requires a decision regarding possible courses of action that, although offering the potential for personal or organizational benefit, or both, may be unethical. The situation is often one in which action must be taken but for which there is no clear consensus on “right” and “wrong.” An engineering manager speaking from experience sums it up this way: “I define an unethical situation as one in which I have been asked to do something I don’t feel good about.”<sup>22</sup> Here are some common examples of situations that present ethical dilemmas.<sup>23</sup>

- **Discrimination**—Your boss suggests that it would be a mistake to hire a qualified job candidate because she wears a headscarf for religious reasons. The boss believes your conservative customers might be uncomfortable with her appearance.
- **Sexual harassment**—A female subordinate asks you to discipline a co-worker whom she claims is making her feel uncomfortable with inappropriate sexual remarks.

The co-worker, your friend, says that he was just kidding around and asks you not to take any action that would harm his career.

- **Conflicts of interest**—You are working in another country and are offered an expensive gift in return for making a decision favourable to the gift giver. You know that such exchanges are common practice in this culture and that several of your colleagues have accepted similar gifts in the past.
- **Product safety**—Your company is struggling financially and can make one of its major products more cheaply by purchasing lower-quality materials, although doing so would slightly increase the risk of consumer injury.
- **Use of organizational resources**—You bring an office laptop computer home so you can work after hours. Your wife likes the computer better than hers and asks if she can use it for her online business during the weekends.

It is almost too easy to confront ethical dilemmas from the safety of a textbook or a classroom discussion. In reality it is a lot harder to consistently choose ethical courses of action. We end up facing ethical dilemmas at unexpected and inconvenient times, in situations where events and facts are ambiguous, and when pressures to perform seem unforgiving and intense. Is it any surprise, then, that 42 percent of working Canadians say they have witnessed unethical conduct and most say they did not report it? An Ipsos Reid survey that polled 1,054 working Canadians found such ethical breakdowns as the misuse of company property (28 percent), harm to employees (25 percent), violations of privacy (17 percent), or sketchy financial reporting (11 percent).<sup>24</sup>

Look the six-step checklist for dealing with an ethical dilemma in **Figure 3.3**.<sup>25</sup> The checklist is a way to double-check

- |                |   |
|----------------|---|
| <b>Step 1.</b> | Recognize the ethical dilemma.  |
| <b>Step 2.</b> | Get the facts and identify your options.  |
| <b>Step 3.</b> | Test each option: Is it legal? Is it right? Whom does it affect? Who benefits? Who gets hurt?   |
| <b>Step 4.</b> | Decide which option to follow.  |
| <b>Step 5.</b> | Double-check your ethics by asking these <i>spotlight questions</i> :<br>“How will I feel if my family finds out about my decision?”<br>“How will I feel about this if my decision is reported in the local newspaper or posted on the Internet?”<br>“What would the person I admire most for their character and ethical judgement say about my decision?” |
| <b>Step 6.</b> | Take action.  |

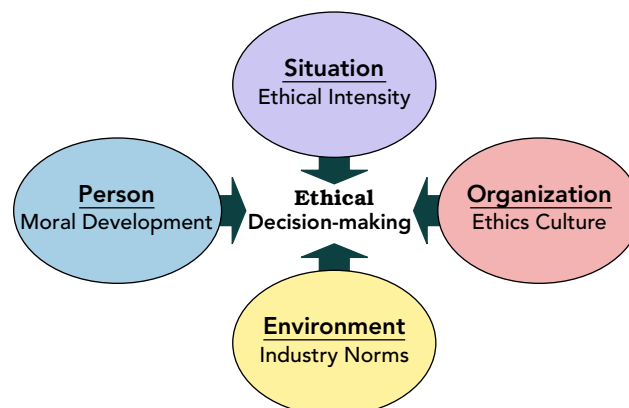
**FIGURE 3.3** Quick check for dealing with ethical dilemmas.

the ethics of decisions before taking action. Step 5 highlights a key test: the risk of public disclosure. Asking and answering the recommended *spotlight questions* is a powerful way to test whether a decision is consistent with your personal ethical standards. Use them the next time you’re making an uncomfortable decision. *Question*: “How will I feel if my family finds out, or if this gets reported in the local newspaper or posted on the Internet?” If the answer is “embarrassed,” “mortified,” or “anxious,” the decision is probably not the one you should be making. *Question*: “What would the person I admire most for their character and ethical judgement say about my decision?” If the answer is “bad choice” or “I don’t agree,” the decision is probably not the one you should be making.

## Influences on Ethical Decision-Making

Standing up for what you believe is not always easy, especially in social situations full of contradictory or just plain bad advice. Consider these words from a commencement address delivered some years ago at a well-known school of business administration. “Greed is all right,” the speaker said. “Greed is healthy. You can be greedy and still feel good about yourself.” How would this speech be received today? Students at the time greeted the remarks with laughter and applause. The speaker was Ivan Boesky, once considered the “king of the arbitragers.”<sup>26</sup> Not long after his commencement speech, however, Boesky was arrested, tried, convicted, and sentenced to prison for trading on insider information.

**Personal Influences on Ethics** Values, family, religion, and personal needs all help determine a person’s ethics. Managers without a strong, clear set of personal ethics will find their decisions varying from situation to situation. Those with a solid **ethical framework**—a set of personal rules or strategies for ethical decision-making—will act more consistently and confidently. These frameworks serve as moral anchors that support ethical decision-making even in difficult circumstances. Influences on ethical decision-making are shown in **Figure 3.4**. The foundations of ethical frameworks rest on individual character



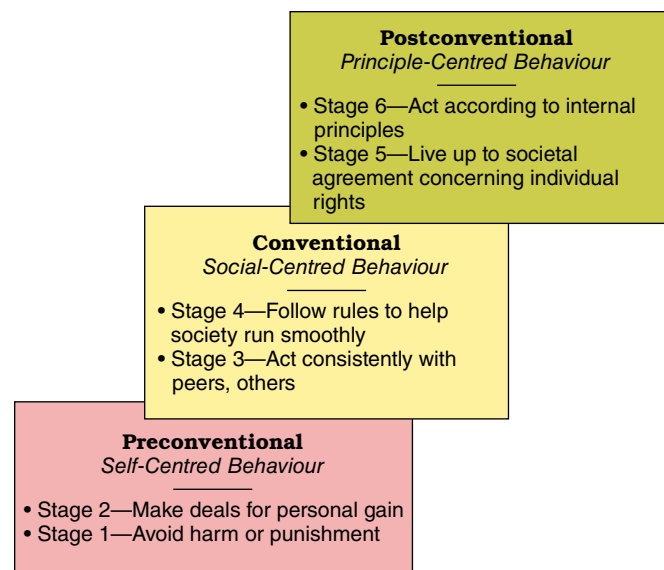
**FIGURE 3.4** Influences on ethical decision-making.

and personal values that emphasize virtues such as courage, honesty, fairness, integrity, and self-respect.

**Stages of Moral Development** Lawrence Kohlberg identified three levels of moral development, shown in **Figure 3.5**—preconventional, conventional, and postconventional.<sup>27</sup> People at the different levels have different ethical approaches to situations. Very few of us consistently act at the postconventional level, and most operate at the preconventional or conventional levels.

People are self-centred at the *preconventional level* of moral development. Moral thinking is largely limited to issues of punishment, obedience, and self-interest. Decisions are focused on personal gain or avoiding punishment, and following the rules. Behaviour at the *conventional level* of moral development is more social-centred. Decisions are likely to follow social norms, to meet the expectations of group memberships, and to live up to agreed-on role obligations.

Moral development at the *postconventional level* is principle-centred and contains a strong ethics framework. Individuals at this level are willing to break with norms and conventions, even laws, to make decisions consistent with universal principles. An example might be the student who doesn't cheat on a take-home examination because he or she believes it's wrong. This belief holds even though other students will cheat, there is



**FIGURE 3.5** Kohlberg's levels of individual moral development.

almost no chance of getting caught, and the consequence of not cheating is likely to be a lower grade on the test. Students who do cheat might show signs of hyper-competitiveness, explored in Management Is Real 3.1.

## Management Is Real 3.1: Insight | Keep Learning about Yourself

**It's the character of the people making key decisions that determines whether our organizations act in socially responsible or irresponsible ways.**

### Individual Character Is a Confidence Builder

There is no doubt that individual character is evident in all we do. Persons with high character act consistently and confidently due to the self-respect it provides, even in difficult situations. Those with less character are more insecure. They act inconsistently and suffer in self-esteem and in the esteem of others.

Ethics and social responsibility issues facing organizations today can put individual character to a very stiff test. We need to know ourselves well enough to make principled decisions that we can be proud of and that others will respect. After all, it's the character of the people making key decisions that determines whether our organizations act in socially responsible or irresponsible ways.

Personal integrity is a foundation for individual character. It provides an ethical anchor shaping how we behave at work and in life. Think of it as demonstrated honesty, civility, caring, and sense of fair play. Your integrity and character should be more than occasional concerns. They deserve constant attention. Ethical dilemmas can arise unexpectedly. Expediency pressures—meeting deadlines, for example—can cause us to take action without having thought through the consequences. To deal with these situations we have to know ourselves well enough to make principled decisions we can be proud of and that others will respect.

One trait that can undermine individual character is hyper-competitiveness. You see it in people who think that

winning—or getting ahead—is the only thing that matters. They hate to lose. These types judge themselves more on their achieved outcomes than the methods used to get there. Moreover, they may be quick to put aside values in order to succeed in competitive situations, including those in the workplace.

#### Self-Check for Signs of Hyper-Competitiveness

- Y or N** Winning makes me feel powerful
- Y or N** Winning increases my sense of self-worth
- Y or N** I hate to lose an argument
- Y or N** I turn everything into a contest
- Y or N** I am not satisfied unless I win a competition
- Y or N** If it helps me win, I am willing to obstruct my opponent

#### Get to Know Yourself Better

Do a personal integrity and individual character self-check. Make notes on two situations that presented you with some ethical test. From the perspectives of a parent, loved one, or good friend, write a critique of how you handled each incident and what this shows about your individual character. Did you act with high integrity, or not? Watch yourself for signs of hyper-competitiveness in school and work situations. Ask: What are the ethical implications of my behaviour?



**Situational Context and Ethics Intensity** Ethical dilemmas sometimes catch us off guard and lead us to struggle to respond morally. Other times, we might fail to see that an issue or a situation has an ethics component. This may happen with cheating, for example, when it becomes so commonplace that it results in what appears to be an accepted standard of behaviour. Scholars describe this phenomenon as an issue of **ethics intensity** or **issue intensity**, the extent to which situations are perceived to pose important ethics challenges.<sup>28</sup>

The greater the ethics intensity of a situation, the more attention decision-makers give to ethics issues and the more likely it is that their behaviour will be ethical. Ethics intensity rises when the potential harm is perceived as great, likely, and imminent; when the potential victims are visible and close by; and when there is more social agreement on what is good or bad about the behaviour taking place. How do you assess the ethics intensity of pirating music or movies? Does low ethics intensity contribute to the likelihood of pirating?

**Organization Setting** The cultures of organizations have a strong influence on the ethics of members. Some organizations set a high ethics bar by issuing formal policy statements

and guidelines. But these ethics codes often have a limited impact. The way top managers, team leaders, and supervisors act; what they request; and what they reward or punish have strong impacts, as do the expectations of peers and group norms.<sup>29</sup> Managers' obligations to set the tone for an ethical workplace are discussed in Management Is Real 3.2. In some cases, members find themselves shunned from a team when they don't do things that outsiders would consider unethical—for example, slacking off or abusing privileges. In other cases, high ethics standards may push employees to behave more ethically than they otherwise would.

**External Environment, Government Regulation, and Industry Norms** Government laws and regulations can describe and encourage ethical behaviour, but they can't guarantee that people will behave ethically. Laws reflect social values and define appropriate behaviour for the members of organizations; regulations help governments monitor these behaviours and keep them within acceptable limits. After a number of high-profile corporate scandals hit the news, for example, the U.S. Congress passed the Sarbanes-Oxley Act of 2002 to make it easier for corporate executives to be tried and sent to prison for financial misconduct. Canadian regulators

## Management Is Real 3.2: Analysis | Make Data Your Friend

The most common unethical acts by managers involve verbal, sexual, and racial harassment.

### Manager Behaviour Key to Ethical Workplace

There's no question that managers strongly influence ethical behaviour at work. Whether you call them bosses, team leaders, supervisors, or higher-ups, people in management positions make decisions every day that set an ethics tone affecting their co-workers. Leaders are obliged to set an ethical example for their employees. A survey conducted by Ipsos Reid for Clear View Strategic Partners, Inc. on ethics in the Canadian workplace found that 42 percent of workers witnessed unethical conduct. The survey also found the following:

- 28 percent witnessed the misuse of company property
- 25 percent saw harm done to employees
- 17 percent were afraid of fraud
- 13 percent witnessed conflict of interest
- 11 percent had knowledge of misrepresentation of financial results
- 9 percent knew about a bribe

Chris MacDonald, the Director of the Jim Pattison Ethical Leadership and Research Program at Ryerson University in Toronto, believes that these numbers were implausibly low. "My guess is, there is some serious under-reporting going on here." If it's up to leaders to set an ethical example for their employees, what do these figures suggest? Management consultant Art MacNeil observes: "After



Jon Feingersh Photography Inc./DigitalVision/Getty Images

35 years of management consulting I can attest to the fact that executives get a mirror image of senior management behaviour from their employees."

### What are the Implications?

Are there any surprises in these data? Is this emphasis on manager and direct supervisor behaviour justified as the key to an ethical workplace? Based on your experiences, what would you add to the list of unacceptable behaviours? Have you seen these kinds of behaviours where you work? What would your supervisor say if you reported these behaviours? Would you feel safe doing so? Why or why not?

took the opportunity in 2002 to introduce several long-overdue corporate and securities law reforms that adapted significant elements of the Sarbanes-Oxley Act to the Canadian context. It was necessary, however, to take into consideration several differences that existed between U.S. and Canadian financial markets.<sup>30</sup>

The climate of competition in an industry also sets standards for what may be considered ethical or unethical behaviour. Former American Airlines president Robert Crandall once telephoned Howard Putnam, then president of the now-defunct Braniff Airlines. Both companies were suffering from money-losing competition on routes from their home base of Dallas. A portion of their conversation follows.<sup>31</sup>

- PUTNAM: Do you have a suggestion for me?
- CRANDALL: Yes ... Raise your fares 20 percent. I'll raise mine the next morning.
- PUTNAM: Robert, we—
- CRANDALL: You'll make more money and I will, too.
- PUTNAM: We can't talk about pricing.
- CRANDALL: Oh, Howard. We can talk about anything we want to talk about.

The U.S. Justice Department strongly disagreed with Crandall. It alleged that his suggestion of a coordinated fare increase amounted to an illegal attempt to monopolize airline routes.

## Rationalizations for Unethical Behaviour

*How about this?* An internal audit by Avon revealed that executives in its China operation made illegal payments to obtain local direct sales licences for the firm.<sup>32</sup> Why did they do it?

People often rationalize ethical transgressions with after-the-fact justifications like *"It's not really illegal."*<sup>33</sup> This type of justification expresses a mistaken belief that unethical behaviour is acceptable in shady or borderline situations. When you are having trouble precisely determining right from wrong, the advice is quite simple: Don't do it. *"It's in everyone's best interests."* This excuse involves the mistaken belief that because someone can be found who benefits from the behaviour, the behaviour is also good for everyone. Overcoming this rationalization depends on the ability to look beyond short-term results to address longer-term implications, and to examine the way in which results are obtained. The best answer to the question "How far can I push it to accomplish this goal?" is probably "Don't try to find out."

Sometimes rationalizers tell themselves that *"no one will ever know about it."* They believe that questionable behaviour is safe from discovery and will never be made public. And if no one knows, the argument goes, no crime was actually committed. Lack of accountability, unrealistic pressures to perform,

and a supervisor who prefers "not to know" can reinforce this kind of wrongful thinking. The best deterrent is for everyone to understand that unethical behaviour will be punished whenever it is discovered. Finally, rationalizers may mistakenly believe that *"the organization will stand behind me."* This is misperceived loyalty. Believing that the organization benefits from their actions, the individual expects to be protected from harm. However, showing loyalty to the organization is not an acceptable excuse for misconduct; it shouldn't stand above the law and social morality.

**Moral Muteness** Moral muteness occurs when employees, managers, or senior leaders turn a blind eye to questionable activity occurring in the organization even though it may violate their own moral code; they remain silent and go along with the unethical activity in their midst. It may be manifested by an employee or a manager being asked to do a task that violates their own moral convictions and being told to remain silent about it. This muteness becomes particularly untenable when employees and managers avoid telling senior leadership that they are doing something that violates the organization's governing principles, knowing it is the senior leaders who will be held accountable.<sup>34</sup>

**Six Pillars of Character** Although these pillars of character are not definitive, they do represent guideposts for ethical living. They consist of:

- Trustworthiness: honesty, integrity, reliability in keeping promises, loyalty
- Respect: civility, courtesy and decency, dignity, tolerance, and acceptance
- Responsibility: accountability, pursuit of excellence, self-restraint
- Fairness: commitment to process, impartiality, equity
- Caring: concern for others, benevolence, altruism
- Citizenship: knowing the law, being informed, volunteering<sup>35</sup>

## Learning Check

**LEARNING OBJECTIVE 3.2** Discuss ethical dilemmas and common ethics issues in the workplace.

**Be Sure You Can** • define *ethical dilemma* and give workplace examples • identify Kohlberg's stages of moral development • explain how ethics intensity influences ethical decision-making • explain how ethics decisions are influenced by an organization's culture and the external environment • list four common rationalizations for unethical behaviour

## 3.3 Maintaining High Ethical Standards

### LEARNING OBJECTIVE 3.3

Describe approaches to maintaining high ethical standards.

#### Learn More About

Moral management • Ethics training • Codes of ethical conduct • Whistleblower protection

*Item:* Bernie Madoff sentenced to 150 years in prison for masterminding the largest fraud in history by swindling billions of dollars from thousands of investors. *Item:* H-P pays \$108 million to settle a bribery case for corruption in Russia, Mexico, and Poland. *Item:* U.S. safety regulators demand that General Motors answer 107 questions regarding the firm's handling of faulty ignition switches that resulted in 13 deaths.<sup>36</sup> *Item:* Richmond, B.C., real estate brokerage sanctioned over ethical misconduct allegations.<sup>37</sup> There is no shortage of this kind of bad news from the financial, corporate, and government worlds. You just have to follow the headlines. The stories behind the headlines reveal that there is no substitute for making sure organizations are staffed with honest people and principled leaders who set positive examples and always act as ethical role models.

## Moral Management

Management scholar Archie Carroll distinguishes among immoral, amoral, and moral managers (Figure 3.6).<sup>38</sup> **Immoral managers** choose to behave unethically. They make choices purely for personal gain and knowingly disregard the ethical implications of their choice or the situation. **Amoral managers** also disregard the ethics of their choices and decisions, but do so unintentionally or unknowingly. These managers do not consider the ethical consequences of their actions, and they typically use the law as a behavioural guideline. **Moral managers** pursue ethical behaviour as a personal goal. They make decisions and choices with full consideration of ethical issues.<sup>39</sup>

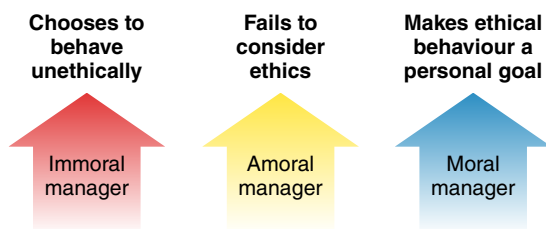


FIGURE 3.6 Three moral approaches to management.

It may surprise you that Carroll believes that most managers act amorally. Although well intentioned, they remain mostly uninformed regarding the ethical aspects of their behaviour. They don't make unethical choices on purpose. They just don't think through the ethics issues associated with their decisions. Moral managers, by contrast, always have ethics on their minds. They champion ethical behaviour and serve as an ethics role model for their co-workers.

## Ethics Training

**Ethics training** is one way to try to instill ethical behaviour in an organization. It takes the form of establishing structured programs to help members understand the ethical aspects of decision-making and better integrate high ethical standards into their everyday behaviours. Look back to the six-step quick check for dealing with ethical dilemmas that was introduced in Figure 3.3. It is a sample from an ethics training session designed to provide participants with a simple but powerful framework for double-checking the ethics of their decisions. Other common ethics training topics include ways to deal with conflicts of interest, gifts, client relationships, and bribery.

Colleges and universities are strengthening ethics coverage in academic curricula. But do you think that you and your classmates benefit from these initiatives? Are coursework and discussions of ethics conducted in ways that keep cynicism from diminishing their potential positive impact? Regardless of when, where, or how ethics training is conducted, it is important to recognize its limits: It is no guarantee of ethical behaviour. A banking executive once summed things up this way: "We aren't teaching people right from wrong—we assume they know that. We aren't giving people moral courage to do what is right—they should be able to do that anyhow. We focus on dilemmas."<sup>40</sup>

## Codes of Ethical Conduct

It is now common for most organizations to have **codes of ethics**. In fact, you may be asked to sign one as a condition of employment. These codes are formal statements of an organization's values and ethical principles that set expectations for behaviour. Ethics codes typically address organizational citizenship, illegal or improper acts, and relationships with co-workers and customers. Specific guidelines are often set for bribes and kickbacks, political contributions, record-keeping honesty, and confidentiality of corporate information.

Ethics codes are very common in the increasingly complicated world of international business. For example, global manufacturing at Gap, Inc. is governed by a Code of Vendor Conduct.<sup>41</sup> The document addresses several issues, including:

*Discrimination*—"Factories shall employ workers on the basis of their ability to do the job, not on the basis of their personal characteristics or beliefs."

*Forced labour*—“Factories shall not use any prison, indentured, or forced labour.”

*Working conditions*—“Factories must treat all workers with respect and dignity and provide them with a safe and healthy environment.”

*Freedom of association*—“Factories must not interfere with workers who wish to lawfully and peacefully associate, organize or bargain collectively.”

But even though global firms like Gap have ethics codes in place, it is hard for them to police practices when they have many, potentially hundreds, of suppliers from different parts of the world. Unless they have staff in each foreign factory, organizations may not be able to monitor their activity. In international business, as elsewhere, ethics codes are good at describing ethical expectations, but they cannot always guarantee ethical conduct.

## Whistleblower Protection

- Shiv Chopra and Margaret Haydon determined drugs approved for livestock were potentially harmful to human health.<sup>42</sup>
- Dave Jones reported that his company used unqualified suppliers in the construction of a nuclear power plant.
- Margaret Newsham revealed that her firm allowed workers to do personal business while on government contracts.
- Alayne Fleishmann revealed that her investment firm was misleading investors regarding bad loans.<sup>43</sup>
- Barry Adams complained that his hospital followed unsafe practices.<sup>44</sup>

These six people come from different work settings and have expressed concerns about different issues. However, they have two important things in common. First, each was a **whistleblower** who exposed misconduct in and by their organizations in the hopes of preserving ethical standards and preventing further wasteful, harmful, or illegal acts.<sup>45</sup> Second, each of these individuals was fired from their job.

Whistleblowers are admirable for taking ethical stances, especially given the risk they face of impaired career progress and other forms of organizational retaliation, up to and including termination. Legal protections for whistleblowers are continually being tested in court and many consider them inadequate.<sup>46</sup>

Laws protecting whistleblowers vary from province to province and federal laws primarily protect government employees.

Research on whistleblowing that reports violations within organizations indicates that even though 20 percent of workers notice ethical violations by co-workers, only half of them report the wrongdoing.<sup>47</sup> Top reasons why people fail to report such misdeeds include lack of ethical leadership, unethical peers, lack of confidence that corrective action will be taken, and fear of public disclosure (and retaliation) as the whistleblower.<sup>48</sup> Typical barriers to whistleblowing within an

organization include a strict chain of command that makes it hard to bypass immediate supervisors, strong work group identities that encourage loyalty and self-censorship, and ambiguous priorities that make it hard to distinguish right from wrong.<sup>49</sup>

## Learning Check

**LEARNING OBJECTIVE 3.3** Describe approaches to maintaining high ethical standards.

**Be Sure You Can** • compare and contrast ethics training and codes of ethical conduct as methods for encouraging ethical behaviour in organizations • differentiate among amoral, immoral, and moral management • define *whistleblower* • identify common barriers to whistleblowing and the factors to consider when determining whether whistleblowing is appropriate

## 3.4 Social Responsibility

**LEARNING OBJECTIVE 3.4**

Explain social responsibility and corporate governance.

### Learn More About

Stakeholder management • Social responsibility, sustainability, and the triple bottom line • Perspectives on corporate social responsibility • Evaluating corporate social performance • Corporate governance

All organizations have **stakeholders**, the persons, groups, and other organizations directly affected by the behaviour of the organization and that hold a stake in its performance.<sup>50</sup> **Figure 3.7** shows a typical stakeholder network that includes owners or shareholders, employees, customers, suppliers, business partners, government representatives and regulators, community members, and future generations.

## Stakeholder Management

An organization’s stakeholders can have different and conflicting interests that make it hard for all of them to be satisfied all the time. Here are some examples.

- Customers typically want good prices and quality products.
- Owners want profits and a strong return on their investment.
- Suppliers want long-term business relationships.



**FIGURE 3.7** The many stakeholders of organizations.

- Communities want good corporate citizenship and support for public services.
- Employees want good wages, benefits, security, and satisfaction in their work.
- Future generations want a clean environment that isn't polluted by manufacturing by-products and industrial waste.

When stakeholders' interests clash, an organization's leadership can face difficult challenges that lead them to make controversial decisions.<sup>51</sup>

One way to deal with conflicting stakeholder interests is to assess the power of the stakeholder, the legitimacy of the demand, and the urgency of the issue.<sup>52</sup> **Stakeholder power** is the capacity of the stakeholder to positively or negatively affect the operations of the organization. **Demand legitimacy** is the extent to which the stakeholder's demand is perceived as valid and the extent to which the demand comes from a party with a legitimate stake in the organization. **Issue urgency** is the extent to which the issues require immediate attention or action.

## Social Responsibility, Sustainability, and the Triple Bottom Line

The way organizations behave in relation to their stakeholders is a good indication of their underlying ethics, cultures, and moral characters. When we talk about the “good” and the “bad” in business and society relationships, **corporate social responsibility**, or CSR, takes centre stage. CSR is defined as the obligation of an organization to act in ways that serve the interests of multiple stakeholders, including society at large.

The good and the bad in CSR come to life in day-to-day practice as a result of decisions made and actions taken by people in organizations. When hazardous waste finds its way into landfills, it does so because of human decision-making. When an automaker fails to recall vehicles known to have dangerous

defects, it does so because of human decision-making. As pointed out in the chapter opening quote, you have to “deter bad individual conduct” in order to keep organizations from doing the wrong things.<sup>53</sup> And in order to get organizations to do the right things, their members—especially managers and leaders—must continually exercise good **stewardship**. This means taking personal responsibility to act in ways that always respect and protect the interests of the full range of organizational stakeholders.

**Sustainability** is one of the pillars of stewardship. Procter & Gamble defines it as acting in ways that help ensure “a better quality of life for everyone now and for generations to come.”<sup>54</sup> Good stewardship and sustainability opportunities are evident when organizations invest in things like clean energy, recycling, water conservation, and waste avoidance. Bad stewardship and sustainability problems can be seen when questionable decisions cause organizations to create preventable disasters like massive oil spills or to pollute soil with harmful waste that ends up finding its way into the food chain.

The tendency in the past was to define stewardship rather narrowly and to focus its attention on what accountants call the “bottom line” of business profitability. Today's notion of stewardship is broader and more attention is being given to the **triple bottom line** of economic, social, and environmental performance.<sup>55</sup> Many call this the **3 Ps of organizational performance**—profit, people, and planet.<sup>56</sup> Triple bottom line outcomes can be assessed by asking questions like these: Profit—Is the decision economically sound? People—Does the decision treat people with respect and dignity? Planet—Is the decision good for the environment?

## Perspectives on Corporate Social Responsibility

Chances are you'd like your employer to value social responsibility. Surveys report that 70 percent of students believe

## Management Is Real 3.3: Ethics | Know Right from Wrong

**“A job listed on a resumé wouldn’t impress me just because it was a paid position. What matters is the experience you get from a job.”**

### Interns Are Suing Their Employers for Back Pay

In June 2013 two interns sued Fox Searchlight Pictures claiming they did work that would otherwise have been done by paid employees . . . and they wanted to be paid for it. A federal judge in New York agreed and turned the notion of the unpaid internship upside down. In the Fox case there wasn’t a lot of money at stake, about \$8 an hour. But there is a lot at stake in the controversy created by the legal ruling. Fox’s lead attorney Juno Turner says: “I think it would be the very rare internship that would meet the criteria set forth in this decision.”

The success of the two interns spurred a growing number of unpaid interns in Canada to file complaints against their employers who promised job training but used them instead to do menial work. Jainna Patel filed a federal labour complaint against Bell Mobility after working five weeks in its professional management program. She was promised management training but said she spent her time transcribing videos, conducting phone surveys, and filling out spreadsheets.

She was rejected by a federal labour inspector, who found that she was aware that the program was unpaid and that Bell had given no guarantee of any kind of employment. Bell by this time had shut down its extensive internship program that had involved over 300 interns.

Labour laws in Canada concerning internships differ from those in the United States; our employment laws don’t directly

address the issue of unpaid internships. Internships are a well-established source of valuable experience for students and a job entry point for many. There are an estimated 300,000 interns a year in Canada. Heather Huhman, author of *Lies, Damned Lies & Internships*, says: “A job listed on a resumé wouldn’t impress me just because it was a paid position. What matters is the experience you get from a job.” Data show that 37 percent of unpaid interns and 60 percent of paid interns get job offers. The question is: What guarantee do interns have that they will either get the experience they seek and not be used to do menial jobs, as in the Bell case, or be expected to get paid for doing work ordinarily done by paid employees, as in the Fox case?

So, who benefits from the Fox and Bell cases? Bell Mobility shut down its internship program—will others follow? Sean Bawden, an Ottawa-based labour lawyer who writes a blog on employment issues, says, “The bottom line is, if what is being done for the ‘employer’ looks like work, then it should be compensated as work.”

### What Do You Think?

Is it right for interns to demand pay in return for valuable work experience and a possible job entry point? Are employers taking advantage of interns by not paying them for doing real work? Who benefits from the Fox and the Bell cases? Are we about to see a decline in the number of available student internships? If you’ve ever completed an internship, did you engage in tasks that had an immediate positive benefit for the firm you were working for? Did it seem wrong to you that you weren’t being paid?

“a company’s reputation and ethics” are “very important” when deciding whether or not to accept a job offer and that 79 percent of 13- to 25-year-olds “want to work for a company that cares about how it affects or contributes to society.”<sup>57</sup> “Students nowadays want to work for companies that help enhance the quality of life in their surrounding community,” says one recruiter.<sup>58</sup> So, would it surprise you to learn that CSR as a business priority has been a subject of considerable debate?<sup>59</sup> Would it also surprise you that some employers are treating interns unethically? (See Management Is Real 3.3.)

**Classical View** The **classical view of CSR** holds that management’s only responsibility is to maximize profits. In other words, “the business of business is business” and the principal obligation of management is to owners and shareholders. This narrow stakeholder perspective is linked to the work of the respected economist and Nobel Laureate Milton Friedman, who once said: “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible.”<sup>60</sup>

Although not explicitly against CSR in its own right, proponents of the classical view maintain that society’s interests are served in the long run by executives focused on maximizing

profits. They believe that society gains when business competition makes things like healthier foods and energy-efficient products attractive to produce because they are profitable.<sup>61</sup> They fear that pursuit of CSR as a separate business goal will reduce profits, raise costs, reduce competitiveness with foreign firms, and give business too much social power with too little accountability to the public.

**Socio-Economic View** The **socio-economic view of CSR** holds that managers should explicitly focus on the organization’s effect on the broader social welfare and not just on corporate profits. This broad stakeholder perspective puts the focus on the triple bottom line that emphasizes not just financial performance but also social and environmental performance. In its support, another distinguished economist and Nobel Laureate, Paul Samuelson, has said: “A large corporation these days not only may engage in social responsibility, it had damn well better try to do so.”<sup>62</sup>

Proponents of the socio-economic view argue that the pursuit of CSR will enhance long-run profits, improve public image, make organizations more attractive places to work, and help avoid government regulation. They also believe that businesses should act responsibly because society provides them with the infrastructure they need to operate. One organization

## Management Is Real 3.4: Wisdom | Learn from Role Models

**“We believe the fund is an important step toward developing more fossil fuel-free investment options and a sustainable, healthy future for our members and the communities they live in.”**

### Vancity Tops Corporate Responsibility Lists Nationwide

Vancouver City Savings Credit Union, otherwise known as Vancity, is a financial cooperative and Canada’s largest community credit union. It has consistently shown up on lists that recognize corporate social responsibility. Its vision is to “redefine wealth and build healthy communities.” The business was set up as a values-based business.

Vancity aims to return 30 percent of its net income to members and members’ communities by working to address such long-standing concerns as environmental degradation, rising inequality, and housing affordability. It was also one of the first employers in North America to provide a “living wage” for its employees.

In April 2015, Vancity developed Canada’s first mutual fund that excludes investments in companies associated with fossil fuel production. “We believe the fund is an important step toward developing more fossil fuel-free investment options and a sustainable, healthy future for our members and the communities they live in,” says President and CEO, Tamara Vrooman.

Vancity has also established a corporate target to ensure that no less than 70 percent of office waste is recycled. It has also invested in farmers’ markets that bring local and organic food to



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John Lehmann

neighbourhoods throughout Vancouver and surrounding communities and it offers scholarships to businesses that want to make their operations more environmentally friendly.

#### Find Inspiration

Tamara Vrooman believes that banking has a key role to play in creating a healthy society. Is this the message you get when you go to school or work and talk to friends or co-workers? Can Vancity’s values-based business model be applied to other firms in a wide variety of industries? How can you make a commitment to the 3 Ps and positive stewardship a part of your career plan? As a manager, how can you integrate your decision-making so the 3 Ps are always in focus?

that seems to uphold the socio-economic view of CSR is the Vancity credit union (Management Is Real 3.4).

**Shared Value View** Mark Kramer and Michael Porter advocate a **shared value view of CSR** in which economic progress for the firm and social progress for the broader community are fundamentally interconnected.<sup>63</sup> They believe that “the purpose of a corporation must be redefined as creating shared value, not just profit per se.”<sup>64</sup> This creates a win-win situation for both business and society. It eliminates the tendency to pit the interests of shareholders and owners against one another, and it moves CSR priorities from serving mainly reputational and branding goals for the organization up to the level of being strategic components of the core business model.

Organizations pursuing a shared value approach try to align their strategies and practices with social issues like aging, illiteracy, nutrition, resource conservation, and poverty. This ideally creates a **virtuous circle** in which investments in CSR lead to improved financial performance, which, in turn, leads to more socially responsible actions in the future.<sup>65</sup> Steven Fish, Executive Director of the non-profit organization Canadian Business for Social Responsibility, states his faith in CSR: “Arguably, businesses that become forces for good in society will benefit in the future from the social licence to grow.” He

cites a global study by public relations firm Edelman that found that when consumers shop for products and services, when price and quality are the same, they will choose a brand based on its level of social responsibility over brand loyalty, design, and innovation. That study found that the importance of social purpose for purchasing decisions increased by 26 percent from 2008 to 2012.<sup>66</sup>

## Evaluating Corporate Social Performance

If we are to get serious about social responsibility and shared value, we need to get rigorous about measuring social performance and holding organizational leaders accountable for the results. It is increasingly common for organizations to take **social responsibility audits** at regular intervals and issue formal reports on their social performance. And research finds that mandatory social reporting of this nature improves socially responsible behaviour.<sup>67</sup> In other words, the more we measure CSR, the better it gets.

When social responsibility audits are taken, the performance of firms can be scored on behaviours that range from *compliance*—acting to avoid adverse consequences—to



**FIGURE 3.8** Four strategies of corporate social responsibility—from obstructionist to proactive behaviour.

*conviction*—acting to create positive impact.<sup>68</sup> Compliance behaviours focus on being profitable and obeying the law, while conviction behaviours focus on doing what is right and contributing to the broader community. **Figure 3.8** shows how different emphases on compliance and conviction result in alternative social responsibility strategies, ones you may recognize from news reports of current events.<sup>69</sup>

On the compliance side, an **obstructionist strategy** (“Fight social demands”) focuses mainly on economic priorities. Social demands lying outside the organization’s perceived self-interests are resisted. Cigarette manufacturers, for example, tried to deny the negative health effects of smoking for decades until indisputable evidence became available. A **defensive strategy** (“Do minimum legally required”) focuses on protecting the organization by meeting minimum legal requirements and responding to competitive market forces, perhaps even activist pressures. Mortgage lenders are required to provide

certain information to customers concerning loans they are providing. But whereas some take time to carefully review everything with customers, others may rush the conversation in hopes the customer won’t question details.

On the conviction side, an **accommodative strategy** (“Do minimum ethically required”) focuses on satisfying society’s ethical expectations. An oil firm may engage in appropriate cleanup activities following a spill and provide compensation to communities harmed by the spill. But the firm may be slow to invest in new technologies to prevent future spills. Following a more **proactive strategy** (“Take leadership in social initiatives”), the firm would invest in these technologies and in the search for alternative energy sources, taking discretionary steps toward making things better in the future. Some governments in Europe are taking a proactive strategy to address gender imbalances by imposing quotas on the number of women that must serve on corporate boards of directors (Management Is Real 3.5).

### Management Is Real 3.5: Choices | Think before You Act

“Some men over 60 think ... women can’t take the pressure involved in serving on a board.”

#### Europe Turns to Quotas to Get Women on Boards

An analysis of the 677 companies listed on the Toronto Stock Exchange showed a mere 12 percent of all board seats were held by women. Fifty-five percent had at least one female director, which meant that 45 percent had no females. Of 521 board seats that became available in 2016, only 76 were filled by women. Yet women represented half of the professional workforce in Canada.

The consulting firm McKinsey & Company reports that women are hired into more than 50 percent of professional jobs in the largest corporations in the United States. But they gradually leak out of the career pipeline. Women hold just 16.9 percent of director positions on Fortune 500 corporate boards. Data from Europe are worse—13.7 percent of board seats are filled by women. Diane Segalen, senior executive at a Paris-based executive search company,



Trista/E+/Getty Images



says: “Some men over 60 think suitable females don’t exist because they have never had women as their peers. They think women can’t take the pressure involved in serving on a board.”

Some European countries have turned to gender quotas to rectify this imbalance at the board level. British firms have been threatened with mandatory quotas by the UK government unless the proportion of nonexecutive board seats filled by women rises to 25 percent in the near future. Norway, Spain, Iceland, and France have already set quotas of 40 percent female board members. In the United States, a Heidrick & Struggles survey of boards shows that whereas 51 percent of females support quotas like those appearing in Europe, only 25 percent of males do.

### What’s Your Take?

Is underrepresentation of women on boards a “pipeline” problem—not enough qualified women available for these senior positions at this point in time? Or is it a “discrimination” problem—men at the top still aren’t ready to open the doors to female candidates? What are the ethics of setting gender quotas at the board level, top management, and the C-suite? Are you willing to sit back and wait for change in female representation on boards? Or do you support quotas to motivate faster positive action?

**Corporate Knights** *Corporate Knights, Inc.* is an organization dedicated to clean capitalism, which they define as “an economic system in which prices incorporate social, economic, and ecological benefits and costs, and actors know the full impacts of their actions.” The organization is composed of two sustainable businesses: an award-winning magazine that produces rankings and financial product ratings based on corporate sustainability performance, and a research division. Founded in 2002 by Toby A.A. Heaps and Paul Fengler, it is today one of the world’s largest circulation magazines focused on the intersection of business and society. In 2013 it was named “Magazine of the Year” by Canada’s National Magazine Awards Foundation.<sup>70</sup>

**Social Entrepreneurship in Canada: # 1 in the World** Social entrepreneurship is a growing trend in the world, comprising individuals or groups who go into business in order to serve the greater good and not just to pursue profits. These individuals may come from professions that range from social work to community development, microfinancing to educational programs, or they may simply be business-minded people helping to solve a local problem that others have ignored or were unable to fund.

In a 2019 survey conducted by the Thomson Reuters Foundation, out of a field of 45 countries, Canada came in first according to forty-four different criteria.<sup>71</sup> The countries were ranked according to their ability to grow and support social entrepreneurs using the following six categories:

1. Government support
2. Attracting skilled staff
3. Public understanding
4. Making a living
5. Gaining momentum
6. Access to investment.

“Canada has been a great place for us to launch and grow our company,” says Annette Verschuren, CEO of NRStor, an energy storage project developer. “Ontario has been a global

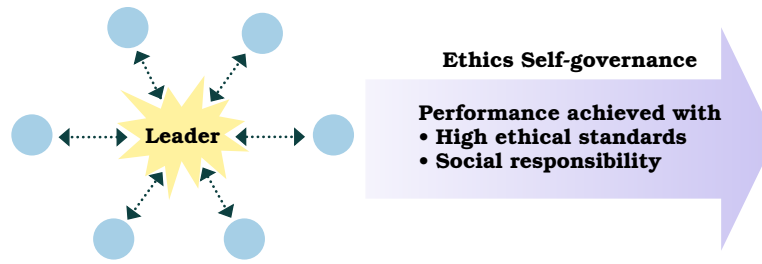
hub for cleantech innovation and talent. We don’t feel we could have made the same strides on technology research, development, and implementation in any other country.”<sup>72</sup>

## Corporate Governance

**Corporate governance** is the active oversight of management decisions and company actions by boards of directors.<sup>73</sup> Businesses are required by law to have boards of directors elected by shareholders to represent their interests. Many public organizations, like some universities, have boards of trustees whose elected and appointed members serve the same purpose. The governance exercised by boards involves hiring, firing, and compensating the executives in the C-suite—CEO, CFO, CIO, and other members of top management. It also involves verifying financial records and assessing strategies, including CSR.

The expectation is that board members will hold management accountable for high-performance leadership that is always ethical and socially responsible. Ethics failures and CSR controversies by organizations are often blamed on weak governance. And you will sometimes see government stepping in to take actions designed to reduce the likelihood of future failures. Hearings are held, bills are proposed and laws passed, and government agencies are directed or created to better control business practices.

The **Sarbanes-Oxley Act of 2002**, for example, was passed by the U.S. Congress in response to loud public outcries over major ethics and business scandals. The goal of Sarbanes-Oxley, or SOX, is to protect investors and the public by making sure that top managers properly oversee and are held accountable for the financial conduct of the organizations they lead. Canada, like many other countries, created its own version of SOX. In April 2003, the Canadian government passed Bill 198. A number of other regulations were issued that itemized the steps companies had to take to be in compliance. These included communicating, reporting, training, monitoring, and complying with general rules of disclosure, accountability, and transparency.<sup>74</sup>



**FIGURE 3.9** Ethics self-governance in leadership and the managerial role.

While the behaviour and examples set by top-level or C-suite executives have the longest reach, it is critical to recognize that all managers have personal responsibility for good stewardship of the organization and for doing the “right” things in their day-to-day work. **Figure 3.9** highlights **ethics self-governance** and points out that it isn’t enough to fulfill daily task responsibilities; they must be performed in an ethical, socially responsible way. Managers shoulder the full weight of this responsibility, and it holds in every organizational setting, from small to large, from private to non-profit, and at every managerial level from top to bottom. There is no escaping the ultimate reality—every manager is a steward of stakeholder interests, and being a manager is an extremely socially responsible job!

## Learning Check

**LEARNING OBJECTIVE 3.4** Explain social responsibility and corporate governance.

**Be Sure You Can** • identify key organizational stakeholders and discuss stakeholder management • define *corporate social responsibility* • summarize arguments for and against CSR • define *shared value* and describe how it links business and society • explain the difference between compliance and conviction in social responsibility • identify four possible social responsibility strategies • define *corporate governance* and ethics self-governance, and discuss their importance to managers at all organizational levels

## Management Learning Review: Get Prepared for Quizzes and Exams

### Summary

**LEARNING OBJECTIVE 3.1** Define ethics and describe the foundations of ethical behaviour.

- Ethical behaviour is behaviour accepted as “good” or “right” as opposed to “bad” or “wrong.”
- Because an action is not illegal does not necessarily make it ethical.
- Because values vary, the question “What is ethical behaviour?” may be answered differently by different people.
- The utilitarian, individualism, moral rights, and justice views offer alternative ways of thinking about ethical behaviour.
- Cultural relativism argues that there is no one right way to behave and that ethical behaviour is always determined by its cultural context; universalism argues that certain ethical standards apply everywhere.

**For Discussion** Is there ever a justification for cultural relativism in international business ethics?

**LEARNING OBJECTIVE 3.2** Discuss ethical dilemmas and common ethics issues in the workplace.

- An ethical dilemma occurs when someone must decide whether to pursue a course of action that, although offering the potential for personal or organizational benefit or both, may be unethical.
- Managers report that ethical dilemmas often involve conflicts with superiors, customers, and subordinates over issues such as dishonesty in advertising and communication, as well as pressure from supervisors to do unethical things.
- Common rationalizations for unethical behaviour include believing the behaviour is not illegal, is in everyone’s best interests, will never be noticed, or will be supported by the organization.

**For Discussion** Are ethical dilemmas always problems, or can they also be opportunities?

**LEARNING OBJECTIVE 3.3** Describe approaches to maintaining high ethical standards.

- Ethics training can help people better deal with ethical dilemmas in the workplace.
- Written codes of ethical conduct formally state what an organization expects of its employees regarding ethical behaviour at work.
- Immoral managers intentionally choose to behave unethically; amoral managers do not really pay attention to or think through the ethics of their actions or decisions; moral managers consider ethical behaviour a personal goal.
- Whistleblowers expose the unethical acts of others in organizations, even while facing career risks for doing so.

**For Discussion** Is it right for organizations to require employees to sign codes of conduct and undergo ethics training?

**LEARNING OBJECTIVE 3.4** Explain social responsibility and corporate governance.

- Social responsibility is an organizational obligation to act in ways that serve both the organization's own interests and the interests of its stakeholders.

- The triple bottom line for assessing organizational performance reflects how well organizations achieve economic, social, and environmental performance outcomes.
- The argument against corporate social responsibility holds that businesses should focus on profit; the argument for corporate social responsibility holds that businesses should serve broader social concerns.
- The shared value concept links business and social goals with the idea that businesses can find economic value by pursuing opportunities and practices that advance societal well-being.
- An organization's social performance can be evaluated based on how well it meets economic, legal, ethical, and discretionary responsibilities.
- Corporate strategies in response to demands for socially responsible behaviour include obstruction, defense, accommodation, and proactivity.
- Corporate governance is the responsibility of a board of directors to oversee the performance of C-suite executives.

**For Discussion** What questions would you include on a social audit for an organization in your community?

## Chapter Glossary

**Accommodative strategy** A corporate social responsibility strategy that accepts social responsibility and tries to satisfy society's basic ethical expectations.

**Amoral manager** A manager who fails to consider the ethics of her or his behaviour.

**Classical view of CSR** The view of corporate social responsibility that business should focus on profits.

**Code of ethics** A formal statement of values and ethical standards.

**Commutative justice** The degree to which an exchange or a transaction is fair to all parties.

**Corporate governance** The oversight of top management by a board of directors.

**Corporate social responsibility** The obligation of an organization to serve the interests of multiple stakeholders, including society at large.

**Cultural relativism** The belief that there is no one right way to behave; ethical behaviour is determined by its cultural context.

**Defensive strategy** A corporate social responsibility strategy of doing the minimum legally required to display social responsibility.

**Demand legitimacy** The validity and legitimacy of a stakeholder's interest in an organization.

**Distributive justice** The degree to which outcomes are distributed fairly.

**Ethical behaviour** "Good" or "right" behaviour in the context of a governing moral code.

**Ethical dilemma** A situation that offers potential benefit or gain but that may also be considered unethical.

**Ethical framework** A personal rule or strategy for making ethical decisions.

**Ethical imperialism** An attempt to impose one's ethical standards on other cultures.

**Ethics** Standards of good or bad, or right or wrong, in one's conduct.

**Ethics intensity or issue intensity** The degree to which an issue or a situation is recognized to pose important ethical challenges.

**Ethics self-governance** Making sure day-to-day performance is achieved ethically and in socially responsible ways.

**Ethics training** Training that seeks to help people understand the ethical aspects of decision-making and to incorporate high ethical standards into their daily behaviour.

**Immoral manager** A manager who chooses to behave unethically.

**Individualism view** A view of ethical behaviour that holds that ethical behaviour advances long-term self-interests.

**Instrumental values** Preferences regarding the means to desired ends.

**Interactional justice** The degree to which others are treated with dignity and respect.

**Issue urgency** The extent to which a stakeholder's concerns need immediate attention.

**Justice view** A view of ethical behaviour that holds that ethical behaviour treats people impartially and fairly.

**Moral absolutism** The belief that ethical standards apply universally across all cultures.

**Moral manager** A manager who makes ethical behaviour a personal goal.

**Moral muteness** When employees, managers or senior leaders turn a blind eye to something occurring in the organization even though it may violate their own moral code

**Moral rights view** A view of ethical behaviour that holds that ethical behaviour respects and protects fundamental rights.

**Obstructionist strategy** A corporate social responsibility strategy that tries to avoid and resist pressures for social responsibility.

**Proactive strategy** A corporate social responsibility strategy that actively pursues social responsibility by taking discretionary actions to make things better in the future.

**Procedural justice** The degree to which policies and rules are fairly applied.

**Sarbanes-Oxley Act of 2002** U.S. legislation designed to hold top managers accountable for the financial conduct of the organizations they lead.

**Shared value view of CSR** The view of corporate social responsibility that sees economic progress for a firm and social progress for society as fundamentally interconnected.

**Social responsibility audit** A measure of an organization's performance in various areas of social responsibility.

**Socio-economic view of CSR** The view of corporate social responsibility that business should focus on broader social welfare as well as profits.

**Stakeholder power** The capacity of a stakeholder to positively or negatively affect an organization's operations.

**Stakeholders** The persons, groups, and other organizations that are directly affected by the behaviour of the organization and that hold a stake in its performance.

**Stewardship** Taking personal responsibility to always respect and protect the interests of

organizational stakeholders, including society at large.

**Sustainability** Acting in ways that support a high quality of life for present and future generations.

**Terminal values** Preferences about desired end states.

**3 Ps of organizational performance** Profit, people, and planet.

**Triple bottom line** An evaluation of organizational performance on economic, social, and environmental criteria.

**Utilitarian view** A view of ethical behaviour that holds that ethical behaviour delivers the greatest good to the most people.

**Values** Broad beliefs about what is appropriate behaviour.

**Virtuous circle** What occurs when socially responsible behaviour improves financial performance, which leads to more responsible behaviour in the future.

**Whistleblower** A person who exposes the misdeeds of others in organizations.

## Self-Test 3

### Multiple-Choice Questions

- Values are personal beliefs that help determine whether a behaviour is considered ethical or unethical. An example of a terminal value is \_\_\_\_\_.
  - ambition
  - self-respect
  - courage
  - imagination
- Under the \_\_\_\_\_ view of ethical behaviour, a business owner would be considered ethical if she reduced a plant's workforce by 10 percent in order to cut costs to keep the business from failing and thus save jobs for the other 90 percent.
  - utilitarian
  - individualism
  - justice
  - moral rights
- A manager's failure to enforce a late-to-work policy the same way for employees on the day and night shifts is an ethical violation of \_\_\_\_\_ justice.
  - ethical
  - moral
  - distributive
  - procedural
- The Sarbanes-Oxley Act of 2002 makes it easier for corporate executives to \_\_\_\_\_.
  - protect themselves from shareholder lawsuits
  - sue employees who commit illegal acts
  - be tried and sentenced to jail for financial misconduct
  - shift blame for wrongdoing to boards of directors
- Two "spotlight" questions for conducting the ethics double-check of a decision are "How would I feel if my family found out about this?" and "How would I feel if \_\_\_\_\_?"
  - my boss found out about this
  - my subordinates found out about this
  - this was published in the local newspaper
  - this went into my personnel file
- Research on ethical dilemmas indicates that \_\_\_\_\_ is/are often the cause of unethical behaviour by people at work.
  - declining morals in society
  - lack of religious beliefs
  - the absence of whistleblowers
  - pressures from bosses and superiors
- Customers, investors, employees, and regulators are examples of \_\_\_\_\_ that are important in the analysis of corporate social responsibility (CSR).
  - special-interest groups
  - stakeholders
  - ethics advocates
  - whistleblowers
- A(n) \_\_\_\_\_ is someone who exposes the ethical misdeeds of others.
  - whistleblower
  - ethics advocate
  - ombudsman
  - stakeholder
- A proponent of the classical view of corporate social responsibility would most likely agree with which of these statements?
  - Social responsibility improves the public image of business.
  - The primary responsibility of business is to maximize business profits.
  - By acting responsibly, businesses avoid government regulation.
  - Businesses can and should do "good" while doing business.
- An amoral manager \_\_\_\_\_.
  - always acts in consideration of ethical issues
  - chooses to behave unethically
  - makes ethics a personal goal
  - acts without considering whether or not the behaviour is ethical
- An organization that takes the lead in addressing emerging social issues is being \_\_\_\_\_, showing the most progressive corporate social responsibility strategy.
  - accommodative
  - defensive
  - proactive
  - obstructionist
- The criterion of \_\_\_\_\_ identifies the highest level of conviction by an organization to operate in a socially responsible manner.
  - economic justice
  - legal requirements
  - ethical commitment
  - discretionary responsibility
- Which viewpoint emphasizes that business can find ways to profit by doing things that advance the well-being of society?
  - classical
  - shared value
  - defensive
  - obstructionist

14. Managers show self-governance when they always try to achieve performance objectives in ways that are \_\_\_\_\_.
- a. performance effective
  - b. cost efficient
  - c. quality oriented
  - d. ethical and socially responsible
15. The triple bottom line of organizational performance focuses on the 3 Ps of profit, people, and \_\_\_\_\_.
- a. principle
  - b. procedure
  - c. planet
  - d. progress

**Short-Response Questions**

16. Explain the difference between the individualism and justice views of ethical behaviour.

17. List four common rationalizations for unethical managerial behaviour.
18. What are the major arguments for and against corporate social responsibility?
19. What is the primary difference between immoral and amoral management?

**Essay Question**

20. A small outdoor clothing company has just received an attractive offer from a business in Bangladesh to manufacture its work gloves. The offer would allow for substantial cost savings over the current supplier. The company manager, however, has read reports that some Bangladeshi businesses break their own laws and operate with child labour. How would differences in the following corporate responsibility strategies affect the manager’s decision regarding whether to accept the offer: obstruction, defence, accommodation, and proactivity?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

**What Would You Do?**

**1. Window to the Future**

You’ve just seen one of your classmates take a picture of an essay question on the exam everyone is taking. The instructor missed it and you’re not sure if anyone else saw it. You know that the instructor is giving an exam to another section the next class period. Do you let it pass and pretend it isn’t all that important? If you won’t let it pass, what will you do?

**2. Intern’s Assignment**

One of your first tasks as a summer intern is to design an ethics training program for the firm’s new hires. Your supervisor says that the program

should familiarize hires with the corporate code of ethics. But it should also go beyond this to help establish a solid foundation for handling a range of ethical dilemmas in a confident and moral way. What would your training program look like?

**3. New Person at the Table**

Your employer has a “roundtable” program that brings younger hires together with senior executives on a monthly basis. Each session tackles a topic. This month it’s “CSR as a business priority.” You’ve heard that some of the senior execs are skeptical of CSR, believing that business is business and the firm’s priority should be on profits. What arguments might you make in support of CSR and the concept of “shared value”?

## Reflect on the Self-Assessment

**Terminal Values**

**Instructions**

1. Read the following list of things people value. Think about each value in terms of its importance as a guiding principle in your life.

A comfortable life	Inner harmony
An exciting life	Mature love
A sense of accomplishment	National security
A world at peace	Pleasure
A world of beauty	Salvation

Equality	Self-respect
Family security	Social recognition
Freedom	True friendship
Happiness	Wisdom

2. Circle six of these 18 values that they are most important to you. If you can, rank-order these most important values by writing a number above them—with “1” = the most important value in my life, and so on through “6.”
3. Underline the six of these 18 values that are least important to you.

**Interpretation**

Terminal values reflect a person's preferences concerning the ends to be achieved. They are the goals individuals would like to achieve in their lifetimes. As you look at the items you've selected as most and least important, what major differences are present in the items across the two sets? Think about this and then answer the following questions.

- A. What does your selection of most and least important values say about you as a person?
- B. What does your selection of most and least important values suggest about the type of work and career that might be best for you?
- C. Which values among your most and least important selections might cause problems for you in the future—at work and/or in your personal life? What problems might they cause and why? How might you prepare now to best deal with these problems in the future?
- D. How might your choices of most and least important values turn out to be major strengths or assets for you—at work and/or in your personal life, and why?

## Contribute to the Class Exercise

**Confronting Ethical Dilemmas****Preparation**

Read and indicate your response to each of the following situations.

- A. Gaston Gagné, vice president of a large construction firm, receives in the mail a large envelope marked "personal." It contains a competitor's cost data for a project that both firms will be bidding on shortly.  
The data are accompanied by a note from one of Gaston's subordinates. It says: "This is the real thing!"  
Gaston knows that the data could be a major advantage to his firm in preparing a bid that can win the contract. What should he do?
- B. Kay Fazzari is one of your top-performing subordinates. She has shared with you her desire to apply for promotion to a new position just announced in a different division of the company. This will be tough on you since recent budget cuts mean you will be unable to replace anyone who leaves, at least for quite some time.  
Kay knows all of this and, in all fairness, has asked your permission before she submits an application. It is rumoured that the son of a good friend of your boss is going to apply for the job. Although his credentials are less impressive than Kay's, the likelihood is that he will get the job if she doesn't apply. What will you do?
- C. Tahmima was pleased to represent her firm as head of the local community development committee. In fact, her supervisor's

boss once held this position and told her in a hallway conversation, "Do your best and give them every support possible."

Going along with this advice, Tahmima agreed to pick up the bill (several hundred dollars) for a dinner meeting with local civic and business leaders. Shortly thereafter, her supervisor informed everyone that the entertainment budget was being eliminated in a cost-saving effort.

Not wanting to renege on supporting the community development committee, Tahmima charged the dinner bill to an advertising budget. An internal auditor discovered the charge and reported it to you, the firm's human resource manager.

Tahmima is scheduled to meet with you in a few minutes. What will you do?

**Instructions**

1. Working alone, make the requested decisions in each of these incidents. Think carefully about your justification for the decision.
2. Meet in a group assigned by your instructor. Share your decisions and justifications in each case with other group members. Listen to theirs.
3. Try to reach a group consensus on what to do in each situation and why.
4. Be prepared to share the group decisions, and any dissenting views, in general class discussion.

## Manage a Critical Incident

**Dealing with a Global Supply Chain****Situation**

As the co-founder of a small outdoor clothing start-up, you have just received an attractive proposal from a business in Tanzania that wants to manufacture cotton textiles for your warm-up suits. Accepting the offer from the Tanzanian firm would allow for substantial cost savings compared with your current domestic supplier. At this point in your firm's life, every dollar you save really helps. The proposal is now being considered in a meeting that includes you and others in the executive group. Someone mentions that she had recently read reports that some companies in Tanzania use child labour. Her comment immediately broadens the discussion to issues of ethics and business opportunity. Everyone agrees that research on the Tanzanian firm is necessary before any decision can be made on the proposal. You agree and point

out that now is a good time to consider not only what course of action is best in this case, but also what policy should be set for dealing with future situations involving how global suppliers treat their workforces. You stand up and say, "Let's assume the firm can meet all of our delivery times and quality standards," and then write these options on the whiteboard: (1) Accept the proposal. (2) Reject the proposal. (3) Reject the proposal if any laws in Tanzania are being violated. (4) Accept the proposal only if the head of the Tanzanian firm agrees not to employ children.

**Questions**

Does this list include all possible action alternatives? What others, if any, would you add? What alternative do you support and why? How could you defend your preference in the executive group meeting using concepts and ideas from this chapter?

## Collaborate on the Team Activity

### Stakeholder Maps

#### Preparation

Review the discussion of organizational stakeholders in the textbook. (1) Make a list of the stakeholders that would apply to all the organizations listed below—for example, local communities, employees, and customers. What others would you add to this starter listing? (2) Choose one organization that you are familiar with from each list that follows. (3) Draw a map of key stakeholders for each organization. (4) For each stakeholder, indicate its major interest in the organization. (5) For each organization, make a list of possible conflicts among stakeholders that the top manager should recognize.

Non-profit	Canadian senator
Elementary school	Canada Revenue Agency
Community hospital	Child services
Church	Business

University	Convenience store
United Way	Movie theatre
Government	National retailer
Local mayor's office	Local pizza shop
Provincial police	Urgent care medical clinic

#### Instructions

In teams assigned by your instructor, choose one organization from each list. Create “master” stakeholder maps for each organization. These should include (1) statements of stakeholder interests and (2) lists of potential stakeholder conflicts. Assume the position of top manager for each organization. Prepare a “stakeholder management plan” that represents the high-priority issues the manager should address with respect to stakeholder interest. Make a presentation to the class for each of your organizations and discuss the importance and complexity of stakeholder analysis.

## Analyze the Case Study

### Case 3.1 Tentree International | A Canadian Firm Dedicated to Protecting

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.



sylv1rob1/Shutterstock.com

# Environment, Innovation, and Sustainability

You've definitely seen them—emblazoned with their futuristic “T” logo, Tesla vehicles stand out on the road, but they're not alone in the marketplace of electric-powered vehicles. Batteries power vehicles of all shapes, sizes, and purposes today—from cars to trucks to motorcycles to scooters, and more. What once was a disruptive and paradigm-bending technological innovation funded by billionaires has now taken centre stage in an intense competitive race. It's a race that challenges well-established old-economy corporate giants to innovate or face loss of market domination. And this is a loss they're not prepared to suffer.

Technology and ecology are now combining to propel, through innovation, an unprecedented, even revolutionary,

market shift. It's a shift that appeals to both financial and sustainability values, and that extends across industries. Investments in cutting-edge technologies are helping businesses of all types create products and provide services in economical, practical, and ecologically sound ways. All this aligns well with growing recognition that extraordinary commitments must be made if we are to preserve our planet for future generations.

Society is increasingly vocal in the message that businesses aren't just there to make money; they must also serve the common good. If a business is to compete today and be around to compete again tomorrow, it must innovate at the intersection of environment, technology, and sustainability.



# Chapter Quick Start

We live in a complex and dynamic environment that presents a continual stream of problems and opportunities to us as individuals, to the organizations in which we work, and to society at large. Managers need to understand the environment in order to help lead their organizations to create value for society, accomplish innovation, and contribute to sustainability.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

### 4.1 The External Environment

4.1 Summarize key trends in the external environment of organizations.

### 4.2 Environment and Value Creation

4.2 Discuss challenges of value creation and competitive advantage in complex environments.

### 4.3 Environment and Innovation

4.3 Describe how organizations embrace technology and pursue innovation.

### 4.4 Environment and Sustainability

4.4 Explain the challenges of sustainability as an environmental priority.

## What to Look for **Inside**

### Management Is Real

- 4.1 **Analysis** Make Data Your Friend  
Social Attitudes Shift on Women at Work, but Concerns for Equality Persist
- 4.2 **Ethics** Know Right from Wrong  
Offshore E-Waste Graveyards Bury a Problem
- 4.3 **Insight** Keep Learning about Yourself  
Risk Taking Has Its Ups and Downs
- 4.4 **Wisdom** Learn from Role Models  
The Westons Take the Cake
- 4.5 **Choices** Think before You Act  
Sustainability Ranks Low among Global Executive Challenges

### Skills That Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Tolerance for Ambiguity
- **Contribute** *to the Class Exercise:*  
The Future Workplace
- **Manage** *a Critical Incident:*  
It's Also about Respect
- **Collaborate** *on the Team Activity:*  
Organizational Commitment to Sustainability Scorecard
- **Analyze** *the Case Study:*  
Patagonia | Leading a Green Revolution

## 4.1 The External Environment

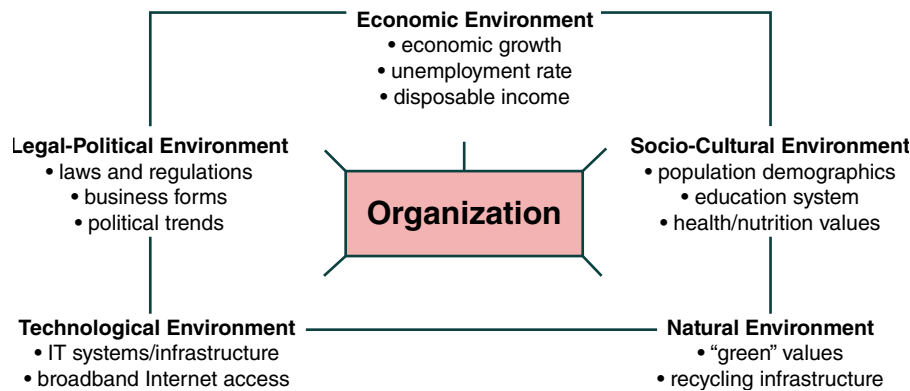
### LEARNING OBJECTIVE 4.1

Summarize key trends in the external environment of organizations.

### Learn More About

- Economic conditions
- Legal-political conditions
- Socio-cultural conditions
- Technological conditions
- Natural environment conditions

The **external environment** of organizations consists of all external conditions that set the context for managerial decision-making. You might think of it as a broad envelope of



**FIGURE 4.1** Sample elements in the external environments of organizations.

dynamic forces that surround and influence an organization. **Figure 4.1** classifies these forces as economic, legal-political, socio-cultural, technological, and natural environment conditions. Top managers and C-suite executives (such as the Chief Executive Officer or CEO, Chief Financial Officer or CFO, and Chief Information Officer or CIO) bear special responsibility for monitoring these conditions and linking them with their organizations’ mission, strategies, and internal practices. You can say that their job is to make sure that the voice of the environment gets heard within the organization.

## Economic Conditions

Long-term joblessness • Income inequality • Falling middle-class incomes • Struggles to live on minimum wage • China’s growing economic power

When economic conditions in the external environment begin to reflect extreme imbalances, what does it mean for organizations and managers? These conditions are part of a larger and ever-changing set of environmental forces. The financial markets, inflation, income levels, and job creation that determine an economy’s overall health are also critical environmental drivers. These macro-economic conditions affect the prospects for companies, consumer spending patterns and lifestyles, and even provincial and national priorities. They must be assessed, forecasted, and considered when policy-makers and executives make decisions.

Provinces now compete on tax incentives to attract new plants from companies like General Motors and Toyota. At stake are hundreds of new jobs and a financial boost for local economies. Global economic trends are always an issue. For years Canadian companies have pursued **offshoring** by outsourcing work and jobs to lower-cost foreign locations. But new economic signals are indicating it’s time to consider **reshoring**, which moves jobs back home. If you bought a Superior Radiant brand high-end outdoor heater a few years ago, it would have been made in China. Today it is built in Stoney Creek, Ontario, by Superior Radiant. “We did it for

reasons of quality control and to have a greater proximity to North American markets,” said Susan Samson, sales and marketing communications manager.<sup>1</sup> The shift toward reshoring is driven by rising labour costs in foreign countries, higher transoceanic shipping costs, complicated logistics, complaints about poor customer service, public criticism of lost local jobs, and economic incentives for job creation offered by local communities.

## Legal-Political Conditions

Immigration reform • Education reform • Tax reform  
• Health care reform

All the above issues were voted top priorities by 49 chief executives participating in a PricewaterhouseCoopers global annual survey. They represent just a sample of legal-political conditions with major implications for organizations and managers. These conditions reflect current and proposed laws and regulations, government policies, and the philosophy and objectives of political parties. Canadian lawmakers are debating issues such as regulation of banks and the financial services industry, foreign trade agreements, protection of Canadian jobs and industries, and the minimum wage. Corporate executives follow such debates as whether to regulate the proliferation of “fintech” companies. *Fintech* is short for the financial technology industry, where new, unregulated companies facilitate financial decision-making by broadening access to a range of online services that were once the exclusive business of banks.<sup>2</sup> The CEO of the Toronto Dominion Bank, Bharat Masrani, told a group of concerned shareholders, “The need has become even more evident [to regulate fintech companies]. Security breaches, service interruptions, and solvency issues have plagued a number of fintechs.”<sup>3</sup> CEOs must monitor trends such as these that can affect the regulation, oversight, and competitive direction of their businesses.

As if the domestic scene wasn’t complicated enough, the legal-political conditions in the global business environment also vary significantly from one country to the next. Just as

foreign firms have to learn to deal with North American laws and politics, North American firms must adjust to them when operating in other countries. The European Union fined Microsoft \$1.35 billion for antitrust violations involving the practice of bundling media and Windows software and making the source code unavailable to competitors.<sup>4</sup> Apple was sued by a Chinese company that had previously trademarked the name “iPad.” Apple ended up paying \$60 million to retain rights to use the iPad name in China.<sup>5</sup> Importantly, too, not all countries support international copyright and intellectual property protection. Reports on music, movie, product, and software piracy regularly make the news, affecting companies from Sony Pictures to Louis Vuitton.

National policies also vary on **Internet censorship**—the deliberate blockage and denial of public access to information otherwise available on the Internet—and global firms face many dilemmas in dealing with them. Google, Yahoo!, and Twitter, for example, have all faced problems in China where laws restrict access to Internet sites with content deemed off limits by the government. A Google spokesperson described the global environment as “a delicate balancing act between being a platform for free expression and also obeying local laws around the world.”<sup>6</sup>

## Socio-Cultural Conditions

Average household income for West Asian Canadians \$32k, Black Canadians \$35k, Indigenous People \$36k, Chinese Canadians \$38K, and white Canadians \$50k  
 • Only 25 Fortune 500 CEOs are women and only 3 are Black  
 • 1 in 4 women have experienced sexual harassment in the workplace and most don't file a complaint

In Canada, we encounter issues like the following, which aren't only of economic significance:<sup>7</sup>

- income inequality between Aboriginals and non-Aboriginals;
- labour disadvantages among recent immigrants;
- higher levels of unemployment among racialized Canadians;
- discrimination of women overlooked for advancement; and
- lack of gender identity, expression, and inclusion for members of LGBT communities.

These and other social issues relate to educational opportunity, social network connections, access to technology, mentoring, job options, and the “glass ceiling” hindering women's advancement. Think of socio-cultural conditions in the external environment as demographics and norms of a society or region, as well as social values pertaining to such things as employment, gender roles, ethics, human rights, and lifestyles (see Management Is Real 4.1).

With respect to demographics and norms, for example, the workplace is a mix of **generational cohorts**—people born within a few years of one another and who experience somewhat similar life events during their formative years.<sup>8</sup> And sometimes these generational subcultures clash. Whereas older generations are “digital immigrants” who have had to learn technology, the younger millennials (Gen Ys) and the iGeneration grew up as “digital natives” in technology-enriched homes, schools, and friendship environments. These differing life experiences affect everything from how the generations shop to how they learn or work.

### Management Is Real 4.1: Analysis | Make Data Your Friend

**75 percent of women aged 18–32 believe more must be done to ensure workplace equality.**

#### Social Attitudes Shift on Women at Work, but Concerns for Equality Persist

Social attitudes toward women at work are shifting in a positive direction. But polls and surveys show that a gender wage gap and bias toward women remain. For example:

- More women than men now receive university degrees and compose almost half the workforce.
- Canadian women in general earn 87 cents per dollar earned by men. This is marginally better than for women in the United States, at 79 cents for every dollar, but the Canadian gap is still much higher than in other countries.

#### What Are the Implications?

What reasons—other than discrimination—can you give for the lingering wage gap between women and men? Do these explanations make the gap more justifiable, or not? What are the implications of this wage gap for the economy, families,



Blue Images/Corbis/Getty Images

businesses, and communities? What are the implications for society at large as well as for women and their families? If more needs to be done to create workplace equality, what steps should next be taken—by government, by employers, and by educators? Have you seen examples of age, racial, or gender-based imbalance in compensation? What do you think drives such gaps?

Characteristics often used to describe digital natives include ability to multitask easily, the desire for immediate gratification, continuous contact with others, and less concern with knowing things than with knowing where to find out about things.<sup>9</sup>

With respect to social values, shifting currents and trends affect how organizations focus on employment practices, reputation management, product development, advertising messages, and internal policies. There was a time, for example, when the compensation of university presidents (averaging \$480,000 in total compensation in the United States) or corporate CEOs like Apple's Tim Cook (earning \$40.6 million a year) wasn't a hot-button topic.<sup>10</sup> But in a time of persistently high unemployment, limited job opportunities, and income inequality, the public is growing more critical of high executive pay. Canada's 100 highest-paid CEOs received an average of \$11.8 million each in 2018, according to a study by the Canadian Centre for Policy Alternatives. The Centre reports that the average CEO at a top publicly traded company makes as much money by 10:09 AM on the first workday of the new year as the average Canadian worker makes all year.<sup>11</sup>

## Technological Conditions

63% of smartphone owners say their employers expect more work availability • Teenagers spend less than 10 minutes per day reading offline • Worries grow about links between social media addiction and depression  
• When messaging apps are constantly open, people switch tasks 37 times per hour

No one doubts that continuing technological developments affect everything from the way we work to how we raise our children. It shouldn't be any surprise that businesses are quickly ramping up their spending on social media for product promotions, reputation management, internal communication, and more.<sup>12</sup> A continuing wave of social media applications for the workplace includes new product development and advertising, employee networking and data sharing, virtual meetings, and always-available chats. Between new apps for fast-developing smart device technologies and ever-increasing bandwidth, technology continues to penetrate further and further into everyday life.

On the employee side of things, technology easily carries work responsibilities into non-work lives. How often do you hear people complaining that they can "never get away from the job" and that work follows them home, on vacation, and just about everywhere they go with a smart device turned on? How often do you hear warnings about career and reputation risk because of poorly chosen social media decisions? A CareerBuilder.com survey reported that about one-third of executives visiting social network sites of job candidates said they found information that gave them reasons not to hire someone.<sup>13</sup>

The employer side of ever-present and constantly changing technology is full of potential problems as well

as opportunities. Many employees spend lots of time doing personal things online. Some employers call this loss of productivity "social networking."<sup>14</sup> This practice isn't limited to the work environment; it's a significant classroom issue as well. In one survey, 65 percent of business students said they sent at least one text message during each class, but only 49 percent felt guilty about it.<sup>15</sup> Higher up the negative end of the spectrum, recent airplane crashes have raised questions about pilot training and technological dependency. The U.S. National Transportation Safety Board is worried that overreliance on automation causes pilots to lose manual flight skills that are necessary cross-checks and last resorts in crisis situations.<sup>16</sup>

## Natural Environment Conditions

Magnitude 9.0 earthquake and large tsunami hit Japan  
• 20,000 people killed • Fukushima Daiichi nuclear power station badly damaged • 80,000 residents evacuated  
• Nuclear radiation may prohibit return to some communities for decades

We tend to think most about natural environment conditions following a disaster—a nuclear plant failure, a major oil spill, or an enormous hurricane.<sup>17</sup> But concerns for the status and preservation of our natural environment are ever-present and global. Calls for being "carbon neutral," "green," and "sustainable" are common on university and college campuses, in local communities, and in our everyday lives. The intent is to protect natural resources that are essential to society and ensure their availability for future generations.

What are your top environmental concerns and priorities? How about for your community? Is it toxic waste that may be getting dumped in a regional landfill? Could it be global warming? Or is it fossil fuel consumption and the search for reliable and affordable alternative sources of energy?<sup>18</sup> Just look around and you'll see people and organizations working harder to reduce water consumption, cut back on waste and increase recycling, improve energy efficiency, buy and consume more local produce, and eliminate pollution. As consumers we are asking for and getting more access to "green products and services." As job candidates, we increasingly seek "green job" opportunities. As investors we can even buy "green mutual funds" and "green bonds."<sup>19</sup>

It is important to recognize that we increasingly expect organizations and their managers to help preserve and respect the environment. When they don't, public criticism can be vocal, harsh, and expensive (see Management Is Real 4.2). Think about public debates over "fracking" in the search for natural gas supplies and the use of coal for electricity generation. Think about the outrage that quickly surfaced over the disastrous BP oil spill in the Gulf of Mexico in 2010, the \$40+ billion cleanup and settlement costs to the company, and the subsequent calls for stronger government oversight and control over corporate practices that put our natural world at risk.<sup>20</sup> And think about the value placed on a university's sustainability practices by prospective new students.

## Management Is Real 4.2: Ethics | Know Right from Wrong

It's a lot easier to send hazardous waste to another country than dispose of it at home.

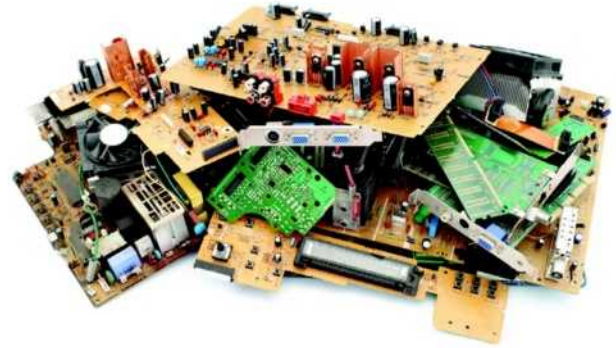
### Offshore E-Waste Graveyards Bury a Problem

"Give me a plan," says the boss. "We need to get rid of this electronic waste."

This isn't an uncommon problem. Just think about all those old stereo components, televisions, out-of-date cell phones, used computers and monitors, and so on. Did you know that they are often sent to e-waste graveyards in countries like Ghana, China, and Vietnam? The waste arrives by sea container or barge and ends up in huge dumps. Local labourers, often children, then go to work disassembling the waste products to salvage valuable scrap metals, often burning the plastic and motherboards to access the sought-after scraps.

Canada is one of the worst e-waste offenders in the world, according to the Global E-waste Monitor. China, Malaysia, and the Philippines have begun to refuse our shiploads of trash and have sent them back to Canada. E-waste is any discarded device that requires batteries or electricity to work—from toothbrushes to washing machines, and of course, cell phones and iPads, computers and radios.

Those who work in and live around e-waste graveyards face real hazards to their health and welfare. That's the hidden problem behind the boss's directive; an offshore e-waste graveyard is an attractive low-cost option. But the price is paid in adverse environmental and health effects. What is the human and environmental price for the scrap materials being disassembled, recovered, and buried? It isn't a stretch to assume that the workers often inhale toxic fumes, that nearby streams can get polluted with runoff



iStock.com/ermingut

waste, and even that the streets and living areas of the workers get cluttered with electronic debris.

#### What Do You Think?

Even as some countries become hosts for e-waste products, their governments may look the other way when it comes to the environmental and human costs. Whose responsibility is it to deal with the negative consequences of e-waste disposal? Does the originating country or consumer have any obligation to reduce waste creation and assist with safe waste disposal? If the "plan" given to the boss in this case is simply "ship it to Ghana," is that an acceptable business practice? What are the long-term implications of this kind of approach? Do you see a world in the next 50 years where it will be possible for corporations to continue to function without addressing these issues?

### Learning Check

**LEARNING OBJECTIVE 4.1** Summarize key trends in the external environment of organizations.

**Be Sure You Can** • list the key elements in the external environments of organizations • give examples of how present conditions for each element pose immediate challenges to organizations • give examples of how possible future developments for each of these elements might require significant changes in how organizations operate

## 4.2 Environment and Value Creation

**LEARNING OBJECTIVE 4.2**

Discuss challenges of value creation and competitive advantage in complex environments.

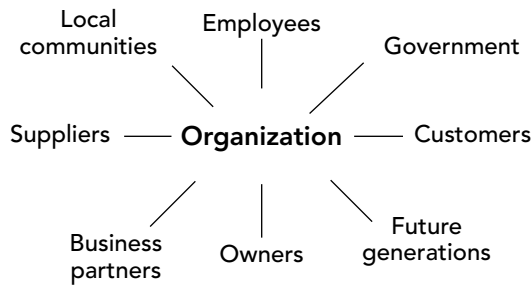
### Learn More About

- Value creation and competitive advantage
- Uncertainty, complexity, and change

The **specific environment** or **task environment** is composed of the organizations, groups, and persons with whom an organization interacts and conducts business. Its members, referred to as **stakeholders**, are the persons, groups, and institutions affected by the organization's performance.<sup>21</sup> Stakeholders are key constituents that have an interest in how an organization operates. They are influenced by it, and they can influence it in return. The important stakeholders for most organizations include customers, suppliers, competitors, regulators, advocacy groups, investors/owners, employees, and society at large—including future generations.

### Value Creation and Competitive Advantage

As shown in **Figure 4.2**, organizations are expected to contribute to their environments by creating value for—and satisfying

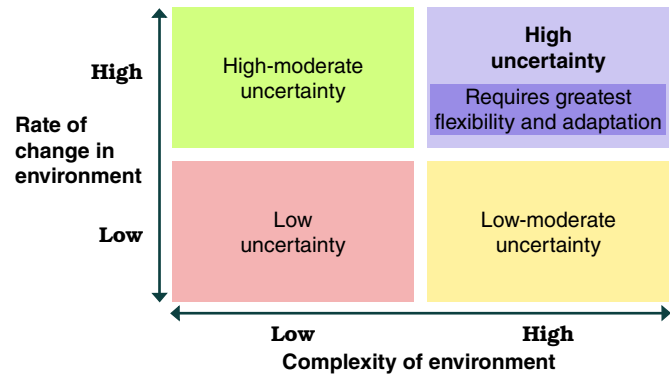


**FIGURE 4.2** The multiple stakeholders of an organization.

the needs of—their multiple stakeholders. For example, businesses create value for customers through product pricing and quality and for owners in realized profits. They create value for suppliers through the benefits of long-term business relationships and for employees through earned wages and job satisfaction. Businesses also create value for local communities through their citizenship. They can even create value for competitors by stimulating market activity and product/process innovations.

Organizations also strive for **competitive advantage** in their environments—by developing something that they do extremely well, is difficult to copy, and gives them an advantage over competitors in the marketplace.<sup>22</sup> Think about competitive advantage when you turn to Google for search, shop with “1-Click” at Amazon, and stream movies from Netflix. The ultimate competitive advantage test for an organization’s leadership is a good answer to this question: “What does my organization do better than any other?” Many of the answers today are framed in technology utilization and innovation in the following areas:<sup>23</sup>

- *Competitive advantage can be achieved through costs*—finding ways and using technology to operate with lower costs than competitors and thus earn profits with prices that competitors have difficulty matching.
- *Competitive advantage can be achieved through quality*—finding ways and using technology to create products and services that are consistently higher quality than competitors offer.
- *Competitive advantage can be achieved through delivery*—finding ways and using technology to outperform competitors by delivering products and services to customers faster and more consistently on time, and by developing timely new products.



**FIGURE 4.3** Dimensions of uncertainty in the external environments of organizations.

- *Competitive advantage can be achieved through flexibility*—finding ways and using technology to adjust and tailor products and services to fit customer needs in ways that are difficult or expensive for competitors to match.

## Uncertainty, Complexity, and Change

As managers deal with stakeholders, seek to create value, and gain competitive advantage, these pursuits often are complicated by **environmental uncertainty**—a lack of complete information regarding what is present in the environment and what developments may be on the horizon. The more uncertain the environment, the harder it is to analyze environmental conditions and predict future states of affairs. The greater the environmental uncertainty, the more the risk taking that may be required to act on perceived problems and opportunities.

Two dimensions of environmental uncertainty are shown by the two arrows in **Figure 4.3**.<sup>24</sup> The first is the *degree of complexity*, or the number of factors present in the environment. An environment is typically classified as relatively simple or complex. The second is the *rate of change* in and among these factors. An environment is typically classified as being stable or dynamic. The most challenging and uncertain situation is an environment that is both complex and dynamic. High-uncertainty environments require flexibility and adaptability in organizational designs and work practices, as well as decision-makers who are comfortable with risk and able to respond quickly as new circumstances arise and new information becomes available (see Management Is Real 4.3).

### Management Is Real 4.3: Insight | Keep Learning about Yourself

Can boredom and dissatisfaction explain the pursuit of risky sports or personal behaviours?

#### Risk Taking Has Its Ups and Downs

Why is there so much interest in adventure sports like ice climbing, river running, base jumping, spelunking, and more? Some people assume it is a quest for an adrenaline rush; others argue that the

“thrill” is addictive. What is clear is that it’s all about risk taking, and people vary in the degree to which they are comfortable taking risks in uncertain situations.

Risk taking is a way to step forward, stop “playing it safe,” and try new things that can enrich our lives. But there’s need for caution as well. The risks we take in our personal lives and in our careers aren’t always for the best. There is a difference between a crazy gamble and calculated risk.

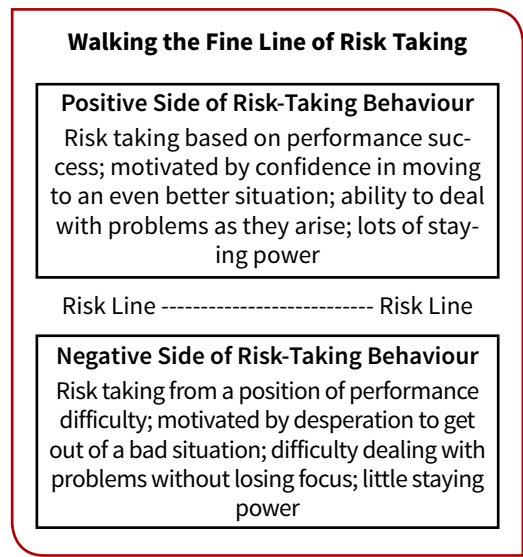
Research shows that executives in higher-performing organizations who take risks are motivated by confidence. This helps them pursue opportunities and adapt well to change. Executives in lower-performing organizations may take risks because they are desperate to escape present difficulties. Because they lack confidence, they are likely to jump from one problem to the next without making any real sustainable gains.

Consider **Figure 4.4**. On which side of the “risk line” do you most often fall—the positive side, motivated by confidence, or the negative side, motivated by desperation? It is interesting to note that research links high risk taking with boredom and dissatisfaction. Can this explain why some people engage in risky sports or personal behaviours—because they’re bored or dissatisfied?

It is important to understand our tendencies toward risk taking and its potential to increase or decrease success. This figure identifies a “risk line” above which taking risks can have a positive influence on behaviour and below which it can have a negative influence. As you ponder the many complexities of organizations’ external environment, including opportunities—for innovation and sustainability, ask yourself: How do we individually, organizationally, and as a society deal with risk in our environments, and how can we do better?

**Get to Know Yourself Better**

Use Figure 4.4 to do a quick self-check of your risk-taking tendencies. Which side of the risk line are you most often on—positive or negative? Write short descriptions of risks you’ve taken at



**FIGURE 4.4** The two sides of the risk line.

school, at work, and in your personal life that were driven (a) by confidence and (b) by desperation. What do these descriptions suggest about how risk-taking influences your behaviour in professional and personal areas of your life?

**Learning Check**

**LEARNING OBJECTIVE 4.2** Discuss challenges of value creation and competitive advantage in complex environments.

**Be Sure You Can** • describe how a business can create value for four key stakeholders • explain *competitive advantage* and give examples of how a business might achieve it • analyze the uncertainty of an organization’s external environment using degree of complexity and rate of change

**4.3 Environment and Innovation**

**LEARNING OBJECTIVE 4.3**

Describe how organizations embrace technology and pursue innovation.

**Learn More About**

Types of innovations • The innovation process • Design thinking • The 5 whys: getting at the root cause • Reverse innovation • Disruptive innovation and technology

Klaus Schwab, founder of the World Economic Forum, says we are in the midst of the Fourth Industrial Revolution. The first industrial revolution was driven by coal and steam, the second by electricity and the automobile, and the third by computing technologies. This fourth revolution is being driven by mobile connectivity, artificial intelligence, and automation. These forces are having a major impact on the ways that businesses compete and the nature of the personal skills and competencies critical for career success today.

The uncertainty, complexity, and perpetual change in today’s environment requires almost continuous **innovation**, the process of coming up with new ideas and putting them into practice. A major driver of competitive advantage, innovation is important both for organizations and for individuals.<sup>25</sup>

**Types of Innovations**

The innovations we experience every day sort into three broad forms: (1) **Product innovations** result in the creation of new or improved goods and services. (2) **Process innovations** result in better ways of doing things. (3) **Business model innovations** result in new ways of making money for the firm. Consider these examples:

*Product innovation*—Groupon put coupons on the Web; RIM’s BlackBerry was the first portable email device; Apple introduced the iPod, iPhone, and iPad to the world; Amazon’s Kindle launched a new era of e-readers; Facebook and Instagram made social media part of everyday life. (See Management Is Real 4.4).

## Management Is Real 4.4: Wisdom | Learn from Role Models

**“The two most important demographic trends driving the Canadian consumer in the foreseeable future (are) health and urbanization.” — Galen G. Weston**

### The Westons Take the Cake

In an era where 70 percent of family businesses fail after the second generation, the Weston family proves the exception. W. Galen Weston, the grandson of George Weston, the baker who started Weston's Bakery in 1882, is now the second-wealthiest man in Canada. He's the Executive Chairman and majority owner of George Weston Limited, Canada's largest company and largest private employer, with 200,000 employees. His businesses include controlling interests in Loblaw, Canada's largest food retailer; Shoppers Drug Mart, Canada's largest retail pharmacy chain; and Holt Renfrew, the second-largest luxury goods retailer in Canada; along with Ogilvy department store in Montreal. His international interests include Selfridges in the United Kingdom, Brown Thomas of Ireland, and the de Bijenkorf department store chain in the Netherlands.

After W. Galen Weston's son, Galen G. Weston, had worked eight years with Loblaw overseeing strategy, Weston senior appointed him to take more control of the family-run business. In 2006, Galen Weston, Jr. took over the role of president and chairman of Loblaw Companies. During this period there were several leadership changes, which Weston senior said could be “destabilizing” for a company. His son's leadership was an assurance that the vision the Westons established and supported would get implemented.

Canadians named the younger Weston “the best example of a Canadian gentleman” in a 2011 poll as a result of his likeable TV pitches for President's Choice products. His leadership was tested in 2013 when tragedy struck a Bangladesh garment factory, one of the suppliers for the company's Joe Fresh line of clothing, killing more than 1,100 people. Weston junior was the first retailer to admit to the media that his company had sourced from that factory, but he stated that they had no plans to withdraw from Bangladesh. “The apparel industry can be a force for good,” Weston explained. “It can help lift people out of poverty in countries like Bangladesh.” Only after expressing being troubled “by the deafening silence from other apparel retailers who did business with the same Bangladesh company,” did some of the 30 other companies come forward to speak publicly. “The apparel industry must come together again and fundamentally address the issue,” Weston junior said. As a result of his responsible actions, the Canadian Press named him businessperson of the year for 2013.



Nathan Denette/The Canadian Press

All of George Weston Limited's businesses, particularly food retailing, have seen rapid changes in recent years, which has led the Westons to be very decisive in tuning in to the environment and customers' needs. In the grocery business, the company's successful strategy has been to target and respond to the changing tastes in every income bracket across the country, from No Frills stores selling canned items in the boxes they shipped in, to Loblaw outlets selling high-end cheeses, meats, and ready-cooked meals. In 2014, Galen Weston, Jr. made an innovative move by buying Shoppers Drug Mart for \$12.4 billion. The Shoppers acquisition helped the company better compete with Walmart (which sells groceries and pharmaceuticals), gain a toehold in the burgeoning healthcare industry, and have instant access to locations in growing urban areas.

At a time when several Canadian retailers have been closing some of their stores, George Weston Limited is expanding. Loblaw announced it would be building dozens of new stores and renovating more than 100 others, creating 15,000 construction jobs and 5,000 store positions. There are now over 2,000 Loblaw stores in Canada, making Loblaw the leader in Canadian food retailing.

#### Find Inspiration

W. Galen Weston and Galen G. Weston spotted opportunities in industries far removed from the grocery business, such as apparel and pharmaceuticals. Is this visionary ability a unique characteristic that only a few special people possess, or is this a quality many people can nurture and develop for future success? Where do you stand in terms of vision and innovation potential, and are you willing to take risks to give new ideas a chance?

*Process innovation*—IKEA's “ready to assemble” furniture and fixtures transformed retail shopping; Amazon.com's “1-Click” ordering streamlined the online shopping experience; Nike introduced customization by allowing online customers to design their own shoes; Grocery store self-checkout allowed for decreases in wait times and bottom-line costs.

*Business model innovation*—Netflix turned movie rental into a subscription business and Redbox put it into a vending machine; Zynga made “paying for extras” profitable in free online games.

Although we tend to view innovation primarily in business and economic contexts, innovation can apply equally well when we talk about the world's social problems—poverty, famine, illiteracy, disease—and the general conditions for economic and social development. **Social business innovation** uses business models to address important social problems. Think of it as business innovation with a focus on critical social issues.

Microcredit lending is an example of social business innovation. It was pioneered in Bangladesh, where economist Muhammad Yunus started the Grameen Bank. Recognizing that many



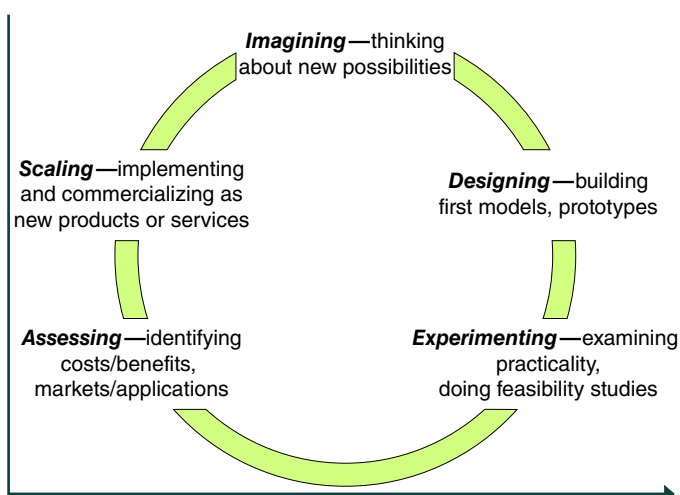
of the country's poor citizens couldn't obtain regular bank loans because of insufficient collateral, Yunus introduced the idea of "microcredit." He set up the Grameen Bank to lend small amounts of money to these citizens at very low interest rates, with the goal of promoting self-sufficiency through owning small enterprises. At one level this is a business model innovation—microcredit lending. But at another level it is a social business innovation—using microcredit lending to help tackle the ever-challenging issue of poverty.<sup>26</sup>

## The Innovation Process

Whatever the goal, whether it be a new product, an improved process, a unique business model, or solving social problems, the innovation process begins with *invention*—the act of discovery—and ends with *application*—the act of use. Consultant Gary Hamel described innovation in the five-step *wheel of innovation* shown in [Figure 4.5](#).<sup>27</sup> Step 1 is *imagining*—thinking about new possibilities. Step 2 is *designing*—building initial models, prototypes, or samples. Step 3 is *experimenting*—examining practicality and financial value through experiments and feasibility studies. Step 4 is *assessing*—identifying strengths and weaknesses, potential costs and benefits, and potential markets or applications. Step 5 is *scaling*—implementing what has been learned and commercializing new products or services. In business this final step involves commercializing innovation by turning it into actual products, services, or processes that increase profits by improving sales or lowering costs.

## Design Thinking

**Design thinking** is a hands-on method for solving problems; the term is borrowed from the way designers work and is now applied to any problem that requires a creative and innovative solution. Apple, Google, Samsung, and GE are among the world's adopters of the approach. Design thinking depends on challenging the assumptions of a problem and taking steps to frame the questions raised so that they actually address user



**FIGURE 4.5** The five steps in Hamel's "wheel of innovation."

needs, rather than relying on the problem solver to identify the problem. Design thinking practitioner Dan Norman comments:

"...the more I pondered the nature of design and reflected on my recent encounters with engineers, business people and others who blindly solved the problems they thought they were facing without question or further study, I realized that these people could benefit from a good dose of design thinking. Designers have developed a number of techniques to avoid being captured by too facile a solution. They take the original problem as a suggestion, not as a final statement, then think broadly about what the real issues underlying this problem statement might really be (for example by using the "Five Whys" [see below] approach to get at root causes). Most important of all, is that the process is iterative and expansive. Designers resist the temptation to jump immediately to a solution to the stated problem. Instead, they first spend time determining what the basic, fundamental (root) issue is that needs to be addressed. They don't try to search for a solution until they have determined the real problem, and even then, instead of solving that problem, they stop to consider a wide range of potential solutions. Only then will they finally converge upon their proposal. This process is called "Design Thinking."

– Don Norman, *Rethinking Design Thinking*<sup>28</sup>

It is a non-linear approach. In other words, each step in the process is revisited often and refined until the solution that best fits the problem and user needs is arrived at.

## The 5 Whys: Getting at the Root Cause

In order to make sure you're getting to the source of a problem and not a symptom of it, a technique you can use is to ask the "5 Whys." Eric Ries, former entrepreneur-in-residence at Harvard Business School, suggests that behind most technical problems is a human problem. The idea is to trace the intermediate causes to their root. He gives this example:

If a server crashed:

Ask:	Because:
1. Why did the server crash?	...a new API was pushed to that server.
2. Why was that?	...we just launched a new feature that used that API in the wrong way.
3. Why was that?	... we had an engineer that was new and didn't know how to use that API properly.
4. Why is that?	...the engineer was never trained.
5. Why was that?	...the manager didn't believe in training.

Ries explains: What seemed like a technical problem turned out to be a human problem. The idea is to fix the root cause of the

problem but also to invest in addressing each of the five levels of the tiered responses. Five is not a magic number, but it's a good start. If you have to go further, then continue the process until you feel you've found the source of the problem.<sup>29</sup>

## Reverse Innovation

Something called **reverse innovation** is now getting lots of attention. It refers to innovation that comes from lower organizational levels and is found in diverse settings or locations.<sup>30</sup> The concept got its start as global firms realized that innovation wasn't just a "home market" activity that creates new products and services for distribution to "foreign markets." Instead, they realized that there were lots of innovations to be found in environments where new products and services had to be created under income and pricing constraints. GE, for example, developed low-priced and portable electrocardiogram and ultrasound machines in India where the prices of its existing lines were prohibitive. The firm brought the new machines through reverse innovation into North American markets, where their mobility and low prices made them popular with emergency units.

## Disruptive Innovation and Technology

The innovation process is sometimes so successful that **disruptive innovation** occurs. Harvard scholar Clay Christensen defines it as the creation of an innovative product or service that starts out small scale and then moves "up market" to where it becomes so widely used that it displaces prior practices and competitors.<sup>31</sup> Historical examples include cellular phones that disrupted traditional landlines, MP3 digital music players that disrupted traditional physical transmission of music from CDs and cassettes, and discount retailers that disrupted traditional full-line department stores. We already see online retailers disrupting fixed-place brick and mortar stores, online gaming and movie streaming disrupting "buy and own" models, and tablet devices disrupting desktop computing. What's on your list for the next great disruptor of today's established products or business practices? Will electric cars like Tesla's Model S disrupt historical internal combustion technology? Will the success of private room rentals through Airbnb drive further developments in the community marketplace model that end up disrupting not just hotels but also businesses in other industries?

### Learning Check

**LEARNING OBJECTIVE 4.3** Describe how organizations embrace technology and pursue innovation.

**Be Sure You Can** • define *innovation* • discuss differences between process, product, business model, and social business innovations • list the five steps in Hamel's wheel of innovation • explain

how innovations get commercialized • explain *design thinking* and where you might use it • define *reverse innovation* and *disruptive innovation* • give an example of a disruptive innovation that you use almost every day

## 4.4 Environment and Sustainability

### LEARNING OBJECTIVE 4.4

Explain the challenges of sustainability as an environmental priority.

#### Learn More About

- Sustainable development • Sustainable business
- Human sustainability

Think about climate change, carbon footprints, alternative energy, local foods, and broader links among people, organizations, and nature. They highlight issues of **sustainability**, a commitment to live and work in ways that protect the rights of both present and future generations as co-stakeholders of the world's resources. It applies to everything from the air we breathe to the water we consume, and from the spaces we inhabit to the human labour that gives life to our best-loved foods, beverages, and electronic devices.

## Sustainable Development

We live and work at a time when global consumption of fossil fuels is at an all-time high, water shortages are reaching critical proportions in many parts of the world, and air quality in major metropolitan areas around the globe is reaching all-time lows. It only makes sense that **sustainable development** is a major concern for governments, leaders, and the public at large. The term describes the use of environmental resources to support society's needs today, while also preserving and protecting them for use by future generations.<sup>32</sup>

"Renew," "recycle," "conserve," and "preserve" are all well-recognized sustainable development catchwords. They highlight desires to preserve **environmental capital** or **natural capital** as the world's supply of natural resources— atmosphere, land, water, and minerals—that sustain life on earth.<sup>33</sup> But how do we balance aspirations to consume our environmental capital for everyday prosperity, convenience, comfort, and luxury, with the potential costs of losing it in the future? PepsiCo's CEO Indra Nooyi says: "All corporations operate with a licence from society. It's critically important that we take that responsibility very, very seriously; we have

to make sure that what corporations do doesn't add costs to society."<sup>34</sup> Nooyi's point directs attention toward a **triple bottom line** that evaluates not only an organization's economic performance but also its social and environmental performance.<sup>35</sup> This is often called the **3 Ps of organizational performance**—profit, people, and planet.

## Sustainable Business

Pursuit of the triple bottom line and the 3 Ps is a hallmark of **sustainable businesses** that both meet the needs of customers and protect or advance the well-being of the natural environment.<sup>36</sup> Sustainable businesses operate in harmony with nature rather than by exploiting it. They set goals for things like “recycling percentage,” “carbon reduction,” “energy efficiency,” “ethical sourcing,” and “food security,” among others.<sup>37</sup> They employ people with job titles like Corporate Sustainability Officer, Green Building Manager, Staff Ecologist, Sustainability Program Director, and Sustainability Planner. They also pursue **sustainable innovation** or **green innovation** to create new products, practices, and methods that reduce negative impact on the environment and even seek to achieve positive impact.<sup>38</sup> (See Management Is Real 4.5.)

A sustainable business model seeks win-win outcomes for the organization and the environment. Can you think of some good examples? Actually, a lot of firms approach their

markets in this way. For example, Vancouver City Savings Credit Union (Vancity), a financial co-operative and Canada's largest community credit union, in April 2015 developed Canada's first mutual fund that excludes companies associated with fossil fuel production. Vancity has increased its holdings of clean tech and renewable energy companies and invests in local community initiatives such as farmers' markets and providing mortgages to Vancouver's working-class east side. Telus Corporation, the Vancouver-based national telecommunications company, was named to the Dow Jones Sustainability North America Index four years in a row for its policies supporting the ethical treatment of animals. The Telus offices in Quebec and B.C. are built to LEED gold standards (a green building certification system) and consume 80 percent less power than a typical data centre of the same size.<sup>39</sup>

## Human Sustainability

The notion of sustainability in management applies to more than the natural environment alone. Scholar Jeffrey Pfeffer offers a strong case for giving greater management attention to social and human sustainability—the “people” part of the 3 Ps.<sup>40</sup> He says: “Just as there is concern for protecting natural resources, there could be a similar level of concern for protecting human resources. ... Being a socially responsible business ought to encompass the effect of management practices on employee physical and psychological well-being.”<sup>41</sup>

### Management Is Real 4.5: Choices | Think before You Act

**Sustainability ranked number 9 when the Conference Board asked 729 global business leaders to prioritize their top 10 challenges for the coming year.**

#### Sustainability Ranks Low among Global Executive Challenges

A poll conducted by the U.S. Conference Board asked 729 global business leaders to prioritize the top 10 challenges facing them

in the coming year. The results showed the top four concerns as: 1—human capital, 2—operational excellence, 3—innovation, and 4—customer relationships. The bottom three challenges were: 8—corporate brand and reputation, 9—sustainability, and 10—trust in business.

Put in a positive light, it is possible that the low rank on the challenges list indicates that business leaders believe their firms have sustainability issues under control. They may be acting with confidence that sustainability isn't a crisis anymore, and that their firm's reputations in this area are secure. But if we frame the results in a negative light, these results also could mean that sustainability is losing out to other concerns in the quest for profits. These business leaders may be making decisions that are disconnected from prevailing social values. Or perhaps it may reflect the fact that there is still a lot of global disparity regarding just how important sustainability issues are for businesses today.

#### What's Your Take?

What do these results say about commitments to sustainability? Do they show that sustainability is already firmly entrenched as an executive priority and thus secure as a corporate value? Or, do they indicate that much of the talk about sustainability is just that—talk—and that the issues of sustainability, reputation, and trust are still not getting the attention they deserve when it comes to executive decisions and actions?



Justin Hession/Getty Images

Ask to what extent the organization helps support and advance human health and well-being by:

- Providing health benefits to employees?
- Providing wellness programs for employees?
- Avoiding job layoffs?
- Structuring work hours to reduce stress?
- Structuring work hours to minimize work–family conflict?
- Designing jobs to reduce stress?
- Designing jobs to give people control over their work?
- Being transparent and fair in handling wage and status inequalities?

**FIGURE 4.6** How to assess an organization’s commitment to human sustainability

Pfeffer’s concern for human sustainability highlights the importance of including employees as organizational stakeholders. Human sustainability issues like those in **Figure 4.6** remind us that management practices have major consequences for the health and well-being of the individuals who do the everyday work of organizations. A tragic example of the failure to embrace human sustainability is the collapse of an industrial complex in Bangladesh that housed suppliers to several well-known global clothing retailers, including

Canada’s Joe Fresh brand. The incident killed more than 1,100 people and exposed unsafe building and sweatshop conditions in factories throughout Bangladesh. Since the tragedy, there have been international organizations working on behalf of the garment workers to improve their working conditions. For example, the non-profit Institute for Global Labour and Human Rights is dedicated to improving human sustainability through its mission “to promote and defend human, women’s and workers’ rights in the global economy.”<sup>42</sup> Because of efforts such as these, the working conditions for Bangladeshi garment workers have improved dramatically. They can now opt for overtime, they can work an 8-hour day to a maximum of 48 hours a week, and pregnant women can receive maternity leave.

## Learning Check

**LEARNING OBJECTIVE 4.4** Explain the challenges of sustainability as an environmental priority.

**Be Sure You Can** • explain the triple bottom line and 3 Ps of organizational performance • define the terms sustainable development and environmental capital • give examples of sustainability issues today • explain and give examples of sustainable business practices • discuss human sustainability as a management concern

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 4.1** Summarize key trends in the external environment of organizations.

- The external environment includes background economic, socio-cultural, legal-political, technological, and natural environment conditions.
- The economic environment influences organizations through the health of the local, domestic, and global economies in terms of such things as financial markets, inflation, income levels, unemployment, and job outlook.
- The legal-political environment influences organizations through existing and proposed laws and regulations, government policies, and the philosophy and objectives of political parties.
- The socio-cultural environment influences organizations through the norms, customs, and demographics of a society or region, as

well as social values on such matters as ethics, human rights, gender roles, and lifestyles.

- The technological environment influences organizations through continuing advancement of information and computer technologies that affect the way we work, how we live, and how we raise our children.
- The natural environment conditions influence organizations through the abundance of natural resources provided, and the need for organizational practices that both meet the needs of customers and protect future well-being.

**For Discussion** If the interests of a business firm’s owners and investors conflict with those of the community, which stakeholder gets preference? What situational factors influence whose interests take precedence?

**LEARNING OBJECTIVE 4.2** Discuss challenges of value creation and competitive advantage in complex environments.

- The specific environment or task environment consists of suppliers, customers, competitors, regulators, and other stakeholders with which an organization interacts.
- A competitive advantage is achieved when an organization does something very well that allows it to outperform its competitors.
- Environmental uncertainty is created by the rate of change of factors in the external environment and the complexity of this environment in terms of the number of factors that are relevant and important.

**For Discussion** Which of the two or three retail stores that you shop at weekly has the strongest competitive advantage and why?

**LEARNING OBJECTIVE 4.3** Describe how organizations embrace technology and pursue innovation.

- Product innovations deliver new products and services to customers; process innovations improve operations; and business model innovations find new ways of creating value and making profits.
- Social business innovations use business models to help address social problems like poverty, famine, disease, and literacy.
- The innovation process involves moving from the stage of invention that involves discovery and idea creation all the way to final application that involves actual use of what has been created.
- Reverse innovation finds innovation opportunities in diverse locations, such as taking products and services developed in emerging markets and finding ways to utilize them elsewhere.

- Disruptive innovation, often involving technological advancements, is the creation of a new product or service that starts out small scale and then becomes so widely used that it displaces prior practices and competitors.

**For Discussion** Housing for the homeless is a problem in many communities. In what way might this problem be addressed through some form of social business innovation?

**LEARNING OBJECTIVE 4.4** Explain the challenges of sustainability as an environmental priority.

- The concept of sustainability describes a commitment to recognize and protect the rights of both present and future generations as co-stakeholders of the world's natural resources.
- The triple bottom line evaluates how well organizations perform on economic, social, and environmental performance criteria; it is also called the 3 Ps of organizational performance—profits, people, planet.
- Sustainable development uses environmental resources to support society today while also preserving and protecting those resources for use by future generations.
- Sustainable innovations pursue new ways for minimizing the negative impact and maximizing positive impact of organizations on the natural environment by reducing energy and natural resource consumption.

**For Discussion** When the costs of pursuing sustainability goals reduce business profits, which stakeholder interests should take priority, business owners or society at large? Where do you think the balance between profits and sustainability should naturally emerge?

## Chapter Glossary

**Business model innovations** Innovations that result in ways for firms to make money.

**Competitive advantage** Something that an organization does extremely well, is difficult to copy, and gives it an advantage over competitors in the marketplace.

**Design thinking** A hands-on method for solving problems that challenges the assumptions of the problem by taking steps to frame it so that solutions actually address user needs.

**Disruptive innovation** Innovation that creates products or services that become so widely used that they largely replace prior practices and competitors.

**Environmental capital** or **natural capital** The supply of natural resources—atmosphere, land, water, and minerals—that sustains life and produces goods and services for society.

**Environmental uncertainty** A lack of information regarding what exists in the environment and what developments may occur.

**External environment** The economic, legal-political, socio-cultural, technological, and natural environment conditions in which an organization operates.

**Generational cohorts** People born within a few years of one another and who experience somewhat similar life events during their formative years.

**Innovation** The process of taking a new idea and putting it into practice.

**Internet censorship** The deliberate blockage and denial of public access to information posted on the Internet.

**Offshoring** The outsourcing of jobs to foreign locations.

**Process innovations** Innovations that result in better ways of doing things.

**Product innovations** Innovations that result in new or improved goods or services.

**Reshoring** The movement of jobs from foreign locations back to domestic ones.

**Reverse innovation** Innovation that comes from lower organizational levels and is found in diverse settings or locations.

**Social business innovation** Innovation that uses business models to address important social problems.

**Specific environment** or **task environment**

The people and groups with whom an organization interacts.

**Stakeholders** The persons, groups, and institutions directly affected by an organization.

**Sustainability** A commitment to live and work in ways that protect the rights of both present and future generations as co-stakeholders of the world's resources.

**Sustainable businesses** Businesses that operate in harmony with nature rather than by exploiting it.

**Sustainable development** The use of environmental resources to support society's needs today, while also preserving and protecting them for use by future generations.

**Sustainable innovations** or **green innovations** Innovations that help reduce an organization's negative impact and enhance its positive impact on the natural environment.

**3 Ps of organizational performance** Profit, people, and planet.

**Triple bottom line** The assessment of the economic, social, and environmental performance of organizations.

## Self-Test 4

### Multiple-Choice Questions

- The external environment of an organization would include \_\_\_\_\_.
  - population demographics
  - activist groups
  - competitors
  - customers
- Internet censorship faced in foreign countries by firms such as Google is an example of how differences in \_\_\_\_\_ factors in the external environment can cause complications for global business executives.
  - economic
  - legal-political
  - natural environment
  - demographic
- If the term *offshoring* describes outsourcing of work and jobs to foreign locations, what is it called when firms like Superior Radiant move jobs back to Canada from foreign locations?
  - protectionism
  - reshoring
  - disrupting
  - upscaling
- Work preferences of different generations and public values over things like high pay for corporate executives are examples of developments in the \_\_\_\_\_ environment of organizations.
  - task
  - specific
  - socio-cultural
  - economic
- A business that has found ways to use technology to outperform its rivals in the marketplace can be said to have gained \_\_\_\_\_.
  - environmental capital
  - competitive advantage
  - sustainable development
  - environmental certainty
- Apps for an Apple iPhone or Google Android phone are examples of \_\_\_\_\_ innovations, whereas the use of robotics in performing manufacturing tasks previously done by humans is an example of \_\_\_\_\_ innovation.
  - cost-benefit, process
  - product, cost-benefit
  - value-driven, service-driven
  - product, process
- Microcredit lending that makes it possible for poor people to get small loans so they can start small businesses is an example of a business model innovation that is also a \_\_\_\_\_ innovation.
  - social business
  - technological
  - disruptive
  - green
- Two dimensions that determine the level of environmental uncertainty are the number of factors in the external environment and the \_\_\_\_\_ of these factors.
  - location
  - rate of change
  - importance
  - interdependence
- One of the ways that corporations might better take into account their responsibility for being good environmental citizens is to redefine the notion of profit to: Profit = Revenue - Cost of Goods Sold - \_\_\_\_\_.
  - operating expenses
  - dividends
  - costs to society
  - loan interest
- The three Ps of organizational performance are profit, people, and \_\_\_\_\_.
  - philanthropy
  - principle
  - potential
  - planet
- What organizational stakeholder must be considered in any serious discussion about how a firm can better fulfill its obligations for sustainable development?
  - owners or investors
  - customers
  - suppliers
  - future generations

- The first step in Hamel's wheel of innovation is \_\_\_\_\_.
  - imagining
  - assessing
  - experimenting
  - scaling

- When a medical device is developed in India so that it can sell at a low price and still deliver high-quality results, and then that device is transferred for sale in the United States also at a low price, this is an example of \_\_\_\_\_.
  - trickle-down innovation
  - disruptive innovation
  - reverse innovation
  - sustainable innovation
- What term is used to describe the world's supply of natural resources, things like land, water, and minerals?
  - sustainable development
  - global warming
  - climate justice
  - environmental capital
- Enhanced health benefits for employees, flexible work hours to balance work and family responsibilities, and programs to help employees deal with stress in their lives are ways organizations might try to improve their accomplishments in respect to \_\_\_\_\_.
  - profits
  - human sustainability
  - innovation
  - natural capital

### Short-Response Questions

- Who and/or what should be considered as key stakeholders by a business executive when mapping the task environment for her organization?
- Exactly how should "sustainability" be best defined when making it part of a goal statement or strategic objective for a business or non-profit organization?
- How do product, process, and business model innovations differ from one another?
- How does the process of reverse innovation work?

### Essay Question

20. At a reunion of graduates from a school of business at the local university, two former roommates engaged in a discussion about environment and sustainability. One is a senior executive with a global manufacturer, and the other owns a sandwich shop in the university town.

*Global executive:* "We include sustainability in our corporate mission and have a chief sustainability officer on the senior management team. The CSO is really good and makes sure that we don't do anything that could cause a lack of public confidence in our commitment to sustainability."

*Sandwich shop owner:* "That's all well and good, but what are you doing on the positive side in terms of environmental care? It sounds like you do just enough to avoid public scrutiny. Shouldn't the CSO be a real advocate for the environment rather than just a protector of the corporate reputation? We, for example, use only natural foods and ingredients, recycle everything that is recyclable, and compost all possible waste."

*Question:* If you were establishing a new position called *corporate sustainability officer*, what would you include in the job description as a way of both clarifying the responsibilities of the person hired and establishing clear accountability for what sustainability means to your organization?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Social Values on the Line

It is uncomfortable just to hear it. One of your friends brought his friend to lunch. When discussing a new female boss, he says: “It really irritates me not only that she gets the job just because she’s a woman, but she’s also Muslim. No way that someone like me had a chance against her ‘credentials.’ Now she has the gall to act as if we’re all one big happy team and the rest of us should accept her leadership. As for me, I’ll do my best to make it difficult for her to succeed.” Your friend looks dismayed but isn’t saying anything. What will you say or do? How does this kind of exchange make you feel?

#### 2. Innovation Isn’t Everything

A member of your team comes into the office with a complaint. “You’re a great boss,” she says, “but ...” Well, it turns out the “but” has to do with an apparent bias on your part for praising in public only those

members of the team who come up with new ideas. You seem to overlook or neglect the fact that other team members are working hard and producing good—albeit standard—work every day. Are you ready to accept the point that not all high performers are going to be great innovators? If so, what changes in your behaviour might be made to reflect this belief? How can you balance great “conventional” work with efforts to innovate?

#### 3. Humans Count, Too

Your boss is enthusiastic about making sustainability a top organizational priority. In a recent meeting he kept talking about “nature,” “green practices,” and “resource protection.” You listened and finally said: “What about people—shouldn’t they count when it comes to issues of sustainability?” After listening, perhaps after an initial thought to be critical of your response, he said in return: “Give me a proposal that we can discuss at the next staff meeting.” What are you going to give him? How can you make sustainability part of the program at your place of work?

## Reflect on the Self-Assessment

### Tolerance for Ambiguity

#### Instructions

To determine your level of tolerance for ambiguity, rate each of the following items on this 7-point scale.<sup>43</sup>

strongly disagree	moderately disagree	slightly disagree	neither agree nor disagree	slightly agree	moderately agree	strongly agree
1	2	3	4	5	6	7

\_\_\_\_\_ 1. An expert who doesn’t come up with a definite answer probably doesn’t know too much.

\_\_\_\_\_ 2. There is really no such thing as a problem that can’t be solved.

\_\_\_\_\_ 3. I would like to live in a foreign country for a while.

\_\_\_\_\_ 4. People who fit their lives to a schedule probably miss the joy of living.

\_\_\_\_\_ 5. A good job is one where what is to be done and how it is to be done are always clear.

\_\_\_\_\_ 6. In the long run it is possible to get more done by tackling small, simple problems than large, complicated ones.

\_\_\_\_\_ 7. It is more fun to tackle a complicated problem than it is to solve a simple one.

\_\_\_\_\_ 8. Often the most interesting and stimulating people are those who don’t mind being different and original.

\_\_\_\_\_ 9. What we are used to is always preferable to what is unfamiliar.

\_\_\_\_\_ 10. A person who leads an even, regular life in which few surprises or unexpected happenings arise really has a lot to be grateful for.

\_\_\_\_\_ 11. People who insist upon a yes or no answer just don’t know how complicated things really are.

\_\_\_\_\_ 12. Many of our most important decisions are based on insufficient information.

\_\_\_\_\_ 13. I like parties where I know most of the people more than ones where most of the people are complete strangers.

\_\_\_\_\_ 14. The sooner we all acquire ideals, the better.

\_\_\_\_\_ 15. Teachers or supervisors who hand out vague assignments give a chance for one to show initiative and originality.

\_\_\_\_\_ 16. A good teacher is one who makes you wonder about your way of looking at things.

\_\_\_\_\_ Total Score

#### Scoring

To obtain a score, first *reverse* the scale score for the eight “reverse” items, 3, 4, 7, 8, 11, 12, 15, and 16 (i.e., the 7s become 1s, 6s become 2s, 5s become 3s and 4s remain the same), then add up the rating scores for all 16 items.

#### Interpretation

The lower the score, the greater the tolerance for ambiguity. Individuals with a *greater* tolerance for ambiguity are more likely to be able to function effectively in organizations and contexts with high turbulence,

a high rate of change, and less certainty about expectations, performance standards, what needs to be done, and so on. They are likely to “roll with the punches” as organizations, environmental conditions, and demands change rapidly.

Individuals with a *lower* tolerance for ambiguity are more likely to be unable to adapt or adjust quickly in turbulence, uncertainty, and change. These individuals are likely to become rigid, angry, stressed, and frustrated when there is a high level of uncertainty and ambiguity in the environment.

## Contribute to the Class Exercise

### The Future Workplace

#### Instructions

Form teams as assigned by the instructor.

1. Brainstorm to develop a master list of the major characteristics you expect to find in the workplace in the year 2030. Use this list as background for completing the following tasks:
2. Write a one-paragraph description of what the typical “Workplace 2030” manager’s workday will be like.

3. Draw a “picture” representing what the “Workplace 2030” organization will look like.
4. Summarize in list form what you consider to be the personal implications of your future workplace scenario for management students today. That is, explain what this means in terms of using academic and extracurricular activities to best prepare for success in this future scenario.
5. Choose a spokesperson to share your results with the class as a whole and explain their implications for the class members.

## Manage a Critical Incident

### It’s Also about Respect

#### Situation

For three years you have worked in a small retail store selling gifts and party goods in a university town. This year the owner appointed you as manager and you’ve run into a perplexing situation. Of the store’s eight employees, the only full-timer is a single mother who struggles financially to make ends meet. She lives in public housing and overall finds it almost impossible to survive on the minimum wage all employees receive. She just came to you and said that the debate on raising the minimum wage prompted her to (finally) ask for an increase at least up to the level of the minimum wage (\$15 per hour) being advocated by fast-food workers who are threatening strikes. Her point is not just that the wage she receives

isn’t a “livable” wage (\$10.86), but that “it’s also about respect.” You have listened to her story and find her case troubling. But you’ve also got seven part-timers to consider, as well as the owner’s needs. At this point you arrange for a meeting with the owner to discuss what you call “wage and motivation issues” at the store. You want to have some concrete ideas ready to drive your discussion with the owner.

#### Questions

How will you frame your assessment of the situation for the store owner? What alternative courses of action can you suggest? What alternative do you prefer in this situation, and why? How does the preferred alternative handle wage and motivation issues for ... the full-timer? the part-timers? yourself?

## Collaborate on the Team Activity

### Organizational Commitment to Sustainability Scorecard

#### Instructions

In your assigned teams do the following:

1. Agree on a definition of “sustainability” that should fit the operations of any organization.
2. Brainstorm and agree on criteria for an Organizational Commitment to Sustainability Scorecard (OCSS) that can be used to audit an organization’s sustainability practices. Be sure that an organization being audited would receive scores not only on individual dimensions or categories of sustainability performance, but also a total overall “Sustainability Score” for comparison with other organizations.

3. Present and defend your OCSS to the whole class.
4. Use feedback received from the class presentation to revise your OCSS so that it can be used to conduct an actual organizational sustainability audit.
5. Use your OCSS to complete a sustainability audit for a local organization.
6. Present the results of your audit to the instructor and the whole class. Include in the presentation not only the audit scores, but also: (a) recommendations for how this organization could improve its sustainability practices in the future, and (b) any benchmarks from this organization that might be considered sustainability “best practices” for other organizations to follow.

## Analyze the Case Study

### Case 4.1 Patagonia | Leading a Green Revolution

Go to *Management Cases for Critical thinking at the back of the book* to find this case.





Abhey Singh/Getty Images

# Global Management and Cultural Diversity

International travel provides unlimited opportunities to explore cultural diversity. But even a day out shopping or a walk across campus can be a trip around the world ... if you are willing to take it.

The dynamic, increasingly interconnected global community is rich with information, opportunities, controversies, and complications. We get real-time news from around the world on our smart mobile devices—giving us the opportunity to be true global citizens. When such crises as the COVID-19 pandemic or civil unrest in Hong Kong or the social justice Black Lives

Matter movement occur, social media join major news organizations to get information and news out instantaneously. We play online games with people from around the world in actual time, and colleges and universities in Canada offer a vast array of international study-abroad programs for students.

As for travelling the globe, companies today really are worldwide travellers as well. IBM has more employees in India than in the United States.<sup>1</sup> Anheuser-Busch, maker of “America’s King of Beers,” is owned by the Belgian firm InBev. Ben & Jerry’s is owned by the British-Dutch firm Unilever. India’s Tata Group

owns Jaguar, Land Rover, Tetley, and Eight O’Clock. China’s Geely owns Volvo. Japan’s Honda, Nissan, and Toyota receive 80 to 90 percent of their profits from sales in the United States.<sup>2</sup> Montreal-based plane and train manufacturer Bombardier has 73 production and engineering sites in 29 countries!<sup>3</sup> And “Canadian” company Tim Horton’s is a subsidiary of holding company Restaurant Brands International, which is majority-owned by a Brazilian investment firm.

## Chapter Quick Start

For Canada and Canadians, prosperity is closely linked to trade and international markets. Our time of rapid global change and turmoil makes the implications of globalization for managers, organizations, and everyday life ever more important to understand. Global corporations offer benefits and create controversies; cultural differences can be a source of enrichment and the roots of misunderstandings for travellers, business executives, and government leaders. This chapter introduces the essentials of global management and cultural diversity with a focus on global learning.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 5.1 Management and Globalization

5.1 Discuss the implications of globalization for management and organizations.

#### 5.2 Global Businesses

5.2 Describe global corporations and the issues they face and create.

#### 5.3 Cultures and Global Diversity

5.3 Define culture and identify ways to describe diversity in global cultures.

#### 5.4 Global Management Learning

5.4 Identify the benefits of global learning for management and organizations.

## What to Look for **Inside**

### Management Is Real

- 5.1 **Wisdom** Learn from Role Models  
Nobel Peace Prize Winner Asks Global Firms to Fight Poverty
- 5.2 **Choices** Think before You Act  
Reshoring Offers Alternative to China Manufacturing. Yet—the times are changing, again.
- 5.3 **Ethics** Know Right from Wrong  
Nationalism and Protectionism a Potent Mix
- 5.4 **Analysis** Make Data Your Friend  
Corruption and Bribes Haunt Global Business
- 5.5 **Insight** Keep Learning about Yourself  
Cultural Intelligence Opens Doors to Opportunity

### Skills Make You Valuable

- **Evaluate** *Career Situations:* What Would You Do?
- **Reflect** *on the Self-Assessment:* Global Intelligence
- **Contribute** *to the Class Exercise:* Ice Hockey
- **Manage** *a Critical Incident:* Silent Team Members
- **Collaborate** *on the Team Activity:* Globalization Pros and Cons
- **Analyze** *the Case Study:* Royalton Hicacos Varadero Cuba | One Foot in Capitalism; One in Communism

# 5.1 Management and Globalization

## LEARNING OBJECTIVE 5.1

Discuss the implications of globalization for management and organizations.

### Learn More About

- Global management
- Why companies go global
- How companies go global
- Global business environments

We live and work in the age of the **global economy** in which resources, supplies, product markets, and business competition have a worldwide—rather than a local or national—scope. It is a time heavily influenced by the forces of **globalization**, defined as the growing interdependence among the components of the global economy. Some see globalization as creating a “borderless world” where economic integration has become so extreme that nation-states hardly matter anymore.<sup>4</sup> But others, like international management scholar Pankaj Ghemawat who calls our current era of globalization **World 3.0**, believes that national identities remain strong even as countries cooperate in the global economy.<sup>5</sup> National leaders try to balance economic gains from global integration with local needs and priorities.

There’s no better way to illustrate the global economy than with the clothes we wear. For example, where did you buy your favourite T-shirt? Where was it made? Where will it end up? In a fascinating book titled *The Travels of a T-Shirt in*

*the Global Economy*, economist Pietra Rivoli tracks the origins and disposition of a T-shirt that she bought while on vacation in Florida.<sup>6</sup>

As can be seen in **Figure 5.1**, Rivoli’s T-shirt lived a very complicated global life before she bought it. That life began with cotton grown in Texas. It then moved on to China where the cotton was processed and white T-shirts were manufactured. The T-shirts were then sold to a firm in the United States that silk-screened and sold them to retail shops for resale to American customers. These customers eventually donated the used T-shirts to a charity that sold them to a recycler. The recycler sold them to a vendor in Africa, which then distributed the T-shirts to local markets to be sold yet again to local customers.

It’s quite an international story, as this T-shirt travels the commercial highways and byways of the world. The T-shirt’s story, and many other examples like it, leave little doubt as to why Harvard scholar and consultant Rosabeth Moss Kanter once described globalization as “one of the most powerful and pervasive influences on nations, businesses, workplaces, communities, and lives.”<sup>7</sup>

## Global Management

*Honda in Ontario*—Many people were worried whether Canadian workers could adapt to the Japanese firm’s production methods, technology, and style when the company built a plant in Alliston, Ontario. Honda has produced over nine million vehicles and has invested over \$4.2 billion upgrading vehicle assembly and engine manufacturing, transforming the plant into a global leader and teaching facility. It is one of many foreign firms offering employment opportunities to Canadian workers.<sup>8</sup>

*Apple in the World*—With a market value of \$961 billion, Apple was recognized as the best performing company in



**FIGURE 5.1** The global life of Rivoli’s T-shirt.

the world by market value in 2019.<sup>9</sup> One of Apple's key products is the iPhone, which many think is made only in China and California. It's also made in Suwon, South Korea, the headquarters of Samsung Electronics Co.; in Eindhoven, the Netherlands, where NXP Semiconductors NV is based; in Dallas, the home of Texas Instruments Inc.; and in Hsinchu, Taiwan, where Taiwan Semiconductor Manufacturing Co. is located.<sup>10</sup>

These vignettes introduce the opportunities and complexities of **global management**, which refers to management in businesses and organizations with interests in more than one country. For many firms, global management is a way of life today. Procter & Gamble, for example, pursues a global strategy with customers in over 180 countries. The success of these firms depends on attracting and hiring truly **global managers** who have a strong global perspective, are culturally aware, and are informed about current international issues and events.

## Why Companies Go Global

John Chambers, chairman and former CEO of Cisco Systems Inc., once said: "I will put my jobs anywhere in the world where the right infrastructure is, with the right educated workforce, with the right supportive government."<sup>11</sup> Cisco, Honda, Apple, and other firms like these are classic **international businesses** that conduct for-profit transactions of goods and services across national boundaries.

Nike is another truly international business—its swoosh is one of the world's most recognized brand symbols. Did you know that Nike has no domestic manufacturing infrastructure? All of its products are sourced internationally, including in more than 100+ factories in China alone. Its competitor, New Balance, takes a different approach. Although extensively leveraging global suppliers and licensing its products internationally, New Balance still produces one out of every four of its shoes at factories in the United States.<sup>12</sup> The two firms follow somewhat different strategies, but each is actively global. Both firms—and others like them—seek these benefits of international business:

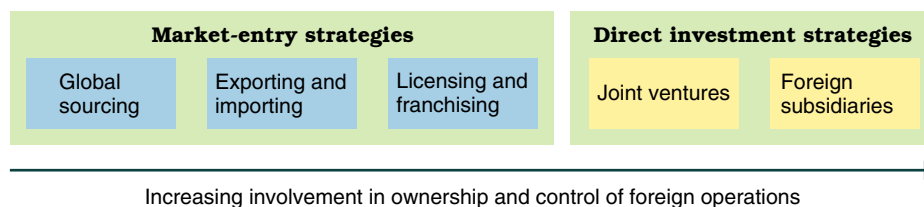
- Profits*—Gain profits through expanded operations.
- Customers*—Enter new markets to gain new customers.
- Suppliers*—Get access to materials, products, and services.
- Labour*—Get access to lower-cost, talented workers.
- Capital*—Tap into a larger pool of financial resources.
- Risk*—Spread assets among multiple countries.

Today you can add another benefit to this list, *economic development*—a policy whereby a global firm does business in foreign countries with the direct intention to help the local economy. Coffee giants Green Mountain Coffee, Peet's Coffee & Tea, and Starbucks, for example, help Rwandan farmers improve production and marketing methods. They send advisers to teach local coffee growers how to meet high international standards so that their products can be sold worldwide. This commitment to economic development generates a win-win scenario: The global coffee firm gets a quality product at a good price, the local coffee growers gain skills and market opportunities, and the domestic economy improves.<sup>13</sup> A development-focused approach to international business energizes a virtuous circle, where all parties to the relationship keep getting stronger as they work with one another. This approach is gaining traction around the world (Management Is Real 5.1).

## How Companies Go Global

The stages of pursuing international business are shown in **Figure 5.2**. When a business is becoming international, global sourcing, exporting/importing, licensing, and franchising are typically the most common ways to begin. These are *market-entry strategies* that involve the sale of goods or services to foreign markets that don't require an expensive investment. Strategic alliances, joint ventures, and wholly owned subsidiaries are *direct investment strategies*. These approaches do require a major capital commitment, but also create rights of ownership and control over operations in the foreign country.

**Global Sourcing** The first step taken into international business by many firms is **global sourcing**—the process of purchasing materials, manufacturing components, or locating business services around the world. Global sourcing requires an international division of labour in which activities are performed in countries where they can be accomplished effectively at low cost. Global sourcing at Boeing, for example, means that aircraft parts and components flow in from a complex global supply chain for final assembly into 787 Dreamliners at American plants—centre fuselages from Italy, landing gear from France, flight deck interiors from Japan, and more. In the service sector, it may mean setting up toll-free customer support call centres in the Philippines, locating research and development centres in Brazil or Russia, or hiring physicians in India to read medical X-rays.<sup>15</sup>



**FIGURE 5.2** Common forms of international business—from market entry to direct investment—increasing involvement in ownership and control of foreign operations strategies.

## Management Is Real 5.1: Wisdom | Learn from Role Models

### Nobel Peace Prize Winner Asks Global Firms to Fight Poverty

Private sector investment in developing countries has been growing faster than foreign aid, with developing countries receiving 27% more foreign business investment than development aid. This trend has yielded positive results, as poverty rates in these countries have fallen by one-third in the same time period. Corporations like Cargill, Unilever, Walmart, and Nestlé are training, and buying from, millions of small farmers and entrepreneurs worldwide to strengthen supply chains and reduce costs through local sourcing.

In one example of economic development, Coca-Cola once imported fruit puree from outside Africa for their Minute Maid juice that it sold in Africa. Now, after training 54,000 local farmers to improve the quality and quantity of their crops, Coca-Cola produces juice made from these farmers' fruit. These farmers—a third of them women—created their own business groups and increased their incomes by an average of 142%.

Business can also have a negative impact on developing economies. Short-term business interests can sometimes lead to unethical practices such as forcing local suppliers to sell below cost or following environmentally unsustainable practices.

Yet the majority of countries are on board with ethical global development practices. More than 9,000 companies in 170 countries have signed the UN's Global Compact, which requires signatories to adhere to responsible and sustainable business practices. Business will keep reducing poverty—partially driven by growing



Micheline Pelletier/Getty Images

markets but also by the determination of millions of entrepreneurs in the developing world.<sup>14</sup>

#### Find Inspiration

When a multinational company travels into countries where social problems like poverty, disease, and illiteracy are present, should it find a way to help? Can the social business model work in the global business context? Or is responsible development likely to remain unusual rather than common in the future? Do you agree that global corporations can become powerful tools for eliminating social problems? Why or why not?

Most manufacturers today—of toys, shoes, electronics, furniture, clothing, aircraft—make extensive use of global sourcing. China is still a major outsourcing destination and in many areas has become the factory for the world. If you use an Apple iPod, iPhone, or iPad, for example, the chances are good that it was assembled by a Taiwanese-owned company called Hon Hai Precision Industry at plants in China. These plants are huge—employing as many as 350,000 workers, who produce products not just for Apple, but for other firms like Sony and Hewlett-Packard. You may have heard of Hon Hai through its trade name, Foxconn, and from news coverage of controversies over its treatment of workers.<sup>16</sup> Global firms have to work hard to maintain brand reputations while dealing with complex global supply chains, and in addition, aggressive international audits are now common. Even with a rigorous auditing program, however, Apple suffered a blow to its reputation when a financial analyst downgraded the firm's stock for "moral reasons" after discovering some of its global suppliers paid low wages to their workers.<sup>17</sup>

Problems with sketchy foreign contractors, rising labour rates, and higher costs for transportation in global supply chains are among the reasons why some firms have started to reduce their outsourcing and do more **reshoring**—moving foreign manufacturing and jobs back home. Further reasons for reshoring include opportunities to access cheaper energy, stable wage rates, better quality control, and good public relations by starting or expanding domestic operations. Many Canadian

businesses are focusing their investments on domestic operations, "opting to keep—or bring—production home," states a report by consulting firm BDO Canada. One such business is featured in Management Is Real 5.2. Markets in North America are seen as the main source of growth over the next few years, so being close to home avoids having to find new suppliers overseas. It also reduces the costs of shipping and better positions companies to more flexibly meet customers' expectations of shorter lead times.<sup>18</sup>

**Exporting and Importing** A second form of international business involves **exporting**—selling locally made products in foreign markets. The flipside of exporting is **importing**—buying foreign-made products and selling them in domestic markets.

Exports account for 30 percent of total Canadian GDP. This figure has been growing steadily since 1971, reaching an all-time high in January 2016.<sup>20</sup> The growth of export industries creates local jobs, which makes export industries an essential part of the Canadian economy.

Known historically as "hewers of wood and drawers of water," Canada is finding some hidden gems to export. It may be true that Canada's primary exports are natural resources (oil, natural gas, even water for bottled water), but it is also true that Canadian companies are among the world's top 10 exporters in other sectors such as cosmetics, pet food, and photonic devices (3D scanners, imaging, and machine vision systems).

## Management Is Real 5.2: Choices | Think before You Act

“Operating costs in our facility in China were going up, so in 2011 we invested \$10 million to boost our production capacity in Montreal.”

### Reshoring Offers Alternative to China Manufacturing. Yet—the times are changing, again.

Over the past 15 to 20 years, if you were a manufacturer, you went to China, at least as a first stop on your global scouting trip. However, things have changed. A Montreal manufacturer explains how his company, like others in Canada, decided to come back home.

Mega Brands was founded in 1967 by Victor and Rita Bertrand as Ritvik Toys, importing toys into Montreal and reselling. In 1985 their big break came when Victor invented a line of stackable plastic bricks. With no manufacturing facilities of their own to speak of, they began manufacturing in China and soon produced 80 percent of their globally distributed goods there, changing their company name to Mega Brands.

But things besides their name started to change. “Operating costs at our facility in China were going up,” says Jean-François Albert, Vice-President of Manufacturing, “so in 2011 we invested \$10 million to boost our production capacity in Montreal by adding equipment and the latest tools as we began returning work from China.”

In making their decision, Mega Brands managers factored in other challenges they were having at the time. Customer service was a big one. “It can be difficult to get the same quality level to serve your customers,” explains Albert, “if your supplier networks are far away.” Timeliness of service was another factor. Since a large percentage of the company’s business is centred on Christmas, it couldn’t afford to take chances on delivery. “The logistics of getting our products shipped from China to Canada in time for the holiday shopping season was always a challenge,” says Albert.

In 2013, Mega Brands retained the services of a lobbyist to request about \$50 million in financial support from the Quebec government in order to build a new factory in Montreal. Mega



Graham Hughes/The Canadian Press

Brands also invested \$10 million in its factory to increase production capacity. Fast forward to 2020: the company now says the Mega Bloks toy factory it acquired in 2014 will shut down, triggering 580 layoffs in Montreal. They say production of the interlocking plastic bricks for children will be outsourced to facilities in Mexico and China. Located in the Montreal borough of Saint-Laurent, Mega Brands will begin to scale back production at the 75 thousand-square-metre plant and shutter its doors in 2021.<sup>19</sup>

#### What’s Your Take?

*The Economist* says China “is still a manufacturing power.” With super-efficient plants and supply chain infrastructure it remains a bargain for labour costs. So, are you on the reshoring side or the offshoring side of the issue? What facts are available to support or undermine your position? Try to think of this issue from a consumer’s perspective. If you can buy a toy made in China for \$8, would you be willing to pay \$12 so that it could be labelled “Made in Canada”? And, what happens when a viral pandemic hits members of your international supply chain? Should more of Canada’s businesses, large and small, say, “Not worth the trouble!” when foreign manufacturers come calling with offers? In the post-COVID-19 era, is manufacturing in Canada now the right choice?

This success has been due largely to Canadian companies’ ability to develop goods in niche markets. A recent report from the Conference Board of Canada states that Canada is Brazil’s fourth-largest source of cosmetics and Malaysia’s fifth-largest source of pet food imports. “This is a remarkable achievement,” states economist Kristelle Audet, “given the dominance of multinational companies, such as Procter & Gamble and Nestlé, in the global cosmetic and pet food markets.”<sup>21</sup>

**Licensing and Franchising** International business also takes place through a **licensing agreement**, in which foreign firms pay a fee for rights to make or sell another company’s products in a specified region. The licence typically grants access to a unique manufacturing technology, special patent, or trademark. Such licensing, however, involves potential risk.<sup>22</sup> New Balance, for example, licensed a Chinese supplier to produce one of its brands. Even after New Balance revoked the licence, the supplier continued to produce and distribute the

shoes around Asia. It was only through expensive, drawn-out litigation in China’s courts that New Balance was able to deal with the problem.<sup>23</sup>

**Franchising** is a form of licensing in which a foreign firm buys the rights to use another’s name and operating methods in its home country. The international version operates in a similar way to domestic franchising agreements. Such firms as McDonald’s, Wendy’s, and Subway, for example, sell facility designs, equipment, product ingredients, recipes, and management systems to foreign investors, while retaining certain brand, product, and operating controls. One of the challenges associated with international franchising can be having to create locally popular menu items while retaining coherence with broader branding goals.

**Joint Ventures and Strategic Alliances** Foreign direct investment, or FDI, involves setting up and buying all or part of a business in another country. For many countries,

the ability to attract foreign business investors has been a key to succeeding in the global economy. The term **insourcing** is often used to describe FDI that results in local job creation. The Greater Toronto Area (GTA) and the St. Lawrence Corridor both have a high number of jobs created by FDI projects in the past five years, most notably in Toronto (14,003 jobs) and Montreal (11,594 jobs)<sup>24</sup>.

When foreign firms do invest in another country, a common way to start is with a **joint venture**. This is a co-ownership arrangement in which foreign and local partners agree to pool resources, share risks, and jointly operate the new business. Sometimes the joint venture is formed when a foreign partner buys part ownership in an existing local firm. In other cases, it is formed as an entirely new operation that the foreign and local partners jointly start up.

International joint ventures are types of **global strategic alliances** in which foreign and domestic firms work together for mutual benefit. Partners in alliances hope to generate more market penetration and profits by cooperating than they would have been able to achieve alone. For the local partner, an alliance may bring access to technology and opportunities to learn new skills. For the foreign partner, an alliance may bring access to new markets and the expert assistance of locals who understand domestic markets and the local business context.

Joint ventures pose potential business risks and partners must be carefully chosen. Sometimes partners' goals do not match, for example, when the foreign firm seeks profits and cost efficiencies while the local firm seeks maximum employment and acquisition of new technology.<sup>25</sup> Although the loss of business secrets is also a potential risk, the line between acceptable business practice and infringement can be very hard to define in international contexts. Some time ago a new car was marketed in China by a firm partially owned by General Motors' Chinese joint venture partner. The car—called “Chery”—looked very similar to a GM model, and the firm complained that its design had been copied. The competitor denied it and went on to become China's largest independent automaker—Chery International, which sells its cars at home and abroad.<sup>26</sup>

Experts recommend that a firm looking for a joint venture partner choose one with the following characteristics:

- Is familiar with the firm's major business.
- Employs a strong local workforce.
- Values its customers.
- Has potential for future expansion.
- Has a strong local market.
- Has good profit potential.
- Has sound financial standing.

**Foreign Subsidiaries** One way around some of the risks and problems associated with joint ventures and strategic alliances is full ownership of the foreign operation. A **foreign subsidiary** is a local operation completely owned and controlled by a foreign firm. These subsidiaries may be built from the ground up, in a process known as a **greenfield venture**.

They also can be established by acquisition, wherein the outside firm purchases an entire local operation.

Although a foreign subsidiary represents the highest level of involvement in international operations, it can be very profitable to approach an international venture in this way. When Nissan opened a plant in Canton, Mississippi, an auto analyst said: “It's a smart strategy ... building more in their regional markets, as well as being able to meet consumers' needs more quickly.”<sup>27</sup> The analyst could also have pointed out that this plant allowed Nissan to claim reputational benefits by dealing with American customers as a “local” employer rather than a “foreign” company.

## Global Business Environments

When Honda comes to Canada or GM goes to China, a lot of what takes place in the foreign business environment is very different from what is common at home. Not only must global managers master the demands of operating with worldwide suppliers, distributors, customers, and competitors, they must also deal successfully with many unique local challenges.

**Legal and Political Systems** Some of the most substantial risks in international business come from differences in legal and political systems. Global firms are expected to abide by local laws, many of which may be unfamiliar. The more home-country and host-country laws differ, the harder it is for international businesses to adapt to local rules, regulations, and customs.

Amazon, Apple, Facebook, and Google have faced considerable legal complications as a result of tax enforcement and privacy protection rulings from the European Competition Commission. The commission's head, Margrethe Vertager, says: “Being based in many countries, of course you have obligations wherever you go, with the rules made in those democracies where you do business. It's not about where you come from. It's about what you do when outside.”<sup>27</sup>

Common legal problems faced by international businesses involve incorporation practices and business ownership; negotiation and implementation of contracts with foreign parties; handling of foreign exchange; and intellectual property rights—patents, trademarks, and copyrights. You may be most familiar with the concept of intellectual property issue as it relates to movie and music downloads, sale of fake designer fashions, or software pirating. Companies like Microsoft, Sony, and Louis Vuitton think about this issue in terms of lost profits due to their products or designs being copied and sold as imitations by foreign firms. After a lengthy and complex legal battle, for example, Starbucks won a major intellectual property case it had taken to the Chinese courts. A local firm was using Starbucks' Chinese name, “Xingbake” (*Xing* means “star” and *bake* is pronounced “bah kuh”) and was also copying its café designs.<sup>28</sup>

Political turmoil, violence, and government changes constitute another area of concern known as **political risk**—the potential loss in value of an investment in or managerial control over a foreign asset because of instability and political changes

in the host country. The major threats associated with political risk today come from terrorism, civil wars, armed conflicts, and new government systems and policies. Although these threats can't be prevented, they can be anticipated.

Most global firms use a planning technique called **political-risk analysis** to forecast the probability of disruptive events that can threaten the security of foreign investments. Consider, for example, criminal drug violence in Mexico. What are some of the implications for business investors? Although involvement in Mexico clearly represents an exercise in political risk, thus far, foreign investment in Mexico is on the increase. The country's proximity to Canadian and U.S. markets and low-cost skilled labour are still attractive. Gonzalo Cano, quality manager at a large Lego plant in Monterrey, Mexico, says: "Security is an issue but it does not get in the way. Companies are taking the long view."<sup>29</sup>

**Trade Agreements and Trade Barriers** When international businesses believe they are being mistreated in foreign countries, or when local companies believe foreign competitors are disadvantaging them, their respective governments can take these cases to the **World Trade Organization** (WTO). The WTO is a global organization established to promote free trade and open markets around the world. Its member nations, presently numbering 64,<sup>30</sup> agree to negotiate and resolve disputes about tariffs and trade restrictions.<sup>31</sup>

WTO members are supposed to give one another **most favoured nation status**—the most favourable treatment for

imports and exports. Yet trade barriers are still common. They include outright **tariffs**, which constitute taxes that governments impose on imports. They also include **non-tariff barriers** that discourage imports in non-tax ways. These include quotas, import restrictions, and other forms of **protectionism** that give favourable treatment to domestic businesses. An example of protectionism is the Common Agricultural Policy of the European Union. The European Union imposes high tariff rates on a range of agricultural products, to protect European farmers from imported goods.

One goal of most tariffs and protectionism is to protect local firms from foreign competition and save local jobs. These issues are reflected in political campaigns and election debates. These aren't easy issues to solve. Government leaders face the often conflicting goals of seeking freer international trade, while still protecting domestic industries (see Management Is Real 5.3). Such political dilemmas create controversies for the WTO in its role as a global arbiter of trade issues. For example, in one claim filed with the WTO, the United States complained that China's "legal structure for protecting and enforcing copyright and trademark protections" was "deficient" and not in compliance with WTO rules. China's response was that the suit was out of line with WTO rules and that "we strongly oppose the U.S. attempt to impose on developing members through this case."<sup>32</sup> When both sides of a case like this present defensible positions it is difficult to establish a clear way of resolving the key issues, particularly when the issues are shaded by cultural differences.

### Management Is Real 5.3: Ethics | Know Right from Wrong

**Bolivia's president announced that his government was nationalizing "all natural resources, what our ancestors fought for."**

#### Nationalism and Protectionism a Potent Mix

The headline read "Bolivia Seizes Control of Oil and Gas Fields." Although oil industry executives couldn't say that this wasn't anticipated, it still must have been shocking when Bolivia's government announced that it was taking control of the country's oil and gas fields. The announcement said: "We are beginning by nationalizing oil and gas; tomorrow we will add mining, forestry, and all natural resources, what our ancestors fought for."

Immediately following the announcement, Bolivia's armed forces secured all of the country's oil and gas fields. President Evo Morales set forth new terms that gave a state-owned firm 82 percent of all revenues, leaving 18 percent for the foreign firms. He said: "Only those firms that respect these new terms will be allowed to operate in the country." The implicit threat was that any firms not willing to sign new contracts would be sent home.

While foreign governments described this nationalization as an "unfriendly move," Morales considered it patriotic. His position was that any existing contracts with the state were in violation of the constitution, and that Bolivia's natural resources belonged to its people. However, as a result of the nationalization Bolivia's oil and gas revenues have plunged by more than half since 2014 and Morales has been thrown out of office.<sup>33</sup>



Jose Luis Quintana/Getty Images

#### What Do You Think?

If you were the CEO of one of the global oil firms operating in Bolivia, how would you react to this nationalization? Would you resist and raise the ethics issue of honouring existing contracts with the Bolivian government? Or would you comply and accept the new terms being offered? As an everyday citizen of the world, do you agree or disagree with the argument that Bolivia's natural resources are national treasures that belong to the people, not to foreign investors? What ethical issues inform the decision to nationalize Bolivia's oil and gas industry? Has this nationalization approach ever happened in Canada?



**Regional Economic Alliances** One of the characteristics of globalization is the growth of **regional economic alliances**, where nations agree to work together for economic gains. **NAFTA**, the North American Free Trade Agreement, is an example. Formed in 1994 by Canada, the United States, and Mexico, NAFTA created a trade zone that frees the flow of goods and services, workers, and investment among the three countries.

Some Canadian firms have taken advantage of NAFTA, moving production facilities from Canada to Mexico, largely to benefit from the lower wages paid to skilled Mexican workers. This labour shift has both pros and cons, and NAFTA remains a controversial topic in some political debates. Arguments in support credit NAFTA with greater cross-border trade, greater productivity of Canadian manufacturers, and reform of the Mexican business environment. Arguments against blame NAFTA for substantial job losses to Mexico, lower wages for Canadian workers who want to keep their jobs, and a wider trade deficit with Mexico.<sup>34</sup> That said, the NAFTA story is increasingly positive. Intellectual property is well protected under the agreement, and global supply chain issues are making Mexico increasingly attractive as a manufacturing destination. Rising labour costs in China, the higher price of fuel, and proximity to the Canadian and U.S. markets is making Mexico a very attractive place to do business.<sup>35</sup> After lengthy discussions and much political posturing, NAFTA was renegotiated and renamed the United States-Mexico-Canada Agreement (USMCA). It was ratified by the three governments and went into effect in 2020.

The **European Union (EU)** is a regional economic and political alliance of global importance. The financial health of the EU is regularly in the news, as upswings and downswings in its economy affect the entire world. The EU comprises 27 member countries that have agreed to support mutual interests by integrating themselves politically—by means of a European Parliament, and economically—member countries have removed barriers that previously limited cross-border trade and business development. (Although Britain has left the EU, actual negotiations for the exit are still being finalized.) Seventeen EU members also are part of a common currency, the **euro**, which has grown to the point where it is a major alternative and competitor to the U.S. dollar in the global economy. This regional alliance, though, is also going through changes as a result of the contentious departure of the United Kingdom in 2020.

In Asia and the Pacific Rim, 21 member nations established the **Asia Pacific Economic Cooperation (APEC)** to promote free trade and investment in the Pacific region. Businesses from APEC countries have access to a region of superstar economic status, home to some of the world's fastest-growing economies, such as China, Republic of Korea, Indonesia, Russia, and Australia. The market potential of member countries, close to 3 billion consumers, far exceeds that of the USMCA and the EU. Also in Asia, the 10 nations of the Association of Southeast Asian Nations (ASEAN) cooperate with a stated goal of promoting economic growth and progress.

Africa also is increasingly centre stage in world business headlines.<sup>36</sup> The region's economies are growing, the middle

class is expanding, and there is a promising rise in entrepreneurship.<sup>37</sup> Companies like Harley-Davidson, Walmart, Caterpillar, and Google are making their presence—and continental ambitions—known as they set up offices, invest in dealerships, and buy local companies.<sup>38</sup> The **Southern Africa Development Community (SADC)** links 16 countries in southern Africa in trade and economic development efforts. Its website posts this vision: “a future in a regional community that will ensure economic well-being, improvement of the standards of living and quality of life, freedom and social justice, and peace and security for the peoples of Southern Africa.”<sup>39</sup>

The **Comprehensive and Progressive Agreement for Trans-Pacific Partnership**, also known as TPP11, is a trade agreement between 11 countries including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The trade deal entered into force when the last country ratified the agreement on January 14, 2019. At the time of its signing, the 11 countries' combined economies represented 13.4 percent of the global gross domestic product.<sup>40</sup> The United States had initially agreed to be a part of the Trans-Pacific Partnership yet withdrew soon after Donald Trump was elected president.

## Learning Check

**LEARNING OBJECTIVE 5.1** Discuss the implications of globalization for management and organizations.

**Be Sure You Can** • define *globalization* and discuss its implications for international management • list six reasons companies pursue international business opportunities • describe and give examples of global sourcing, exporting/importing, franchising/licensing, joint ventures, and foreign subsidiaries • discuss how differences in legal environments can affect businesses operating internationally • explain the goals of the WTO • discuss the significance of regional economic alliances such as NAFTA/USMCA, the EU, APEC, SADC, and TPP11

## 5.2 Global Businesses

**LEARNING OBJECTIVE 5.2**

Describe global corporations and the issues they face and create.

### Learn More About

Types of global businesses • Pros and cons of global businesses • Ethics challenges for global businesses

If you travel abroad, many of your favourite brands and products will travel with you. You can have a McDonald's burger in

over 121 countries, follow it with a Häagen-Dazs ice cream in 50, and then brush up with Procter & Gamble's Crest toothpaste in 180. Economists even use something called the "Big Mac" index, which compares the U.S. dollar price of the McDonald's sandwich around the world, to track purchasing power parity among the world's currencies.<sup>41</sup>

## Types of Global Businesses

**Global corporations**, also called *multinational enterprises* (MNEs) and *multinational corporations* (MNCs), are business firms with extensive international operations in many foreign countries. The largest global corporations are identified in annual listings such as *Fortune* magazine's Global 500 and the *Financial Times* FT Global 500. They include familiar names such as Walmart, BP, Toyota, Nestlé, BMW, Royal Bank of Canada, Sony, Samsung, and Suncor Energy, as well as others you may not recognize, such as the big oil and gas producers PetroChina (China), Gazprom (Russia), and Total (France).

There is likely no doubt in your mind that the firms Manulife Financial and George Weston are Canadian companies while Sony and Honda are Japanese. But this may not be how executives at these companies want their firms to be viewed. These firms and many other global firms act more like **transnational corporations** that do business around the world without being identified with one national home.<sup>42</sup> *The Economist* magazine has even started publishing a "Domestic Density Index" as a measure of corporate identity, giving companies ratings based on the percentage of sales, employees, and shareholders that are domestic to the home country as well as the nationality of the CEO. Sample domestic identity scores include Coca-Cola (62 percent), Apple (65 percent), and GE (63 percent).<sup>43</sup>

Executives of transnational firms view the entire world as their domain for acquiring resources, locating production facilities, marketing goods and services, and communicating brand images. This goal is described by a global executive as "source everywhere, manufacture everywhere, sell everywhere."<sup>44</sup> The resulting dense, overlapping, and worldwide manufacturing and marketing networks often make it difficult to distinguish one country's firms from the next. When shopping at an Aldi store or browsing Hugo Boss clothes, would you know they're German companies? Which company is really more American—the Indian

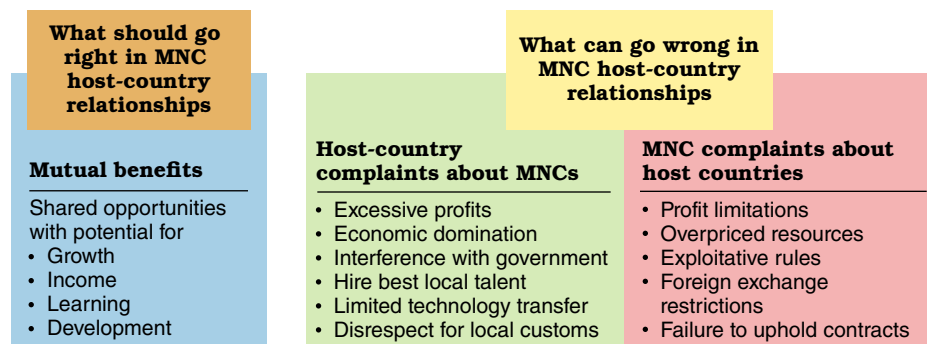
giant Tata, which gets some 50 percent of its revenues from North America, or IBM, which gets over 65 percent of its revenues from outside the United States?<sup>45</sup>

## Pros and Cons of Global Businesses

What difference does a company's nationality make? Does it really matter to a Canadian whether local jobs come from a domestic company like BlackBerry or a foreign firm like Honda? How about size? Does it matter that Exxon/Mobil's revenues are larger than Sweden's gross domestic product (GDP)?<sup>46</sup> What about wealth? Is what some call the **globalization gap**—large multinationals and industrialized nations gaining disproportionately from globalization—a matter for social and personal concern?<sup>47</sup>

**Host-Country Issues** Ideally, global corporations and the countries that host them should both reap benefits. But things can go wrong, as well as right, in these relationships.<sup>48</sup> Potential host-country benefits shown in **Figure 5.3** include a larger tax base, increased employment opportunities, technology transfers, introduction of new industries, and development of local resources. Potential host-country costs include complaints that global corporations extract excessive profits, dominate the local economy, interfere with the local governments, fail to respect local customs and laws, fail to help domestic firms develop, hire the most talented local personnel away from domestic firms, and fail to transfer their most advanced technologies to the host country.

Global corporations can also get into trouble at home in the countries where they were founded and where their headquarters are located. Even as many global firms try to operate as transnationals, home-country governments and citizens still tend to identify them with local and national interests. They also expect global firms to act as good domestic citizens.<sup>49</sup> When a global business cuts home-country jobs, or closes a domestic operation in order to source work to lower-cost international providers, the loss is controversial. Corporate decision-makers are likely to be called on by government and community leaders to reconsider and give priority to domestic social responsibilities. Other home-country criticisms of global firms include sending investment capital abroad and engaging in corruption.



**FIGURE 5.3** What should go right and what can go wrong in global corporation and host-country relationships.

Canadian and American lawmakers are concerned about corporate **tax inversion**, whereby a domestic-based MNC buys a firm in a low-tax country in order to shield foreign earnings from domestic taxes.

## Ethics Challenges for Global Businesses

*Dateline Bangladesh:* The collapse of the eight-storey Rana Plaza, an industrial building for garment factories, resulted in 1,129 deaths and 2,215 injuries. Although warnings had been issued about cracks in the building, employees faced loss of pay if they refused to work. Rana Plaza factories are connected to a global supply chain producing apparel for brands including Benetton, Cato Fashions, the Children's Place, Walmart, and Joe Fresh.<sup>50</sup>

We live at a time of increasing global democratization of information and communication technologies, and the ready availability of reports on ethics-related outcomes from global business activity. Customers, governments and other stakeholders, and the public at large have access to more information about what is happening with MNCs and their complex supply chains than ever before. The consequences of business actions—both good and bad, anywhere in the world—have never been more visible and impactful. Although bad decisions will continue to be made, it's harder to hide them from intense public scrutiny and significant public relations and financial backlash.<sup>51</sup>

**Corruption** **Corruption** occurs when people engage in illegal practices to further their personal business interests. It's a source of perpetual controversy and often makes headline news in the international business context.<sup>52</sup> There is no doubt that corruption poses significant challenges for global managers. The civic society organization Transparency International is devoted to eliminating corrupt practices around the world. Its annual reports and publications track corruption and are a source of insight for both executives and policymakers (see Management Is Real 5.4).<sup>53</sup> But corruption issues aren't always neat and clear-cut. A Canadian executive, for example, says that payoffs are needed to get shipments through customs in Russia even though all legal taxes and tariffs are already paid. Local customs brokers build these payments into their invoices.<sup>54</sup> Such practices raise a host of ethical questions. Should the act of paying for what you already deserve to receive be considered a bribe? Should Canadian firms facing such situations be allowed to do whatever is locally acceptable? How do you sort right from wrong when considering how to negotiate local customs and business expectations?

The **Corruption of Foreign Public Officials Act** (CFPOA) makes it illegal for Canadian firms and their representatives to engage in corrupt practices overseas, such as bribing foreign public officials in business transactions for the purpose of obtaining a commercial advantage.<sup>55</sup> Canadian companies are not supposed to pay or offer bribes or excessive commissions—including nonmonetary gifts—to foreign officials in return for business favours.<sup>56</sup> Critics claim that the CFPOA fails to recognize the realities of business practice in many foreign

### Management Is Real 5.4: Analysis | Make Data Your Friend

Transparency International wants to end the “devastating impact of corruption on men, women, and children around the world.”

#### Corruption and Bribes Haunt Global Business

If you want a world free of corruption and bribes, you share a lot in common with the global civil society organization Transparency International (TI). TI's mission is to “create change for a world free of corruption.” The organization publishes regular surveys and reports on corruption and bribery around the world. A country's score indicates the perceived level of public-sector corruption. Some recent data reflecting on country-specific patterns of corruption can be seen below:

Best and worst out of 168 countries in perceived public sector corruption.

*Best*—Denmark and New Zealand (#1), while Canada dropped from #9 to #12, and the United States from #16 to #23.

*Worst*—Somalia (#180), South Sudan (#179), Syria (#178) and Yemen (#177)

TI's research shows that “half of all OECD [Organisation for Economic Co-operation and Development] countries are violating their international obligations to crack down on bribery by their companies abroad.”



ssuni/Getty Images

#### What Are the Implications?

Are there any patterns evident in these data? Does it surprise you that Canada was near the top of the “best” list? However, Canada's reputation has taken a hit recently. How could TI's website be used by global business executives? Is there a meaningful difference between “corruption” and “bribery” in international business? What does the absence of a set of standardized global practices mean for a level international business playing field?

nations. They believe the CFPOA puts Canadian companies at a competitive disadvantage because they can't offer the same "deals" or "perks" as businesses from other nations—deals locals may regard as standard business practice. But other nations, such as the United Kingdom and the United States, passed similar laws and the Canadian government wasn't backing down. Individual Canadian corporations have been levied fines of over \$10 million as a result of their convictions.

**Child Labour and Sweatshops** The numbers are startling: 152 million child labourers worldwide, 73 million of them working in hazardous conditions.<sup>57</sup> **Child labour**, the employment of children to perform work otherwise done by adults, is a major ethics issue that haunts global businesses as they follow the world's low-cost manufacturing from country to country. More than likely, you've heard about child labour used in the manufacture of handmade carpets, but what about your favourite electronic device, whose components are largely made by foreign suppliers?<sup>58</sup> Companies find it difficult to always know for certain just who is employed in a foreign factory producing for global brands. After an Apple audit identified 106 underage workers used by 11 of its 400 suppliers, Apple required the firms to return children to their homes, pay for their enrolment in local schools, and pay their families what the children would have earned in annual income.<sup>59</sup>

Child labour isn't the only ethics-related labour issue facing global managers. **Sweatshops**—business operations that employ workers at low wages for long hours in poor working conditions—are another key ethical issue. The Bangladesh garment industry, for example, depends on workers, often female and illiterate, who are trying to escape lives of poverty. Their complaints include blocked elevators, filthy tap water, and unclean overflowing toilets in the factories.<sup>60</sup> The Rana Plaza tragedy mentioned earlier exposed unsafe buildings and sweatshop conditions in factories throughout the country. When Walmart audited some 200 factories in its Bangladesh supply chains, 15 percent failed safety inspections. Walmart now claims it has a "zero tolerance policy" when its standards are violated and will cancel business contracts with any supplier that subcontracts work to others without informing Walmart.<sup>61</sup>

**Conflict Minerals** It's no secret that the sale of scarce minerals helps support warlords and perpetuates strife in places such as the Democratic Republic of Congo and surrounding region. Called **conflict minerals** because monies gained from their sale help finance armed violence, they also are indispensable to many—if not all—of the electrical devices we love and are so dependent upon.<sup>62</sup> It just isn't possible to make a phone, tablet, gaming console, or other smart device without components that use minerals like tin, tungsten, gold, and tantalum, each of which might be mined in conflict areas.<sup>63</sup>

Identifying the source of the minerals used in electronics manufacturing is extremely difficult in the dense and sometimes murky world of global sourcing. Who knows, for example, how many times a supply of tungsten may have been

passed from hand to hand and where its original source might be located? Several countries around the world, however, have passed legislation that establishes the responsible sourcing of minerals from the Congo, including the United States. Certification of sourced minerals as "conflict free" is exactly what section 1502 of the Dodd-Frank Act of 2010 required of U.S. companies. After the law was appealed, the court ruled that firms would only have to report to the Securities and Exchange Commission (SEC) that they had investigated their supply chains for conflict minerals.<sup>64</sup> Although there have been bills similar to the Dodd-Frank legislation proposed in Canada, nothing to date has been ratified. Whether you believe the original Dodd-Frank provision requiring conflict-free certification or the later court ruling requiring investigation is the right approach, the fact is that companies have a lot to gain in reputation and moral standing by tracing the minerals used in their products and rejecting those sourced in conflict areas. But this task is exceedingly complex. Apple, for example, says it uses some 200 smelters in 30 countries. H-P says as many as 10 middlemen may stand between it and the original sources of some minerals. And Intel, which was one of the first firms to submit an audit report to the SEC, says that its chips are conflict free but that it had visited 85 smelters in 21 countries to establish the audit trail.<sup>65</sup>

## Learning Check

**LEARNING OBJECTIVE 5.2** Describe global corporations and the issues they face and create.

**Be Sure You Can** • differentiate a global corporation from a transnational corporation • list at least three host-country complaints and three home-country complaints about global business operations • give examples of corruption, sweatshops, and child labour in international businesses

## 5.3 Cultures and Global Diversity

**LEARNING OBJECTIVE 5.3**

Define culture and identify ways to describe diversity in global cultures.

### Learn More About

Cultural intelligence • Silent languages of culture  
• Tight and loose cultures • Values and national cultures

*Situation:* A U.S. executive goes to meet a business contact in Saudi Arabia. He sits in the office with crossed legs and the soles of his shoes exposed. Both are unintentional signs of disrespect in the local culture. He passes documents to the host using his left hand, which Muslims in Saudi Arabia generally consider to be unclean. He declines when coffee is offered, which suggests criticism of the Saudi's hospitality. *Outcome:* A \$10 million contract is lost to a Korean executive better versed in the local culture.<sup>66</sup>

Culture matters, and cultural miscues can be costly in international business and politics. **Culture** is the shared set of beliefs, values, and patterns of behaviour common to a group of people.<sup>67</sup> **Culture shock** is the confusion and discomfort a person experiences when in an unfamiliar culture. Culture shock is often experienced in the following stages when adjusting to a new culture.

- *Confusion:* First contacts with the new culture leave you anxious, uncomfortable, and in need of information and advice.
- *Small victories:* Continued interactions bring some “successes,” and your confidence grows in handling daily affairs.
- *The honeymoon:* A time of wonderment, cultural immersion, and even infatuation with local ways that are viewed positively.
- *Irritation and anger:* A time when the negatives overwhelm the positives, and the new culture becomes a target of your criticism.

- *Reality:* A time of rebalancing; you are able to enjoy the new culture while accommodating its less familiar elements.

This list of stages in adjusting to a new culture is a reminder that these feelings must be mastered to travel comfortably and do business around the world. Have you ever had a surprising cross-cultural experience? Have you personally experienced culture shock?

## Cultural Intelligence

The American's behaviour in Saudi Arabia was self-centred. He ignored and showed no concern for the culture of his Arab host. This displayed **ethnocentrism**, a tendency to view one's culture as superior to that of others. Some might excuse him as suffering from culture shock. Perhaps he was exhausted after a long international flight. Maybe he was so uncomfortable upon arrival that all he could think about was making a deal and leaving Saudi Arabia as quickly as possible. Still others might give him the benefit of the doubt as being well-intentioned but not having time to learn enough about Saudi culture before making the trip.

Regardless of possible reasons for the American executive's cultural mistakes, they still worked to his disadvantage. They also showed a lack of something critical to success in global management—**cultural intelligence**. Often called “CQ” for “cultural quotient,” cultural intelligence is the ability to adapt, adjust, and work well across cultures (see Management Is Real 5.5).<sup>68</sup>

### Management Is Real 5.5: Insight | Keep Learning about Yourself

**Cultural intelligence is a must-have competency in our global marketplace.**

#### Cultural Intelligence Opens Doors to Opportunity

The complications and drama of global events are constant reminders that the ability to work and communicate well across cultures is one of the great challenges of our time. It is hard to spend a day, for example, without encountering Asia's influence on global politics and economics. When our business and government leaders venture into Asia, we want them to be successful. They must have high cultural intelligence, including an awareness of Confucian values such as the following:

- *Harmony*—Works well in a group, doesn't disrupt group order, puts group before self-interests
- *Hierarchy*—Accepts authority and hierarchical nature of society; doesn't challenge superiors
- *Benevolence*—Acts kindly and understandingly toward others; paternalistic, willing to teach and help subordinates
- *Loyalty*—Loyal to organization and supervisor, dedicated to job, grateful for job and supportive of superiors
- *Learning*—Eager for new knowledge, works hard to learn new job skills, strives for high performance

Cultural differences can be frustrating and even feel threatening. Our ways of doing things may seem strange or even offensive to others, and vice-versa. Consultant Richard Lewis warns of “cultural spectacles” that limit our vision, causing us to see and interpret things with the biases of our own culture. Cultural intelligence, by contrast, helps us to adapt to new cultures and work well in culturally diverse situations. It helps us break the habits of our culture and engage the ways of others with interest, respect, and learning. Importantly, it is a must-have competency in our global marketplace.

#### Get to Know Yourself Better

The cultural diversity of a university or college campus offers a trip around the world ... if we're willing to reach out, learn, and embrace it. Take advantage of global diversity in your community. Observe and criticize yourself as you meet, interact with, and otherwise come into contact with persons from other cultures. Take notes on what you perceive as cultural differences and on your “first tendencies” in reacting to these differences. Assess what this suggests about your cultural intelligence. Make a list of what could be your strengths and weaknesses as a global manager. Write down personal reflections on your capacity to work well across cultural boundaries.

How do you rate when it comes to cultural intelligence? People with cultural intelligence are flexible in dealing with cultural differences and willing to learn from what is unfamiliar. They use that learning to self-regulate and modify their behaviours to act with sensitivity toward another culture's ways. In other words, someone high in cultural intelligence views cultural differences not as a threat but as an opportunity to learn.<sup>69</sup> You can do a quick test of your CQ by asking and answering these questions:<sup>70</sup>

1. Am I aware of the cultural knowledge I use in cross-cultural situations?
2. Do I know about the cultural values, practices, and religious beliefs of other cultures?
3. Do I enjoy interacting with people from diverse cultures?
4. Do I change my behaviour when a cross-cultural situation requires it?

## Silent Languages of Culture

The capacities to listen, observe, and learn are key building blocks of cultural intelligence. These skills and competencies can be developed by better understanding what the anthropologist Edward T. Hall calls the “silent” languages of culture.<sup>71</sup> He believes that these silent languages are found in a culture's approach to context, time, and space.

**Context** If we look and listen carefully, Hall says we'll recognize how cultures differ in their use of language in communication.<sup>72</sup> Most communication in **low-context cultures** takes place via the written or spoken word. This is common in Canada, the United States, and Germany, for example. Americans in particular tend to say or write what they mean and mean what they say. Things aren't this way in many parts of the world.

In **high-context cultures** what is actually said or written may convey only part, and sometimes a very small part, of the real message. The rest must be interpreted from the situation, body language, physical setting, and even past relationships among the people involved. Dinner parties, social gatherings, and golf outings in high-context cultures such as Thailand and Malaysia, for example, are ways for potential business partners to get to know one another. Only after social relationships are established and a context for communication is developed does it become possible to begin making business deals.

**Time** Hall describes differences in how cultures deal with time. People in **monochronic cultures** often do one thing at a time. It is common in Canada, for example, to schedule meetings with specific people and focus on a specific agenda for an allotted period of time.<sup>73</sup> If someone is late to a meeting or brings an uninvited guest, this is viewed unfavourably.

Members of **polychronic cultures** are more flexible in their views of time. They often try to work on many different things at once, perhaps not in any particular order, and give in to distractions and interruptions. A monochronic Canadian visitor to the office of a polychronic Egyptian client may be frustrated. She may

not get dedicated attention as the client greets and deals with a continuous stream of people flowing in and out of his office.

**Space** The use of space is also one of the silent languages of culture. Hall describes these cultural tendencies in terms of **proxemics**, the study of how people use space to communicate.<sup>74</sup> Canadians tend to like and value their own space, perhaps as much space as they can get. We like big offices, big cars, big homes, and big yards. We tend to get uncomfortable in tight spaces and when others stand too close to us in lines. When someone “talks right in our face,” we don't like it; the behaviour may even be interpreted as an expression of anger.

Members of some cultures are quite comfortable surrounded by smaller spaces and closer physical distances. If you visit Japan you are likely to notice very quickly that space is precious. Small homes, offices, and shops are the norm; gardens are tiny, but immaculate; public spaces are carefully organized for most efficient use; privacy is highly valued and protected. In many Latin cultures the *abrazo*, or strong embrace, is a common greeting. In Vietnam, men often hold hands or link arms as a sign of friendship when talking with one another.

## Tight and Loose Cultures

*The nail that sticks up will be hammered down.*

Asian proverb

*The squeaky wheel gets the grease.*

North American idiom

These two sayings are representative of two very different cultural settings. What are the implications of these two different ways of viewing outliers? Try to picture young children listening to their parents or elders as they offer these words of wisdom. One child grows up being careful to not speak out, stand out, or attract attention. The other grows up trying to speak up and stand out in order to get attention.

The contrast in childhoods just described introduces the concept of *cultural tightness versus looseness*. Scholars Michele J. Gelfand, Lisa H. Nishii, and Jana L. Raver describe this as “the strength of social norms and degree of sanctioning within societies.”<sup>75</sup> Two things are at issue in this definition: (1) the strength of norms that govern social behaviour and (2) the tolerance for any deviations from the norms. Empirical studies have classified 33 societal cultures around the world on their tightness and looseness.<sup>76</sup>

In a **tight culture**, such as ones found in Korea, Japan, or Malaysia, social norms are strong and clear. Members are expected to know the prevailing norms and let them guide their behaviour. They tend to self-govern and conform, understanding that deviations are likely to be noticed, discouraged, and even sanctioned. The goal in tight cultures, as suggested in the Asian proverb, is to fit in with society's expectations and not stand out.

In a **loose culture**, such as ones found in Australia, Brazil, or Hungary, social norms are relaxed and less clear-cut. Members may be more or less concerned with them, and conformity varies a good deal. Deviations from norms tend to be tolerated

unless they take the form of criminal behaviour or test the extremes of morality. It is acceptable for individuals in loose cultures, as suggested in the North American idiom, to show unique identities and express themselves independently of the masses.

It can be challenging to go from a tight to a loose culture, or vice-versa, for travel or work. Being successful requires cultural awareness to understand differences, and self-management to handle these differences well. One of the most common settings where the dynamics of tight and loose cultures emerge is a class group or work team whose members come from different cultures. You’ve probably been there; what did you see and what might you expect?

A mix of cultural tightness and looseness on a cross-cultural team may result in soft or unstated conflict and missed performance opportunities. Members from tight cultures may be slow to volunteer, criticize, show emotion, or seek praise. They may look toward formal authority for direction while trying to always be on time and prepared. Members from loose cultures may be quick to voice opinions, criticize others, display emotions, and look for recognition. They may not show much respect for authority, and punctuality may be inconsistent. It takes a lot of cultural awareness for a team leader and team members to identify these culturally derived behaviours. It takes a lot of skill to create a team environment where everyone gets a chance both to contribute to team performance and to take satisfaction from the experience.

## Values and National Cultures

The ideas of Geert Hofstede on value differences in national cultures are another useful way for considering how cultural differences can influence management and organizational practices. After studying employees of a global corporation operating in 40 countries, Hofstede identified four cultural dimensions: power distance, uncertainty avoidance, individualism–collectivism, and masculinity–femininity.<sup>77</sup> Later studies added a fifth, now called time orientation.<sup>78</sup>

Figure 5.4 shows how national cultures can vary on these dimensions. Try to imagine what these cultural differences

might mean when global business executives try to work and make deals around the world, or when representatives of national governments meet to seek agreements or resolve problems. Remember that Hofstede warns against falling prey to the **ecological fallacy**, the mistaken assumption that a generalized cultural value, such as individualism in American culture or masculinity in Japanese culture, applies equally to all members of the culture.<sup>79</sup>

**Power Distance** **Power distance** is the degree to which society accepts or rejects the unequal distribution of power among people in organizations and the institutions of society. In high-power-distance cultures we expect to find great respect for age, status, and titles. People in these cultures tend to be tolerant of power and are prone to follow orders and accept differences in rank. Picture a businesswoman from low-to-moderate-power-distance Canada visiting her firm’s joint venture partner in high-power-distance Malaysia. Could her tendencies toward informality—for example, using first names to address superiors and dressing casually in the office—create discomfort for local executives less accustomed to such social egalitarianism?

**Individualism–Collectivism** **Individualism–collectivism** is the degree to which a society emphasizes individual accomplishments and self-interests versus the collective accomplishments and interests of groups.<sup>80</sup> The United States had the highest individualism score of any country in Hofstede’s data, with Australia and Canada not far behind. Do you find the “I” and “me” words used a lot in conversations and meetings, or even when students are making team presentations in class? Such self-referential expressions reflect a cultural tendency toward individualism. This contrasts with the importance placed on group harmony in the Confucian and more collectivist cultures of Asia. What might go wrong when team members from individualistic cultures try to work with those from more collectivist ones?

**Uncertainty Avoidance** **Uncertainty avoidance** is the degree to which a society is uncomfortable with risk, change,

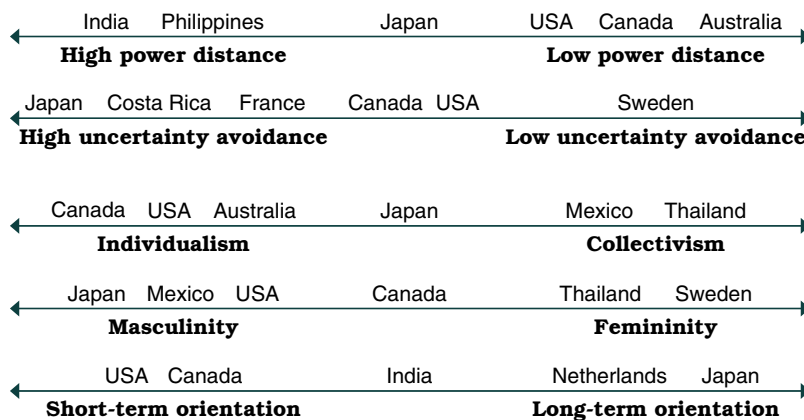


FIGURE 5.4 How countries compare on Hofstede’s dimensions of national culture.

and situational uncertainty, versus having tolerance for them. Members of low uncertainty-avoidance cultures often display openness to change and innovation. In high uncertainty-avoidance cultures, by contrast, preferences for structure, order, and predictability are likely to be more prevalent. Persons in these cultures may have difficulty dealing with ambiguity, and tend to follow rules, preferring more structure in their lives. Do you think that high uncertainty avoidance might be one of the reasons why Europeans seem to favour employment practices that provide job security?

**Masculinity–Femininity** **Masculinity–femininity** is the degree to which a society values assertiveness and materialism versus feelings, relationships, and quality of life.<sup>81</sup> You might think of it as a tendency for members of a culture to show stereotypically masculine versus feminine traits that reflect different attitudes toward gender roles. Visitors to Japan, with the highest masculinity score in Hofstede’s research, may be surprised at how restricted career opportunities can still be for women. The *Wall Street Journal* has pointed out that “in Japan, professional women face a set of socially complex issues—from overt sexism to deep-seated attitudes about the division of labour.” One female Japanese manager says: “Men tend to have very fixed ideas about what women are like.”<sup>82</sup>

**Time Orientation** **Time orientation** is the degree to which a society emphasizes short-term versus long-term goals and gratifications.<sup>83</sup> Americans’ tendencies toward impatience and desire for quick, even instantaneous, gratification show short-term thinking. Canadians are a bit more long-term oriented than Americans. Our companies are expected to achieve short-term results; those failing to meet quarterly financial targets often suffer immediate share price declines. Many Asian cultures are quite the opposite, displaying Confucian values of persistence, thrift, patience, and a willingness to work for long-term success. This might help explain why Japan’s auto executives were more willing than their American counterparts to invest years ago in hybrid engine technologies even though market demand was very low and any return on investments were likely to take a long time to materialize.

## Learning Check

**LEARNING OBJECTIVE 5.3** Define culture and identify ways to describe diversity in global cultures.

**Be Sure You Can** • define *culture* and *culture shock* • explain how ethnocentrism can create difficulties for people working across cultures • differentiate between low-context and high-context cultures, and monochronic and polychronic cultures • explain the differences between tight and loose cultures • list and illustrate Hofstede’s five dimensions of value differences among national cultures

## 5.4 Global Management Learning

### LEARNING OBJECTIVE 5.4

Identify the benefits of global learning for management and organizations.

#### Learn More About

Are management theories universal? • Intercultural competencies • Global learning readiness goals

Scholars in the area of **comparative management** study how management perspectives and practices differ among countries and cultures.<sup>84</sup> They use cultural models like those just described by Hall, Gelfand, et al., and Hofstede, in the search for meaningful insights on management around the globe.<sup>85</sup>

### Are Management Theories Universal?

You might think that all the management theories in this book and your course apply universally from one country and culture to the next. The fact is that the world is a complex place and management scholars understand this; they agree that there is lots left to understand and learn about global management.<sup>86</sup>

Geert Hofstede, whose framework for understanding national cultures was just discussed, urges caution when transferring practices across cultures. He points out that many management theories are ethnocentric because they come from a single cultural context—often North America.<sup>87</sup> By way of example, he says that the North American emphasis on participation in leadership reflects the culture’s moderate stance on power distance. It should be understood and respected that the cultures of countries with higher power-distance scores—such as France or Malaysia—show more tolerance for hierarchy and directive leadership. Hofstede also notes that the North American cultural value of individualism is quite prominent in management theories on individual performance, rewards, and job design. These theories may be less applicable in countries where cultural values are more collectivist. Sweden, for example, has a history of designing jobs for groups of workers rather than for individuals.

### Intercultural Competencies

Even though management theories are not always universal, it may be that **intercultural competencies** are. These are skills and personal characteristics that help us function successfully in cross-cultural situations.



Intercultural competencies are “must haves” for anyone seeking a career as a global manager. These competencies begin with—but add specifics to—the notion of cultural awareness that introduced this chapter. Rather than having just a generalized openness to learning about other cultures and being sensitive to different cultural ways, the focus is on acting competent when working in another culture or in culturally mixed settings. What scholars know in this regard is summarized in three pillars of intercultural competency—perception management, relationship management, and self-management.<sup>88</sup>

In *perception management*, a person must be inquisitive and curious about cultural differences. Being flexible and non-judgmental are important when interpreting and dealing with situations in which differences are present. In *relationship management*, a person must be genuinely interested in others, be sensitive to one’s own emotions and feelings, and be able to make personal adjustments while engaging in cross-cultural interactions. In *self-management*, a person must have a strong sense of personal identity and understand his or her own emotions and values. One must also stay self-confident even in situations that call for personal adaptations because of cultural differences.

## Global Learning Readiness Goals

In order to compete in the global economy, aspiring and seasoned professionals should continually seek to strengthen

personal intercultural competencies, particularly if the goal is to have a successful career as a global manager. A truly global manager will look everywhere and anywhere in the world for new ideas, and will reject the view that the home country and culture have monopolies on the best practices. The intent of comparative management studies is to engage in critical thinking about the ways managers around the world do things and about how they might do them better. As we try to engage in global management learning, however, it is important to hesitate before accepting any idea or practice as a universal prescription for action. Culture and cultural differences always have to be considered. According to Hofstede, “Disregard of other cultures is a luxury only the strong can afford ... increase in cultural awareness represents an intellectual and spiritual gain.”<sup>89</sup>

### Learning Check

**LEARNING OBJECTIVE 5.4** Identify the benefits of global learning for management and organizations.

**Be Sure You Can** • answer this question: “Do management theories apply universally around the world?” • define *intercultural competency* and identify three of its major components • describe the goals of global management learning

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 5.1** Discuss the implications of globalization for management and organizations.

- Global managers are informed about world developments and are competent in working with people from different cultures.
- The forces of globalization create international business opportunities to pursue profits, customers, capital, and low-cost suppliers and labour in different countries.
- Market-entry strategies for international business include global sourcing, exporting and importing, and licensing and franchising.
- Direct investment strategies of international business establish joint ventures or wholly owned subsidiaries in foreign countries.
- General environment differences, including legal and political systems, often complicate international business activities.
- Regional economic alliances, such as NAFTA/USMCA, the EU, SADC, and TPP, link nations of the world with the goals of promoting economic development.

- The World Trade Organization is a global institution that promotes free trade and open markets around the world.

**For Discussion** What aspects of the Canadian legal-political environment could prove difficult for a Chinese firm setting up a factory in Canada?

**LEARNING OBJECTIVE 5.2** Describe global corporations and the issues they face and create.

- A global corporation is a multinational enterprise or multinational corporation with extensive operations in multiple foreign countries.
- A transnational corporation tries to operate globally without a strong national identity and with a worldwide mission and strategies.

- Global corporations can benefit host countries by offering broader tax bases, new technologies, and employment opportunities.
- Global corporations can cause problems for host countries if they interfere in local government, extract excessive profits, and dominate the local economy.
- The Corruption of Foreign Public Officials Act prohibits Canadian corporations from engaging in bribery and corrupt practices abroad.

**For Discussion** Is the Corruption of Foreign Public Officials Act unfair to Canadian firms trying to compete for business around the world?

**LEARNING OBJECTIVE 5.3** Define culture and identify ways to describe diversity in global cultures.

- Culture is a shared set of beliefs, values, and behaviour patterns common to a group of people.
- Culture shock is the discomfort people sometimes experience when interacting with persons from cultures different from their own.
- Cultural intelligence is an individual capacity to understand, respect, and adapt to cultural differences.

- Hall's "silent" languages of culture include the use of context, time, and interpersonal space.
- Hofstede's five dimensions of value differences in national cultures are power distance, uncertainty avoidance, individualism–collectivism, masculinity–femininity, and time orientation.

**For Discussion** Should religion be included on Hall's list of the silent languages of culture?

**LEARNING OBJECTIVE 5.4** Identify the benefits of global learning for management and organizations.

- The field of comparative management studies how management is practised around the world and how management ideas are transferred from one country or culture to the next.
- The foundations for intercultural competency are perception management, relationship management, and self-management.
- Global management learning must recognize that successful practices in one culture may work less well in others.

**For Discussion** Even though cultural differences are readily apparent, is the tendency today for the world's cultures to converge and become more alike?

## Chapter Glossary

**Asia Pacific Economic Cooperation** A forum that links 21 countries to promote free trade and investment in the Pacific region.

**Child labour** The employment of children for work otherwise done by adults.

**Comparative management** The study of how management practices differ among countries and cultures.

**Conflict minerals** Minerals sourced in areas of armed conflict, particularly the Democratic Republic of Congo and surrounding region, whose sale finances armed groups that perpetuate violence.

**Corruption** The use of illegal practices to further one's business interests.

**Corruption of Foreign Public Officials Act** A federal act that makes it illegal for Canadian firms and their representatives to engage in corrupt practices overseas.

**Cultural intelligence** The ability to adapt, adjust, and work well across cultures.

**Culture** A shared set of beliefs, values, and patterns of behaviour common to a group of people.

**Culture shock** The confusion and discomfort a person experiences when in an unfamiliar culture.

**Ecological fallacy** The assumption that a generalized cultural value applies equally well to all members of the culture.

**Ethnocentrism** The tendency to consider one's culture superior to others.

**Euro** The common currency of many members of the European Union.

**European Union** A political and economic alliance of European countries.

**Exporting** The selling of local products abroad to foreign customers.

**Foreign subsidiary** A local operation completely owned by a foreign firm.

**Franchising** The payment of a fee to a foreign business for rights to locally operate using its name, branding, and methods.

**Global corporation** A multinational enterprise or multinational corporation that conducts commercial transactions across national boundaries.

**Global economy** The economy in which resources, markets, and competition are worldwide in scope.

**Global management** The management of business and organizations with interests in more than one country.

**Global manager** A manager who is culturally aware and informed on international affairs.

**Global sourcing** The purchase of materials or services from around the world for local use.

**Global strategic alliance** A partnership in which foreign and domestic firms share resources and knowledge for mutual gains.

**Globalization** The growing interdependence among elements of the global economy.

**Globalization gap** What occurs when large multinational corporations and industrialized

nations gain disproportionately from the benefits of globalization.

**Greenfield venture** A foreign subsidiary built from the ground up by the foreign owner.

**High-context cultures** Cultures that rely on non-verbal and situational cues as well as on spoken or written words in communication.

**Importing** The selling in domestic markets of products acquired abroad.

**Individualism–collectivism** The degree to which a society emphasizes individuals and their self-interests.

**Insourcing** Job creation through foreign direct investment.

**Intercultural competencies** Skills and personal characteristics that help achieve success in cross-cultural situations.

**International business** A business that conducts for-profit transactions of goods and services across national boundaries.

**Joint venture** A venture that operates in a foreign country through co-ownership by foreign and local partners.

**Licensing agreement** The payment by a local firm to a foreign firm for rights to make or sell its products.

**Loose culture** A culture that has relaxed social norms and allows conformity by members to vary a good deal.

**Low-context cultures** Cultures that emphasize communication via spoken or written words.

**Masculinity–femininity** The degree to which a society values assertiveness and materialism.

**Monochronic cultures** Cultures in which people tend to do one thing at a time.

**Most favoured nation status** A status that gives a trading partner most favourable treatment for imports and exports.

**NAFTA** The North American Free Trade Agreement linking Canada, the United States, and Mexico in an economic alliance.

**Non-tariff barriers** Barriers to trade that discourage imports in non-tax ways, such as quotas and government import restrictions.

**Political risk** The potential loss in value of a foreign investment due to instability and political changes in the host country.

**Political-risk analysis** Analysis that tries to forecast political disruptions that can threaten the value of a foreign investment.

**Polychronic cultures** Cultures in which time is used to accomplish many different things at once.

**Power distance** The degree to which a society accepts unequal distribution of power.

**Protectionism** A call for tariffs and favourable treatments to protect domestic firms from foreign competition.

**Proxemics** The study of how people use space to communicate.

**Regional economic alliances** Alliances that link member countries in agreements to work together for economic gains.

**Reshoring** The shifting of foreign manufacturing and jobs back to domestic locations.

**Southern Africa Development Community** An organization that links 14 countries of southern Africa in trade and economic development efforts.

**Sweatshops** Businesses that employ workers at very low wages for long hours in poor working conditions.

**Tariffs** Taxes governments levy on imports from abroad.

**Tax inversion** What occurs when a domestic-based multinational corporation buys a firm in

a low-tax country in order to shield foreign earnings from domestic taxes.

**Tight culture** A culture that has rigid social norms and that expects members to conform with them.

**Time orientation** The degree to which a society emphasizes short-term or long-term goals.

**Transnational corporation** A global corporation or multinational enterprise that operates worldwide on a borderless basis.

**Trans-Pacific Partnership** An agreement among a group of Pacific Rim nations that would lower barriers to trade.

**Uncertainty avoidance** The degree to which a society tolerates risk and uncertainty.

**World 3.0** A world where nations balance cooperation in the global economy with national identities and interests.

**World Trade Organization** A global organization whose member nations agree to negotiate and resolve disputes about tariffs and trade restrictions.

## Self-Test 5

### Multiple-Choice Questions

- The reasons why businesses go international include gaining new markets, finding investment capital, and reducing \_\_\_\_\_.
  - political risk
  - protectionism
  - labour costs
  - most favoured nation status
- When shoe maker Rocky Brands decided to buy full ownership of a manufacturing company in the Dominican Republic, Rocky was engaging in which form of international business?
  - import/export
  - licensing
  - foreign subsidiary
  - joint venture
- A form of international business that falls into the category of a direct investment strategy is \_\_\_\_\_.
  - exporting
  - joint venture
  - licensing
  - global sourcing
- The World Trade Organization would most likely become involved in disputes between countries over \_\_\_\_\_.
  - exchange rates
  - ethnocentrism
  - nationalization
  - tariffs
- Business complaints about copyright protection and intellectual property rights in some countries illustrate how differences in \_\_\_\_\_ can affect international operations.
  - legal environments
  - political stability
  - sustainable development
  - economic systems
- In \_\_\_\_\_ cultures, members tend to do one thing at a time; in \_\_\_\_\_ cultures, members tend to do many things at once.
  - monochronic, polychronic
  - polycentric, geocentric
  - collectivist, individualist
  - neutral, affective
- A culture that places great value on expressing meaning in the written or spoken word is described as \_\_\_\_\_ by Hall.
  - monochronic
  - proxemic
  - collectivist
  - low-context
- It is common in Malaysian culture for people to value teamwork and to display great respect for authority. Hofstede would describe this culture as high in both \_\_\_\_\_.
  - uncertainty avoidance and feminism
  - universalism and particularism
  - collectivism and power distance
  - long-term orientation and masculinity
- In Hofstede's study of national cultures, Canada was one of the most \_\_\_\_\_ compared with other countries in his sample.
  - individualistic
  - collectivist
  - feminine
  - long-term oriented
- It is \_\_\_\_\_ when a foreign visitor takes offence at a local custom such as dining with one's fingers, considering it inferior to practices of his or her own culture.
  - universalist
  - prescriptive
  - monochronic
  - ethnocentric
- When a company buys cotton in Egypt, has tops sewn from it in Sri Lanka according to designs made in Italy, and then offers the garments for sale in the United States, this form of international business is known as \_\_\_\_\_.
  - licensing
  - importing
  - joint venturing
  - global sourcing
- The difference between an international business and a transnational corporation is that the transnational \_\_\_\_\_.
  - tries to operate around the world without a strong national identity

- b. does business in only one or two foreign countries
  - c. is led by ethnocentric managers
  - d. is based outside North America
13. The Corruption of Foreign Public Officials Act makes it illegal for \_\_\_\_\_.
- a. Canadians to engage in joint ventures abroad
  - b. foreign businesses to pay bribes to Canadian government officials
  - c. Canadian businesses to make payoffs abroad to gain international business contracts
  - d. foreign businesses to steal intellectual property from Canadian firms operating in their countries
14. When a member of a cross-cultural team is hesitant to speak up and offer ideas, defers to the team leader, and avoids accepting praise for individual work, the person is displaying characteristics consistent with a \_\_\_\_\_ culture.
- a. monochronic
  - b. low-context
  - c. tight
  - d. loose
15. Hofstede would describe a culture whose members respect age and authority and whose workers defer to the preferences of their supervisors as \_\_\_\_\_.

- a. low masculinity
- b. high particularism
- c. high power distance
- d. monochronic

### Short-Response Questions

16. Why do host countries sometimes complain about how global corporations operate within their borders?
17. Why is the “power-distance” dimension of national culture important in management?
18. What is the difference between a culture that is tight and one that is loose?
19. How do regional economic alliances affect the global economy?

### Essay Question

20. Monique has just returned from her first business trip to Japan. While there, she was impressed with the pervasive use of work teams. Now back in Quebec, she would like to totally reorganize the workflows and processes of her canoe manufacturing company and its 75 employees around teams. There has been very little emphasis on teamwork, and she now believes this is “the way to go.” Based on the discussion of culture and management in this chapter, what advice would you offer Monique?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. To Buy or Not to Buy

You’ve just read in the newspaper that the maker of one of your favourite brands of sports shoes is being investigated for using sweatshop factories in Asia. It really disturbs you, but the shoes are great! One of your friends says it’s time to boycott the brand. You’re not sure. Do you engage in a personal boycott or not, and why?

##### 2. China Beckons

Your new design for a revolutionary golf putter is a big hit with friends at the local golf course. You decide to have clubs with your design manufactured in China so that you can sell them to pro shops around

the country. How can you make sure that your design won’t be copied by the Chinese manufacturer and then used to make low-price knock-offs? What should you do in this situation?

##### 3. Cross-Cultural Teamwork

You’ve just been asked to join a team being sent to Poland for 10 days to discuss a new software development project with your firm’s Polish engineers. It is your first business trip out of the country. In fact, you’ve only been to Europe once, as part of a study-abroad semester in university. How will you prepare for the trip and for work with your Polish colleagues there? What worries you the most under the circumstances? After all, if you do well here, more international assignments are likely to come your way.

### Reflect on the Self-Assessment

#### Global Intelligence

##### Instructions

Use the following scale to rate yourself on each of these 10 items:<sup>90</sup>

- 1 Very poor
- 2 Poor

- 3 Acceptable
- 4 Good
- 5 Very good

\_\_\_\_\_ 1. I understand my own culture in terms of its expectations, values, and influence on communication and relationships.

\_\_\_\_\_ 2. When someone presents me with a different point of view, I try to understand it rather than attack it.

\_\_\_\_\_ 3. I am comfortable dealing with situations where the available information is incomplete and the outcomes are unpredictable.

\_\_\_\_\_ 4. I am open to new situations and am always looking for new information and learning opportunities.

\_\_\_\_\_ 5. I have a good understanding of the attitudes and perceptions toward my culture as they are held by people from other cultures.

\_\_\_\_\_ 6. I am always gathering information about other countries and cultures and trying to learn from them.

\_\_\_\_\_ 7. I am well informed regarding the major differences in the government, political, and economic systems around the world.

\_\_\_\_\_ 8. I work hard to increase my understanding of people from other cultures.

\_\_\_\_\_ 9. I am able to adjust my communication style to work effectively with people from different cultures.

\_\_\_\_\_ 10. I can recognize when cultural differences are influencing working relationships, and I adjust my attitudes and behaviour accordingly.

### Interpretation

In order to be successful in the global economy, you must be comfortable with cultural diversity. This requires a global mindset that is receptive to and respectful of cultural differences, global knowledge that includes the continuing quest to know and learn more about other nations and cultures, and global work skills that allow you to work effectively across cultures.

### Scoring

The goal is to score as close to a perfect “5” as possible on each of the three dimensions of global intelligence. Develop your scores as follows:

1. Items (1 + 2 + 3 + 4)/4 = *Global Mindset Score*
2. Items (5 + 6 + 7)/3 = *Global Knowledge Score*
3. Items (8 + 9 + 10)/3 = *Global Work Skills Score*

## Contribute to the Class Exercise

### Ice Hockey

#### Instructions

Form into groups as assigned by the instructor. In the group do the following:<sup>91</sup>

1. Discuss hockey—the rules, the way the game is played, the way players and coaches behave, and the roles of owners and fans.
2. Use hockey as a metaphor to explain the way Canadian corporations run and how they tend to behave in terms of strategies and goals.

3. Prepare a class presentation for a group of visiting Chinese business executives. In this presentation, use the metaphor of hockey to (1) explain Canadian business strategies and practices to the Chinese and (2) critique the potential strengths and weaknesses of the Canadian business approach in terms of success in the global marketplace.

## Manage a Critical Incident

### Silent Team Members

#### Situation

The course instructor assigned students to teams for a case study in two parts spaced two weeks apart: Part A requires a preliminary oral presentation and Part B requires a final presentation and written report. Your team has five members, including one each from Japan and Indonesia. The team had three face-to-face meetings while preparing Part A. The Japanese and Indonesian members said very little, although they had extensive notes of information retrieved from research on the Internet. They were even hesitant to answer when asked direct questions. The other three members created the preliminary presentation and assigned parts for everyone to deliver. The Japanese and Indonesian team members struggled with their parts of the presentation

and didn't contribute during the question-and-answer session. The instructor said the team's Part A presentation wasn't focused and well integrated. She said things would have to go much better on Part B if the team expected a high grade. The team is scheduled to meet tonight to recap Part A and start work on Part B.

#### Questions

What can you say and do at this meeting to set the stage for higher performance on Part B? How might team dynamics and cross-cultural diversity have contributed to the Part A results? What insights from cultural models might explain the behaviour of your Japanese and Indonesian teammates? How can they be better engaged so that the team takes best advantage of all of members' talents going forward? What role can you play in future team meetings to help accomplish this goal?

## Collaborate on the Team Activity

### Globalization Pros and Cons

#### Questions

“Globalization” is frequently in the news. You can easily read or listen to the perspectives of both advocates and opponents. What is the bottom line? Is globalization good or bad, and for whom? What are the important issues to consider as the world becomes even more connected?

#### Instructions

1. Agree on a good definition for the term “globalization.” Review various definitions and find the common ground.
2. Read current events relating to globalization. Summarize the issues and arguments. What is the positive side of globalization? What are the negatives that some might call its “dark” side?
3. Read what scholars say about globalization. Summarize their views on the forces and consequences of globalization for small and large companies, for countries, for people, and for society at large.
4. Consider globalization from the perspective of your local community and its major employers. Is globalization a threat or an opportunity in this context, and why?
5. Take a position on globalization’s pros and cons, and share it with the class. Justify your position.

## Analyze the Case Study

### Case 5.1 Royalton Hicacos Varadero Cuba | One Foot in Capitalism; One in Communism

Go to Management Cases for Critical Thinking at the end of the book to find this case.



Oko\_SwanOmurphy/Getty Images

# Entrepreneurship and New Ventures

“Be real. Be yourself. Emulate the kind of person you hope your children will be.”

Maria Locker, Founder & CEO RevolutionHER™ Inc.

*Concerned about the state of the planet?* Back in 2007, entrepreneurs Jaclyn McPhadden and Colin Bell decided to turn their attention to the state of recycling in Canada. Motivated to make a difference, they founded RecycleSmart in order to tackle the problem of recycling business waste. They learned through trial and error that coming up with a new plan for managing business waste was hard work, that effective solutions are complex, and that it takes more than “green guilt” to make a successful business. Today, RecycleSmart employs a team of data scientists, waste engineers, and program designers that develops and implements waste management programs. By

combining talent and technology to disrupt the antiquated waste industry, Jaclyn and Colin now lead Canada’s 12th fastest growing company.<sup>1</sup>

*Struggling with work-life balance as a mother?* Why not find flexibility and opportunity in entrepreneurship? Maria Locker left her teaching career to be at home with her two children. This led her to do some freelance marketing. She soon began to connect with other moms who were also running their own businesses while keeping connected to family life. She decided to form Mompreneurs, which connects members, helps them promote their businesses, and creates an online presence for female entrepreneurs. They enjoy demonstrating that it is possible to have a successful business and a thriving family life. Locker has now touched the lives of 250,000 women entrepreneurs in Canada and the United States.<sup>2</sup>

*Female, thinking about starting a small business, but don't have the money?* The Startup Canada Women Founders Fund, powered by Evolocity Financial Group, enables women entrepreneurs to start a business or scale it. Although women now represent 47 percent of Canadian business owners and contribute \$148 billion in economic activity, they continuously face barriers to accessing capital to start and scale their businesses.<sup>3</sup> This Fund's aim is to help women overcome some of these financial barriers.

These examples are intended to be inspiring. In fact, this is really a chapter of examples. The goal is not only to inform you, but also to get you thinking about starting your own business, becoming your own boss, and making your own special contribution to society as a whole. How does that sound? Could you get excited about the idea of joining the world of entrepreneurship and small business management?

## Chapter Quick Start

Entrepreneurship is an attractive opportunity that is enticing more and more university and college students and experienced workers alike. Many of us have good ideas for businesses and social entrepreneurship that go unfulfilled. Understanding the nature of entrepreneurs, the challenges of running small businesses, and alternative ways of setting up and funding new ventures can go a long way toward opening the doors to this career pathway.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 6.1 The Nature of Entrepreneurship

6.1 Define entrepreneurship and identify characteristics of entrepreneurs.

#### 6.2 Entrepreneurship and Small Business

6.2 Describe how small businesses get started and common problems they face.

#### 6.3 New Venture Creation

6.3 Explain how entrepreneurs plan, legally structure, and fund new business ventures.

### What to Look for **Inside**

#### Management Is Real

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## 6.1 The Nature of Entrepreneurship

### LEARNING OBJECTIVE 6.1

Define entrepreneurship and identify characteristics of entrepreneurs.

#### Learn More About

- Who are the entrepreneurs? • Characteristics of entrepreneurs • Women and minority entrepreneurs
- Social entrepreneurship

The term **entrepreneurship** describes strategic thinking and risk-taking behaviour in business that results in new opportunities. H. Wayne Huizenga started Waste Management Inc. with just \$5,000 and once owned the Miami Dolphins. He says: “An important part of being an entrepreneur is a gut instinct that allows you to believe in your heart that something will work even though everyone else says it will not.”<sup>4</sup> Have you had experiences in your own life where you’ve continued along a particular path and succeeded, despite the advice of friends or family to quit?

### Who Are the Entrepreneurs?

A **classic entrepreneur** is a risk-taking individual who pursues opportunities others fail to recognize, or even view as problems or threats. Who, for example, would consider starting a business when your accountant pleads with you not to because the economy is in a recession? Former teacher Nancy Adamo opened up the Hockley Valley Resort in Orangeville, Ontario, despite her accountant’s warnings. “Believe it or not,” said Adamo, “sometimes during a recession is the best time to start a business. The cost to borrow start-up funds might be high, but costs to build and develop are often lower.”<sup>5</sup>

Some people become **serial entrepreneurs** who start and run new ventures over and over again, moving from one interest and opportunity to the next. Serial entrepreneurs can be found in both business and non-profit settings. Hamiltonian and University of Toronto grad Robert “Bob” Young is a great example. He started Red Hat, Inc., an open-source software company. He also owns a Canadian Football League team (the Hamilton Tiger-Cats) and a couple of computer rental and leasing businesses, he founded and served as CEO of Lulu.com (a self-publishing website), and he is the CEO of Precision Hawk, a commercial drone technology company.<sup>6</sup>

A common pattern among successful entrepreneurs is called **first-mover advantage**. They move quickly to spot, exploit, and deliver a product or service to a new market or an unrecognized niche in an existing one. Consider some other

brief examples of entrepreneurs who were willing to take risks and who were sharp enough to pursue first-mover advantage.<sup>7</sup>

**Sara Blakely** “Like so many women, I bought clothes that looked amazing in a magazine or on the hanger, but in reality...” These words are Sara Blakely’s, and her experiences led to innovation, entrepreneurship, and today a great business—Spanx. She started with \$5,000 and a “new idea” to cut the feet out of a pair of pantyhose and create body shaping underwear. Early attempts to convince manufacturers to make samples met with resistance. Some even called it a “stupid idea.” But Blakely persisted and finally convinced a Neiman Marcus buyer to try her product in stores. Sales took off after she sent samples to Oprah Winfrey, who called them “one of her favourite things.” Confidence, optimism, and resilience paid off for Blakely. She created a \$400+ million business, achieved a net worth of over \$1 billion, received a National Entrepreneur of the Year Award, and started the Spanx by Sara Blakely Foundation with the goal of “supporting and empowering women around the world.”<sup>8</sup>

**Vinay Chopra** Mobiroo, a leading provider of mobile app solutions, was started by Vinay Chopra in 2009 when he was 32. Headquartered in Toronto, Mobiroo acts as a middleman between Android phone users and app developers. Consumers can use Mobiroo to pay for Android apps via a subscription or gift cards. Chopra created a unique product, which gave him first-mover advantage. This head start has enabled Chopra to build market share ahead of any potential competitors. Since his technology isn’t easy to replicate, he’s been able to sustain his edge. His products are now in 12,500 retail locations, on six continents, and in 20 countries.<sup>9</sup>

**Shawn Corey Carter** You probably know him as Jay Z, which came from his nickname Jazzy, and there’s an entrepreneurial story behind the name. Carter began rapping on the streets of Brooklyn, New York, where he lived with his single mom and three brothers. Hip-hop turned into his ticket to travel. “When I left the block,” he told an interviewer, “everyone was saying I was crazy, I was doing well for myself on the streets, and cats around me were like, these rappers . . . just record, tour, and get separated from their families, while some white person takes all their money. I was determined to do it differently.” He did. Carter used his music millions to found the media firm Roc Nation, co-founded the apparel firm Rocawear, and become part owner of the New Jersey Nets.<sup>10</sup>

**Shannon Rogers** Vancouver-based former lawyer Shannon Rogers has been named Canada’s Top Female Entrepreneur three times. She is president of Global Relay, whose motto is: “We make big data useful to people,” and she has grown the company from a start-up in cloud-based messaging, archiving, and compliance services to a company with more than 20,000 clients in 90 countries. Global Relay serves giant banks, hedge funds, and half of the broker-dealer members of the U.S. Financial Industry Regulatory Authority. To maintain their competitive edge, they have a 250-member R&D team.<sup>11</sup>

## Characteristics of Entrepreneurs

Entrepreneurs and entrepreneurship are everywhere. There is no age prerequisite. When Cassandra Rush from Langley, British Columbia, was 25 years old, she was frustrated by the fact she couldn't zip up high-fashion boots. She did some research and discovered that no one was offering boots with larger calf sizes. With a loan from the Canadian Business Foundation, she developed a business plan and travelled to Mexico to work with a manufacturer to design and make her own line of boots she calls Sassy Cassey's Boots, Inc.<sup>12</sup> Rush disproves the myth that you need age and experience to become a successful entrepreneur. The following are other myths about entrepreneurs that we challenge.

- *Entrepreneurs are born, not made.* Not true! Talent gained and enhanced by experience is a foundation for entrepreneurial success.
- *Entrepreneurs are gamblers.* Not true! Entrepreneurs are risk takers, but the risks are informed and calculated.
- *Money is the key to entrepreneurial success.* Not true! Money is no guarantee of success. There's a lot more to it than that; many entrepreneurs start with very little.
- *You have to be young/old to be an entrepreneur.* Not true! Age is no barrier to entrepreneurship, although with age often comes experience, contacts, and other useful resources.
- *You have to have a degree in business to be an entrepreneur.* Not true! You may not need a degree at all. Although a business degree is not necessary, it helps to study and understand business fundamentals.

There are lots of entrepreneurs in almost any community. Just look at those individuals who take the risk of buying a local McDonald's or Subway or Tim Horton's franchise, open a small retail shop selling used video games or bicycles, start a self-employed service business such as financial planning or management consulting, or establish a non-profit organization

to provide housing for the homeless or deliver hot meals to house-bound senior citizens. All of these individuals are entrepreneurs in their own way.<sup>13</sup>

Canadians are embracing entrepreneurship as a career path—the percentage of Canadians intending to start a new business over the next 3 years has risen steadily since 2016; however, so has the "fear of failure" rate.<sup>14</sup> (GEM Canada Report, 2018). Is there something in your experience that could be a pathway to entrepreneurship? Have you thought about better ways to do things that everyone does or a product to do it with? As you think about these questions, don't let the myths shown in the list above discourage you.<sup>15</sup>

**Attitudes and Personal Interests** Researchers point out that entrepreneurs tend to share certain attitudes and personal characteristics. The general entrepreneurial profile is of an individual who is self-confident, determined, resilient, adaptable, and driven by excellence.<sup>16</sup> They also share personality traits and characteristics like those shown in **Figure 6.1** and the ones in this list.<sup>17</sup>

- *Internal locus of control:* Entrepreneurs believe that they are in control of their own destiny; they are self-directing and like autonomy.
- *High energy level:* Entrepreneurs are persistent, hardworking, and willing to exert extraordinary efforts to succeed.
- *Self-confidence:* Entrepreneurs feel competent, believe in themselves, and are willing to make decisions.
- *Tolerance for ambiguity:* Entrepreneurs are risk takers; they tolerate situations with high degrees of uncertainty.
- *Self-reliance and desire for independence:* Entrepreneurs want independence; they are self-reliant; they want to be their own bosses, not work for others.
- *High need for achievement:* Entrepreneurs are motivated to accomplish challenging goals; they thrive on performance feedback.



**FIGURE 6.1** Personality traits and characteristics of entrepreneurs.

- **Flexibility:** Entrepreneurs are willing to admit problems and errors, and are willing to change a course of action when plans aren't working.
- **Passion and action orientation:** Entrepreneurs try to act ahead of problems; they want to get things done and not waste valuable time.

**Background, Experiences, and Interests** Entrepreneurs tend to have unique backgrounds and personal experiences.<sup>18</sup> Childhood *experiences and family environment* appear to make a difference. Evidence links entrepreneurship with parents who were entrepreneurial and self-employed. Entrepreneurs often are raised in families that encourage responsibility, initiative, and independence. Another issue is *career or work history*. Entrepreneurs who try one venture often go on to others. Prior work experience in the business area or the industry being entered can be helpful.

A report in the *Harvard Business Review* suggests that entrepreneurs may have unique and *deeply embedded life interests*.<sup>19</sup> The article describes entrepreneurs as having strong interests in starting things. They enjoy creative production—things like project initiation, working with the unknown, and finding unconventional solutions. Entrepreneurs also have strong interests in running things. They enjoy enterprise control—being in charge, being accountable, and making decisions while moving others toward a goal. Are these characteristics that your family and friends might use to describe you?

Entrepreneurs also tend to emerge during certain *windows of career opportunity*. Most start their businesses between the

ages of 22 and 45, an age spread that seems to allow for risk taking. However, being older shouldn't be viewed as a barrier. When Tony DeSio was 50, he founded the Mail Boxes Etc. chain. He sold it for \$300 million when he was 67 and suffering heart problems. Within a year he had launched PixArts, another franchise chain, based on photography and art. When asked by a reporter what he liked most about entrepreneurship, DeSio replied: "Being able to make decisions without having to go through layers of corporate hierarchy—just being a master of your own destiny."<sup>20</sup>

## Women and Minority Entrepreneurs

When economists speak about entrepreneurs, they differentiate between entrepreneurs driven by the search for new opportunities and those driven by absolute need. Entrepreneurs in the latter category pursue **necessity-based entrepreneurship**, meaning that they start new ventures because they have few or no other employment and career options. This was the case for Anita Roddick, founder of the Body Shop. She said her entrepreneurship began because she needed "to create a livelihood for myself and my two daughters, while my husband, Gordon, was trekking across the Americas."<sup>21</sup>

Necessity-driven entrepreneurship is one way for women and members of visible minorities who have hit the "glass ceiling" in their careers or are otherwise cut off from mainstream employment opportunities to strike out on their own and gain economic independence (Management Is Real 6.1). One survey of women who left private-sector employment to work on

### Management Is Real 6.1: Analysis | Make Data Your Friend

**Small and medium-sized enterprises (SMEs) owned by visible minorities have revenues that are almost 25 percent lower than the average Canadian SME.**

#### Minority and Women Entrepreneurs Lead the Way

Economic necessity and career difficulties may help to explain the growth of entrepreneurship in Canada among women and members of visible minorities. Consider these facts and trends.

- Small and medium-sized enterprises (SMEs) owned by visible minorities, whether Canadian-born or immigrant, are slightly larger than the Canadian average. However, these same SMEs owned by visible minorities have revenues that are almost 25 percent lower than the average Canadian SME, suggesting that visible minorities may lack access to business opportunities.
- The gender pay gap in Canada is more than twice the world-wide average. According to research firm Catalyst Canada, Canadian women earn on average just over \$8,000 less than men performing equivalent work, while globally the pay gap is \$4,000. This is one reason why Canadian women want to become entrepreneurs. And they're having an impact. Majority women-owned SMEs contribute more than \$117 billion per year to Canada's economy.



iStock.com/Jacob Wackerhausen

#### What are the Implications?

What factors can help or hinder the growth of businesses owned by members of visible minorities and women? Should we invest more in entrepreneurship as a way to fight economic disparities in our society? What can be done to reduce or eliminate obstacles minorities and women face on their pathway toward entrepreneurship? What role does government policy play in providing opportunities to visible minority or women entrepreneurs?

their own reported that 33 percent of these women said they did so because they were not being taken seriously by their prior employer, and 29 percent had experienced glass ceiling issues.<sup>22</sup> As for entrepreneurship by women of colour, the report *Women Business Owners of Color: Challenges and Accomplishments* points out that glass ceiling issues include not being recognized or valued by their employers, not being taken seriously, and seeing others promoted ahead of them.<sup>23</sup>

Canadian women have increasingly positive attitudes towards entrepreneurship. Recent studies highlight that nearly 85% of women indicated they were motivated to start a new business, up notably from 70% in 2014. While the majority of female entrepreneurs are employers, there continues to be a large group who are solo entrepreneurs, with no employees at all.<sup>24</sup>

Various financial institutions, such as TD Bank, RBC, and the Business Development Bank of Canada, have introduced lending opportunities for members of visible minorities as well as for women and Indigenous peoples. The government of Canada is also advancing women's economic empowerment through the Women's Entrepreneurship Strategy, a \$2-billion investment that seeks to double the number of women-owned businesses by 2025.<sup>25</sup>

## Social Entrepreneurship

Entrepreneurship also plays a critical social role in society. For example, it can help to address social issues such as providing housing and job training for the homeless, bringing technology to poor families, improving literacy among disadvantaged youth, reducing poverty, and improving nutrition. These and other social issues are targets for **social entrepreneurship**, a form of ethical entrepreneurship that seeks novel ways to solve pressing social problems (Management Is Real 6.2). Social entrepreneurs take risks and create **social enterprises** with the mission to help make lives better for underserved populations.<sup>26</sup>

Social entrepreneurs and their enterprises, both non-profit and for-profit, devise new ways to meet needs that are not being served effectively by government or the private sector (Management Is Real 6.3).<sup>27</sup> Social entrepreneurs aim to transform lives and change the world. Consider these examples of those who strive to live up to these expectations.<sup>28</sup>

- George Cape—Turned an abandoned brickyard in Toronto into a retreat, now called Evergreen Brickworks, with gardens, an urban farm, organic food market, and outdoor

### Management Is Real 6.2: Ethics | Know Right from Wrong

For each pair of shoes it sells, this caring firm donates another pair to needy children.

#### Entrepreneurship Meets Caring Capitalism Meets Big Business

Would you buy shoes just because the company that sells them is pledged to philanthropy? Blake Mycoskie, founder of TOMS Shoes, wants you to do just that. He says: "Giving back feels good, and that alone is a reason to make it part of your life and part of your business . . . When you incorporate giving into your model, your customers become your marketers."

Mycoskie's journey to entrepreneurship began on the reality TV show *The Amazing Race*, which whetted his appetite for travel. He had a revelation while visiting Argentina and coming face-to-face with lots of young children without shoes. He would return home and start a sustainable business to help address the problem. He named the business TOMS, short for "better tomorrow."

TOMS sells shoes made in a classic Argentinean style, but with a twist. For each pair of shoes sold, TOMS donates a pair to needy children. Mycoskie calls this One for One, a "movement" that involves "people making everyday choices that improve the lives of children." The business model is reflective of what's been called "caring capitalism" or profits with principles. TOMS has expanded to include eyewear. Buy a pair of eyeglasses and the firm will pay for saving someone's eyesight with prescription glasses and medical care. Further product expansion seems likely.

Who knows what the future holds for TOMS if it grows to the point where corporate buyers begin to take an interest in the company. It's happened to profits-with-principles businesses in the past. For example, Ben & Jerry's is now owned by Unilever and Tom's of Maine is owned by Colgate-Palmolive. Laws are before



Tiffany Rose/WireImage/Getty Images

Parliament to create the "benefit corporation" as a new legal entity. These laws are designed to protect firms whose charters spell out special values; they would also require them to report their social benefit activities and impact.

#### What Do You Think?

Is TOMS' business model one that other entrepreneurs could—or should—adopt? Is it ethical to link personal philanthropic goals with the products that a for-profit business sells? Which stakeholders' interests take precedence when issues of philanthropic enterprise conflict with other business goals? When an entrepreneurial firm is founded on a caring capitalism model, is it ethical for a future buyer of the business to reduce or limit the emphasis on social benefits? What about if/when the company goes public, and shareholders' interests become a relevant issue in the decision-making process? Is the concept of the benefit corporation the way we as a society should be heading?

## Management Is Real 6.3: Wisdom | Learn from Role Models

**“The more positive and optimistic I was, the better I became.”**

### Former Pro Lacrosse Player Brings Happiness to the Workplace

The doctors told Jim Moss, a professional lacrosse player, that he probably would never walk again. Moss had just finished a tough training session and took some time off to relax. After about an hour on the couch he couldn't feel his legs below his knees. Before he knew it, he was lying on a hospital bed unable to walk. He had developed Guillain-Barré syndrome, an autoimmune disease.

Moss was determined to rehabilitate. He was used to applying determination to drive results with his body so he started to read about the disease and what he could do to help his own recovery. He noticed that his level of optimism affected his progress. “The more positive and optimistic I was, the better I became,” says Moss. A month later he was walking.

He was so inspired by the role optimism played in his recovery that he re-enrolled in Wilfrid Laurier University in Ontario and studied positive psychology. He also learned how to launch a happiness social media platform. He and his wife Jennifer, with the assistance of a programmer, designed the platform that would eventually be the basis for their new company, Plasticity Lab. They were soon able to prototype the product with a hearing aid company. Everyone involved had evidence that mood drove performance. Scientific studies were reinforcing their findings: by increasing workplace

happiness, energy levels rise, sick days fall, capacity to deal with stress improves, and overall productivity rises.

Plasticity charges clients \$3 to \$5 per employee per month to use its platform. Plasticity gathers data on employee mood by asking individual employees such questions as “How happy are you today?” and “For what are you grateful at the office?” Plasticity then analyzes a company's aggregate data (all anonymous) and Moss and his team identify the factors lowering morale. They will help a company then find strategies to elevate workplace mood. Plasticity also gives users personal feedback with exercises they might use to elevate their own optimism and resilience.

At the beginning of 2015 Plasticity had a dozen small to mid-size clients. Today more than 40 Canadian employers have signed on, including TD Bank, Questrade, and the Public Health Agency of Canada.

#### Find Inspiration

When Jim and Jennifer Moss discovered the power of optimism, they wanted to share that discovery with others where performance mattered. Central to their purpose was helping to address low workplace morale and show how transformative optimism could be. They stood up to the cynics who said that no company would pay to learn about the mood of its employees. By providing compelling research evidence to demonstrate the merits of increased optimism, and launching an effective platform, they convinced employers of its value. Why aren't there more entrepreneurs who try to match social problems with business opportunities? Do you see any good business opportunities stemming from a social need?

classrooms. His goal is to inspire action to make cities green and enable them to flourish.<sup>29</sup>

- Mary Gordon—A Newfoundland native, developed Roots of Empathy, an emotional literacy program aimed at reducing childhood aggression by working with infants and their parents in the classroom setting. Successfully launched in over 100 Canadian public schools, it reached more than 4,000 children in five Canadian provinces.<sup>30</sup>
- George Roter—Co-founded Engineers Without Borders in 2000, bringing together thousands of innovative students, professionals, and fellows who work to create systemic change in Canada and sub-Saharan Africa. The company now has numerous Canadian chapters with 30 plus social impact ventures and over 100 on-the-ground volunteer “Fellows” working on projects in sub-Saharan Africa.<sup>31</sup>

Social entrepreneurship has come a long way in Canada in the past 10 years. A recent survey showed that there are more than 1,300 social enterprises in Canada, they employ over 254,000 people, and they provide services to an additional 5.5 million.<sup>32</sup> And universities are driving this growth. Student pitch competitions designed to foster social entrepreneurial ideas have been a mainstay in business schools. Kevin Kee, dean of the faculty of arts at U of Ottawa, saw a need for arts students to have exposure to social entrepreneur opportunities. “We saw a special opportunity for us in our bachelor of arts for our students to develop entrepreneurial thinking in a social entrepreneurship context.” Memorial University also is on-board as

they welcome the first cohort of students into a new MBA program in social enterprise and entrepreneurship.<sup>33</sup>

Lots of social entrepreneurship takes place without much fanfare, as attention most often goes to business entrepreneurs making lots of money. However, you can find social entrepreneurs right in your own community. Lewisville, Texas, for example, is the home of the housekeeping service Buckets & Bows, owned by Deborah Sardone. She became alarmed after noticing that many of her clients with cancer struggled hard with everyday household chores. Her response to this problem was to start Cleaning for a Reason. It's a non-profit that links cleaning firms around the United States with owners willing to offer free home cleaning to cancer patients.<sup>34</sup>

## Learning Check

**LEARNING OBJECTIVE 6.1** Define entrepreneurship and identify characteristics of entrepreneurs.

**Be Sure You Can** • define *entrepreneurship* and differentiate between classic and serial entrepreneurs • explain the concept of first-mover advantage • list key personal characteristics of entrepreneurs • explain the influence of background and experience on entrepreneurs • discuss motivations for entrepreneurship by women and members of visible minorities • define *social entrepreneurship* and *social enterprises*

## 6.2 Entrepreneurship and Small Business

### LEARNING OBJECTIVE 6.2

Describe how small businesses get started and common problems they face.

#### Learn More About

Why and how small businesses get started • Why small businesses fail • Family-owned businesses • Small business development

A **small business** is independently owned and operated, and does not dominate its industry. A business is considered “small” in Canada if it has 5–100 employees; businesses with 1–4 employees are considered micro-enterprises. A business with 101–499 employees is considered medium-sized and one with 500 or more is a large business. When considering data regarding small businesses in Canada it is important to understand the definition the authors of each report are using. For instance, researchers define a small business by the value of its annual sales or shipments, its annual gross or net revenue, the size of its assets, or the number of people it employs.<sup>35</sup> A bed and breakfast may use net income to categorize itself, whereas an export corporation may use sales under \$1 million.

The Business Development Bank of Canada highlights that 98% of the 1.3 million businesses in Canada have fewer than 100 employees, and nine out of ten people in the private sector work at a small to medium enterprise (SME).<sup>36</sup> According to Statistics Canada, those industries that had the largest percentage of employees working for small firms were wholesale and retail trade, accommodations and food services, manufacturing, and construction. High-growth small firms were found in construction, administrative and support services, transportation, and warehousing.<sup>37</sup>

### Why and How Small Businesses Get Started

There are many reasons why people start their own small businesses—from necessity (as discussed earlier) as a stimulus to entrepreneurship, to wanting to be your own boss, control your future, and fulfill a dream.<sup>38</sup> Would you be surprised to learn that the Gallup-Healthways Well-Being Index points to high satisfaction among small business owners? Self-employed business and store owners outrank working adults in 10 other occupations—including professional, manager/executive, and sales—on factors such as job satisfaction and emotional and physical health.<sup>39</sup>

Once a decision is made to go the small business route, the most common options for entrepreneurs are to start a

small business, buy an existing one, or buy and run a **franchise**—whereby a business owner sells the right to operate the same business in another location. A franchise such as Subway, Harvey’s, or Domino’s Pizza runs under the original owner’s business name and guidance. In return, the franchise parent receives a specified share of income or a flat fee from the franchisee.

Any business—large or small, franchise or start-up—needs a solid underlying **business model**. Think of a business model as a plan for making a profit by generating revenues that are greater than the costs of doing business. Serial entrepreneur Steven Blank calls business **start-ups** temporary organizations that are trying “to discover a profitable, scalable business model.”<sup>40</sup> A start-up is just that—a “start”; it’s a new venture the entrepreneur is hoping will take shape and prove successful as the business develops and matures.

Blank’s advice for those starting up a new venture is to move fast and create a “minimum viable product” that will attract customers, and that can be further developed and made more sophisticated over time. An example is Facebook, which started with simple message sharing and quickly grew into the complex social media operation we know today. Blank also favours something called a **lean start-up**. It takes maximum advantage of resources like open-source software and free web services to save on costs, while staying small and keeping operations as simple as possible.<sup>41</sup>

### Why Small Businesses Fail

Over 85 percent of businesses that enter the marketplace survive one full year, says Industry Canada. Seventy percent survive for two years and 51 percent survive for five years.<sup>42</sup> The government counts as a “failure” any business that closes, whether it is because of the death or retirement of an owner, sale to someone else, or inability to earn a profit. **Figure 6.2** shows the top reasons why a lot of small business start-ups don’t make it.<sup>43</sup>

*Canadian Business* magazine asked experts to elaborate on why small businesses fail.<sup>44</sup>

- **Inexperience:** “Almost every failed entrepreneur ... overestimates their ability to generate revenue, or underestimates what it’ll take” to start making money, says Stewart Thornhill from the Ivey School of Business.
- **No value proposition:** “Entrepreneurs often have an inflated sense of their product’s worth in the marketplace,” explains Thornhill.
- **No “x 10”:** Sean Wise, a Ryerson University professor who appears on *Dragons’ Den*, says, “If what you’re offering is only a little better, it’s not going to be enough to generate the traction you need.” It has to be 10 times better than your competitor’s.
- **Relying on investors, not customers:** “Funding doesn’t make you successful. Customers do,” says Wise.
- **Bad partners:** “You can have the best idea in the world, but if the team falls apart and can’t execute on it, then the business is a failure,” says Thornhill.



**FIGURE 6.2** Eight reasons why many small businesses fail.

- *Copycat firms*: Once you're successful, "you're on the radar," says Becky Reuber, a professor at the Rotman School of Management.
- *Premature scaling*: Expansion doesn't hold solutions to problems. According to a study from Startup Genome, premature scaling was the number one predictor of business failure.
- *The economy*: During lean times, consumers rein in their spending.
- *Not getting outside*: Some entrepreneurs tinker endlessly with their product before putting it to the market, says Wise. "They want to keep it quiet. And the truth is, it's execution, not idea that matters."
- *ARPU and COGS*: "Average revenue per user" and "costs of goods sold"—if it costs too much and customers buy too little, "it's just not profitable," says Reuber.

## Family-Owned Businesses

In 1857 James Richardson founded a grain merchandising business, assisted by his sons George and Henry. Five generations of Richardsons have led the company, James Richardson & Sons, Ltd., through drought that threatened their grain handling and trading business, to oil and gas investments and air transport. Through the years the company had successes in agriculture, energy, real estate, and financial services. Sons and grandsons ran the company until 1939, when grandson James A. Richardson died and his wife Muriel (Sprague) Richardson took over and ran it for the next 27 years.<sup>45</sup> Today, great-great-great-great-grandson Hartley Richardson is president and CEO. Through the years the family has been able to balance commerce and family dynamics very well.<sup>46</sup> So well, that today, the Richardson family is one of Canada's richest families, with a net worth of over \$6.55 billion in 2018 up 10 percent from the year before.<sup>47</sup>

James Richardson & Sons, Ltd., is the classic **family business**, owned and financially controlled by family members. Eighty percent of private firms in Canada are family owned.

These are not just "mom and pop" operations—they are some of the largest and most successful businesses in the country. Family businesses generate \$150 billion annually, which is responsible for 60 percent of Canada's gross domestic product.<sup>48</sup> Family businesses must solve the same problems as other small or large businesses—meeting the challenges of strategy, competitive advantage, and operational excellence. When everything goes right, as in the Richardson case, the family firm is almost an ideal situation—everyone working together, sharing values and a common goal, and knowing that what they do benefits the family. But it doesn't always work out this way or stay this way. Indeed, family businesses often face unique problems.

"Okay, Dad, so he's your brother. But does that mean we have to put up with inferior work and an erratic schedule that we would never tolerate from anyone else in the business?"<sup>49</sup> This complaint introduces a problem that can all too often set the stage for failure in a family business—the **family business feud**. Simply put, members of the controlling family get into disagreements about work responsibilities, business strategy, operating approaches, finances, or other matters. Although this example is of an intergenerational problem, the feud can be between spouses, among siblings, or between parents and children. It really doesn't matter. Unless family disagreements are resolved to the benefit of the business itself, the firm will have difficulty surviving in a highly competitive environment.

Family businesses also can suffer from the **succession problem**—transferring leadership from one generation to the next. A survey of small and midsize family businesses showed that 66 percent of them planned to keep the business within the family.<sup>50</sup> But the key management questions are: How will the assets be distributed, and who will run the business when the current head leaves? A family business that has been in operation for some time is often a source of both business momentum and financial wealth. Ideally, both are maintained in the succession process. But data on succession are quite sobering. Approximately 30 percent of family firms survive to the second generation; 12 percent survive to the third; and only 3 percent can be expected to survive beyond that.<sup>51</sup>

Business advisers recommend having a **succession plan**—a formal statement that describes how the leadership transition and related financial matters will be handled during changeover. A succession plan should include procedures for choosing or designating the firm’s new leadership, legal aspects of any ownership transfer, and financial and estate plans relating to the transfer. This plan should be shared and understood by all employees affected by it. The chosen successor should be prepared through experience and training to perform in the new role when the time comes to take over the business.

## Small Business Development

One way that start-up difficulties can be managed is for business owners to join a **business incubator**. Sometimes called *business accelerators*, these are special facilities that offer space, shared administrative services, special equipment, and management advice at reduced costs. The goal is to help new businesses become healthy enough to survive on their own. Some incubators are focused on specific business areas, such as technology, light manufacturing, or professional services; some provide access to expensive equipment like laser cutters and 3D printing; some are located in rural areas, while others are based in urban centres; and some focus only on socially responsible businesses.

A great Canadian example is DMZ at Ryerson University. This business incubator for early-stage technology start-ups launched under the name Digital Media Zone in April 2010. DMZ is headquartered in a six-floor workspace overlooking Yonge-Dundas Square in Toronto. UBI Global, a Swedish firm that measures and tracks the performance of innovation hubs around the world, ranked it as the world’s top university business incubator.<sup>52</sup>

Regardless of their focus or location, business incubators seek to increase the survival rates for start-ups. Their goal is to help build new businesses that will create jobs and expand economic opportunities in their communities. The goal of Startup Canada, founded in 2012 by two entrepreneurs, Victoria Lennox and Cyprian Szalankiewicz, is to “activate entrepreneurship from coast to coast.” It has since mentored more than 120,000 Canadians and has 400 enterprise support partners. It also has 300 volunteers located in 22 start-up communities across Canada. It has taken the initiative to bring together key national entrepreneurial organizations to work together to engage government to advance the interests of entrepreneurs.<sup>53</sup>

Another resource for small business development is the Government of Canada’s **Business Development Program** (BDP). Because small business plays such a significant role in the economy, this service offers guidance to entrepreneurs and small business owners (both actual and prospective) on how to set up and manage business operations. The BDP helps entrepreneurs to start up, expand, or modernize their businesses. Focusing on small and medium-sized enterprises, the BDP provides access to capital in the form of interest-free repayable assistance. Most business sectors are eligible for these loans, except retail/wholesale, real estate, government services, and services of a personal or social nature.<sup>54</sup>

## Learning Check

**LEARNING OBJECTIVE 6.2** Describe how small businesses get started and common problems they face.

**Be Sure You Can** • define *small business* • list several reasons why many small businesses fail • discuss the succession problem in family-owned businesses and possible ways to deal with it • explain how business incubators work and how both they and the Business Development Program can help new small businesses

## 6.3 New Venture Creation

**LEARNING OBJECTIVE 6.3**

Explain how entrepreneurs plan, legally structure, and fund new business ventures.

### Learn More About

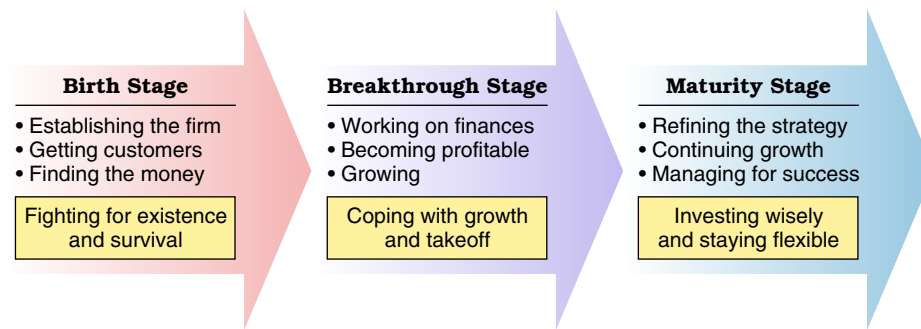
- Life cycles of entrepreneurial firms • Writing a business plan • Choosing the form of ownership
- Financing a new venture

Whether your interest is low-tech or high-tech, online or bricks and mortar, opportunities for new ventures are always there for true entrepreneurs. Entrepreneurs start with good ideas and the courage to give them a chance. But in order to succeed, entrepreneurs must then master the test of strategy and competitive advantage. Can you identify a market niche or a new market that is being missed by established firms? Can you generate a first-mover advantage by exploiting a niche or entering a market before other competitors establish themselves? Do you have a viable business model, or a plan, for your business? These are among the questions that entrepreneurs must ask and answer in the process of beginning a new venture.

## Life Cycles of Entrepreneurial Firms

**Figure 6.3** outlines the stages common to the life cycles of entrepreneurial companies. It shows the relatively typical progression from birth to breakthrough to maturity. A firm begins with the *birth stage*—where the entrepreneur struggles to get the new venture established and to survive long enough to test the viability of the underlying business model in the marketplace. The firm then passes into the *breakthrough stage*—where the business model begins to work well, the firm grows, and the complexity of managing the business expands significantly. Finally, the firm enters the *maturity stage*—where the entrepreneur experiences market success and financial stability, while also facing the continuing management challenges associated with remaining competitive in a changing environment.





**FIGURE 6.3** Stages in the life cycle of an entrepreneurial firm.

Entrepreneurs often face control problems and other management dilemmas when their firms start to grow rapidly. The problems often involve the different skills needed for entrepreneurial leadership in the early life-cycle stages versus the strategic leadership required in the later stages of maturity. Entrepreneurial leadership helps to bring ventures into being and steers them through the early stages of their existence. Strategic leadership requires managing and leading the venture into maturity as an ever-evolving and still-growing enterprise. If the founding entrepreneur doesn't have the skills or interests required to meet the firm's strategic leadership needs, its continued success may depend on selling to other owners or passing on day-to-day management to professionals with these skills.

No matter where an enterprise is in its life cycle, entrepreneurs need to master self-management (see Management Is Real 6.4).

## Writing a Business Plan

When people start new businesses or launch new units within existing businesses, they can benefit from a good **business plan**. This plan describes the details needed to obtain start-up financing and operate a new business.<sup>55</sup> Banks and other sources of finance want to see a business plan before they lend money or invest in a new venture. Senior managers want to see a business

### Management Is Real 6.4: Insight | Keep Learning about Yourself

**To succeed in self-management, you need lots of self-awareness plus the ability to self-regulate.**

#### Self-Management Keeps You Growing

Entrepreneurship involves risk, confidence, insight, and more. But for those who have both the desire to attempt new things and self-management skills, it's a course with the potential for great personal and financial reward. Self-management skills reflect the ability to be objective in understanding personal strengths and weaknesses, and the capacity to make personal changes to continue improving and growing—both personally and professionally.

Succeeding in self-management requires a great deal of self-awareness, as well as the ability to self-regulate. Self-management also requires the ability to relate well to others, the exercise of initiative, acceptance of responsibility for good and bad outcomes, and continuing adaptation for self-improvement. Self-management skills are critical for anyone seeking a successful career or wanting to do well in school, at work, and in everyday life. We are operating in challenging times full of uncertainty, change, and increasing complexity. The skills that serve us professionally and personally today may not serve us well tomorrow as the relationships and technologies that define our lives continue to evolve.

Here are some self-management tips to keep in mind for career success.

- *Perform at your best.* No matter what the assignment, you must work hard to quickly establish your credibility and work value.

- *Be and stay flexible.* Don't hide from ambiguity. Don't wait for structure. You must always adapt to new work demands, new situations, and new people.
- *Keep the focus.* You can't go forward without talent. Be a talent builder—always adding to and refining your talents to make them valuable to an employer.
- *Do the work.* Practice makes perfect. Like a professional golfer, you have to hit lots and lots of practice balls in order to make perfect shots during the match.
- *Don't give up.* Certainly never give up too soon. You have to stick with it, even during tough times. Remember—resilience counts. If you have talent and know what you love, go for it. Self-management is a way to realize your dreams.

These and other foundational tools for career success can be grown and developed. But the motivation and the effort required to succeed through self-management must come from within. Only you can make the commitment to take charge of your personal and professional destiny and become a self-manager.

#### Get to Know Yourself Better

One of the best ways to check your capacity for self-management is to examine how you approach school, your academic courses, and the rich variety of development opportunities available on and off campus. Ask: What activities am I involved in currently? How well do I balance these activities with academic and personal responsibilities? Do I miss deadlines or turn in assignments pulled together at the last minute? Do I accept poor or mediocre performance? Do I learn from my mistakes?

plan before they allocate scarce organizational resources to support a new entrepreneurial project. There's good reason for this.

The detailed thinking required to prepare a business plan can contribute to the success of the new initiative. It forces the entrepreneur to be clear about the business model and think through important issues and challenges—financial, competitive, and managerial—before starting out. A business plan was paramount for Vancouver-based Winston Helgason, founder of The Embassy Visual Effects, which produces digital effects for large advertisers. Looking back, Helgason recommends that novice entrepreneurs ensure that they conform to the norms of financial institutions: “All companies have to undergo due diligence and that can be demanding, so it’s important to have experts to help you put your plan together.”<sup>56</sup>

Here are some more reasons why you need a business plan.

- It forces you to be clear about your business model—how your business will make money.
- It makes you identify and confront the potential strengths and weaknesses of your proposed business.
- It makes you examine the market potential for your business’s products or services.
- It makes you examine the strengths and weaknesses of the competitors for your proposed business.
- It helps you clarify the mission and key directions for the business, helping you to stay focused.
- It helps you determine how much money will be needed to launch and operate the business.
- It helps you communicate more confidently and credibly with potential lenders and investors.

Although there is no single template, it is generally agreed that a good business plan includes an executive summary, covers certain business fundamentals, is well organized, is easy to read, and runs no more than about 20 pages in length. Here is a sample business plan outline.<sup>57</sup>

- *Executive summary*—overview of the business purpose and the business model for making money.
- *Industry analysis*—nature of the industry, including economic trends, important legal or regulatory issues, and potential risks.
- *Company description*—mission, owners, and legal form.
- *Products and services description*—major goods or services, with competitive uniqueness.
- *Market description*—size of market, competitor strengths and weaknesses, five-year sales goals.
- *Marketing strategy*—product characteristics, distribution, promotion, pricing, and market research.
- *Operations description*—manufacturing or service methods, supplies and suppliers, and control procedures.
- *Staffing description*—management and staffing skills needed and available, compensation, and human resource systems.
- *Financial projection*—cash flow projections for one to five years, break-even points, and phased investment capital.

- *Capital needs*—amount of funds needed to run the business, amount available, and amount requested from new sources.
- *Milestones*—a timetable of dates showing when key stages of the new venture will be completed.

## Choosing the Form of Ownership

One of the important choices that must be made in starting a new venture is the legal form of ownership. A number of ownership alternatives are available and making the choice among these alternatives requires careful consideration of their respective advantages and disadvantages in light of the proposed business.

A **sole proprietorship** is simply an individual or couple pursuing business for a profit. This business form does not involve incorporation. One does business, for example, under a personal name—such as “Tiaña Lopez Designs.” A sole proprietorship is simple to start, run, and terminate, and it is the most common form of small business ownership in Canada. However, the business owner is personally liable for business debts and claims.

A **partnership** is formed when two or more people agree to start and operate a business together. It is usually backed by a legal and written partnership agreement. Business partners agree on the relative contribution of resources and skills to the new venture, and on the sharing of profits and losses. The simplest and most common form is a *general partnership* where the partners share management responsibilities. A *limited partnership* consists of a general partner and one or more “limited” partners who do not participate in day-to-day business management. They share in the profits, but their losses are limited to the amount of their investment. A *limited liability partnership*, common among professionals such as accountants and lawyers, limits the liability of one partner for the negligence of another.

A **corporation**, commonly identified by the “Inc.” designation in a company name, is a legal entity that is chartered by a provincial government or the federal government, and exists separately from its owners. The corporation can be for-profit, such as Microsoft, Inc., or non-profit, such as Count-Me-In, Inc., a firm that helps female entrepreneurs get started with small loans. The corporate form offers two major advantages: (1) It grants the organization certain legal rights (e.g., to engage in contracts), and (2) the corporation becomes responsible for its own liabilities. This separates the owners from personal liability and gives the firm a life of its own that can extend beyond the life of its owners. The disadvantage of incorporation rests largely with the cost of incorporating and the complexity of the required documentation.

The **benefit corporation** is a new corporate structure for businesses with stated goals to benefit society while making a profit.<sup>58</sup> Businesses that choose this ownership type formally adopt the goals of social entrepreneurship and social enterprises to help solve social and environmental problems. Often called “B Corps” for short, these firms must state their goals in their bylaws or rules of incorporation. Each B Corp is required to file an annual “benefit report” as well as an annual financial report so that both social and financial performance can be properly assessed against stated goals. The adoption of this form by a number of large and well-recognized businesses—Ben

& Jerry's, Patagonia, and Etsy, for example—have given the B Corp form increased public visibility.<sup>59</sup>

The **limited liability corporation**, or LLC, has gained popularity because it combines the advantages of the other forms—sole proprietorship, partnership, and corporation. For liability purposes, an LLC functions like a corporation and protects owners' assets against claims made against the company. For tax purposes, an LLC functions as a partnership in the case of multiple owners and as a sole proprietorship in the case of a single owner.

## Financing a New Venture

Starting a new venture takes money, and that money must often be raised. The cost of setting up a new business or expanding an existing business can easily exceed the amount a would-be entrepreneur has available from personal sources. Initial start-up financing might come from personal bank accounts and credit cards. Very soon, however, the chances are that much more money will be needed to sustain and grow the business. There are two major ways an entrepreneur can obtain such outside financing for a new venture.

**Debt financing** involves going into debt by borrowing money from another person, bank, or financial institution. This loan must be paid back over time, with interest. It also requires collateral that is pledged against business assets or personal assets, such as a home, to secure the loan in case of default. The lack of availability of debt financing became a big issue during the 2008 financial crisis, and the problem hit entrepreneurs and small business owners especially hard.

**Equity financing** is an alternative to debt financing. It involves giving ownership shares in the business to outside investors in return for their investment. This money does not need to be paid back. It is an investment, and the investor assumes the risk for potential gains and losses. The equity investor gains some proportionate ownership control in return for taking a risk on the venture.

Equity financing is usually obtained from **venture capitalists**, companies and individuals that make investments in new ventures in return for an equity stake in the business. Most venture capitalists tend to focus on relatively large investments of \$1 million or more, and they usually take a management role, such as a seat on the board of directors, in order to oversee business growth. Venture capitalists have a public face on the CBC reality TV show *Dragons' Den*, which pits entrepreneurs against potential investors called "dragons." (The popularity of *Dragons' Den* in Canada inspired the U.S. version, *Shark Tank*, which is a hit on ABC.) The entrepreneurs present their ideas, and the dragons debate the merits of investing in these businesses. John and Leah Garrad-Cole went on the show seeking publicity and financing to take their baby-food business, Love Child Organics, to the next level. With Walmart as a client they wanted to expand their product line and look into export markets. Dragons Arlene Dickinson and David Chilton came to the rescue, closing one of the largest deals in the show's history, pledging equity of \$750,000. By the time the show aired, John and Leah had renegotiated an even larger deal of \$1 million off camera with two more Dragons and an outside investor. The *Dragons' Den* appearance, says John Garrad-Cole, "was undoubtedly very helpful exposure."<sup>60</sup>

Venture capitalists invest their money in the hope that a fast-growing firm will gain a solid market base and be either sold at a profit to another firm, as happened to Love Child Organics, or become a candidate for an **initial public offering**, or IPO. An IPO, is an offering in which shares in the business are first sold to the public and begin trading on a public stock exchange. When an IPO is successful and the share prices are bid up by the market, the original investment made by a venture capitalist and entrepreneur rise in value. The quest for such returns on investment is the business model of the venture capitalist.

When large amounts of venture capital aren't available to the entrepreneur, another financing option is an **angel investor**. An angel investor is a wealthy individual willing to make a personal investment in return for equity in a new venture. Angel investors are especially common and helpful in the very early stages of a start-up. Their presence can serve as a positive market signal, raise investor confidence, and help to attract additional venture funding that would otherwise not be available. When Liz Cobb wanted to start her sales compensation firm, Incentive Systems, for example, she contacted 15 to 20 venture capital firms. She was interviewed by 10 and turned down by all of them. After she procured \$250,000 from two angel investors, the venture capital firms got interested. She was able to obtain her first \$2 million in financing and has since built the firm into a 70-plus-employee business.<sup>61</sup>

The rise of social media has given birth to a new form of venture capitalization called **crowdfunding**, where entrepreneurs go online to obtain start-up financing from a "crowd" of willing providers. Kickstarter, Indiegogo, and Patreon are examples of such platforms. There are several types of crowdfunding models that are now legally available in Canada:

- *Donation model*—Individuals contributing to a crowdfunding campaign donate to a project or venture without receiving anything of value in return.
- *Reward model*—Individuals contributing to a crowdfunding campaign donate to a project or venture in exchange for a reward or perk.
- *Pre-purchase model*—Individuals contributing to a crowdfunding campaign donate to a project or venture in exchange for a future reward such as receiving the product being funded.
- *Peer-to-peer lending*—An online intermediary helps facilitate money being loaned to a venture by individuals, usually in the form of unsecured loans.
- *Equity security model*—Individuals contributing to a crowdfunding campaign invest in an issuer in exchange for securities.<sup>62</sup>

As you might expect, crowdfunding has both advocates and skeptics (Management Is Real 6.5). Advocates claim it spurs entrepreneurship by giving small start-ups a better shot at raising investment capital and helps small investors join in the venture capital area. Skeptics worry that small investors in a crowd may be easy prey for fraudsters because they won't do enough analysis or have the financial expertise to ensure they are making a good investment.<sup>63</sup>

## Management Is Real 6.5: Choices | Think before You Act

**Undergraduate student gets \$38,500 from investors who give him upfront money in return for a portion of what he earns in the future.**

### Students Are Crowdfunding Their Human Capital

*Situation:* An undergraduate student at an art and design school needs money to pay back student loans and fund ideas for a start-up company. He goes online at Upstart.com and finds investors willing to give him upfront money in return for a portion of what he earns in the future. He signs on and takes in \$38,500.

The idea here is to sell equity stakes in your human capital. In other words, get money now from people willing to invest in you while hoping for a good return from rights to a percentage of your future pre-tax earnings. Terms used to describe this form of crowdfunding are “human-capital contracts” or “social financial agreements.”

*Those in favour of students’ crowdfunding their human capital* are likely to say that it helps students afford the education or resources they need to succeed. It’s also a way to avoid incurring interest on debt. If the student fails to earn enough or the project fails, the investor loses his/her money. The investors may turn out to be good mentors and motivators who help the student to achieve higher levels of accomplishment. *Those against students’ crowdfunding their human capital* are likely to say that it’s a form of servitude, that it’s not right for one person to indenture themselves to another in this way. Young students, furthermore, may not be



Tashatuvango/Getty Images

mature or insightful enough to make good decisions that commit them to long-term financial contracts. If the student’s “back is to the wall,” she or he is vulnerable to making a really bad personal decision.

#### What’s Your Take?

Is crowdfunding human capital attractive to you? What are the possible risks and returns associated with crowdfunding as you see them? If you were a parent, would you let your child sell shares in his/her future? If you were an investor, would you consider this a legitimate way to earn a return on your money? Why or why not?

## Learning Check

**LEARNING OBJECTIVE 6.3** Explain how entrepreneurs plan, legally structure, and fund new business ventures.

**Be Sure You Can** • illustrate the life cycle of an entrepreneurial firm • identify the major elements in a business plan • define sole proprietorship, partnership, corporation, and limited liability corporation (LLC) • differentiate between debt financing and equity financing • explain the roles of venture capitalists and angel investors in new venture financing

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 6.1** Define entrepreneurship and identify characteristics of entrepreneurs.

- Entrepreneurship is risk-taking behaviour that results in the creation of new opportunities.
- A classic entrepreneur is someone who takes risks to pursue opportunities in situations in which others may see only problems or threats.

- A serial entrepreneur is someone who starts and runs businesses and other organizations one after another.
- Entrepreneurs tend to be creative, self-confident people who are determined, resilient, adaptable, and driven to excel; they like to be the master of their own destinies.
- Women and minorities are well represented among entrepreneurs, with some being driven by necessity or the lack of alternative, mainstream career options.

- Social entrepreneurs set up social enterprises to pursue novel ways to help solve social problems.

**For Discussion** If “necessity is the mother of invention,” will a poor economy result in lots of entrepreneurship and new small business start-ups?

**LEARNING OBJECTIVE 6.2** Describe how small businesses get started and common problems they face.

- Entrepreneurship results in the founding of many small businesses that offer new jobs and other benefits to local economies.
- The Internet has opened a whole new array of entrepreneurial possibilities for small businesses.
- Family businesses, which are owned and financially controlled by family members, represent the largest percentage of businesses operating worldwide; they sometimes suffer from succession problems.
- Small businesses have a high failure rate, with as many as 60% to 80% failing within five years; many failures result from poor management.
- Entrepreneurs and small business owners can often get help in the start-up stages of their venture by working with business incubators and Small Business Development Centres in their local communities.

**For Discussion** Given that so many small businesses fail due to poor management practices, what type of advice and assistance

should a Small Business Development Centre offer to boost its success rate?

**LEARNING OBJECTIVE 6.3** Explain how entrepreneurs plan, legally structure, and fund new business ventures.

- Entrepreneurial firms tend to follow the life-cycle stages of birth, breakthrough, and maturity, with each stage offering new and different management challenges.
- A new start-up should be guided by a good business plan that describes the intended nature of the business, how it will operate, and how financing will be obtained.
- An important choice is the form of business ownership for a new venture, with the proprietorship, corporate, and limited liability forms offering different advantages and disadvantages.
- Two basic means of financing a new venture are through debt financing—by taking loans, and through equity financing—by exchanging ownership shares in return for outside investment in the venture.
- Venture capitalists pool capital and make investments in new ventures in return for an equity stake in the business; an angel investor is a wealthy individual who is willing to invest money in return for equity in a new venture.

**For Discussion** If an entrepreneur has a good idea and his or her start-up is beginning to take off, is it better to get money for growth by taking an offer of equity financing from an angel investor or taking a business loan from a bank?

## Chapter Glossary

**Angel investor** A wealthy individual willing to invest in a new venture in return for an equity stake.

**Benefit corporation** A corporate form for businesses whose stated goals are to combine making a profit with benefiting society and the environment.

**Business Development Program** A program through the Government of Canada that provides advice to new and existing small businesses.

**Business incubator** A facility that offers space, shared services, and advice to help get small businesses started.

**Business model** A plan for making a profit by generating revenues that are greater than costs.

**Business plan** A description of the direction for a new business and the financing needed to operate it.

**Classic entrepreneur** Someone willing to pursue opportunities in situations others view as problems or threats.

**Corporation** A legal entity that exists separately from its owners.

**Crowdfunding** The online provision of start-up financing from crowds of investors to entrepreneurs starting new ventures.

**Debt financing** Borrowing money that must be repaid over time, with interest.

**Entrepreneurship** Risk-taking behaviour that results in new opportunities.

**Equity financing** Exchanging ownership shares for outside investment monies.

**Family business** A business owned and controlled by members of a family.

**Family business feud** What occurs when family members have major disagreements over how the business should be run.

**First-mover advantage** The benefits that come from being first to exploit a niche or enter a market.

**Franchise** What results when one business owner sells to another the right to operate the same business in another location.

**Initial public offering** An initial selling of shares to the public at large.

**Lean start-ups** Start-ups that use resources like open-source software while containing costs, staying small, and keeping operations as simple as possible.

**Limited liability corporation** A hybrid business form combining the advantages of the sole proprietorship, partnership, and corporation.

**Necessity-based entrepreneurship** Entrepreneurship that takes place because other employment options don't exist.

**Partnership** A form of business where two or more people agree to contribute

resources to start and operate a business together.

**Serial entrepreneur** An entrepreneur who starts and runs businesses and non-profits over and over again, moving from one interest and opportunity to the next.

**Small business** In Canada, a business that has 5–100 employees, is independently owned and operated, and does not dominate its industry.

**Social enterprises** Businesses that have a social mission to help make lives better for underserved populations.

**Social entrepreneurship** A form of ethical entrepreneurship that seeks novel ways to solve pressing social problems.

**Sole proprietorship** A form of business in which an individual pursues business for a profit.

**Start-up** A new venture that is trying to discover a profitable business model for future success.

**Succession plan** A plan for how a firm's leadership transition and related financial matters will be handled.

**Succession problem** The issue of who will run a business when the current head leaves.

**Venture capitalists** Individuals who make large investments in new ventures in return for an equity stake in the business.

## Self-Test 6

### Multiple-Choice Questions

- \_\_\_\_\_ is one of the personality characteristics commonly found among entrepreneurs.
  - External locus of control
  - Inflexibility
  - Self-confidence
  - Low self-reliance
- When an entrepreneur is comfortable with uncertainty and willing to take risks, these are indicators of someone with a(n) \_\_\_\_\_.
  - high tolerance for ambiguity
  - internal locus of control
  - need for achievement
  - action orientation
- For entrepreneurs, what is a new form of venture capitalization \_\_\_\_\_?
  - Crowdfunding
  - Business plan competitions
  - Business incubation
  - Debt financing
- When a business owner sells to another person the right to operate that business in another location, this is a business form known as a \_\_\_\_\_.
  - conglomerate
  - franchise
  - joint venture
  - limited partnership
- A small business owner who is concerned about passing the business on to heirs after retirement or death should prepare a formal \_\_\_\_\_ plan.
  - retirement
  - succession
  - franchising
  - liquidation
- What is one of the most common reasons why new small business start-ups often fail?
  - The founders lack business expertise.
  - The founders are too strict with financial controls.
  - The founders don't want fast growth.
  - The founders have high ethical standards.
- When a new business is quick to act and captures a market niche before competitors, this is called \_\_\_\_\_.
  - intrapreneurship
  - an initial public offering
  - succession planning
  - first-mover advantage
- When a small business is just starting up, the business owner is typically most focused on \_\_\_\_\_.
  - gaining acceptance in the marketplace
  - finding partners for expansion
  - preparing an initial public offering
  - bringing professional skills into the management team
- At which stage in the life cycle of an entrepreneurial firm does the underlying business model begin to work well and growth starts to occur?
  - Birth
  - Early childhood
  - Maturity
  - Breakthrough
- A venture capitalist who receives an ownership share in return for investing in a new business is providing \_\_\_\_\_ financing.
  - debt
  - equity
  - corporate
  - partnership
- In \_\_\_\_\_ financing, a business owner borrows money as a loan that must eventually be repaid to the lender along with agreed-upon interest.
  - debt
  - equity
  - partnership
  - limited
- The people who take ownership shares in new ventures in return for providing the entrepreneurs with critical start-up funds are called \_\_\_\_\_.
  - business incubators
  - angel investors
  - Business Development Program
  - intrapreneurs
- The \_\_\_\_\_ form of small business ownership protects owners from any personal losses greater than their original investments, while the form separates them completely from any personal liabilities.
  - sole proprietorship, partnership
  - general partnership, sole proprietorship
  - limited partnership, corporation
  - corporation, general partnership
- The first component of a good business plan is usually a/an \_\_\_\_\_.
  - industry analysis
  - marketing strategy
  - executive summary of mission and business model
  - set of financial milestones
- If a new venture has reached the point where it is pursuing an IPO, the firm is most likely, \_\_\_\_\_.
  - going into bankruptcy
  - trying to find an angel investor
  - filing legal documents to become an LLC
  - successful enough that the public at large will want to buy its shares

### Short-Response Questions

- What is the relationship between diversity and entrepreneurship?
- What are the major stages in the life cycle of an entrepreneurial firm, and what are the management challenges at each stage?
- What are the advantages of a limited partnership form of small business ownership?
- What is the difference, if any, between a venture capitalist and an angel investor?

### Essay Question

- Assume for the moment that you have a great idea for a potential Internet-based start-up business. In discussing the idea with a friend, she advises you to be careful to tie your business idea to potential customers and then outline it well in a business plan. "After all," she says, "you won't succeed without customers, and you'll never get a chance to succeed if you can't attract financial backers through a good business plan." With these words to the wise, you proceed. What questions will you ask and answer to ensure that you are customer-focused in this business? What are the major areas that you should address in writing your initial business plan?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Becoming Your Own Boss

It might be very nice to be your own boss, do your own thing, and make a decent living in the process. What are your three top choices for potential business entrepreneurship? How would you rank them on potential for personal satisfaction and long-term financial success?

#### 2. Becoming a Social Entrepreneur

Make a list of social problems present in your local community. Choose one that might be addressed through social entrepreneurship. Explain

the basic plan or business model you would recommend. How will you or another social entrepreneur earn a living wage from this venture while doing good things for the community?

#### 3. Making Your Start-up Legal

Your small start-up textbook-rating website is attracting followers. One angel investor is willing to put up \$150,000 to help move things to the next level. But you and your two co-founders haven't done anything to legally structure the business. You've managed so far on personal resources and a "handshake" agreement among friends. What is the best choice of ownership to prepare the company for future growth and outside investors?

## Reflect on the Self-Assessment

### Entrepreneurial Orientation

#### Instructions

Distribute five points between each pair of statements to indicate the extent to which you agree with "a" and "b," where the lower the score, the more you disagree, and the higher, the more you agree. For example, a = 1, b = 4.<sup>64</sup>

- \_\_\_\_ (a) Success as an entrepreneur depends on many factors. Personal capabilities may have very little to do with one's success.  
\_\_\_\_ (b) A capable entrepreneur can always shape his or her own destiny.
- \_\_\_\_ (a) Entrepreneurs are born, not made.  
\_\_\_\_ (b) People can learn to be more enterprising even if they do not start out that way.
- \_\_\_\_ (a) Whether or not a salesperson will be able to sell his or her product depends on how effective the competitors are.  
\_\_\_\_ (b) No matter how good the competitors are, an effective salesperson always will be able to sell his or her product.
- \_\_\_\_ (a) Capable entrepreneurs believe in planning their activities in advance.  
\_\_\_\_ (b) There is no need for advance planning, because no matter how enterprising one is there always will be chance factors that influence success.
- \_\_\_\_ (a) A person's success as an entrepreneur depends on social and economic conditions.  
\_\_\_\_ (b) Real entrepreneurs can always be successful irrespective of social and economic conditions.
- \_\_\_\_ (a) Entrepreneurs fail because of their own lack of ability and perceptiveness.  
\_\_\_\_ (b) Entrepreneurs often fail because of factors beyond their control.

- \_\_\_\_ (a) Entrepreneurs are often victims of forces that they can neither understand nor control.  
\_\_\_\_ (b) By taking an active part in economic, social, and political affairs, entrepreneurs can control events that affect their businesses.
- \_\_\_\_ (a) Whether or not you get a business loan depends on how fair the bank officer you deal with is.  
\_\_\_\_ (b) Whether or not you get a business loan depends on how good your project plan is.
- \_\_\_\_ (a) When purchasing something, it is wise to collect as much information as possible and then make a final choice.  
\_\_\_\_ (b) There is no point in collecting a lot of information; basically, the more you pay the better the product is.
- \_\_\_\_ (a) Whether or not you make a profit in business depends on how lucky you are.  
\_\_\_\_ (b) Whether or not you make a profit in business depends on how capable you are as an entrepreneur.
- \_\_\_\_ (a) Some types of people can never be successful entrepreneurs.  
\_\_\_\_ (b) Entrepreneurial ability can be developed in different types of people.
- \_\_\_\_ (a) Whether or not you will be a successful entrepreneur depends on the social environment into which you were born.  
\_\_\_\_ (b) People can become successful entrepreneurs with effort and capability irrespective of the social strata from which they originated.
- \_\_\_\_ (a) These days business and personal success depends on the actions of government, banks, and other outside institutions.  
\_\_\_\_ (b) It is possible to succeed without depending too much on outside institutions. What is required is insight and a knack for dealing with people.

14. \_\_\_\_\_ (a) Even perceptive entrepreneurs falter quite often because the market situation is very unpredictable.  
 \_\_\_\_\_ (b) When an entrepreneur's prediction of the market situation is wrong, he or she is to blame for failing to read things correctly.
15. \_\_\_\_\_ (a) With effort, people can determine their own destinies.  
 \_\_\_\_\_ (b) There is no point in spending time planning. What is going to happen will happen.
16. \_\_\_\_\_ (a) There are many events beyond the control of entrepreneurs.  
 \_\_\_\_\_ (b) Entrepreneurs are the creators of their own experiences.
17. \_\_\_\_\_ (a) No matter how hard a person works, he or she will achieve only what is destined.  
 \_\_\_\_\_ (b) The rewards one achieves depend solely on the effort one makes.
18. \_\_\_\_\_ (a) Organizational success can be achieved by employing competent and effective people.  
 \_\_\_\_\_ (b) No matter how competent the employees are, the organization will have problems if socio-economic conditions are not good.
19. \_\_\_\_\_ (a) Leaving things to chance and letting time take care of them helps a person to relax and enjoy life.  
 \_\_\_\_\_ (b) Working for things always turns out better than leaving things to chance.

20. \_\_\_\_\_ (a) The work of competent people will always be rewarded.  
 \_\_\_\_\_ (b) No matter how competent one is, it is hard to succeed without contacts.

### Scoring

\_\_\_\_\_ *External Orientation Score*. Total your points for the following items: 1a, 2a, 3a, 4b, 5a, 6b, 7a, 8a, 9b, 10a, 11a, 12a, 13a, 14a, 15b, 16a, 17a, 18b, 19a, 20b.

\_\_\_\_\_ *Internal Orientation Score*. Total your points for the following items: 1b, 2b, 3b, 4a, 5b, 6a, 7b, 8b, 9a, 10b, 11b, 12b, 13b, 14b, 15a, 16b, 17b, 18a, 19b, 20a.

### Interpretation

This inventory measures the extent to which a person is internally or externally oriented in entrepreneurial activities. Scores greater than 50 indicate a higher degree of the orientation being assessed. Those who score high on entrepreneurial internality tend to believe that entrepreneurs can shape their own destinies through their own capabilities and efforts. Those who score high on entrepreneurial externality believe that the success of entrepreneurs depends on factors such as chance, political climate, community conditions, and economic environment—factors beyond their own capabilities and control.

## Contribute to the Class Exercise

### Entrepreneurs among Us

#### Question

Who are the entrepreneurs or potential entrepreneurs in your class? What kinds of businesses are they involved in?

#### Instructions

Interview one another to find out who is already an entrepreneur and who would like to be one. Discuss your classmates' entrepreneurial

examples and aspirations. Make an inventory of entrepreneurship insights and lessons available within the class. Critique them in terms of successes and failures, both real and potential. Choose one or two to share with the class as a whole. What challenges have these entrepreneurs faced? What funding directions have they pursued? What kinds of relationships have they developed in the process?

## Manage a Critical Incident

### Craft Brewery In—or Out—of the Money?

#### Situation

As the loan officer of a small community credit union, you've just been approached for a commercial business loan. A group of three entrepreneurs are asking for \$250,000 to start a craft brewery producing beers with a local flavour. There is already one microbrewery in your town of 20,000 full-timers and another 20,000 university students. It has been linked with a popular tavern and music venue for several years, and recently expanded its brewing capacity to allow distribution into regional markets. The entrepreneurs proposing the new craft brewery include a brewer who learned his trade in Vancouver and won a national award for

a strong, vanilla-mint specialty brew. The plan is to take his expertise and create spinoff brews that will hopefully become national award-winners and local favourites. These entrepreneurs want credit union financing to purchase and equip a brewing facility on the outskirts of town.

#### Questions

What will you look for as positive and negative signals in the business plan? When you meet with the would-be entrepreneurs, what will be the first five questions you will ask and what answers will you want to receive before deciding whether to lend them the funds? Overall, what are the major risks associated with this proposal and what is the probability of it being successful enough to justify a start-up loan?



## Collaborate on the Team Activity

### Community Entrepreneurs

Entrepreneurs are everywhere. Some might live next door to you, many own and operate the small businesses in and around your community, and you might even be one of them—or aspire to be.

#### Question

Who are the entrepreneurs in your community and what are they accomplishing?

#### Instructions

1. Read the local news, talk to your friends and other locals, and think about where you shop. Make a list of the businesses and other organizations that have an entrepreneurial character. Be as complete as possible—look at both commercial businesses and non-profits.
2. For each of the organizations, do further research to identify the people who are the entrepreneurs responsible for them.
3. Contact as many of the entrepreneurs as possible and interview them. Try to learn how they got started, why, what obstacles or problems they encountered, and what they learned about entrepreneurship that could be passed along to others. Ask for their “founding stories” and ask for advice they might give to aspiring entrepreneurs.
4. Analyze your results for class presentation and discussion. Look for patterns and differences in terms of the personal attributes of the entrepreneurs as people, their entrepreneurial experiences, and potential insights into business versus social entrepreneurship.
5. Consider writing short cases of the entrepreneurs you find especially interesting. What kinds of stories would you tell?

## Analyze the Case Study

### Case 6.1 Shopify | Making Commerce Better

Go to Management Cases for Critical Thinking at the end of the book to find this case.



Hugo Infante/Government of Chile/REX/Shutterstock.com

## Data and Decision-Making

*“We are well in the shelter, the 33 of us.” For 69 days shift leader Luis Urzúa kept the trapped men in the Chilean mine organized and hopeful. On the 70th day, he was the last man safely out.*

When the San José copper and gold mine collapsed in Chile in 2010, 32 miners and their shift leader, Luis Urzúa, were trapped inside.<sup>1</sup> “The most difficult moment was when the air cleared and we saw the rock,” said Urzúa. “I had thought maybe it was going to be a day or two days, but not when I saw the rock. . . .” In fact, the miners were trapped 700 metres (2,300 feet) below the surface for 69 days. Getting them out alive was a problem that captured the attention of the entire world.

After the rescue shaft was completed, Urzúa was the last man out. “The job was hard,” he said. “They were days of

great pain and sorrow.” But the decisions Urzúa made as shift leader—organizing the miners into work shifts, keeping them busy, studying mine diagrams, making escape plans, raising morale—all contributed to the successful rescue of the miners. After embracing Urzúa when he arrived at the surface, Chile’s president, Sebastian Pinera, said, “He was a shift boss who made us proud.”

Most managers will never have to face such an extreme crisis, but decision-making and problem solving are a critical aspect of every manager’s job. Not all decisions are going to be easy; some will have to be made under tough conditions (as with the case of Luis Urzúa) and, not all decisions you make will turn out to be right. But the goal is to do the best you can under the circumstances.

# Chapter Quick Start

“Big data” increasingly dominates the decision-making landscape and plays a crucial role in how organizations process information. We all need the skills to gather and use data—big or otherwise—to make informed decisions, solve problems, and explore potential opportunities. It’s essential to understand the decision-making process, know how to avoid pitfalls while making decisions in an ethical and timely manner, and gain the support of others whose help is needed for implementation.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

**7.1** Information, Technology, and Management

**7.1** Discuss the role of information, data, and analytics in management.

**7.2** Problem Solving and Managerial Decisions

**7.2** Identify different ways managers approach and deal with problems.

**7.3** The Decision-Making Process

**7.3** Explain the six steps in the decision-making process.

**7.4** Decision-Making Pitfalls, Creativity, and Integrative Thinking

**7.4** Describe the potential pitfalls and sources of creativity in managerial decision-making.

## What to Look for **Inside**

### Management Is Real

- 7.1 Analysis** Make Data Your Friend  
Intelligent Enterprises Know How to Win with Analytics
- 7.2 Insight** Keep Learning about Yourself  
Self-Confidence Builds Better Decisions
- 7.3 Ethics** Know Right from Wrong  
Climber Left to Die on Mount Everest
- 7.4 Choices** Think before You Act  
Risks of Performance Reviews and Performance Boxes
- 7.5 Wisdom** Learn from Role Models  
Faizan Ahmed’s Creative Decisions Fuel Sustainability Gains

### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Cognitive Style
- **Contribute** *to the Class Exercise:*  
Lost at Sea
- **Manage** *a Critical Incident:*  
Asking for a Raise
- **Collaborate** *on the Team Activity:*  
Crisis Management Realities
- **Analyze** *the Case Study:*  
Amazon.com | One E-Store to Rule Them All

## 7.1 Information, Technology, and Management

### LEARNING OBJECTIVE 7.1

Discuss the role of information, data, and analytics in management.

### Learn More About

Data, information and information systems • Data mining, big data, and analytics • Business intelligence and data visualization

Our abilities to make good decisions are tested every day in situations that may not be crisis driven, but that nevertheless have real consequences for ourselves and others.

The challenges begin with the fact that our society is now highly information-driven, digital, socially networked, transparent, and continuously evolving. Career and personal success increasingly requires three “must-have” competencies: **technological competency**—the ability to understand new technologies and to use them to their best advantage; **information competency**—the ability to locate, gather, organize, and display information; and **analytical competency**—the ability to evaluate and analyze information to make actual decisions and solve real problems.<sup>2</sup> How about it—are you ready?

## Data, Information, and Information Systems

This sign should be on every manager’s desk—*Warning: Data ≠ Information!* **Data** are raw facts and observations. In contrast, **information** is data made useful and meaningful for decision-making. We all have lots of access to data, but we don’t always gather and use these data to create useful information that meets the test of these five criteria:

1. **Timely**—The information is available when needed. It meets deadlines for decision-making and action.
2. **High quality**—The information is accurate, and it is reliable. It can be used with confidence.
3. **Complete**—The information is complete and sufficient for the task at hand. It is as current and up to date as possible.
4. **Relevant**—The information is appropriate for the task at hand. It is free from extraneous or irrelevant material.
5. **Understandable**—The information is clear and easily understood by the user. It is free from unnecessary detail.

People and organizations perform best when they have available to them the right information at the right time and in the right place. This is the function served by **management information systems** that use the latest technologies to collect, organize, and distribute data. Information departments or centres are now mainstream features on organization charts, and the CIO (chief information officer), CKO (chief knowledge officer), CTO (chief technology officer), or CDO (chief digital

officer) are prominent members of the C-suite within top management teams. The number and variety of information-driven career fields are growing fast.

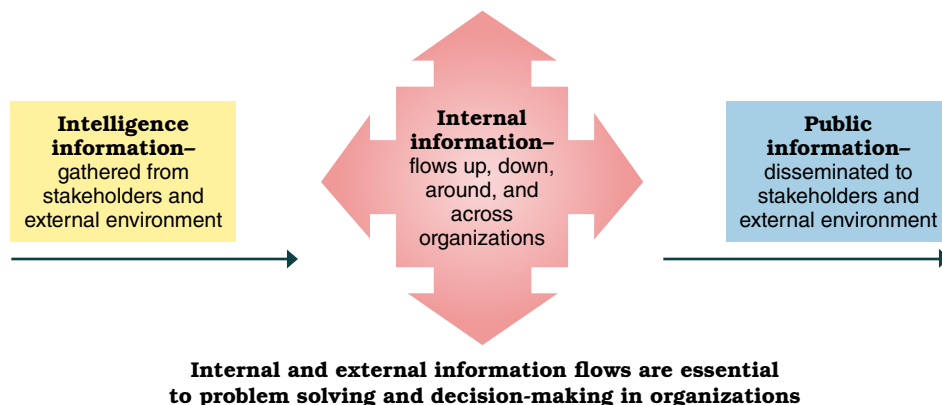
Information systems serve the variety of needs described in **Figure 7.1**. Within organizations, people need vast amounts of *internal information* to make decisions and solve problems in their daily work. They need information from their immediate work setting and from other parts of the organization. Internal information flows downward in the form of goals, instructions, and feedback. It flows horizontally in ways that assist in cross-functional coordination and problem solving. And it flows upward in the form of performance reports, suggestions for improvement, and even policy and personnel disputes.

At the organization’s boundaries, information in the external environment is accessed. Managers use this *intelligence information* to deal with customers, competitors, and other stakeholders such as government agencies, creditors, suppliers, shareholders, and community members. Organizations also send vast amounts of *public information* to stakeholders and the external environment. This often takes the form of advertising, public relations campaigns, social media posts, and financial reports that serve a variety of purposes, including image-building, product promotion, financial documentation, and damage control.

## Data Mining, Big Data, and Analytics

**Data mining** is the process of analyzing data to produce useful information for decision-makers. There is now so much computing power available that we increasingly talk about **big data**, which are collected in huge quantities and are difficult to mine without using sophisticated mathematical and analytical techniques. UPS, for example, spends over \$1 billion per year on technology. In one big data program, some 250 million data points are run through an algorithm with over 1,000 pages of code to calculate optimal daily routes for drivers. The company expects to save some \$50 million per year from eliminating excess driving distances.<sup>3</sup>

Even when data are available, we don’t always use the findings well. The challenge in data mining, especially when mining big data, comes down to strength in **analytics**. This is sometimes called *business analytics* or *management analytics*,



**FIGURE 7.1** Internal and external information needs in organizations.

which is the systematic evaluation and analysis of data to make informed decisions. Think, for example, of the vast amounts of data being collected by social media sites. These sites—Facebook, Twitter, LinkedIn, and others—mine the data for their own business uses, and they also sell the data to others. Would you be surprised to learn that the United Nations buys social data from Twitter? It does, and it mines the data for insights into social unrest around the world.<sup>4</sup> Organizations of all types are investing heavily in big data initiatives, hiring people with strong analytics skills, and setting up analytics units and teams to make available data valuable (see Management Is Real 7.1). The top management role of Chief Data Officer is appearing in more C-suites and the job of data scientist is appearing more often in help wanted ads.

Just because data exists in large quantities doesn't make it useful to decision-makers. And just because analytics are solid doesn't mean that decision-makers are working from the right database or coming up with the right insights. The Five "Vs" of Big Data help explain how to get the most out of data in solving critical problems and pursuing attractive opportunities.<sup>6</sup>

1. **Volume**—The first V of big data is volume. The data has to exist in large—think super large—quantities. At a time when Google searches total more than 40,000 per second, fortunately, today's technologies make that volume achievable.

Just as our personal devices carry more and more onboard storage capacity, so too do cloud services and the servers used by organizations. With the right software in place, it's increasingly easy to collect and handle data in large volumes.

2. **Variety**—The second V of big data is variety. Technology makes it easy to collect and take advantage of data from many different sources. Social media content is one major provider, and it's a controversial one with respect to privacy concerns. Depending on the organizational setting, data is also there for the taking from many other sources—information provided by Environment Canada, stories produced by the local news, global industrial manufacturing data, government statistics, and so on. The variety of data available to decision-makers is really only limited by the creativity of those who architect the data pools.
3. **Veracity**—The third V of big data is veracity. This is just a complex way of saying that "believability counts." But it counts big. Before it's used for decision-making, data must be tested for veracity. Just as with Internet searches, a lot of what's out there can be fabricated, misleading, and/or harmful. You know this when pondering supposed reviews posted on travel sites like TripAdvisor, retailers like Amazon, and even career portals like Glassdoor. The question challenging people using big data is always: "Can the data

## Management Is Real 7.1: Analysis | Make Data Your Friend

**Analytics-driven managers "know how to get the data to tell them the things that matter (and not the things that don't)."**

### Intelligent Enterprises Know How to Win with Analytics

A survey on "The New Intelligent Enterprise" conducted by the *Sloan Management Review* asked 3,000 executives from around the world to report on how their organizations use and deal with data for business intelligence. Results included the following:

- 60 percent of executives said their organizations were "overwhelmed" by data and have difficulty making the information useful for performance results.
- Organizations outperforming competitors were three times better at managing and acting on data.
- Top performers were two times more likely than low performers to say they needed to get even better with analytics.
- Top performers use analytics most often in finance, strategy, operations, and sales and marketing.
- Most frequent obstacles to adopting better analytics are lack of understanding, competing management priorities, and lack of skills.
- Analytic techniques expected to grow most in importance are data visualization, use of simulations and scenarios development, and use of analytics within business processes.



Monty Rakusen/Alamy Stock Photo

### What are the Implications?

What are the implications for your career planning and development? In a 2018 global survey of business leaders, the consulting firm McKinsey & Co. reported that the respondents indicated that the skills required to use data and analytics are in greater demand than ever before. Those organizations that have the greatest strength in revenue and earning attribute that growth to a boost from creating a data-driven culture.<sup>5</sup> As a result, they are looking to attract and retain the best talent. Are you prepared to compete for jobs and promotions in career situations where analytics count? How could your local schools, small businesses, and even government agencies gain by better harnessing the power of information and analytics?

be trusted as representative or indicative of what’s actually happening in the real world?”

4. **Velocity**—The fourth V of big data is velocity. The data in the big data sets don’t or shouldn’t represent just single snapshots of reality. Big data has to reflect what is currently happening in the world, in real time. And, the real world is complex, dynamic, and ever-changing. To be useful, big data has to keep up the pace. Again, technology can generate velocity by keeping the data flowing.
5. **Value**—The fifth and final V of big data is value. Even with the first four Vs satisfied, big data have to be worth the time, effort, and resources that go into the data collection. Many organizations sit on huge and ever-increasing data sets. But being “huge” doesn’t make them valuable. What’s in a data set and how it’s processed must pass the cost-benefit test to offer real value. Simply put, big data is of value only when it helps decision makers solve critical problems and explore attractive opportunities.

## Business Intelligence and Data Visualization

**Business intelligence** is the process of tapping or mining information systems to extract data that are most potentially useful for decision-makers. It sorts and reports data in organized ways that help decision-makers detect, digest, and deal with patterns posing important implications. Some of these data provide *competitive information*. At Amazon, for example, a “competitive intelligence” team buys products from other retailers to check on their quality, speed, and customer service. Data on the purchases are presented to top management and analyzed to keep Amazon ahead of the competition.<sup>7</sup> Some of those data provide *big picture information*. For example, companies can now easily share the latest financial results across different levels in the organization so that employees know current profits and how they compare with past results and desired targets. Other data provide *function-specific information*. An example is ensuring that manufacturing workers are always aware of costs, marketing people are aware of sales expenses relative to sales revenues, and customer service employees know cost per service contact.<sup>8</sup>

One of the trends in business intelligence is the use of **data visualization** in the form of executive dashboards that visually display and update key performance metrics in the form of graphs, charts, and scorecards in real time. The chief financial officer of the manufacturing firm Ceradyne says: “If numbers are the language of business, then dashboards are the way we drive the business forward.” He adds that they “take the daily temperature of a business.”<sup>9</sup> Picture a sales manager whose office wall has a large flat-panel computer display much like the one you might use for TV and games at home. But this display calls up one or more dashboards filled with a wide range of real-time information including, for example, sales by product, salesperson, and sales area, as well as comparisons with past performance and current sales targets. How can a manager with this kind of information fail to make well-informed decisions?

## Learning Check

**LEARNING OBJECTIVE 7.1** Discuss the role of information, data, and analytics in management.

**Be Sure You Can** • define and give examples of technological competency, information competency, and analytical competency • differentiate data and information • list the criteria of useful information • explain the importance of big data, analytics, business intelligence, and data visualization

## 7.2 Problem Solving and Managerial Decisions

**LEARNING OBJECTIVE 7.2**

Identify different ways managers approach and deal with problems.

### Learn More About

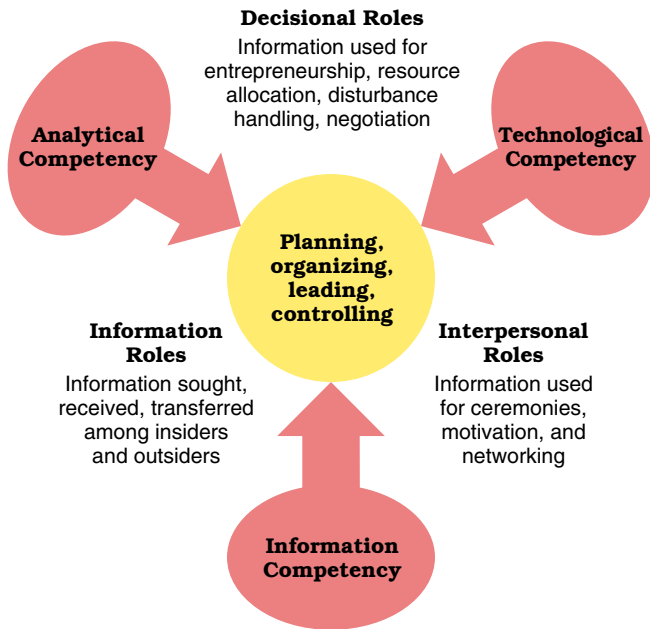
Managers as problem solvers • Problem-solving approaches and styles • Types of problem-solving skills • Problem-solving environments

Information is the anchor point for effective decision-making. It helps us sense the need for a decision, frame an approach to the decision, and discuss the decision with others.<sup>10</sup> An essential part of a manager’s job, as depicted in **Figure 7.2**, is to serve as a nerve centre for the flow of information.<sup>11</sup> Managers are information processors who continually use relationships and technology to gather, share, and receive information. Managers who fulfill this aspect of their role well are always switched on and always connected.

## Managers as Problem Solvers

Sometimes they are big things—how a small local retailer can compete with the big chains. Other times they’re smaller but still consequential things—how to handle the Canada Day holiday staffing when everyone on the team wants the day off. Sometimes it’s being able to recognize and correct an outright mistake—such as when the wrong item has been shipped to an important customer. What we are talking about in all such situations is a manager’s skill with **problem solving**, the process of identifying a discrepancy between an actual and a desired state of affairs, and then taking corrective action to resolve the problem.

Success in problem solving depends on information in order to make good **decisions**—choices among alternative possible courses of action. Managers, in this sense, make decisions



**FIGURE 7.2** The manager as an information processor and nerve centre for planning, organizing, leading, and controlling.

while facing a continuous stream of daily problems. The most obvious situation is a **performance threat** in which something is already wrong or has the potential to go wrong. This happens when actual performance is less than desired or is moving in an unfavourable direction. Examples are when turnover or absenteeism suddenly increases in the work unit, when a team member falls behind in work, or when a customer complains about service delays. Another important situation is a **performance opportunity** that offers the chance for better future performance if the right steps are taken. This happens when an actual situation either turns out better than anticipated or offers the potential to exceed expectations.

## Problem-Solving Approaches and Styles

*Problem:* Airline aisles are clogged during boarding with frustrated passengers. Airline executives know that minutes saved in boarding can mean money saved.

*Analysis:* A study by astrophysicist Jason Steffen shows that boarding alternating rows back to front and boarding window–middle–aisle for each row beats other methods.

*Result:* Airline executives may be as stuck in their thinking as their passengers are in the aisles. Most have no plans to change current boarding systems.<sup>12</sup>

**Openness to Problem Solving** Even when presented with good information, managers often differ in their openness to problem solving. Some are more willing than others to accept the responsibilities associated with solving a problem. **Problem avoiders** ignore information that would

otherwise signal the presence of a performance opportunity or threat. They only passively gather information, not wanting to make decisions or deal with problems. **Problem solvers** are willing to make decisions and try to solve problems, but only when forced into it by the situation. They are reactive in gathering information to solve problems after, but not before, they occur. They may deal reasonably well with performance threats, but they are likely to miss many performance opportunities.

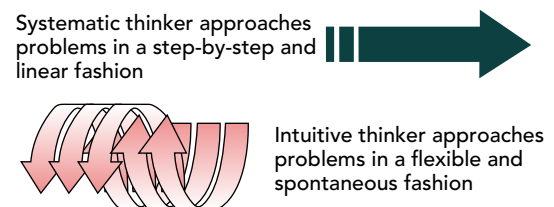
There is quite a contrast between the last two styles and that of **problem seekers**, who constantly process information and proactively look for problems to solve, even before they occur. True problem seekers are forward thinking. They anticipate performance threats and opportunities, and they take pre-emptive action to generate an advantage.

**Systematic and Intuitive Thinking** Managers differ in their use of “systematic” and “intuitive” thinking when trying to solve problems and make decisions. In **systematic thinking**, individuals approach problems using a rational, step-by-step, analytical process. The process is slow and methodical. Systematic thinking breaks a complex problem into smaller components and then addresses them in a logical and integrated way. Managers who are systematic will typically make a plan before taking action and will carefully search for information to facilitate a step-by-step problem-solving approach.

Someone using **intuitive thinking** is more flexible and spontaneous in problem solving.<sup>13</sup> This process involves a quick and broad evaluation of the situation as well as possible alternative courses of action. Managers who are intuitive will generally deal with many aspects of a problem at once, jumping from one issue to another, and consider “hunches” based on experience or spontaneous ideas. This approach is often imaginative and tends to work best in situations where facts are limited and there are few decision precedents.<sup>14</sup> The differences between systematic and intuitive thinking are illustrated in **Figure 7.3**.

Amazon.com’s Jeff Bezos recognizes that it’s not always possible for the firm’s top managers to make systematic fact-based decisions. There are times, he says, when “you have to rely on experienced executives who’ve honed their instincts” and are able to make good judgements.<sup>15</sup> There’s clearly a place for both systematic and intuitive decision-making in management. Intuition balanced by support from good solid analysis, experience, and effort can be a great combination.<sup>16</sup>

**Multi-Dimensional Thinking** Managers often deal with portfolios of problems that encompass multiple and



**FIGURE 7.3** Systematic and intuitive thinking.

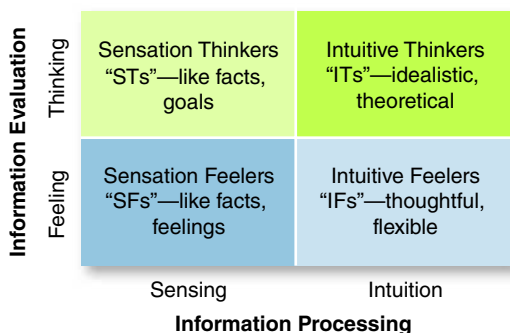
interrelated issues. This situation requires **multidimensional thinking**—an ability to view many problems simultaneously, in relationship to one another and across both long and short time horizons.<sup>17</sup> The best managers are able to “map” multiple problems into a network that can be actively managed over time as priorities, events, and demands continuously change. They are able to make decisions and take actions in the short run that benefit longer-run objectives. And they also avoid being sidetracked while sorting through a shifting mix of daily problems. Harvard scholar Daniel Isenberg calls this skill **strategic opportunism**—the ability to remain focused on long-term objectives while being flexible enough to resolve short-term problems and opportunities in a timely way.<sup>18</sup>

**Cognitive Styles** On August 24, 2001, Captain Robert Piché and First Officer Dirk de Jager demonstrated cool-headed thinking under pressure when their Air Transat flight 236 on its way to Lisbon, Portugal, from Toronto, Canada, suffered a complete loss of fuel over the Atlantic and the breakdown of both engines. The nearest landing field was 120 km away. Relying on his experience as a glider pilot, Piché flew the jet for eighteen minutes without power and made an emergency landing on the Azores, saving all 306 people on board. He also set a world record for flying farther than any other jet in history without power.<sup>19</sup>

This example highlights **cognitive styles**, the ways individuals deal with information while making decisions. The end-of-chapter self-assessment allows you to examine your own problem-solving cognitive style, and to assess your tendencies when gathering information—*sensation versus intuition*—and evaluating information—*feeling versus thinking*. Most likely, Captain Piché would score high in both sensation and thinking, an ideal cognitive style for a pilot.

People with different cognitive styles are likely to approach problems and make decisions in very different ways. It is helpful to understand the characteristics of the four styles shown in **Figure 7.4**, both as they apply to you and as you see them in others.<sup>20</sup>

- **Sensation Thinkers**—STs tend to emphasize the impersonal rather than the personal and take a realistic approach to problem solving. They like hard “facts,” clear goals, certainty, and situations characterized by high levels of control.



**FIGURE 7.4** The four different types of cognitive styles.

- **Intuitive Thinkers**—ITs are comfortable with abstraction and unstructured situations. They tend to be idealistic, prone to intellectual and theoretical positions; they are logical and impersonal but also tend to avoid details.
- **Intuitive Feelers**—IFs prefer broad and global issues. They are insightful and also tend to avoid details, being comfortable with intangibles; they value flexibility and human relationships.
- **Sensation Feelers**—SFs tend to emphasize both analysis and human relations. They primarily have a realistic approach and prefer facts to speculation; they are open communicators and sensitive to feelings and values.

## Types of Problem-Solving Skills

There are various kinds of problems that managers face that require different kinds of problem-solving skills.

**Structured and Unstructured Problems** Managers sometimes face **structured problems** that are familiar, straightforward, and have clear information needs. Because these problems are routine and occur over and over again, they can be dealt with through **programmed decisions** that use solutions or decision rules already available from past experience. Although not always entirely predictable, routine problems can be anticipated, allowing for decisions to be programmed in advance and then executed as needed. In human resource management, for example, structured problems are common whenever decisions are made about pay raises and promotions, vacation requests, committee assignments, etc. Forward-looking managers use their understanding of the nature of structured problems to decide in advance how to handle complaints and conflicts when and if they arise, essentially standardizing their approach to these decisions.

Managers also deal with **unstructured problems**; these are new or unusual situations characterized by ambiguities and information deficiencies. These problems require **nonprogrammed decisions** for which novel solutions are specifically crafted to meet the demands of the unique situation at hand. Many, if not most, problems faced by higher-level managers are unstructured, often involving having to make a choice among different strategies and objectives in uncertain situations.

**Crisis Problems** Think back to the chapter-opening example of shift leader Luis Urzúa and the Chilean mine disaster. This case represents one of the most challenging of all decision situations—a **crisis decision**. This appears as an unexpected problem that can lead to disaster if not resolved quickly and appropriately. The ability to handle a crisis could well be the ultimate test of any manager’s decision-making capabilities.<sup>21</sup> Urzúa certainly passed this test with flying colours. Not everyone does as well in crisis situations. In fact, we sometimes react to a crisis by doing exactly the wrong things.

Researchers tell us that managers often err in crisis situations by isolating themselves and trying to solve the problem alone or as part of a small closed group.<sup>22</sup> But this tendency to



close ranks limits access to crucial information at the very time that it is most needed. And it not only sets things up for poor decision-making—it may create even more problems as the situation escalates. When Toyota recalled over 5 million vehicles for quality defects—a real disaster for the brand—one observer said: “Crisis management does not get any more woeful than this.”<sup>23</sup> The poor crisis management was blamed on a corporate culture that discouraged transparency and public disclosure of quality problems. Toyota’s CEO Akio Toyoda and the firm were criticized for “initially denying, minimizing, and mitigating the problems.”<sup>24</sup>

Good information systems and active problem seeking can help managers get on top of crisis situations. Good preparation helps as well; there’s no need to wait for crises to hit before figuring out how best to deal with them. Managers can be assigned to crisis management teams, and crisis management plans can be developed to deal with various contingencies. Just as police departments and community groups plan ahead and train to handle civil and natural disasters, managers and work teams also can plan ahead and train to deal with organizational crises. Many organizations offer crisis management workshops to prepare managers for unexpected high-impact events that threaten an organization’s health and well-being. These programs address issues such as the six rules for crisis management, which follow.

1. *Figure out what is going on*—Take the time to understand what’s happening and the conditions under which the crisis must be resolved.
2. *Remember that speed matters*—Attack the crisis as quickly as possible, trying to catch it when it is still easily managed.
3. *Remember that slow counts, too*—Know when to back off and wait for a better opportunity to make progress with the crisis.
4. *Respect the danger of the unfamiliar*—Understand the danger of all-new territory where you and others have never been before.
5. *Value the skeptic*—Don’t look for and get too comfortable with agreement; appreciate skeptics and let them help you see things differently.

6. *Be ready to “fight fire with fire”*—When things are going wrong, you may have get imaginative to solve the crises, like building a backfire to stop a raging forest fire.

As we move past the initial COVID-19 crisis there will be lots of research and analysis conducted that reviews how our political and business leaders reacted in this time of crisis.

## Problem-Solving Environments

Figure 7.5 shows that problems must be solved in three different decision conditions or environments—certainty, risk, and uncertainty. Although managers have to make decisions in each of these environments, the conditions of risk and uncertainty are common at higher levels of management where problems are more complex and unstructured.

**Certain Environment** The most favourable decision situation for a manager or team leader is to face a problem in a **certain environment**. This is an ideal decision-making situation because full and complete factual information is available about possible alternative courses of action and their outcomes. The decision-maker’s task is simple: Study the alternatives and choose the best solution. Certain environments are nice, neat, and comfortable for decision-makers. However, very few managerial problems are certain.

**Risk Environment** A basic fact of managerial decision-making is that many, if not most, management problems emerge in **risk environments** where facts and information on action alternatives and their consequences are incomplete. Decision-making in risk environments requires the use of *probabilities* to estimate the likelihood that a particular outcome will occur. Because probabilities are only possibilities, people vary in how they act under risk conditions. Some of us are risk takers and some are risk avoiders; some of us gain from taking risks and others lose.

Former Domino’s Pizza CEO J. Patrick Doyle was a risk taker. When deciding to change the firm’s pizza recipe, he ran a television ad admitting that customers really disliked the old

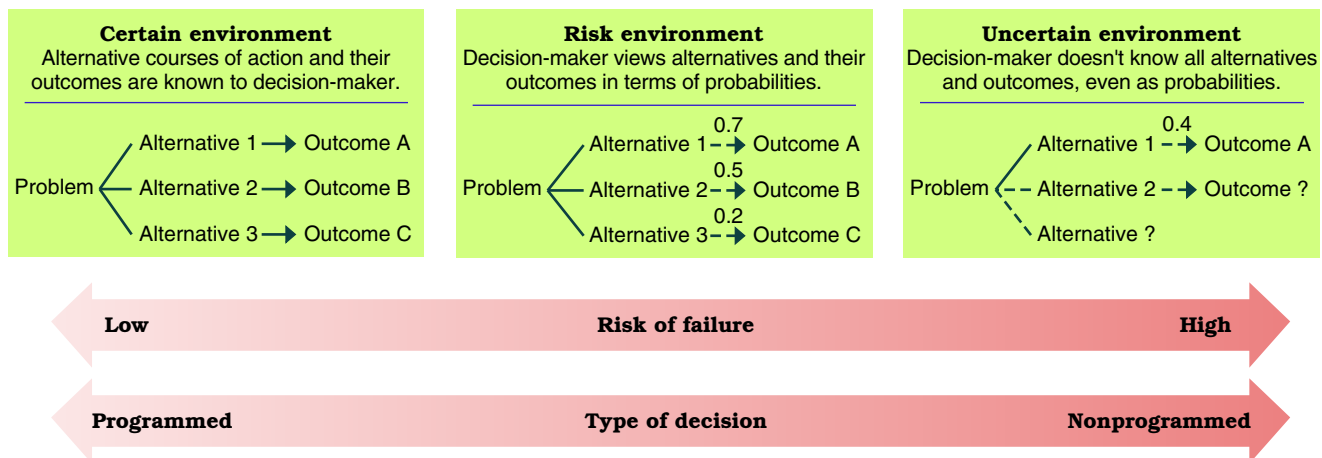


FIGURE 7.5 Three environments for problem solving and decision-making.

one because they felt it was “totally devoid of flavour” and had a crust “like cardboard.” Whereas some executives might want to hide or downplay such customer reviews, Doyle used them to help launch the new recipe. He said it was a “calculated risk” and that Domino’s was proving to their customers that they were “listening to them by brutally accepting the criticism that’s out there.”<sup>25</sup>

General Motors’ former Vice Chairman of Global Product Development Bob Lutz wasn’t a risk taker. He once said: “GM had the technology to do hybrids back when Toyota was launching the first Prius, but we opted not to ask the board to approve a product program that’d be destined to lose hundreds of millions of dollars.”<sup>26</sup> He and other GM executives either miscalculated the probabilities of positive payoffs from hybrid vehicles or didn’t think the probabilities were high enough to justify the financial risk. Their Japanese competitors, facing the same risk environment, decided differently and gained the early mover advantage.

**Uncertain Environment** When facts are few and information is so poor that managers are unable to even assign probabilities to the likely outcomes of alternatives, an **uncertain environment** exists. This is the most difficult decision-making condition. The high level of uncertainty forces managers to rely heavily on intuition, judgement, informed guessing, and hunches—all of which leave considerable room for error. Perhaps there is no better example of the challenges of uncertainty than the situation faced by government and business leaders as they try to deal with global economic turmoil. Even as they struggle to find the right paths forward, great political, social, and economic uncertainties make their tasks difficult and the outcomes of their decisions hard to predict.

## Learning Check

**LEARNING OBJECTIVE 7.2** Identify different ways managers approach and deal with problems.

**Be Sure You Can** • describe how information influences the four functions of management • define problem solving and decision-making • explain systematic and intuitive thinking • list four cognitive styles in decision-making • differentiate programmed and nonprogrammed decisions • describe the challenges of crisis decision-making • explain decision-making in certain, risk, and uncertain environments

## 7.3 The Decision-Making Process

### LEARNING OBJECTIVE 7.3

Explain the six steps in the decision-making process.

#### Learn More About

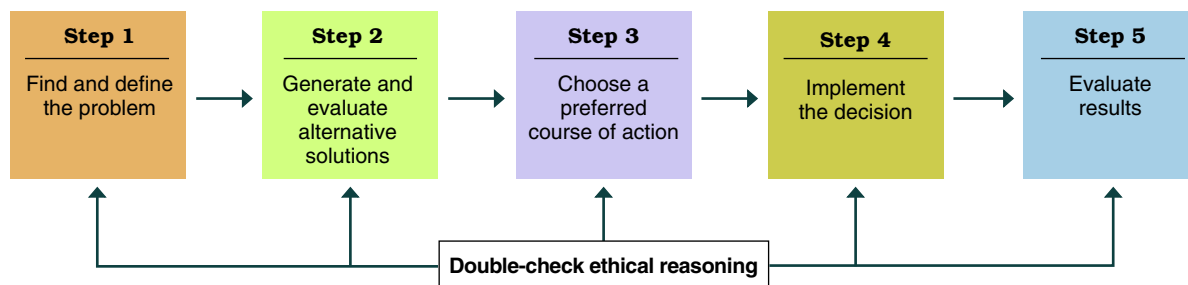
Identify and define the problem • Generate and evaluate alternative courses of action • Choose a preferred course of action • Implement the decision • Evaluate results • At all steps—check ethical reasoning

All of those case studies, experiential exercises, class discussions, and even essay exam questions in your courses are intended to get you to experience some of the complexities involved in managerial decision-making, the potential problems and pitfalls, and even the pressures of crisis situations. From the classroom forward, however, it’s all up to you. Only you can determine whether you step up and make the best of very difficult problems, or collapse under pressure.

**Figure 7.6** describes six steps in the **decision-making process**: (1) identify and define the problem, (2) generate and evaluate alternative solutions, (3) choose a preferred course of action, (4) implement the decision, (5) evaluate results, and (6) double check ethical reasoning.<sup>27</sup> Importantly, ethical reasoning should be assessed in all five steps. The decision-making process can be understood within the context of the following short case.

*The Ajax Case.* On December 31, the Ajax Company decided to close down its Murphysboro plant. Market conditions (competition from global organizations) were forcing layoffs, and the company could not find a buyer for the plant. Some of the 172 employees had been with the company as long as 18 years; others as little as six months. All were to be terminated. Under company policy, they would be given severance pay equal to one week’s pay per year of service.

This case reflects how competition, changing times, and the forces of globalization can take their toll on organizations, the people who work for them, and the communities in which they



**FIGURE 7.6** Steps in the decision-making process.

operate. Think about how you would feel as one of the affected employees. Think about how you would feel as the mayor of this small town. Think about how you would feel as a corporate executive forced to make the difficult business decision to close the plant down.

## Step 1—Identify and Define the Problem

The first step in decision-making is to find and define the problem. Information gathering and deliberation are critical in this stage. The way a problem is defined can have a major impact on how it is resolved, and it is critical here to clarify exactly what a decision should accomplish. The more specific the goals, the easier it is to evaluate results after the decision is actually implemented. But three common mistakes can occur in this critical first step in decision-making.<sup>28</sup>

*Mistake number one* is defining the problem too broadly or too narrowly. To take a classic example, the problem stated as “build a better mousetrap” might be better (that is, less narrowly) defined as “get rid of the mice.” Managers should define problems in ways that give them the largest possible range of problem-solving options.

*Mistake number two* is focusing on symptoms instead of causes. Symptoms are indicators that problems may exist, but they shouldn’t be mistaken for the problems themselves. Although managers should be alerted to spotting problem symptoms (e.g., a drop in performance), they must also dig deeper to address root causes (such as discovering that workers need training in the use of a new IT system).

*Mistake number three* is choosing the wrong problem to deal with at a particular point in time. For example, which of these three problems would you address first on a busy workday? 1—You receive an e-mail message from your boss requesting a proposal “as soon as possible” on how to handle employees’ complaints about lack of flexibility in their work schedules. 2—One of your best team members has just angered another by loudly criticizing her work performance. 3—Your working spouse has left you a voice mail that your daughter is sick at school and the nurse would like her to go home for the day. Choices like this are not easy. We have to set priorities and

deal with the most important problems first. Perhaps your boss can wait while you telephone the school to learn more about your daughter’s illness and then spend some time with the employee who seems to be having “a bad day.”

*Back to the Ajax Case.* Closing the Ajax plant put a substantial number of people from the small community of Murphysboro out of work. The unemployment will have a significant negative impact on individuals, their families, and the town as a whole. The loss of the Ajax tax base will further hurt the community. The local financial implications of the plant closure will be great, and potentially devastating. The problem for Ajax management is how to minimize the adverse impact of the plant closing on the employees, their families, and the community.

## Step 2—Generate and Evaluate Alternative Courses of Action

Once a problem is defined, it is time to assemble the facts and information that can be used to solve it. This is where we clarify exactly what is known and what needs to be known. Extensive information gathering should identify alternative courses of action as well as their potential consequences. Key stakeholders in the problem should be identified, and the effects of possible courses of action on each of these should be considered. Importantly, a course of action can only be as good as the quality of the alternatives considered. The better the pool of alternatives and the more that is known about them, the more likely it is that a good decision will be made.

It is important at this stage to avoid a very common decision-making error—*abandoning the search for alternatives and evaluation of their consequences too quickly*. This often happens due to impatience, time pressure, and plain old lack of commitment. But just because one alternative is convenient doesn’t make it the right one. It may well have less potential than others that might be discovered with the right approach and adequate time commitment.

Another factor that can hinder decision-making at this stage is a lack of self-confidence, as discussed in Management Is Real 7.2.

### Management Is Real 7.2: Insight | Keep Learning about Yourself

**Lacking in confidence, many of us resort to procrastination. Too many of us have difficulty deciding, and we have difficulty acting.**

#### Self-Confidence Builds Better Decisions

Does confidence put a spring into your step and a smile on your face? It’s a powerful force, something to be nurtured and protected. Managers need the self-confidence not only to make decisions but to take the actions required to implement them. Once decisions are made, managers are expected to rally people to utilize resources

and take effective action. This is how problems actually get solved and opportunities get explored. But lacking in confidence, many of us resort to procrastination. Too many of us have difficulty deciding, and we have difficulty acting.

How would you proceed with the following situation—option A, or B, or C?

**Situation:** A massive hurricane has damaged a railroad bridge over a large lake. The bridge is critical for relief efforts to aid a devastated city. You are leading a repair team of 100. Two alternatives are on the table: Rebuild using new tracks, or rebuild with old track salvaged from the lake.

**Question:** How do you proceed?

- A. Decide to rebuild with new tracks; move quickly to implement.
- B. Decide to rebuild with old tracks; move quickly to implement.
- C. Consult with team; make decision; move quickly to implement.

Jeff McCracken was the team leader who actually had to deal with this situation. He acted deliberately, with confidence, and in a collaborative fashion. After extensive consultations with the team, he decided to salvage the old track. The team worked 24 hours a day and finished in less than a week. McCracken called it a “colossal job” and said the satisfaction came from “working with people from all parts of the company and getting the job done without anyone getting hurt.”

Self-confidence doesn’t mean acting alone, but it does mean being willing to act. Management consultant Ram Charan calls self-confidence a willingness to “listen to your own voice” and

“speak your mind and act decisively.” It is, he says, an “emotional fortitude” that counteracts “emotional insecurities.”

#### Get to Know Yourself Better

Opportunities to improve your self-confidence are everywhere, but you have to act in order to take advantage of them. Think about your involvement in student organizations, recreational groups, intramural sports teams, and community activities? Do a self-check: Make a list of things you are already doing that offer ways to build your self-confidence. What are you gaining from these experiences? Make another list that describes what you could do to gain more experience and add more self-confidence to your skills portfolio between now and graduation. Becoming a leader in a club where you are a member? Starting a new student organization? Organizing a community service project for you and your friends? Becoming a tutor for a class in which you did well? Volunteering at a local food bank or homeless shelter?

Decisions often have **unintended consequences** in the form of unanticipated positive or negative side effects. If alternatives are given proper attention, some of these can be identified ahead of time and their implications used to modify and strengthen a decision. A growing number of provinces, for example, are passing minimum wage laws higher than the national average. Although the intent is to help low-wage workers fight poverty and cope with living costs, unintended consequences have appeared as affected employers struggle to maintain profits in face of higher labour costs. On the positive side, the higher wages have sometimes driven innovation—for example, a Tim Horton’s franchise owner in Niagara Falls, Ontario, tracks how long it takes to greet customers, take an order, and fulfill it, to provide quicker service in order to save labour costs. On the negative side, the higher wages have sometimes been indirectly related to layoffs and reduced work hours—for example, according to Statistics Canada, between 2009 and 2012, more Canadians over the age of 55 were permanently laid off than required in order to achieve the cost-saving measures necessitated by the higher wages long-term employees now receive.<sup>29</sup>

One way to strengthen the search for alternatives when making decisions is to actively seek consultation and the involvement of others. Adding more people to the process helps bring new perspectives and information to bear on a problem, generates more alternatives for consideration, reveals more about the possible consequences of the alternatives, and can result in a chosen course of action that is better for everyone involved—and potentially affected by—the decision. Another way to strengthen the search for alternatives is to put each through a systematic and rigorous **cost-benefit analysis**. This process compares what an alternative will cost relative to what it will return in respect to expected benefits. At a minimum, the benefits of an alternative should be greater than its costs for it to stay in consideration. And, of course, it should also be ethically sound.

*Back to the Ajax Case.* The Ajax plant is going to be closed. Given that, the possible alternative decisions that can

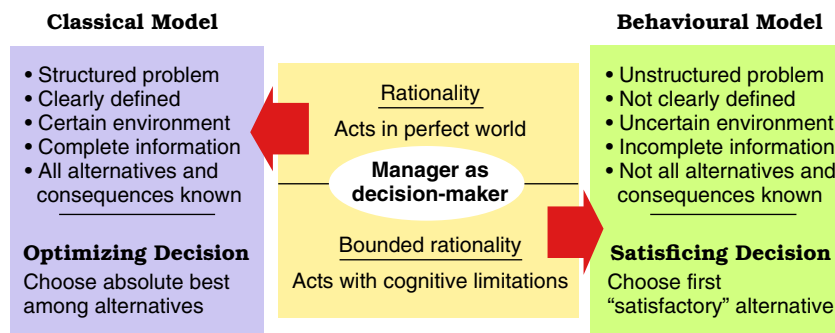
be considered are (1) close the plant on schedule and be done with it; (2) delay the plant closing until all efforts have been made to sell it to another firm; (3) offer to sell the plant to the employees and/or local interests; (4) close the plant and offer transfers to other Ajax plant locations; or (5) close the plant, offer transfers, and help the employees find new jobs in and around the town of Murphysboro.

## Step 3—Choose a Preferred Course of Action

This is the point where an actual decision has to be made to select a preferred course of action. Just how this decision occurs and who makes it must be successfully resolved in each problem situation. Management theory recognizes rather substantial differences between the classical and behavioural models of decision-making, as shown in **Figure 7.7**.

**Classical Decision Model** The **classical decision model** views the manager as acting rationally in a certain world. The assumption is that a rational choice of the preferred course of action will be made by a decision-maker who is fully informed about all possible alternatives. Here, managers face a clearly defined problem and know all possible action alternatives, as well as their consequences. As a result, managers make an **optimizing decision** that gives the absolute best solution to the problem.

**Behavioural Decision Model** Behavioural scientists question the assumption of perfect information underlying the classical model of decision-making. Perhaps best represented by the work of scholar Herbert Simon, behavioural decision-making theory instead recognizes that there are *cognitive limitations* on our human information-processing capabilities.<sup>30</sup> These limits make it hard for managers to become fully informed and to always make optimal decisions. They create a **bounded rationality**, such that managerial



**FIGURE 7.7** Differences in the classical and behavioural decision-making models.

decisions are rational only within the boundaries set by the available information and known alternatives, both of which are incomplete.

Because of cognitive limitations and bounded rationalities, the **behavioural decision model** assumes that people act with only partial knowledge about the available action alternatives and their consequences. As a consequence, the first alternative that appears to offer a satisfactory resolution to the problem is likely to be chosen. Simon, who won a Nobel Prize for his work, calls this the tendency to make **satisficing decisions**—choosing the first satisfactory alternative that comes to your attention. The behavioural model is useful in describing the way in which many decisions get made in the ambiguous and fast-paced problem situations faced by managers today.

*Back to the Ajax Case.* Ajax executives decided to close the plant, offered transfers to company plants in another province, and offered to help displaced employees find new jobs in and around Murphysboro.

## Step 4—Implement the Decision

Once a decision is made, action must be taken to fully implement it. Nothing new can happen unless action is taken to actually solve the problem. Managers not only need the determination and creativity to arrive at a decision, they also need the ability and willingness to implement it.

Difficulties encountered when implementing decisions may trace to **lack-of-participation error**. This is a failure to adequately involve in the process individuals whose support is necessary to put the decision into action. Managers who use participation wisely get the right people involved in problem solving from the beginning. In these cases, implementation typically follows quickly, smoothly, and to the satisfaction of all stakeholders.

*Back to the Ajax Case.* Ajax ran ads in the local and regional newspapers. The ads called attention to an “Ajax skill bank” composed of “qualified, dedicated, and well-motivated employees with a variety of skills and experiences.” Interested employers were urged to contact Ajax for further information.

## Step 5—Evaluate Results

The decision-making process is not complete until results are evaluated. If the desired outcomes are not achieved or if undesired side effects result, corrective action should be taken. Evaluation is a form of managerial control. It involves gathering data to measure performance results and comparing these results against established goals. If results are less than what is desired, it is time to reassess and return to earlier steps. In this way, problem solving becomes a dynamic and ongoing activity within the management process. Evaluation is always easier when clear goals, measurable targets, and timetables are established at the outset of the process.

*Back to the Ajax Case.* How effective were Ajax’s decisions? We don’t know for sure. But after the advertisement ran for two weeks, the plant’s industrial relations manager said: “I’ve been very pleased with the results.” That’s all we know, and more information would certainly be needed for a good evaluation of how well management handled this situation. Wouldn’t you like to know how many of the displaced employees got new jobs locally and how the local economy held up? You can look back on the case as it was described and judge for yourself. Perhaps you would have approached the situation and the five decision-making steps somewhat differently.

## At All Steps—Check Ethical Reasoning

Each step in the decision-making process can and should be assessed with ethical reasoning.<sup>31</sup> The choices often have moral dimensions that might easily be overlooked (see Management Is Real 7.3). For example, job eliminations in the Ajax case might not be sufficiently considered for their implications on all stakeholders, including the affected persons, their families, and the local community. We sometimes have to take special care to stay tuned into *virtues*—things like fairness, kindness, compassion, and generosity—and guard against *vices*—things like greed and the desire for power.<sup>32</sup>

One way to check ethical reasoning in decision-making is to ask and answer pointed questions that bring critical thinking into the process. Gerald Cavanagh and his associates, for

## Management Is Real 7.3: Ethics | Know Right from Wrong

“Human life is far more important than just getting to the top of a mountain.”

### Climber Left to Die on Mount Everest

Some 40 climbers are winding their way to the top of Mount Everest. About 300 metres below the summit sits a British mountain climber in trouble, collapsed in a shallow snow cave. Most of those on the way up just look at him while continuing their climbs. Sherpas from one passing team pause to give him oxygen before moving on. Within hours David Sharp, 34, is dead of oxygen deprivation on the mountain.

A climber who passed him says: “At 28,000 feet (8500 metres) it’s hard to stay alive yourself ... he was in very poor condition ..., it was a very hard decision ... he wasn’t a member of our team.”

Someone who made the summit in the past says: “If you’re going to go to Everest ... I think you have to accept responsibility that you may end up doing something that’s not ethical ... you have to realize that you’re in a different world.”

After hearing about this case, the late Sir Edmund Hillary, who reached the top in 1953, said: “Human life is far more important than just getting to the top of a mountain.”

#### What Do You Think?

Who’s right and who’s wrong here? Should the climbers have ignored Sharp and continued on their way to the top of Mount Everest? Does this situation happen in the business world—not



BOBBY MODEL/National Geographic Image Collection

on mountains but in our workplaces? How often do we meet people who are struggling or in trouble, but just pass them by as we pursue our own career interests and personal goals? When we encounter others who are having difficulties, what are our ethical or moral obligations to them? How do we make choices between what is best for us versus what is best for others?

example, suggest that a decision should test positive on these four ethics criteria.<sup>33</sup>

1. **Utility**—Does the decision satisfy all constituents or stakeholders?
2. **Rights**—Does the decision respect the rights and duties of everyone?
3. **Justice**—Is the decision consistent with the canons of justice?
4. **Caring**—Is the decision consistent with my responsibilities to care?

Another way to test ethical reasoning is to consider a decision in the context of full transparency and the prospect of shame.<sup>34</sup> Three **spotlight questions** can be helpful in this regard. *Ask:* (1) “How would I feel if my family found out about this decision?” (2) “How would I feel if this decision were published in the local newspaper or posted on the Internet?” (3) “What would the person I know who has the strongest character and best ethical judgement do in this situation?”

It also is helpful to check decisions against the hazards of excessive rationalizations. Caution is called for when you hear yourself or others saying, “It’s just part of the job” ... “We’re fighting fire with fire” ... “Everyone is doing it” ... “I’ve got it coming” ... “It’s legal and permissible” ... “I’m doing it just for you.” Such comments or thoughts are warning signs. If these signs are heeded, it can prompt you to review the decision and perhaps lead to a more ethical outcome.

## Learning Check

**LEARNING OBJECTIVE 7.3** Explain the six steps in the decision-making process.

**Be Sure You Can** • list the steps in the decision-making process • apply these steps to a sample decision-making situation • explain cost-benefit analysis in decision-making • discuss differences between the classical and behavioral decision models • define optimizing and satisficing • explain how lack-of-participation error can hurt decision-making • list useful questions for double-checking the ethical reasoning of a decision

## 7.4 Decision-Making Pitfalls, Creativity, and Integrative Thinking

**LEARNING OBJECTIVE 7.4**

Describe the potential pitfalls and sources of creativity in managerial decision-making.

### Learn More About

Decision errors and traps • Creativity in decision-making • Integrative thinking

Once we accept the fact that we are likely to make imperfect decisions at least some of the time, it makes sense to try to understand why. Two common mistakes are falling prey to decision errors and traps, and not taking full advantage of creativity. Both can be easily avoided.

## Decision Errors and Traps

*Test:* Would you undergo heart surgery if the physician told you the survival rate is 90 percent? Chances are you would. But if the physician tells you the mortality rate is 10 percent, the chances of you opting for surgery are likely to be substantially lower!

What is happening here? Well-intentioned people often rely on simplifying strategies when making decisions with limited information, time pressures, and even insufficient energy. Psychologist Daniel Kahneman describes this as a triumph of *System 1 thinking*—automatic, effortless, quick, and associative—over *System 2 thinking*—conscious, slow, deliberate, and evaluative.<sup>35</sup> In the above test, the simplification of System 1 thinking is called “framing” because the decision to have surgery or not varies according to whether the odds are presented as a survival rate—encouraging, or a mortality rate—threatening.<sup>36</sup> This and other simplifying strategies are known as **heuristics**.<sup>37</sup> Although heuristics can be helpful in dealing with complex and ambiguous situations, they also lead to common decision-making errors.<sup>38</sup>

**Framing Error** Managers sometimes make a **framing error** whereby they evaluate and resolve a problem according to the context in which it is perceived—either positively or negatively. Suppose, for example, data show that a particular product has a 40 percent market share. A negative frame views

## Management Is Real 7.4: Choices | Think before You Act

“Bye-bye telecommuting” was the message. Mayer’s stated goal was to bring face-to-face collaboration back to the Yahoo! culture and increase innovation.

### Risks of Performance Reviews and Performance Boxes

Two longstanding facts of life in organizations have been that people get reviews on their performance and that managers put people into performance categories. Both practices are being reconsidered as a new generation takes its place in the workforce.

Let’s start with performance reviews. The traditional model is an annual or semi-annual review that gets documented and placed in the employee’s record. It’s likely tied to things like merit raises and possible promotions. But research is raising questions about its value. One study found that at least half of workers are surprised by the ratings they get and 90% of them are disappointed because they expected higher ratings. Of them, almost a quarter report a decline in their job engagement.

Now, let’s talk about performance categories. Most reviews “score” employees for their performance—perhaps assigning “A” for top performer, “B” for average performer, and “C” for poor performer. This is great if you’re an A, but how do the Bs and Cs react to this feedback? Their first thought might be to question the basis for the rating. Why? Their second thought might be more extreme: “I’m out of here.” At Microsoft, for example, ratings under the old performance review system caused problems. Lisa Dodge, as director of global performance programs, said: “We hired all-their-lives A students, and they couldn’t believe that they were getting a C (in their review).”

In light of research and pushback, some employers are shifting their approaches. At Cigna, ratings are out and frequent performance chats with managers are in. The goal is effective coaching rather than scoring. And, results are positive. One employee says: “This is the first honest conversation I’ve had with my manager about me, about what I should do, instead of these goals that aren’t really related to me.” Microsoft has also downplayed ratings and



—/123 RF

switched to the frequent conversation model. According to Dodge: “The lack of rating ... mitigates the threat, the distraction, and internal competition.”

Not everyone agrees that the shift to no ratings or rankings is the best move. One consultant argues: “You can still have good numerical rankings that motivate people if you put as much effort into the quality of the conversation.”

### Your Take?

As the hypothetical employee, does a frequent conversation with a manager rather than an annual formal performance review approach appeal to you? Or, would you feel the need for a more definitive rating that clearly puts you into a performance category? How about as a team leader? Would you be comfortable engaging in frequent performance chats and communicating about development goals with team members, rather than handing out ratings to team members? Might the approach to performance reviews be something that makes a difference in your choice of employer? Are you prepared to raise this issue while interviewing, and put your views and hopes on the table?

the product as deficient because it is missing 60 percent of the market. The likely discussion would focus on: “What are we doing wrong?” Alternatively, the frame could be a positive one, looking at the 40 percent share as a strong market foothold. In this case the discussion is more likely to proceed with “How can we do things better?” Sometimes people use framing as a tactic for presenting information in a way that gets other people to think within the desired frame. In politics, this is often referred to as “spinning” the data. When Yahoo!’s CEO decided to ban telecommuting, she was probably framing it negatively, blaming it for decreased collaboration and innovation, rather than considering the benefits of telecommuting. In light of the recent pandemic, reflect on how people are now framing the “work from home” argument.

**Availability Bias** *Availability bias* occurs when people assess a current event or situation by using information that is “readily available” from memory. An example is deciding not to invest in a new product based on your recollection of a recent product failure. The potential bias occurs because the readily available information is fallible and might be irrelevant. For example, the product that recently failed may have been a good idea that was released to market at the wrong time of year, or it may have belonged to an entirely different product category.

**Representativeness Bias** The *representativeness bias* occurs when people assess the likelihood of something happening based on its similarity to a stereotyped set of occurrences. An example is deciding to hire someone for a job vacancy simply because he or she graduated from the same school attended by your last and most successful new hire. The potential bias is that the representative stereotype masks factors important and relevant to the decision. For instance, the abilities and career expectations of the job candidate may not fit the job requirements regardless of the school attended.

**Anchoring and Adjustment Bias** *Anchoring and adjustment bias* occurs when decisions are influenced by inappropriate deference to a previous value or starting point. An example is a manager who sets a new salary level for an employee by simply raising her prior year’s salary by a small percentage. Although the increase may appear reasonable to the manager, the decision actually undervalues the employee relative to the job market. The small incremental salary adjustment, reflecting anchoring and adjustment bias, may end up prompting her to look for another, higher-paying job.

**Confirmation Error** One of our tendencies after making a decision is to try to find ways to justify it. In the case of unethical acts, for example, we try to “rationalize” them after the fact. This is called *confirmation error*. It means that we notice, accept, and even seek out only information that confirms or is consistent with a decision we have just made.

Contrary information that suggests what we are doing is incorrect or unethical is downplayed or denied.

**Escalating Commitment** Another decision-making trap is *escalating commitment*. This takes the form of making a decision to increase effort and perhaps apply more resources to pursue a course of action that is not working.<sup>39</sup> Managers prone to escalation let the momentum of a situation and personal ego overwhelm them. They are unwilling to admit they were wrong and unable to “call it quits,” even when the facts indicate that this is the best option. This is a common decision error, perhaps one that you are personally familiar with. It is sometimes called the *sunk-cost fallacy*. The following are tips on how to avoid tendencies toward escalating commitments to previously chosen, but unsuccessful, courses of action.<sup>40</sup>

- Set advance limits on your involvement and commitment to a particular course of action; stick with these limits.
- Make your own decisions. Don’t follow the leads of others, since they may also be prone to escalation.
- Carefully assess why you are continuing a course of action. If there are no good reasons to continue, don’t.
- Remind yourself of what a course of action is costing; consider saving these costs as a reason to discontinue.
- Watch for escalation tendencies in your behaviours and those of others.

## Creativity in Decision-Making

*Situation*—Elevator riders in a new high-rise building are complaining about long waiting times.

*Building engineers’ advice*—Upgrade the entire system at substantial cost. *Why?* He assumes that any solutions to a slow elevator problem have to be mechanical ones.

*Creativity consultant’s advice*—Place floor-to-ceiling mirrors by the elevators. *Why?* People, he believes, will not notice waiting times if they are distracted by their and others’ reflections.

*Outcome*—The creativity consultant was right.<sup>41</sup>

**Creativity** in decision-making shows up as a novel idea or unique approach to solving problems or exploiting opportunities.<sup>42</sup> The potential for creativity is one of our greatest personal assets, although we often let it go unrealized. One reason is that we focus too much on what researchers call **Big-C creativity**—when extraordinary things are done by exceptional people.<sup>43</sup> Think Big-C creativity when you use or see someone using an iPhone or iPad—Steve Jobs’s creativity, or browse Facebook—Mark Zuckerberg’s creativity.

Don’t get sidetracked by focusing on Big-C creativity alone. There is lots of **Little-C creativity** around also. It occurs when average people come up with unique ways to deal with daily situations. Think Little-C creativity, for example, the next time



## Management Is Real 7.5: Wisdom | Learn from Role Models

“As a sustainability champion, I can combine my passion for sustainability with my dream of becoming an innovative leader.”

### Faizan Ahmed’s Creative Decisions Fuel Sustainability Gains

It is not only possible to be creative within a public-sector organization, it’s imperative. Meet Faizan Ahmed, who works for the City of Mississauga, which has benefited from his “passion for sustainability.” His co-workers praised him for his “superb vision” and “sense of responsibility.” The program he developed, called “Green Leaders,” engages city employees in green behaviours to help improve the municipality’s organics waste management program.

In addition, he helped in developing a cycling ambassador program that encourages residents to voluntarily ride Mississauga’s trails and report problems back to the city staff. He also worked on securing grants aimed at developing community gardens for city residents.

He enrolled in the inaugural Master of Science in Sustainability Management program at the University of Toronto. Even his professors praise his activism. “He truly wants everyone to excel in the field of sustainability,” says a colleague. Says Ahmed, “As a sustainability champion, I can combine my passion for sustainability with my dream of becoming an innovative leader.”



ByMPhotos/iStock/Getty Images

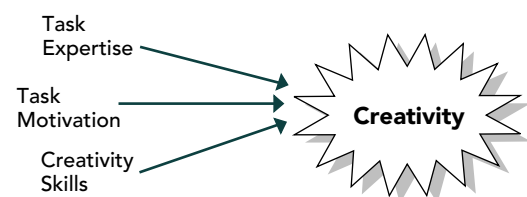
### Find Inspiration

Can you think of other ways that creative decision-making can help address the problem of environmental sustainability? In what ways might you consider the environment when making buying decisions? Are there areas of your own life where you can support sustainability—riding your bike, recycling, using reusable water bottles, buying eco-friendly products, and so on? Do you see sustainability as an advantage in the marketplace? Would you be more willing to buy a product manufactured completely out of post-consumer waste, specifically because it was an upcycled product? Why or why not?

you solve relationship problems at home, build something for the kids, or even find ways to pack too many items into too small a suitcase. Little-C creativity was probably at work for one enterprising employee of the City of Mississauga (see Management Is Real 7.5).

Just imagine what can be accomplished with all the creative potential—Big-C and Little-C—present in an organization. How do you turn that potential into creative decisions? David Kelley, founder of the design firm IDEO, believes that a lot, perhaps most, of us start to lose our creativity skills in primary school when we start being taught to look for answers to assigned problems and begin to fear failure when taking standardized tests<sup>42</sup>. But he also believes our creativity can be reenergized when we stop fearing failure and commit to **design thinking**. First comes *experiencing*—defining problems by research and observation; not simply accepting the parameters of a problem or issue as delivered. Second comes *ideation*—visualizing and brainstorming potential solutions in collaboration with others. Third comes *prototyping*—testing and modifying the potential solution over and over to achieve the best outcome.

**Personal Creativity Drivers** Figure 7.8 identifies task expertise, task motivation, and creativity skills as personal creativity drivers.<sup>45</sup> This three-component model points us in useful directions for personal creativity development as well as

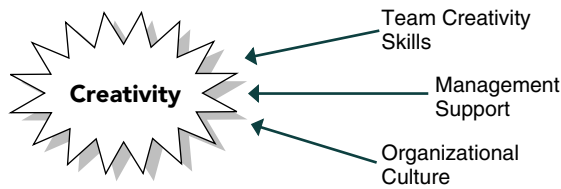


**FIGURE 7.8** The three types of personal creativity drivers.

toward management actions that can boost creativity in teams or work units.

Creative decisions are more likely to occur when an individual has a lot of *task expertise*. Creativity grows from extending something one is good at or knows about in new directions. And creative decisions are more likely to occur when someone is highly *task-motivated*, when people work exceptionally hard to resolve a problem or exploit an opportunity.

Creative decisions also emerge when people have strong personal *creativity skills*. Creative people tend to work with high energy, hold their ground in the face of criticism, and respond in a resourceful way in difficult situations. They have strong associative skills, meaning they are good at making connections among seemingly unrelated facts or events. Creative people also have developed strong behavioural skills of questioning, observing, networking, and experimenting.<sup>46</sup> They are



**FIGURE 7.9** The three types of situational creativity drivers.

good at synthesizing information to find correct answers (convergent thinking), looking at diverse ways to solve problems (lateral thinking), and thinking “outside of the box” (divergent thinking).<sup>47</sup>

**Situational Creativity Drivers** If you mix creative people and traditional organization and management practices, what will you get? You may not get enough. It takes more than individual creativity to make innovation a way of life in organizations. Situational creativity drivers are important too, as shown in **Figure 7.9**.

Managers should, of course, staff their organizations and teams with creative members. But they should also realize that *team creativity skills* are most likely to blossom when buoyed by *management support* and the right *organizational culture*. This support means having a team leader with the patience to allow for creative processes to work themselves out through a decision situation. It means having top management that is willing to accept and even celebrate failure, and to provide the resources—time, technology, and space—that are helpful to the creative process. It also means making creativity a top organizational priority and a core value of the organizational culture.

Think *creativity gained* the next time you see a young child playing with a really neat toy. It may be from Fisher-Price Toys—part of Mattel, Inc. In the firm’s headquarters you’ll find a special place called the “Cave,” and it’s not your typical office space. Picture beanbag chairs, soft lighting, and casual couches. It’s a place for brainstorming, where designers, marketers, engineers, and others can work together without pressure to come up with the next great toy for preschoolers. Consultants recommend that such innovation spaces be separated from the normal workplace and be large enough for no more than 15 to 20 people.<sup>48</sup>

Think *creativity wasted* the next time you watch TV on a beautiful, large, flat-panel screen. In 1964, George H. Heilmeyer showed his employers at RCA Labs his new discovery—a

liquid-crystal display, or LCD. They experimented with it until 1968 when RCA executives decided the firm was so heavily invested in colour TV tubes that they weren’t really interested. Today the market is dominated by Japanese, Korean, and Taiwanese producers, with not a single U.S. maker in the market. Ironically, Heilmeyer received the Kyoto Prize, considered Japan’s version of the Nobel Prize, for his pioneering innovation.<sup>49</sup>

## Integrative Thinking

**Integrative thinking** is a process that seeks to understand the tension between two opposing ideas from which creative solutions can emerge. It consists of three core principles: a way to understand your own mental models and their limitations (metacognition); a deeper understanding of others that helps illuminate the gaps in your thinking (empathy); and an imaginative way to create new ideas rather than simply choosing between existing options (creativity).<sup>50</sup> It’s a methodology that enables practitioners to combine the best elements of two opposing options. Instead of choosing one solution over another in a this-or-that type of decision-making that forces you to make a compromise between two unacceptable options, it allows you to take the best of both models in a reasoned exploration and extension of ideas (**Figure 7.10**).

The process differs from conventional ways of making decisions in several ways.

There are four essential stages involved in integrative thinking: (1) articulate the models, (2) examine the models, (3) explore new possibilities, and (4) assess prototypes. You are not judging the models or critiquing them; simply analyzing them.

**Stage 1: Articulate the models** First, frame the problem you would like to address. From that problem identify two extreme and opposing solutions (models) that will turn it into a two-sided dilemma. Even if there are many alternative solutions other than just two, this is a starting point that tends to reveal relevant information; then explain, in a few sentences, what each answer to your problem might look like if implemented and how it could affect key stakeholders.

**Stage 2: Examine the models** This is when you dig more deeply to discover how each model works. What aspects from each do you like? Ask: In what ways are these models

### Integrative Thinkers

- Consider the most important variables of a problem and seek out alternative or even contradictory data.
- Discover how the important variables interconnect and influence each other.
- Strive to keep the whole of the problem in sight while working on the individual parts.
- Strive for a creative resolution of the tension between options.

### Conventional Thinkers

- Simplify the problem as much as possible.
- Limit the possible causal relationships to simple one-way forces.
- Deal with the elements of the problem sequentially.
- Choose one option over another in a compromise or trade off.

**FIGURE 7.10** Integrative Thinking vs. Conventional Thinking<sup>51</sup>

similar and different? What are the implications of each? What drives the tension between these two models? What assumptions underlie each model?

**Stage 3: Explore the possibilities** From the components of each model you want to keep, ask: How might I turn the most valuable elements into a new model? What might it look like?

**Stage 4: Assess the prototype solutions** Share the solutions you like with a key stakeholder to see how well each possibility might work in practice to solve the problem. Test your results by making your ideas concrete through storyboards, sketches, drawings, physical modelling. This will help you clarify

and communicate your thinking. Then, make a decision based on the most plausible, realistic, and relevant solution.<sup>52</sup>

## Learning Check

**LEARNING OBJECTIVE 7.4** Describe the potential pitfalls and sources of creativity in managerial decision-making.

**Be Sure You Can** • explain the availability, representativeness, anchoring, and adjustment heuristics • illustrate framing error, confirmation error, and escalating commitment in decision making • identify key personal and situational creativity drivers

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 7.1** Discuss the roles of information, data, and analytics in management.

- Technological, information, and analytical competencies are all needed to take advantage of information technology in decision-making.
- Data are raw facts and figures; information is data made useful for decision making; useful information is timely, high quality, complete, relevant, and understandable.
- Management information systems collect, organize, store, and distribute data to meet the information needs of managers.
- Analytics is the systematic evaluation and analysis of information for decision-making. Data mining analyzes data to identify patterns, support predictions, and offer insights for decision makers. Big data is collected in huge quantities and is difficult to mine without using sophisticated mathematical and analytical techniques.
- Business intelligence systems organize and communicate data, often in the form of data visualization and executive dashboards, so that patterns and trends are evident to decision makers.

**For Discussion** What are the potential downsides to the ways IT is changing organizations?

**LEARNING OBJECTIVE 7.2** Identify different ways managers approach and deal with problems.

- Managers serve as information nerve centres in the process of planning, organizing, leading, and controlling activities in organizations.

- Managers can display problem avoidance, problem solving, and problem seeking in facing problems.
- Managers vary in the use of systematic and intuitive thinking, and in tendencies toward multidimensional thinking.
- Managers must understand the different cognitive styles people use in decision-making.
- Programmed decisions are routine solutions to recurring and structured problems; nonprogrammed decisions are unique solutions to novel and unstructured problems.
- Crisis problems occur unexpectedly and can lead to disaster if not handled quickly and properly.
- Managers face problems and make decisions under conditions of certainty, risk, and uncertainty.

**For Discussion** When would a manager be justified in acting as a problem avoider?

**LEARNING OBJECTIVE 7.3** Explain the six steps in the decision-making process.

- The steps in the decision-making process are (1) find and define the problem, (2) generate and evaluate alternatives, (3) decide on the preferred course of action, (4) implement the decision, and (5) evaluate the results.
- An optimizing decision, following the classical model, chooses the absolute best solution from a known set of alternatives.
- A satisficing decision, following the behavioral model, chooses the first satisfactory alternative to come to attention.
- To check the ethical reasoning of a decision at any step in the decision-making process, it is helpful to ask the ethics criteria questions of utility, rights, justice, and caring.

- To check the ethical reasoning of a decision at any step in the decision-making process, it is helpful to ask the spotlight questions that expose the decision to transparency in the eyes of family, community members, and ethical role models.

**For Discussion** Do the steps in the decision-making process have to be followed in order?

**LEARNING OBJECTIVE 7.4** Describe the potential pitfalls and sources of creativity in managerial decision-making.

- Common decision errors and traps include the availability, representation, and anchoring and adjustment biases, as well as framing error, confirmation error, and escalating commitment.

- Creativity in decision-making can be enhanced by the personal creativity drivers of individual creativity skills, task expertise, and motivation.
- Creativity in decision making can be enhanced by the situational creativity drivers of group creativity skills, management support, and organizational culture.

**For Discussion** Which decision trap seems most evident as an influence on bad choices made by business CEOs today?

## Chapter Glossary

**Analytical competency** The ability to evaluate and analyze information to make actual decisions and solve real problems.

**Analytics** The systematic gathering and processing of data to make informed decisions.

**Anchoring and adjustment bias** Decision-making based on incremental adjustments from a prior decision point.

**Availability bias** Decision-making based on recent information or events.

**Behavioural decision model** Decision-making with limited information and bounded rationality.

**Big data** Data that exist in huge quantities and are difficult to process without sophisticated mathematical and computing techniques.

**Big-C creativity** What occurs when extraordinary things are done by exceptional people.

**Bounded rationality** Making decisions within the constraints of limited information and alternatives.

**Business intelligence** The process of tapping information systems to extract and report data in organized ways that are helpful to decision-makers.

**Certain environment** An environment that offers complete information on possible action alternatives and their consequences.

**Classical decision model** Decision-making with complete information.

**Cognitive styles** The ways individuals deal with information while making decisions.

**Confirmation error** What occurs when focusing only on information that confirms a decision already made.

**Cost-benefit analysis** A comparison of the costs and benefits of each potential course of action.

**Creativity** The generation of a novel idea or unique approach that solves a problem or crafts an opportunity.

**Crisis decision** A decision required when an unexpected problem arises that can

lead to disaster if not resolved quickly and appropriately.

**Data** Raw facts and observations.

**Data mining** The process of analyzing data to produce useful information for decision-makers.

**Decision** A choice among possible alternative courses of action.

**Decision-making process** A process that begins with identification of a problem and ends with evaluation of results.

**Design thinking** Thinking that unlocks creativity in decision-making through a process of experiencing, ideation, and prototyping.

**Escalating commitment** The continuation of a course of action even though it is not working.

**Executive dashboard** Technology that visually displays graphs, charts, and scorecards of key performance indicators and information on a real-time basis.

**Framing error** Trying to solve a problem in the context in which it is perceived.

**Heuristics** Strategies for simplifying decision-making.

**Information** Data made useful for decision-making.

**Information competency** The ability to locate, gather, and organize information for use in decision-making.

**Integrative thinking** A process that seeks to understand the tension between two opposing ideas from which creative solutions can emerge.

**Intuitive thinking** Thinking that approaches problems in a flexible and spontaneous fashion.

**Lack-of-participation error** Failure to involve in a decision the persons whose support is needed to implement it.

**Little-C creativity** What occurs when average people come up with unique ways to deal with daily events and situations.

**Management information systems** Systems that collect, organize, and distribute data for use in decision-making.

**Multidimensional thinking** An ability to address many problems at once.

**Nonprogrammed decision** A decision that applies a specific solution crafted for a unique problem.

**Optimizing decision** A decision that chooses the alternative giving the absolute best solution to a problem.

**Performance opportunity** A situation that offers the chance for a better future if the right steps are taken.

**Performance threat** A situation in which something is obviously wrong or has the potential to go wrong.

**Problem avoiders** People who ignore information indicating a performance opportunity or threat.

**Problem seekers** People who constantly process information looking for problems to solve, even before they occur.

**Problem solvers** People who try to solve problems when they occur.

**Problem solving** Identifying and taking action to resolve problems.

**Programmed decision** A decision that applies a solution from past experience to a routine problem.

**Representativeness bias** Basing a decision on similarity to other situations.

**Risk environment** An environment that lacks complete information but offers “probabilities” of the likely outcomes for possible action alternatives.

**Satisficing decision** The choice of the first satisfactory alternative that comes to one’s attention.

**Spotlight questions** Questions that test the ethics of a decision by exposing it to scrutiny through the eyes of family, community members, and ethical role models.

**Strategic opportunism** The ability to remain focused on long-term objectives while

being flexible in dealing with short-term problems.

**Structured problems** Problems that are straightforward and clear with respect to information needs.

**Systematic thinking** Thinking that approaches problems in a rational and analytical fashion.

**Technological competency** The ability to understand new technologies and to use them to their best advantage.

**Uncertain environment** An environment that lacks so much information that it is difficult to assign probabilities to the likely outcomes of alternatives.

**Unintended consequences** Unanticipated positive or negative side effects that result from a decision.

**Unstructured problems** Problems that have ambiguities and information deficiencies.

## Self-Test 7

### Multiple-Choice Questions

- Among the ways information technology is changing organizations today, \_\_\_\_\_ is one of its most noteworthy characteristics.
  - eliminating need for top managers
  - reducing information available for decision-making
  - breaking down barriers internally and externally
  - decreasing need for environmental awareness
- Whereas management information systems use the latest technologies to collect, organize, and distribute data, \_\_\_\_\_ involves tapping the available data to extract and report it in organized ways that are most useful to decision-makers.
  - analytics
  - business intelligence
  - anchoring and adjustment
  - optimizing
- A manager who is reactive and works hard to address problems after they occur is known as a \_\_\_\_\_.
  - problem seeker
  - problem avoider
  - problem solver
  - problem manager
- A(n) \_\_\_\_\_ thinker approaches problems in a rational and an analytic fashion.
  - systematic
  - intuitive
  - internal
  - external
- A person likes to deal with hard facts and clear goals in a decision situation; she also likes to be in control and keep things impersonal. This person's cognitive style tends toward \_\_\_\_\_.
  - sensation thinking
  - intuitive thinking
  - sensation feeling
  - intuitive feeling
- The assigning of probabilities for action alternatives and their consequences indicates the presence of \_\_\_\_\_ in the decision environment.
  - certainty
  - optimizing
  - risk
  - satisficing
- The first step in the decision-making process is to \_\_\_\_\_.
  - identify alternatives
  - evaluate results
  - find and define the problem
  - choose a solution
- Being asked to develop a plan to increase international sales of a product is an example of the types of \_\_\_\_\_ problems that managers must be prepared to deal with.
  - routine
  - unstructured
  - crisis
  - structured
- Costs, timeliness, and \_\_\_\_\_ are among the recommended criteria for evaluating alternative courses of action.
  - ethical soundness
  - competitiveness
  - availability
  - simplicity
- A common mistake made by managers in crisis situations is that they \_\_\_\_\_.
  - try to get too much information before responding
  - rely too much on group decision-making
  - isolate themselves to make the decision alone
  - forget to use their crisis management plan
- The \_\_\_\_\_ decision model views managers as making optimizing decisions, whereas the \_\_\_\_\_ decision model views them as making satisficing decisions.
  - behavioural, human relations
  - classical, behavioural
  - heuristic, humanistic
  - quantitative, behavioural
- When a manager makes a decision about someone's annual pay raise only after looking at his or her current salary, the risk is that the decision will be biased because of \_\_\_\_\_.
  - a framing error
  - escalating commitment
  - anchoring and adjustment
  - strategic opportunism
- When a problem is addressed according to the positive or negative context in which it is presented, this is an example of \_\_\_\_\_.
  - framing error
  - escalating commitment
  - availability and adjustment
  - strategic opportunism
- When a manager decides to continue pursuing a course of action that facts otherwise indicate is failing to deliver desired results, this is called \_\_\_\_\_.
  - strategic opportunism
  - escalating commitment
  - confirmation error
  - the risky shift
- Personal creativity drivers include creativity skills, task expertise, and \_\_\_\_\_.
  - emotional intelligence
  - management support
  - organizational culture
  - task motivation

### Short-Response Questions

- What is the difference between an optimizing decision and a satisficing decision?
- How can a manager double-check the ethics of a decision?
- How would a manager use systematic thinking and intuitive thinking in problem solving?

19. How can the members of an organization be trained in crisis management?

### Essay Question

20. As a participant in a new mentoring program between your university and a local high school, you have volunteered to give a

presentation to a Grade 10 class on the challenges to be found in the new “electronic office.” The goal is to sensitize these high school students to developments in information technology and motivate them to take the best advantage of their high school academics so as to prepare themselves for the workplace of the future. What will you say to them?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. Tired of Excuses

Little problems are popping up at the most inconvenient times. They make your work as team leader sometimes difficult and even aggravating. Today it’s happened again. Rajeev just called in “sick,” saying his doctor advised him yesterday that it was better to stay home than to come to work and infect others with the flu. It makes sense, but it’s also a hardship for you and the team. What can you do to best manage this type of situation since it’s sure to happen again?

##### 2. Social Loafing Problem

You are under a lot of pressure because your team is having performance problems. The problems trace, at least in part, to persistent

social loafing by one team member in particular. You have come up with a reason to remove her from the team. But the decision you are about to make may fail all three of the ethics spotlight questions. As team leader, what will you do now?

##### 3. Task Force Selection

You have finally caught the attention of senior management. Top executives asked you to chair a task force to develop a creative new product that can breathe fresh life into an existing product line. To begin, you need to select the members of the task force. What criteria will you use to choose members who are most likely to bring high levels of creativity to this team?

### Reflect on the Self-Assessment

#### Cognitive Style

##### Instructions

This assessment is designed to get an impression of your cognitive style based on the work of psychologist Carl Jung. For each of the following 12 pairs, place a “1” next to the statement that best describes you. Do this for each pair, even though the description you choose may not be perfect.<sup>53</sup>

1. (a) I prefer to learn from experience.  
(b) I prefer to find meanings in facts and how they fit together.
2. (a) I prefer to use my eyes, ears, and other senses to find out what is going on.  
(b) I prefer to use imagination to come up with new ways to do things.
3. (a) I prefer to use standard ways to deal with routine problems.  
(b) I prefer to use novel ways to deal with new problems.
4. (a) I prefer ideas and imagination.  
(b) I prefer methods and techniques.
5. (a) I am patient with details, but get impatient when they get complicated.  
(b) I am impatient and jump to conclusions, but I am also creative, imaginative, and inventive.
6. (a) I enjoy using skills already mastered more than learning new ones.  
(b) I like learning new skills more than practising old ones.
7. (a) I prefer to decide things logically.  
(b) I prefer to decide things based on feelings and values.
8. (a) I like to be treated with justice and fairness.  
(b) I like to be praised and to please other people.
9. (a) I sometimes neglect or hurt other people’s feelings without realizing it.  
(b) I am aware of other people’s feelings.
10. (a) I give more attention to ideas and things than to human relationships.  
(b) I can predict how others will feel.

- 11. (a) I do not need harmony; arguments and conflicts don't bother me.  
(b) I value harmony and get upset by arguments and conflicts.
- 12. (a) I am often described as analytical, impersonal, unemotional, objective, critical, hardnosed, rational.  
(b) I am often described as sympathetic, people-oriented, unorganized, uncritical, understanding, ethical.

**Self-Assessment Scoring**

Sum your scores as follows, and record them in the parentheses. (Note that the *Sensing* and *Feeling* scores will be recorded as negatives.)

(-) *Sensing* (S Type) 5 points for 1a; 1 point for 2a, 3a, 4a, 5a, 6a

*Intuitive* (N Type) 5 points for 1b; 1 point for 2b, 3b, 4b, 5b, 6b  
*Thinking* (T Type) 5 points for 7a; 1 point for 8a, 9a, 10a, 11a, 12a  
 (-) *Feeling* (F Type) 5 points for 7b; 1 point for 8b, 9b, 10b, 11b, 12b

**Interpretation**

This assessment contrasts personal tendencies when it comes to information gathering (sensation vs. intuition) and information evaluation (feeling vs. thinking) in one's approach to problem solving. The result is a classification of four cognitive styles and their characteristics. Read the descriptions provided in the chapter text and consider the implications of your suggested style, including how well you might work with people whose styles are very different.

**Contribute to the Class Exercise**

**Lost at Sea**

**Situation**

You are sailing on a boat in the South Pacific when a fire of unknown origin destroys the boat and most of its contents. You and a small group of survivors are now in a large raft with oars. Your location is unclear, but you estimate that you are about 2,000 kilometres south-southwest of the nearest land. One person has just found in her pockets five \$1 coins and a packet of matches. Everyone else's pockets are empty. The items below are available to you on the raft.<sup>54</sup>

	Individual ranking	Team ranking	Expert ranking
Sextant			
Shaving mirror			
20 litres water			
Mosquito netting			
1 survival meal			
Maps of Pacific Ocean			
Floatable seat cushion			
8 litres oil-gas mix			

	Individual ranking	Team ranking	Expert ranking
Small transistor radio			
Shark repellent			
2 square metres black Plastic			
1 litre 20-proof rum			
5 metres nylon rope			
24 chocolate bars			
Fishing kit			

**Instructions**

1. *Working alone*, rank the 15 items in order of their importance to your survival ("1" is most important and "15" is least important).
2. *Working in an assigned group*, arrive at a "team" ranking of the 15 items. Appoint one person as team spokesperson to report your team ranking to the class.
3. *Do not write in Column C* until your instructor provides the "expert" ranking.

**Manage a Critical Incident**

**Asking for a Raise**

**Situation**

*Situation:* You want a raise.<sup>55</sup>

*Problem:* The question is: How do you get your boss to decide that you deserve one?

*Insight:* Researchers tell us that when negotiating a raise it's better to not ask for a round number as a target—such as "about \$65,000," and better to use a precise number—such as "\$63,750." The round number

suggests a person has only a general idea of the market for their skills, whereas the precise number gives the impression that they've done the research and know their facts.

*Task:* Describe what you will say and do to get your boss to agree that you deserve a raise. Prepare a narrative that presents the exact words, justifications, and dollar target you would use to ask for a raise in your current job. Alternatively, assume you have been working in your chosen career field for five years, have developed lots of expertise and earned high performance reports, and now want a raise.

## Collaborate on the Team Activity

### Crisis Management Realities

#### Questions

What types of crises do business leaders face, and how do they deal with them?

#### Instructions

- Identify three crisis events from the recent local, national, and international business news.
- Read at least three different news reports on each crisis, trying to learn as much as possible about its specifics, how it was dealt with, what the results were, and the aftermath of the crisis.
- For each crisis, use a balance sheet approach to list sources or causes of the conflict and management responses to it. Analyze the lists to see if there are any differences based on the nature of the crisis faced in each situation. Also look for any patterns in the responses to them by the business executives.
- Score each crisis (from 1 = low to 5 = high) in terms of how successfully it was handled. Be sure to identify the criteria that you use to describe “success” in handling a crisis situation. Make a list of “Done Rights” and “Done Wrongs.”
- Summarize the results of your study into a report on “Realities of Crisis Management.”

## Analyze the Case Study

### Case 7.1 Amazon.com | One E-Store to Rule Them All

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.





Donny Ash/Shutterstock.com

# Planning Processes and Techniques

“Not even a Hollywood script could match the terror, uncertainty, and heroism to come out of what seemed to be a surreal event.”

Dave Barry, news director of CKPG TV in Prince George, B.C.

May 7, 2017: It was a perfect storm: an unseasonably dry spring, coupled with record temperatures and strong winds that set off one of the largest infernos in Alberta’s history. Nearly 90,000 residents in the town of Fort McMurray were forced to evacuate. When they returned, nearly two months later, thousands

found their homes reduced to rubble. Hundreds of fire fighters, members of the armed forces, and domestic and international volunteers, through coordinated efforts, were able to get “the beast” under control. The miracle was that nobody perished.

No one can know for sure what the future holds, but no one doubts it is likely to include complications. A meeting of the World Economic Forum in Davos, Switzerland, for example, identified five key risks for the world at large: extreme weather events, climate change, cyber-attacks, rising unemployment and underemployment, and growing income disparities.<sup>1</sup> What they failed to predict was a pandemic health crisis that started

in December 2019 and brought the world to a halt. What are the implications of these and other risks for companies like Amazon or Uber, or for entrepreneurs, for hospitals, for our schools and local governments? What might they mean to you?

Like all of us, managers need the ability to look ahead, make good plans, and help themselves and others meet future challenges. But it can be easy to get so engrossed in the details of the present moment that we forget to be alert to what is about to happen. Or, alternatively, an accelerated rush to the future can go off track because of a wide range of uncertainties and few or no familiar reference points. The likelihood is that even the best of plans—organizational and personal—will have to be adjusted or modified to fit unforeseen new circumstances. This requires the insight and courage to be flexible, and the discipline to stay focused on goals even as events change and problems arise.

## Chapter Quick Start

Most of our days are chock full of time pressure and multiple activities—expected and unexpected. A good plan can help us to stay on course and get a reasonable number of things accomplished. Managers need plans, too, but the planning environment within organizations can be complicated. Now is a good time to study essential planning processes and techniques.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 8.1 Why and How Managers Plan

8.1 Identify the importance of planning and steps in the planning process.

#### 8.2 Types of Plans Used by Managers

8.2 List and give examples of the types of plans used by managers.

#### 8.3 Planning Tools and Techniques

8.3 Discuss useful planning tools and techniques.

#### 8.4 Implementing Plans to Achieve Results

8.4 Explain how goals and participation influence planning success.

### What to Look for **Inside**

#### Management Is Real

- 8.1 **Insight** Keep Learning about Yourself  
Time Management Unlocks Performance Capacity
- 8.2 **Choices** Think before You Act  
Keep Your Career Plan Tight and Focused ... or Loosen Up?
- 8.3 **Analysis** Make Data Your Friend  
Policies on Office Romances Vary Widely
- 8.4 **Ethics** Know Right from Wrong  
What Really Works When Fighting World Poverty?
- 8.5 **Wisdom** Learn from Role Models  
Oprah Thinks Now and Embraces the Future

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Time Management Profile
- **Contribute** *to the Class Exercise:*  
Personal Career Planning
- **Manage** *a Critical Incident:*  
Policy on Paternity Leave for New Dads
- **Collaborate** *on the Team Activity:*  
The Future Workplace
- **Analyze** *the Case Study:*  
Uber | Riding the Gig Economy

## 8.1 Why and How Managers Plan

### LEARNING OBJECTIVE 8.1

Identify the importance of planning and the steps in the planning process.

#### Learn More About

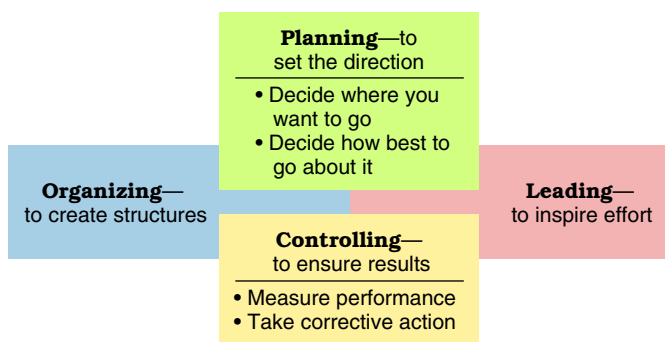
- Importance of planning
- The planning process
- Benefits of planning
- Planning and time management

The management process involves planning, organizing, leading, and controlling the use of resources to achieve performance objectives. The first of these functions, **planning**, sets the stage for the others by providing a sense of direction. It is a process of setting objectives and determining how best to accomplish them. At its core, planning involves deciding exactly what needs to be accomplished and how best to go about it.

### Importance of Planning

When planning is done well it creates a solid platform for the other management functions. It helps with *organizing*—allocating and arranging resources to accomplish tasks, *leading*—guiding and inspiring others to achieve high levels of task accomplishment, and *controlling*—monitoring task accomplishments and taking corrective action when needed.

The centrality of planning in management is shown in **Figure 8.1**. Good planning helps us to become better at what we are doing and to stay action-oriented. For example, an annual report for the Eaton Corporation, an industrial manufacturer, once stated: “Planning at Eaton means making the hard decisions before events force them upon you, and anticipating the future needs of the market before the demand asserts itself.”<sup>2</sup>



**FIGURE 8.1** The roles of planning and controlling in the management process.

### The Planning Process

The five basic steps in the planning process are:

- 1. Define your objectives**—Identify desired outcomes or results in very specific ways. Know where you want to go; be specific enough that you will know you have arrived when you get there, or know how far off the mark you are at various points along the way.
- 2. Determine where you stand vis-à-vis objectives**—Evaluate current accomplishments relative to the desired results. Know where you stand in reaching the objectives; know what strengths work in your favour and what weaknesses may hold you back.
- 3. Develop premises regarding future conditions**—Anticipate future events. Generate alternative “scenarios” for what may happen; identify for each scenario things that may help or hinder progress toward your objectives.
- 4. Analyze alternatives and make a plan**—List and evaluate possible actions. Choose the alternative most likely to accomplish your objectives; describe what must be done to follow the best course of action.
- 5. Implement the plan and evaluate results**—Take action and carefully measure your progress toward objectives. Follow through by doing what the plan requires; evaluate results, take corrective action, and revise plans as needed.

Planning should focus attention on **objectives** and **goals**; these are specific results or desired outcomes. But the objectives and goals have to be good ones; they should push you to achieve substantial and not trivial accomplishments. Jack Welch, former CEO of GE, believed in what he called **stretch goals**—performance targets that we have to work extra hard and really stretch to reach.<sup>3</sup> Do you agree with Welch’s opinion that stretch goals add real strength to the planning process for both organizations and individuals?

It’s important not to forget the action side of planning. The process should always create a realistic and concrete **plan**, a statement of action steps to be taken in order to accomplish objectives and goals. These steps must be clear and compelling so that the all-important follow-through takes place. Plans alone don’t deliver results; implemented plans do. Like other decision-making in organizations, the best planning includes the active participation of those whose work efforts will eventually determine whether or not the plans get put successfully into action.

It’s also important to remember that planning is not something managers do only on occasion or while working alone in quiet rooms, free from distractions, and at scheduled times. It is an ongoing process, enacted continuously while dealing with a busy work setting filled with distractions, interpersonal dynamics, and ever-constant performance pressures.

### Benefits of Planning

The pressures organizations face come from many sources. Externally, these include changing social norms and ethical

expectations, government regulations, uncertainties of a global economy, new technologies, and the sheer cost of investments in labour, capital, and other supporting resources. Internally, they include the quest for operating efficiencies, new structures and technologies, alternative work arrangements, greater workplace diversity, and concerns for work–life balance. As you would expect, planning under such conditions has a number of benefits for both organizations and individuals.

**Planning Improves Focus and Flexibility** Good planning improves focus and flexibility, both of which are important for performance success. An organization with focus recognizes what it does best, understands the needs of its customers, and knows how to serve customers well. An individual with focus knows where he or she wants to go in a situation, career, and life in general. An organization with flexibility is willing and able to change and adapt to shifting circumstances without losing focus, and operates with an orientation toward the future rather than the past. An individual with flexibility adjusts career plans to fit new opportunities and constraints as they arise.

**Planning Improves Action Orientation** Planning focuses attention on priorities and helps managers avoid the **complacency trap**—simply being carried along by the flow of events. People and organizations stay ahead of the competition and become better at what they are doing through planning. Planning keeps the future visible as a performance target and reminds us that the best decisions are often those made before events force problems upon us.

Management consultant Stephen R. Covey pointed out that the most successful executives “zero in on what they do that ‘adds value’ to an organization.”<sup>4</sup> Instead of working on too many things, they work on the things that really count. Covey said that good planning makes managers more (1) results oriented—creating a performance-oriented sense of direction; (2) priority oriented—making sure the most important things get first attention; (3) advantage oriented—ensuring that all resources are used to best advantage; and (4) change oriented—anticipating problems and opportunities so they can be dealt with most effectively.

**Planning Improves Coordination and Control** Planning improves coordination.<sup>5</sup> Individuals, groups, and subsystems in organizations are all engaged in multiple tasks and activities simultaneously. But their efforts must also be combined into meaningful contributions to the organization as a whole. Good plans promote coordination of the activities of employees and organizational subsystems so that their accomplishments advance critical performance initiatives.

Planning that is done well facilitates control. The link between planning and controlling begins when objectives and standards are set. They make it easier to measure results and take action to improve things as necessary. After launching a costly information technology upgrade, for example, executives at McDonald’s realized that the system couldn’t deliver on its promises. They stopped the project, took a loss of \$170 million, and refocused the firm’s plans and resources on projects with more direct impact on customers.<sup>6</sup>

This is how planning and controlling work closely together in the management process. Without planning, control lacks objectives and standards for measuring how things are going and identifying what could be done to make them go better. Without control, planning lacks the follow-through necessary to ensure that things work out as planned. Both good planning and good control make it a lot easier to spot when things aren’t going well and make the necessary adjustments.

## Planning and Time Management

When Daniel Vasella was CEO of Novartis AG and responsible for operations spread across 140 countries, he admitted to being calendar-bound and said: “I’m locked in by meetings, travel and other constraints.... I have to put down in priority things I like to do.” Kathleen Murphy is president of Fidelity Personal Investing. She’s also calendar-bound, with conferences and travel booked well ahead. Meetings can be scheduled at half-hour intervals and workdays can last 12 hours. She spends lots of time travelling, but tries to make good use of her time on planes. “No one can reach me by phone,” she says, “and I can get reading and thinking done.”<sup>7</sup>

These are common executive stories—tight schedules, little time alone, lots of meetings and phone calls, and not much room for spontaneity or focusing on the really important aspects of the job. The keys to success in such classic management scenarios rest, in part at least, with another benefit of good planning—time management. Good time management is important for academic success, too, as discussed in Management Is Real 8.1.

A lot of time management skill comes down to discipline and priorities. Lewis Platt, former chairman of Hewlett-Packard, once said: “Basically, the whole day is a series of choices.” These choices have to be made in ways that allocate your time to the most important priorities. Platt says that he was “ruthless about priorities” and that you “have to continually work to optimize your time.”<sup>8</sup> The following are useful tips on developing personal time management skills.

1. *Do* say “No” to requests that divert you from what you really should be doing.
2. *Don’t* get bogged down in details that you can address later or leave for others.
3. *Do* have a system for screening telephone calls, emails, and requests for meetings.
4. *Don’t* let drop-in visitors or text messages use too much of your time.
5. *Do* prioritize what you will work on in terms of importance and urgency.
6. *Don’t* become calendar-bound by letting others control your schedule.
7. *Do* follow priorities and work on the most important and urgent tasks first.

Most of us have experienced the difficulties of balancing available time with our many commitments and opportunities.

## Management Is Real 8.1: Insight | Keep Learning about Yourself

It isn't a waste of time to occasionally relax ... it is a waste to let friends dominate your time.

### Time Management Unlocks Performance Capacity

When it comes to planning, one of the first things that often pops into our minds is time. It is one of our most precious resources, and time management is an essential career skill.

Some 77 percent of managers in one survey said that the digital age has increased the number of decisions they have to make. Forty-three percent said there was less time available to make these decisions. Who hasn't complained or heard others complain, "There are just not enough hours in the day to get everything done"?

Don't you wonder about the time you waste every day?—text and voice messages, social media, drop-in visitors, surfing the Web, and more? Of course, you have to be careful defining what "waste" means to you. It isn't a waste of time to occasionally relax, take a break from work or school or day-to-day activities, and find pleasure in socializing. Breaks help us gather and replenish our energy. But it is a waste to let friends dominate your time so you don't work on a class paper until it's too late to write a really good one, or delay a decision to apply for an internship until the deadline has passed.

Time management is a form of planning that is consistently rated one of the top "must-have" skills for new graduates entering fast-paced and complicated careers in business and management. Many of us, perhaps most of us, keep to-do lists. But it's the rare person who is consistently successful in completing all the items on their list. Planning can easily suffer the same fate as the to-do lists—it starts with the best of intentions but may end up with little or nothing to show in terms of real results.

Can the "Time Management Checklist" shown here help you keep time management on your side?

### Time Management Checklist

List 1—What I have to do tomorrow

- (A) Most important, top priority—these are things you *must* do.
- (B) Important, not top priority—these are things you *should* do.
- (C) Least important, low priority—these are things you *might* do.
- (D) Not important, no priority—these are things you *should drop off your* to do list.

Ask: Do my actions match the priorities?

List 2—Time wasters

- (A) Things I can control—they won't happen if I don't let them.
- (B) Things I can't control—they happen and I can't do anything about it.

Ask: Am I taking control where I can?

### Get to Know Yourself Better

Now is a good time to improve your planning capabilities. Planning is a key management function and a critical life skill. Start by getting in touch with how you manage and use your time.

**Task 1**—Keep a daily time log for at least two days, listing what you do and how long it takes. Then write up an analysis of where you seem to be wasting time and where you are using it well.

**Task 2**—Complete the lists requested in the Time Management Checklist. Double-check List 1 "B" items and reclassify any that are really "As" or "Cs." Look at your "As" and reclassify any that are really "Bs" or "Cs." Write a priority to-do list for your day tomorrow. Also check your time wasters in List 2. Write down a plan to take charge of things that are controllable.

It is easy to lose track of time and fall prey to what consultants identify as "time wasters." All too often we allow our time to be dominated by other people or to be misspent on non-essential activities.<sup>9</sup> To-do lists can help, but they have to contain the right things. In daily living and in management situations, it is important to distinguish between things that you must do (top priority), should do (high priority), would like to do (low priority), and really don't need to do (no priority).

### Learning Check

**LEARNING OBJECTIVE 8.1** Identify the importance of planning and the steps in the planning process.

**Be Sure You Can** • explain the importance of planning as the first of four management functions • list the steps in the formal planning process • illustrate the benefits of planning for an organization familiar to you • illustrate the benefits of planning for your personal career development • list at least three things you can do now to improve your time management

8.2

## Types of Plans Used by Managers

### LEARNING OBJECTIVE 8.2

List and give examples of the types of plans used by managers.

### Learn More About

Long-term and short-term plans • Strategic and tactical plans • Operational plans

"I am the master of my fate: I am the captain of my soul." How often have you heard this phrase? The lines are from "Invictus," written by British poet William Earnest Henley in 1875. He was sending a message, one of confidence and control, intended

to inspire readers as they contemplated their futures. That notion, however, worries a scholar by the name of Dick Levin. His response to Henley is: “Not without a plan you’re not.”<sup>10</sup>

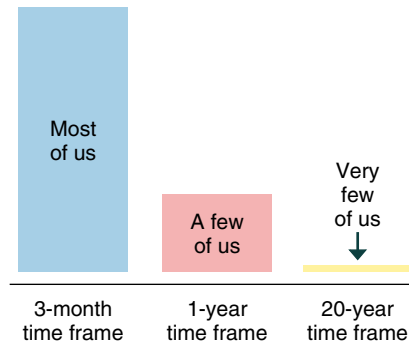
Managers use a variety of plans as they face different kinds of challenges in organizations. In some cases the planning environment is stable and predictable; in others, it is more dynamic and uncertain. Different situations call for different types of plans.

## Long-Term and Short-Term Plans

In the not-too-distant past, **long-term plans** looked three or more years into the future, while **short-term plans** covered one year or less. But the increasing environmental complexity and dynamism of recent years has severely tested the concept of “long-term” planning. Most executives would likely agree that these complexities and uncertainties challenge how we actually go about planning and how far ahead we can really plan. At the very least we can conclude that long-term plans today are less fixed, and that they are subject to frequent revisions.

Even though the time frames for which managers plan may be shrinking, top management is still responsible for setting longer-term plans and directions for the organization as a whole. They set the context for lower-level management to work on useful short-term plans. Unless everyone understands an organization’s long-term plans and objectives, there is always risk that the pressures of daily challenges will divert attention from “important tasks.” Without a sense of long-term direction, employees can end up working hard and still not achieve significant—or mission-critical—results.

To get results, some organizations are focusing on “sprint plans,” whereby teams focus on short-term results. Drafting a five-year plan for a technology start-up for which the business



**FIGURE 8.2** Jaques’s findings that most people work best using a three-month timeline.

landscape changes quickly may not make sense. Rather, holding regular meetings to plan what the firm hopes to accomplish in the next three weeks does make sense. A focus on short sprints rather than long-term goals makes it possible to move faster and make timely decisions.

Management researcher Elliot Jaques believes that people vary in their capability to think according to different time horizons.<sup>11</sup> He suggests that most people work comfortably with only three-month time spans, a smaller group works well with a one-year span, and only the very rare person can handle a 20-year time frame (see **Figure 8.2**).

These are provocative and challenging ideas. Although a team leader’s planning may fall primarily in the weekly or monthly range, a chief executive is expected to have a vision extending years into the future. Career progress to higher levels of management requires the conceptual skills to work well with longer-range time frames. Challenges in long-term planning can affect your career goals as well, as shown in Management Is Real 8.2.

### Management Is Real 8.2: Choices | Think before You Act

**“If you try to carefully plan your life, the danger is that you will succeed—succeed in narrowing your options and closing off avenues of adventure that cannot now be imagined.”**

#### Keep Your Career Plan Tight and Focused ... or Loosen Up?

*Executive 1.* “Career planning is more art than science ... Nonetheless, some form of plan can greatly enhance the evaluation of various opportunities and enable you to make better career decisions. A career plan allows you to identify how to use your basic strengths to maximum advantage, set major career objectives, and establish immediate milestones to measure personal development and advancement.”

*Executive 2.* “A career ... is a series of accidental changes of job and shifts of scenery on which you look back later, weaving through the story retroactively some thread of logic that was not visible at the time. If you try to carefully plan your life, the danger is that you will succeed—succeed in narrowing your options and closing off avenues of adventure that cannot now be imagined.”



sirtravelalot/Shutterstock.com

*Those in favour of tight career planning are likely to say: “You need a plan to give yourself a sense of direction.” ... “Having a career objective is highly motivating.” ... “Without a plan you’ll wander and not accomplish much of anything.” Those against tight*

career planning are likely to say: “How can you know today what the future might offer?” ... “If you are too tightly focused you won’t spot unique opportunities.” ... “We grow and change over time; our career plans should, too.”

#### What’s Your Take?

Both executives are talking from experience and personal success. Is executive 1’s advice right for most people—careers

should be carefully planned and then implemented step-by-step to achieve a long-term goal? Or is executive 2’s advice right for most people—careers are best built with flexibility and spontaneity to take advantage of opportunities that pop up along the way? How do these perspectives fit with what we know about job markets and career directions today? Which position do you favour? Would you prefer to blend both perspectives to carve out your career pathway?

## Strategic and Tactical Plans

When a sports team begins a game, it typically does so with a “strategy” in hand. Most often this strategy is set by the head coach in conjunction with assistant and position coaches. The goal is clear: Win the game. As the game unfolds, however, situations arise that require actions to solve problems or exploit opportunities. They call for “tactics” that deal with a current situation in ways that advance the overall strategy for winning. The same logic holds true for organizations. Plans at the top of the traditional organizational pyramid tend to have a strategic focus. Those at the middle and lower levels of the organization are more tactical.

**Strategic plans** are focused on the organization as a whole or on a major component of it. They are longer-term plans that set broad action directions and create a frame of reference for allocating resources for maximum performance impact. Strategic plans ideally set forth the goals and objectives needed to accomplish the organization’s **vision** in terms of mission or purpose and what the organization hopes to look like in the future.

**Tactical plans** are developed and used to implement strategic plans. They specify how the organization’s resources can be used to put strategies into action. In the sports context you might think of tactical plans as having “special teams” or as “special plays” ready to meet a particular threat or opportunity. Tactical plans in business often take the form of **functional plans** that indicate how different components of the enterprise will contribute to the overall strategy. Such functional plans might include:

- *Production plans*—dealing with work methods and technologies.
- *Financial plans*—dealing with money and capital investments.
- *Facilities plans*—dealing with physical space and work layouts.

- *Logistics plans*—dealing with suppliers and acquiring resource inputs.
- *Marketing plans*—dealing with selling and distributing goods or services.
- *Human resource plans*—dealing with and building a talented workforce.

## Operational Plans

**Operational plans** guide behaviour and describe what needs to be done in the short term to support strategic and tactical plans. They include both *standing plans* like policies and procedures that are used over and over again, and *single-use plans* like budgets that apply to one specific task or time period.

**Policies and Procedures** A **policy** communicates broad guidelines for making decisions and taking action in specific circumstances. Organizations operate with lots of policies that set expectations for many aspects of employee behaviour. Typical human resource policies cover things like employee hiring, termination, performance appraisals, pay increases, promotions, and discipline. For example, Judith Nitsch made sexual harassment a top priority when starting her engineering-consulting business.<sup>12</sup> Nitsch defined a sexual harassment policy, took a hard line on its enforcement, and appointed both a male and a female employee for others to talk with about sexual harassment concerns.

**Procedures** describe specific rules for what actions are to be taken in various situations. These rules are stated in employee handbooks and are often called SOPs—standard operating procedures. Whereas a policy sets a broad guideline, procedures define precise actions to be taken. In the prior example, Judith Nitsch was right to establish a sexual harassment policy for her firm. But organizations should also

## Management Is Real 8.3: Analysis | Make Data Your Friend

Some employees sign “love contracts” saying office relationships won’t interfere with their work.

### Policies on Office Romances Vary Widely

The media is quick to report when a top executive or public figure runs into trouble over an office affair. But the fact is that employer policies on office relationships vary. One survey finds the following:

- 24 percent prohibit relationships among employees in the same department.
- 13 percent prohibit relationships among employees who have the same supervisor.
- 80 percent prohibit relationships between supervisors and subordinates.
- 5 percent have no restrictions on office romances.

Allison Michael Orenstein/Getty Images



- A new trend is “love contracts,” where employees pledge that their romantic relationships in the office won’t interfere with their work.
- Small business caveat—it’s hard to separate couples in small business settings. The CEO of a 30-person e-commerce firm says, “At one point, exactly one-third of the whole workforce was married to or dating a co-worker.”

#### What are the Implications?

Do you know anyone who has been involved in an office relationship? What is your thinking on this issue? Is this an area that employers should be regulating? Or should office romances be left to the best judgements of those involved? After all, it’s their private business—isn’t it?

put into place procedures that ensure everyone receives fair, equal, and non-discriminatory treatment under the policy. Everyone in a firm should know both how to file a sexual harassment complaint and just how that complaint will be handled.

**Budgets** Budgets are single-use plans that commit resources for specific time periods to activities, projects, or programs. Managers typically spend a fair amount of time bargaining with higher levels to get adequate budgets to support the needs of their work units or teams. They are also expected to achieve work objectives while keeping within allocated budgets. Being “over budget” is generally bad, while coming in “under budget” is generally good.

Managers deal with and use a variety of budgets. *Financial budgets* project cash flows and expenditures; *operating budgets* plot anticipated sales or revenues against expenses; *non-monetary budgets* allocate resources like labour, equipment, and space. A *fixed budget* allocates an established amount of resources for a specific purpose, such as \$50,000 for equipment purchases in a given year. A *flexible budget* allows resources to vary in proportion to emergent levels of activity, such as having extra money to hire temporary workers when workloads exceed certain levels.

Because budgets link planned activities with the resources needed to accomplish them, they are useful for activating and tracking performance. But budgets can get out of control, creeping higher and higher without getting sufficient critical reviews. In fact, one of the most common budgeting problems is that resource allocations get “rolled over” from one time period to the next without rigorous scrutiny; the new budget is simply an incremental adjustment over the previous one. In a major division of the Campbell Soup Company, for example, managers once discovered that 10 percent of the marketing budget was going to sales promotions no longer relevant to current product lines.

A **zero-based budget** deals with this rollover budget problem by approaching each new budget period as if it were brand new. In zero-based budgeting there is no guarantee that any past funding will be renewed; all proposals, old and new, must

compete for available funds at the start of each new budget cycle. What do you think? Does zero-based budgeting make sense in governments and other organizations that struggle to achieve balances between goals and available resources?

### Learning Check

**LEARNING OBJECTIVE 8.2** List and give examples of the types of plans used by managers.

**Be Sure You Can** • differentiate between short-term and long-term plans • differentiate between strategic and operational plans and explain how they relate to one another • define *policy* and *procedure* and give examples of each in a university setting • define *budget* and explain how zero-based budgeting works

## 8.3 Planning Tools and Techniques

### LEARNING OBJECTIVE 8.3

Discuss useful planning tools and techniques.

#### Learn More About

Forecasting • Contingency planning • Scenario planning • Benchmarking • Staff planning

Planning delivers the greatest benefits when its foundations are strong. Useful planning tools and techniques include forecasting, contingency planning, scenario planning, benchmarking, and staff planning.



## Forecasting

What are top executives around the world thinking about as they make plans for the future? Are they on top of the right trends? Planning in business and our personal lives often involves **forecasting**, the process of predicting what will happen in the future.<sup>13</sup> Periodicals such as *Canadian Business*, *Business Week*, *Fortune*, and *The Economist* regularly report forecasts of industry conditions, interest rates, unemployment trends, and national economies, among other issues. Some are based on *qualitative forecasting*, which uses expert opinions to predict the future. Others involve *quantitative forecasting*, which uses mathematical models and statistical analyses of historical data and surveys to predict future events.

Although useful, all forecasts should be treated cautiously. They are planning aids, not substitutes. Forecasts rely on human judgement—and they can be wrong. It is said that a music agent once told Elvis Presley: “You ought to go back to driving a truck, because you ain’t going nowhere.” And when it came time to make the second pick in the 1984 NBA draft, the Portland Trail Blazers chose Sam Bowie. The next-in-line Chicago Bulls used their third pick to choose Michael Jordan. Mark Messier wasn’t picked by the Edmonton Oilers until the third round—chosen number 48 overall in the 1979 NHL draft.

## Contingency Planning

Picture the scene: A professional golfer is striding down the golf course with an iron in each hand. The one in her right hand is “the plan”; the one in her left is the “backup plan.” Which club she uses will depend on how the ball lies on the fairway. One of her greatest strengths is being able to adjust to the situation by putting the right club to work in the circumstances she encounters.

Planning, similarly, involves thinking ahead. The more uncertain the planning environment, the more likely it is that an original forecast or intention will turn out to be inadequate or wrong. The golfer deals with this uncertainty by having backup clubs available. This amounts to **contingency planning**—identifying alternative courses of action that can be implemented if circumstances change. A really good contingency plan will contain “trigger points” to indicate when to activate preselected alternatives. In the face of uncertainties, this can be an indispensable tool for managerial and personal planning.

Poor contingency planning took centre stage when debates raged over BP’s handling of the disastrous Deepwater Horizon oil spill in the Gulf of Mexico. Everyone, from the public at large to U.S. lawmakers to oil industry experts, criticized BP not only for failing to contain the spill quickly, but also for failing to anticipate and have contingency plans in place to handle such an ecological crisis.<sup>14</sup>

*A BP spokesperson initially said*—“You have here an unprecedented event ... the unthinkable has become thinkable and the whole industry will be asking questions of itself.”

*An oil industry expert responded*—“There should be a technology that is preexisting and ready to deploy at the drop of a hat .... It shouldn’t have to be designed and fabricated now, from scratch.”

*Former BP CEO Tony Hayward finally admitted*—“There are some capabilities that we could have available to deploy instantly, rather than creating as we go.”

The lesson here is hard-earned but very clear. Contingency planning can’t prevent crises from occurring. But when things do go wrong, good contingency plans are invaluable.

## Scenario Planning

**Scenario planning** is a long-term version of contingency planning. It involves identifying several possible future scenarios and then making plans to deal with each scenario should it actually occur.<sup>15</sup> Scenario planning forces us to think really far ahead and to be open to a wide range of possibilities.

The scenario planning approach was developed years ago at Royal Dutch Shell when top managers asked themselves a perplexing question: “What would Shell do after its oil supplies ran out?” Although recognizing that scenario planning can never be inclusive of all future possibilities, a Shell executive once said that it helps “condition the organization to think” and better prepare for “future shocks.”

Shell uses scenario planning to address such issues as climate change, sustainable development, fossil-fuel alternatives, human rights, and biodiversity. Most typically this type of planning involves descriptions of “worst cases” and “best cases.” With regard to diminishing oil supplies, for example, a worst-case scenario might be that global conflict and devastating effects on the natural environment occur as nations jockey with one another to secure increasingly scarce supplies of oil and other natural resources. A best-case scenario might be that governments work together to find pathways that take care of our resource needs while supporting the search for sustainability of global resources. It’s anyone’s guess which scenario will materialize or if something else altogether will happen. But these words of former Shell CEO Jeroen van der Veer highlight the value of the scenario planning process: “This will require hard work and time is short.”<sup>16</sup>

## Benchmarking

Planners sometimes become too comfortable with the way things are going and become overconfident that the past is a good indicator of the future. However, it is important to keep challenging the status quo and not simply to accept things as they are. One way to do this is through **benchmarking**—the use of external and internal comparisons to better evaluate current performance and identify possible ways to improve for the future.<sup>17</sup> (A type of benchmarking used to evaluate a program in India to improve student outcomes is described in Management Is Real 8.4.)

The purpose of benchmarking is to determine what other organizations are doing well, and then plan how to incorporate these ideas into one’s own operations. It is basically a way of learning from the successes of others. One benchmarking technique is to search for **best practices**—things people and organizations do that help them to achieve superior performance.

Well-run organizations emphasize *internal benchmarking* that encourages members and work units to learn and improve by sharing one another’s best practices. They also use *external*

## Management Is Real 8.4: Ethics | Know Right from Wrong

“We aren’t really interested in the more-aid-less-aid debate. We’re interested in seeing what works and what doesn’t.”

### What Really Works When Fighting World Poverty?

Developed countries send \$100+ billion in aid to poor countries; private foundations and charities spend \$70+ billion more fighting poverty and its effects around the world. Their plans and goals are praiseworthy, but is all of that money being spent to the greatest effect?

Not all of it is being well spent, that’s for sure. That’s one of the problems being tackled by the Poverty Action Lab at the Massachusetts Institute of Technology. The director, Abhijit Banerjee, a development economist, says: “We aren’t really interested in the more-aid-less-aid debate. We’re interested in seeing what works and what doesn’t.” The lab criticizes “feel-good” approaches and pushes for rigorous evaluations of poverty-fighting programs using scientific methods. Here’s an example.

The Indian anti-poverty group Seva Mandir was concerned about teacher absenteeism and low performance by rural school children. Its original plan was to pay extra tutors to assist teachers in 120 rural schools. The Poverty Action Lab suggested paying extra tutors in 60 schools, making no changes in the other 60, and then comparing outcomes to see if the plan worked (as a type of benchmarking). An evaluation of results showed no difference in children’s performance, even with the higher costs of extra tutors.

A new plan was made to buy cameras for 60 teachers, have them take time/date-stamped photos with children at the start and end of each school day, and have the photos analyzed each month. Teachers would receive bonuses or fines based on their absenteeism and student performance. Again, no changes were made in the other 60 schools. Evaluation revealed that teacher absenteeism was 20 percent lower and student performance was significantly higher in the camera schools. With the Poverty Lab’s help, Seva Mandir concluded that investing in closely monitored pay incentives could improve teacher attendance in rural schools.



DIPTENDU DUTTA/AFP/Getty Images

#### What Do You Think?

Look at cases reported in the news. How often do we draw conclusions that “plans are working” based on feel-good evaluations or anecdotal reports rather than solid scientific evaluations? What are the consequences at work and in society when plans are implemented at great cost, but without systematic, defensible systems for evaluation? Even if the objectives of a project are honourable, what ethical issues arise in situations where it isn’t clear that the project is having the intended benefit?

*benchmarking* to learn from competitors and non-competitors alike. Xerox, for example, has benchmarked L.L. Bean’s warehousing and distribution methods, Ford’s plant layouts, and American Express’s billing and collections. Ford benchmarked BMW’s 3 series.<sup>18</sup> And in the apparel industry, the Spanish retailer Zara has become a benchmark for excellence in “fast fashion.”<sup>19</sup>

## Staff Planning

As organizations grow, so do their planning challenges and so does the use of staff planners. These specialists are experts in all steps of the planning process, as well as in the use of planning tools and techniques. They can help bring focus and expertise to a wide variety of planning tasks. But sometimes a communication gap develops between the staff planners and line managers. Unless everyone works closely together, the

resulting plans may be based on poor information. Also, an organization’s employees may end up with little commitment to implement the plans made by the staff, no matter how good they are.

## Learning Check

**LEARNING OBJECTIVE 8.3** Discuss useful planning tools and techniques.

**Be Sure You Can** • define *forecasting, contingency planning, scenario planning, and benchmarking* • explain the benefits of contingency planning and scenario planning • describe pros and cons of using staff planners

## 8.4 Implementing Plans to Achieve Results

### LEARNING OBJECTIVE 8.4

Explain how goals and participation influence planning success.

#### Learn More About

Goal setting • Goal management • Goal alignment  
• Participation and involvement • Resilience

In a book entitled *Doing What Matters*, Jim Kilts, the former CEO of Gillette, quotes an old management adage: “In business, words are words, promises are promises, but only performance is reality.”<sup>20</sup> The same applies to plans. They are, we might say, words with promises attached. These promises are only fulfilled when plans are implemented so that their purposes are achieved. And the foundations for successful implementation are set with the planning processes of goal setting, goal management, goal alignment, and participation and involvement.

## Goal Setting

Although most of us are aware of the importance of goal setting in management, we may mistakenly think that goal setting is easy to accomplish. The reality is that how goals are set can have a big impact on how well they function as performance targets and motivators. There’s a significant difference between having no goals or even just everyday run-of-the-mill average goals, and having really great goals that inspire effort and result in plans being successfully implemented. An example of an inspiring goal is shown in Management Is Real 8.5.

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1. Specific—clearly targeted key results and outcomes to be accomplished.
2. Measurable—described so results can be measured without ambiguity.
3. Attainable—include a challenging stretch factor while still being realistic and possible to achieve.

### Management Is Real 8.5: Wisdom | Learn from Role Models

“I wanted to give this opportunity to girls who had a light so bright that not even poverty could dim that light.”

#### Oprah Thinks Now and Embraces the Future

Having grown up poor, Oprah Winfrey says she is grateful for getting a good education, calling it “the most vital aspect of my life.” She’s now sharing that lesson through the Oprah Winfrey Leadership Academy for young women in South Africa.

When the academy opened Winfrey said: “I wanted to give this opportunity to girls who had a light so bright that not even poverty could dim that light.” Her goal was for the new academy to “be the best school in the world.”

Nelson Mandela, first president of non-apartheid South Africa, spoke at the opening ceremony and praised her vision. “The key to any country’s future is in educating its youth,” said Mandela. “Oprah is therefore not only investing in a few young individuals, but in the future of our country.” One of the first students said: “I would have had a completely different life if this hadn’t happened to me.”

Even the best intentions couldn’t guarantee that everything would go according to Winfrey’s plan. Not long after the academy launched, it was hit by scandal over alleged abuse of students by a dorm matron. Winfrey quickly apologized to the students and their families, and rededicated herself to the school.

“I think that crisis is there to teach you about life,” she said. “The school is going to be even better because that happened.”



Juda Ngwenya/Reuters

#### Find Inspiration

In what ways do Oprah Winfrey’s objectives for the leadership academy reflect her life and past experiences? Can you make plans that will include social contributions in the future? Are you adaptable in your plans, as Winfrey appears to be, or more fixed? What are the implications of your approach for your professional and personal goals, and what you accomplish?



**FIGURE 8.3** The five characteristics of great goals.

4. Relevant—focused on important results, not just on activities or effort expended.
5. Timely—linked to specific timetables and “due dates.”

One of the more difficult aspects of goal setting is making performance objectives as measurable as possible. It’s best to achieve agreement on a *measurable end product*—for example, “to reduce travel expenses by 5 percent by the end of the fiscal year.” But performance in some jobs, particularly managerial positions, can be hard to quantify. Rather than abandon the quest for a good objective in such cases, it is often possible to agree on *verifiable work activities*. Their accomplishment serves as an indicator of performance progress. An example is “to improve communications with my team in the next three months by holding weekly team meetings.” Whereas it can be difficult to measure “improved communications,” it is much easier to document whether the weekly team meetings have been held.

## Goal Management

*Scandal*—Bank employees in top Canadian banks engaged in cross-selling and up-selling to customers by convincing them to buy less appropriate higher-priced products and services instead of more appropriate lower fee/cost alternatives.<sup>21</sup>

*Scandal*—An internal audit of the U.S. Department of Veterans Affairs system charged that managers covered up long appointment waiting times and used bogus lists in order to meet tight scheduling goals and receive personal bonuses. More than 120,000 veterans failed to get care, and at least 23 died awaiting treatment.<sup>22</sup>

It isn’t enough to set smart goals with and for others, and for yourself—the goals and the quest for their accomplishment must also be well managed. The fact is that goals can have a “dark” as well as positive side.<sup>23</sup> Look again at the scandals just reported. The ethics and performance failures in both cases were linked in part to unrealistic goals tied to performance rewards. In the banking scandal the managers who set the performance goals for their employees were equally culpable. In the Veterans Affairs scandal, the audit report described the negative effects of unrealistic goals set for patient waiting times this way: “Imposing this expectation on the field before

ascertaining the resources required and its ensuing broad promulgation represent an organizational leadership failure ... pressures were placed on schedulers to utilize unofficial lists or engage in inappropriate practices in order to make waiting times appear more favorable.”<sup>24</sup>

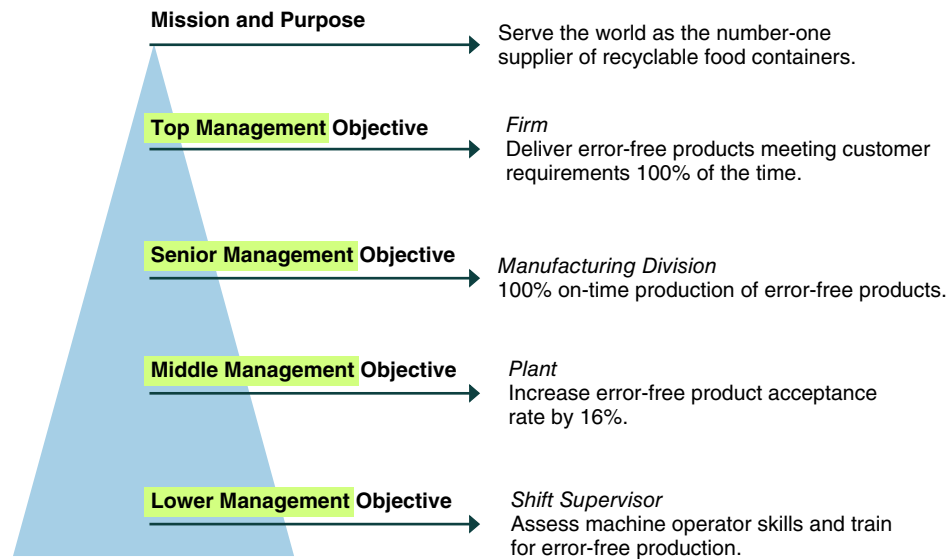
Researchers point out that goals can have negative consequences when they are set unrealistically high, when individuals are expected to meet high goals over and over again, and when people striving to meet high goals aren’t given the support they need to build abilities and learn what is needed to accomplish them.<sup>25</sup> The downsides of poorly managed stretch goals include high stress for the goal seeker, poor performance results, and possible unethical or illegal behaviour. Good management of goal setting helps to avoid such problems. Scholars Gary Latham and Gerard Seijts point out that it is important to distinguish between **learning goals** that create the knowledge and skills required for performance and **outcome goals** that set targets for actual performance results. If outcome goals are emphasized at the expense of the learning goals that are prerequisite to them, undesirable effects are likely. Latham and Seijts say: “It is foolish and even immoral for organizations to assign employees stretch goals without equipping them with the resources to succeed—and still punish them when they fail to reach those goals. This lack of guidance often leads to stress, burnout, and in some instances, unethical behavior.”<sup>26</sup>

## Goal Alignment

It is one thing to set great goals, make them part of a plan, and then manage and support them well. It is an entirely different thing to make sure goals and plans are well integrated across many employees, work units, and levels of an organization as a whole. Goals set everywhere in the organization should ideally help advance its overall mission or purpose. Yet we sometimes work very hard to accomplish things that simply don’t make much of a difference in organizational performance. This is why goal alignment is an important part of managerial planning.

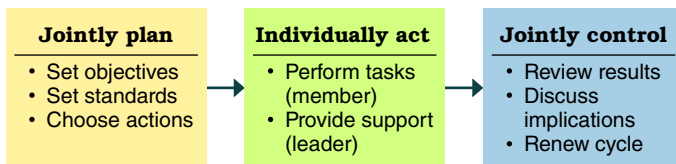
**Figure 8.4** shows how a **hierarchy of goals** or **hierarchy of objectives** helps with goal alignment. When such a hierarchy is well defined, the accomplishment of lower-level goals and objectives provides the foundation for the accomplishment of higher-level goals and objectives. The example in **Figure 8.4** is built around quality goals in a manufacturing setting. Strategic goals set by top management cascade down the organization step by step to become quality management objectives for lower levels. Everything ideally works together in a consistent “means–end” fashion so that the organization consistently performs as “the world’s number one supplier of recyclable food containers.”

Conversations between team leaders and team members or between supervisors and subordinates at each step in the hierarchy are essential to achieving goal alignment (**Figure 8.5**). The conversations should result in agreement on: (1) performance objectives for a given time period, (2) plans by which objectives will be accomplished, (3) standards for measuring whether objectives have been accomplished, and (4) procedures for reviewing performance results. This process is sometimes called *management by objectives* (MBO), but in reality, it is just old-fashioned good management.<sup>27</sup>



**FIGURE 8.4** Goal alignment in a sample hierarchy of objectives.

**Goal Alignment between Team Leader and Team Member**



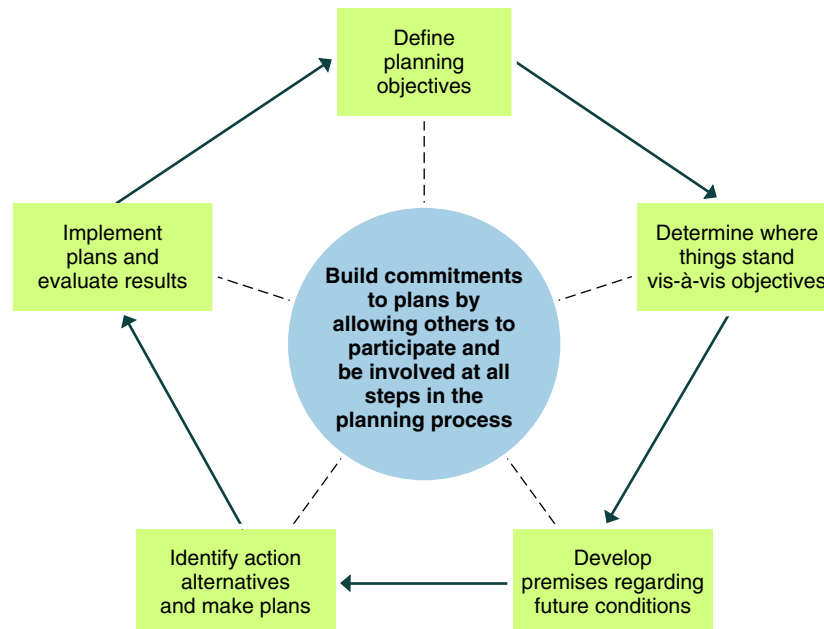
**FIGURE 8.5** Tasks associated with goal alignment.

be affected by the plans and asked to help implement them. One of the things that research is most clear about is that when people participate in setting goals, they gain motivation to work hard to accomplish them.<sup>28</sup> This power of participation is unlocked in planning when people who are involved in the process gain commitment to work hard and support the implementation of plans.

**Figure 8.6** shows the role of participation and involvement in the planning process. Notice that participation can and should be integrated into all planning steps. Think of it using a metaphor of a big kitchen table. Everyone, from family members to guests, sits around the table and enjoys the meal while joining in the conversation. The same can happen with planning, if the manager invites others to the table, and encourages the

## Participation and Involvement

Planning is a process and not an event. And “participation” and “involvement” are two of its core components. **Participatory planning** includes in all planning steps the people who will



**FIGURE 8.6** How participation and involvement help build commitment to plans.

conversation to focus on defining objectives, assessing the present and potential future state of affairs, identifying action alternatives, and discussing implementation successes and failures.

There are many benefits to following this participatory planning approach. Participation can increase the creativity of the planning and the information available for it, as well as ensuring that employees understand, accept, and commit to the success of these plans. Even though participatory planning takes time, it can improve performance results by improving both the quality of the plans that are made and the effectiveness of their implementation.

## Resilience

Sometimes, after even the best plans have been created, unexpected events can occur and throw those plans into a spin. How do you cope during times like these? Perhaps your best laid plans fell through because of an event that caused such adversity in your organization that the leaders were very upset. What do you do? Quit and succumb or stay and surmount? Would you have the resilience to go on?

Assuming your employers are even-tempered people, and want you to stay, would you view the situation as traumatic

or as an opportunity to learn and grow? Resilient individuals frame such adversity as a challenge and not as a threat. They become more flexible and resolute and just deal with the situation. Research shows that resilient individuals are optimistic and face their fears head on. They have an attitude of positive adaptation; they don't wallow in misery, but instead recover and bounce back, sometimes being able to function even better than before the adverse event occurred.

Workplace disappointments and stressors are inevitable. Your positive attitude towards them will determine the extent to which you can grow in response to the adversity and show even greater determination and perseverance.<sup>29</sup>

### Learning Check

**LEARNING OBJECTIVE 8.4** Explain how goals and participation influence planning success.

**Be Sure You Can** • list the criteria of SMART goals • describe the value of a hierarchy of objectives • explain how goal alignment can take place between a team leader and team members

## Management Learning Review: Get Prepared for Quizzes and Exams

### Summary

**LEARNING OBJECTIVE 8.1** Identify the importance of planning and the steps in the planning process.

- Planning is the process of setting performance objectives and determining what should be done to accomplish them.
- A plan is a set of intended actions for accomplishing important goals and objectives.
- Five steps in the planning process are: (1) define your objectives, (2) determine where you stand vis-à-vis your objectives, (3) develop your premises regarding future conditions, (4) identify and choose among alternative ways of accomplishing objectives, and (5) implement action plans and evaluate results.
- The benefits of planning include better focus and flexibility, action orientation, coordination, control, and time management.

**For Discussion** Which step in the planning process is likely to cause the most difficulties for managers?

**LEARNING OBJECTIVE 8.2** List and give examples of the types of plans used by managers.

- Short-term plans tend to cover a year or less; long-term plans extend up to three years or more.

- Strategic plans set critical long-range directions; operational plans are designed to implement strategic plans.
- Policies, such as a sexual harassment policy, are plans that set guidelines for the behaviour of organizational members.
- Procedures and rules are plans that describe actions to be taken in specific situations, such as the steps to be taken when persons believe they have been subjected to sexual harassment.
- Budgets are plans that allocate resources to activities or projects.

**For Discussion** Is there any real value to long-term planning in today's rapidly changing environment?

**LEARNING OBJECTIVE 8.3** Discuss useful planning tools and techniques.

- Forecasting, which attempts to predict what might happen in the future, is a planning aid but not a planning substitute.
- Contingency planning identifies alternative courses of action that can be implemented if and when circumstances change.
- Scenario planning analyzes the implications of alternative versions of the future.

- Planning through benchmarking uses external and internal comparisons to identify best practices for possible adoption.
- Staff planners with special expertise are often used to assist in the planning process, but the lack of involvement by managers and others who must implement the plans poses a risk.

**For Discussion** Shouldn't all plans be supported by contingency plans?

**LEARNING OBJECTIVE 8.4** Explain how goals and participation influence planning success.

- Great or SMART goals are specific, measurable, attainable, relevant, and timely.

- Goals can have negative consequences, including unethical or illegal behaviour, when they are poorly managed or set unrealistically high.
- A hierarchy of objectives helps to align goals from top to bottom in organizations.
- Goal alignment is facilitated by a participative process that clarifies performance objectives for individuals and teams and identifies support that can and should be provided by managers.
- Participation and involvement open the planning process to valuable inputs from people whose efforts are essential to the effective implementation of plans.

**For Discussion** Given its potential advantages, why isn't goal alignment a characteristic of all organizations?

## Chapter Glossary

**Benchmarking** The use of external and internal comparisons to plan for future improvements.

**Best practices** Things people and organizations do that lead to superior performance.

**Budget** A plan that commits resources to projects or activities.

**Complacency trap** The mistake of being carried along by the flow of events.

**Contingency planning** Planning that identifies alternative courses of action to take when things go wrong.

**Forecasting** The process of attempting to predict the future.

**Functional plans** Plans that indicate how different operations within the organization will help advance the overall strategy.

**Hierarchy of goals or hierarchy of objectives** A tool of goal-setting in which lower-level goals and objectives support

accomplishment of higher-level goals and objectives.

**Learning goals** Goals that set targets to create the knowledge and skills required for performance.

**Long-term plans** Plans that typically look three or more years into the future.

**Objectives or goals** Specific results that one wishes to achieve.

**Operational plan** A plan that identifies short-term activities to implement strategic plans.

**Outcome goals** Goals that set targets for actual performance results.

**Participatory planning** Planning that includes the persons who will be affected by plans and/or those who will implement them.

**Plan** A statement of intended means for accomplishing objectives.

**Planning** The process of setting objectives and determining how to accomplish them.

**Policy** A standing plan that communicates broad guidelines for decisions and action.

**Procedure** A rule describing actions that are to be taken in specific situations.

**Scenario planning** Planning that identifies alternative future scenarios and makes plans to deal with each.

**Short-term plans** Plans that typically cover one year or less.

**Strategic plan** A plan that identifies long-term directions for the organization.

**Stretch goals** Performance targets that one must work extra hard and stretch to reach.

**Tactical plan** A plan that helps to implement all or parts of a strategic plan.

**Vision** A statement that clarifies the purpose of the organization and expresses what it hopes to be in the future.

**Zero-based budget** A budget that allocates resources as if each budget were brand new.

## Self-Test 8

### Multiple-Choice Questions

- Planning is the process of \_\_\_\_\_ and \_\_\_\_\_.
  - developing premises about the future, evaluating them
  - measuring results, taking corrective action
  - measuring past performance, targeting future performance
  - setting objectives, deciding how to accomplish them
- The benefits of planning include \_\_\_\_\_.
  - improved focus
  - lower labour costs
  - more accurate forecasts
  - higher profits
- In order to help implement its corporate strategy, a business firm would likely develop a \_\_\_\_\_ plan for the marketing department.
  - functional
  - single-use
  - production
  - zero-based
- \_\_\_\_\_ planning identifies alternative courses of action that can be taken if and when certain situations arise.
  - Zero-based
  - Participative
  - Strategic
  - Contingency
- The first step in the control process is to \_\_\_\_\_.
  - measure actual performance
  - establish objectives and standards
  - compare results with objectives
  - take corrective action
- A sexual harassment policy is an example of \_\_\_\_\_ plans used by organizations.
  - long-term
  - single-use
  - standing-use
  - operational

7. When a manager is asked to justify a new budget proposal on the basis of projected activities rather than past practices, this is an example of \_\_\_\_\_ budgeting.
- zero-based
  - variable
  - fixed
  - contingency
8. One of the benefits of participatory planning is \_\_\_\_\_.
- reduced time for planning
  - less need for forecasting
  - greater attention to contingencies
  - more commitment to implementation
9. The ideal situation in a hierarchy of objectives is that lower-level plans become the \_\_\_\_\_ for accomplishing higher-level plans.
- means
  - ends
  - scenarios
  - benchmarks
10. When managers use the benchmarking approach to planning, they \_\_\_\_\_.
- use flexible budgets
  - identify best practices used by others
  - are seeking the most accurate forecasts that are available
  - focus more on the short term than the long term
11. One of the problems in relying too much on staff planners is \_\_\_\_\_.
- a communication gap between planners and implementers
  - lack of expertise in the planning process
  - short-term rather than long-term focus
  - neglect of budgets as links between resources and activities
12. The planning process isn't complete until \_\_\_\_\_.
- future conditions have been identified
  - stretch goals have been set
  - plans are implemented and results evaluated
  - budgets commit resources to plans
13. When a team leader is trying to follow an approach known as management by objectives, who should set a team member's performance objectives?
- The team member
  - The team leader
  - The team leader and team member
  - The team member, the team leader, and a lawyer
14. A good performance objective is written in such a way that it \_\_\_\_\_.
- has no precise timetable
  - is general and not too specific
  - is almost impossible to accomplish
  - can be easily measured
15. Which type of plan is used to guide resource allocations for long-term advancement of the organization's mission or purpose?
- Tactical
  - Operational
  - Strategic
  - Functional

### Short-Response Questions

16. List five steps in the planning process.
17. How might planning through benchmarking be used by the owner of a local bookstore?
18. How does planning help to improve focus?
19. Why does participatory planning facilitate implementation?

### Essay Question

20. Put yourself in the position of a management trainer. You have been asked to make a short presentation to the local Business Improvement Association at its biweekly luncheon. The topic you are to speak on is "How Each of You Can Use Objectives to Achieve Better Planning and Control." What will you tell them and why?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. The Planning Retreat

It's been a bit over two years since your promotion to division manager. You're now accountable for delivering about 10 percent of your firm's total revenues, and you oversee more than 100 people working in five different departments. This year you'd like to make the annual planning retreat really valuable to everyone. All managers, from team leaders to functional heads, will be present. You will have them off site for a full day. What goals will you state for the retreat in the email you

send out with the retreat agenda? Knowing the steps in the planning process, what will the retreat agenda look like, and why?

##### 2. Sexual Harassment

One of the people under your supervision brings a "possible" sexual harassment complaint about the behaviour of a co-worker to you. She says that she understands the organization's sexual harassment policy, but the procedures are not clear. You're not clear, either, and take the matter to your boss. She tells you to draft a set of procedures that can be taken to top management for approval. What procedures will



you recommend so that sexual harassment complaints like this one can be dealt with in a fair way?

### 3. Getting “Buy-In”

A consulting firm has been hired to help write a strategic plan for your organization. The plan would be helpful, but you are worried about

getting buy-in (commitment) from all members, not just those at the top. What conditions can you set for the consultants so that they not only provide a solid strategic plan, but also create strong commitments to implementing it from members of your organization?

## Reflect on the Self-Assessment

### Time Management Profile

#### Instructions

Complete the following questionnaire by indicating “Y” (yes) or “N” (no) for each item. Be frank and allow your responses to create an accurate picture of how you tend to respond to these kinds of situations.

1. When confronted with several items of urgency and importance, I tend to do the easiest first.
2. I do the most important things during that part of the day when I know I perform best.
3. Most of the time I don’t do things someone else can do; I delegate this type of work to others.
4. Even though meetings without a clear and useful purpose upset me, I put up with them.
5. I skim documents before reading and don’t finish any that offer little value for my time.
6. I don’t worry much if I don’t accomplish at least one significant task each day.
7. I save the most trivial tasks for that time of day when my creative energy is lowest.

8. My workspace is neat and organized.
9. My office door is always “open”; I never work in complete privacy.
10. I schedule my time completely from start to finish every workday.
11. I don’t like to-do lists; I prefer to respond to daily events as they occur.
12. I block out a certain amount of time each day or week that is dedicated to high-priority activities.

#### Scoring

Count the number of “Y” responses to items 2, 3, 5, 7, 8, 12. Enter that score here [ ]. Count the number of “N” responses to items 1, 4, 6, 9, 10, 11. Enter that score here [ ]. Add the two scores together here [ ].

#### Self-Assessment Interpretation

The higher the total score, the more closely your behaviour matches recommended time management guidelines. Reread those items where your response did not match the desired response. Why don’t they match? Do you have reasons why your behaviour in this instance should be different from the recommended time management guideline? Think about what you can do to adjust your behaviour to be more consistent with these guidelines.

## Contribute to the Class Exercise

### Personal Career Planning

#### Instructions

Part 1—Complete the following activities as an individual assignment. Part 2—Share your results with your team. Part 3—Prepare a team summary of members’ career plans and present it for discussion with the class and instructor.

- *Activity 1: Strengths and Weaknesses Inventory* Different occupations require specific talents, abilities, and skills. Each of us, you included, has a repertoire of existing strengths and weaknesses that are “raw materials” to offer a potential employer. Actions can (and should!) be taken over time to further develop current strengths and to turn weaknesses into strengths. Make a list identifying your most important strengths and weaknesses in relation

to the career direction you are likely to pursue after graduation. Place a \* next to each item you consider most important to focus on for continued personal development.

- *Activity 2: Five-Year Career Objectives* Make a list of three career objectives that you hope to accomplish within five years of graduation. Be sure they are appropriate given your list of personal strengths and weaknesses.
- *Activity 3: Five-Year Career Action Plans* Write a specific action plan for accomplishing each objective. State exactly what you will do, and by when, in order to meet these objectives. If you will need special support or assistance, identify it and state how you will obtain it. An outside observer should be able to read your action plan for each objective and end up feeling confident that he or she knows exactly what you are going to do and why.

## Manage a Critical Incident

### Policy on Paternity Leave for New Dads

#### Situation

As the Human Resource Director for a business with 800 employees, you’ve been asked by the CEO to revise your paternity leave policy. At

present, your company provides the legal Canadian minimum of up to 35 weeks of parental leave for fathers at 55 percent of their salary, to a maximum of \$524 a week. After doing some research, you find that only about 1 in 10 eligible new dads outside of Quebec take advantage of these Employment Insurance benefits with the birth of a new child.

Many new fathers cite a variety of worries about their careers and job security. The CEO wants you to consider revising your company policy so that new fathers' salary is "topped up" closer to their full pay or adding other enticements for them to take parental leave.<sup>30</sup>

### Questions

What is your plan for drafting this revised paternity leave policy? How will you go about getting good information and making sure the policy

is a good fit for your organization and its employees? What is your plan for making sure that new dads take full advantage of the policy and aren't afraid to use it because of job and career concerns? In short, you need to not only revise the policy but make sure it is accepted by all of the stakeholders affected by the policy.

## Collaborate on the Team Activity

### The Future Workplace

#### Instructions

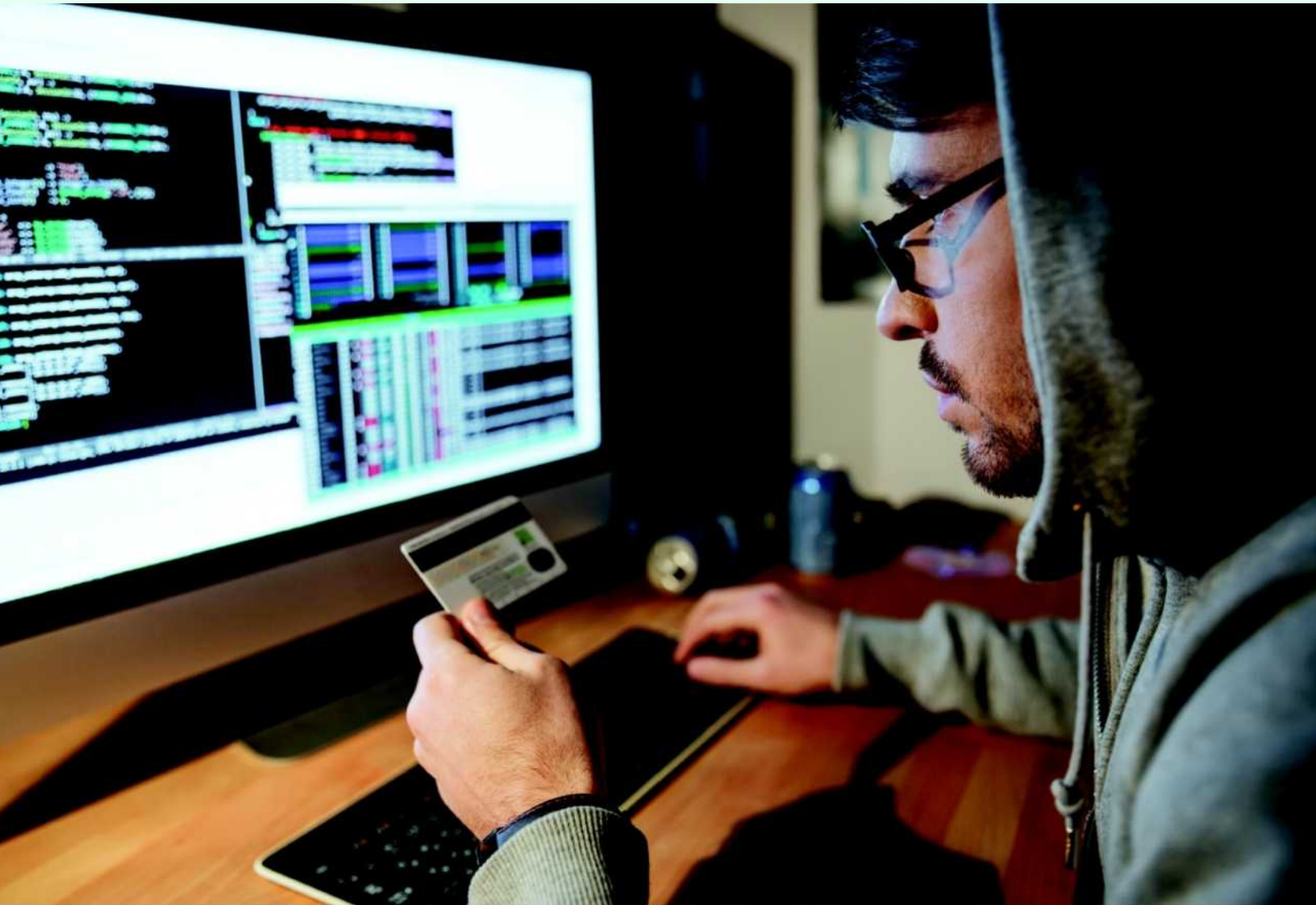
Form groups as assigned by the instructor. Brainstorm to develop a master list of the major characteristics you expect to find in the workplace in the year 2028. Use this list as background for completing the following tasks:

1. Write a one-paragraph description of what the typical "Workplace 2028" manager's workday will be like.
2. Draw a "picture" representing what the "Workplace 2028" organization will look like.
3. Summarize in list form what you consider to be the major planning implications of your future workplace scenario for management students today. That is, explain what this means in terms of using academic and extracurricular activities to best prepare for success in this future scenario.
4. Choose a spokesperson to share your results with the class as a whole and explain their implications for the decisions most likely to lead to professional success for the members of the class.

## Analyze the Case Study

### Case 8.1 Uber | Riding the Gig Economy

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.



ESB Professional/Shutterstock.com

# Control Processes and Systems

*“We are sorry.”*

*Post on Target website after up to 110 million credit cards and their personal data were stolen by hackers in a major data breach.*

Keeping in touch ... staying informed ... being in control: These are important responsibilities for every manager. But “control” is a word like “power.” If you aren’t careful when and how it’s used, it can become dangerous. Yet control plays a positive and necessary role in everyday living and in the management process. Having things “under control” helps to get things done; when things are “out of control” it is much more difficult.

Nike and Target are high-profile companies with very different control stories. At Nike the story is positive. The firm’s stylish shoes are made by innovative micro-level precision engineering that is great for controlling costs of materials, time, and labour.<sup>1</sup> At Target the story is negative. The company could not manage its Canadian supply chain and ended up closing all of its 133 stores in Canada. Later, the U.S. chain experienced a massive data security breach that resulted in the loss of some 110 million credit card registries with personal data to cyber hackers, which cost the CEO his job.<sup>2</sup> What lies behind these different control stories? Are management practices just better and more sophisticated at Nike? Did Target executives lack sufficient technology expertise to put the right control systems into place?

# Chapter Quick Start

We all know that facts provide essential information and measurement helps keep us on target. Why, then, do we so often flounder when it comes to exercising good control in our jobs and personal lives? We miss deadlines, we default on commitments, and we disappoint ourselves and others. There is a lot to learn about making control a personal asset, something that helps improve our performance as well as the performance of our teams and organizations.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

9.1 Why and How Managers Control

9.1 Identify the types of controls used by managers and the reasons for them.

9.2 The Control Process

9.2 List and describe the steps in the control process.

9.3 Control Tools and Techniques

9.3 Explain the use of common control tools and techniques.

## What to Look for **Inside**

### Management Is Real

- 9.1 **Choices** Think before You Act  
Some Parents Pay Their Kids for Good Grades
- 9.2 **Insight** Keep Learning about Yourself  
Resiliency Offers Strength from Within
- 9.3 **Analysis** Make Data Your Friend  
Those Small Distractions Can Be Goal Killers
- 9.4 **Ethics** Know Right from Wrong  
Restating Corporate Financial Performance Foreshadows Management Turnover
- 9.5 **Wisdom** Learn from Role Models  
Bill Gates Calls for Better Measurement to Solve Social Problems

### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Internal/External Control
- **Contribute** *to the Class Exercise:*  
After-Meeting/Project Remorse
- **Manage** *a Critical Incident:*  
High Performer but Late for Work
- **Collaborate** *on the Team Activity:*  
Building a Balanced Scorecard
- **Analyze** *the Case Study:*  
Electronic Arts | Inside Fantasy Sports

## 9.1 Why and How Managers Control

### LEARNING OBJECTIVE 9.1

Identify the types of controls used by managers and the reasons for them.

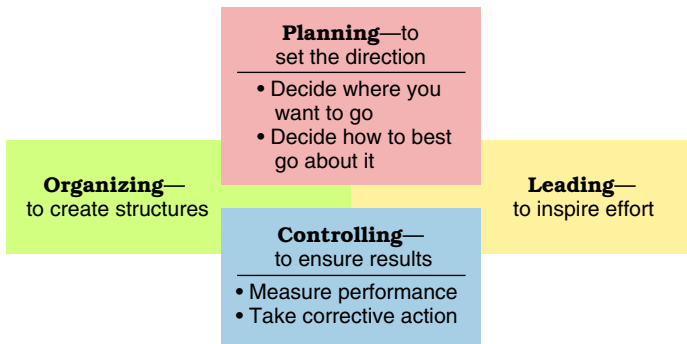
#### Learn More About

- Importance of controlling • Types of controls
- Internal and external control

Control is important for the success of any organization, and we practise a lot of control quite naturally. Think of the things you do for fun—playing golf or tennis or Frisbee, reading, dancing, skating, driving a car, or riding a bike. Through activities such as these you've already become quite expert in the control process. How? Most probably by having an objective in mind, always checking to see how well you are doing, and making continuous adjustments to get it right.

## Importance of Controlling

The management function of planning involves setting goals and making plans. It is closely linked with **controlling**, the process of measuring performance and making sure that plans turn out as intended. And information is the foundation of control. Henry Schacht, former CEO of Cummins Engine Company



**FIGURE 9.1** The role of controlling in the management process.

and of Lucent Technologies, linked control to what he called “friendly facts.” He stated: “Facts that reinforce what you are doing are nice, because they help in terms of psychic reward. Facts that raise alarms are equally friendly, because they give you clues about how to respond, how to change, where to spend the resources.”<sup>3</sup>

**Figure 9.1** shows how controlling fits in with the other management functions. *Planning* sets the direction and the parameters for resource allocation. *Organizing* brings people and material resources together in working combinations. *Leading* inspires people to best utilize these resources. *Controlling* makes sure that the right things happen, in the right way, and at the right time. It’s a way of ensuring that performance is consistent with plans and that accomplishments throughout a team or organization are coordinated in a means-ends fashion.

One of the great benefits of effective control is organizational learning. Consider, for example, the program of **after-action review** pioneered by the U.S. Army and now used in many corporate settings. It is a process for a structured review of lessons learned and results accomplished in a completed project, task force assignment, or special operation. Participants answer questions such as: “What was the intent?” “What actually happened?” “What did we learn?”<sup>4</sup> The after-action review helps make continuous improvement a shared norm. It encourages those involved to take responsibility for how they acted, what they achieved, and how they can be more effective in the future. The end-of-chapter team exercise is modelled on this approach.

## Types of Controls

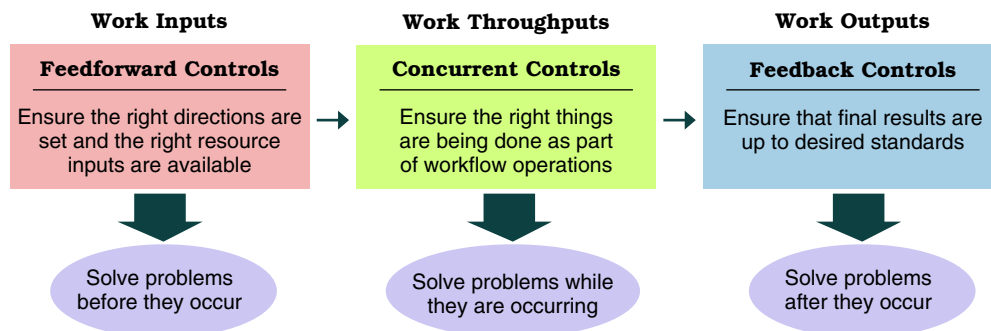
The open-systems perspective shown in **Figure 9.2** is one of the best ways to understand control. It shows how feedforward, concurrent, and feedback controls are linked with different phases of the input-throughput-output cycle.<sup>5</sup> The use of each of these control types increases the likelihood of high performance.

**Feedforward Controls** **Feedforward controls**, also called *preliminary controls*, take place before a work activity begins. They ensure that objectives are clear, that proper directions are established, and that the right resources are available to accomplish the objectives. The goal is to solve problems before they occur by asking an important but often neglected question: “What needs to be done before we begin?”

Feedforward controls are preventive in nature. Managers using them take a forward-thinking and proactive approach to control. At McDonald’s, for example, preliminary control of food ingredients plays an important role in the firm’s quality program. The company requires that suppliers of its hamburger buns produce them to exact specifications, covering everything from texture to uniformity of colour. Even in overseas markets, the firm works hard to develop local suppliers that can offer dependable quality.<sup>6</sup>

**Concurrent Controls** **Concurrent controls** focus on what happens during the work process. Sometimes called *steering controls*, they make sure objective-focused actions are executed according to plan. You can also think of this as control through direct supervision. In today’s increasingly complex virtual world, that supervision is as likely to be computer driven as face-to-face. Picture this scene at the Hyundai Motors headquarters in Seoul, South Korea, in what the firm calls its Global Command and Control Center.<sup>7</sup>

With dozens of computer screens relaying video and data, the Global Command and Control Center keeps watch on Hyundai operations around the world. Parts shipments are traced from the time they leave the supplier until they reach a plant. Cameras peer into assembly lines from Beijing to Montgomery, Alabama, and keep a close watch on Hyundai’s giant Ulsan, Korea, plant, the world’s largest integrated auto factory.



**FIGURE 9.2** Feedforward, concurrent, and feedback controls.

The goal of concurrent controls is to solve problems as they emerge. The key question is, “What can we do to improve things right now?” In the Hyundai example, operations are monitored and business intelligence is gathered in real time using sophisticated information systems that help managers to quickly spot and correct any problems in the manufacturing cycle. The same kind of process intervention also happens at McDonald’s, but there, concurrent control takes place face to face. Ever-present shift leaders constantly observe what is taking place in the unit as a whole, while helping out with the work necessary to keep the unit running. They are trained to intervene immediately when something is done improperly and to correct things on the spot.

**Feedback Controls** **Feedback controls**, also called *post-action controls*, take place after work is completed. They focus on the quality of end results rather than on inputs and activities. Feedback controls are largely reactive; the goals are to solve problems after they occur and to prevent future problems from occurring. They ask the question: “Now that we are finished, how well did we do?”

We are all familiar with feedback controls (such as the rewards for getting good grades described in Management Is Real 9.1) and probably recognize their limitations from a customer service perspective. Restaurants often ask how you liked a meal after you’ve eaten it, course evaluations tell instructors how well they performed after the course is over, and a budget summary identifies cost overruns after a project is completed. Such feedback about mistakes that have already been made may not enable their immediate correction, but it can help to improve performance in the future.

## Internal and External Control

Managers have two broad options with respect to control systems. First, they can trust and expect people to control their own behaviour. This puts priority on internal or self-control. Second, they can exercise external control by structuring situations to increase the likelihood that things will happen as planned.<sup>8</sup> The alternatives here include bureaucratic or administrative control, clan or normative control, and market or regulatory control. The most effective control typically involves a mix of these internal and external options.

**Self-Control** We all exercise internal control in our daily lives. We do so with regard to managing our money, our relationships, our eating and drinking, our health behaviours, our study habits, and more. Managers can take advantage of this human capacity for **self-control** by unlocking, allowing, and supporting it. This means helping people to be good at self-management, giving them freedom, and encouraging them to exercise self-discipline in performing their jobs. Any workplace that emphasizes participation, empowerment, and involvement will rely heavily on self-control. People are most likely to exercise self-control when they have a clear sense of organizational mission, know their goals, and have the resources necessary to do their jobs well. Self-control is also enhanced by participative organizational cultures in which everyone treats each other with respect and consideration.

Resiliency is closely related to self-control (see Management Is Real 9.2).

Managers gain a lot by assuming that people are ready and willing to exercise self-control in their work.<sup>10</sup> But an internal

### Management Is Real 9.1: Choices | Think before You Act

“If there’s more than one child in the family, it’s unfair if they don’t all get rewards.”

#### Some Parents Pay Their Kids for Good Grades

Managing is a lot like parenting, and allocating rewards isn’t easy in either situation. What about children and their school grades? Have you ever heard someone say: “We pay for ‘As’”? Perhaps you’ve heard or said it yourself, or plan to do it when you’ve got kids in school. But is this the correct thing to do? Can paying for grades improve parental control over children’s study habits and academic performance?

Those in favour of paying for grades are likely to say: “It gets the kid’s attention” ... “It motivates them to study more” ... “It gets them ready for work where pay and performance go together.” Those against the practice are likely to say: “Once they get paid for As, they’ll be studying for financial gain, not real learning” ... “It hurts those who work hard but still can’t get the high grades” ... “If there’s more than one child in the family, it’s unfair if they don’t all get rewards.”



Tetra Images/Alamy Stock Photo

#### What’s Your Take?

Is paying for grades a good way to control kids’ school performance? As a parent, will you pay for grades or not? How can you justify your position? What are the pros and cons of this approach as you see them? Were you, or are you, paid for good grades? What is your experience? By the way, what can parenting teach us about managing people at work?

## Management Is Real 9.2: Insight | Keep Learning about Yourself

**“Resilient people are like trees bending in the wind.... They bounce back.”**

### Resiliency Offers Strength from Within

Managerial control is all about how to increase the probability that things go right for organizations even as they deal with an increasing number of operational complexities. It's the same for us—every day, in our work and personal lives. We need to spot and understand where things are going according to plan or going off course. We need to have the courage and confidence to change approaches that aren't working well. Our success, simply put, depends a lot on resiliency—the ability to call on inner strength and keep moving forward even when things are tough. Adversity doesn't thwart a resilient person. Stress does not overwhelm them. They understand that resolving difficult situations takes time and it's part of living. And when those situations are not within their control, they practise self-care, such as by sitting in silence for a while, avoiding distractions, and having the confidence to accept that “this too shall pass.”<sup>9</sup>

Think of resiliency in personal terms—caring for an aging parent with a terrible disease or being a single parent with small children. Think of it in career terms—juggling personal and work responsibilities, continuously attending to emails, voice mails, and text messages, and rushing to many scheduled and unscheduled meetings. We need to be managed, we need to exercise control, and we need staying power to perform over the long term. Resiliency helps us hold on and keep things moving forward even in the face of personal and professional adversity.

Resilient people face up to challenges; they don't hide or back away from them. They develop strategies, make plans, and find

opportunity even in difficult situations. Dr. Steven M. Southwick, professor of psychiatry at Yale University, says “Resilient people are like trees bending in the wind.... They bounce back.” Does this description fit you ... or not? Why?

### Resiliency Quick Test

Score yourself from 1 = don't at all agree, to 5 = totally agree, on the following items:

- I am an upbeat person for the most part.
- Uncertainty and ambiguity don't much bother me.
- I tend to adapt quickly as things change.
- I can see positives even when things go wrong.
- I am good at learning from experience.
- I am good at problem solving.
- I am strong and hold up well when times are tough.
- I have been able to turn bad situations into positive gains.

### Get to Know Yourself Better

Take the Resiliency Quick Test. A score of 35 or higher suggests you are highly resilient; a lower score should lead you to question how well you hold up under pressure. Double-check the test results by looking at your behaviour. Write notes on how you handle situations like a poor grade at school, a put-down from a friend, a denial letter from a job application, or criticism from a supervisor or co-worker on your job. Summarize what you've learned in a memo to yourself about how you might benefit from improving your resiliency in difficult situations.

control strategy requires a great deal of trust. When people are willing to work on their own and exercise self-control, managers have to have the confidence to give them the freedom to do so. Self-control is most likely to be effective when the process used to set objectives and standards is participative. The potential for self-control also increases when capable people have a clear sense of their organization's mission and have the resources necessary to do their jobs well. The potential for self-control is also greater in inclusive organizational cultures in which everyone treats everyone else with respect and consideration.

It's important to think about self-control as a personal capacity, even a life skill. How good are you at taking control of your time and maintaining a healthy work-life balance? Do you ever wonder who's in control, you or your phone? It used to be that we sometimes took work home in a briefcase, did a bit, closed the case up, and took it back to work the next day. Now work is always there, on the computer, in our emails, and streamed as text messages. All this is habit forming, and some of us handle this intrusion into our non-work lives better than others.<sup>11</sup> On the flip side, when our personal lives intrude on our work lives, the distractions can harm our productivity (see Management Is Real 9.3).

**Bureaucratic Control** One form of external control uses authority, policies, procedures, job descriptions, budgets, and day-to-day supervision to make sure that people act in harmony with organizational interests. It's called **bureaucratic control**, and you can think of it as control that flows through the organization's hierarchy of authority. Organizations typically have policies and procedures regarding sexual harassment, for example. Their goal is to make sure members behave toward one another respectfully and with no suggestion of sexual pressure or impropriety. Organizations also use budgets for personnel, equipment, travel expenses, and the like to keep spending within set limits.

Another level of bureaucratic control comes from laws and regulations in the organization's external environment. An example is the Canadian Bill C-198, which was passed in 2003.<sup>12</sup> This bill is similar to the U.S. Sarbanes-Oxley Act of 2002 (SOX), which establishes procedures to regulate financial reporting and governance for those companies that issue securities for investors and are publicly traded.<sup>13</sup> Both SOX and Bill C-198 (often referred to as C-SOX, with the C referring to “Canada”) were passed in response to major corporate scandals over the accuracy of the financial reports provided by some firms.

## Management Is Real 9.3: Analysis | Make Data Your Friend

Office workers get distracted as often as once every 3 minutes; it can take 23 minutes to refocus after a major interruption.

### Those Small Distractions Can Be Goal Killers

Most of us work with good intentions. But when distractions hit, focus gets lost, plans fall by the wayside, and progress suffers. Whether it's chatting with co-workers, following social media, or tackling electronic inboxes, interruptions are more plentiful than we might admit.

- Office workers get distracted as often as once every 3 minutes and it takes an average of 23 minutes to refocus after a major interruption.
- Handling up to 100 electronic messages can eat up as much as half a workday.
- Facilitators of disruptions include open-plan office spaces, use of multiple electronic devices, and constant checking of social media and messaging windows.

Lacy Roberson, eBay's director of learning and organization development, calls the situation "an epidemic" and says it's hard for people to get their work done with all the interruptions and the strain that they cause. The fight against disruptions causes some employees to start their day very early or to stay late to get their jobs done. Employers are starting to fight back and to try to protect "real work" time.



"No devices" is a rule at some eBay meetings. Intel is experimenting with allowing workers blocks of "think time" where they don't answer messages or attend meetings. Abbott Laboratories is retraining workers to use the telephone rather than email for many internal office communications.

#### What are the Implications?

How prone are you to letting distractions consume your time? Does this problem apply to your personal affairs and relationships, not just work? It's interesting that some employers are trying to step in and set policies that might minimize the negative impact of distractions, particularly electronic ones. Where's the self-control? Aren't there things we can all do to protect our time and keep our work and goals on track?

Under Bill C-198, chief executives and chief financial officers must personally sign off on financial reports and certify their accuracy. Those who misstate their firm's financial records can go to jail and pay substantial personal fines. The complexity and pressures of increased government regulations have led many firms to appoint chief compliance officers, CCOs, and set up compliance departments. CCO are most effective when they report directly to the chief executive or to the board of directors.<sup>14</sup> Actions are also being taken to strengthen governance by boards. Stricter management oversight is evident in moves for directors to become more actively involved in leadership and to separate the CEO and board chairman roles.<sup>15</sup>

**Clan Control** Whereas bureaucratic control emphasizes hierarchy and authority, **clan control** influences behaviour through norms and expectations set by the organizational culture. Sometimes called *normative control*, it harnesses the power of group cohesiveness and collective identity to influence behaviour in teams and organizations.

Clan control happens when people who share values and identify strongly with one another behave in consistent ways. Just look around the typical university or college classroom and campus. You'll see clan control reflected in how students dress, use language, and act in class and during leisure time. They often behave according to the expectations of peers and the groups with whom they identify. The same holds true in

organizations, where clan control influences the members of teams and work groups to adopt common behaviour patterns.

**Strategic Control** **Strategic control** steers an organization through the many unanticipated events that can emerge during the implementation of a project. It assesses whether the original strategy is being implemented as planned, and whether the results are deliberate, unrealized, or emergent. Strategic control tracks the activities of a project with the goal of discovering the presence of unintended consequences, both those welcome and innovative as well as major deviations from the organizing principles of the organization: its mission, vision, and values. If the implementation process is too divergent from those principles, then corrective steps can be taken, or the project reassessed.<sup>16</sup>

**Market Control** **Market control** refers to the influence of customers and competition on the behaviour of organizations and their members. Business firms show the influence of market control in the way that they adjust products, pricing, promotions, and other practices in response to consumer feedback and to what competitors are doing. A good example of the power of market control is the growing emphasis on green products and sustainability practices. When a firm like Walmart starts to get positive publicity from its expressed goals of powering all of its stores with renewable energy, for example, the effect is felt by its competitors.<sup>17</sup> They have to adjust their



practices in order to avoid losing the public relations advantage to Walmart. “For American companies there’s a lot of peer pressure,” said the director of the Governance & Accountability Institute when reporting that voluntary filings of sustainability reports by Standard & Poor’s 500 firms had risen from 53 to 72 percent in just one year.<sup>18</sup> In this sense the time-worn phrase “keeping up with the competition” is really another way of expressing the dynamics of market controls in action.

## Learning Check

**LEARNING OBJECTIVE 9.1** Identify the types of controls used by managers and the reasons for them.

**Be Sure You Can** • define *controlling* as a management function • explain benefits of after-action reviews • illustrate how a fast-food restaurant uses feedforward, concurrent, and feedback controls • discuss internal control and external control systems • give examples of bureaucratic, clan, and market controls

## 9.2 The Control Process

**LEARNING OBJECTIVE 9.2**

List and describe the steps in the control process.

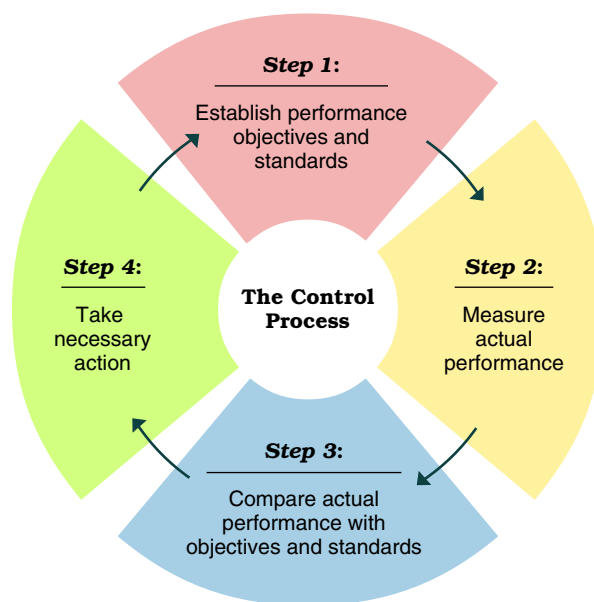
### Learn More About

Establish objectives and standards • Measure actual performance • Compare results with objectives and standards • Take corrective action

The control process involves the four steps shown in **Figure 9.3**: (1) establish performance objectives and standards; (2) measure actual performance; (3) compare actual performance with objectives and standards; and (4) take corrective action as needed. Although essential to management, these steps apply equally well to personal and career decisions. Consider this—without career objectives, how do you know where you really want to go? How can you allocate your time and other resources to best take advantage of available opportunities? Without measurement, how can you assess whether any progress has been made? How can you adjust your current behaviour to improve the prospects for positive future results?

### Step 1—Establish Objectives and Standards

The control process begins with planning, when performance objectives and standards for measuring them are set. Objectives



**FIGURE 9.3** Four steps in the control process.

and standards define what one wants to accomplish in terms of key results. However, the word *key* in the prior sentence deserves special emphasis. The focus when setting objectives and standards should be on “critical” or “essential” results that will make a real performance difference. Unfortunately, we often expend too much time and effort on things that just aren’t all that important, and we let the big or really consequential things get away from us in the process. To stay on focus, productivity experts suggest remembering the **Pareto Principle** which states that 80 percent of consequences (think—real impact) come from 20 percent of causes (think—work accomplished).<sup>19</sup>

**Output Standards** The control process uses **output standards** that measure actual outcomes or work results. Businesses use many output standards, such as earnings per share, return on investment, sales growth, and market share. (For shareholders in publicly traded companies, these outputs, reported in financial statements, are key performance measures, as shown in Management Is Real 9.4.) Others include quantity and quality of production, costs incurred, service or delivery time, and error rates. Based on your experience at work and as a consumer, you can probably come up with even more examples of relevant output standards.

When Allstate Corporation launched a new diversity initiative, it created a “diversity index” to quantify performance across a range of diversity issues. The standards included how well employees met the goals of bias-free customer service and how well managers met the firm’s diversity expectations.<sup>20</sup> When General Electric became concerned about managing ethics in its 320,000-member global workforce, it created measurement standards to track compliance. Each business unit was required to report quarterly on how many of its members attended ethics training sessions and signed the firm’s “Spirit and Letter” ethics guide.<sup>21</sup>

How about output standards for other types of organizations, such as a symphony orchestra? When the Cleveland

## Management Is Real 9.4: Ethics | Know Right from Wrong

**Turnover of top executives and directors was higher in firms that restated their earnings.**

### Restating Corporate Financial Performance Foreshadows Management Turnover

Occasionally, publicly traded companies have to reissue their financial statements. Most of these restatements are due to errors, but some are required to correct deliberate attempts by management to make the companies' financial performance look better than it actually is. Control and accountability are core issues in research by Marne L. Arthaud-Day, S. Travis Certo, Catherine M. Dalton, and Dan R. Dalton. Using a technique known as event history analysis, the researchers say that a firm's response to financial restatements is an "opportunity to study the accountability of leaders for organizational outcomes, independent of firm performance." Arthaud-Day et al. examined what happened in a two-year period for 116 firms that restated financials, in comparison with 116 others that did not. The firms were chosen from the Financial Statement Restatement Database and matched in pairs by industry and size for control purposes.

Results showed that turnover of CEOs, CFOs, outside directors, and audit committee members was higher in firms that restated their earnings. The researchers point out that financial misstatements harm a firm's legitimacy in the eyes of key stakeholders, and this threatens the firm's ability to obtain resources and external support. Because financial misstatements are considered to be direct management failures, executives are more likely to be held accountable for them than for poor performance of an organization overall—even for bankruptcy, which might be explained by adverse external factors. The researchers note that "companies often couch involuntary



Peepo/Getty Images

departures in nice-sounding clichés (e.g., an executive 'retires'), making it nearly impossible to determine the true reason for turnover." In terms of future research, they recommend looking at what happens after "tainted" leadership is removed. Does the firm regain stakeholder legitimacy and do better in the future, or not?

#### What Do You Think?

If one looked not just at financial misstatements, but also at share price declines, profit and loss trends, and product successes and failures, would similar patterns of control and accountability for top managers be found? Given the increased concern with tightening financial controls and holding business executives accountable for performance, are executives in governments, schools, and non-profits in your community being held accountable as well?

Orchestra wrestled with performance standards, the members weren't willing to rely on vague generalities like "we played well" or "the audience seemed happy" or "not too many mistakes were made." Rather, they decided to track standing ovations, invitations to perform in other countries, and how often other orchestras copied their performance style.<sup>22</sup>

**Input Standards** The control process also uses **input standards** that measure work efforts. These are common in situations where outputs are difficult or expensive to measure. Examples of input standards for a professor might be an orderly course syllabus, meeting all class sessions, and returning exams and assignments in a timely fashion. Of course, as this example might suggest, measuring inputs doesn't mean that outputs such as high-quality teaching and learning are necessarily achieved. Other examples of input standards at work include conformance with rules, efficient use of resources, and work attendance.

### Step 2—Measure Actual Performance

The second step in the control process is to measure actual performance. This is the point where output standards and input standards are used to carefully document results. Linda

Sanford, a former senior vice president at IBM, had a high-performance career with the company. She grew up on a family farm where measuring results was a way of life. Sanford says: "At the end of the day, you saw what you did, knew how many rows of strawberries you picked." At IBM she was known for walking around the factory, just to see "at the end of the day how many machines were going out of the back dock."<sup>23</sup>

Performance measurement in the control process must be accurate enough to identify significant differences between what is really taking place and what was originally planned. Without measurement, effective control is impossible. With measurement tied to key results, however, an old adage often holds true: "What gets measured happens." Entrepreneur and philanthropist Bill Gates feels that performance measurement can achieve great results when applied to the world's social problems (Management Is Real 9.5).

### Step 3—Compare Results with Objectives and Standards

Step 3 in the control process is to compare objectives with results. This step corresponds to the following **control equation**:

Need for Action = Desired Performance – Actual Performance

## Management Is Real 9.5: Wisdom | Learn from Role Models

“You can achieve incredible progress if you set a clear goal and find a measure that will drive progress toward that goal.”

### Bill Gates Calls for Better Measurement to Solve Social Problems

“Measure them!” advises Bill Gates. The world’s social problems will remain unsolved unless we measure them and do it well. “I have been struck by how important measurement is to improving the human condition. You can achieve incredible progress if you set a clear goal and find a measure that will drive progress toward that goal,” he says. “We can do better. We have the tools at hand.”

Gates describes the challenge this way: “In the U.S. we should be measuring the value added by colleges.... In agriculture, creating a global productivity target would help countries focus on a key but neglected area: the efficiency and output of hundreds of millions of small farmers who live in poverty.... In poor countries we still need better ways to measure the effectiveness of the many government workers providing health services.... I’d love to have a way to measure how exposure to risks like disease, infection, malnutrition and problem pregnancies impact children’s potential.”

In making his case for “extraordinary measures,” Bill Gates describes a pathway to progress through big goals and big accomplishments. His message is basic management, a lesson on control learned from his success in building Microsoft into a global corporation. Progress begins with the right goals and plans. Progress is



achieved when results are measured and adjustments are made so that things can keep getting better in the future.

#### Find Inspiration

It may be tempting to dismiss Gates’s call to action as the musings of a billionaire. It would be a lot smarter to listen and to learn. How can this call for better measurement and greater willingness to pay attention to data be applied to the organizations that you work for or are familiar with? Can this advice help advance your own life and career goals? Do you have an aversion to measurement? If so, how can you turn measurement into a friend rather than an enemy?

The question of what constitutes “desired” performance plays an important role in the control equation. Some organizations use *engineering comparisons*. United Parcel Service (UPS), for example, carefully measures the routes and routines of its drivers to establish the times expected for each delivery. When a delivery manifest is scanned as completed, the driver’s time is registered in a performance log that is closely monitored by supervisors. Organizations also use *historical comparisons*, where past experience becomes the baseline for evaluating current performance. They also use *relative comparisons* that benchmark performance against the performance actually being achieved by other people, work units, or organizations.

### Step 4—Take Corrective Action

The final step in the control process is to take the actions needed to correct problems or make improvements. **Management by exception** is the practice of giving attention to situations that show the greatest need for action. It saves time, energy, and other resources by helping managers focus their attention on high-priority areas.

Managers should be alert to two types of exceptions. The first is where actual performance is less than desired. This *problem situation* must be understood so that corrective action can restore performance to the desired level. The second is where actual performance turns out to be higher than what was

desired. This *opportunity situation* must be understood with the goal of continuing or increasing the high level of accomplishment in the future.

### Learning Check

**LEARNING OBJECTIVE 9.2** List and describe the steps in the control process.

**Be Sure You Can** • list the steps in the control process • explain why planning is important to controlling • differentiate between output and input standards • state the control equation • define *management by exception*

## 9.3 Control Tools and Techniques

**LEARNING OBJECTIVE 9.3**

Explain the use of common control tools and techniques.

**Learn More About**

Project management and control • Inventory control • Breakeven analysis • Financial controls • Balanced scorecards

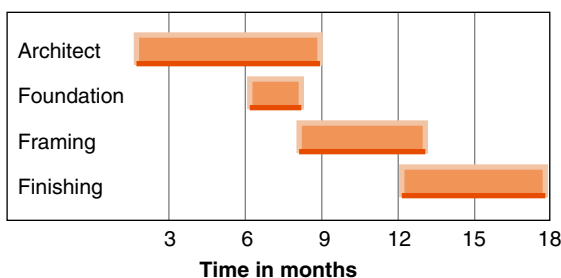
Managers in most organizations use a variety of control systems and techniques. Some of the most common ones are project management, inventory control, breakeven analysis, and financial controls, as well as the use of balanced scorecards.

## Project Management and Control

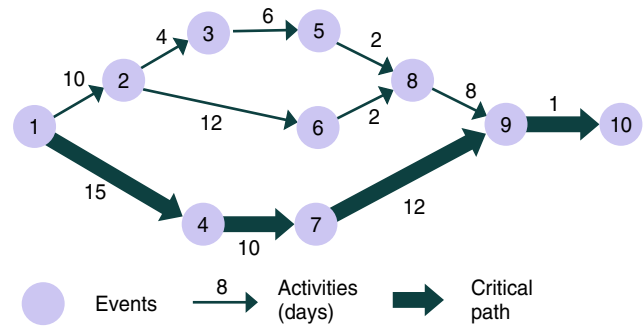
It might be something personal, like an anniversary party for your parents or grandparents, a fundraiser for a local homeless shelter, or the launch of a new product or service at your place of work. It might be the completion of a new student activities building on campus, or the implementation of a new advertising campaign for a sports team. What these examples and others like them have in common is that they encompass relatively complicated sets of interrelated tasks with multiple components that have to happen in a certain sequence, and that must be completed by a specified date. We call them **projects**, one-time events with unique, sometimes complex components and an objective that must be met within a set time frame.

**Project management** takes responsibility for overall planning, supervision, and control of projects. A project manager's job is to ensure that a project is well planned and then completed according to plan—on time, within budget, and consistent with objectives. Two useful techniques for undertaking project management and control are Gantt charts and CPM/PERT.

A **Gantt chart** graphically displays the scheduling of tasks that go into completing a project (Figure 9.4). As developed in the early 20th century by Henry Gantt, an industrial engineer, this tool has become a core element of project management. The Gantt chart's visual overview of what needs to be done on a project allows for easy progress checks to be made at different time intervals. It also helps with event or activity sequencing to make sure key aspects of a project get accomplished in time for later work to build on them. One of the biggest problems with projects, for example, is when delays in early activities create problems for later activities.



**FIGURE 9.4** Example of a Gantt chart.



**FIGURE 9.5** A CPM/PERT network map showing a critical path for a given project.

A more advanced use of the Gantt chart is a technique known as **CPM/PERT**—a combination of the critical path method and the program evaluation and review technique. Project planning based on CPM/PERT uses a network chart like the one shown in Figure 9.5. Such charts break a project into a series of smaller subactivities that have clear beginning and end points. These points become “nodes” in the chart, and the arrows between nodes show in what order the subactivities must be completed. The full diagram shows all the interrelationships that must be coordinated for the entire project to be successfully completed.

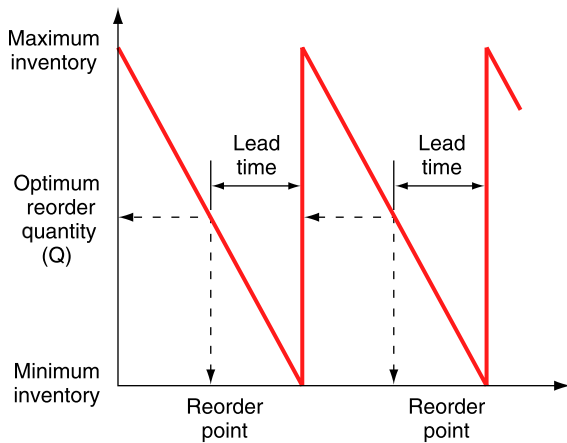
Use of CPM/PERT techniques helps project managers track activities to make sure they happen in the right sequence and on time. If you look at the network in Figure 9.5, you should notice that the time required for each activity can be easily calculated and tracked. The longest pathway from start to conclusion in a CPM/PERT network is called the **critical path**. It represents the quickest time in which the entire project can be finished, assuming everything goes according to schedule and established project plans. In the example in Figure 9.5, the critical path is 38 days ( $15 + 10 + 12 + 1$ ).

## Inventory Control

Cost control is always an important performance concern. A very good place to start is with inventory. The goal of **inventory control** is to make sure that inventory is no bigger than required to meet immediate needs, so that carrying costs are minimized.

The **economic order quantity** form of inventory control, shown in Figure 9.6, automatically orders a fixed number of items every time an inventory level falls to a predetermined point. The order sizes are mathematically calculated to minimize inventory costs. A good example is your local supermarket. It routinely makes hundreds of daily orders on an economic order quantity basis.

Another popular approach to inventory control is **just-in-time scheduling (JIT)**. These systems reduce costs and improve workflow by scheduling materials to arrive at a workstation or facility just in time for use. Because JIT nearly eliminates the carrying costs of inventories, it is an important business productivity tool. However, there are weaknesses



**FIGURE 9.6** Economic order quantity form.

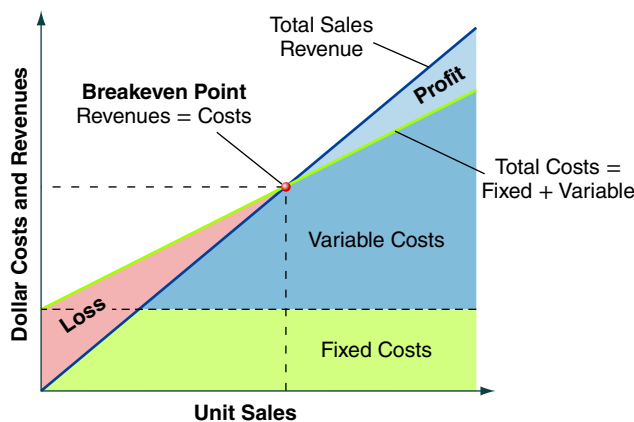
with a JIT approach as was recently highlighted by the pandemic crisis. With supply chains frozen it did not take long for personal protective equipment (PPE) supplies for health workers to be depleted with dire consequences.

## Breakeven Analysis

A frequent control question asked by business executives is: “What is the **breakeven point**?” In **Figure 9.7** you’ll see that breakeven occurs at the point where revenues are just equal to costs. You can also think of the breakeven point as where losses end and profit begins. A breakeven point is calculated using this formula:

$$\text{Breakeven Point} = \text{Fixed Costs} \div (\text{Price} - \text{Variable Costs})$$

Managers using **breakeven analysis** perform what-if calculations under different projected cost and revenue conditions. *Question*—Suppose the proposed target price for a new product is \$8 per unit, fixed costs are \$10,000, and variable



**FIGURE 9.7** Use of breakeven analysis to make informed “what-if” decisions.

costs are \$4 per unit. What sales volume is required to break even? (*Answer*: breakeven at 2,500 units.) *Question*—What happens if you can keep variable costs to \$3 per unit? (*Answer*: breakeven at 2,000 units.) *Question*—If you can produce only 1,000 units in the beginning and at the original costs, at what price must you sell them to break even? (*Answer*: \$14.) Business executives perform these types of cost control analyses every day.

## Financial Controls

The pressure is ever present for all organizations to use their financial resources well. And the 2008 global economic recession has left no doubt that an important part of managerial control involves the analysis of financial performance. Control depends on measurement, and there are a number of ways that financial performance can be measured and tracked for control purposes.

The foundation for analysis using financial controls rests with the firm’s balance sheet and income statement. Each looks at finances in slightly different ways, and together they provide a good picture of the financial health of an organization. The **balance sheet** shows assets, liabilities and owner’s equity at a point in time. It will be displayed in an Assets = Liabilities + Owner’s Equity format. The **income statement** shows profits or losses at a point in time. It will be displayed in a Sales – Expenses = Net Income format. You are likely to remember both from an accounting course. They are summarized in **Figure 9.8**.

Special measures of financial performance help managers use information from balance sheets and income statements for control purposes. They include financial ratios that indicate *liquidity*—the ability to generate cash to pay bills; *leverage*—the ability to earn more in returns than the cost of debt; *asset management*—the ability to use resources efficiently and operate at minimum cost; and *profitability*—the ability to earn revenues greater than costs. The following list highlights some widely used financial ratios.

Balance Sheet		Income Statement
Assets	Liabilities	Gross Sales
<b>Current Assets</b>	<b>Current Liabilities</b>	less Returns
• Cash	• Accounts payable	<b>Net Sales</b>
• Receivables	• Accrued expenses	less Expenses and
• Inventories	• Taxes payable	Cost of Goods Sold
<b>Fixed Assets</b>	<b>Long-term Liabilities</b>	<b>Operating Profits</b>
• Land	• Mortgages	plus Other Income
• Buildings	• Bonds	<b>Gross Income</b>
<b>Less Depreciation</b>	<b>Owner’s Equity</b>	less Interest Expense
	• Outstanding stock	<b>Income before Taxes</b>
	• Retained earnings	less Taxes
<b>Total Assets</b>	<b>= Total Liabilities</b>	<b>Net Income</b>

**FIGURE 9.8** Basic elements of a balance sheet and income statement.

**Profitability**—measures ability to earn revenues greater than costs

- *Net Margin* = Net Income/Sales
- *Return on Assets (ROA)* = Net Income/Total Assets
- *Return on Equity (ROE)* = Net Income/Owner's Equity

Higher is better: You want higher net income relative to sales, assets, and equity.

**Liquidity**—measures ability to meet short-term obligations

- *Current Ratio* = Current Assets/Current Liabilities
- *Quick Ratio or Acid Test* = Current Assets – Inventories/Current Liabilities

Higher is better: You want more assets and fewer liabilities.

**Leverage**—measures use of debt

- *Debt Ratio* = Total Debts/Total Assets

Lower is better: You want fewer debts and more assets.

**Asset Management**—measures asset and inventory efficiency

- *Asset Turnover* = Sales/Total Assets
- *Inventory Turnover* = Sales/Average Inventory

Higher is better: You want more sales relative to assets and inventory.

Financial ratios are very common in executive dashboards that organize business intelligence information for decision making. The ratios lend themselves in a straightforward way to visual displays that provide neat historical comparisons within the firm and for industry benchmarking. They can also be used to set financial targets or goals to share with employees and tracked to indicate performance success or failure. Civco Medical Instruments, for example, distributes a monthly financial report to all employees. These reports always show how well the firm is doing. This helps employees focus on what they can do better to improve the firm's bottom line.<sup>24</sup>

## Balanced Scorecards

If an instructor takes class attendance and assigns grades based on it, students tend to come to class. If an employer tracks the number of customers employees serve per day, employees tend to serve more customers. So if “what gets measured happens,” shouldn't managers take advantage of “scorecards” to record and track performance results?

Strategic management consultants Robert S. Kaplan and David P. Norton advocate using the **balanced scorecard** for management control.<sup>25</sup> They say it gives top managers “a fast, but comprehensive view of the business.” The basic principle is that to do well and to win, you have to keep score. Like sports teams, organizations tend to perform better when their members always know the score.

Developing a balanced scorecard for any organization begins with a clarification of the organization's mission and vision—what it wants to be and how it wants to be perceived by its key stakeholders. Next, the following questions are

used to develop specific scorecard goals and measures in four areas:

- *Financial Performance*—“How well do our actions directly contribute to improved financial performance? To improve financially, how should we appear to our shareholders?” Sample goals: survive, succeed, and prosper. *Sample measures*: cash flow, sales growth and operating income, increased market share, and return on equity.
- *Customer Satisfaction*—“How well do we serve our customers and clients? To achieve our vision, how should we appear to our customers?” Sample goals: new products, responsive supply. *Sample measures*: percentage sales from new products, percentage on-time deliveries.
- *Internal Process Improvement*—“How well do our activities and processes directly increase the value we provide our customers and clients? To satisfy our customers and shareholders, at what internal business processes should we excel?” Sample goals: manufacturing excellence, design productivity, new product introduction. *Sample measures*: cycle times, engineering efficiency, new product time.
- *Innovation and Learning*—“How well are we learning, changing, and improving things over time? To achieve our vision, how will we sustain our ability to change and improve?” Sample goals: technology leadership, time to market. *Sample measures*: time to develop new technologies, new product introduction time versus competition.

When balanced scorecard measures are taken and routinely recorded for critical managerial review, Kaplan and Norton expect managers to make better decisions and organizations to perform better in these four performance areas. Like the financial ratios discussed earlier, the balanced scorecard is a good fit for executive dashboards and visual displays of business intelligence. Because, as we keep saying, what gets measured gets done.

Think about the possibilities of using balanced scorecards in all types of organizations. How can this approach be used, for example, by an elementary school, a hospital, a community library, a mayor's office, or a fast-food restaurant? How might the performance dimensions and indicators vary among these different organizations? And if balanced scorecards make sense, why don't more organizations use them?

## Learning Check

**LEARNING OBJECTIVE 9.3** Explain the use of common control tools and techniques.

**Be Sure You Can** • define project management • explain how Gantt charts and CPM/PERT analysis can assist in project management • explain how inventory controls and breakeven analysis can assist in cost control • list and explain common ratios used in financial control • identify the four main balanced scorecard components and give examples of how they might be used in organizations of various types

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 9.1** Identify the types of controls used by managers and the reasons for them.

- Controlling is the process of measuring performance and taking corrective action as needed.
- Feedforward controls are accomplished before a work activity begins; they ensure that directions are clear and that the right resources are available to accomplish them.
- Concurrent controls make sure that things are being done correctly; they allow corrective actions to be taken while the work is being done.
- Feedback controls take place after an action is completed; they address the question “Now that we are finished, how well did we do, and what did we learn for the future?”
- Internal control is self-control; it occurs when people take personal responsibility for their work.
- External control is the use of bureaucratic, clan, and market control systems.

**For Discussion** Can strong input and output controls make up for poor concurrent controls?

**LEARNING OBJECTIVE 9.2** List and describe the steps in the control process.

- The first step in the control process is to establish performance objectives and standards that create targets against which later performance can be evaluated.
- The second step in the control process is to measure actual performance and specifically identify what results are being achieved.
- The third step in the control process is to compare performance results with objectives to determine if things are going according to plans.

- The fourth step in the control process is to take action to resolve problems or explore opportunities that are identified when results are compared with objectives.

**For Discussion** What are the potential downsides to management by exception?

**LEARNING OBJECTIVE 9.3** Explain the use of common control tools and techniques.

- A project is a unique event that must be completed by a specified date; project management is the process of ensuring that projects are completed on time, on budget, and according to objectives.
- Gantt charts assist in project management and control by displaying how various tasks must be scheduled in order to complete a project on time.
- CPM/PERT analysis assists in project management and control by describing the complex networks of activities that must be completed in sequence for a project to be completed successfully.
- Economic order quantities and just-in-time deliveries are common approaches to inventory cost control.
- The breakeven equation is:  $\text{Breakeven Point} = \text{Fixed Costs} \div (\text{Price} - \text{Variable Costs})$ .
- Breakeven analysis identifies the points where revenues will equal costs under different pricing and cost conditions.
- Financial control of business performance is facilitated by a variety of financial ratios, such as those dealing with liquidity, leverage, assets, and profitability.
- The balanced scorecard measures overall organizational performance in four areas: financial, customers, internal processes, and innovation.

**For Discussion** Should all employees of a business be regularly informed of the firm’s overall financial performance?

## Chapter Glossary

**After-action review** A systematic assessment of lessons learned and results accomplished in a completed project.

**Balance sheet** A financial statement that shows assets and liabilities at one point in time.

**Balanced scorecard** A tally of organizational performance in financial, customer service, internal process, and innovation and learning areas.

**Breakeven analysis** The performance of what-if calculations under different revenue and cost conditions.

**Breakeven point** The point where revenues just equal costs.

**Bureaucratic control** The influence of behaviour through authority, policies, procedures, job descriptions, budgets, and day-to-day supervision.

**Clan control** The influence of behaviour through norms and expectations set by the organizational culture.

**Concurrent control** A control that focuses on what happens during the work process.

**Control equation**  $\text{Need for Action} = \text{Desired Performance} - \text{Actual Performance}$ .

**Controlling** The process of measuring performance and taking action to ensure desired results.

**CPM/PERT** A project management tool that combines the critical path method and the program evaluation and review technique.

**Critical path** The longest pathway in a CPM/PERT network.

**Economic order quantity** A method of inventory control that places new orders when inventory levels fall to predetermined points.

**Feedback control** A control that takes place after an action is completed.

**Feedforward control** A control that ensures that directions and resources are right before the work begins.

**Gantt chart** A graphical display of the scheduling of tasks required to complete a project.

**Income statement** A financial statement that shows profits or losses at one point in time.

**Input standard** A measure of work efforts that go into a performance task.

**Inventory control** A control that ensures that inventory is only big enough to meet immediate needs.

**Just-in-time scheduling (JIT)** Routing materials to workstations just in time for use.

**Management by exception** The practice of giving attention to substantial differences between actual and desired performance.

**Market control** The influence of market competition on the behaviour of organizations and their members.

**Output standard** A measure of performance results in terms of quantity, quality, cost, or time.

**Pareto Principle** The notion that 80 percent of consequences come from 20 percent of causes.

**Project** A one-time activity with usually many component tasks that must be completed in the proper order and according to budget.

**Project management** The responsibility for overall planning, supervision, and control of projects.

**Self-control** Internal control that occurs through self-management and self-discipline in fulfilling work and personal responsibilities.

**Strategic control** Assesses whether the original strategy is being implemented as planned.

## Self-Test 9

### Multiple-Choice Questions

- After objectives and standards are set, what step comes next in the control process?
  - Measure results.
  - Take corrective action.
  - Compare results with objectives.
  - Modify standards to fit circumstances.
- When a soccer coach tells her players at the end of a game, "I'm pleased you stayed with the game plan," she is using a/an \_\_\_\_\_ to measure performance, even though in terms of outcomes her team lost.
 

a. input standard	c. historical comparison
b. output standard	d. relative comparison
- When an automobile manufacturer is careful to purchase only the highest-quality components for use in production, this is an example of an attempt to ensure high performance through \_\_\_\_\_ control.
 

a. concurrent	c. inventory
b. statistical	d. feedforward
- Management by exception means \_\_\_\_\_.
  - managing only when necessary
  - focusing attention where the need for action is greatest
  - the same thing as concurrent control
  - the same thing as just-in-time delivery
- When a supervisor working alongside an employee corrects him or her when a mistake is made, this is an example of \_\_\_\_\_ control.
 

a. feedforward	c. internal
b. concurrent	d. clan
- If an organization's top management visits a firm in another industry to learn more about its excellent record in hiring and promoting visible minority and female candidates, this is an example of using \_\_\_\_\_ for control purposes.
 

a. a balanced scorecard	c. management by exception
b. relative comparison	d. progressive discipline
- The control equation states: \_\_\_\_\_ = Desired Performance – Actual Performance.
 

a. Problem Magnitude	c. Planning Objective
b. Management Opportunity	d. Need for Action
- When a UPS manager compares the amount of time a driver takes to make certain deliveries against standards set through a quantitative analysis of her delivery route, this is known as \_\_\_\_\_.
  - a historical comparison
  - an engineering comparison
  - relative benchmarking
  - concurrent control
- Projects are unique one-time events that \_\_\_\_\_.
  - have unclear objectives
  - must be completed by a specific time
  - have unlimited budgets
  - are largely self-managing
- The \_\_\_\_\_ chart graphically displays the scheduling of tasks required to complete a project.
 

a. exception	c. Gantt
b. Taylor	d. after-action
- When one team member advises another team member that "your behaviour is crossing the line in terms of our expectations for workplace civility," she is exercising a form of \_\_\_\_\_ control over the other's inappropriate behaviours.
 

a. clan	c. internal
b. market	d. preliminary
- In a CPM/PERT analysis the focus is on \_\_\_\_\_ and the events that link them together with the finished project.
 

a. costs, budgets	c. timetables, budgets
b. activities, sequences	d. goals, costs
- If fixed costs are \$10,000, variable costs are \$4 per unit, and the target selling price per unit is \$8, what is the breakeven point?
 

a. 2	c. 2,500
b. 500	d. 4,800
- Among the financial ratios used for control, Current Assets/Current Liabilities is known as the \_\_\_\_\_.
  - debt ratio
  - net margin
  - current ratio
  - inventory turnover ratio



15. With respect to return on assets (ROA) and the debt ratio, the preferred directions when analyzing them from a control standpoint are \_\_\_\_\_.

- a. decrease ROA, increase debt
- b. increase ROA, increase debt
- c. increase ROA, decrease debt
- d. decrease ROA, decrease debt

### Short-Response Questions

16. List the four steps in the controlling process and give examples of each.

17. How might feedforward control be used by the owner/manager of a local bookstore?

18. How does Douglas McGregor's Theory Y relate to the concept of internal control?

19. What four questions could be used to organize the presentation of a real-time balanced scorecard in the executive dashboard for a small business?

### Essay Question

20. Assume that you are given the job of project manager for building a new student centre on your campus. List five of the major activities that would need to be accomplished to complete the new building in two years. Draw a CPM/PERT network diagram that links the activities together in required event scheduling and sequencing. Make an estimate for the time required for each sequence to be completed and identify the critical path.

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. Adrift in Career

A work colleague comes to you and confides that she feels "adrift in her career" and "just can't get enthused about what she's doing anymore." You think this might be a problem of self-management and personal control. How can you respond most helpfully? How might she use the steps in the management control process to better understand and improve her situation?

##### 2. Too Much Socializing

You have a highly talented work team whose past performance has been outstanding. You've recently noticed team members starting to

act like the workday is mainly a social occasion. Getting the work done too often seems less important than having a good time. Recent data show that performance is on the decline. How can you use controls in a positive way to restore performance to high levels in this team?

##### 3. Yes or No to Graduate School

You've had three years of solid work experience after earning your undergraduate degree. A lot of your friends are talking about going to graduate school, and the likely target for you would be an MBA degree. Given all the potential costs and benefits of getting an MBA, how can breakeven analysis help you make the decision: (a) to go or not go, (b) to go full time or part time, and (c) where to go?

### Reflect on the Self-Assessment

#### Internal/External Control

##### Instructions

Circle either "a" or "b" to indicate the item you most agree with in each pair of the following statements.<sup>26</sup>

1. (a) Promotions are earned through hard work and persistence.  
(b) Making a lot of money is largely a matter of breaks.
2. (a) Many times the reactions of teachers seem haphazard to me.  
(b) In my experience I have noticed that there is usually a direct connection between how hard I study and the grades I get.
3. (a) The number of divorces indicates that more and more people are not trying to make their marriages work.  
(b) Marriage is largely a gamble.
4. (a) It is silly to think that one can really change another person's basic attitudes.  
(b) When I am right, I can convince others.
5. (a) Getting promoted is really a matter of being a little luckier than the next guy.  
(b) In our society, an individual's future earning power is dependent on his or her ability.
6. (a) If one knows how to deal with people, they are quite easily led.  
(b) I have little influence over the way other people behave.
7. (a) In my case, the grades I make are the results of my own efforts; luck has little or nothing to do with it.  
(b) Sometimes I feel that I have little to do with the grades I get.

8. (a) People like me can change the course of world affairs if we make ourselves heard.  
(b) It is only wishful thinking to believe that one can really influence what happens in society at large.
9. (a) Much of what happens to me is probably a matter of chance.  
(b) I am the master of my fate.
10. (a) Getting along with people is a skill that must be practised.  
(b) It is almost impossible to figure out how to please some people.

### Scoring

Give yourself 1 point for 1a, 2b, 3a, 4b, 5b, 6a, 7a, 8a, 9b, 10a. Total scores of: 8–10 = high *internal* locus of control, 6–7 = moderate *internal*

locus of control, 5 = *mixed* locus of control, 3–4 = moderate *external* locus of control, 0–2 = high *external* locus of control.

### Interpretation

This instrument offers an impression of your tendency toward an *internal locus of control* or *external locus of control*. Persons with a high internal locus of control tend to believe they have control over their own destinies. They may be most responsive to opportunities for greater self-control in the workplace. Persons with a high external locus of control tend to believe that what happens to them is largely in the hands of external forces or other people. They may be less comfortable with self-control and more responsive to external controls in the workplace.

## Contribute to the Class Exercise

### After-Meeting/Project Remorse

#### Instructions

A. Everyone on the team should complete the following assessment after participating in a meeting or a group project.<sup>27</sup>

- How satisfied are you with the outcome of the meeting project?  
Not at all satisfied 1 2 3 4 5 6 7 Totally satisfied
- How would the other members of the meeting/project group rate your influence on what took place?  
No influence 1 2 3 4 5 6 7 Very high influence
- In your opinion, how ethical were the decisions that were reached?  
Highly unethical 1 2 3 4 5 6 7 Highly ethical
- To what extent did you feel pushed into going along with the decision?  
Not pushed into it at all 1 2 3 4 5 6 7 Very pushed into it
- How committed are you to the agreements reached?  
Not at all committed 1 2 3 4 5 6 7 Highly committed
- Did you understand what was expected of you as a member of the meeting or project group?  
Not at all clear 1 2 3 4 5 6 7 Perfectly clear

- Were participants in the meeting/project group discussions listening to each other?  
Never 1 2 3 4 5 6 7 Always
- Were participants in the meeting/project group discussions honest and open in communicating with one another?  
Never 1 2 3 4 5 6 7 Always
- Was the meeting/project completed efficiently?  
Not at all 1 2 3 4 5 6 7 Very much
- Was the outcome of the meeting/project something that you felt proud to be a part of?  
Not at all 1 2 3 4 5 6 7 Very much

B. Share results with all team members and discuss their meaning.

C. Summarize and share with the instructor and class the implications of this exercise for: (a) the future success of this team if it were to work on another project, and (b) each individual team member as he or she goes forward to work in other teams and on other group projects in the future.

## Manage a Critical Incident

### High Performer but Late for Work

#### Situation

You are an elementary school principal. One of your best teachers—perhaps the best—is causing a bit of an uproar. She is in her second year on staff after graduating from university and is doing a wonderful job with the Grade 2s. They're happy, the parents are happy, and you're happy. The other teachers aren't happy, at least some of them aren't. Two of the more outspoken and senior teachers came to you today with a request. "Do something about her," they said. "She is consistently late in the mornings. You know our policy is for the teacher to

be in the classroom at least 30 minutes before school starts." You are aware of her tardiness, but you also know that she consistently stays late and is most often the last teacher out of the building at the end of the day. She isn't aware that her co-workers have complained about her. You can't put this off because the grumbling is starting to spread.

#### Questions

What do you do, and why? How can you turn this into an opportunity to develop an approach that accommodates a range of personal work styles and different classroom approaches, all while holding up high performance standards?

## Collaborate on the Team Activity

### Building a Balanced Scorecard

#### Instructions

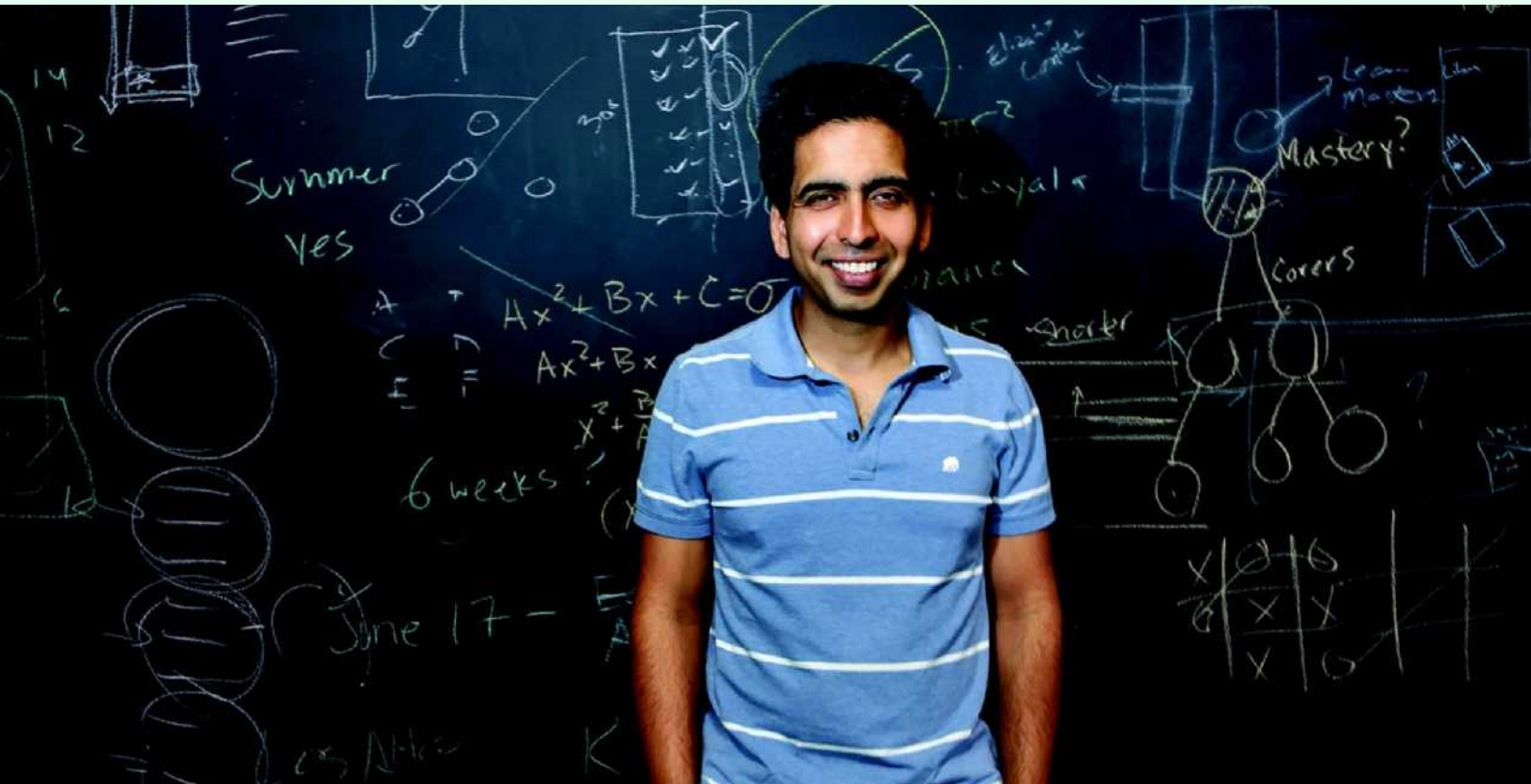
In your assigned teams do the following.

1. Choose a local organization of interest to team members and about which you collectively have some information and insights.
2. Build a balanced scorecard that can be used for control purposes by this organization's top management. Make sure your scorecard covers these four areas—financial performance, customer satisfaction, internal process improvement, and innovation and learning.
3. For each of the four scorecard performance areas, be very specific in identifying what you recommend as possible performance goals and areas of performance measurement.
4. Design a scorecard format that makes analysis easy and informative. If possible, demonstrate how your proposed scorecard might fit into an executive dashboard.
5. Present your proposed balanced scorecard to the entire class, along with justification for all suggested goals and measures. Explain in your presentation why you believe this scorecard could help the organization perform better in the future.

## Analyze the Case Study

### Case 9.1 Electronic Arts | Inside Fantasy Sports

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.



Kim Kulish/Corbis/Getty Images

## Strategy and Strategic Management

“There is a fundamental disconnect between the providers of education and the consumers of education.... At Khan Academy we’re 100% focused on the learning side.”

*Salman Khan, founder of the Khan Academy*

His innovative online Khan Academy has the goal of “changing education for the better by providing a free world-class education for anyone anywhere.” Khan’s success helped spur the development of MOOCs—massive open online courses—as “disrupters” of the traditional university model of face-to-face delivery of pay-per-credit courses. Will MOOCs make higher education more accessible and affordable? Will they change the traditional college or university experience for better or worse? Or will they soon fade away and be remembered as just another passing trend?<sup>1</sup>

Our institutions of higher education are facing significant strategic challenges—MOOCs are on the move, COVID-19

drastically changed course delivery methods within one month, politicians are attacking higher education costs, and graduates worry about paying off student loans. The strategic leadership of universities, governments, and businesses is being tested by changing times, tastes, and technologies. And *Fast Company* magazine says, “If you want to make a difference as a leader, you’ve got to make time for strategy.”<sup>2</sup>

Leaders struggling with strategy need to remember lessons from the past. There was a time when Henry Ford could say: “The customer can have any colour he wants as long as it’s black.” Those days are long gone for businesses large and small, they’re gone for hospitals and local governments, and they’re gone for universities as well. A senior IBM executive described this shift in strategic landscape as the “difference between a bus which follows a set route, and a taxi which goes where customers tell it to go.”<sup>3</sup>

Khan has also been on the cutting edge of philanthropy. For instance, in order to keep children learning while at home

during the COVID-19 pandemic, he developed additional courses, activities, and resources to address their learning needs. He was in earnest when he said, “we navigate this crisis together.”<sup>4</sup>

There are a lot of strategy and strategic management ideas and insights in this chapter. As you read and think about them, remember that everything applies equally well to your own career. What’s your personal strategy for career and life success? Are you acting like a bus following a set route, a taxi (or Uber driver) following opportunities, or some combination of both?

## Chapter Quick Start

Strategic management is one of the most significant planning challenges faced by managers. All organizations face a complex array of uncertainties of many types—market, economic, political, social, and more—must be understood and analyzed in order to craft strategies for competitive success. As with organizations, each of us faces personal life and career challenges that test our strategic management abilities. We, too, need to make and implement strategies to achieve our goals.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

<b>10.1</b> Strategic Management	<b>10.1</b> Discuss the process and importance of strategic management.
<b>10.2</b> Essentials of Strategic Analysis	<b>10.2</b> Identify the essential elements in strategic analysis.
<b>10.3</b> Corporate-Level Strategy Formulation	<b>10.3</b> Explain alternative corporate strategies.
<b>10.4</b> Business-Level Strategy Formulation	<b>10.4</b> Explain alternative business-level strategies.
<b>10.5</b> Strategy Implementation	<b>10.5</b> Describe the foundations for strategy implementation.

### What to Look for **Inside**

#### Management Is Real

- 10.1 Wisdom** Learn from Role Models  
Jinbo Chen Connects Newcomers to Their Communities
- 10.2 Insight** Keep Learning about Yourself  
Get and Stay Ahead with Critical Thinking
- 10.3 Choices** Think before You Act  
Today’s Graduates Must “Jump Right In”
- 10.4 Analysis** Make Data Your Friend  
Precarious Workers Are Indispensable to Business Profits
- 10.5 Ethics** Know Right from Wrong  
Can the Sharing Economy Create Good Jobs?

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Intuitive Ability
- **Contribute** *to the Class Exercise:*  
Strategic Scenarios
- **Manage** *a Critical Incident:*  
Kickstarting a Friend’s Business Idea
- **Collaborate** *on the Team Activity:*  
Contrasting Strategies
- **Analyze** *the Case Study:*  
Hudson’s Bay Company | From Fur to Fendi to an Uneasy Future

## 10.1 Strategic Management

### LEARNING OBJECTIVE 10.1

Discuss the process and importance of strategic management.

#### Learn More About

- Competitive advantage • Strategy and strategic intent
- Levels of strategy • Strategic management process

Forces and challenges like market, economic, political, and social conditions confront managers in all organizations and industries. Today's environment places a great premium on "competitive advantage" and how it is achieved—or not—through "strategy" and "strategic management."<sup>5</sup>

## Competitive Advantage

The term **competitive advantage** describes an organization's ability to use resources in such a way that it performs better than the competition. Typical sources of competitive advantage are:<sup>6</sup>

- *Technology*—using technology to gain operating efficiencies, market exposure, and customer loyalty.
- *Cost and quality*—operating with greater efficiency and creating superior product or service quality.
- *Knowledge and speed*—doing better at innovation and speed of delivery to market for new ideas.
- *Barriers to entry*—creating a market stronghold that is protected from entry by others.
- *Financial resources*—having better investments or loss absorption potential than competitors.

Achieving and retaining competitive advantage is an increasingly difficult challenge to master. Whenever organizations do things very well, rivals try to copy their approach. The ultimate goal is creating **sustainable competitive advantage**—competitive advantage that is enduring and difficult or costly for others to copy or imitate. When you think sustainable competitive advantage, think about Apple's iPad. One analyst observes: "Apple moved the goal posts before most of their competitors even took the field."<sup>7</sup> The iPad was first to market as an innovative product linking design, technology, and customer appeal. It was also backed by Apple's super-efficient supply chain, which made it a high-margin product. The iPad is still a top seller, but tablet consumers can now choose competing products offering many similar features. Lawsuits between Apple and Samsung over copyrights, such as the one protecting the "slide to unlock" feature, illustrate what is at stake in the battles for competitive advantage.<sup>8</sup>

## Strategy and Strategic Intent

If sustainable competitive advantage is the goal, "strategy" is the means to achieve it.<sup>9</sup> A **strategy** is a comprehensive action plan that identifies the long-term direction for an organization and that guides resource utilization to achieve sustainable competitive advantage. It is a "best guess" about what must be done for future success in the face of competition and changing market conditions. And it usually involves risk taking.

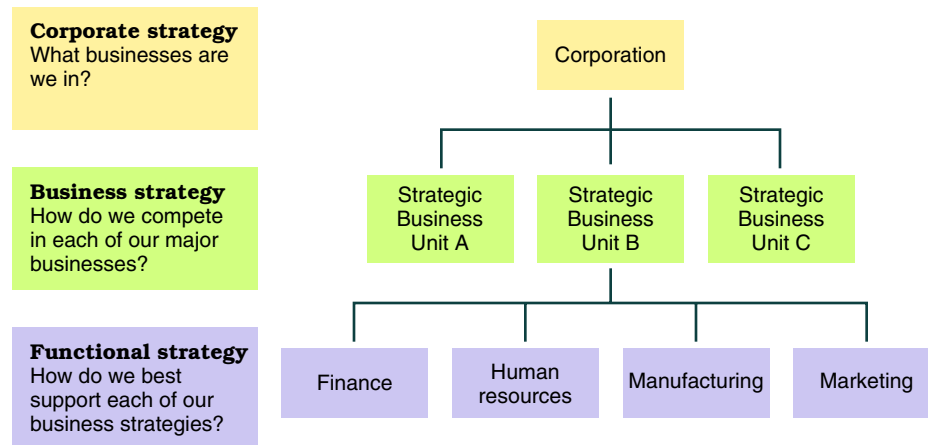
Speaking of risk, things like time, money, and human resources get wasted when they are invested in ways that don't result in real accomplishments. The presence of a strategy helps ensure that such resources are used with consistent **strategic intent**—that is, with all energies directed toward accomplishing a long-term target or goal.<sup>10</sup> When Patagonia states that "We're in business to save our home planet," its strategic intent is clear. And it's backed by a pledge to "... use the resources we have—our business, our investments, our voice and our imaginations—to do something about it."<sup>11</sup> Can you see how clear strategic intent can keep organizations focused on doing things that really count and avoid investing in those that don't?

## Levels of Strategy

Google buys Nest Labs for \$3.2 billion ... Canadian Tire revamps by opening new concept stores ... Chip maker thrives on virtual manufacturing.

These headlines display the three levels of strategy in organizations shown in **Figure 10.1**. At the corporate level of strategy, Google adds to its business lines by purchasing the smart-home company Nest Labs. At the business level of strategy, Rovio Entertainment shifts from selling Angry Birds to offering it free but selling add-on features. At the functional level of strategy, a semiconductor chip maker operates with a virtual factory.<sup>12</sup> In order to really understand the stories behind these headlines, you need to understand the strategies and how they fit with both the business purpose and the current competitive conditions.

**Corporate-Level Strategy** At the highest level, **corporate strategy** directs the organization as a whole toward sustainable competitive advantage. It describes the scope of operations by answering this *corporate-level strategic question*: "In what industries and markets should we compete?" The purpose of corporate strategy is to set direction and guide resource allocations for the entire enterprise. It identifies how large and complex organizations can compete across multiple industries and markets. General Electric, for example, owns more than 100 businesses in a wide variety of areas, including aircraft engines, appliances, capital services, medical systems, and power systems. Typical corporate-level strategic decisions for GE relate to initiatives such as new business acquisitions and existing business expansions and cutbacks. For social enterprises, the corporate-level strategy involves determining how



**FIGURE 10.1** The three levels of strategy in organizations.

best to serve the needs of a certain population (see Management Is Real 10.1).

**Business-Level Strategy** **Business strategy** sets the direction for a single business unit or product line. It involves asking and answering this *business-level strategic question*:

“How are we going to compete for customers in this industry and market?” Typical business strategy decisions include choices about product and service mix, facilities locations, and new technologies. Business strategy is the corporate strategy in single-product enterprises. The term *strategic business unit* (SBU) is often used to describe a business that operates as part

## Management Is Real 10.1: Wisdom | Learn from Role Models

“My goal is to help as many people as I can.”

### Jinbo Chen Connects Newcomers to Their Communities

Jinbo Chen is the founder of ECLife, an online forum that provides life-enhancing, information-sharing opportunities for Chinese newcomers to Halifax. ECLife, or East Coast Life, was created to support Chinese students. It has evolved over the last decade to serving over 20,000 people monthly. It was inspired by Jinbo Chen’s experience when he enrolled in Saint Mary’s University as an international student in 2002. He had significant challenges adjusting to life in Nova Scotia: language barriers were one thing, but the culture shock was even more daunting. Today, Chen’s site eases the transition for other Chinese newcomers by offering information on places to live, eat, play, and learn; how to get around town; local news; jobs; and much more, all written in Chinese. “My goal is to help as many people as I can,” Chen says.

The site is a social enterprise with several revenue streams, including advertisements from businesses in the Halifax Chinese community. Chen’s site has diversified to include linking Canadian businesses to export markets in China. “We have lots of resources here and if you want to export your business to China, I believe newcomers could help,” says Chen. The site also connects newcomers to local cultural organizations that acclimatize them to Canadian life and help them become engaged in the Halifax community. Chen is planning to have his site available in other languages.

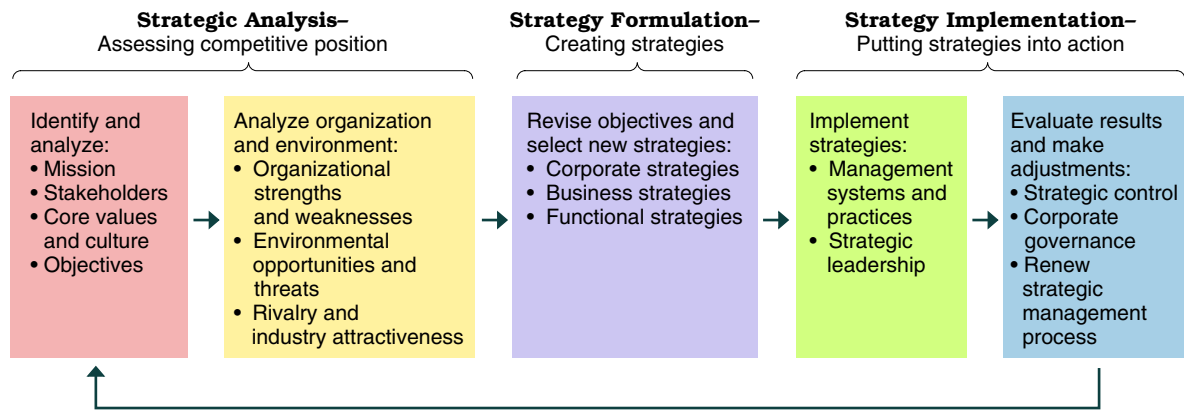
#### Find Inspiration

How much of ECLife’s success is due to Jinbo Chen’s clear and compelling vision for social change? What lessons on the link



phi2/Getty Images

between vision and strategy does this example offer organizations across all industries? Is it easier to inspire people to implement strategy in a non-profit organization with a social mission than it is in a business that is profit driven? How can the leader of a for-profit business generate strong employee commitment to the firm’s strategy and vision?



**FIGURE 10.2** Major elements in the strategic management process.

of a larger enterprise, such as online retailer Zappos within the Amazon umbrella and smart-home firm Nest Labs within Google’s suite of businesses.

Whereas the enterprise as a whole will have a corporate strategy, each SBU will have its own focused business strategy. Porsche Automobile Holding SE, for example, is owned by Volkswagen Group. Historically a two-door sports car company, Porsche adjusted its business strategy and successfully marketed a sport utility vehicle, the Cayenne, that became the brand’s volume sales leader. It was followed by another success—a four-door sedan, the Panamera.<sup>13</sup> These shifts in business-level strategy, which are core to Porsche operations, don’t bear directly on the corporate-level strategy of Volkswagen as a whole.

**Functional Strategy** **Functional strategy** guides the use of organizational resources to implement business strategy. The *functional-level strategic question* is: “How can we best utilize resources within a function to implement our business strategy?” Answers to this question might focus on ways to improve products, gain efficiencies, and enhance customer service. The attention in functional strategy is on activities within a specific functional area, such as marketing, manufacturing, finance, or human resources. Picochip, for example, produces specialized microchips using a “virtual” model where all chip production is outsourced. CEO Nigel Toon says what the firm saves from not having expensive factories it invests in research and development on state-of-the-art chip designs.<sup>17</sup>

## Strategic Management Process

Developing strategy for an organization may seem like a deceptively simple task: Find out what products and services customers want, provide these at the best possible price, and make sure competitors can’t easily copy what you are doing. In practice, this can get very complicated.<sup>15</sup> The reality is that strategies don’t just happen; they must be developed and then implemented effectively. At the same time that managers in one organization are doing all of this, their competitors are trying to do the exact same thing—only better. Succeeding in this mix of competitive pressures depends on **strategic**

**management**, the process of formulating and implementing strategies to accomplish long-term goals and sustain competitive advantage.

As shown in **Figure 10.2**, the strategic management process begins with **strategic analysis** to assess the organization, its environment, its competitive positioning, and its current strategies. Next in the process is **strategy formulation**, developing a new or revised strategy. The final phase is **strategy implementation**, in which resources are used to put strategies into action, and then evaluating results so that the implementation can be improved or the strategy changed. As the late management consultant guru Peter Drucker once said: “The future will not just happen if one wishes hard enough. It requires decision—now. It imposes risk—now. It requires action—now. It demands allocation of resources, and above all, it requires work—now.”<sup>16</sup>

### Learning Check

**LEARNING OBJECTIVE 10.1** Discuss the process and importance of strategic management.

**Be Sure You Can** • define *competitive advantage*, *strategy*, and *strategic intent* • explain the concept of sustainable competitive advantage • differentiate among corporate, business, and functional strategies • differentiate strategy formulation from strategy implementation • list the major elements in the strategic management process

## 10.2 Essentials of Strategic Analysis

**LEARNING OBJECTIVE 10.2**

Identify the essential elements in strategic analysis.



### Learn More About

Analysis of mission, values, and objectives • SWOT analysis of organization and environment • Five forces analysis of industry attractiveness

When it comes to the essentials of strategic analysis, there is a core set of strategic questions that any top manager should be prepared to answer. (1) What is our business mission? (2) Who are our customers? (3) What do our customers value? (4) What have been our results? (5) What is our plan?<sup>17</sup>

## Analysis of Mission, Values, and Objectives

The strategic management process begins with an analysis of mission, values, and objectives. This sets the stage for assessing the organization's resources and capabilities, as well as opportunities and threats in its external environment.

**Mission and Stakeholders** The **mission** or purpose of an organization describes its reason for existence.<sup>18</sup> Strategy consultant Michael Hammer believes that a mission should represent what the strategy or underlying business model is trying to accomplish. In order to clarify mission he suggests asking: "What are we moving to?" "What is our dream?" "What kind of a difference do we want to make in the world?" "What do we want to be known for?"<sup>19</sup>

Patagonia's mission is to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." The mission of Vancouver-based Mountain Equipment Co-operative is "We want MEC and our members to set examples that inspire other organizations and individuals towards environmental, social, and economic sustainability. In short, we want to leave the world better than we found it."<sup>20</sup> These mission statements identify not only a

business direction but also distinctive value commitments that give Patagonia and MEC unique identities as they compete with much larger rivals in the outdoor gear market.

A clear sense of mission helps inspire the support and respect of an organization's **stakeholders**. These are individuals and groups—including customers, shareholders, members, employees, suppliers, creditors, community groups, future generations, and others—who are directly affected by the organization and its accomplishments. **Figure 10.3** gives an example of how stakeholder interests can be linked with an organization's mission.

**Core Values and Culture** Organizational values and culture should be analyzed in the strategic management process to determine how well they align with the mission.<sup>21</sup> **Core values** are broad beliefs about what is or is not appropriate behaviour. Patagonia founder and chairman Yvon Chouinard says: "Most people want to do good things, but don't. At Patagonia it's an essential part of your life."<sup>22</sup> He leads Patagonia with a personal commitment to sustainability and expects the firm to live up to it as a core value. Among other things, Patagonia donates employee time and 1+ percent of sales to support environmental groups, uses recycled polyester and organic cotton, and emphasizes "simplicity and utility" in product designs.<sup>23</sup>

The presence of core values helps build a clear organizational identity. Core values give the organization a sense of character as seen through the eyes of employees and external stakeholders. This character is part of the predominant value system of the organization as a whole, what is called its **organizational culture**.<sup>24</sup> A clear and strong organizational culture helps guide the behaviour of members in ways that are consistent with the organization's mission and core values. When browsing Patagonia's website for job openings, for example, the message about the corporate culture is clear: "We're especially interested in people who share our love of the outdoors, our passion for quality, and our desire to make a difference."<sup>25</sup>

**Objectives** Whereas a mission statement lays out an organization's purpose and core values set standards for accomplishing it, **operating objectives** direct activities



**FIGURE 10.3** External stakeholders as strategic constituencies in an organization's mission statement.

toward key performance areas. Typical operating objectives for a business include the following:<sup>26</sup>

- *Profitability*—operating with a net profit.
- *Sustainability*—helping to preserve, not exploit, the environment.
- *Social responsibility*—acting as a good community citizen.
- *Financial health*—acquiring capital; earning positive returns.
- *Cost efficiency*—using resources well to operate at low cost.
- *Customer service*—meeting customer needs and maintaining loyalty.
- *Product quality*—producing high-quality goods or services.
- *Market share*—gaining a specific share of possible customers.
- *Human capacity*—recruiting and maintaining a high-quality workforce.
- *Innovation*—developing new products and processes.

Well-chosen operating objectives can turn a broad sense of mission into specific performance targets. In the case of Patagonia, mission, values, and operating objectives fit together into a coherent whole. Chouinard says that he wants to run Patagonia “so that it’s here 100 years from now and always makes the best-quality stuff.” Although one of the firm’s objectives is revenue growth, this doesn’t mean growth at any cost. Chouinard’s objective is modest growth, not extreme or uncontrolled growth.<sup>27</sup>

## SWOT Analysis of Organization and Environment

A technique known as **SWOT analysis** is a useful first step in analyzing the organization and its environment. As shown in **Figure 10.4**, a SWOT analysis is an internal analysis of

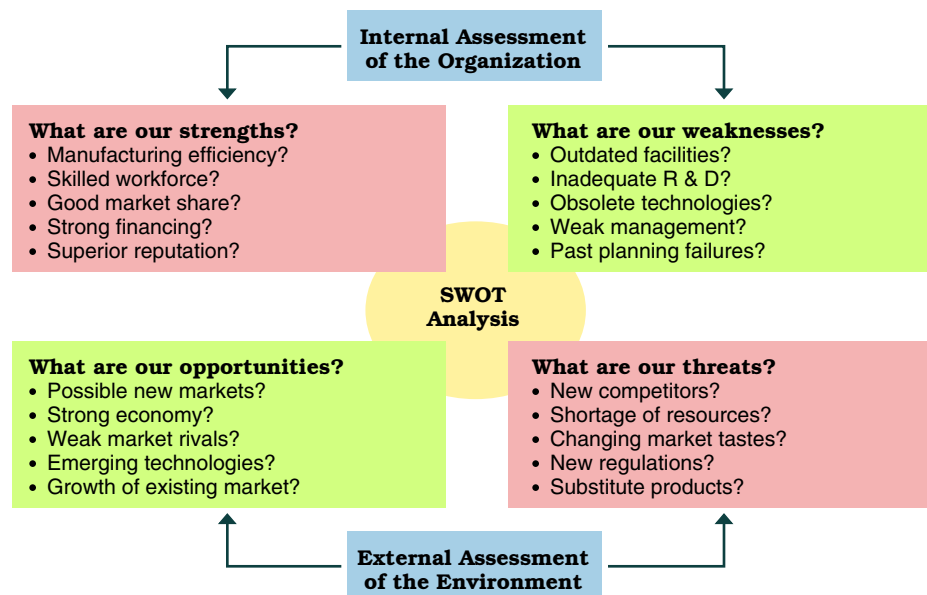
*organizational strengths and weaknesses* as well as an external analysis of *environmental opportunities and threats*. Although the following examples and discussion apply SWOT to organizations, you can also apply it in your own career and life planning.

A SWOT analysis begins with a systematic evaluation of the organization’s resources and capabilities—its basic strengths and weaknesses. You can think of this as an analysis of an organization’s capacity to achieve its objectives. A major goal is to identify **core competencies**—things that the organization does exceptionally well in comparison with competitors. They are capabilities that—by virtue of being rare, costly to imitate, and not substitutable—become potential sources of competitive advantage.<sup>28</sup> An organization’s core competencies may be found in special knowledge or expertise, superior technologies, efficient supply chains, or unique distribution systems, among many other possibilities. On an individual level, core competencies may include your unique combination of intelligence, knowledge, experience, personality, and enthusiasm.

Organizational weaknesses represent the other end of the competency spectrum. The goal at the “W” stage is to identify things that inhibit performance and hold the organization back from fully accomplishing its objectives. Examples might be outdated products, lack of financial capital, shortage of talented workers, and poor or poorly used technology. At an individual level, weaknesses may include limited work experience, underdeveloped computing skills, knowing only one language, or no industry-specific certifications.

Once weaknesses are identified, plans can be set to eliminate or reduce them, or possibly to turn them into strengths. Even if some weaknesses cannot be corrected, it is critical that they be understood. Strategies should ideally build on strengths and minimize the negative impact of weaknesses.

No SWOT analysis is complete until opportunities and threats in the external environment are also assessed. As shown in **Figure 10.4**, opportunities may include possible new



**FIGURE 10.4** SWOT analysis of strengths, weaknesses, opportunities, and threats.

markets, a strong economy, weaknesses in competitors, and emerging technologies. Environmental threats may include such things as the emergence of new competitors, resource scarcities, changing customer tastes, new government regulations, and a weak economy.

It's important not to forget the career implications of this discussion. If you were to analyze your strategic readiness for career entry or advancement, what would your personal SWOT look like? What actions does this SWOT analysis point you toward to better prepare for the future you want? What classes should you take? What internships should you apply for? To take advantage of insights from SWOT analysis, you should consider doing the following:

- Build on and use strengths to create core competencies.
- Avoid relying on weaknesses that can't be turned into strengths.
- Move toward opportunities to capture advantage.
- Avoid threats or act in ways that minimize their impact.

## Five Forces Analysis of Industry Attractiveness

The ideal strategic setting for any firm, in theory, is to operate in *monopoly conditions* as the only player in an industry—that is, to have no rivals to compete with for resources or customers. But a monopoly position is rare except in highly regulated settings. The reality for most businesses is intense rivalry and competition that unfolds either under conditions of *oligopoly*—having just a few competitors, such as in consolidated airline or wireless communications industries, or *hypercompetition*—facing several direct competitors, such as in the fast-food industry.<sup>29</sup> Both oligopoly and hypercompetition are strategically challenging. Hypercompetition is especially challenging because any competitive advantage gained by an organization tends to be short-lived.

Harvard scholar and consultant Michael Porter describes the five forces shown in **Figure 10.5** as a tool for strategic analysis in competitive industries.<sup>30</sup> He calls these five forces the “industry structure”:

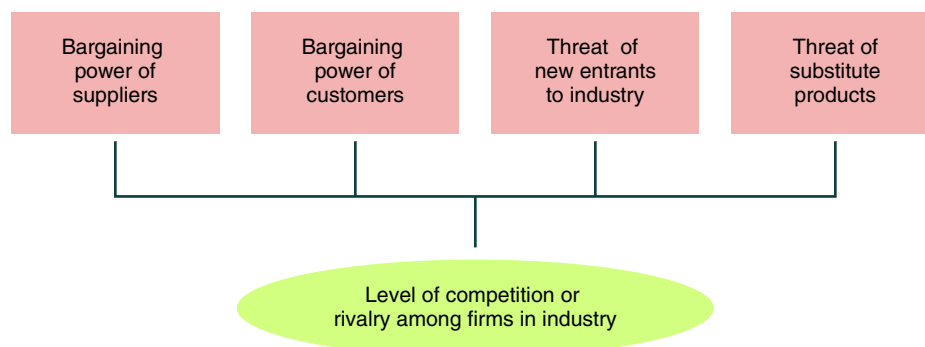
1. *Industry competition*—the intensity of rivalry among firms in the industry and the ways they behave competitively toward one another.
2. *New entrants*—the threat of new competitors entering the market, based on the presence or absence of barriers to entry.
3. *Substitute products or services*—the threat of substitute products or services, or ability of customers to get what they want from other sellers.
4. *Bargaining power of suppliers*—the ability of resource suppliers to influence the price that a firm has to pay for their products or services.
5. *Bargaining power of customers*—the ability of customers to influence the price that they will pay for the firm's products or services.

The status of these five forces determines an industry's attractiveness or potential to generate long-term business returns. The less attractive the industry structure, the harder it is to make good strategic choices and realize sustained competitive advantage. According to a five forces analysis, an *unattractive industry* has intense rivalry among competitors, substantial threats in the form of possible new entrants and substitute products, and suppliers and buyers with bargaining power over price and quality. An *attractive industry*, by contrast, has less competition, fewer threats from new entrants or substitutes, and lower supplier and buyer bargaining power.

### Learning Check

**LEARNING OBJECTIVE 10.2** Identify the essential elements in strategic analysis.

**Be Sure You Can** • explain how a good mission statement helps organizations relate to stakeholders • define *core values* and *organizational culture* • list several operating objectives for organizations • define *core competency* • explain SWOT analysis • use Porter's five forces model to assess the attractiveness of an industry



**FIGURE 10.5** Porter's model of five strategic forces affecting industry competition.

## 10.3 Corporate-Level Strategy Formulation

### LEARNING OBJECTIVE 10.3

Explain alternative corporate strategies.

#### Learn More About

Portfolio planning model • Growth and diversification strategies • Retrenchment and restructuring strategies • Global strategies • Cooperative strategies

The CEO and the top management team are responsible for plotting the strategic direction of an organization within its industry. This is often easier said than done. It's easy to find examples of organizations choosing and changing courses of action in search of the best strategy—one that keeps them

moving forward in a complex and ever-changing competitive environment. Think of this the next time you want to watch a movie or TV show at home. The home entertainment industry is a fast-moving and highly competitive landscape where Netflix, Apple, Amazon, and the cable and telephone companies are constantly trying to figure out how to capture and retain your attention. They have to constantly worry about and deal with one another and any number of start-ups seeking to offer alternatives to their products. Developing successful corporate-level strategies requires critical thinking skills (see Management Is Real 10.2).

### Portfolio Planning Model

When Larry Page was CEO of Google, he faced a difficult strategic question all the time: How should he allocate Google's resources across a diverse mix of opportunities? Growth by acquisition had added great diversity to what started out as a search engine and software company. Page had to manage everything from Google's online services of the search engine and YouTube to new ventures in the physical world, including robotics, smart homes, wind farms, and self-driving cars.<sup>31</sup>

### Management Is Real 10.2: Insight | Keep Learning about Yourself

Many life and career events are a lot like puzzles; everything looks pretty easy until you sit down and try to put all the pieces together.

#### Get and Stay Ahead with Critical Thinking

Managers face significant challenges as they try to move their organizations forward with success in ever-changing environments. When the environment is complex and uncertain, critical thinking skills are especially important. These skills help us to gather, organize, analyze, and interpret information to make good decisions in situations that range from difficult to totally perplexing.

The case studies and problem-solving projects in your courses help to develop your critical thinking skills. But beware—a lot of information in circulation on and off the Internet is anecdotal, superficial, irrelevant, and often just plain inaccurate. You have to be disciplined, cautious, and discerning when interpreting the credibility and usefulness of available information. In other words, you must be good at critical thinking.

The same critical thinking that is part of a rigorous class discussion or case study in your course is what helps managers create strategies that result in competitive advantage. But managers rarely have the luxury of full information boxed up for analysis in a nice, neat case format. Many life and career events are a lot like puzzles—everything looks pretty easy until you sit down and try to put all the pieces together. Are your critical thinking skills up to the challenges of the constantly changing competitive landscape? How good are you at making critical connections in unusual situations? For starters, take a stab at the two puzzles shown here.

#### Puzzle 1

Divide this shape into four shapes that are exactly the same size as one another.



#### Puzzle 2

Draw no more than four lines that cross all nine dots; don't lift your pencil while drawing.



#### Get to Know Yourself Better

Is your personal career strategy well attuned to the future job market, and not just the present one? Are you showing strong critical thinking skills as you make academic choices and prepare for your career? Make a list of information you need to make solid career choices. Identify where you can obtain this information and how credible these information sources are. Write a short plan that outlines how you'll use this information and commits you to activities in this academic year that can improve your career readiness.

If you think about it, Page’s strategic management questions were similar to those we all face in managing personal assets. How, for example, do you create a good mix of cash, stocks, bonds, and real estate investments? What do you buy more of, what do you sell, and what do you hold? These are the same questions that executives ask all the time. They are *portfolio-planning* questions, and they have major strategic implications. Shouldn’t they be made systematically rather than randomly?<sup>32</sup>

The Boston Consulting Group offers a portfolio planning tool known as the **BCG Matrix**. Although more complicated models of strategic portfolio planning are available, the BCG Matrix is a widely accepted and well-understood foundation for understanding the portfolio planning approach to strategic resource allocation decisions.

The BCG Matrix shown in **Figure 10.6** asks managers to analyze business and product strategies based on two major factors: (1) market growth rate for the industry, and (2) market share held by the firm.<sup>33</sup> The analysis shown in the figure sorts businesses or products into four strategic types: Dogs, Stars, Question Marks, and Cash Cows. Each type comes with a recommended core or master strategy—*growth, stability, or retrenchment*.<sup>34</sup> These strategies become the guidelines for making resource allocation decisions.

- *Grow the Stars.* Businesses or products with high market shares in high-growth markets are “Stars” in the BCG Matrix. They produce large profits through substantial penetration of expanding markets. The preferred strategy for Stars is growth, and the BCG Matrix recommends making further resource investments in them. Not only are Stars high performers in the present—they offer similar potential for the future. If we look at Apple today, the iPad would be a Star.
- *Milk the Cash Cows.* Businesses or products with high market shares in low-growth markets are “Cash Cows” in the BCG Matrix. They produce good profits and a strong cash flow, but with little upside potential. Because the markets offer limited growth opportunity, the preferred strategy for Cash Cows is stability or modest growth. Like real dairy cows, the BCG Matrix advises firms to “milk” these businesses. They

should invest just enough to keep them stable or growing just a bit. This keeps them generating cash that can be reinvested in other more promising areas. For Apple, yesterday’s Star—the iPhone—is already a Cash Cow.

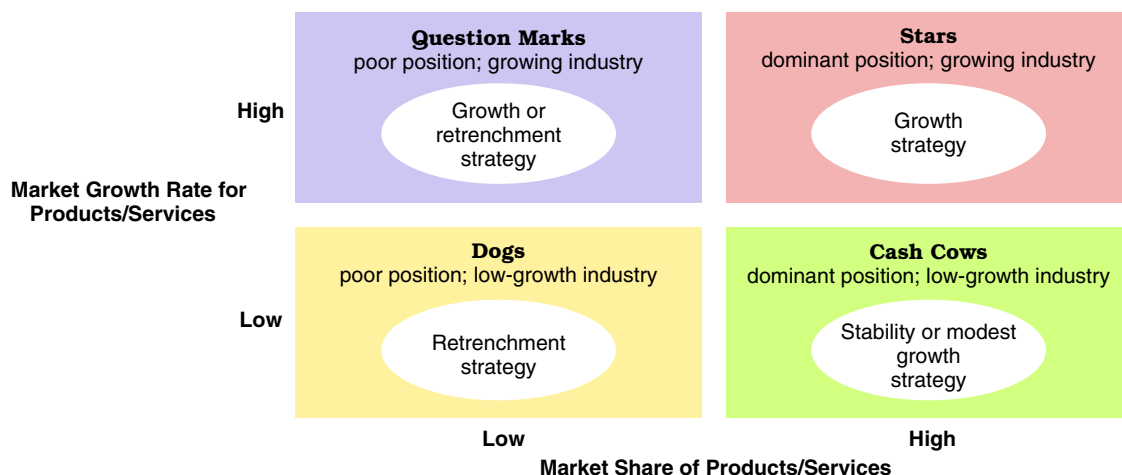
- *Grow or Retrench the Question Marks.* Businesses or products with low market shares in high-growth markets are “Question Marks” in the BCG Matrix. Although they may not generate much profit at the moment, the upside potential is there because of the growing markets. But nothing is guaranteed. Question Marks make for difficult strategic decision-making. The BCG Matrix recommends targeting only the most promising Question Marks for growth, while retrenching those that are less promising. What’s the most promising Question Mark at Apple today? That’s a good question, and perhaps the answer is the Apple Watch. Will it be the Star of the future, or a Dog?
- *Retrench the Dogs.* Businesses or products with low-market shares in low-growth markets are “Dogs” in the BCG Matrix. They produce little if any profit, and they have low potential for future improvement. The preferred strategy for Dogs in the BCG Matrix is retrenchment. Not too long ago Apple’s iPhone was a Star; it is now Apple’s Cash Cow. How soon will it be on the road to becoming a Dog?

## Growth and Diversification Strategies

Among the core or master strategies just illustrated in the BCG Matrix, **growth strategies** seek to expand the size and scope of operations. The goal is to increase total revenue, product or service lines, and operating locations. When you hear terms like “acquisition,” “merger,” and “global expansion,” for example, they indicate a growth strategy.

Striving for growth is a common and popular business strategy. And although there is a tendency to equate growth with effectiveness, it is possible to get caught in an “expansion trap” where growth outruns an organization’s capacity to manage it.

Organizations pursue growth strategies in a variety of ways. One approach is to grow through **concentration**—expanding



**FIGURE 10.6** The BCG Matrix approach for portfolio planning in corporate-level strategy formulation.

within the same business area. McDonald's, Dollarama, Princess Auto, and others pursue growth strategies by adding locations while still concentrating on their primary businesses. And some, as their domestic markets become saturated, aggressively expand around the world to find new customers and push further sales growth. McDonald's growth plans for Asia, the Middle East, Africa, Europe, and Latin America outnumber the home market growth by some six restaurants to one.<sup>35</sup>

Another way to grow is through strategic **diversification**—expanding into different business areas. A strategy of *related diversification* pursues growth by acquiring new businesses or entering business areas similar to those one is already operating in. An example is Starbucks' purchase of the Tazo Tea and Evolution Fresh businesses. These acquisitions helped Starbucks grow by expanding product lines and also adding new Tazo and Evolution Fresh stores.

A strategy of *unrelated diversification* pursues growth by acquiring businesses or entering business areas that are different from what one already does. India's Tata Group, for example, owns 98 companies in diverse industries such as steel, information and communications, hotels, energy, and consumer products. Its brands include Eight O'Clock Coffee and Tetley Tea as well as Jaguar and Land Rover. About Tata's growth by unrelated diversification, Chairman Ratan N. Tata says: "We have been thinking bigger ... we have been bolder ... we have been more aggressive in the marketplace."<sup>36</sup>

Growth by diversification is sometimes done by **vertical integration** whereby a business moves upstream (farther from customers) to acquire its suppliers—*backward vertical integration*, or moves downstream (closer to customers) to acquire its distributors—*forward vertical integration*. Examples of backward vertical integration include Apple Computer—buying chip manufacturers to give it more privacy and sophistication in developing microprocessors for its products; Rolex—buying a foundry for the precious metals it uses in its luxury watches; and Delta Airlines—buying an oil refinery to supply part of its aviation fuel needs. The beverage industry provides a good example of forward vertical integration. Both Coca-Cola and PepsiCo own some major bottlers that make drinks from their concentrates and distribute their products regionally.<sup>37</sup> Even a trip to the local farmers' market shows forward vertical integration in practice. All those stands of vegetables and fruits are run by farmers moving downstream from production to distribution of their produce directly to customers.

A high-profile example of vertical integration in Canada is in the media, where the content producers own the distribution channels as well. Just four media companies now control the main communication channels in Canada: Bell, Shaw, Rogers, and Quebecor. This media concentration not only shapes public opinion but affects the quality of service these firms provide, and the prices they charge Canadians. Even though there are smaller players in the marketplace, because these four companies are vertically integrated—owning phone, Internet, cable and satellite TV, radio, newspapers, and magazines—they can also skew the consumer to their own content by offering incentives that smaller players cannot. But who wins in this strategic game of growth by concentration: shareholders, customers, or both? The media companies argue that they need to grow to

stay competitive, but the Canadian government is concerned about antitrust violations as well as the reduction in diverse viewpoints, and unfair competition in the marketplace. Regarding the levels of media concentration in Canada, Professor Dwayne Winseck from Carleton University in Ottawa says, "I am unaware of similar processes of such magnitude anywhere else."<sup>38</sup>

## Retrenchment and Restructuring Strategies

When organizations are in trouble, perhaps experiencing problems brought about by a bad economy or too much growth and diversification, the focus shifts toward **retrenchment, restructuring, and turnaround strategies** that pursue radical changes to solve problems. At one end of the extreme a firm may be insolvent and unable to pay its bills. In some cases retrenchment may take place under the **Bankruptcy and Insolvency Act**, which gives Canadian firms protection while they reorganize to restore solvency. Both Air Canada and Stelco used this strategy during the last economic crisis. In other cases an insolvent firm goes into outright **liquidation**, where business ceases and assets are sold off to pay creditors, such as was the case with former Canadian telecom giant Nortel.

Short of bankruptcy and liquidation, distressed organizations can try other retrenchment strategies to get back on a path toward competitiveness. Restructuring by **downsizing** decreases the size of operations, often by drastically reducing the workforce.<sup>39</sup> Facing revenue declines, for example, H-P's CEO Meg Whitman decided to lay off 14 percent of the firm's workforce—some 50,000 workers. By making the cuts and saving over \$1.6 billion in costs, she hoped to restore growth by making new investments in technology and workforce skills.<sup>40</sup> When you learn of organizations downsizing, however, you should be skeptical of those making "across-the-board" cuts. Research shows that downsizing is most successful when cutbacks are done selectively and with specific performance objectives. The term *rightsizing* is sometimes used to describe downsizing with a clear strategic focus.<sup>41</sup>

Restructuring by **divestiture** involves selling off parts of the organization to refocus what remains on core competencies, cutting costs, and improving operating efficiency. You'll see this strategy followed by organizations that become overdiversified and whose executives have problems managing so much complexity. For example, eBay bought Skype with high expectations and later sold it to private investors at a loss. At the time of sale eBay's CEO said, "Skype is a strong standalone business, but it does not have synergies with our e-commerce and online payments business."<sup>42</sup> In other words, the original purchase was a costly and bad idea. Skype is now owned by Microsoft, where the strategic question is: Will the expected synergies emerge or will there be yet another divestiture in Skype's future?

Restructuring by a **turnaround strategy** is an attempt to fix an organization's specific performance problems. It often occurs along with a change in top management. Check the latest on Yahoo!, a company that had struggled for traction even though its brand was well established. Founder Jerry Yang stepped down as CEO after investors complained he made a

mistake by refusing a buyout offer from Microsoft. Carol Bartz was then hired in a turnaround attempt. She was fired after 30 months on the job and replaced by Scott Thompson. His first major move was to sue Facebook, a strategic partner, over patent infringements. He lasted less than a year. The next to step in as CEO was Marissa Mayer, a Google star. She made many changes in the firm's structure, culture, operations, and strategies. Mayer earned respect from the financial markets until September 2016, when Yahoo! was plunged into crisis following a revelation that it had been hacked in the biggest attack in history, yet it had taken Yahoo! two years to notice. Verizon bought Yahoo! for \$4.8 billion in July 2016. Despite Verizon's muscle, Yahoo's future remained a question mark to many investors and analysts<sup>43</sup> until Verizon merged it with their earlier purchase of AOL to create a new subsidiary they called Oath, then changed it to Verizon Media, a subsidiary of Verizon Communications. AOL and Yahoo! have maintained their respective brands and services. After three years of shrinkage, the business stabilized. In July of 2019, Verizon Media had a customer base of nearly a billion monthly active users and a multi-billion dollar revenue

business. "Outside of Google and Facebook," said CEO Guru Gowrappan, "our scale is unparalleled."<sup>44</sup>

## Global Strategies

A key issue in corporate strategy today is how to embrace the global economy and its mix of business risks and opportunities.<sup>45</sup> An easy way to spot differences in global strategies is to notice how products are developed and advertised around the world. A firm pursuing a **globalization strategy** tends to view the world as one large integrated market. It makes most decisions from the corporate headquarters and tries as much as possible to standardize products and advertising for use everywhere. The latest Gillette razors from Procter & Gamble, for example, are likely to be sold and advertised similarly around the world. An important consideration in a global strategy is the corporate tax rates offered in various countries (see Management Is Real 10.3).

Firms using a **multidomestic strategy** try to customize products and advertising as much as possible in order to fit

### Management Is Real 10.3: Choices | Think before You Act

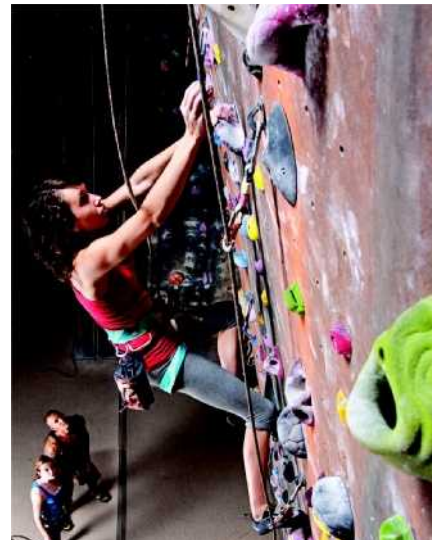
**"You and your classmates will likely be expected to operate on a more sophisticated level than graduates of past decades."**

#### Today's Graduates Must "Jump Right In"

When you hear the term "sunrise industry," you think upbeat, on the move, one to watch. When you hear the term "sunset industry," you think on the decline, past its prime, watch out. Now, think strategically. Picture yourself as an industry. Are you developing skills that allow you to adapt to the new world "sunrise" or are you not taking time to develop your skills to match a changing world "sunset"? And, what can you do now to make sure that you are on the right side when answering this question? A *Wall Street Journal* survey of employers confirms that technical skills are changing fast. It's a bit like the popular TV show *Project Runway*: One day you're in and the next day you're out. The report goes on to say that employers want "fast learners who can quickly evolve and have exceptional soft skills—the ability to write, listen and communicate effectively." In other words, when the sun is setting (changing world) it's time to muster all of your learning capacities to face the sunrise ready to conquer a new day.

Here's a summary of career advice from top CEOs in a variety of industries:

- "People sniff out BS. ... No one likes a phony. Don't be a different person at work." Mandy Ginzberg, Match Group Inc.
- "Having the capacity to engage with people and understand their perspectives is really critical." Mark Hoplamazian, Hyatt Hotels Corp.
- "Before taking a new role, ask: 'What if I didn't take that job? What if I tried something else?'" Gary Erickson and Kit Crawford, Clif Bar & Co.
- "The boss makes all the difference. ... Pick your early bosses wisely. A good test: Do you even like them?" Barbara Corcoran, Barbara Corcoran Inc.



Daxus/iStock/Getty Images

- "Dig in. Don't treat your job as a temporary stop. ... Too many people are always thinking about the next job." Laura Alber, Williams Sonoma

#### Your Take?

How would you turn this advice into a set of "guidelines" for your behaviour in a new job? What do you self-assess as personal strengths and weaknesses based on this list? Make a list of your "hard skills"—the technical ones. Then list your "soft skills"—the ones the WSJ survey suggests are most likely to help you in the long term. What are the implications of these lists? Perhaps most important of all: Are you a "fast learner," prepared to continuously update and improve yourself to stay a step ahead of the changes taking place in our fast-paced environment?

local preferences in different countries or regions. McDonald’s is a good example. Although you can get your standard fries and Big Mac in most locations, you can have a McLobster in Atlantic Canada, a McVeggie in India, a McArabia Kofta in Saudi Arabia, and a Croque McDo in France.

A third approach is the **transnational strategy** whereby a firm tries to operate without a strong national identity and blend seamlessly with the global economy. Resources and management talents are acquired worldwide, while manufacturing and other business functions are located wherever in the world they can be accomplished at the lowest cost. Ford is an example. Its global strategy uses design, manufacturing, and distribution expertise from all over the world to develop core car platforms that build vehicles using common parts and components. These platforms produce cars like the Focus and Fiesta that are then sold around the world with slight modifications to meet regional tastes.

### Cooperative Strategies

It’s quite common today to hear about **strategic alliances**, in which two or more organizations join in a targeted partnership to pursue an area of mutual interest. This is basically a strategy of cooperating for common gains. In an *outsourcing alliance*, one organization contracts to purchase important services, perhaps IT or human resources, from another. In a *supplier alliance*, preferred supplier relationships guarantee a smooth and timely flow of quality supplies among partners. In a *distribution alliance*, firms join together as partners to sell and distribute products or services.

One interesting strategic direction is called **co-opetition**, or strategic alliances among competitors.<sup>46</sup> The idea behind co-opetition is that organizations can still cooperate even as they compete with one another. The airline industry is a great example. United Airlines, Air Canada, and Lufthansa are international competitors, but they also cooperate as “Star Alliance” partners. The alliance provides their customers code-sharing on flights and shared frequent-flyer programs. There’s also co-opetition in the auto industry where the cost of developing new technologies provides the stimulus to cooperate. Daimler cooperates with BMW to co-develop new motors and components for hybrid cars; it cooperates with Nissan to co-develop electric car batteries.<sup>47</sup>

## Learning Check

**LEARNING OBJECTIVE 10.3** Explain alternative corporate strategies.

**Be Sure You Can** • describe the BCG Matrix as a strategic portfolio planning tool • list and explain the major types of growth and diversification strategies • list and explain the major types of retrenchment and restructuring strategies • list and give examples of global strategies • define *strategic alliance* and explain cooperation as a business strategy

## 10.4 Business-Level Strategy Formulation

**LEARNING OBJECTIVE 10.4**

Explain alternative business-level strategies.

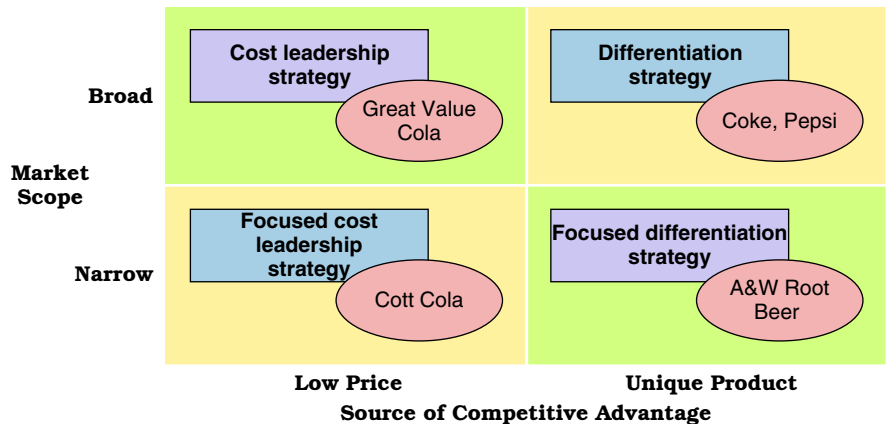
**Learn More About**

Competitive strategies model • Differentiation strategy • Cost leadership strategy • Focus strategy

Harvard’s Michael Porter says that “the company without a strategy is willing to try anything.”<sup>48</sup> But with a good strategy in place, he believes a business can achieve superior profitability or above-average returns within its industry. The key question in formulating business-level strategy is: “How can we best compete for customers in our market and with our products or services?”

### Competitive Strategies Model

Figure 10.7 shows Porter’s model for choosing competitive strategies based on the market scope of products or services,



**FIGURE 10.7** Porter’s competitive strategies framework with soft-drink industry examples.



and the source of competitive advantage for the product or service. With respect to *market scope*, the strategic planner asks: “How broad or narrow is the market or target market?” With respect to *source of competitive advantage*, the question is: “Do we seek competitive advantage primarily through low price or through product uniqueness?” Answers to these questions create a matrix like the one shown in the figure. Three business-level strategies are possible—cost leadership, differentiation, and focus. There are two possible combinations of the focus strategy—focused cost leadership and focused differentiation.

Porter’s competitive strategies are:

- *Differentiation*—Make products that are unique and different.
- *Cost leadership*—Produce at lower cost and sell at lower price.
- *Focused differentiation*—Use differentiation and target needs of a special market.
- *Focused cost leadership*—Use cost leadership and target needs of a special market.

## Differentiation Strategy

A **differentiation strategy** seeks competitive advantage through uniqueness. This means developing goods and services that are clearly different from the competition. The strategic objective is to attract customers who stay loyal to the firm’s products and lose interest in those of its competitors.

Success with a differentiation strategy requires organizational strengths in marketing, research and development, and creativity. An example in the apparel industry is Polo Ralph Lauren, retailer of upscale classic fashions and accessories. In Ralph Lauren’s words, “Polo redefined how American style and

quality is perceived. Polo has always been about selling quality products by creating worlds and inviting our customers to be part of our dream.”<sup>49</sup>

The differentiation strategy examples demonstrated in Figure 10.7 are Coke and Pepsi from the soft drinks industry. These firms continually battle for customer attention and loyalty. Although part of their differentiation may be actual taste, another part is pure perception. Coke and Pepsi spend enormous amounts on advertising to create beliefs that their products are somehow distinctly different from one another.

## Cost Leadership Strategy

A **cost leadership strategy** seeks competitive advantage by operating with lower costs than competitors. This allows organizations to make profits selling products or services at low prices their competitors can’t profitably match. The objective is to continuously improve operating efficiencies in purchasing, production, distribution, and other organizational systems.

Success with the cost leadership strategy requires tight cost and managerial controls, as well as products or services that are easy to create and distribute. This is what might be called the “Walmart” strategy—a firm takes every possible step to keep costs so low that it can offer customers the lowest prices and still make a reasonable profit. The cost leadership example in Figure 10.7 is Great Value Cola; because of economies of scale and branding this beverage can be offered at a fraction of the cost of “name brand” alternatives. An example from the financial services industry is the Vanguard Group. It keeps operating costs low to attract customers who want to buy mutual funds with low expense ratios and minimum fees. One way some businesses reduce costs is by hiring “precarious workers” (see Management Is Real 10.4).

### Management Is Real 10.4: Analysis | Make Data Your Friend

Businesses seem enamoured with the idea of hiring fewer full-timers and more part-time or temporary workers who can be added and let go according to demand.

#### Precarious Workers Are Indispensable to Business Profits

We’re now in the era of “precarious employment” in Canada, according to a special report by Toronto Dominion Bank. A worker is in a state of precarious employment if he or she has “an outsized level of employment uncertainty, whether in terms of pay, ongoing employment, scheduling or other dimensions.” Although the jobless rate in Canada is usually a fairly good measure of employment, it hides the new reality that the percentage of working-age Canadians who are out of work, and who have stopped looking for a job, was at an all-time high. Canadians want to work, yet so many are settling for temporary, seasonal, or part-time jobs.



sturti/E+/Getty Images

A report from CIBC bank indicated that the trend toward lower-paying, less stable work has been on the rise for the past quarter century. “The damage caused to full-time employment during each recession was, in many ways, permanent,” says Benjamin Tal, CIBC’s deputy chief economist.

From an employer’s point of view, few part-time workers receive benefits, they usually get less hourly pay than full-time workers, and there is more flexibility in hiring them because employers can add or let them go whenever they choose.

### What are the Implications?

Is this switch to employing more part-time, temporary, or seasonal workers a good long-term strategy for businesses? How about public sector organizations like governments, schools, and local services? What are the possible downsides to the employer and the remaining full-time employees? How might this trend affect you? What long-term effect has the COVID-19 crisis had on full-time employment? Is this increase in part-time employment something that you have already factored into your career plan?

You might be wondering if it’s possible to combine cost leadership with differentiation. Porter says, “No.” He refers to this combination as a *stuck-in-the-middle strategy* and believes it is rarely successful because differentiation increases costs. “You can compete on price or you can compete on product, but you can’t compete on both,” marketers tend to say. Porter agrees.

## Focus Strategy

A **focus strategy** concentrates attention on a special market segment in the form of a niche customer group, geographical region, or product/service line. The objective is to serve the needs of the segment better than anyone else. Competitive advantage is achieved by combining focus with either differentiation or cost leadership.<sup>50</sup>

NetJets offers private, secure, and luxury air travel for those who can pay a high fee, such as wealthy media stars and executives. This is a **focused differentiation strategy** because the firm sells a unique product to a special niche market. Also in the airline industry, carriers such as Ryanair and EasyJet in Europe offer heavily discounted fares and “no-frills” flying. This is a **focused cost leadership** strategy because it offers low prices to attract budget travellers. The airlines still make profits by keeping costs low. They fly to regional airports and cut out free services such as bag checks and in-flight snacks.<sup>51</sup>

**Figure 10.7** shows both types of focus strategies in the soft-drink industry. Specialty drinks such as A&W Root Beer, Dr. Pepper, and Mountain Dew represent the focused differentiation strategy. Each focuses on a special market segment and tries to compete on the basis of product uniqueness. Drinks like Cott Cola and Great Value Cola represent the focused cost leadership strategy. They also focus on special market segments, where they try to compete by keeping operating costs low so that their soda brands can be profitably sold to consumers at low prices.

## Learning Check

**LEARNING OBJECTIVE 10.4** Explain alternative business-level strategies.

**Be Sure You Can** • list and explain the four competitive strategies in Porter’s model • explain the differences between focused

differentiation and focused cost leadership strategies • clarify the roles of both price and cost in a cost leadership strategy • illustrate how Porter’s competitive strategies apply to products in a market familiar to you

## 10.5 Strategy Implementation

### LEARNING OBJECTIVE 10.5

Describe the foundations for strategy implementation.

#### Learn More About

Management practices and systems • Strategic control and corporate governance • Strategic leadership

A discussion of Patagonia, Inc.’s corporate history on their website includes this statement: “During the past thirty years, we’ve made many mistakes but we’ve never lost our way for very long.”<sup>52</sup> Not only is the firm being honest in the information it shares with the public, it also is communicating an important point about strategic management—mistakes will be made. Sometimes those mistakes will be in poor strategy selection. Other times they will be failures of implementation.

## Management Practices and Systems

In order to successfully put strategy into action, the entire organization and all of its resources must be mobilized in support. This involves the complete management process—from planning and controlling through organizing and leading. No matter how well or elegantly conceived, a strategy requires supporting structures and workflows staffed by talented people. The strategy needs leaders who can motivate employees so that individuals and teams do their best work. The strategy also needs to be properly monitored and controlled to ensure that the desired results are achieved.

*Failures of substance* in strategic management show up in poor analysis and bad strategy selection. *Failures of process* reflect poor handling of the ways in which strategic

management is accomplished. A common process failure is the **lack-of-participation error**—a lack of commitment to action and follow-through by individuals excluded from the strategic planning process.<sup>53</sup> Another process failure is *goal displacement*. This is the tendency to get so bogged down in details that the planning process becomes an end in itself, rather than a means to an end.

## Strategic Control and Corporate Governance

Top managers exercise **strategic control** by making sure strategies are well implemented and that poor strategies are scrapped or modified quickly to meet performance demands of changing conditions. We expect them to always be “in control”—measuring results, evaluating the success of existing strategies, and taking action to improve things in the future. Yet the financial crisis and recent economic recession showed that strategic control was inadequate at many firms, including the automakers and big banks.

When strategic control fails at the level of top management, it is supposed to kick in at the level of **corporate governance**. This is the system of control and monitoring of top management performance exercised by boards of directors in business firms and boards of trustees in non-profits. Corporate governance is intended to ensure that the strategic management of the organization is successful.<sup>54</sup>

But boards are sometimes too compliant and uncritical in endorsing or confirming what top management is doing.

Instead of questioning, criticizing, and demanding change, they condone the status quo. Weak corporate governance doesn't subject top management to rigorous oversight and accountability. The result is organizations that end up doing the wrong things, doing bad things, or just performing poorly. More consumers are pressuring businesses to improve their corporate governance to make ethical treatment of workers a priority (see Management Is Real 10.5).

When corporate governance fails, blame can sometimes be traced back to the composition of the board and expectations for how it operates. Most boards consist of *inside directors* chosen from the ranks of senior management and *outside directors* chosen from other organizations and positions external to the organization. In some boards, insiders are too powerful, and the CEO may even be the board chairperson. In others, the board lacks outside members whose skills match the organization's strategic challenges. In still others, board members may be insufficiently observant or critical because they are friends of top management or at least sympathetic to them. Current directions to strengthen board oversight and control of management include separating the roles of CEO and board chair, appointing outside directors with relevant expertise, and having board members take on more active leadership roles.<sup>55</sup>

When governance succeeds, it is often assumed that the social and professional diversity of its members alone improved their decision making. To a large extent having diverse voices around the board room table does broaden and deepen the conversation; however, if the CEO never gives them a chance to have their voices heard then the impact of that diversity is lost. Or, if the climate is toxic, and the members are competitive,

### Management Is Real 10.5: Ethics | Know Right from Wrong

#### Can the Sharing Economy Create Good Jobs?

We hear the recommendations increasingly often in everyday conversation. Need a ride? Call Lyft or Uber instead of a taxi. Need a small job done in your home or business? Go online with TaskRabbit and book a “tasker” ready to jump on it. Need someone to watch your dog while you take a long weekend in the city? Let DogVacay match you with a nearby dog sitter. And there are sure to be a lot more to come in the “gig” or “sharing” economy with its boundless opportunities for Web-driven business innovation.

A fast growing number of U.S. workers are active on shared economy platforms. Some are supplementing full-time jobs with extra income, some are covering expenses because they can't find traditional full-time employment, while others are working this way because they like the flexibility. But the naysayers are there. Even though clients seem delighted for the most part, many wonder if this sharing economy is really good for workers.

Most of those driving the cars, doing the tasks, and walking the pets work without the benefits and legal protections that traditional workers enjoy. One columnist argues: “It is a **great deal for** the owners, but a bad one for workers.” Critics say that the sharing economy contributes to income disparity between those holding really good jobs with attractive futures and those doing as-available jobs for low pay and few long-term growth prospects.



M4OS Photos/Alamy Stock Photo

#### What Do You Think?

The sharing economy is here, but what are its implications for large and small employers, career seekers, and society at large? Is this a hot spot for innovation and eventual job creation, or is it another sign that income inequalities are here to stay? How can the sharing economy be turned into a strategic opportunity that benefits employers and workers alike?

egotistic, and disrespectful, no amount of diversity can succeed. Studies have shown that the relationship between board diversity and corporate performance is not conclusive, often because of these types of contributing factors. Credit for board success can often be traced to the egalitarian nature of its culture. Egalitarian diverse cultures elicit and welcome different points of view in a spirit of open communication, encouragement, respect, and collegiality.<sup>56</sup>

## Strategic Leadership

Ford's former CEO Alan Mulally led the company out of recession and back onto a path toward growth. Paul Ingrassia, an auto analyst, called his success "one of the great turnarounds in corporate history" and praised Mulally's efforts "to simplify, relentlessly and systematically, a business that had grown way too complicated and costly to be managed effectively."<sup>57</sup> What Mulally showed at Ford is **strategic leadership**—the capability to inspire people to successfully engage in a process of continuous change, performance enhancement, and implementation of organization strategies.<sup>58</sup>

One of the big lessons learned in studying how businesses perform during economic crisis is that a *strategic leader has to maintain strategic control*. This means that the CEO and other members of top management should always be in touch with the strategy. They must know how well it is being implemented, whether the strategy is generating performance success or failure, and if the strategy needs to be modified or changed. The following list identifies other key responsibilities of strategic leadership.<sup>59</sup>

- *A strategic leader has to be the guardian of trade-offs*. It is the leader's job to ensure that the organization's resources are allocated in ways that are consistent with the strategy. This requires the discipline to sort through many

competing ideas and alternatives, to stay on course, and to not get sidetracked.

- *A strategic leader needs to create a sense of urgency*. The leader can't allow the organization and its members to grow slow and complacent. Even when doing well, the leader retains focus on getting better and being alert to conditions that require adjustments to the strategy.
- *A strategic leader needs to make sure that everyone understands the strategy*. Unless strategies are understood, the daily tasks and contributions of individuals and teams lose context and purpose. Everyone might work very hard, but without alignment to strategy the impact is dispersed and fails to advance common goals.
- *A strategic leader needs to be a teacher*. It is the leader's job to teach the strategy and make it a "cause." In order for strategy to work, it must become an ever-present commitment throughout the organization. This means that a strategic leader must be a great communicator. Everyone must understand the strategy and how it makes their organization different from others.

### Learning Check

**LEARNING OBJECTIVE 10.5** Describe the foundations for strategy implementation.

**Be Sure You Can** • explain how the management process supports strategy implementation • define *corporate governance* • explain why boards of directors sometimes fail in their governance responsibilities • define *strategic control* and *strategic leadership* • list the responsibilities of a strategic leader in today's organizations

## Management Learning Review: Get Prepared for Quizzes and Exams

### Summary

**LEARNING OBJECTIVE 10.1** Discuss the process and importance of strategic management.

- Competitive advantage is achieved by operating in ways that allow an organization to outperform its rivals; a competitive advantage is sustainable when it is difficult for competitors to imitate.
- A strategy is a comprehensive plan that sets long-term direction and guides resource allocation for sustainable competitive advantage.

- Corporate strategy sets direction for an entire organization; business strategy sets direction for a business division or product/service line; functional strategy sets direction for the operational support of business and corporate strategies.
- Strategic management is the process of formulating and implementing strategies that achieve goals in a competitive environment.

**For Discussion** Can an organization have a good strategy and still fail to achieve competitive advantage?

### LEARNING OBJECTIVE 10.2 Identify the essential elements in strategic analysis.

- The strategic management process begins with analysis of mission, clarification of core values, and identification of objectives.
- A SWOT analysis systematically assesses organizational strengths and weaknesses, and environmental opportunities and threats.
- Porter's five forces model analyzes industry attractiveness in terms of competitive rivalry, new entrants, substitute products, and the bargaining powers of suppliers and buyers.

**For Discussion** Would a monopoly get a perfect score for industry attractiveness in Porter's five forces model?

### LEARNING OBJECTIVE 10.3 Explain alternative corporate strategies.

- Growth strategies pursue greater sales and broader markets by concentration that expands in related product or business areas, and diversification that expands in new and different product and business areas.
- Restructuring strategies pursue ways to correct performance problems by such means as liquidation, bankruptcy, downsizing, divestiture, and turnaround.
- Global firms take advantage of international business opportunities through globalization, multidomestic, and transnational strategies.
- Cooperative strategies create strategic alliances with other organizations to achieve mutual gains, including such things as outsourcing alliances, supplier alliances, and even co-opetition among competitors.
- The BCG Matrix is a portfolio planning approach that classifies businesses or product lines as "Stars," "Cash Cows," "Question Marks," or "Dogs" for purposes of strategy formulation.

**For Discussion** Is it good news or bad news for investors when a firm announces that it is restructuring? Why?

### LEARNING OBJECTIVE 10.4 Explain alternative business-level strategies.

- Potential sources of competitive advantage in business-level strategy formulation are found in things like lower costs, better quality, more knowledge, greater speed, and strong financial resources.
- Porter's model of competitive strategy bases the choice of business-level strategies on two major considerations—market scope of product or service, and source of competitive advantage for the product or service.
- A differentiation strategy seeks competitive advantage by offering unique products and services that are clearly different from those of competitors.
- A cost leadership strategy seeks competitive advantage by operating at low costs that allow products and services to be sold to customers at low prices.
- A focus strategy seeks competitive advantage by serving the needs of a special market segment or niche better than anyone else; it can be done as focused differentiation or focused cost leadership.

**For Discussion** Can a business ever be successful with a combined cost leadership and differentiation strategy?

### LEARNING OBJECTIVE 10.5 Describe the foundations for strategy implementation.

- Management practices and systems—including the functions of planning, organizing, leading, and controlling—must be mobilized to support strategy implementation.
- Pitfalls that inhibit strategy implementation include failures of substance—such as poor analysis of the environment; and failures of process—such as lack of participation by key players in the planning process.
- Boards of directors play important roles in control through corporate governance, including monitoring how well top management fulfills strategic management responsibilities.
- Top managers exercise strategic control by making sure strategies are well implemented and are changed if not working.
- Strategic leadership inspires the process of continuous evaluation and improvement of strategies and their implementation.

**For Discussion** Can strategic leadership by top managers make up for poor corporate governance by board members? Why or why not?

## Chapter Glossary

**Bankruptcy and Insolvency Act** The Canadian law that protects a firm from creditors while management reorganizes to restore solvency.

**BCG Matrix** A tool to analyze business opportunities according to market growth rate and market share.

**Business strategy** A strategy that identifies how a division or strategic business unit will compete in its product or service domain.

**Competitive advantage** The ability to do something so well that one outperforms competitors.

**Concentration** A growth strategy to expand within the same business area.

**Co-opetition** The strategy of working with rivals on projects of mutual benefit.

**Core competency** A special strength that gives an organization a competitive advantage.

**Core values** Broad beliefs about what is or is not appropriate behaviour.

**Corporate governance** The system of control and performance monitoring of top management.

**Corporate strategy** A strategy that sets long-term direction for the total enterprise.

**Cost leadership strategy** A strategy that seeks to operate with low cost so that products can be sold at low prices.

**Differentiation strategy** A strategy that offers products that are different from the competition.

**Diversification** A growth strategy to expand by acquisition of or investment in new and different business areas.

**Divestiture** Selling off parts of the organization to refocus attention on core business areas.

**Downsizing** Decreasing the size of operations.

**Focus strategy** A strategy that concentrates on serving a unique market segment better than anyone else.

**Focused cost leadership** A strategy that seeks the lowest costs of operations within a special market segment.

**Focused differentiation strategy** A strategy that offers a unique product to a special market segment.

**Functional strategy** A strategy that guides activities within one specific area of operations.

**Globalization strategy** A strategy that adopts standardized products and advertising for use worldwide.

**Growth strategy** A strategy that involves expansion of the organization's current operations.

**Lack-of-participation error** A failure to include key persons in strategic planning.

**Liquidation** What occurs when a business closes and sells its assets to pay creditors.

**Mission** A statement that expresses the organization's reason for existence

**Multidomestic strategy** A strategy that customizes products and advertising to best fit local needs.

**Operating objectives** Specific results that organizations try to accomplish.

**Organizational culture** The predominant value system for the organization as a whole.

**Retrenchment, restructuring, and turnaround strategies** Strategies that pursue radical changes to solve problems.

**Stakeholders** Individuals and groups directly affected by the organization and its strategic accomplishments.

**Strategic alliance** A partnership that organizations join to pursue an area of mutual interest.

**Strategic analysis** The process of analyzing the organization, the environment, and the organization's competitive position and current strategies.

**Strategic control** An attempt to make sure that strategies are well implemented and that poor strategies are scrapped or modified.

**Strategic intent** The focus on and application of organizational energies on a unifying and compelling goal.

**Strategic leadership** Leadership that inspires people to continuously change, refine, and improve strategies and their implementation.

**Strategic management** The process of formulating and implementing strategies.

**Strategy** A comprehensive plan guiding resource allocation to achieve an organization's long-term goals.

**Strategy formulation** The process of crafting strategies to guide the allocation of resources.

**Strategy implementation** The process of putting strategies into action.

**Sustainable competitive advantage** The ability to outperform rivals in ways that are difficult or costly to imitate.

**SWOT analysis** An examination of organizational strengths and weaknesses and environmental opportunities and threats.

**Transnational strategy** A strategy that seeks efficiencies of global operations with attention to local markets.

**Turnaround strategy** A strategy that tries to fix specific performance problems.

**Vertical integration** A growth strategy to expand by acquiring upstream suppliers or downstream distributors.

## Self-Test 10

### Multiple-Choice Questions

- The most appropriate first question to ask in strategic planning is \_\_\_\_\_.
  - "Where do we want to be in the future?"
  - "How well are we currently doing?"
  - "How can we get where we want to be?"
  - "Why aren't we doing better?"
- The ability of a firm to consistently outperform its rivals is called \_\_\_\_\_.
  - vertical integration
  - competitive advantage
  - incrementalism
  - strategic intent
- In a complex conglomerate such as General Electric that owns a large number of different businesses, a(n) \_\_\_\_\_ level strategy sets strategic direction for a strategic business unit.
  - institutional
  - corporate
  - business
  - functional
- The \_\_\_\_\_ is a predominant value system for an organization as a whole.
  - strategy
  - core competency
  - mission
  - corporate culture
- Cost efficiency and product quality are two examples of \_\_\_\_\_ objectives of organizations.
  - official
  - operating
  - informal
  - institutional
- An organization that is downsizing by laying off workers to reduce costs is implementing a \_\_\_\_\_ strategy.
  - growth
  - cost differentiation
  - restructuring
  - vertical integration
- When Canadian Tire acquired the Forzani Group, owner of Sport Chek and other sporting goods chains, the firm's strategy was growth by \_\_\_\_\_.
  - related diversification
  - concentration
  - vertical integration
  - cooperation
- In Porter's five forces framework, having \_\_\_\_\_ increases industry attractiveness.
  - many rivals
  - many substitute products
  - low bargaining power of suppliers
  - few barriers to entry
- A \_\_\_\_\_ in the BCG Matrix would have a high market share in a low-growth market, and the correct grand or master strategy is \_\_\_\_\_.
  - Dog, growth
  - Cash Cow, stability
  - Question Mark, stability
  - Star, retrenchment
- Strategic alliances that link together airlines in code-sharing and joint marketing agreements are examples of how businesses can use \_\_\_\_\_ strategies.
  - divestiture
  - growth
  - cooperation
  - backward integration
- The two questions asked by Porter to identify competitive strategies for a business or product line are: 1—What is the market scope? 2—What is the \_\_\_\_\_.
  - market share
  - source of competitive advantage
  - core competency
  - industry attractiveness
- According to Porter's model of competitive strategies, a firm that wants to compete with its rivals in a broad market by

selling a very low-priced product would need to successfully implement a \_\_\_\_\_ strategy.

- a. retrenchment
- b. differentiation
- c. cost leadership
- d. diversification

13. When Coke and Pepsi spend millions on ads trying to convince customers that their products are unique, they are pursuing a \_\_\_\_\_ strategy.

- a. transnational
- b. concentration
- c. diversification
- d. differentiation

14. The role of the board of directors as an oversight body that holds top executives accountable for the success of business strategies is called \_\_\_\_\_.

- a. strategic leadership
- b. corporate governance
- c. logical incrementalism
- d. strategic opportunism

15. An example of a process failure in strategic planning is \_\_\_\_\_.

- a. lack of participation
- b. weak mission statement
- c. bad core values
- d. insufficient financial resources

## Short-Response Questions

16. What is the difference between corporate strategy and functional strategy?
17. What would a manager look at in a SWOT analysis?
18. What is the difference between focus and differentiation as competitive strategies?
19. What is strategic leadership?

## Essay Question

20. Kim Davidovic owns and operates a small retail store selling the outdoor clothing of a Canadian manufacturer to a predominantly university-student market. Lately, a large department store outside of town has started selling similar but lower-priced clothing manufactured in China, Thailand, and Bangladesh. Kim believes she is starting to lose business to this store. Assume you are part of a student team assigned to do a management class project for Kim. Her question for the team is: "How can I best deal with my strategic management challenges in this situation?" How will you reply?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. The Mission Statement

You've just been given a great assignment to serve as personal assistant to the company president of a firm operating just outside a city in Western Canada. It will last for six months and then, if you've done a good job, the expectation is you'll be moved into a fast-track management position. The president comes to you and says: "It's time to revisit the mission statement and our corporate values. Set things up for us." There are about a dozen people on the top management team and the company as a whole employs 700+, all in one location. How will you proceed to get the mission and values of this company updated?

#### 2. Cooperate or Compete, or Both?

A neighbourhood business association has this set of members: coffee shop, bookstore, drugstore, dress shop, hardware store, and bicycle

shop. The owners of these businesses are interested in how they might cooperate for better success. As a business consultant to the association, what strategic alliances would you propose as ways to join sets of these businesses together for mutual gain?

#### 3. Saving a Bookstore

For some years you've owned a small bookshop in a university town. You sell some textbooks but mainly cater to a broader customer base. The store always has the latest fiction, nonfiction, and children's books in stock. You've recently experienced a steep decline in overall sales, even for those books that would normally be considered bestsellers. You suspect this is because of the growing popularity of e-books and e-readers such as the Amazon Kindle and online ordering. Some of your friends say it's time to close the store and call it quits because your market is dying. Is it hopeless? Or can a new business strategy save you?

## Reflect on the Self-Assessment

### Intuitive Ability

#### Instructions

Complete this survey as quickly as you can. Be honest with yourself. For each question, select the response that most appeals to you.<sup>60</sup>

1. When working on a project, do you prefer to
  - (a) be told what the problem is but be left free to decide how to solve it?
  - (b) get very clear instructions for how to go about solving the problem before you start?

2. When working on a project, do you prefer to work with colleagues who are
  - (a) realistic?
  - (b) imaginative?
3. Do you most admire people who are
  - (a) creative?
  - (b) careful?
4. Do the friends you choose tend to be
  - (a) serious and hard working?
  - (b) exciting and often emotional?
5. When you ask a colleague for advice on a problem you have, do you
  - (a) seldom or never get upset if he or she questions your basic assumptions?
  - (b) often get upset if he or she questions your basic assumptions?
6. When you start your day, do you
  - (a) seldom make or follow a specific plan?
  - (b) usually first make a plan to follow?
7. When working with numbers, do you find that you
  - (a) seldom or never make factual errors?
  - (b) often make factual errors?
8. Do you find that you
  - (a) seldom daydream during the day and really don't enjoy doing so when you do it?
  - (b) frequently daydream during the day and enjoy doing so?
9. When working on a problem, do you
  - (a) prefer to follow the instructions or rules that are given to you?
  - (b) often enjoy circumventing the instructions or rules that are given to you?

10. When you are trying to put something together, do you prefer to have
  - (a) step-by-step written instructions on how to assemble the item?
  - (b) a picture of how the item is supposed to look once assembled?
11. Do you find that the person who irritates you *the most* is the one who appears to be
  - (a) disorganized?
  - (b) organized?
12. When an unexpected crisis comes up that you have to deal with, do you
  - (a) feel anxious about the situation?
  - (b) feel excited by the challenge of the situation?

**Scoring**

Total the number of “a” responses selected for questions 1, 3, 5, 6, 11; enter the score here [a = \_\_\_\_\_]. Total the number of “b” responses for questions 2, 4, 7, 8, 9, 10, 12; enter the score here [b = \_\_\_\_\_]. Add your “a” and “b” scores and enter the sum here [a + b = \_\_\_\_\_]. This is your intuitive score. The highest possible intuitive score is 12; the lowest is 0.

**Interpretation**

In his book *Intuition in Organizations* (Newbury Park, CA: Sage, 1989), pp. 10–11, Weston H. Agor states, “Traditional analytical techniques ... are not as useful as they once were for guiding major decisions. ... If you hope to be better prepared for tomorrow, then it only seems logical to pay some attention to the use and development of intuitive skills for decision making.” Agor developed the preceding survey to help people assess their tendencies to use intuition in decision-making. Your score offers a general indication of your strength in this area. It may also suggest a need to further develop your skill and comfort with more intuitive decision-making approaches.

**Contribute to the Class Exercise**

**Strategic Scenarios**

**Preparation**

In today’s turbulent economic environment, it is no longer safe to assume that an organization that was highly successful in the past will continue to be so in the near future—or that it will even still exist. Changing times exact the best from strategic planners. Think about the situations currently facing the following well-known organizations. Think, too, about the futures they may face in competitive markets.

Chipotle	CBC Radio
Apple Computer	<i>The Globe and Mail</i>
Netflix	Sony
Ann Taylor	Zynga
Pizza Pizza	AT&T
Nordstrom	Purolator

**Instructions**

Form into groups. Choose one or more organizations from the list (or as assigned by your instructor) and answer for this organization the following questions:

1. What in the future might seriously threaten the success, perhaps the very existence, of this organization? As a group, develop at least three such *future scenarios*.
2. Estimate the probability (0 to 100 percent) of each future scenario occurring.
3. Develop a strategy for each scenario that will enable the organization to deal with it successfully.

Thoroughly discuss these questions within the group and arrive at your best possible consensus answers. Be prepared to share and defend your answers in general class discussion.



## Manage a Critical Incident

### Kickstarting a Friend's Business Idea

#### Situation

You've worked hard, made a fair amount of money, and have a nice stock portfolio. You're also known among your friends as "the one with the money." As with lottery winners, you've become a bit of a target—some want handouts, some loans, and others just do their share of freeloading. But now one of your friends has come with a business proposal. She's just back from a trip to Southeast Asia and is raving about all the neat fabrics available in local markets in places like Cambodia, Thailand, and Vietnam. She's also a great fan of the TV show *Project Runway*. So, she wants to import fabrics, buy some sewing machines and materials, rent

a small storefront, and set up a shop called The Design Place. The basic idea is that a customer can come in, find fabrics, use workspace, and then design and sew their own fashions. She thinks the idea will be a winner, but has come to you for advice and—she hopes—some start-up financing.

#### Questions

What questions will you ask and what will you say to help your friend do a good strategic analysis of her business idea? Without knowing any more than you do now, what do you believe is the real strategic potential of The Design Place? Are there examples of do-it-yourself stores within other product spaces that could serve as guides for your evaluation and help in developing her business proposal?

## Collaborate on the Team Activity

### Contrasting Strategies

#### Question

How do organizations in the same industry fare when they pursue similar or very different strategies?<sup>61</sup>

#### Instructions

1. Research recent news reports and analyst summaries for each of the following organizations (or their parent organizations):
  - Patagonia and Mountain Equipment Co-op
  - Air Canada and WestJet
  - *The Globe and Mail* and *The National Post*
  - Under Armour and Lululemon
2. Use this information to write a short description of the strategies that each seems to be following in the quest for success.
3. Compare the strategies for each organizational pair. Identify whether or not, and why, one organization has a strategic advantage in the industry.
4. Choose other pairs of organizations and do similar strategic comparisons for them.
5. Prepare a summary report highlighting (a) the strategy comparisons and (b) suggestions on how organizations in the same industry can choose strategies to best compete with one another.

## Analyze the Case Study

### Case 10.1 Hudson's Bay Company | From Fur to Fendi to an Uneasy Future

Go to Management Cases for Critical Thinking at the end of the book to find this case.

# CHAPTER 11



Chad McDermott/Shutterstock.com

## Organization Structures

It is much easier to talk about high-performing organizations than to create them. And in true contingency fashion there is no one best way to do things; no one organizational form can meet the needs of all circumstances. What works well at one moment in time can quickly become outdated or even dysfunctional in the next. This is why you often read and hear about organizations making changes to their structures and personnel and reorganizing operations to improve their performance.

McGill University management scholar and consultant Henry Mintzberg says that people need to understand how

their organizations work if they are to work well within them.<sup>1</sup> Whenever job assignments and reporting relationships change, whenever an organization grows or shrinks, whenever old ways of doing things are reconfigured, people naturally struggle to understand the new ways of working. They ask questions such as: "Who's in charge?" "How do the parts connect to one another?" "How should processes and people come together?" "Whose ideas have to flow where?" They also worry about the implications of the new arrangements for their jobs and careers.

### Chapter Quick Start

Organizing puts people together with resources in ways designed to help them achieve performance goals. Although organizations still make use of traditional structures, new approaches are being crafted around horizontal relationships, teams, and collaboration. Key trends in organizational design are reshaping structures for better alignment with the people, tasks, and demands of the new workplace.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

**11.1** Organizing as a Management Function

**11.1** Explain organizing as a management function and contrast formal and informal organization structures.

**11.2** Traditional Organization Structures

**11.2** Identify the strengths and weaknesses of traditional organizational structures.

**11.3** Team and Network Organization Structures

**11.3** Identify the strengths and weaknesses of team, network, and boundaryless structures.

**11.4** Organizational Designs

**11.4** Discuss how and why organizational designs are changing in today's workplace.

### What to Look for **Inside**

#### Management is Real

- 11.1 Wisdom** Learn from Role Models  
Build-A-Bear Lets Kids Put the Pieces Together
- 11.2 Choices** Think before You Act  
Playing Musical Chairs to Increase Collaboration
- 11.3 Insight** Keep Learning about Yourself  
Empowerment Gets More Things Done
- 11.4 Analysis** Make Data Your Friend  
Managers May Overestimate Their Managing Skills
- 11.5 Ethics** Know Right from Wrong  
Help! I've Been Flattened into Exhaustion

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Empowering Others
- **Contribute** *to the Class Exercise:*  
Organizational Metaphors
- **Manage** *a Critical Incident:*  
Crowdsourcing Evaluations to Cut Management Levels
- **Collaborate** *on the Team Activity:*  
Designing a Network University
- **Analyze** *the Case Study:*  
Nike | Spreading Out to Win the Race

## 11.1 Organizing as a Management Function

### LEARNING OBJECTIVE 11.1

Explain organizing as a management function and contrast formal and informal organization structures.

#### Learn More About

- What is organization structure?
- Formal structures
- Informal structures and social networks

**Organizing** is the process of arranging, connecting, and integrating people and other resources to accomplish a goal. Its purpose as one of the basic functions of management is to create a division of labour and then coordinate processes and results to achieve a common purpose.

**Figure 11.1** shows the central role that organizing plays in the management process. Once plans are created, the manager's task is to ensure that they are carried out. Once strategy is set and plans are made, organizing launches the processes of implementation and accomplishment by clarifying jobs and working relationships. It identifies who does what, who is in charge of whom, and how different people and parts of the organization relate to and work with one another. All of this, of course, can be done in many different ways. The challenge for managers is to choose the best organizational form to fit the firm's strategy and other situational/market demands.



**FIGURE 11.1** Organizing viewed in relationship with the other management functions.

## What Is Organization Structure?

The way in which the various parts of an organization are arranged is usually referred to as the **organization structure**. It is the system of tasks, workflows, reporting relationships, and communication channels that connect the work and activities of diverse individuals and groups within a firm. An organization's structure should both effectively allocate tasks through a division of labour and coordinate performance results. A structure that accomplishes both well helps to implement an organization's strategy.<sup>2</sup> Yet as stated earlier, the problem for managers is that it is much easier to describe what a good structure does than it is to create one.

## Formal Structures

You may know the concept of structure best in the form of an **organization chart**. It diagrams reporting relationships and the arrangement of work positions within an organization.<sup>3</sup> A typical organization chart identifies positions and job titles as well as the lines of authority and communication between them. It shows the **formal structure**, or how the organization is intended to function.

Reading an organization chart should help you learn the basics of an organization's formal structure. But caution is in order, because charts can be useful or they can be confusing and out of date. At their best, they provide a snapshot of how an organization is supposed to work in respect to:

- *Division of work*—Positions and titles show work responsibilities.
- *Supervisory relationships*—Lines show who reports to whom.
- *Communication channels*—Lines show formal communication flows.
- *Major subunits*—Positions reporting to a common manager are shown.
- *Levels of management*—Vertical layers of management are shown.

An organization's formal structure can change over time as the business changes, as shown in Management Is Real 11.1.

### Management Is Real 11.1: Wisdom | Learn from Role Models

Sounds a lot like organizations, doesn't it? Until you get to the "making it personal" part.

#### Build-A-Bear Lets Kids Put the Pieces Together

The next time you're in a mall with a Build-A-Bear store, check out what's happening. You'll see lots of activity, excitement, and fun as kids and parents work together building memories.

The Build-A-Bear concept is simple but elegant: Pick out a bear or bunny that you like, add stuffing, and then outfit your pet with clothing, shoes, and accessories. Each pet is unique—soccer player, Girl Scout ... you name it; it leaves the store personalized to the new owner's tastes and interests.

Every Build-A-Bear store is carefully organized. Guest Bear Builders move along the Bear Pathway from the Choose Me computer workstation on to Stuff Me and finally to Name Me as their personal creation takes shape. Sounds a lot like organizations, doesn't it? Until you get to the "making it personal" part. That's where organizations often struggle—how to bring together hundreds, thousands, even hundreds of thousands of people in arrangements that make sense and still allow for personal talents to shine through.

Build-A-Bear was started by Maxine Clark based on her retailing experience. She obviously had the talent, creativity, and drive required to build a successful business. Her founding story is classic entrepreneurship. But Build-A-Bear's success is driven by classic management.

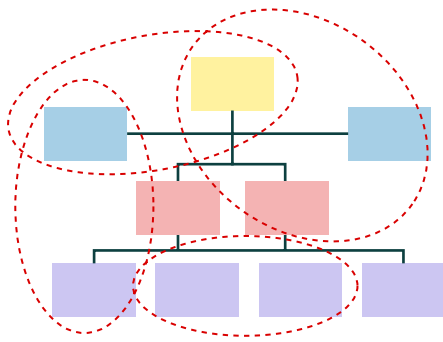


Agencja Fotograficzna Caro/Alamy Stock Photo

#### Find Inspiration

Clark crafted Build-A-Bear from its beginnings in St. Louis, Missouri, to an operation with 425 stores worldwide. But the organization structure that Build-A-Bear needs today isn't the same one that was successful a few years back. It's time to "build a new bear," so to speak. When you think about it, isn't this the situation most organization structures face at different points in time? How about you—will you be ahead of the curve in tweaking your team and organization structures to meet new challenges as circumstances, markets, and environments change?

## Informal Structures and the Shadow Organization



**FIGURE 11.2** Informal structures of an organization.

## Informal Structures and Social Networks

Underneath an organization’s formal structure lies an **informal structure**. This is a “shadow” organization made up of social networks comprising the unofficial, but often critical, working relationships that connect organizational members (Figure 11.2).

No organization can be fully understood without gaining insight into its spiderweb of informal networks as well as the formal organization structure.<sup>4</sup> If the informal structure could be drawn, it would show who talks and interacts with whom, regardless of their formal titles and relationships. The lines of the informal structure would cut across levels and move from side to side. They would show people interacting through social media, meeting for coffee, joining in exercise groups, and participating in leisure activities—all driven by friendship and enjoyment rather than formal requirements.

A tool known as **social network analysis**, or **sociometrics**, is one way of identifying patterns in informal structures and their embedded social relationships.<sup>5</sup> Such an analysis can be undertaken by surveys that ask people to identify others to whom they turn for help most often, with whom they communicate regularly, and who gives them energy and motivation.<sup>6</sup> It can also be done by analysis of data mined from an organization’s internal social media sites, and even by data gathered from special electronic badges worn by employees that record their interactions during daily work.<sup>7</sup> Lines are then drawn between contacts to create a social network map or informal structure that shows how a lot of work really gets done and who the “influencers” really are, in contrast to the formal descriptions in the organization chart. This information can be used to update the organization chart to better reflect the way things actually work. It also recognizes the legitimacy of the informal networks people use in their daily work and identifies talented people whose value as connectors and networkers may otherwise go unnoticed by management.<sup>8</sup>

Informal structures and social networks are in many ways essential to organizational success. They allow people to make

contacts with others who can help them get things done. They stimulate informal learning as people work and interact together throughout the workday. And they are also sources of emotional support and friendship that satisfy members’ social needs.

Of course, informal structures also have potential disadvantages. They can be susceptible to false rumours, carry inaccurate information, breed resistance to change, and even divert work efforts from important objectives. The Society for Human Resource Management (SHRM), for example, reported that when the recession caused massive job losses, firms experienced an increase in workplace eavesdropping and in “gossip and rumours about downsizings and layoffs.”<sup>9</sup> Another problem sometimes found in informal structures is the presence of “in” and “out” groups. Those who perceive themselves as “outsiders” may become less engaged in their work and more dissatisfied. Some North American managers of foreign firms, for example, have complained about being excluded from what they call the “shadow cabinet” composed of foreign executives who hold the real power and who sometimes interact with one another while excluding others.<sup>10</sup>

### Learning Check

**LEARNING OBJECTIVE 11.1** Explain organizing as a management function and contrast formal and informal organization structures.

**Be Sure You Can** • define organizing as a management function  
• explain the difference between formal and informal structures  
• discuss the potential advantages and disadvantages of informal structures in organizations

## 11.2 Traditional Organization Structures

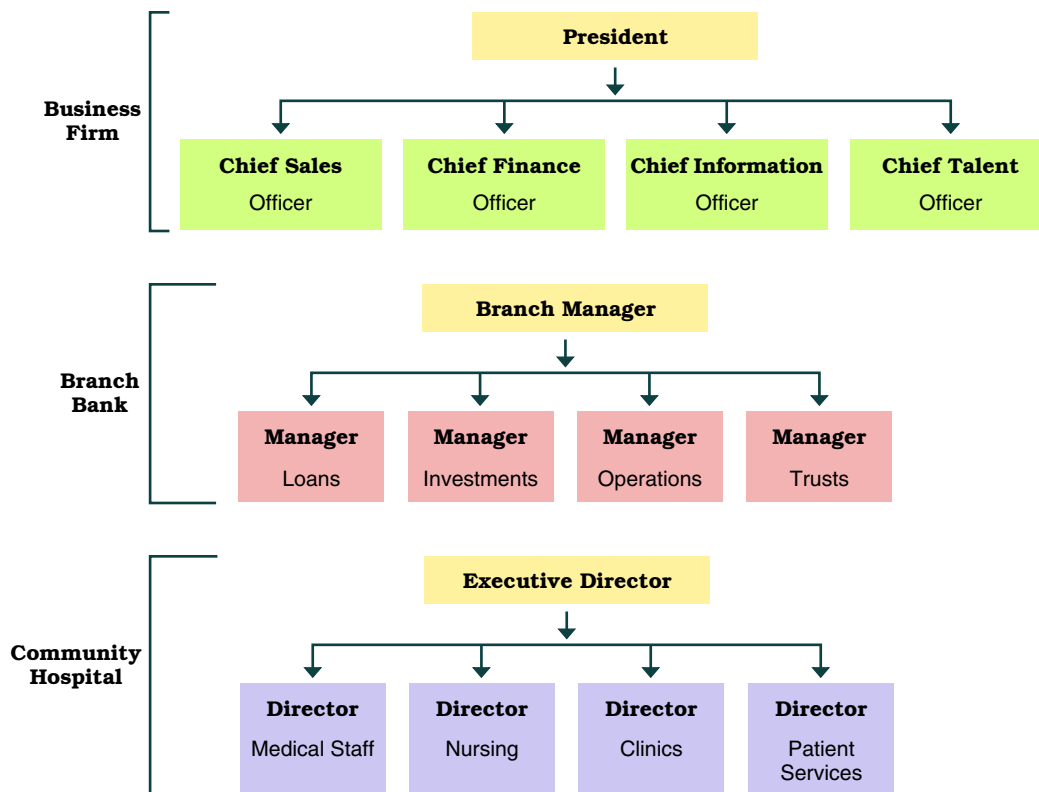
**LEARNING OBJECTIVE 11.2**

Identify the strengths and weaknesses of traditional organizational structures.

### Learn More About

Functional structures • Divisional structures • Matrix structures

A guiding principle of organizing is that performance should improve when tasks are divided up and people are allowed to become experts in specific jobs. But there are different ways



**FIGURE 11.3** Functional structures in a business, branch bank, and community hospital.

to accomplish this division of labour, and each has potential advantages and disadvantages. The traditional alternatives are the functional, divisional, and matrix structures.<sup>11</sup>

## Functional Structures

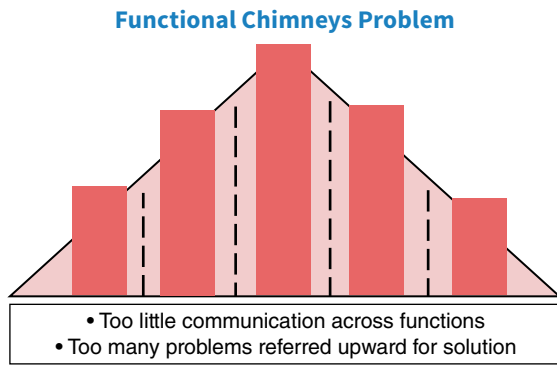
In **functional structures**, people with similar skills and who perform similar tasks are grouped together into formal work units. Members of functional departments share technical expertise, interests, and responsibilities. The first example in **Figure 11.3** shows a functional structure you might find in a medium-sized business, with top management arranged by the functions of marketing, finance, information systems, and human resources. Under this structure, sales tasks are the responsibility of the Chief Sales Officer, information systems tasks are the responsibility of the Chief Information Officer, and so on. **Figure 11.3** also shows how functional structures are used in other types of organizations such as banks and hospitals.

**Advantages of Functional Structures** The key point of the functional structure is to put together people with the same expertise and help them work well together. If each function does its work properly, the expectation is that the organization as a whole will be successful. These structures work well for organizations with only a few products or services. They also tend to work best in relatively stable environments where problems are predictable and the demands for

change and innovation are limited. The major advantages of functional structures include the following:

- Economies of scale with efficient use of resources.
- Task assignments consistent with expertise and training.
- High-quality technical problem solving.
- In-depth training and skill development within functions.
- Clear career paths within functions.

**Disadvantages of Functional Structures** One of the major problems with functional structures is the tendency for each department or function to focus primarily on its own concerns, avoid communications with other organizational functions, and neglect “big picture” issues. There is too little cross-functional collaboration as a sense of common purpose gets lost, and self-centred and narrow viewpoints become emphasized.<sup>12</sup> This is often called the **functional chimneys** or **functional silos problem**—a lack of communication, coordination, and problem solving across functions (**Figure 11.4**). It happens because the functions become formalized not only on the organization chart, but also in people’s minds; they end up viewing the function as the centre of the organizational world rather than one among many key components. The functional chimneys or silos problem tends to get more common as organizations grow larger and more rigid. A *Wall Street Journal* reporter describes the problem this way: “How do you get aggressive, fast-talking salespeople to cooperate with reserved, detail-oriented engineers?”<sup>13</sup>



**FIGURE 11.4** The functional chimneys or functional silos problem.

## Divisional Structures

A second organizing alternative is the **divisional structure**. As illustrated in **Figure 11.5**, this structure puts together people who work on the same product or process, serve similar customers, or are located in the same area or geographical region.

Divisional structures are common in complex organizations with diverse operations that extend across many products, territories, customer segments, and work processes.<sup>14</sup> The idea is to overcome some of the disadvantages of a functional structure, such as the functional chimneys problem. For example, Toyota changed to a divisional structure in its North American operations. The new design brought together the engineering, manufacturing, and sales functions under common leadership rather than having each function reporting to its own top executive. As one industry analyst said: “The problem is every silo reported back to someone different, but now they need someone in charge of the whole choir.”<sup>15</sup>

**Product Structures** **Product structures** group together jobs and activities focused on a single product or service. They clearly link costs, profits, problems, and successes in a market area with a central point of accountability. This prompts managers to be responsive to changing market demands and customer tastes.

Product structures in large organizations can even extend into global operations. When Fiat took over Chrysler, for example, CEO Sergio Marchionne said he wanted a “leaner, flatter structure” to improve decision-making and communication flow. His choice was to use product divisions. Each of the firm’s brands was given its own chief executive and assigned responsibility for its own profits and losses. This same approach has been applied at Procter & Gamble, which is now organized around six product divisions—grooming, health care, beauty care, fabric and home care, baby and feminine care, family care and new ventures.<sup>16</sup>

But product structures have some disadvantages. For example, Microsoft used to be known for bureaucracy, inefficiency, and slow innovation. Product divisions were entrenched in their silos and more prone to compete than cooperate. Things changed under CEO Satya Nadella when he undertook a corporate reorganization that aligned structures with the “One Microsoft” vision. A new Operating Systems Group brought together Windows Phone, led by Joe Belfiore, and Xbox, led by David Treadwell, with “collaboration” the driving theme. Treadwell says, “We are now on the same logistical schedules. . . . We’re doing common planning now, common priority, common release schedules.”<sup>17</sup> Collaboration can also be encouraged not just by the organization’s structure, but by the layout of its work space (see Management Is Real 11.2).

**Geographical Structures** **Geographical structures**, sometimes called *area structures*, group jobs and activities

Type	Focus	Example
<b>Product</b>	Good or service produced	<pre> graph TD     GM[General Manager] --&gt; GP[Grocery products]     GM --&gt; DT[Drugs and toiletries]                     </pre>
<b>Geographical</b>	Location of activity	<pre> graph TD     P[President] --&gt; AD[Asian division]     P --&gt; ED[European division]                     </pre>
<b>Customer</b>	Customer or client serviced	<pre> graph TD     AA[Agency Administrator] --&gt; PY[Problem youth]     AA --&gt; SC[Senior citizens]                     </pre>
<b>Process</b>	Activities part of same process	<pre> graph TD     OSM[Online Sales Manager] --&gt; PP[Product purchasing]     OSM --&gt; OF[Order fulfillment]                     </pre>

**FIGURE 11.5** Divisional structures based on product, geography, customer, and process.

## Management Is Real 11.2: Choices | Think before You Act

Workers within organizations spend roughly 40 to 60 percent of their interaction time every workday talking with their direct neighbours.

### Playing Musical Chairs to Increase Collaboration

Goodbye, private office ... goodbye, permanent work space ... and, “hello, stranger!” The childhood game of musical chairs is very likely coming to your workplace!

One of the latest trends in office design is to move employees into new work spaces every few months, as a way to increase communication and collaboration. The regular moves end up putting employees from different departments and work functions into contact with one another. Seating assignments may be planned based on tasks or employees’ personalities, or even done randomly. But regardless of the method used, the goal is the same: break down functional silos and habits that limit communication across internal boundaries, and put people side-by-side to talk, learn, and be creative together.

Research indicates that workers spend roughly 40 to 60 percent of their interaction time every workday talking with their direct neighbours. They have only a 5 to 10 percent chance of interacting with someone even just a few steps away. The CEO of Sociometric Solutions, a consulting firm that works on such issues, says: “If I change the organizational chart and you stay in the same seat, it doesn’t have much of an effect. If I keep the organization chart the same but change where you sit, it is going to massively change everything.”



Maskot/Getty Images

### What’s Your Take?

Is musical chairs in the office going a step too far? What’s your reaction to this approach? Would you enjoy changing desks every month or so or hate it, and why? Can this idea be used in larger organizations, or is the usefulness of the approach really likely to be limited to smaller firms and start-ups employing a lot of new graduates? Overall, is this a useful way to break down “functional silos,” or is it just a passing fad that will soon lose its appeal? What do you think?

being performed in the same location. These structures are typically used to differentiate products or services in various locations, such as in different parts of a country. They also help global companies focus attention on the unique cultures and requirements of particular regions. As United Parcel Service (UPS) operations expanded worldwide, for example, the company announced a shift from a product structure to a geographical structure. Two geographical divisions were created—the Americas and Europe/Asia. Each area was given responsibility for its own logistics, sales, and other business functions.

**Customer Structures** **Customer structures** group together jobs and activities serving the same customers or clients. The goal is to best serve the diverse needs of different customer groups. This is a common structure in the consumer products industry. 3M Corporation structures itself to focus attention on such diverse markets as consumer and office, specialty materials, industrial, health care, electronics and communications, and safety. Customer structures also are useful in services. Banks, for example, use them to give separate attention to consumer and commercial loan customers. If you look again at Figure 11.3, you’ll see that it also shows a government agency using the customer structure to serve different client populations.

**Process Structures** A **work process** is a group of related tasks that collectively creates something of value for customers.<sup>18</sup> An example is order fulfillment by an online retailer, a

process that takes an order from point of customer initiation all the way through product delivery. A **process structure** groups together jobs and activities that are part of the same processes. The bottom row of Figure 11.5 shows how a product structure might emerge in product-purchasing teams and order-fulfillment teams for a mail-order catalogue business.

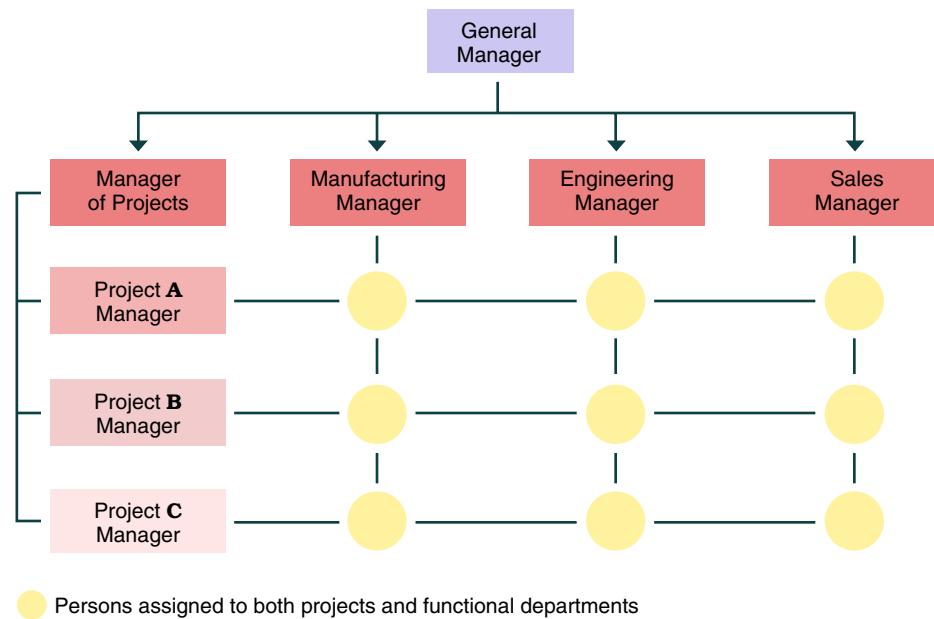
### Advantages and Disadvantages of Divisional Structures

Organizations use divisional structures for a variety of reasons, including the desire to avoid the functional chimneys problem and other limitations of functional structures. The potential advantages of divisional structures include:

- More flexibility in responding to environmental changes.
- Improved coordination across functional departments.
- Clear points of responsibility for product or service delivery.
- Expertise focused on specific customers, products, and regions.
- Greater ease of adding or deleting divisions.

As with other structural alternatives, however, divisional structures have potential disadvantages as well. They can reduce economies of scale and increase costs through the duplication of resources and efforts across divisions. They can also create unhealthy rivalries as divisions compete for resources and top management attention, emphasizing division needs over broader organizational goals.





**FIGURE 11.6** Matrix structure in a small, multi-project business firm.

## Matrix Structures

The **matrix structure**, often called the *matrix organization*, combines functional and divisional structures. It is an attempt to gain the advantages and avoid the disadvantages of each. This is accomplished by creating permanent teams in a matrix that cuts across functions to support specific products, projects, or programs.<sup>19</sup> As shown in **Figure 11.6**, workers in a matrix structure simultaneously belong to at least two formal groups—a functional group and a product, program, or project team. They also report to two supervisors—one within the function and the other within the team.

The matrix organization has gained a strong foothold in the workplace, with applications in such diverse settings as manufacturing (e.g., aerospace, electronics, pharmaceuticals), service industries (e.g., banking, brokerage, retailing), professional fields (e.g., accounting, advertising, law), and the non-profit sector (e.g., city, provincial, and federal agencies, hospitals, universities). Matrix structures are also found in multinational corporations, where they offer the flexibility to deal with regional differences while still supporting multiple product, program, or project needs.

**Advantages and Disadvantages of Matrix Structures** The primary benefits of matrix structures derive from team members working closely together across functional lines and sharing expertise and information in a timely way. This structure goes a long way toward eliminating functional chimneys problems and poor cross-functional communication. The potential advantages of matrix structures include:

- Better communication and cooperation across functions.
- Improved decision-making; problem solving takes place at the team level where the best information is available.

- Increased flexibility in adding, removing, or changing operations to meet changing demands.
- Better customer service; there is always a program, product, or project manager informed and available to answer questions.
- Better performance accountability through the program, product, or project managers.
- Improved strategic management; top managers are freed from lower-level problem solving to focus time on more strategic issues.

As you might expect, matrix structures also have potential disadvantages. The additional team leaders needed to staff a matrix structure result in higher costs. The two-supervisor system is susceptible to power struggles. Problems and frustrations occur when functional supervisors and team leaders don't coordinate well and end up sending conflicting messages about their priorities, or even competing with one another for authority. Matrix teams may develop something called "groupitis," where strong team loyalties cause a loss of focus on larger organizational goals. And team meetings in the matrix can take lots of time.

## Learning Check

**LEARNING OBJECTIVE 11.2** Identify the strengths and weaknesses of traditional organizational structures.

**Be Sure You Can** • explain the differences between functional, divisional, and matrix structures • list advantages and disadvantages of a functional structure, divisional structure, and matrix structure • draw charts to show how each type of traditional structure could be used in organizations familiar to you

## 11.3 Team and Network Organization Structures

### LEARNING OBJECTIVE 11.3

Identify the strengths and weaknesses of team, network, and boundaryless structures.

#### Learn More About

Team structures • Network structures • Boundaryless structures

You will see elements of functional, divisional, and matrix structures in most large organizations, particularly at top levels. They help keep things “organized” and bring a sense of stability to operations. But complexities in today’s environments demand flexibility as well.<sup>20</sup> New technologies . . . climate change . . . transforming societies . . . evolving social values . . . information transparency; all these things and more pressure organizations to constantly change everything from strategies to products to workforce composition to systems and practices. So-called **agile organizations** are structured to be fast moving, open to change, and internally connected top to bottom and side to side. The foundations for agility are teams and networks, with technology helping to make connections easy and fast across time and space.

### Team Structures

Organizations with **team structures** make extensive use of both permanent and temporary teams to solve problems, complete special projects, and accomplish day-to-day tasks.<sup>21</sup> As illustrated in **Figure 11.7**, these are often **cross-functional teams** composed of members drawn from different areas of work responsibility.<sup>22</sup> Like the matrix structure, the intention of team structures is to break down functional silos, foster

horizontal connections, and create faster decision-making at the levels where work gets done.

Team structures use many **project teams** that are convened to complete a specific task or “project.” An example is a team tasked with guiding the changeover to a new IT system. Such project teams are temporary and disband once the task is completed. The intention is to convene a team of people who have the needed talents, focus their efforts intensely to solve a problem or take advantage of a special opportunity, and then release them once the project is finished.

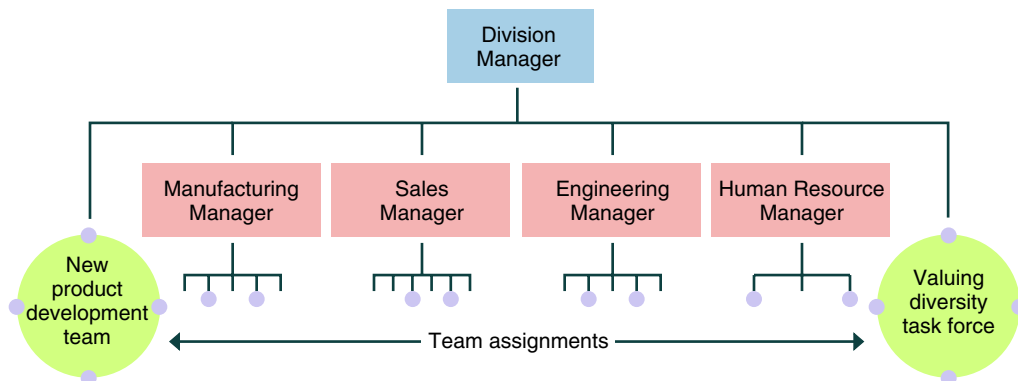
### Advantages and Disadvantages of Team Structures

The advantage of a team structure is that it helps to break down interpersonal barriers and mobilize diverse talents. Because teams focus shared knowledge and expertise on specific problems, they can improve performance by increasing the speed and quality of decisions. They can also boost morale. People working in teams often experience a greater sense of task involvement and identification, as well as increased enthusiasm for the job.

The complexities of teams and teamwork contribute to the potential disadvantages of team structures. These include conflicting loyalties for members who have both team and functional assignments. They also include issues of time management and group process. By their very nature, teams spend a lot of time in meetings. Whether meetings are face-to-face or virtual, not all meeting time is productive. The quality of outcomes depends on how well tasks, relationships, and team dynamics are managed. But all of these challenges can be mastered with the right team talents, good technology, leadership, and empowerment (see Management Is Real 11.3).

### Network Structures

Organizations using a **network structure**, like the one in **Figure 11.8**, have a central core of full-time employees surrounded by “networks” of outside contractors and partners supplying essential services.<sup>23</sup> Because the central core is relatively small and surrounding networks can be expanded or contracted as needed, the network structure helps lower costs and improve flexibility in dealing with changing environments.<sup>24</sup>



**FIGURE 11.7** How a team structure uses cross-functional teams for improved lateral relations.

## Management Is Real 11.3: Insight | Keep Learning about Yourself

Do you have a problem “letting go,” or letting others do their share?

### Empowerment Gets More Things Done

It takes a lot of trust to be comfortable with empowering—letting others make decisions and exercise discretion in their work. But if you aren’t willing and able to empower others, you may try to do too much on your own and end up accomplishing too little.

The fundamental, underlying reason for creating organizations is synergy—bringing together the contributions of many people to achieve something that is much greater than any individual could accomplish alone. Empowerment enables synergy to flourish. It means collaborating with others to accomplish firm objectives—allowing others to do things that you might be good at doing yourself. Many managers fail to empower others, and the result is their organizations often underperform.

How often do you get stressed by group projects in your classes, feeling like you’re doing all the work? Do you have a problem “letting go,” or letting others do their share of group assignments? The reason for this may be a fear of losing control. People with control anxiety often end up trying to do too much. This unfortunately raises the risks of missed deadlines and poor performance.

If the prior description fits you, your assumptions probably align with those in the upper left box in the Empowerment Quick Test. If it doesn’t seem to describe you at all, you might be in the lower right box; perhaps you find that you work smarter and better when also making others happy.

#### Get to Know Yourself Better

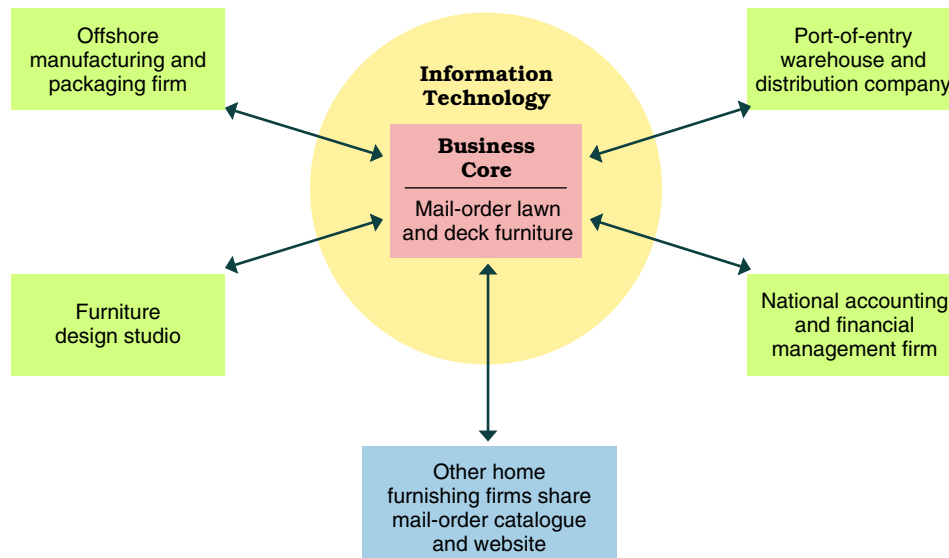
Are you someone who easily and comfortably empowers others? Or do you suffer from control anxiety, with little or no willingness

### EMPOWERMENT QUICK TEST

*In a team situation, which square best describes your beliefs and behaviours?*

- It’s faster to do things myself than explain how to do them to others
- Some things are just too important not to do yourself
- People make mistakes, but they also learn from them
- Many people are ready to take on more work, but are too shy to volunteer

to delegate? The next time you are in a study or work group, be a self-observer. Ask yourself: How well do you handle empowerment? Write a short narrative to someone who wasn’t present that accurately describes your behaviour. Focus on both your comfort with empowering others and how you respond when others empower you. Compare that narrative with your results from the Self-Assessment—Empowering Others questionnaire at the end of this chapter. Is there a match?



**FIGURE 11.8** A network structure for a Web-based retail business.

Instead of doing everything for itself with full-time employees, the network organization employs a minimal staff and contracts out as much work as possible. This is done through **strategic alliances**, which are cooperative agreements with partner firms to pursue mutual business interests. Some are *outsourcing strategic alliances* in which firms contract to purchase services such as accounting or document processing from another organization. Others may be *supplier strategic alliances* that link businesses in preferred relationships that guarantee a smooth and timely flow of quality supplies. An example of a step toward the network organization is found in residential colleges and universities that traditionally owned their own dormitories. Some have reduced their campus housing business by entering public–private partnerships that turn dormitories over to private firms to operate.<sup>25</sup>

The example in Figure 11.8 shows how a network structure might work for a mail-order company selling lawn and deck furniture online and through a catalogue. The firm is very small, consisting of few full-time “core” employees. Beyond that, it is structured as a network of outsourcing and partner relationships linked together by information technology. Merchandise is designed on contract with a furniture designer—which responds quickly as designs are shared. The furniture is manufactured and packaged by subcontractors located around the world—wherever materials are found at the lowest cost and best quality. Stock is maintained and shipped from a contract warehouse—ensuring quality storage and on-time expert shipping. Accounting and financial matters are contracted with an outside firm that provides better technical expertise than the merchandiser could afford to employ on a full-time basis. The website is managed by an independent contractor and hosted on rented server space. The quarterly catalogue is produced in cooperation with two other firms that sell different home furnishings with a related price appeal.

**Advantages and Disadvantages of Network Structures** Network structures are lean and streamlined. They help organizations stay cost-competitive by reducing

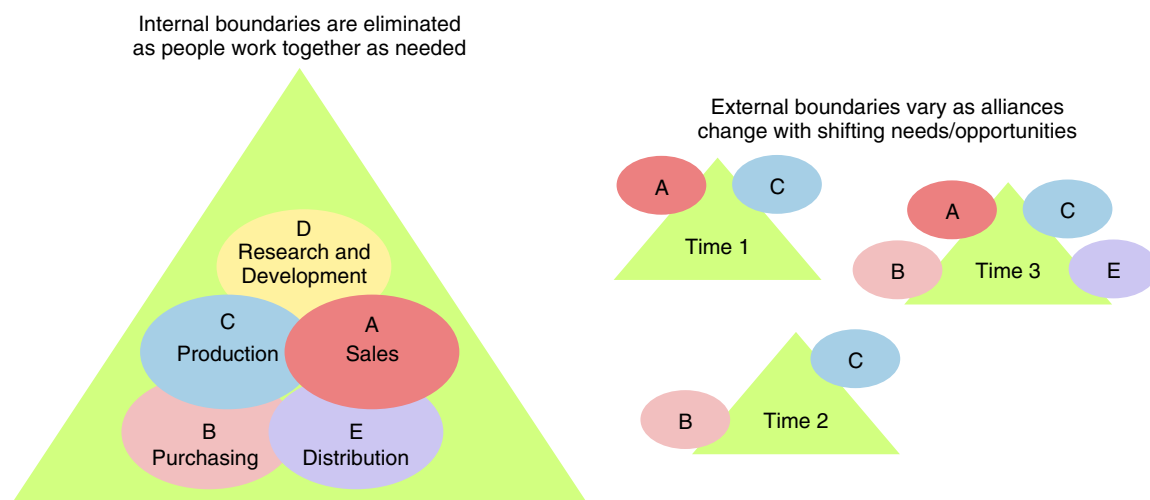
overhead and increasing operating efficiency. Network concepts allow organizations to employ outsourcing strategies and contract out specialized business functions. Within the operating core of a network structure, interesting jobs are created for employees who coordinate the entire system of relationships.

Network structures have potential disadvantages as well. The more complex the organization’s mission, the more complicated it is to control and coordinate the network of contracts and alliances. If one part of the network breaks down, the entire system can fail. The organization may lose control over contracted activities. Firms may also experience a lack of loyalty among contractors who are used infrequently rather than on a long-term basis. Outsourcing also can become so aggressive as to be dangerous to the firm, especially when core and critical activities such as finance, logistics, and human resources management are outsourced the organization may lose its competitive advantage.<sup>26</sup>

## Boundaryless Structures

It is popular today to talk about creating a **boundaryless organization** that eliminates many internal subsystem boundaries as well as boundaries with the external environment.<sup>27</sup> The boundaryless structure, as shown in Figure 11.9, can be viewed as a combination of the team and network structures, with the added feature of “temporariness.” A photograph of the organization’s configuration today will look different from one taken tomorrow, as the form naturally adjusts to new environmental pressures and circumstances.

Spontaneous teamwork and communication replace formal lines of authority within the boundaryless organization. Meetings and information sharing are continuous. People work together in teams that form and disband as needed. There is little hierarchy but lots of empowerment and use of technology. Impermanence is accepted. Knowledge sharing is both a goal and an essential component of the structure. At consulting giant PricewaterhouseCoopers, for example, knowledge



**FIGURE 11.9** The boundaryless organization, which eliminates internal and external barriers.

sharing brings together 160,000 employees spread across 150 countries in a virtual-learning and problem-solving network. Individuals collaborate electronically through online databases where information is stored, problems are posted, and questions are asked and answered in real time by those with experience and expertise relevant to current problems.<sup>28</sup>

The **virtual organization** takes the boundaryless concept to the extreme.<sup>29</sup> It operates as a shifting network of alliances that are engaged as needed using mobile IT solutions. The virtual organization calls an alliance into action to meet specific operating needs and objectives. When the work is complete, the alliance rests until it is next called into action. This mix of mobilized alliances shifts continuously. Do you see similarities between this paradigm and that of the Twitter or LinkedIn communities? The virtual organization concept is similar to how we manage relationships online—logging in, logging off, accomplishing tasks with different individuals and groups as needed, and all taking place instantaneously, temporarily, and without the need for face-to-face contact.

The **latent organization**, a project-based structure, depends on connected people who are willing to work in a flexible environment. As independent contractors, individuals come together to complete a project such as making a movie, building a house, or creating an app. The project only exists for a finite time, with the workers dispersing when the task is complete. Key groups of these workers remain in contact and band together whenever a project demands their skills. While they are individual contractors, they “form” an organization when their skills are needed. To participate in a latent organization an individual needs to possess sought-after skills and a willingness to depend upon a community of others to collaborate on projects. This can be precarious employment as it often involves an unstable working environment, yet this can be offset by relatively high compensation when working within the project team.

### Learning Check 11.3

**LEARNING OBJECTIVE 11.3** Identify the strengths and weaknesses of team, network, and boundaryless structures.

**Be Sure You Can** • describe how organizations can be structured to use cross-functional teams and project teams • define *network structure* • illustrate how a new retail venture might use a network structure to organize its various operations • discuss the potential advantages and disadvantages of a network structure • explain the concept of the boundaryless organization and the latent organization

## 11.4 Organizational Designs

**LEARNING OBJECTIVE 11.4**

Discuss how and why organizational designs are changing in today’s workplace.

### Learn More About

Contingency in organizational design • Mechanistic and organic designs • Trends in organizational designs

**Organizational design** is the process of choosing and implementing structures to accomplish an organization’s mission and objectives.<sup>30</sup> As every organization faces its own set of unique challenges and opportunities, no one design can be applied in all circumstances. The best design at any given moment achieves a good match between structure and situational contingencies—including task, technology, environment, and people.<sup>31</sup> The choices among design alternatives are broadly framed in the distinction between mechanistic or bureaucratic designs at one extreme, and organic or adaptive designs at the other end.

## Contingency in Organizational Design

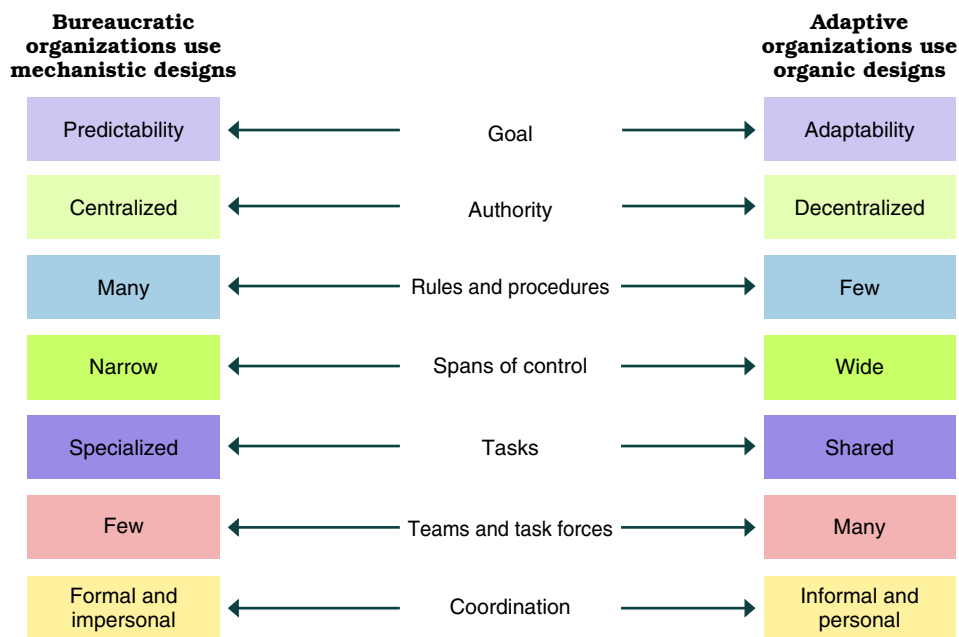
A classic **bureaucracy** is a form of organization based on logic, order, and the legitimate use of formal authority.<sup>32</sup> It is a vertical structure, and its distinguishing features include a clear-cut division of labour, strict hierarchy of authority, formal rules and procedures, and promotion based on competency.

According to sociologist Max Weber, bureaucracies should be orderly, fair, and highly efficient.<sup>33</sup> But the bureaucracies we tend to think of are often associated with “red tape.” Instead of being orderly and fair, they often are seen as cumbersome and impersonal, to customers’ and clients’ needs.<sup>34</sup> Rather than view all bureaucratic structures as inevitably flawed, however, management theory asks two contingency questions. When is bureaucracy a good choice for an organization? When it isn’t, what alternatives are available?

Pioneering research conducted in England during the early 1960s by Tom Burns and George Stalker helps answer these questions.<sup>35</sup> After investigating 20 manufacturing firms they concluded that two quite different organizational forms could be successful, depending on the firm’s external environment. A more bureaucratic form, which Burns and Stalker called “mechanistic,” thrives in stable environments. But bureaucratic organizations have difficulty in environments that are rapidly changing and uncertain. In these dynamic (or “adaptive”) environments a much less bureaucratic form, called “organic,” performs best. **Figure 11.10** portrays these two approaches as opposite extremes on a continuum of organizational design alternatives.

## Mechanistic and Organic Designs

Organizations with more **mechanistic designs** are highly bureaucratic. They are represented as vertical structures that typically operate with centralized authority, many rules and



**FIGURE 11.10** Organizational design alternatives: From bureaucratic to adaptive organizations.

procedures, a precise division of labour, narrow spans of control, and formal coordination. They can be described as “tight” structures of the traditional pyramid form.<sup>36</sup>

Mechanistic designs work best for organizations doing routine tasks in stable environments. A local fast-food restaurant is a good example. Each store is a relatively small operation that operates much like others in the franchise chain and according to rules established by the corporate management. Service personnel work in orderly and disciplined ways, guided by training, rules, and procedures, and by close supervision of crew leaders who work alongside them. Even personal appearance is carefully regulated, with everyone working in uniform. This mechanistic design performs well as it repetitively delivers items that are part of a standard menu. You quickly discover the design limits, however, if you try to order something not on the menu. The chains are also slow to adjust when consumer tastes change.

When organizations operate predominantly in dynamic and uncertain environments, their effectiveness depends on being able to adapt quickly to changing customer tastes and preferences. This requires the more **organic designs** described in Figure 11.10.<sup>37</sup> These are horizontal structures that operate with decentralized authority, fewer rules and procedures, less precise division of labour, wider spans of control, and more personal means of coordination.

Organic designs create **adaptive organizations** that can perform well in environments that demand flexibility in dealing with changing conditions. They are relatively “loose” systems where a lot of work gets done through informal structures and networking.<sup>38</sup> They are built on a foundation of trust that gives employees the freedom to use their own ideas and expertise to do things on their own initiative, and without waiting for orders from a “boss.” This means giving workers freedom to get the job done.

## Trends in Organizational Designs

The complexity, uncertainty, and change inherent in today’s environment are prompting more organizations to shift toward horizontal and organic structures. A number of trends in organization design are evident as structures and practices are adjusted to gain performance efficiency and effectiveness in challenging conditions. The growth of new technologies, particularly in information systems and social media, is helping to drive these trends by improving information availability and ease of communication within organizations.

**Fewer Levels of Management** A typical organization chart shows the **chain of command**, or the line of authority that vertically links each position with successively higher levels of management. When organizations get bigger, they also tend to get taller as levels of management are added to the chain of command. But Nucor, a North Carolina-based steel producer, shows that this needn’t be the case. Nucor’s management hierarchy is flat and compact. Its structure is “simple” and “streamlined” in order to “allow employees to innovate and make quick decisions.”<sup>39</sup> Good management is important in any organization structure, but one survey found that many managers may overestimate their skills partially because they have blind spots (see Management Is Real 11.4).

One of the influences on management levels is **span of control**—the number of persons directly reporting to a manager. Narrow spans of control are characteristic of **tall structures** with many levels of management. Because tall organizations have more managers, they are more costly. They also tend to be less efficient, less flexible, and less customer-sensitive. Wider spans of control run with **flat structures** that have fewer levels of management. This not only reduces overhead costs and improves agility—it can also be good for workers who gain

## Management Is Real 11.4: Analysis | Make Data Your Friend

**“It doesn’t matter what industry you’re in. People have blind spots about where they are weak.”**

### Managers May Overestimate Their Managing Skills

A survey by Development Dimensions International, Inc., finds that managers may be overestimating their management skills. “It doesn’t matter what industry you’re in. People have blind spots about where they are weak,” says DDI vice president Scott Erker. These results are from a sample of 1,100 first-year managers:

- 72 percent never question their ability to lead others.
- 58 percent claim planning and organizing skills as strengths.
- 53 percent say they are strong in decision-making.
- 50 percent say they are strong in communication.
- 32 percent claim proficiency in delegating.
- Skills rated as needing most development were delegating, gaining commitment, and coaching.



Karen Moskowitz/Getty Images

#### What are the Implications?

Would you, like the managers in this survey, overestimate your strengths in management skills? What might explain managers’ tendencies toward overconfidence? What would you identify as being among the skills on which you most need improvement? What might account for the fact that 72 percent of managers never question their ability to lead others?

empowerment and independence because of reduced supervision.<sup>40</sup> (One disadvantage to a flatter structure is that the few managers in place can become overworked from supervising too many people, as depicted in Management Is Real 11.5.) **Figure 11.11** illustrates both tall and flat structures.

*Trend:* Organizations are cutting unnecessary levels of management and shifting to wider spans of control. Managers are taking responsibility for larger teams whose members operate with less supervision.

**More Delegation and Empowerment** All managers must decide what work they should do themselves and what should be left for others. At issue here is **delegation**—the process of entrusting work to others by giving them the right to make decisions and take action. Unfortunately, many managers and team leaders don’t do enough delegating, and one of the reasons is **self-enhancement bias**. This is the tendency to view oneself as more capable, intelligent, and ethical than others. Self-enhancement bias makes it hard to “let go” and give others a chance to work independently without close supervision.<sup>41</sup>

## Management Is Real 11.5: Ethics | Know Right from Wrong

**“I even feel guilty now taking time to watch my daughter play soccer on Saturday mornings.”**

### Help! I’ve Been Flattened into Exhaustion

Dear Stress Doctor:

My boss came up with the great idea of laying off some managers, assigning more workers to those of us who haven’t been laid off, and calling us “coaches” instead of supervisors. She says this is all part of a new management approach to operate with a flatter structure and more empowerment.

For me this means a lot more work coordinating the activities of 17 operators instead of the six that I previously supervised. I can’t get everything cleaned up on my desk most days, and I end up taking a lot of work home.

As my organization “restructures” and cuts back staff, it puts a greater burden on the rest of us. We get exhausted, and our families get short-changed and angry. I even feel guilty now taking time to watch my daughter play soccer on Saturday mornings. Sure, there’s some decent pay involved, but that doesn’t make up for the heavy price in terms of lost family time.

But you know what? My boss doesn’t get it. I never hear her ask: “Camille, are you working too much? Don’t you think it’s time to get back on a reasonable schedule?” No! What I often hear instead is “Look at Andy; he handles our new management model really well, and he’s a real go-getter. I don’t think he’s been out of here one night this week before 8 PM.”

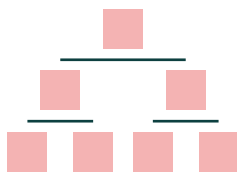
What am I going to do, just keep it up until everything falls apart one day? Is a flatter structure with fewer managers always best? Am I missing something here with the whole “new management”?

Sincerely,  
Overworked in Ottawa

#### What Do You Think?

Is it ethical to restructure, cut management levels, and expect remaining managers to do more work? Or is it simply the case that managers used to the “old” ways of doing things need extra training and care while learning “new” management approaches? What about this person’s boss—is she on track with her management skills? Aren’t managers supposed to help people understand their jobs, set priorities, and fulfill them, while still maintaining a reasonable work-life balance?

**Tall Structure**  
(narrow span of control)



**Flat Structure**  
(wide span of control)



**FIGURE 11.11** Different chains of command.

When it comes to delegating, a classic principle of organization warns managers to make sure the person being delegated to has sufficient authority to perform. The **authority-and-responsibility principle** states that authority should equal responsibility when work is delegated by a supervisor to a subordinate. When done well, the process of delegation involves these three action steps:

- *Step 1*—The manager assigns responsibility by carefully explaining the work or duties someone else is expected to do. This responsibility is an expectation for the other person to perform assigned tasks.
- *Step 2*—The manager grants authority to act. Along with the assigned task, the right to take necessary actions (for example, to spend money, direct the work of others, or use resources) is given to the other person.
- *Step 3*—The manager creates accountability. By accepting an assignment, the person takes on a direct obligation to the manager to complete the job as agreed.

On those days when you complain that “I just can’t get everything done,” the real problem may be that you are trying to do everything yourself. Unwillingness to delegate is a common management failure. Whether this comes from a lack of trust in others or from personal inflexibility, it can be dangerous. Too little delegation overloads managers with work that could be done by others and leaves them with too little time to do their own work.

Delegation that is done well leads to **empowerment**. This concept was defined in Management Is Real 11.3 as letting others make decisions and exercise discretion in their work. Empowerment occurs when delegation provides decision-making authority to those individuals most capable of doing the work. It builds performance potential by allowing individuals freedom to use their talents, contribute ideas, and do their jobs in the best possible ways. And because empowerment creates a sense of ownership, it also increases commitment to follow through on decisions and work hard to accomplish goals.

This works well for Hatch, a professional development firm in Mississauga, Ontario. It is known for “pushing” junior members into big projects. President and CEO John Bianchini says offering challenging work is a key way to develop and then hold on to employees. “Smart people want to work on challenging and different tasks,” he says.<sup>42</sup>

*Trend:* Managers are delegating more. They are finding ways to empower people at all organizational levels to make more decisions that affect themselves and their work.

**Decentralization with Centralization** Should most decisions be made at the top levels of an organization, or should they be dispersed by extensive delegation across all levels? The former approach is referred to as **centralization**; the latter is called **decentralization**. And the decision to operate one way or another is a strategic choice. At Rovio, the Finnish company making Angry Birds, for example, one person used to be in charge of game development—centralization. But as the firm grew, CEO Mikael Hed realized this centralization wasn’t working anymore. His response was to divide the unit up into smaller “tribes” and give each “their own profit and loss sheet, their own management, their own targets”—decentralization.<sup>43</sup>

A closer look at the Rovio story would likely show that centralization versus decentralization isn’t necessarily an either/or choice. High-speed, advanced IT systems allow top managers to easily stay informed about a wide range of day-to-day performance matters throughout an organization. Because they have information so readily available, they can allow more decentralized decision-making. If something goes wrong, say in one of Rovio’s tribes, the information systems sound an alarm, enabling almost immediate corrective actions to be taken. CEO Hed should be able to operate with greater decentralization without giving up centralized control.<sup>44</sup>

*Trend:* Delegation, empowerment, and horizontal structures are contributing to more decentralization in organizations; at the same time, advances in information technology help top managers maintain centralized control.

**Reduced Use of Staff** When it comes to coordination and control in organizations, the issue of line–staff relationships is critical. People in **staff positions** provide expert advice and guidance to line personnel. In a large retail chain, for example, line managers in each store typically make daily operating decisions regarding direct merchandise sales. But staff specialists at the corporate or regional levels often provide direction and support so that all the stores operate with the same credit, purchasing, employment, marketing, and advertising procedures.

Problems in line–staff distinctions can and do arise, and organizations sometimes find that staff size grows to the point where its costs outweigh its benefits. This is why cutbacks in staff positions are common during downsizing and other



turnaround efforts. There is no one best solution to the problem of how to divide work between line and staff responsibilities. What is best for any organization is a cost-effective staff component that satisfies, but doesn't overreact to, needs for specialized technical assistance to line operations. But overall, the trend toward reduced use of staff across all industries is increasing.

*Trend:* Organizations are lowering costs and increasing efficiency by employing fewer staff personnel and using smaller staff units.

## Learning Check

**LEARNING OBJECTIVE 11.4** Discuss how and why organizational designs are changing in today's workplace.

**Be Sure You Can** • define organizational design • describe the characteristics of mechanistic and organic designs • explain when the mechanistic design and the organic design work best • describe trends in levels of management, delegation and empowerment, decentralization and centralization, and use of staff

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 11.1** Explain organizing as a management function and contrast formal and informal organization structures.

- Organizing is the process of arranging people and resources to work toward a common goal.
- Organizing decisions divide up the work that needs to be done, allocate people and resources to do it, and coordinate results to achieve productivity.
- Structure is the system of tasks, reporting relationships, and communication that links people and positions within an organization.
- The formal structure, such as that in an organization chart, describes how an organization is supposed to work.
- The informal structure of an organization consists of the informal relationships that develop among members.

**For Discussion** If organization charts are imperfect, why bother with them?

**LEARNING OBJECTIVE 11.2** Identify the strengths and weaknesses of traditional organizational structures.

- In functional structures, people with similar skills who perform similar activities are grouped together under a common manager.
- In divisional structures, people who work on a similar product, work in the same geographical region, serve the same customers, or participate in the same work process are grouped together under common managers.
- A matrix structure combines the functional and divisional approaches to create permanent cross-functional project teams.

**For Discussion** Why use functional structures if they are prone to functional chimneys problems?

**LEARNING OBJECTIVE 11.3** Identify the strengths and weaknesses of team, network, and boundaryless structures.

- Team structures use cross-functional teams and task forces to improve lateral relations and problem solving at all levels.
- Virtual organizations use information technology to mobilize a shifting mix of strategic alliances to accomplish tasks and projects.
- Network structures use contracted services and strategic alliances to support a core organizational center.
- Agile structures combine team and network structures with the advantages of technology to accomplish tasks and projects.

**For Discussion** What problems could reduce the effectiveness of team-oriented organization structures?

**LEARNING OBJECTIVE 11.4** Discuss how and why organizational designs are changing in today's workplace.

- Contingency in organizational design basically involves finding designs that best fit situational features.
- Mechanistic designs are bureaucratic and vertical, performing best for routine and predictable tasks.
- Organic designs are adaptive and horizontal, performing best in conditions requiring change and flexibility.
- Key organizing trends include fewer levels of management, more delegation and empowerment, decentralization with centralization, and fewer staff positions.

**For Discussion** Which of the organizing trends is most likely to change in the future, and why?

## Chapter Glossary

**Adaptive organization** An organization that operates with a minimum of bureaucratic features and encourages worker empowerment and teamwork.

**Agile organization** An organization structured to be fast moving, open to change, and internally connected top to bottom and side to side.

**Authority-and-responsibility principle** The principle that authority should equal responsibility when work is delegated.

**Boundaryless organization** An organization that eliminates internal boundaries among subsystems and external boundaries with the external environment.

**Bureaucracy** A form of organization that emphasizes formal authority, order, fairness, and efficiency.

**Centralization** The concentration of authority for most decisions at the top level of an organization.

**Chain of command** The linking of all employees with successively higher levels of authority.

**Cross-functional team** A team that brings together members from different functional departments.

**Customer structure** An organization structure that groups together people and jobs that serve the same customers or clients.

**Decentralization** The dispersion of authority to make decisions throughout all organization levels.

**Delegation** The process of distributing and entrusting work to others.

**Divisional structure** An organization structure that groups together people working on the same product, in the same area, with similar customers, or on the same processes.

**Empowerment** Allowing others to make decisions and exercise discretion in their work.

**Flat structure** An organization structure that has wide spans of control and few hierarchical levels.

**Formal structure** The official structure of the organization.

**Functional chimneys or functional silos problem** A lack of communication, coordination, and problem solving across functions.

**Functional structure** An organization structure that groups together people with similar skills who perform similar tasks.

**Geographical structure** An organization structure that groups together people and jobs performed in the same location.

**Informal structure** The set of social networks found in unofficial relationships among the members of an organization.

**Latent organization** A project-based structure based on connected people who are willing to work in a flexible environment.

**Matrix structure** An organization structure that combines the functional and divisional approaches to create permanent cross-functional project teams.

**Mechanistic design** An organization structure that is centralized, with many rules and procedures, a clear-cut division of labour, narrow spans of control, and formal coordination.

**Network structure** An organization structure that uses information technologies to link with networks of outside suppliers and service contractors.

**Organic design** An organization structure that is decentralized, with fewer rules and procedures, open divisions of labour, wide spans of control, and more personal coordination.

**Organization chart** A description of the arrangement of work positions within an organization.

**Organization structure** A system of tasks, reporting relationships, and communication linkages.

**Organizational design** The process of creating structures that accomplish mission and objectives.

**Organizing** The process of arranging, connecting, and integrating people and resources to accomplish a common purpose.

**Process structure** An organization structure that groups jobs and activities that are part of the same processes.

**Product structure** An organization structure that groups together people and jobs focused on a single product or service.

**Project teams** Teams that are convened for a particular task or project and that disband once it is completed.

**Self-enhancement bias** The tendency to view oneself as more capable, intelligent, and ethical than others.

**Social network analysis or sociometrics** A tool that identifies the informal structures and their embedded social relationships that are active in an organization.

**Span of control** The number of subordinates directly reporting to a manager.

**Staff positions** Positions that provide technical expertise for other parts of the organization.

**Strategic alliance** A cooperation agreement with another organization to jointly pursue activities of mutual interest.

**Tall structure** An organization structure that has narrow spans of control and many hierarchical levels.

**Team structure** A structure that uses permanent and temporary cross-functional teams to improve lateral relations.

**Virtual organization** An organization that uses mobile IT to engage a shifting network of strategic alliances.

**Work process** A group of related tasks that collectively creates a valuable work product.

## Self-Test 11

### Multiple-Choice Questions

- The main purpose of organizing as a management function is to \_\_\_\_\_.
  - make sure that results match plans
  - arrange people and resources to accomplish work
  - create enthusiasm for the work to be done
  - match strategies with operational plans
- \_\_\_\_\_ is the system of tasks, reporting relationships, and communication that links together the various parts of an organization.
  - Structure
  - Staff
  - Decentralization
  - Differentiation
- Rumours and resistance to change are potential disadvantages often associated with \_\_\_\_\_.
  - virtual organizations
  - informal structures
  - delegation
  - specialized staff
- An organization chart showing vice presidents of marketing, finance, manufacturing, and purchasing all reporting to the president is depicting a \_\_\_\_\_ structure.
  - functional
  - matrix
  - network
  - product

5. The functional chimneys problem occurs when people in different functions \_\_\_\_\_.  
 a. fail to communicate with one another  
 b. try to help each other work with customers  
 c. spend too much time coordinating decisions  
 d. focus on products rather than functions
6. A manufacturing business with a functional structure has recently developed three new product lines. The president of the company might consider shifting to a(n) \_\_\_\_\_ structure to gain a stronger focus on each product.  
 a. virtual  
 b. informal  
 c. divisional  
 d. network
7. The \_\_\_\_\_ structure tries to combine the best elements of the functional and divisional forms.  
 a. virtual  
 b. boundaryless  
 c. team  
 d. matrix
8. The “two-boss” system of reporting relationships is found in the \_\_\_\_\_ structure.  
 a. functional  
 b. matrix  
 c. network  
 d. product
9. Better lower-level teamwork and more top-level strategic management are among the expected advantages of a \_\_\_\_\_ structure.  
 a. divisional  
 b. matrix  
 c. geographical  
 d. product
10. “Tall” organizations tend to have long chains of command and \_\_\_\_\_ spans of control.  
 a. wide  
 b. narrow  
 c. informal  
 d. centralized
11. A student volunteers to gather information on a company for a group case analysis project. The other members of the group agree and tell her to go ahead and choose the information sources. In terms of delegation, this group is giving the student \_\_\_\_\_ to fulfill the agreed-upon task.  
 a. responsibility  
 b. accountability  
 c. authority  
 d. decentralization
12. The current trend in the use of staff in organizations is to \_\_\_\_\_.  
 a. give staff personnel more authority over operations  
 b. reduce the number of staff personnel  
 c. remove all staff from the organization  
 d. combine all staff functions in one department
13. The bureaucratic organization described by Max Weber is similar to the \_\_\_\_\_ organization described by Burns and Stalker.  
 a. adaptive  
 b. mechanistic  
 c. organic  
 d. adhocracy
14. Which type of organization design best fits an uncertain and changing environment?  
 a. Mechanistic  
 b. Bureaucratic  
 c. Organic  
 d. Traditional
15. An organization that employs just a few “core” or essential full-time employees and outsources a lot of the remaining work shows signs of using a \_\_\_\_\_ structure.  
 a. functional  
 b. network  
 c. matrix  
 d. mechanistic

### Short-Response Questions

16. What symptoms might indicate that a functional structure is causing problems for an organization?
17. Explain, using an example, the concept of a network organization structure.
18. Explain the practical significance of this statement: “Organizational design should be done in contingency fashion.”
19. Describe two trends in organizational design and explain their importance to managers.

### Essay Question

20. Faisal Sham supervises a group of seven project engineers. His unit is experiencing a heavy workload, as the demand for different versions of one of his firm’s computer components is growing. Faisal finds that he doesn’t have time to follow up on all design details for each version of the product. Until now he has tried to do this all by himself. Two of the engineers have shown an interest in helping him coordinate work on the various designs. As a consultant, how would you advise Faisal in terms of delegating work to them?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. The New Branch Manager

As the newly promoted manager of a branch bank, you will be leading a team of 22 people. Most members have worked together for a number of years. How can you discover the informal structure or “shadow organization” of the branch and your team? Once you understand it,

how will you try to use informal structures to your advantage while establishing yourself as an effective manager in this situation?

##### 2. Advisor to the Business School

The typical university business school is organized on a functional basis, with department heads in accounting, finance, information systems, management, and marketing all reporting to a dean. You are on your

alma mater's advisory board, and the dean is asking for advice. What suggestions might you give for redesigning this structure to increase communication and collaboration across departments, as well as to improve curriculum integration for students in all areas of study?

### 3. Entrepreneur's Dilemma

As the owner of a small computer repair and services business, you would like to allow employees more flexibility in their work schedules.

But you also need consistent coverage to handle drop-in customers as well as at-home service calls. There are also times when customers need what they consider to be "emergency" help outside of normal 8 a.m. to 5 p.m. office times. You've got a meeting with employees scheduled for next week. Your goal is to come out of the meeting with a good plan to deal with this staffing dilemma. How can you achieve this goal?

## Reflect on the Self-Assessment

### Empowering Others

#### Instructions

Think of times when you have been in charge of a group in a work or study situation. Complete the following questionnaire by recording how you feel about each statement according to this scale:<sup>45</sup>

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

When in charge of a team, I find that:

1. Most of the time other people are too inexperienced to do things, so I prefer to do them myself.
2. It often takes more time to explain things to others than to just do them myself.
3. Mistakes made by others are costly, so I don't assign much work to them.
4. Some things simply should not be delegated to others.
5. I often get quicker action by doing a job myself.

6. Many people are good only at very specific tasks, so they can't be assigned additional responsibilities.
7. Many people are too busy to take on additional work.
8. Most people just aren't ready to handle additional responsibilities.
9. In my position, I should be entitled to make my own decisions.

#### Scoring

Give yourself points corresponding to each answer on the scale, ranging from 1 point for Strongly disagree, to 5 points for Strongly agree. Total your responses to get an overall score. Possible scores range from 9 to 45.

#### Interpretation

The lower your score, the more willing you are to delegate to others. Willingness to delegate is an important managerial characteristic. It is how you, as a manager, can empower others and give them opportunities to assume responsibility and exercise self-control in their work. With the growing importance of horizontal organizations and empowerment, your willingness to delegate is worth thinking about seriously.

## Contribute to the Class Exercise

### Organizational Metaphors

#### Instructions

Form into groups as assigned by the instructor and do the following:

1. Think about organizations and how they work.
2. Select one of the following pairs of organizational metaphors.
  - (a) human brain OR spiderweb
  - (b) rock band OR chamber music ensemble
  - (c) cup of coffee OR beehive
  - (d) cement mixer OR star galaxy
  - (e) about the fifth date in an increasingly serious relationship OR a couple celebrating their 25th wedding anniversary
3. Brainstorm how each metaphor in your set can be used to explain how organizations work.
4. Brainstorm how each metaphor is similar to and different from the other in this explanation.
5. Draw pictures or create a short skit to illustrate the similarities and contrasts between your two metaphors of an organization.
6. Present your metaphorical views of organizations to the class.
7. Be prepared to explain what can be learned from your metaphors and engage in class discussion.

## Manage a Critical Incident

### Crowdsourcing Evaluations to Cut Management Levels

#### Situation

Performance reviews in your firm have always been completed by managers and then discussed with workers. But you've been reading

about 360° reviews that include feedback from peers and others working with or for the person being evaluated. You're also aware that new technology makes it easy to conduct evaluations online and even to make them happen in almost real time, on a project-by-project basis, without a manager leading the process. As soon as a task is completed by an individual or team, a 360° review can be done online and the

feedback immediately used for future performance improvement. You'd like to start crowdsourcing evaluations at your firm in order to save costs by cutting management levels, and also to improve the flow and timeliness of performance feedback. Before going further, you sit down to make a list of the pros and cons of the idea.

### Questions

What's on your list of pros and cons, and why? You next decide to make another list of resources and support from key persons that would be needed to implement the practice. What's on this second list and why?

## Collaborate on the Team Activity

### Designing a Network University

#### Instructions

In your assigned team, do the following.

1. Discuss the concept of the network organization structure as described in this textbook.
2. Create a network organization structure for your college or university. Identify the "core staffing" and what will be outsourced. Identify how outsourcing will be managed.
3. Draw a diagram depicting the various elements in your "Network U."
4. Identify why Network U will be able to meet two major goals: (a) create high levels of student learning and (b) operate with cost efficiency.
5. Present and justify your design for Network U to the class.

## Analyze the Case Study

### Case 11.1 Nike | Spreading Out to Win the Race

Go to Management Cases for Critical Thinking at the end of the book to find this case.



Caiaimage/Martin Barraud/Getty Images

## Organization Culture and Change

“It’s important to have a close relationship with employees, I’ll ask them questions and tell them about things we’re thinking about. We’re always trying to get a better sense of what they see.”

—Gillian Stein, CEO of Henry’s,  
a camera company started in Toronto in 1909

“Culture” is a word we hear a lot these days as we become more aware and appreciative of diversity in our everyday lives and around the world. However, there’s another type of culture that can be just as important: the culture of organizations. Just as nations, ethnic and religious groups, and families have cultures, organizations do, too. These cultures help distinguish organizations from one another and give members a sense of collective identity. The “fit” between the individual and an

organization’s culture is very important. The right fit is good both for employers and for job seekers, and finding the right fit in your work and membership organizations is an important career issue. At Henry’s, management look to hire content creators who are photography and videography enthusiasts so that they can relate well to their customers.

“Change” is another hot-button word we also hear a lot in our lives and at work. Just as people are being asked to adapt and be ever more flexible, organizations are, too. Managers are expected to support change initiatives launched from the C-suite; they are also expected to be change leaders in their own teams and work units. Some organizational cultures push change, while others resist it. This is a good time to check your readiness to master career challenges and change processes in today’s organizations.

## Chapter Quick Start

All organizations have a “culture,” a bit like a personality, that sets a tone for everyday operations. Some organizational cultures have a more positive influence than others on members’ attitudes, behaviours, commitments, and accomplishments, as well as on customer loyalty. One of the most important career decisions we make is to choose an employer that offers a good “fit” between our personal preferences and its work culture. Part of that fit relates to how the culture handles change and the ways managers act, or fail to act, as change leaders.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

**12.1** Organizational Cultures

**12.1** Explain organizational culture and its influence on behaviour in organizations.

**12.2** Multicultural Organizations and Diversity

**12.2** Describe subcultures and diversity in multicultural organizations.

**12.3** Organizational Change

**12.3** Identify alternative change strategies and types of resistance to change found in organizations.

### What to Look for **Inside**

#### Management Is Real

- 12.1 Wisdom** Learn from Role Models  
Healthy Living Sets the Tone at Clif Bar
- 12.2 Analysis** Make Data Your Friend  
Organization Cultures Must Face Up to Emerging Work–Life Trends
- 12.3 Ethics** Know Right from Wrong  
Hidden Agendas in Organizational Change
- 12.4 Insight** Keep Learning about Yourself  
Get Comfortable with Ambiguity

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Change Leadership IQ
- **Contribute** *to the Class Exercise:*  
Force-Field Analysis
- **Manage** *a Critical Incident:*  
Proposal for Open Office Design and Hotdesking
- **Collaborate** *on the Team Activity:*  
Organizational Culture Walk
- **Analyze** *the Case Study:*  
Gamification | Finding Legitimacy in the New Corporate Culture

## 12.1 Organizational Cultures

### LEARNING OBJECTIVE 12.1

Explain organizational culture and its influence on behaviour in organizations.

#### Learn More About

Understanding organizational cultures • Observable culture of organizations • Values and the core culture of organizations

Think of the stores where you shop; the restaurants that you go to; the place where you work. What is the “vibe” like in each of these places? Do you notice, for example, that atmospheres in the stores of major retailers like Anthropologie, Gap, Hollister, and Aritzia seem to fit their brands and customer identities?<sup>1</sup> Are you envious when someone says about their workplace: “It’s just like a family” or “We have fun while we’re working” or “The whole place just pulls together to get the job done”? Such aspects of the internal environments of organizations are important in management, and the term used to describe them is **organizational culture**. Sometimes called the *corporate culture*, this is the system of shared beliefs and values that shapes and guides the behaviour of an organization’s members.<sup>2</sup> Organizational culture can be thought of as the personality of the organization or the atmosphere within which people work.

The organizational culture is what you see and hear when walking around an organization as a visitor, a customer, or an employee. Look carefully, check the atmosphere, and listen to the conversations. Whenever someone speaks of “the way we do things here,” for example, that person is providing insight into the organization’s culture. Just as nations, ethnic groups, and families have cultures, organizations also have cultures that create unique identities and help to distinguish them from one another. These cultures have a strong impact on an organization’s performance and the quality of the work experiences of its members.<sup>3</sup>

## Understanding Organizational Cultures

At Zappos.com, a popular shoe e-tailer, CEO Tony Hsieh has built a fun, creative, and customer-centred culture. He says: “The original idea was to add a little fun,” and then everyone joined in the idea that “We can do it better.” Now the notion of an unhappy Zappos customer is almost unthinkable. “They may only call once in their life,” says Hsieh, “but that is our chance to wow them.” Hsieh’s advice is that if you “get the culture right, most of the other stuff, like brand and the customer service, will just happen.”<sup>4</sup> Amazon.com CEO Jeff Bezos liked Zappos so much he bought the company. The Girl Scouts are among a number of organizations that send executives to study Zappos’ culture and bring back ideas for improving their own. But having an organizational culture built around fun can sometimes backfire, as in the case of the junk-moving company College Hunks Hauling Junk. Co-founder Nick Friedman wanted to create “a real-life Never Never Land where work is always fun and the culture is always stress-free.” But when Friedman’s company grew to 50+ franchises, he found that loose operations were causing declines in customer satisfaction, employee morale, and profits. It wasn’t easy and it did put a “strain on the company culture,” he says, but things improved after Friedman put new structures, processes, and systems into place.<sup>5</sup>

**Types of Organizational Cultures** It takes a keen eye to be able to identify and understand an organization’s culture. But such understanding can be a real asset to employees and job seekers alike. No one wants to end up in a situation with a bad person–culture fit. Management scholars offer ideas for reading an organization’s culture by asking and answering questions like the following:<sup>6</sup>

- How tight or loose is the structure?
- Do most decisions reflect change or the status quo?
- What outcomes or results are most highly valued?
- How widespread are empowerment and worker involvement?
- What is the competitive style both internally and externally?
- What value is placed on people, as customers and employees?
- Is teamwork a way of life in this organization?

One of the classical descriptions of organizational cultures is shown in **Figure 12.1**. Based on a model called the competing values framework, it identifies four different culture types.<sup>7</sup> *Hierarchical cultures* emphasize tradition and clear roles, *dependable or rational cultures* emphasize process and slow change, *enterprising or entrepreneurial cultures* emphasize creativity and competition, and *social or team cultures* emphasize collaboration and trust. According to LeadershipIQ, employees give enterprising cultures the highest marks for engagement and motivation, and as good places to work.<sup>8</sup> How do these organizational culture options sound to you? Are you prepared to identify the cultures in organizations you interview with and, perhaps, even rule out those with a potentially poor person–culture fit? Could you work in a hierarchical culture, where employees are more likely to tell the boss what they want to hear, in what the *Wall Street Journal* calls a culture of “go along to get along”?<sup>9</sup>

**Strong Organizational Cultures** Zappos’ Tony Hsieh was quoted earlier as saying: “If we get the culture right, most of the other stuff, like brand and the customer service, will just happen.” And he’s mostly right. Although culture isn’t the only determinant of what happens in organizations, it does help to set values, shape attitudes, reinforce beliefs, direct behaviour, and establish performance expectations.<sup>10</sup> It is in these ways that an organization’s culture influences its moral character and performance tone. Speaking about the comparative importance of culture, Peter Drucker is often credited with saying, culture eats strategy for breakfast.

In **strong organizational cultures**, the culture is clear, well defined, and widely shared by members. When the strong culture is positive, it acts as a performance asset by helping fit together the nature of the business and the talents of

Alternative Organizational Cultures

<p><b>Team Culture</b></p> <ul style="list-style-type: none"> <li>• Authority shared, distributed</li> <li>• Teams and teamwork rule</li> <li>• Collaboration, trust valued</li> <li>• Emphasis on mutual support</li> </ul>	<p><b>Hierarchical Culture</b></p> <ul style="list-style-type: none"> <li>• Authority runs the system</li> <li>• Traditions, roles clear</li> <li>• Rules, hierarchy valued</li> <li>• Emphasis on predictability</li> </ul>
<p><b>Entrepreneurial Culture</b></p> <ul style="list-style-type: none"> <li>• Authority goes with ideas</li> <li>• Flexibility and creativity rule</li> <li>• Change and growth valued</li> <li>• Emphasis on entrepreneurship</li> </ul>	<p><b>Rational Culture</b></p> <ul style="list-style-type: none"> <li>• Authority serves the goals</li> <li>• Efficiency, productivity rule</li> <li>• Planning, process valued</li> <li>• Emphasis on modest change</li> </ul>

**FIGURE 12.1** Four approaches to organizational culture.



the employees. It discourages dysfunctional behaviours and encourages helpful ones, while keeping the vision clear and goals compelling for all to rally around.<sup>11</sup> Yet when the strong culture is negative, its power is equally strong in the other direction. In responding to a devastating product recall scandal, for example, General Motors' CEO Mary Barra pledged to change a strong and negative organizational culture for the better. She claimed GM's historical culture of cost containment and avoidance of responsibility encouraged covering up rather than addressing problems. She criticized the "GM Nod" where meeting participants would nod in agreement but take no action, and the "GM Salute" symbolized by crossed arms indicating "responsibility belongs to someone else, not me."<sup>12</sup>

Strong and positive organizational cultures don't happen by chance. They are created by leaders who set and model the right tone, and they are reinforced through **socialization**. This is the process of "onboarding" new members so that they learn the culture and the values of the organization.<sup>13</sup> Socialization often begins in an anticipatory way with education, such as when business students learn the importance of professional appearance, integrity, and interpersonal skills. It continues with an employer's onboarding orientation and training programs. Disney's highly regarded strong culture, for example, is supported by major investments in socializing and training new hires. Founder Walt Disney is quoted as saying: "You can dream, create, design and build the most wonderful place in the world, but it requires people to make the dream a reality."<sup>14</sup>

## Observable Culture of Organizations

Organizational culture is usually described from the perspective of the two levels shown in **Figure 12.2**. The outer level is the "observable" culture, and the inner level is the "core" culture.<sup>15</sup> It is useful to think of organizational culture as an iceberg with an observable component—the part that stands out above the surface and is

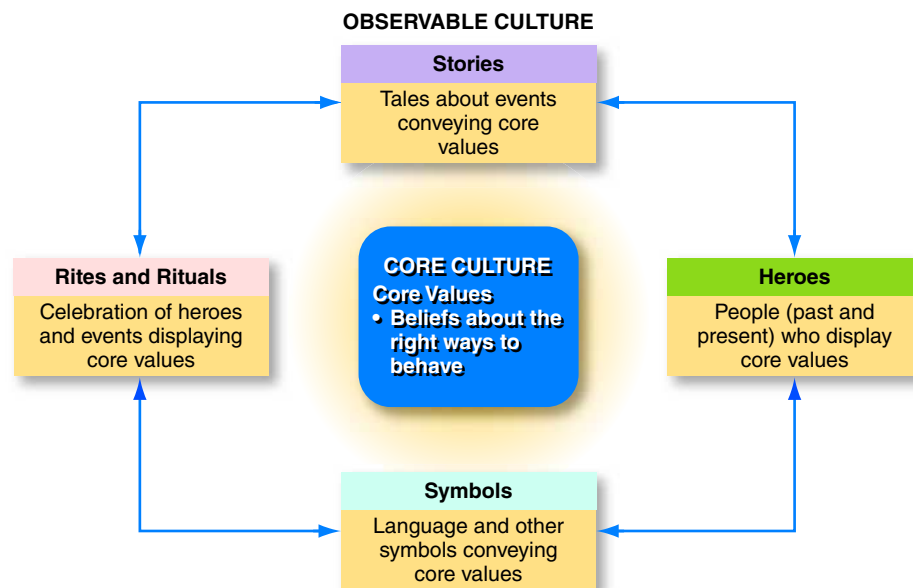
visible to the discerning eye, and a core component—the foundation that lies below the surface and is hard to see.

The **observable culture** is visible and is readily apparent at the surface of every organization. It is expressed in the way that people dress at work, how they arrange their offices, how they speak to and behave toward one another, the nature of their conversations, and how they talk about and treat customers and clients. Test this out the next time you go to a store, restaurant, or service establishment. How do people look, act, and behave? How do they treat one another? How do they treat customers? What's in their conversations? Are they enjoying themselves? When you answer these questions, you are starting to identify the organization's observable culture.

The observable culture also is found in the stories, heroes, rituals, and symbols that are part of daily organizational life. It can be discerned in something simple like joining in spontaneous celebrations of work accomplishments or personal milestones such as a co-worker's birthday. In workplaces like Apple, Zappos, and Amazon, it's in the stories told about the founders and the firm's start-up history.

At universities and colleges, it includes the pageantry of graduation and honours ceremonies, and in sports teams it's evident in the pregame rally, sideline pep talk, and all the "thumping and bumping" that takes place after a good play. When you are trying to understand the observable culture of an organization, look for the following:<sup>16</sup>

- *Heroes*—the people singled out for special attention and whose accomplishments are recognized with praise and admiration; they include founders and role models.
- *Ceremonies, rites, and rituals*—the ceremonies and meetings, planned and spontaneous, that celebrate important events and accomplishments.
- *Legends and stories*—oral histories and tales, told and retold among members, about dramatic incidents in the life of the organization.



**FIGURE 12.2** Levels of organizational culture—observable culture and core culture in the organizational "iceberg."

- *Metaphors and symbols*—the special use of language and other nonverbal expressions that communicate important themes and values of the organization.

## Values and the Core Culture of Organizations

A second and deeper level of organizational culture, the **core culture**, consists of the **core values** or underlying assumptions and beliefs that shape and guide employee's behaviours. You know core values, so to speak, when you experience them. They may be observed when you are trying to claim lost luggage at an airline counter and are treated really well or are returning a product to a retail store and are greeted with a smile and "no questions asked." Values set in the core culture are a strong influence on how such transactions play out. And when customer experiences aren't positive, the culprit may well be weak or just plain bad core values.

Values in some of the best companies have been found to emphasize performance excellence, innovation, social responsibility, integrity, worker involvement, customer service, and teamwork.<sup>17</sup> Examples of values at strong-culture firms include "service above all else" at Nordstrom; "Our culture promotes a happy, healthy, and fun life" at lululemon; "The passion for and knowledge of tea permeates our culture and is rooted in an

excitement to explore the taste and the health and lifestyle elements of tea" at DAVIDsTEA; "the best electric car and electric power trains in the world" at Tesla; and "We aspire to big things in our work and in our lives" at Mountain Equipment Co-op.<sup>18</sup>

**Value-Based Management** How would you react if you found out senior executives in your organization talked up values such as honesty and ethical behaviour, but then acted very differently—altering financial reports or spending company funds on expensive private parties, personal travel, or luxury products? Most likely you'd be upset, and justifiably so. It's important not to be fooled by values statements alone when trying to understand an organization's core culture. It's easy to write a set of values, post them on the Web, and talk about them. It's a lot harder to live up to them every day. One organization that does live up to its values is the company that makes Clif Bar energy bars (see Management Is Real 12.1).

If core values are to have any positive effect, everyone in the organization—from top to bottom—must reflect these values in their day-to-day actions. It's in this context that managers and team leaders have a special responsibility to "walk the talk" in order to make the expressed values real. The term **value-based management** describes managers who actively help to develop, communicate, and enact core values every day. Although you might tend to associate value-based management with top executives, the responsibility extends to all

### Management Is Real 12.1: Wisdom | Learn from Role Models

"Clifies" get paid sabbaticals after seven years and \$6,500 toward a hybrid or biodiesel car.

#### Healthy Living Sets the Tone at Clif Bar

Have you had your Clif Bar today? Lots of people have, thanks to a long bike ride during which Gary Erickson decided he just couldn't eat another of the existing energy bars. He went back to experiment in his mother's kitchen and produced the first Clif Bar two years later.

Despite its growth from a one-man operation to one employing 270+ people, Clif's still runs with a commitment to what it calls the "5 aspirations"—"sustaining our planet ... community ... people ... business ... brands."

Clif's core values are evident not only in the firm's healthy organic foods and philanthropy, but also in the quality of working life offered to employees. Picture "Clifies," as employees are known, working this way:

- Every employee is an owner.
- You can get a paid sabbatical leave of six to eight weeks after seven years.
- You can work a flexible schedule to get every other Friday off.
- You get paid for 2.5 hours of workout time each week.
- You can bring your pet to work and wear casual clothes.
- You can use the in-house concierge service for car washes, laundry, dry cleaning, haircuts, and more.
- You can get \$6,500 toward a hybrid or biodiesel automobile.



Chicago Tribune/Contributor/Tribune News Service/Getty Images

#### Find Inspiration

Clif's culture is unique. Why can't more of us find jobs in places like this?

managers and team leaders. Like the organization as a whole, every work team or group has its own culture. The nature of this culture and its influence on team outcomes have a lot to do with how the team leader behaves as a values champion and role model.

An incident at Tom's of Maine provides an example of value-based management in action.<sup>19</sup> After making a substantial investment in a new deodorant, founder Tom Chappell learned that customers were very dissatisfied with the product. He made the decision to reimburse customers and pull the product from the market, even though it would cost the company more than \$400,000. Chappell had founded the company on values of fairness and honesty in all matters. Rather than trying to save costs by avoiding or denying the customer dissatisfaction, he did what he believed was the right thing. He listened, accepted responsibility for a poor product, and made the customers right. By so doing he lived up to the company's stated values and set a positive example for others to follow in the future. When faced with similar dilemmas, their responses could be checked by asking: What would Tom do? This incident also shows Tom Chappell's strengths as a **symbolic leader**, someone whose words and actions consistently communicate core values.

**Workplace Spirituality** The notion of **workplace spirituality** is sometimes discussed along with value-based management. Although your first reaction might be to associate "spirituality" with religion, the term is used more broadly in management. It describes an organizational culture that helps people find meaning and a sense of shared community in their work. The core value underlying workplace spirituality is respect for human beings. The guiding principle is that people are inwardly enriched when they are engaged in meaningful work and feel personally connected with others inside and outside the organization.<sup>21</sup>

A culture of workplace spirituality will have a strong ethical foundation, value human dignity, respect diversity, and focus on linking jobs with real contributions to society. Anyone who works in a culture of workplace spirituality should derive pleasure from knowing that what is being accomplished is personally meaningful, created through community, and of benefit to others. Anyone who leads a culture of workplace spirituality values people, and emphasizes meaningful purpose, trust and respect, honesty and openness, personal growth and development, worker-friendly practices, and ethics and social responsibility.<sup>22</sup>

## Learning Check

**LEARNING OBJECTIVE 12.1** Explain organizational culture and its influence on behaviour in organizations.

**Be Sure You Can** • define *organizational culture* and explain the importance of strong cultures to organizations • define and explain the onboarding process of *socialization* • distinguish between observable and core cultures • explain how value-based management helps build strong culture in organizations • describe how workplace spirituality is reflected in an organization's culture

## 12.2 Multicultural Organizations and Diversity

### LEARNING OBJECTIVE 12.2

Describe subcultures and diversity in multicultural organizations.

#### Learn More About

- Multicultural organizations • Organizational subcultures
- Power, diversity, and organizational subcultures

Canada is an increasingly diverse society, and the makeup of our workforces reflects that. Organizations must follow a variety of legislation that protects how all workers are treated. For example, the federal Employment Equity Act makes it illegal to discriminate in hiring and employment decisions relating to women, Indigenous peoples, persons with disabilities, or members of visible minorities. Each province and territory also has its own human rights code that extends the categories of protection to include family status, age (older persons), sexual orientation, race, disability, gender identity, sex, and language (which may be connected to ethnic origin, place of origin, race, and ancestry).<sup>23</sup> People working in a federally regulated industry (such as banks, broadcasters, and railways) are covered by the Canadian Human Rights Act.

Those who believe they have been a victim of discrimination can appeal to either their respective provincial Human Rights Commission, or the departments and commissions that administer the Employment Equity Act, such as Employment and Social Development Canada. Workers who are lesbian, gay, bisexual, or transgender are also covered by current laws.

Provinces and territories began to protect trans rights through explicitly listing "gender identity" or "gender identity and gender expression," while others interpreted trans rights implicitly (non-explicitly) under other grounds.<sup>24</sup> Then on October 18, 2016, Bill C-16 passed second reading in the House of Commons to amend the Canadian Human Rights Act and Criminal Code. It received royal assent on June 19, 2017, becoming law immediately. The bill clarifies the protection of trans people by adding the grounds "gender identity or expression," as well as adding "gender identity or expression" to the identifiable group clause of the Criminal Code.<sup>25</sup> Although the issue of accommodating transgender people in the workplace is not without controversy, it seems that in general, Canadians do support their rights. An Angus Reid poll released in September 2016, just before the Commons vote, showed that 84 percent of Canadians supported the bill.<sup>26</sup>

## Multicultural Organizations

In the book *Beyond Race and Gender*, consultant R. Roosevelt Thomas, Jr., points out that the way people are treated

at work—with respect and inclusion, or with disrespect and exclusion—is a direct reflection of the organization’s culture and leadership.<sup>27</sup> Although in Canada the term **multiculturalism** usually refers to the range of ethnicities in society, in this text we use the term to describe inclusiveness, pluralism, and respect for all kinds of diversity in the workplace. The core values of a truly **multicultural organization** communicate support for multiculturalism and empower the full diversity of all members. Common characteristics of multicultural organizations include the following:<sup>28</sup>

- **Pluralism**—Members of minority cultures as well as majority cultures are influential in setting key values and policies. (We refer to a minority culture as, for example, Indigenous people in most workplaces in southern Canada or anglophones in most workplaces in Quebec).
- **Structural integration**—Minority-culture members are well represented in jobs at all levels and in all functional responsibilities.
- **Informal network integration**—Various forms of mentoring and support groups assist in the career development of minority-culture members.
- **Absence of prejudice and discrimination**—A variety of training and task-force activities address the need to eliminate culture-group biases.
- **Minimum intergroup conflict**—Diversity does not lead to destructive conflicts between members of majority and minority cultures.

A key argument in support of multiculturalism is that organizations with inclusive cultures will gain performance advantages because their workforces offer a wide mix of talents and perspectives.<sup>29</sup> In other words, multiculturalism in organizations is a performance asset. The *Gallup Management Journal*, for example, reports that a racially and ethnically inclusive workplace is good for morale. In a study of 2,014 American workers, those who felt included were more likely to stay with their employers and recommend them to others.<sup>30</sup> And a Catalyst study of gender diversity found that firms with at least three female board members achieved a higher return on equity than

did firms with no female board representation.<sup>31</sup> But Thomas Kochan and colleagues at MIT warn that the *presence* of diversity alone does not guarantee these types of positive outcomes. The performance advantages of multiculturalism emerge only when *respect* for diversity is firmly embedded in the organizational culture.<sup>32</sup>

## Organizational Subcultures

Organizations—like societies at large—contain a mixture of **organizational subcultures** or **co-cultures**. They exist within the larger organizational culture and consist of members who share similar values and beliefs based on their work responsibilities, personal characteristics, and social identities. Subcultures formed around in-group similarities and out-group differences often make it hard to tap the full potential of a diverse workforce and create a truly multicultural organization. As it does in everyday life, **ethnocentrism**—the belief that one’s subculture or co-culture is superior to all others—can creep into organizations and negatively affect the way people relate to one another.

Age differences among workers create **generational subcultures** in organizations.<sup>33</sup> It’s common today for the generations in an organization’s workforce to span from post-World War II baby boomers to the latest Internet generation.<sup>34</sup> Harris and Conference Board polls report that younger workers tend to be more dissatisfied than older workers.<sup>35</sup> Studies also describe younger workers as having a much shorter time orientation in that they focus more on the now rather than on the future, giving greater priority to work–life balance (discussed in Management Is Real 12.2), and expecting to hold several jobs during the course of their career.<sup>36</sup> Just imagine the possible conflicts when recent graduates end up working for older managers who grew up with quite different life experiences and values. And how about the reverse, when older workers are on teams with much younger leaders?

**Gender subcultures** can form in organizations among persons with shared gender identities and who display common patterns of behaviour. When men work together, for

### Management Is Real 12.2: Analysis | Make Data Your Friend

58 percent of Canadians report “overload” due to the pressures of the many roles they play at work, at home, and in the community.

#### Organization Cultures Must Face Up to Emerging Work-Life Trends

If you have any doubts regarding the importance of work–life issues and their implications for organizational cultures and management practices, consider these facts:

- 58 percent of Canadians report “overload” due to the pressures of the many roles they play at work, at home, and in the community.



Ariel Skelley/The Image Bank/Getty Images

- 69 percent of Canadian couples are dual-wage earners.
- 59 percent of those dissatisfied with their work–life balance believe they don’t have enough time for their spouses or partners.
- 37 percent believe they don’t have enough time to be the kind of parent they want to be.
- 28 percent are spending time caring for elderly relatives.

### What are the Implications?

What organizational culture issues are raised by these facts? What should employers do to best respond to the situation described here? What about you? Are you prepared to succeed in a work culture that doesn’t seem willing to address these facts? Or are you preparing right now to always find and be attractive to employers who do?

example, an “alpha male” subgroup culture may emerge that emphasizes a competitive behaviour set of sports metaphors, games, and stories that focus on winning and losing.<sup>37</sup> When women work together, the interactions and patterns of the subgroup culture may emphasize a supportive behaviour set of personal relationships and collaboration.<sup>38</sup> And female leaders can suffer a **double-bind dilemma** due to subculture expectations. This occurs when they get criticized as being “too soft” when they act consistent with female subculture stereotypes, but “too hard” when they act consistent with male subculture stereotypes. In other words, female leaders may be “damned if they do, and damned if they don’t,” and find it hard to get credit for effective leadership.<sup>39</sup>

The many possible subcultures in organizations also include **occupational and functional subcultures** that form around shared professions and skills.<sup>40</sup> People from different occupations and functions can have difficulty understanding and working well with one another. Employees in a business firm, for example, may consider themselves “systems people” or “marketing people” or “finance people.” When such identities are overemphasized, members of functional groups spend most of their time with each other, develop a shared “jargon” or common technical language, and view their roles in the organization as more important than those of the other functions. It’s easy under such conditions for teamwork across the occupational or functional boundaries to suffer.

**Ethnic subcultures** or **national subcultures** can form in the workplace among people who share the same background in terms of ethnicity or nationality. Although our world of work is one of diverse cultural communities, it’s often more complicated than appears at first glance. We’re growing more interested in foreign languages, yet are we accepting of co-workers that share a language—say Mandarin or Hindi—speaking it together? We love fashion and are used to all different manners of dress, yet are we accepting when three women in head scarves and ankle-length skirts walk into the office coffee room while chatting back and forth? We are happy when foreign employers create domestic jobs, yet are managers for a multinational like Honda or Toyota accepting of their Japanese colleagues playing rounds of golf together? We emphasize the importance of understanding and respecting cross-cultural differences when travelling internationally, yet how about in our own country? A new study by BBC Radio has declared Toronto the world’s most multicultural metropolis, with 51 percent of the city’s population foreign born and with people from 230 nationalities calling Toronto home.<sup>41</sup> Might a sense of acceptance help us better deal with diversity among ethnic and

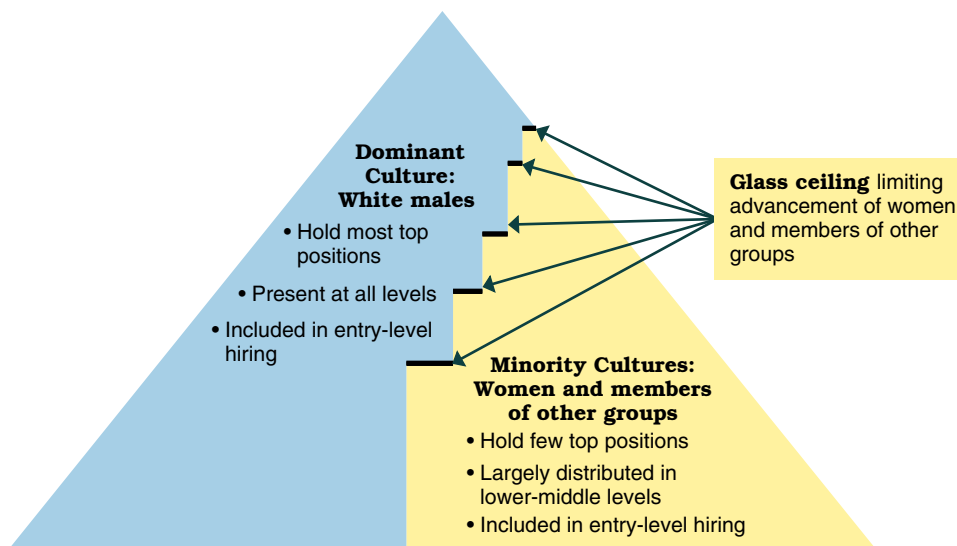
national subcultures in the workplace? Isn’t that a Canadian thing to do?

## Power, Diversity, and Organizational Subcultures

The term “diversity” refers to the range of interpersonal differences in a given group. Those differences may or may not be distributed equally among organizational subcultures and power structures. What happens when one subculture is in the “majority” while others are “minorities”?

**Glass Ceilings and the Leaking Pipeline** Even though demographics and hiring practices are changing, there is still likely to be more workforce diversity at lower and middle levels than at the top. Look at **Figure 12.3**. It depicts the **glass ceiling** as an invisible barrier that limits the professional advancement of women and members of certain other groups in some organizations. What are the implications for women and other marginalized groups such as visible minority members, who seek to advance and prosper in an organization where the majority culture consists almost exclusively of white males? How easy is it for women and Indigenous people to move up when promotions are controlled by decision-makers who are part of an alternative and dominant culture?

The participation of women in the Canadian labour force continues to grow. Women comprised 47.2 percent of the total labour force in 2015 compared with 37.1 percent in 1976. Women’s progress reaching management positions has stalled, however. Women hold 35.5 percent of all management positions and 33.3 percent of all senior management positions. In 2014, women held only 20.8 percent of board seats at Canadian companies listed on the S&P/TSX 60 index.<sup>42</sup> One reason why more women haven’t reached the top is that they often hit plateaus or “fall off the cliff” at earlier career stages. The **leaking pipeline problem** describes situations where qualified and high-performing women with top management potential drop out of upward-tracking career paths. Their decisions aren’t always due to personal goals on the one hand or outright gender prejudice or discrimination on the other. Subtle forces in male-dominant organizational cultures may make it hard for women to advance. They may lack female role models and have difficulty finding top managers to advocate and sponsor their career progress. Executive mindsets may have a hard time tolerating women who want both a family



**FIGURE 12.3** Glass ceilings as barriers to women and members of certain other groups in traditional organizations.

and a career. Even in organizations with family-friendly human resource policies, women may still feel forced to choose between job advancement and family—a choice that often puts family first and sacrifices career opportunities like promotions and assignments in new locations.<sup>43</sup>

**Harassment and Discrimination** Subculture challenges faced by members of visible minorities and women can range from misunderstanding, privilege unawareness, and a lack of sensitivity on the one hand to overt sexual harassment and discrimination on the other. Gender-based discrimination and harassment are important issues in the Canadian workplace. A recent Statistics Canada study revealed that 19 percent of women and 13 percent of men had experienced workplace harassment in the previous year.<sup>44</sup> In a study that distributed to recruiters fake resumé showing equal credentials but different family details, men with children were the most hireable—being viewed as responsible, and women with children were the least hireable—being viewed as likely to sacrifice work for family responsibilities.<sup>45</sup>

Pay discrimination is another issue. Canadian women’s earnings are subject to a wage gap: for every dollar earned by men, Canadian women earn 87 cents or less, according to a study from Statistics Canada. The glass ceiling still exists in Canada as well, especially in the private sector.<sup>46</sup> A study from

the Canadian Women’s Foundation reports that women comprise 19.5% of board members and just 8.5% of the highest-paid positions in Canada’s top 100 listed companies.<sup>47</sup>

**Multicultural and Diversity Leadership** There should be no doubt that all workers want the same things everyone wants—respect for their talents and a work setting that allows them to achieve their full potential. It takes an inclusive organizational culture and the best in multicultural and diversity leadership to meet these expectations.

R. Roosevelt Thomas describes the continuum of leadership approaches to diversity shown in **Figure 12.4**. The first is *employment equity*, in which leadership commits the organization to hiring and advancing members of visible minorities, women, people with disabilities, and Indigenous people. The second is *valuing diversity*, in which leadership commits the organization to education and training programs designed to help employees to better understand and respect individual differences. The third and most comprehensive is **managing diversity**, in which leadership creates an organizational culture that allows all members to reach their full potential.<sup>48</sup> Leaders committed to managing diversity build organization cultures that are what Thomas calls “diversity mature.”<sup>49</sup> They have a strong diversity mission that is integrated into the organizational mission as a strategic imperative. Those



**FIGURE 12.4** Approaches to diversity in the workplace.

diversity programs that get results involve voluntary training; recruitment targeting women, Indigenous people, members of visible minorities, and people with disabilities; self-managed teams designed to improve diversity by increasing contact between groups; mentoring; cross-training; diversity task forces; and diversity managers.<sup>50</sup>

## Learning Check

**LEARNING OBJECTIVE 12.2** Describe subcultures and diversity in multicultural organizations.

**Be Sure You Can** • define *multiculturalism* in the workplace context and explain the concept of a multicultural organization • identify common organizational subcultures • discuss glass ceilings and employment problems faced by women and members of other marginalized groups • describe the leaking pipeline problem • explain Thomas's concept of managing diversity

## 12.3 Organizational Change

**LEARNING OBJECTIVE 12.3**

Identify alternative approaches to organizational change and the types of change strategies and resistance to change found in organizations.

### Learn More About

Models of change leadership • Transformational and incremental change • Phases of planned change • Change strategies • Developing change approaches • Resistance to change

What if an organization's culture is flawed, doesn't drive high performance, and needs to be changed? What if organizational subcultures clash and adjustments must be made? What can leaders do if diversity isn't valued on a team or in an organization? We

use the word *change* so much that instituting culture changes like these may seem easy, almost routine. But that's not always the case.<sup>51</sup> Former British Airways CEO Sir Rod Eddington once said that "Altering an airline's culture is like trying to perform an engine change in flight."<sup>52</sup> Executive coach Ben Dattner says: "Organizations can go on autopilot just as individuals do."<sup>53</sup>

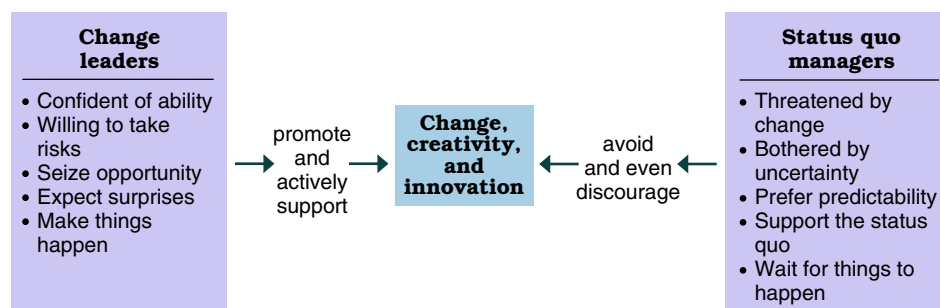
## Models of Change Leadership

A **change leader** is someone who takes initiative to change existing patterns of behaviour by a person or within a social system. These are managers who act as *change agents* and make things happen, even when inertia has made organizations reluctant to embrace new ways of doing things. Managers who are strong change leaders are alert to the cultures, situations, and people needing change, open to good ideas and opportunities, and ready and able to support the implementation of new ideas in actual practice.

Every manager and team leader should ideally act as a change leader. But the reality is that most of us have the tendency to maintain the status quo accepting things as they are instead of being willing to put in the work required to implement change. **Figure 12.5** contrasts a true "change leader" with a "status quo manager." Whereas the status quo manager is backward-looking, reactive, and comfortable with habit, the change leader is forward-looking, proactive, supportive of new ideas, and comfortable with criticism.

Creativity is the generation of a novel idea or unique approach to solving problems or crafting opportunities.<sup>54</sup> And it is one of the greatest assets of human capital. People have ideas in organizations, people possess ingenuity, and people drive innovation. Managers who understand this are able to work with people in ways that allow their creativity to prosper. Among the forces known to foster creative work environments are challenging work, freedom to exercise talent and initiative, encouragement by peers and supervisors, supportive organizational cultures, and a lack of performance obstacles.<sup>55</sup>

**Top-Down Change** **Top-down change** occurs when senior managers initiate changes with the goal of improving organizational performance. Although it sounds straightforward that "what the boss wants the boss will get," research indicates that as many as 60 to 70 percent of large-scale change efforts in Canadian firms actually fail; only 20 percent



**FIGURE 12.5** Change leaders versus status quo managers.

of European firms report “substantial success” with large-scale change, while 63 percent report “occasional” success.<sup>56</sup>

The most common reason for the failure of top-down change is poor implementation. And without doubt, people are more likely to be committed to implement plans that they have played a part in creating. Change programs have little chance of success without the support of those who must implement them. When change is driven from the top without lower-level input and participation, it can easily fail.

**Bottom-Up Change** Bottom-up change taps into ideas initiated from lower organizational levels and lets them percolate upward. A major problem as organizations grow in size is that good ideas can get lost in the labyrinth. One way managers can unlock the potential for bottom-up change is by holding “diagonal slice meetings” that bring together employees from across functions and levels to share ideas about concerns they have and what changes might be made to improve things. Another way is to build an organizational culture that values empowerment and encourages everyone regardless of rank or position to use their job knowledge and common sense to improve things.

Bottom-up change was harnessed at General Electric under former CEO Jack Welch, when he started a widely benchmarked program called Work-Out. In Work-Out sessions, employees confront their managers in a “town meeting” set-up with the manager in front listening to suggestions. The managers are expected to respond immediately and support positive change initiatives raised during the session. Welch felt that approaches like this facilitate change because they “bring an innovation debate to the people closest to the products, services, and processes.”<sup>57</sup>

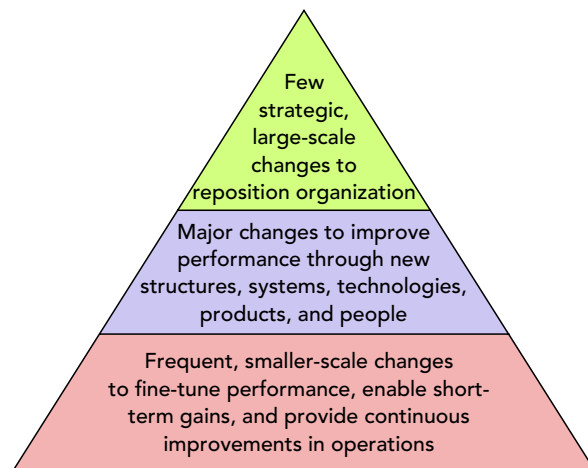
## Transformational and Incremental Change

Planned changes at the top levels of an organization are likely to be large-scale and strategic repositioning changes focused on big issues that affect the organization as a whole. Lower-level changes often deal with adjustments in structures, systems, technologies, products, and staffing to support strategic positioning. Both types of changes—high-level transformational and on-the-ground incremental—are important, as shown in the organizational change pyramid **Figure 12.6**.<sup>58</sup>

**Transformational change** is radical or frame-breaking change that results in a major and comprehensive redirection of the organization.<sup>59</sup>

It is led from the top and focuses on fundamental shifts in strategy, culture, structures, and even the organization’s underlying sense of purpose or mission. As you might expect, transformational change is intense, highly stressful, complex, and difficult to achieve. Advice to would-be leaders of transformational change often includes these guidelines:<sup>60</sup>

- Establish a sense of urgency for change.
- Form a powerful coalition to lead the change.



**FIGURE 12.6** The organizational change pyramid.

- Create and communicate a change vision.
- Empower others to move change forward.
- Celebrate short-term wins, and recognize those who help.
- Build on success; align people and systems with the new ways.
- Stay with it; keep the message consistent; champion the vision.

**Incremental change** is modest, frame-bending change. It basically bends or nudges current systems and practices to better align them with emerging problems and opportunities. The intent isn’t to break and remake the system, but rather to move it forward through continuous improvements. Common incremental changes in organizations involve the evolution of products, processes, technologies, and work systems.

You shouldn’t get the idea, by the way, that incremental change is inferior to transformational change. Both are critical, as shown in the organizational change pyramid in **Figure 12.6**. Incremental changes keep organizational processes and structures tuned up (like the engine in an car) in between transformations (when the old vehicle is replaced with a new one).

## Phases of Planned Change

Managers seeking to lead organizational change can benefit from a simple but helpful model developed many years ago by the psychologist Kurt Lewin. He recommends that any planned change be viewed as a process with three phases. Phase 1 is *unfreezing*—preparing a system for change; phase 2 is *changing*—making actual changes in the system; and phase 3 is *refreezing*—stabilizing the system after change.<sup>61</sup> In today’s fast-paced organizational environments, we can also talk about another phase called *improvising*—making adjustments as needed while change is taking place.<sup>62</sup> (All phases of planned change can fall prey to hidden agendas, as discussed in Management Is Real 12.3).

**Unfreezing** Planned change has a better chance for success when people are ready for it and open to doing things



## Management Is Real 12.3: Ethics | Know Right from Wrong

Some managers use deception to avoid losing power while giving the appearance of sharing power.

### Hidden Agendas in Organizational Change

Sharing power is a popular choice when implementing a change strategy. It means allowing others to have a decision-making role and to be involved throughout the change process. This approach can generate a lot of good ideas and helps establish all-important “buy-in” to support the proposed change. But suppose the ideas offered and the ensuing conversations move in a direction that top management thinks is wrong? What happens then?

Some managers are afraid of losing influence while sharing power during organizational change. So, they resort to hidden agendas. They handpick key members to be on their change teams. They also ask them to take prominent roles in discussions and support only the “right” ideas. Their goal is to make sure that change heads in the predetermined “preferred” direction while still giving everyone involved a sense of being included and empowered. It’s a very political way of appearing to share power—enjoying the image-related benefits of inclusiveness, while still getting your way.

#### What Do You Think?

Although establishing hidden agendas happens frequently in organizations, does that make it right? What are the ethical issues involved? When is such an approach more or less likely



Wavebreak Media LTD/Alamy Stock photo

to be ethical? As a manager, would you handpick the leaders of a change effort in order to get your way—even if that meant that alternative points of view were likely to be excluded from the process? What if your boss selected you to represent your department on a task force just because you agreed with his or her favoured approach? If you knew that most of your co-workers disagreed, would you do what your boss wanted you to do or would you try to represent the wishes of the majority of your co-workers? What are the potential risks associated with your choice?

differently. **Unfreezing** is the phase in which the change agent prepares a situation for change by developing felt needs for change among those affected by a change initiative. The goal is to get people to view change as a way to solve a real problem or pursue a meaningful opportunity. Common errors at the unfreezing stage are failing to create a sense of urgency for change and neglecting to build a coalition of influential persons who support it.

Some call unfreezing the “burning bridge” phase of change, arguing that in order to get people to jump off a bridge, you might just have to set it on fire! Managers can simulate the urgency of a burning bridge by engaging people with facts and information that communicate the need for change—environmental pressures, declining performance, and examples of benchmarks or alternative approaches. As you have probably experienced, conflict can help people to break old habits and recognize new ways of thinking about or doing things.

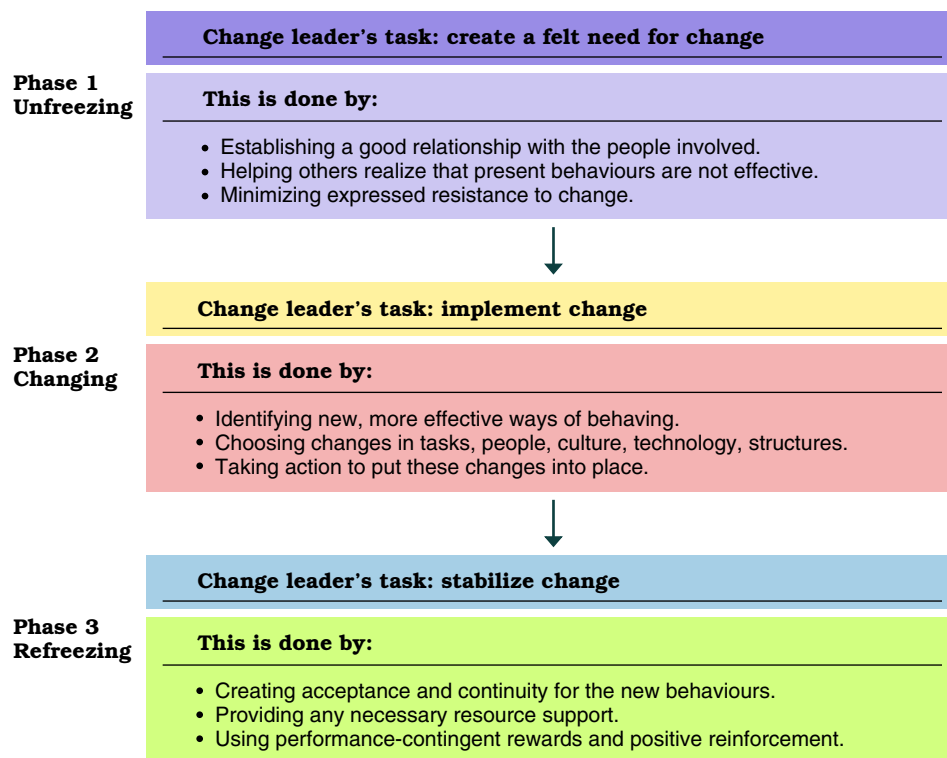
**Changing** Figure 12.7 shows that unfreezing is followed by the **changing** phase, where actual changes are made in such organizational targets as tasks, staffing, culture, technology, and structures. Lewin believes that many change agents commit the error of entering the changing phase prematurely. They are too quick to change things and end up creating harmful resistance. In this sense the change process is like building a house; you need to put a good foundation in place before you begin framing the rooms. Just as with a poor foundation, the house will likely fall at some point if you try to implement

change before people are prepared and feel a need for it, your attempt is more likely to fail.

**Refreezing** The final phase in Lewin’s planned change process is **refreezing**. Here, managers are concerned with stabilizing the change. Refreezing is accomplished by linking change with appropriate rewards, positive reinforcement, and resource support. It is important in this phase to evaluate results, provide feedback to those involved, and make any required modifications to the original change that either undershot or overshot evolving contingencies.

When refreezing is done poorly, changes are too easily forgotten or abandoned with the passage of time. The most common error at the refreezing stage is declaring victory too soon and withdrawing support before the change has really become a fixed aspect of normal routines. In today’s dynamic environment there may also not be a lot of time for refreezing before change becomes necessary again. We end up preparing for more change even before the present one is fully implemented.

**Managing Transitions** Business consultant and well-known authority on managing change, William Bridges, suggests that it’s not the change itself that people resist, but the transitions they must go through to come to terms with the new situation. The starting point for a transition is the ending of the previous conditions that people have to leave behind. It’s a time of letting go of something. What follows this transition is



**FIGURE 12.7** Lewin's three phases of planned organizational change.

the move into what he calls a “neutral zone” between the old identity and the new. The old way of behaving is gone, but the new way still doesn't feel quite comfortable yet. Understanding the neutral zone is important because there is a chance at this stage that people will abandon the change rather than learn the new way of behaving and the opportunities it may hold. It's important to stay the course. The final transition is to the new beginning, when people feel capable of doing what is expected of them, with the resources and time they need in which to do the work that is required.<sup>63</sup>

**Improvising** Although Lewin's organizational change model depicts change as a linear, step-by-step process, the reality is that change is dynamic and complex. Managers must not only understand each phase of a planned change, they must be prepared to deal with them simultaneously. They should also be willing and able to engage in the process of **improvisational change** where adjustments are continually made as aspects of the change initiative are implemented.<sup>64</sup>


Consider the case of bringing new technology into an organization or work unit. A technology that is attractive in theory may appear complicated in practice to new potential users. The full extent of its benefits or inadequacies may not become known until it is actually tried out. A change leader can succeed in such situations by continually gathering feedback on how the adoption of the change is progressing, and then improvising the process to revise and customize the new technology to best meet users' needs and address their concerns about the complexity of the new system.

## Change Strategies

Strategy is a major issue when managers actually try to move people and systems toward a planned change. **Figure 12.8** summarizes three common strategies used to make things happen during the planned change process—force-coercion, rational persuasion, and shared power.<sup>65</sup> Managers, as change agents and leaders, should understand each strategy and its likely results.

**Force-Coercion Strategies** A **force-coercion strategy** uses formal authority as well as rewards and punishments as the primary inducements to get behind change. A change agent that seeks to create change through force-coercion believes that people are motivated by self-interest and by what the situation offers in terms of potential personal gains or losses.<sup>66</sup> In *direct forcing*, change agents take unilateral action to “command” that change take place. In *political manoeuvring*, change agents work indirectly to gain special advantage over other persons and thereby make them change. This involves bargaining, obtaining control of important resources, forming alliances, or granting small favours.

The force-coercion strategy of change usually produces only limited, unsatisfactory results. Although it can be quickly implemented, because most people respond to this strategy out of fear of punishment or hope for reward, the likely outcome is temporary compliance; the new behaviour continues only as long as the rewards and punishments persist. For this reason, force-coercion may be most useful as an unfreezing

Change Strategy	Power Bases	Managerial Behaviour	Likely Results
<b>Force-Coercion</b> Using formal authority to create change by decree and position power	Legitimacy Rewards Punishments	<i>Direct forcing</i> and unilateral action <i>Political manoeuvring</i> and indirect action	Faster, but low commitment and only temporary compliance
<b>Rational Persuasion</b> Creating change through rational persuasion and empirical argument	Expertise	<i>Informational efforts</i> using credible knowledge, demonstrated facts, and logical argument	
<b>Shared Power</b> Developing support for change through personal values and commitments	Reference	<i>Participative efforts</i> to share power and involve others in planning and implementing change	

**FIGURE 12.8** Alternative change strategies and their leadership implications.

strategy in times of crises that helps people break old patterns and encourages willingness to try new approaches. A recent example is the response to the pandemic crises and governments implementing directives such as closing of businesses and travel restrictions.

**Rational Persuasion Strategies** Change agents using a **rational persuasion strategy** attempt to bring about change through persuasion supported by special knowledge, empirical data, and rational arguments. Change agents following this strategy believe that people are inherently rational. Once the value of a specific course of action is demonstrated by information and relevant facts, it is assumed that reason will cause the person to adopt it. A good rational persuasion strategy helps both unfreeze and refreeze a change situation. Although slower than force-coercion, it is likely to result in longer-lasting and more internalized change.

To succeed with the rational persuasion strategy, a manager must convince others that making a change will leave them better off than they were before the change. This persuasive power can come directly from the change agent if she has personal credibility as an “expert.” It can also be borrowed in the form of advice from consultants and other outside experts, or gained from credible demonstration projects and identified benchmarks. Many firms, for example, benchmark Disney to demonstrate to their own employees the benefits of a customer-oriented culture. A Ford vice president says: “Disney’s track record is one of the best in the country as far as dealing with customers.”<sup>67</sup> In this sense, the power of rational persuasion is straightforward: if the culture works for Disney, it can also work for us.

**Shared Power Strategies** A **shared power strategy** uses collaboration to identify values, assumptions, and goals from which support for change naturally emerges. Sometimes called a *normative-reeducative strategy*, this approach is empowerment based and highly participative. It involves others in examining personal needs and values, group norms, and operating goals as they relate to the issue in focus. Power is shared as the change agent and others work together to

develop consensus to support needed change. Because it entails a high level of involvement, this strategy is often slow and time consuming. If convincing data or trusted expert opinion is not readily available (needed for the rational persuasion approach) power sharing is another way to achieve a long-lasting, internalized change.

A change agent shares power by recognizing that people have varied needs and complex motivations. The agent understands that organizational change requires a shift in attitudes, values, skills, and significant relationships, not just changes in knowledge, information, or practices. Thus, change agents need to be sensitive to the way group pressures can support or inhibit change. Every attempt is made to gather opinions, identify feelings and expectations, and incorporate them fully into the change process.

The great “power” of sharing power in the change process lies in unlocking the creativity, experience, and energies of people within the system. Some managers hesitate to engage this strategy for fear of losing control or of having to compromise on important organizational goals. But Harvard scholar Teresa M. Amabile points out that they should have the confidence to share power regarding means and processes, if not overall goals. “People will be more creative,” she says, “if you give them freedom to decide how to climb particular mountains. You needn’t let them choose which mountains to climb.”<sup>68</sup>

## Developing Change Approaches

**Nudge Theory** or *Nudge* is a management concept that draws upon behavioural science and is often used in economics and political theory. It can also be applied to change management in organizations and businesses. This theory, credited to Cass R. Sunstein and Richard H. Thaler, involves nudging someone by encouraging or inspiring them to change. Choices are made available, and then gentle nudges are applied to influence decision-making. Nudge theory is helpful in exploring and understanding what existing things influence our decision-making. It also helps managers understand how to draw upon

them to either eliminate or change behaviour to achieve a positive outcome.

A nudge helps people make choices for themselves without restricting their opportunity to choose. It accomplishes this by making it easier for people to make a certain decision; for example, putting fruit in the office fridge as opposed to banning junk food in the office. Or, recently, during the COVID-19 outbreak, by giving people information about the virus and then giving them the choice of working from home or coming to the office, wearing a mask, and frequently sanitizing their hands.

## Resistance to Change

When people resist change, they are most often defending something important to them that now appears to be threatened by the impending change. A change leader can achieve a lot by listening to the reasons employees voice for their resistance, and then using this information as a resource for improving the change and change process.<sup>69</sup> Below are some common reasons people resist change. You've most likely seen (or even experienced!) some if not all of these sources of resistance.

- *Fear of the unknown*—not understanding what is happening or what comes next. (This is related to difficulty tolerating ambiguity, discussed in Management Is Real 12.4.)

- *Disrupted habits*—feeling upset at seeing the end of the old ways of doing things.
- *Loss of confidence*—feeling incapable of performing well under the new ways of doing things.
- *Loss of control*—feeling that things are being done “to” you rather than “by” or “with” you.
- *Poor timing*—feeling overwhelmed by the situation or that things are moving too fast.
- *Work overload*—not having the physical or emotional energy to commit to the change.
- *Loss of face*—feeling inadequate or humiliated because the “old” ways you liked weren’t “good” ways.
- *Lack of purpose*—not seeing a reason for the change and/or not understanding its benefits.

Instead of viewing resistance to change as something that has to be “overcome,” it is often more helpful to view it as feedback. The presence of resistance usually means that something can be done to achieve a better “fit” among the planned change, the situation, and the people involved. Feedback in the form of resistance—if paid attention to—can provide lots of clues about what’s causing problems with a planned change effort and what might be done to improve things. In fact, one of the easiest ways to add discipline to your change leadership is to track progress by always monitoring these four resistance-to-change checkpoints.<sup>70</sup>

### Management Is Real 12.4: Insight | Keep Learning about Yourself

Some people struggle with the unfamiliar. They prefer structure, security, and clear directions.

#### Get Comfortable with Ambiguity

The next time you are driving somewhere and following a familiar route only to encounter a “detour” sign, test your tolerance for ambiguity. Is the detour just a minor inconvenience? Do you go carry on without any further thought? Or is it a big deal, perhaps causing you anxiety and anger? Do you show a tendency to resist change in your normal routines? Change creates anxiety and breaks us from past habits and conditions. Uncertainty puts many things out of our immediate control. Depending on your tolerance for ambiguity, you may be more or less comfortable dealing with these realities.

Which alternatives in the Tolerance for Ambiguity Double Check best describe you? What do they say about your tolerance for ambiguity? It takes personal flexibility and a lot of confidence to cope well with unpredictability, whether it’s in a college or university course or in a work situation. Some people struggle with the unfamiliar. They prefer structure, security, and clear directions. They get comfortable with fixed patterns in life and can be afraid of anything “new.”

Have we been talking about you? Or are you willing and able to work with less structure? Do you enjoy flexibility, setting your own goals, and making decisions? Are you excited by the prospect of change and new—as yet undefined—opportunities? It’s important to find a good fit between your personal preferences for ambiguity

#### Tolerance for Ambiguity Double Check

An instructor who gives precise assignments and accepts no deviations *or* one who gives open-ended assignments and lets students suggest alternatives?

↓ In a typical course, do you prefer... ↑

An instructor who keeps modifying the course syllabus using student feedback *or* one who gives out a detailed syllabus and sticks to it?

and the pace and nature of change in the career field and organizations where you ultimately choose to work. To achieve this fit, you have to understand your own tolerance for ambiguity and how you are likely to react in change situations.

#### Get to Know Yourself Better

Write a short narrative describing your “ideal” employer in terms of organization culture, management styles, and frequency of major changes. Add a comment that explains how this ideal organization fits your personality, including insights from self-assessments completed in other chapters. What does this say about how you may have to change and adapt in order to fulfill your career aspirations?

1. *Check benefits*—Do the people involved see a clear advantage in making the change? Everyone should know “what is in it for me” or “what is in it for our group or the organization as a whole.”
2. *Check compatibility*—Is the change perceived as breaking comfort levels? It’s best to keep the change as close as possible to the existing values and ways of doing things. Minimizing the scope of change helps to keep it more acceptable and less threatening.
3. *Check simplicity*—How complex is the change? It’s best to keep the change as easy as possible to understand and to use. People should have access to training and assistance to make the transition to new ways of doing things as easy as possible.
4. *Check “tryability”*—Are things moving too fast? People tend to do better when they can try the change little by little, making adjustments as they go. Don’t rush the change, and be sure to adjust the timing to best coincide with work schedules and cycles of high/low workloads.

In addition to these checkpoints, there are other positive ways to deal with resistance to change.<sup>71</sup> *Education and communication* use discussions, presentations, and demonstrations to educate everyone beforehand about a change. *Participation and involvement* allow others to contribute ideas and help design and implement the change. *Facilitation and support* provide encouragement and training, engage active listening to problems and complaints, and seek ways to reduce

performance pressures. *Negotiation and agreement* provide incentives to gain support from those who are actively resisting or ready to resist change initiatives.

Two other approaches for managing resistance are common, but they are also risky in terms of negative side effects. *Manipulation and co-optation* seek to covertly influence others by selectively providing information and structuring events in favour of the desired change. *Explicit and implicit coercion* forces people to accept change by threatening undesirable consequences for noncompliance with what is being asked in the change process.

## Learning Check

**LEARNING OBJECTIVE 12.3** Identify alternative change strategies and types of resistance to change found in organizations.

**Be Sure You Can** • define change leader and change agent • discuss pros and cons of top-down change and bottom-up change • differentiate between incremental and transformational change • describe Lewin’s three phases of planned change • discuss improvising as an approach to planned change • discuss pros and cons of the force-coercion, rational persuasion, and shared power change strategies • list several reasons why people resist change • describe strategies for dealing with resistance to change

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 12.1** Explain organizational culture and its influence on behaviour in organizations.

- Organizational culture is the internal environment that establishes the personality of the organization and influences the behaviour of members.
- The observable culture is found in the rites, rituals, stories, heroes, and symbols of the organization; the core culture consists of the core values and fundamental beliefs on which the organization is based.
- In organizations with strong cultures, members behave with shared understandings and act with commitment to core values.
- Key dimensions of organizational culture include hierarchical culture, dependable culture, enterprising culture, and social culture.

- Among trends in managing organizational cultures, value-based management and workplace spirituality are popular directions and considerations.

**For Discussion** Which of the various dimensions of organizational culture are most important to you as an employee?

**LEARNING OBJECTIVE 12.2** Describe subcultures and diversity in multicultural organizations.

- Multicultural organizations operate with internal cultures that value pluralism, respect diversity, and build strength from an environment of inclusion.
- Organizations have many subcultures, including those based on occupational, functional, ethnic, age, and gender differences.

- Challenges faced by members of minority subcultures in organizations may include sexual harassment, pay discrimination, job discrimination, and the glass ceiling effect.
- Managing diversity is the process of developing an inclusive work environment that allows everyone to reach their full potential.

**For Discussion** What can the leader of a small team do to reduce diversity prejudice being expressed by one team member?

**LEARNING OBJECTIVE 12.3** Identify alternative change strategies and types of resistance to change found in organizations.

- Change leaders are change agents who take initiative to change the behaviour of people and organizational systems.
- Organizational change can proceed with a top-down emphasis, with a bottom-up emphasis, or a combination of both.

- Incremental change makes continuing adjustments to existing ways and practices; transformational change makes radical changes in organizational directions.
- Lewin's three phases of planned change are unfreezing—preparing a system for change; changing—making a change; and refreezing—stabilizing the system. To this can be added a fourth—improvising as needed.
- Change agents should understand the force-coercion, rational persuasion, and shared power change strategies.
- People resist change for a variety of reasons, including fear of the unknown and force of habit.
- Good change agents deal with resistance in a variety of ways, including education, participation, support, and facilitation.

**For Discussion** Can a change leader ever be satisfied that the refreezing stage of planned change has been accomplished in today's dynamic environments?

## Chapter Glossary

**Bottom-up change** What occurs when change initiatives come from all levels in the organization.

**Change leader** Someone who takes initiative in trying to change the behaviour of another person or within a social system.

**Changing** The phase of Lewin's planned change process where a planned change actually takes place.

**Core culture** The core values, or underlying assumptions and beliefs, that shape and guide people's behaviours in an organization.

**Core values** Beliefs and values shared by organization members.

**Double-bind dilemma** The phenomenon where female leaders get criticized when they act consistent with female subculture stereotypes and when they act consistent with male subculture stereotypes.

**Ethnic subculture or national subculture** What forms among people who work together and have roots in the same ethnic community or nationality.

**Ethnocentrism** The belief that one's membership group and subculture or co-culture is superior to all others.

**Force-coercion strategy** A change strategy that pursues change through formal authority and/or the use of rewards or punishments.

**Gender subculture** What forms among persons who share gender identities and display common patterns of behaviour.

**Generational subculture** What forms among persons who work together and share similar ages, such as baby boomers.

**Glass ceiling** An invisible barrier to advancement by women and members of visible minorities in organizations.

**Improvisational change** The process of change that makes continual adjustments as changes are being implemented.

**Incremental change** The process of change that bends and adjusts existing ways to improve performance.

**Leaking pipeline problem** The phenomenon where glass ceilings and other obstacles cause qualified and high-performing women to drop out of upward career paths.

**Managing diversity** A leadership approach that creates an organizational culture that respects diversity and supports multiculturalism.

**Multicultural organization** An organization that has core values that respect diversity and support multiculturalism.

**Multiculturalism** An organization's inclusiveness, pluralism, and respect for diversity.

**Nudge Theory** An approach in which choices are made available, and gentle prods or nudges are applied to influence decision-making.

**Observable culture** The part of organizational culture that is visible in the way members behave, and in the stories, heroes, rituals, and symbols that are part of daily organizational life.

**Occupational and functional subculture** What forms among persons who share the same skills and work responsibilities.

**Organizational culture** The system of shared beliefs and values that guides behaviour in organizations.

**Organizational subculture or co-culture** What forms among persons who share similar beliefs and values based on their work, personal characteristics, or social identities.

**Rational persuasion strategy** A change strategy that pursues change through empirical data and rational argument.

**Refreezing** The phase of Lewin's planned change process at which change is stabilized.

**Shared power strategy** A change strategy that pursues change by participation in assessing change needs, values, and goals.

**Socialization** The onboarding process through which new members learn the culture of an organization.

**Strong organizational culture** An organizational culture that is clear, well defined, and widely shared among members.

**Symbolic leader** Someone whose words and actions consistently communicate core values.

**Top-down change** What occurs when change initiatives come from senior management.

**Transformational change** The process of change that results in a major and comprehensive redirection of the organization.

**Unfreezing** The phase of Lewin's planned change process during which a situation is prepared for change.

**Value-based management** Management that actively develops, communicates, and enacts shared values.

**Workplace spirituality** An organizational culture that creates meaning and shared community among organizational members.

## Self-Test 12

### Multiple-Choice Questions

- Pluralism and the absence of discrimination and prejudice in policies and practices are two important hallmarks of \_\_\_\_\_.
  - the glass ceiling effect
  - a multicultural organization
  - quality circles
  - employment equity
- A culture of \_\_\_\_\_ can prevent an organization from achieving its full inclusive potential.
  - generations
  - ethnocentrism
  - pluralism
  - double-bind dilemma
- Engineers, scientists, and information systems specialists are likely to become part of separate \_\_\_\_\_ subcultures in an organization.
  - ethnic
  - generational
  - functional
  - occupational
- Stories told about an organization's past accomplishments and heroes such as company founders are all part of what is called the \_\_\_\_\_ culture.
  - observable
  - underground
  - functional
  - core
- Honesty, social responsibility, and customer service are examples of \_\_\_\_\_ that can become foundations for an organization's core culture.
  - rites and rituals
  - values
  - subsystems
  - ideas
- Which leadership approach is most consistent with an organizational culture that values the full utilization of all diverse talents of all the organization's human resources?
  - Managing diversity
  - Employment equity
  - Status quo
  - Rational persuasion
- When members of a dominant subculture, such as white males, make it hard for members of minority subcultures, such as women, to advance to higher-level positions in the organization, this is called the \_\_\_\_\_ effect.
  - dominator
  - glass ceiling
  - brick wall
  - end-of-line
- An executive pursuing transformational change would give highest priority to which one of these change targets?
  - An out-of-date policy
  - The organizational culture
  - A new information system
  - Job designs in a customer service department
- \_\_\_\_\_ change results in a major change of direction for an organization, while \_\_\_\_\_ change makes small adjustments to current ways of doing things.
  - Frame-breaking; radical
  - Frame-bending; incremental
  - Transformational; frame-breaking
  - Transformational; incremental
- The presence or absence of a felt need for change is a key issue in the \_\_\_\_\_ phase of the planned change process.
  - improvising
  - evaluating
  - unfreezing
  - refreezing
- When a manager listens to users, makes adaptations, and continuously tweaks and changes a new information system as it is being implemented, the approach to technological change can be described as \_\_\_\_\_.
  - top-down
  - improvisational
  - organization development
  - frame breaking
- A manager using a force-coercion strategy will rely on \_\_\_\_\_ to bring about change.
  - expertise
  - benchmarking
  - formal authority
  - information
- The most participative of the planned change strategies is \_\_\_\_\_.
  - force-coercion
  - rational persuasion
  - shared power
  - command and control
- True internalization and commitment to a planned change is most likely to occur when a manager uses a(n) \_\_\_\_\_ change strategy.
  - education and communication
  - rational persuasion
  - manipulation and co-optation
  - shared power
- Trying to covertly influence others, offering only selective information, and structuring events in favour of the desired change is a way of dealing with resistance by \_\_\_\_\_.
  - participation
  - manipulation and co-optation
  - force-coercion
  - facilitation

### Short-Response Questions

- What core values might be found in high-performance organizational cultures?
- Why is it important for managers to understand subcultures in organizations?
- What are the three phases of change described by Lewin, and what are their implications for change leadership?
- What are the major differences in potential outcomes of using the force-coercion, rational persuasion, and shared power strategies of planned change?

### Essay Question

- Two businesswomen, former university roommates, are discussing their jobs and careers over lunch. You overhear one saying to the other: "I work for a large corporation, while you own a small retail business. In my company there is a strong corporate culture and everyone feels its influence. In fact, we are always expected to act in ways that support the culture and serve as role models for others to do so as well. This includes a commitment to diversity and multiculturalism. Because of the small size of your firm, things like corporate culture, diversity, and multiculturalism are less important." Do you agree or disagree with this statement? Why?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Two Job Offers

You will soon have to choose between two really nice job offers. They are in the same industry, but you wonder which employer would be the best “fit.” You have a sense that their cultures are quite different. Fortunately, you’ve been invited back to spend a full day at each before making your decision. One of your friends suggests that doing a balance-sheet assessment of cultural pluses and minuses for each employer could be helpful. What aspects of organizational culture would you identify as important to your job choice? Given the items on your list, what can you look for or do in the coming visits to discover the real organizational culture pluses and minuses for each item?

#### 2. Team Culture Nightmare

The promotion to team manager puts you right where you want to be in terms of career advancement. Even though you’ve had to move to a new location, it’s a great opportunity ... if you can do well as team

leader. That’s the problem. Now that you’re in the job, you realize that the culture of the team is really bad. Some of the ways you’ve heard members describe it to one another are “toxic,” “dog-eat-dog,” “watch your back,” and “keep your head down.” Realizing that culture change takes time but that it’s also necessary in this situation, what can you do right away as the new team leader to set the team on course for a positive change to its culture?

#### 3. Tough Situation

Times are tough at your organization, and, as the director of human resources, you have a problem. The company’s senior executives have decided that 10 percent of the payroll has to be cut immediately. Instead of laying off about 30 people, you would like to have everyone cut back their work hours by 10 percent. This way the payroll would be cut but everyone would get to keep their jobs. But you’ve heard that this idea isn’t popular with all of the workers. Some are already grumbling that it’s a bad idea and the company is just looking for excuses to cut wages. How can you best handle this situation as a change leader?

## Reflect on the Self-Assessment

### Change Leadership IQ

#### Instructions

Indicate whether each of the following statements is true (T) or false (F).<sup>72</sup>

- T F 1. People invariably resist change.
- T F 2. One of the most important responsibilities of any change effort is that the leader clearly describes the expected future state.
- T F 3. Communicating what will remain the same after change is as important as communicating what will be different.
- T F 4. Planning for change should be done by a small, knowledgeable group, and then that group should communicate its plan to others.
- T F 5. Managing resistance to change is more difficult than managing apathy about change.

- T F 6. Complaints about a change effort are often a sign of change progress.
- T F 7. Leaders find it more difficult to change organizational goals than to change the ways of reaching those goals.
- T F 8. Successful change efforts typically involve changing reward systems to support change.
- T F 9. Involving more members of an organization in planning a change increases commitment to making the change successful.
- T F 10. Successful organizational change requires certain significant and dramatic steps or “leaps,” rather than moderate or “incremental” ones.

#### Scoring

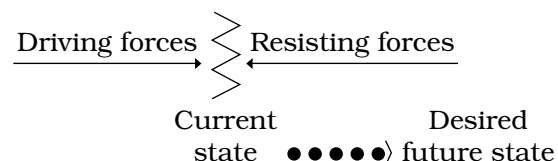
Questions 2, 3, 6, 8, 9, 10 are true; the rest are false. Tally the number of correct items to indicate the extent to which your change management assumptions are consistent with findings from the discipline.

## Contribute to the Class Exercise

### Force-Field Analysis

#### Instructions

1. Form into your class discussion groups and review this model of force-field analysis—the consideration of forces driving in support of a planned change and forces resisting the change.





2. Use force-field analysis and make lists of driving and resisting forces for one of the following situations:
  - (a) “Home Schooling” at Post-Secondary Level. Things are changing in colleges and universities as budget declines create pressures as do health challenges brought on by COVID-19 for a rethinking of educational programming. Home schooling has grown popular at primary and secondary levels. Why can’t it work for post-secondary institutions as well, at least for the first two years? At least one vice president at the local university is in favour of making a proposal to move her campus to a 3rd/4th-year-only status and have years 1 and 2 go fully online. She wonders what she should prepare for when sharing her ideas with the rest of the executive team.
  - (b) *Scheduling Dilemma*. A new owner has just taken over a small by-the-slice pizza shop in a university town. There are currently eight employees, three of whom are full-time and

five of whom are part-time. The shop is open seven days a week from 10:30 a.m. to midnight. The new owner believes there is a market niche available for late-night pizza and would like to stay open each night until 4 a.m. She wants to make the change as soon as possible.

- (c) *Instructor’s Choice*. A situation assigned by the instructor.
3. Choose the three driving forces that are most significant for the proposed change. For each force, develop ideas on how it could be further increased or mobilized in support of the change.
4. Choose the three resisting forces that are most significant for the proposed change. For each force, develop ideas on how it could be reduced or turned into a driving force.
5. Be prepared to participate in a class discussion led by your instructor.

## Manage a Critical Incident

### Proposal for Open Office Design and Hotdesking

#### Situation

You are just starting to work with an architect on designs for a new office space for your fast-growing tech start-up. She proposes a design that does away with private offices, includes two or three personal cubicles with flexible dividers, and provides lots of flexible open spaces for casual and arranged meetings. She also proposes a shift to “hotdesking” for the sales representatives because they spend a lot of time away from the office. This means that they will not have permanent space and will instead sign up to use temporary cubicle desks when they come into the office. You really like the total design

concept because it supports collaboration and teamwork while also saving space and facilities costs as the firm grows. But you’re worried about possible resistance from employees who are used to having private offices and their own desks. You sit down to write a list of pros and cons for the architect’s proposal. You also make some notes on how to engage the staff with these ideas in order to head off any problems.

#### Questions

What’s on your list and what’s in your notes? What kind of change leadership approach do you think will be most likely to work with this group and situation?

## Collaborate on the Team Activity

### Organizational Culture Walk

#### Question

What organizational cultures do we encounter and deal with every day, and what are their implications for employees, customers, and organizational performance?

#### Instructions

1. In your team, make two lists. List A should identify the things that represent the core cultures of organizations. List B should identify the things that represent the observable cultures of organizations. For each item on the two lists, identify one or more indicators that you might use to describe this aspect of the culture for an actual organization.
2. Take an *organizational culture walk* through a major shopping area of your local community. Choose at least three business

establishments. Visit each as customers. As you approach, put your “organizational culture senses” to work. Start gathering data on your lists A and B. Keep gathering it while you are at the business and right through your departure. Take good notes, and gather your thoughts together after leaving. Do this for each of the three organizations you choose.

3. Analyze and compare your data to identify the major cultural attributes of the three organizations and how they influence customers and organizational performance.
4. Use your results to make some general observations and report on the relationship between organizational cultures and performance as well as among organizational cultures, employee motivation, and customer satisfaction.

## Analyze the Case Study

### Case 12.1 Gamification | Finding Legitimacy in the New Corporate Culture

Go to Management Cases for Critical Thinking at the back of the book to find this case.



Photodisc/Getty Images

# Strategic Human Resource Management

The background and working profile of the typical Canadian worker has changed a lot over the past decade. In 2018, more than 1 million people (or 5.7 percent of workers) held more than one job, 2.9 million Canadians were self-employed, accounting for 15 percent of total employment, and nearly one in five employed Canadians, or 3.5 million people, worked part time (less than 30 hours per week) in their main or only job.<sup>1</sup>

If today's organizations want to maintain a quality workforce, helping employees, including those with kids, part-time employment, and policies addressing work-life balance have

to be part of the equation.<sup>2</sup> Management scholars say it's important to treat employees as assets, not liabilities.

The key to managing people in ways that lead to profit, productivity, innovation, and real organizational learning ultimately lies in how you think about your organization and its people. ... When you look at your people, do you see costs to be reduced? ... Or, when you look at your people do you see intelligent, motivated, trustworthy individuals—the most critical and valuable strategic assets your organization can have?

With these words from his book *The Human Equation: Building Profits by Putting People First*, scholar Jeffrey Pfeffer challenges managers to invest in people and their talents.<sup>3</sup> His research shows that organizations that invest more in people outperform those that don't. These high-performing organizations thrive on strong foundations of **human capital**—the economic value of people with job-relevant knowledge, skills, abilities, experience, ideas, energies, and commitments. The best employers put people first and benefit from doing so.

## Chapter Quick Start

As a manager or team leader, in many ways it's all about talent—the talent that you hire, nurture, develop, and support to help organizations and teams succeed. We're also talking about your talent, which you possess and develop—or not—to stay marketable and successful in your career field. Human resource management locates, cultivates, and sustains talent in organizations, and it's one of a manager's most important responsibilities.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 13.1 Human Resource Management

**13.1** Explain the human resource management process and its legal framework.

#### 13.2 Attracting a Quality Workforce

**13.2** Describe how managers help organizations attract a quality workforce.

#### 13.3 Developing a Quality Workforce

**13.3** Discuss how managers help organizations develop a quality workforce.

#### 13.4 Maintaining a Quality Workforce

**13.4** Summarize how managers help organizations maintain a quality workforce.

### What to Look for **Inside**

#### Management Is Real

- 13.1 Wisdom** Learn from Role Models  
Tony Hsieh Taps HRM to Keep Zappos One Step Ahead
- 13.2 Ethics** Know Right from Wrong  
Personality Test? Drug Test? Social Media Test?
- 13.3 Analysis** Make Data Your Friend  
Underemployment Affects Growing Number of Canadian Workers
- 13.4 Insight** Keep Learning about Yourself  
Conscientiousness Is a Career Booster
- 13.5 Choices** Think before You Act  
Know the differences between Canadian and U.S. workplace legislation

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Performance Assessment Assumptions
- **Contribute** *to the Class Exercise:*  
Upward Appraisal
- **Manage** *a Critical Incident:*  
Manager's Dilemma
- **Collaborate** *on the Team Activity:*  
Future of Labour Unions
- **Analyze** *the Case Study:*  
RealRecruit | Protecting Student Athletes

## 13.1 Human Resource Management

### LEARNING OBJECTIVE 13.1

Explain the human resource management process and its legal framework.

#### Learn More About

Human resource management process • Strategic human resource management • Legal environment of human resource management

A marketing manager at IDEO, a California-based consulting design firm, once said: “If you hire the right people ... if you’ve got the right fit ... then everything will take care of itself.”<sup>4</sup> This is what **human resource management**, or HRM, is all about— attracting, developing, and maintaining a talented and energetic workforce. Organizations that can’t do this well, and don’t have talented and committed employees to do the required work, have very little chance of being competitive in the long term.

There are many career opportunities in a wide variety of areas in human resource management. HRM specialists within organizations deal with hiring, compensation and benefits, training, employee relations, and more. Common HR job titles include human resource planner, corporate recruiter, training and development specialist, compensation analyst, salary and benefits manager, and director of diversity. A growing number of consulting and outsourcing firms employ HR professionals to offer their clients specialized services in the same areas. And in the C-suite of senior executives, the title of Chief Talent Officer is becoming more common and it gives direct testimony to what a commitment to HR is all about. Attention to the many facets of human resource management is essential for organizations in environments complicated by legal issues, economic turmoil, new corporate strategies, shifting labour markets, and changing social values.

## Human Resource Management Process

The goal of human resource management is to support organizational performance by aligning people and their talents with organizational strategies and objectives. All managers, not just human resource specialists, share the responsibility to ensure that highly capable and enthusiastic people are in the right positions and working with the support they need to be successful. The three major tasks in human resource management are typically described as the following:

1. *Attracting a quality workforce*—talent acquisition through human resource planning, employee recruitment, and employee selection.
2. *Developing a quality workforce*—talent development through employee orientation, training and development, and performance management.
3. *Maintaining a quality workforce*—talent retention through career development, work–life balance, compensation and benefits, retention and turnover, and labour–management relations.

A key concept in HRM is “fit”—individual/job fit and individual/organization culture fit. In fact, an organization’s HRM approach should always focus on establishing both a good fit between the employee and the specific job to be accomplished, and between the employee and the overall culture of the organization. **Person–job fit** is the extent to which an individual’s knowledge, skills, experiences, and personal characteristics are consistent with the requirements of their work.<sup>5</sup> **Person–organization fit** is the extent to which an individual’s values, interests, and behaviour are consistent with the culture of the organization (see Management Is Real 13.1).<sup>6</sup>

## Strategic Human Resource Management

When Sheryl Sandberg left her senior management position with Google to become Facebook’s chief operating officer, one of her first steps was to strengthen the firm’s human resource management systems. She updated the approach for performance reviews, started new recruiting methods, and launched

### Management Is Real 13.1: Wisdom | Learn from Role Models

**Zappos’ “work hard, play hard” setting includes free food and fully paid medical and dental insurance.**

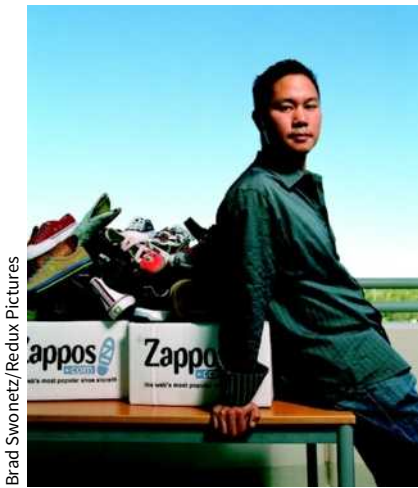
#### Tony Hsieh Taps HRM to Keep Zappos One Step Ahead

As the CEO of Zappos.com, a popular online retailer that sells shoes, clothing, handbags, and more, Tony Hsieh (pronounced *shay*) has led the company through an amazing period of growth. He’s also forged a creative and unique approach to human resource management, designed to hire and retain only those individuals who are truly committed to the company’s values.

Before becoming “Zapponians,” prospective hires go through two interviews. In the first, Zappos interviewers assess applicants’

technical proficiency. In the second, they evaluate applicants’ ability to fit into the Zappos culture, which is characterized by 10 core values. Hsieh actually created the “cultural fit interview” himself. He included questions such as: “On a scale of 1 to 10, how weird are you?” “If they say ‘one,’ we won’t hire them.... We like 7s or 8s,” says Hsieh. He also notes that “qualified egotists need not apply” because one of the company’s core values is to “be humble.”

Once hired, all employees, including executives, are required to go through a four-week customer loyalty training, where they not only spend time on the phone with customers but also work at the company’s giant warehouse in Kentucky. At the end of this “KY Boot Camp,” boot camp trainees are offered a \$2,000 bonus to quit and walk away. When asked why he offers to pay new employees to leave the company, Hsieh says that he wants only people who are



committed to his long-term vision. Interestingly, 97 percent of the trainees turn down the buyout.

Hsieh also believes in creating a “work hard, play hard” atmosphere. To keep Zapponians inspired, he often throws a weekly costume party at the main office. Hsieh also has implemented several employee-friendly practices, such as providing free food in the company’s cafeterias and vending machines as well as paying 100 percent of employees’ medical and dental expenses.

### Find Inspiration

Is Hsieh’s approach to human resource management just an interesting oddity? Or is it representative of the direction more organizations should follow to attract today’s generation of talented workers? What aspects of the Zappos approach could be used by just about any employer? What parts might be harder to transfer? If Hsieh moves on to other opportunities, can his HRM practices survive at Zappos without his continued leadership?

new management training programs.<sup>7</sup> Sandberg’s initiatives are consistent with the concept of **strategic human resource management**—mobilizing human capital through the HRM process to best implement organizational strategies.<sup>8</sup>

One indicator that HRM is truly strategic to organizations is when it is headed by a senior executive reporting directly to the chief executive officer. At Google that position is Vice President of People Operations. Netflix has a Chief Talent Officer; Shopify has a Senior Vice President of Human Relations. By locating the senior HRM position in the C-suite, these organizations allow human resources to play a strategic role in building a high-performing workforce while supporting core values and the corporate culture.

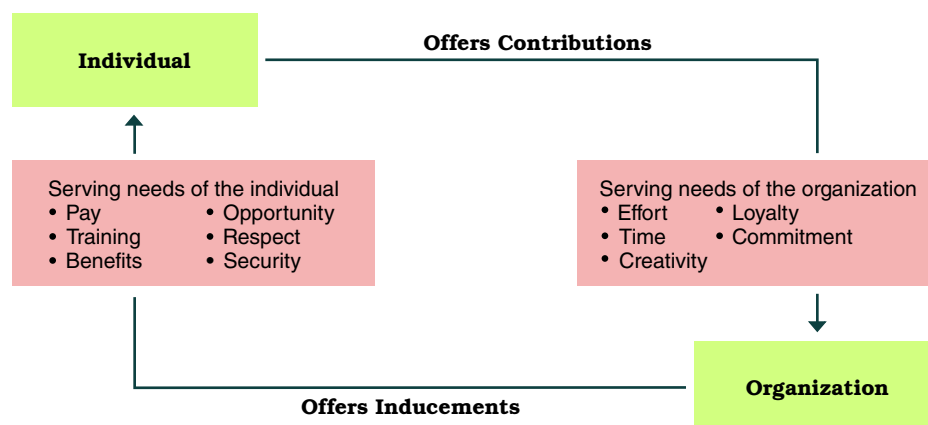
The foundations for strategic human resource management are set with **employee value propositions (EVPs)** that align people with organizational strategies and objectives. EVPs are packages of opportunities and rewards, such as pay, benefits, meaningful work, and advancement possibilities, that make diverse and talented people want to belong to and work hard for the organization. Organizations with compelling EVPs have the edge over others in hiring and retaining talented people in scarce labour markets. Starbucks, for example, teamed up with Arizona State University to offer online degree programs for employees who work at least 20 hours per week. In return for paying part of the tuition bills, Starbucks expects to attract and retain talented workers while lowering its hiring and training costs.<sup>9</sup>

Employee value propositions are **psychological contracts** that summarize mutually beneficial exchanges of values between individuals and organizations.<sup>10</sup> As shown in **Figure 13.1**, the value offered by the individual—what the employer gets in the psychological contract—includes effort, loyalty, commitment, creativity, and skills. The value offered by the employer—what the employee gets—includes pay, benefits, meaningful work, flexible schedules, and personal development opportunities.

A positive exchange of values creates a healthy psychological contract and any imbalance can cause problems. From the individual’s side, a perceived lack of inducements may cause dissatisfaction, loss of motivation, poor performance, and turnover. From the employer’s side, a perceived lack of contributions may reduce confidence in the employee, limit rewards given, and derail career advancement.

## Legal Environment of Human Resource Management

Hire a relative? Promote a friend? Fire an enemy? Hold on! Managers and employers can’t simply do whatever they want when it comes to human resource management practices. Everything



**FIGURE 13.1** Components in the psychological contract.

has to be done within the framework of government laws and regulations about employment practices.

**Laws Protecting against Discrimination** If valuing people is at the heart of human resource management, **job discrimination** is its nemesis. It occurs when organizations deny someone employment or a promotion for reasons unrelated to their performance potential, or when employees from certain groups are treated differently on the job. Think of this the next time you or someone else wonders: “Why didn’t I get invited for a job interview? Is it because my first name is Mohammed?” “Why didn’t I get that promotion? Is it because I’m obviously pregnant?”

In Canada, there are laws at the federal and provincial levels designed to protect workers from employment discrimination. The Canadian Human Rights Act of 1985, updated in 2017, prohibits federal workers from being discriminated against because of race, national or ethnic origin, colour, religion, sex, age, or mental or physical disability, pregnancy, marital and family status, and gender identity. The provinces and territories have similar human rights codes protecting workers from discrimination on those grounds.<sup>11</sup>

These human rights codes provide for fairness in the workplace. It is illegal under these laws to consider any of these factors in decisions related to hiring, promoting, compensating, terminating, or in any way changing someone’s terms of employment. The intent of these laws is to ensure the rights of all citizens to gain and keep employment based only on their ability to do the job and their performance once on the job.

In addition, the federal Employment Equity Act requires federal employers to increase the representation of women, people with disabilities, Indigenous people, and members of visible minorities in their workforces to match their availability in the workforce. Under the Act, federal organizations and federally regulated industries, such as banks and broadcasters, are expected to show fairness in the workplace by setting goals and having plans that ensure equal employment opportunity for members of protected groups, those historically underrepresented in the workforce. **Employment equity** in Canada is a policy similar to the American “affirmative action,” which ensures women and minorities are represented in the workforce in proportion to their labour market availability. In Canada, the pros and cons of affirmative action were debated at both the federal and provincial levels during the drafting of the Employment Equity Act and because of the ill will surrounding the term “affirmative action” in the United States, the Chair of the Report on Employment Equity, Judge Rosalie Abella, chose to use the term employment equity.<sup>12</sup>

Criticism of affirmative action in the United States tended to focus on the use of group membership, such as female or minority status, as a criterion in employment decisions. Issues included claims of *reverse discrimination* by members of majority populations. White males, for example, may believe that preferential treatment given to women and minorities interferes with their own employment rights. Others criticize the Canadian version, suggesting that employment equity and affirmative action are separate issues. Equity implies impartiality and fairness. Affirmative action broadens the concept of fairness by calling for steps to rectify the inequities of

employment in the past. Said a sociologist at York University at the time, “The term employment equity is weak and can mean anything. If what we want is affirmative action, we should not call it employment equity.”<sup>13</sup>

In Canada, in 1977, Quebec became the first Canadian jurisdiction to amend its provincial charter of human rights to include sexual orientation as a prohibited ground for discrimination. In 1996, the Canadian Human Rights Act was amended to specifically include sexual orientation as one of the prohibited grounds of discrimination. The Canadian Human Rights Commission is responsible for monitoring the application of the Act and shares information about human rights and sexual orientation, including complaints, progress, and other activities in the Commission’s annual reports.<sup>14</sup>

Accessibility Canada Act (ACA) or Bill C-81, an act to ensure a barrier-free Canada, was proclaimed into effect on July 11, 2019. This Act applies to federally regulated organizations in both the private and public sectors. The stated purpose of the Act is to remove barriers for persons with disabilities. Organizations subject to the ACA are required to prepare and publish accessibility plans and establish processes for those plans.<sup>15</sup>

As a general rule, legal protections for discrimination do not restrict an employer’s right to establish **bona fide occupational requirements** (BFORs). These are criteria for employment that can be clearly justified as being a reasonable necessity for the normal operation of a business and are clearly related to a person’s capacity to perform a job. There are no legitimate bona fide occupational requirements that can be based on race and colour; those based on sex, religion, age, able-bodiedness, and national origin are sometimes acceptable, but employers must take great care to support these requirements. Examples of a BFOR include age-based mandatory retirement for pilots and bus drivers based on issues of public safety. Religion may be a BFOR in religious education contexts where faculty must adhere to the beliefs of the denomination running the school. Able-bodiedness may be a BFOR where space constraints—such as in aircraft where flight attendants must operate in narrow aisles—physically preclude wheelchairs.

## Employment Issues and Controversies

Question: “I was interviewing for a sales job and the manager asked me what child care arrangements I had made. Was this question legal?”

Answer (by labour attorney): “This is a perfect example of direct evidence of gender bias against women based on false stereotypes.”

**Sexual harassment** remains a significant workplace concern. Sexual harassment is defined as having occurred within the workplace setting when a person experiences conduct or language of a sexual nature that affects his or her employment situation. The Canada Labour Code, which applies to federal government workplaces and federally regulated industries, as well as the laws of individual provinces and territories throughout Canada, define sexual harassment as “any conduct, comment, gesture, or contact of a sexual nature that is likely to cause offence or humiliation to any employee; or that might, on reasonable grounds, be perceived by that employee as

placing a condition of a sexual nature on employment or on any opportunity for training or promotion.”

This topic has received a great deal of attention in the media and in the courts. In *Colistro v. Tbaytel*, 2019 ONCA 197, the Ontario Court of Appeal let employers know that if they re-hire an employee who has a history of sexually harassing a current employee and the current employee finds continued employment intolerable, they risk liability for constructive dismissal. **Constructive dismissal** is where a company unilaterally changes the terms of employment or expresses an intention to do so thus forcing the employee to quit. In essence, organizations cannot continue to victimize the victim.<sup>16</sup>

The Employment Equity Act of 1986 requires that men and women in the same federal or federally regulated organization be paid equally for doing work that is equivalent in terms of skills, responsibilities, and working conditions. But a lingering issue over gender disparities in pay involves **pay equity** (called **comparable worth** in the United States), the notion that persons performing jobs of similar importance should be paid at comparable levels. Why should a cable TV installer, for example, be paid more than the cable company’s call centre representatives? Does it make any difference that cable TV installation is a traditionally male occupation and call centre worker is a traditionally female occupation? Advocates of pay equity argue that historical disparities in pay across occupations can result from gender bias. They would like to have the issue legally resolved.

Our new economy has given rise to a growing number of people who work in temporary or part-time jobs, hire themselves out with temporary staffing agencies, or freelance as **independent contractors** for a changing mix of employers. Organizations are hiring more temporary and part-time workers and using more independent contractors in an attempt to reduce costs and increase staffing flexibility. Critics say this employment trend has created a category of “precarious workers” who are caught in “a race to the bottom” and labour in a system where “when they’re used up it’s on to the next one.”<sup>17</sup> These individuals often work without benefits—or with reduced benefits—such as health benefits, retirement plans, sick pay,

and holiday leave. Many, called **permatemps**, are employed in a temporary status for an extended period of time. The legal status of part-timers and independent contractors is regularly in the news and varies from province to province in Canada.<sup>18</sup>

On October 17, 2019, one year after the federal government legalized the adult recreational use of cannabis, amendments to the Cannabis Regulations that govern the legal production of cannabis-infused products (edible cannabis) came into law. This would suggest that Canadian employers need to take reasonable steps to update workplace policies, especially as they relate to drugs and alcohol.<sup>19</sup>

Privacy is another hot-button employment and societal issue in our high-tech work world. **Workplace privacy** is the right of individuals to privacy on the job.<sup>20</sup> Although it is legal for employers to monitor the work performance and behaviour of their employees, employer practices can become invasive and cross legal and ethical lines in everything from recruitment to day-to-day task performance. Software can easily monitor emails, record Internet searches, follow keystrokes, document performance moment to moment, check social media activity and online profiles for key words, and track employee movements during the workday (Management Is Real 13.2). All of this information can also be stored in vast databases without an employee’s permission. Until the legal status of electronic surveillance is cleared up, one consultant says the best approach is to “assume you have no privacy at work.”<sup>21</sup>

One additional change is in the case of *bias due to sexual orientation and gender identity*. On October 18, 2016, the House of Commons passed Bill C-16, which will make it illegal to discriminate against transgender individuals, in the workplace and everywhere else. In June 2017, the bill was passed by the Senate and became law. This law marks a historic moment because both the Canadian Human Rights Act and the Criminal Code have been amended to protect the rights of transgender individuals.<sup>22</sup>

The human resources legal environment is complex and dynamic, and it’s important to stay informed about new laws and changes to existing laws.

## Management Is Real 13.2: Ethics | Know Right from Wrong

Since when is someone’s online profile meant to be an online resumé?

### Personality Test? Drug Test? Social Media Test?

It used to be that preparing for a job interview meant being ready to answer questions about your education, work experience, interests, and activities. Now there’s another question to prepare for: What’s your Instagram user name and password?

Believe it or not, it’s true. Many interviewers are now asking for access to an applicant’s social media pages. They don’t want just a quick glance at the public profile; they want access to the private profile, too. It’s time to get worried when the recruiter says, “Please friend me.”

“It’s akin to requiring someone’s house keys,” says a law professor. One job candidate turned over a password because “I needed the job to feed my family. I had to.” Another refused the interviewer’s request and withdrew her application. She didn’t



want to work for an employer that would even ask to view her private Web pages.

A survey by Microsoft Research found 70 percent of recruiters saying that they had rejected applicants based on information they found online. Although a social media profile can be a treasure

chest of information for recruiters and employers, it is less clear whether it is ethical to tap this resource to measure candidates' characters and make employment decisions. Since when is an online profile meant to be an online resumé?

Sometimes recruiters make negative hiring decisions after finding relatively mild forms of questionable behaviour such as using poor grammar, posting negative comments about prior employers, or uploading drinking pictures. This may be information or pictures that the individual has little control over. What happens if a "friend" posts a picture of someone from a party from years ago, or if inaccurate or untrue information is posted as a joke among friends?

**What Do You Think?**

What are the ethical issues involved with regard to recruiters asking for access to personal Facebook—or other online social network—pages? Should it be held against applicants if they refuse? Is it okay for managers to search online sites to check up on what employees are doing outside of work? Should what someone does outside of work cost them their job? Or, is it alright for employers to fire employees after they are caught making offensive racist comments posted on other people's social media channels? On the other hand, shouldn't individuals who knowingly post online information understand that it may end up in the hands of their employers? Where does the responsibility fall?

**Learning Check**

**LEARNING OBJECTIVE 13.1** Explain the human resource management process and its legal framework.

**Be Sure You Can** • describe the human resource management process • explain what makes HRM "strategic" • define discrimination, equal employment opportunity, affirmative action, and bona fide occupational qualification • identify major laws that protect against discrimination in employment • discuss legal issues of sexual harassment, comparable worth, independent contractors, and workplace privacy

**Learn More About**

- Human resource planning • Recruitment process
- Selection techniques

The first responsibility of human resource management is talent acquisition; that is, to attract a high-quality workforce that has the talents needed for the organization to meet its performance goals. An advertisement once run by the Motorola Corporation put it this way: "Productivity is learning how to hire the person who is right for the job." To attract the right people, an organization must know exactly what it is looking for in terms of the jobs to be done and the talents required to do them well. It must create an employee value proposition that makes the organization stand out as a preferred employer. And it must have the human resource management systems in place so that it can excel at employee recruitment and selection.

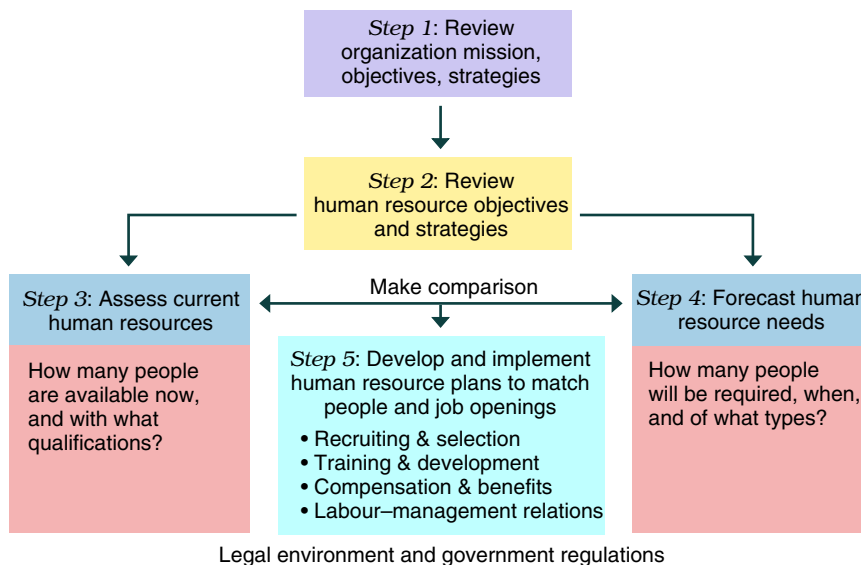
**13.2 Attracting a Quality Workforce**

**LEARNING OBJECTIVE 13.2**

Describe how managers help organizations attract a quality workforce.

**Human Resource Planning**

**Human resource planning** is the process of analyzing an organization's staffing needs and determining how to best fill them. As shown in **Figure 13.2**, human resource planning begins with



**FIGURE 13.2** Steps in strategic human resource planning.



assessing staffing needs and the current workforce, and deciding what additions, replacements, and upgrades are required for the future. The process involves **job analysis**—the systematic evaluation of job facets to determine what is done when, where, how, why, and by whom.<sup>23</sup> This information is then used to write or update **job descriptions** that describe specific job duties and responsibilities. The information in a job analysis is used to create **job specifications** that identify the qualifications—such as education, prior experience, and skills—needed by someone hired for a given job. A part of human resource planning is to be aware of trends in the labour force, such as underemployment, which is discussed in Management Is Real 13.3.

## Recruitment Process

**Recruitment** is a set of activities designed to attract a talented pool of job applicants to an organization. Three steps in the traditional recruitment process are: (1) advertisement of a job vacancy, (2) preliminary contact with potential job candidates, and (3) initial screening to create a pool of applicants potentially meeting the organization’s staffing needs. Today, recruitment increasingly involves social media where employers advertise jobs, individuals post interests and talents, and connections between would-be new hires and employers take place. At the extreme, you may be asked on a pre-recruitment basis to join a private social media site run by the employer. If you want to get hired at Zappos, for example, the front door is Zappos Insiders.<sup>24</sup> It’s a social network set up by Zappos to allow potential employees to link with existing ones, show their personalities and talents, and learn what’s going on at the firm. When a job vacancy opens, those with good reputations on Zappos Insiders get the first calls.

Recruitment is becoming more candidate-centric. In an economy where talent is at a premium, employers are focused on learning about candidates’ needs and expectations while

creating a positive recruiting experience. Research finds that two-thirds of job candidates are likely to reject an offer if they’ve had a bad recruiting experience.<sup>25</sup> And, more than 70 percent of them go on to share their bad experiences with others. When queried about suggestions for improvement, job seekers suggest providing candidates with all relevant information, using technology to improve communication, streamlining the application process, and optimizing the application process for mobile devices.<sup>26</sup>

**External and Internal Recruitment** The recruiting that takes place on post-secondary campuses is an example of **external recruitment**, in which job candidates are sought from outside the hiring organization. External recruits are found through company websites and social media, virtual job fairs, specialized recruiting sites such as Monster and CareerBuilder, employment agencies and headhunters, university placement centres, personal contacts, and employee referrals. Through **social recruiting**, employers browse social media sites like LinkedIn, Facebook, Reddit, and Twitter, looking for people whose online profiles show potential—things like leadership, special skills, and connections—as prospective job candidates.

**Internal recruitment** involves the search for applicants from within the organization. Most organizations have a procedure for announcing vacancies through newsletters, electronic postings, and in-house social media sites. They also rely on managers and team leaders to recommend internal candidates for advancement. The university internship is a form of internal recruitment that is an increasingly important pathway to employment. It brings a student into the organization on a temporary basis and gives both parties an experience-based opportunity to consider one another for long-term employment.

There are advantages and disadvantages to both external and internal recruitment. External recruitment brings in outside applicants with fresh perspectives, expertise, and work

### Management Is Real 13.3: Analysis | Make Data Your Friend

“Underemployment is larger than unemployment in Canada.”

#### Underemployment Affects Growing Number of Canadian Workers

“Underemployment is larger than unemployment in Canada,” says Angella MacEwen, senior economist at the Canadian Labour Congress. Who are the underemployed? They are people who are not considered unemployed, but they’re not working as much as they want to; they may be unable to find a full-time job, but do find part-time work. The underemployed also includes workers who have simply given up searching and therefore are not counted among the unemployed. The number of underemployed is rising. “Seventy-two per cent of net new jobs created between 2008 and 2013 fall into the precarious or underemployed category,” MacEwen says. “This is an issue that affects many more people than we had thought.”

Recent data suggests that between 27 percent and 45 percent of all Canadian workers do not have stable full-time jobs and could be considered as working in a precarious situation.



Beau Lark/Corbis/Getty Images

#### What are the Implications?

Check these facts against the latest data available. What are the implications of underemployment for organizations and the people they recruit? What are the implications for the economy as a whole? Is there anything an organization can do to keep the underemployed high performing, motivated, and loyal? Is a high level of underemployment likely to affect the wages of fully employed workers?

experience. But extra effort is needed to get reliable information about these candidates. A major downside of recruiting externally is that a hiring decision might turn out badly because either not enough information was gathered about the applicant, or what was discovered turned out to be inaccurate.

Internal recruitment is usually quicker and focuses on employees with well-known performance records. A history of internal recruitment builds workforce loyalty and motivation by showing that there are opportunities to advance within the organization. It also helps to reduce turnover rates and facilitates retention of high-quality employees. But internal recruiting has downsides as well. Limiting job searches to internal talent pools increases the risk that the best candidate may not be chosen for a position. A valuable opportunity to bring in outside expertise and viewpoints also may be lost at the very moment when new insights, skills, and creativity are most needed by the organization.

**Realistic Job Previews** In what may be called **traditional recruitment**, the emphasis is on selling the job and organization to applicants. The focus is on communicating the most positive features of the position, perhaps to the point where negatives are downplayed or even concealed. This may create unrealistic expectations that cause costly turnover when new hires become disillusioned and quit; they suffer career disruption, and the employer suffers lost productivity and the added costs of having to recruit again.

An alternative to traditional recruitment is a **realistic job preview** that provides candidates with all pertinent information about the job and organization without distortion, and before the job is accepted.<sup>27</sup> Rather than seeking to “sell” applicants on the positive features of the job or organization, realistic job previews are intended to be open and balanced. Both favourable and unfavourable aspects of work are covered.

The interviewer in a realistic job preview might use phrases such as “Of course, there are some downsides ...”; “Something that you will want to be prepared for is ...”; and “We have found that some new hires have difficulty with...” Not surprisingly, such conversations may lead some applicants to decide that the job is not for them. But this helps to avoid mismatches that could prove troublesome later on. For those who do take the job, knowing both the positive and negative features ahead of time builds realistic expectations that better prepare them for the inevitable ups and downs of a new position. The expected benefits of realistic recruiting practices include higher levels of

early job satisfaction, greater trust in the organization, and less inclination to quit prematurely.

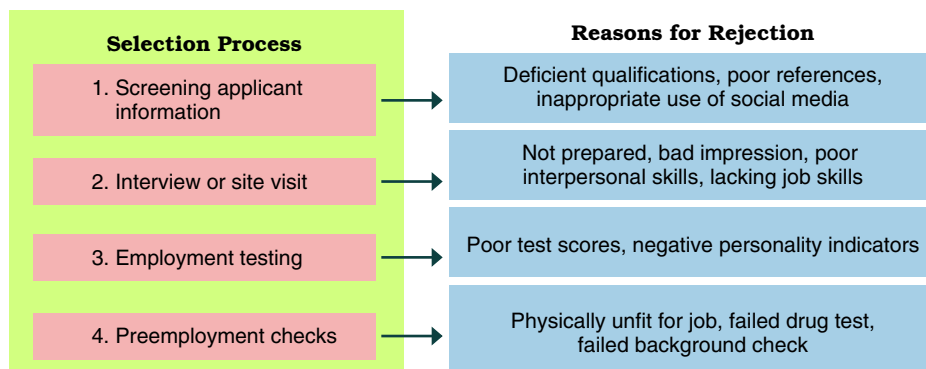
## Selection Techniques

Once a pool of job candidates is established, the next step is to determine whom to hire. This process of **selection**, as shown in **Figure 13.3**, involves gathering and assessing information about job candidates and making a hiring decision.

**Reliability and Validity** The selection process is always a prediction exercise in which the reliability and validity of techniques used are very important. **Reliability** means that the selection technique is consistent with regard to how it measures something. That is, it returns the same results time after time. For example, a personality test is reliable if the same individual receives a similar score when taking the test on two separate occasions. **Validity** means that there is a clear relationship between what the selection device is measuring and eventual job performance. That is, there is clear evidence that once on the job, individuals with high scores on an employment test, for example, outperform individuals with low scores.

**Interview Ins and Outs** Very few individuals are hired for managerial and professional positions without passing through one or more screening interviews. These are used to evaluate applicants on technical skill sets and experience, communication skills and personal impression, and potential person–organization culture fit. The traditional *face-to-face interview* is still the most used, but the *telephone interview* and the *virtual or online video interview* are increasingly common. The likelihood for most graduates today is that success in a telephone or online virtual interview will determine whether they ever get to the face-to-face on-site interview stage. The following are tips on how to succeed in a telephone or video interview.

- *Prepare ahead of time*—Study the organization; carefully list your strengths and capabilities; be ready to take notes.
- *Take the call or video link in private*—Make sure you are in a quiet room, with privacy and without the possibility of interruptions.
- *Dress professionally*—Dress right to increase your confidence and set a tone for your side of the conversation; don’t dress in casual clothes.



**FIGURE 13.3** Steps in the selection process: The case of a rejected job applicant.

- *Practise your “interview voice” and “screen presence”*—Impression counts; speak slowly and clearly, look at the camera; look pleasant, interested, and happy to be there.
- *Have reference materials handy*—Keep your resumé and other supporting documents within easy reach.
- *Have a list of questions*—Don’t be caught unprepared; intersperse your best questions during the interview.
- *Ask what happens next*—Find out how to follow up; ask what other information you can provide; ask about the time frame for a decision.
- *Follow up*—Don’t forget to send a thank-you note and reiterate your interest in the job.

Even well-qualified job applicants may perform poorly in a job interview. They may be unprepared for questions related to the specific organization with which they are interviewing. They may be nervous or may be poor communicators. Or they may fail to demonstrate conscientiousness, as explored in Management Is Real 13.4. Or they may simply fail at answering unusual and demanding questions.

Google is famous for asking questions like: “A man pushed his car to a hotel and lost his fortune. What happened?” Other employers are now pushing the interview envelope as well. Whole Foods might ask: “What’s your perfect last meal?” Expedia might ask: “If you could go camping anywhere, where would you put your tent?” Xerox wants to know why tennis balls are fuzzy.<sup>28</sup> These types of interview questions are designed less for testing “right” answers and more for finding, through a candidate’s responses, how well they might fit with the organization

overall and its culture specifically. But you have to be prepared for standard questions as well—“What are your strengths and weaknesses?” “Where do you see yourself in five years?” “What can you offer us that someone else cannot?”<sup>29</sup>

It may surprise you to find out that interviews often have relatively low validity as selection devices. This is especially true of **unstructured interviews** where the interviewer doesn’t work from a formal and pre-established list of questions that are asked of all interviewees. Some interviewers rush to judgement based on first impressions of candidates and fail to dig deeper for relevant information. Or they may dominate the conversation and spend more time talking about themselves or the organization than focusing on the applicant’s readiness for the position.

The predictive validity of interviews increases as the amount of structure increases. In this respect, behavioural interviews and situational interviews are much more effective at predicting successful job performance than traditional interviews.<sup>30</sup> **Behavioural interviews** ask job candidates about their past behaviour, focusing specifically on actions that are likely to be important in the work environment. For example: “Describe how you have resolved a conflict with a co-worker or teammate.” **Situational interviews** ask applicants how they would react when confronted with specific work situations they would be likely to experience on the job. For example: “How would you as team leader handle two team members who do not get along with one another?”<sup>31</sup>

**Employment Tests** Employment tests are often used to identify a candidate’s intelligence, aptitudes, personality, interests, and even ethics. But organizations need to be careful about the way that they use tests and make sure that they are

## Management Is Real 13.4: Insight | Keep Learning about Yourself

**Conscientiousness is often at the top of recruiters’ “must-have” lists.**

### Conscientiousness Is a Career Booster

Conscientiousness is the degree to which an individual is achievement-oriented, careful, hard-working, organized, persevering, responsible, and thorough. People who are low on conscientiousness tend to be laid back, less goal-oriented, less driven by success, and less self-disciplined. They are also often procrastinators.

Many employers tend to hire for attitude and train for skill. They try to identify future top performers by focusing on key personality characteristics that are likely to predict job success. Conscientiousness is often at the top of recruiters’ “must-have” lists. The following are some ways to show recruiters you are conscientious.

- *Professional resumé*—Presenting a carefully proofed, well-designed, and organized resumé shows that you value a high-quality product and attend to details.
- *Interview preparation*—Doing research beforehand and being well informed shows conscientiousness.
- *Self-presentation*—First impressions count; conscientiousness shows up in dressing appropriately and acting professionally with regard to manners and engagement.
- *Career plans*—Being able to thoughtfully discuss career and personal plans shows you are goal-oriented and conscientious.

Are you someone whom others would describe as efficient, prompt, systematic, thorough, careful, practical, neat, and steady? If you can check off each of these attributes as a positive personal characteristic that accurately describes you, then you’re on the right path when it comes to conscientiousness. This is a good path to be on. Conscientiousness is often associated with job success. Remember that conscientiousness is easy to monitor. Its presence or absence will always be evident in the way you approach work and how you follow through with the tasks and challenges you face.

Conscientiousness is a personality characteristic that is positively related to work performance across a wide range of jobs. How about you? Can your credentials meet a recruiter’s conscientiousness challenge? Why or why not?

### Get to Know Yourself Better

Just how conscientious are you, not only in work and school situations but in your everyday life? How many ways in the list above do you use to show recruiters you are conscientious? Ask: “How would others rate me on these same characteristics?” Ask also: “Should I just accept where I am in terms of conscientiousness, or are there things I can do to change my behaviour in ways that can make me more conscientious in the future?” Put your thoughts down on paper about whether conscientiousness is one of your personal traits. Share it with someone who knows you well and ask whether they agree, or not. Honest feedback can be important to your professional development.

documented as valid predictors of job performance. **Biodata methods** usually take the form of multiple-choice, self-report questionnaires. They collect “hard” biographical information and also include “soft” items that inquire about more abstract characteristics such as value judgements, aspirations, motivations, attitudes, and expectations. When used in conjunction with ability tests, biodata methods can increase the reliability and validity of the selection process.<sup>32</sup> Google, for example, analyzes data collected by its biodata surveys and compares them with those of current top performers.<sup>33</sup>

Other types of employment tests involve actual demonstrations of job-relevant skills and personal characteristics. An **assessment centre** evaluates candidates’ potential by observing their performance in experiential activities designed to simulate daily work. When using **work sampling**, companies ask applicants to do actual job tasks while being graded by observers on their performance. Something called a job audition is also becoming more popular. Think of it as a “trial hire” in which job candidates are given short-term employment contracts—say four to six weeks—to demonstrate their performance capabilities. When the contract is up, the employer decides whether to offer the candidate a full-time job. This gives the candidate a chance to show what they can do, while giving the employer a chance to reduce the risk of making a hiring mistake. Generally speaking, organizations should use a combination of methods in order to increase the predictive validity of the selection process.

## Learning Check

**LEARNING OBJECTIVE 13.2** Describe how managers help organizations attract a quality workforce.

**Be Sure You Can** • explain the difference between external recruitment and internal recruitment • discuss the value of realistic job previews to employers and to job candidates • differentiate reliability and validity as two criteria of selection tools • discuss the pros and cons of job interviews and employment tests

## 13.3 Developing a Quality Workforce

### LEARNING OBJECTIVE 13.3

Discuss how managers help organizations develop a quality workforce.

#### Learn More About

Onboarding and socialization • Training and development • Performance management

The second responsibility of human resource management is talent development. This begins when new hires are brought on board with care so their first experiences are positive ones. When people join an organization, they have to “learn the ropes” and become familiar with “the way things are done.” Newcomers need to learn about the organization’s culture so they can fit into the work setting. The best employers don’t leave all of this to chance. They step in and try to guide this learning process in the right direction. Talent development also means that all employees must be continually trained and developed through well-chosen job experiences and placements to keep their abilities and skills at the highest possible levels.

## Onboarding and Socialization

The first formal experience newcomers have is often some form of **onboarding** or **orientation** activities designed to familiarize new employees with their jobs, co-workers, and key aspects of the organization as a whole. A good onboarding program brings new hires into the organization with a clear understanding of the organization’s mission and goals, culture, and key policies and procedures. It also introduces them to their jobs, co-workers, and performance expectations in a positive and, ideally, motivating way. For example, all new hires at the Disney World Resort in Florida learn during onboarding that everyone, regardless of their specific job title—be it entertainer, ticket seller, or groundskeeper—is a “cast member” who is there “to make the customer happy.”

**Socialization** is a process through which new members learn and adapt to the ways of the organization.<sup>34</sup> The socialization that begins with onboarding and continues during the first six months or so of employment often determines how well a new employee is going to fit in and perform. A technique used by Neil Blumenthal, co-founder of the online eyewear retailer Warby Parker, is to “provide realistic short-term goals to establish quick wins, which will get the employee into a rhythm where he or she is motivated.”<sup>35</sup> When done well, socialization sets the right foundations for high performance, job satisfaction, and work enthusiasm. When weak or neglected, however, it largely leaves integration to chance as newcomers learn about the organization and their jobs through interactions with co-workers.<sup>36</sup> Even though learning from experienced workers can be helpful to a new hire, it also is possible for newcomers to learn the wrong kinds of things and pick up bad attitudes.

## Training and Development

**Training** is a set of activities that helps people acquire and improve their job-related skills; it applies both to an employee’s initial training and to upgrading skills to meet changing job requirements. Organizations that value their human resources invest in extensive training and development programs to ensure that everyone always has the capabilities needed to perform well and manage their professional, and possibly personal, lives. Training can also be fun. Carol Leaman aims

to improve corporate training by making it more of a game. Her company, Axonify, uses video games to train employees, whether it is on policy and procedures, workplace safety, or boosting sales.<sup>37</sup>

On-the-job training takes place on the job in the work setting. A common approach is **job rotation**, which allows people to spend time working in different jobs or departments or even geographical locations, and thus expand the range of their job capabilities.<sup>38</sup> Another approach is **coaching**, in which an experienced person provides performance advice to a newcomer or less experienced co-worker. **Mentoring** is a form of coaching in which early-career employees are formally assigned as proteges to senior, veteran job holders. The mentoring relationship gives new employees regular access to advice on developing skills and getting better informed about the organization. More organizations, including Mastercard and Cisco, are now also using **reverse mentoring** where younger employees mentor seniors to improve their technology skills. At Capgemini Consulting, global practice leader Didier Bonnet says, “the main aim is to raise the digital IQ of business leaders in the firms.”<sup>39</sup>

Off-the-job training is accomplished outside the work setting. It provides an opportunity to enhance job-critical skills or even to develop skills that might be needed before a promotion or transfer. An example is **management development**—formal training designed to improve a person’s knowledge and skill in the fundamentals of management. New managers just starting out often benefit from training that emphasizes team leadership and communication. Middle managers may benefit from training to better understand multifunctional viewpoints or techniques for motivating employees. Top managers may benefit from advanced management training to sharpen their decision-making and negotiation skills, as well as to expand their awareness of corporate strategy and direction.

## Performance Management

An important part of human resource management is the design and implementation of a successful **performance management system**. This system ensures that performance standards and objectives are set, that performance is regularly assessed, and that steps are taken to improve employees’ future performance following the provision of performance feedback by managers.

**Performance assessment** or **performance review**, also called *performance appraisal* and *performance evaluation*, is the process of formally assessing employees’ work accomplishments and providing feedback. Performance reviews serve both evaluation and development purposes.<sup>40</sup> The *evaluation purpose* focuses on past performance and measures results against standards. Performance is documented for the record and for the purpose of allocating rewards such as bonuses and other financial incentives. The manager provides an evaluation of the job holder’s accomplishments and areas of weakness. The *development purpose* focuses on future performance. Performance goals and obstacles are identified, along with areas where training or supervisory support may be needed. The

manager acts in a counselling role and gives attention to job holders’ developmental needs.

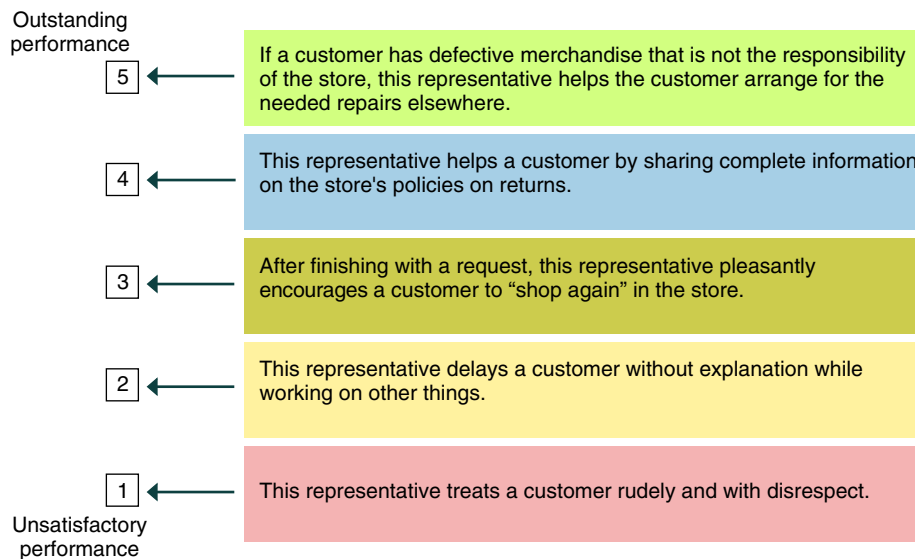
Surveys report that 42 percent of workers and 58 percent of HR managers dislike their performance assessment systems.<sup>41</sup> One of the reasons is that the reviews aren’t frequent enough—they are often an “annual” ritual. Another is the tendency of these reviews to focus on the evaluation of performance and to neglect the discussion of pathways for performance development.<sup>42</sup> Use of ongoing **performance coaching** helps minimize these problems. It provides employees with frequent and developmental feedback as more of an ongoing dialogue than a formal, scheduled event. The coaching helps clarify performance expectations and prevent small problems from getting out of control. At the same time, it increases trust and improves the quality of supervisor–subordinate relationships.

Another important reason for dissatisfaction with performance assessments is the nature of the process itself. All parties involved in the giving and receiving of performance feedback can find the event uncomfortable, emotional, and even anger inducing. Along with this, the assessment content—the message and measures being delivered—are often open to disagreement and debate. This is why good choices must be made among alternative performance assessment methods, and why they should be as reliable and valid as they can be.<sup>43</sup>

Technology now facilitates frequent, almost real-time, performance assessment and coaching. At Lyft, for example, special software scans employee calendars for scheduled meetings and then queries attendees for feedback on one another’s performance. There is also a trend toward eliminating formal performance reviews altogether and replacing them with more frequent and informal “check-ins” between employees and supervisors. PricewaterhouseCoopers employees can request performance feedback “snapshots” at any time from their managers.<sup>44</sup>

**Trait-Based Performance Assessment** Trait-based approaches are designed to measure the extent to which employees possess characteristics or traits that are considered important in the job. For example, trait-based measures often assess characteristics such as dependability, initiative, conscientiousness, and leadership. One of the oldest and most widely used performance appraisal methods is a **graphic rating scale**. It is basically a checklist for rating individuals on traits or performance characteristics such as quality of work, job attitude, and punctuality. Although this approach is quick and easy, it tends to be very subjective and, as a result, also tends to have poor reliability and validity.

**Behaviour-Based Performance Assessment** Behaviour-based approaches evaluate employees on specific actions that are viewed as important parts of the job. The **behaviourally anchored rating scale**, or BARS, describes actual behaviours for various levels of performance achievement in a job. In the case of the customer-service representative illustrated in **Figure 13.4**, extremely poor performance is clearly defined as rude or disrespectful treatment of customers.



**FIGURE 13.4** Sample of a behaviourally anchored rating scale for performance appraisal.

The BARS is more reliable and valid than the graphic rating scale because it anchors performance assessments to specific descriptions of work behaviour. Behaviour-based appraisals also are more consistent with the developmental purpose of performance appraisal because they provide specific feedback to employees as to areas in need of improvement. But one problem is that a BARS evaluation may be influenced by **recency bias**. This is the tendency for evaluations to focus on recent behaviours rather than on behaviour occurring throughout the evaluation period.

The **critical-incident technique** is a behaviour-based approach that can diminish recency bias. With this technique, a running log or inventory is kept of employees' effective and ineffective job behaviours. Using the case of the customer-service representative, a critical-incidents log might contain the following entries: Positive example—“Took extraordinary care of a customer who had purchased a defective product from a company store in another city”; negative example—“Acted rudely in dismissing the complaint of a customer who felt that a sale item was erroneously advertised.” Such a written record can be discussed in specific terms with the employee and used for both evaluative and developmental purposes.

**Results-Based Performance Assessment** Results-based approaches target just what their name implies. Rather than employees' traits or their specific behaviours, results-based assessments focus on accomplishments. This type of assessment is typically quantitative and objective, making it ideal in some circumstances. But results-based measures can sometimes create more problems than they solve. In some jobs the outcomes that are the easiest to measure quantitatively aren't necessarily the most important. For instance, although the number of hours a technician spends on a customer's custom speaker installation is easy to measure, it is less important than how effective the installation is, which is more complicated to evaluate. In addition, results-based measures may

ignore the impact of circumstances beyond the employee's control, such as inadequate technology or poor performance by another member of their team. When people are evaluated only on goal attainment, they also may adopt unethical approaches to accomplish goals.<sup>45</sup>

One of the common performance appraisal errors is **leniency**—the tendency for supervisors to rate employees more favourably than they deserve in order to avoid the unpleasant task of giving negative feedback.<sup>46</sup> Although leniency tends to be less pronounced in results-based performance appraisals, it may be further reduced by the use of **multiperson comparisons** that formally compare one manager's evaluations with ratings provided by another manager. In *rank ordering*, all employees being rated are arranged in order of performance achievement. The best performers go at the top of the list, while the worst performers go at the bottom; no ties are allowed. In a *forced distribution*, each employee is placed into a frequency distribution, which requires that a certain percentage of employees fall into specific performance classifications, such as the top 10 percent, the next 40 percent, the next 40 percent, and the bottom 10 percent. These systems are usually put in place to guard against supervisors giving their employees too lenient or overly positive evaluations.<sup>47</sup>

**360-Degree Feedback** It also is increasingly popular to include more than immediate supervisors in the performance appraisal process.<sup>48</sup> In **360-degree appraisals**, feedback is gathered from multiple sources in order to provide a more comprehensive evaluation of employees' performance. These typically include input not only from an employee's supervisor but from peers, subordinates, and even customers—stakeholders inside and outside the organization who depend on the job holder's performance. Most 360-degree appraisals also include a self-evaluation by job holders. Assessments from all of these sources are used to identify employees' strengths, weaknesses, and development needs.<sup>49</sup>

## Learning Check

**LEARNING OBJECTIVE 13.3** Discuss how managers help organizations develop a quality workforce.

**Be Sure You Can** • define orientation and socialization and describe their importance to organizations • give examples of on-the-job and off-the-job training • explain the benefits of performance coaching • discuss strengths and weaknesses of trait-based, behaviour-based, and results-based performance assessments • explain how 360-degree appraisals work

## 13.4 Maintaining a Quality Workforce

**LEARNING OBJECTIVE 13.4**

Summarize how managers help organizations maintain a quality workforce.

### Learn More About

Flexibility and work–life balance • Compensation and benefits • Retention and turnover • Labour–management relations

The third responsibility in human resource management is talent retention. “Hiring good people is tough ... keeping them can be even tougher” states an article in the *Harvard Business Review*.<sup>50</sup> The point is that it isn’t enough to hire and train workers to meet an organization’s immediate needs; employees must also be successfully nurtured, supported, and retained. A Society for Human Resource Management survey of employers shows that popular tools for maintaining a quality workforce include flexible work schedules and personal time off, competitive salaries, and good benefits—especially health benefits.<sup>51</sup>

## Flexibility and Work–Life Balance

Today’s increasingly fast-paced, complex, and multifaceted lifestyles have contributed to increased concerns about **work–life balance**—how people balance the demands of their careers with their personal and family needs.<sup>52</sup> Not surprisingly, the “family friendliness” of an employer is now frequently used as a screening criterion by job candidates. It is also used in “best employer” rankings found in competitions such as Canada’s Top 100 Employers; publications such as *Canadian Business*, *Working Mother*, *Fortune*, and *Forbes*; and online sources such as LinkedIn and Vault.com.

Work–life balance is enhanced when workers have flexibility in scheduling work hours, work location, and even such things as vacations and personal time off. Flexibility allows people to more easily balance their personal lives and work responsibilities. Research shows that workers who have flexibility, at least with regard to when they begin and end their workday, are less likely to leave their jobs.<sup>53</sup> The health-care company Pfizer encourages employees to customize their work schedules around their families’ needs. In one year, 86 percent of all employees adjusted their hours at some point, while 50 percent occasionally worked from their homes or other off-site locations.<sup>54</sup>

Flexibility programs are becoming essential for many employers to attract and retain the talented workers they need. Some firms are helping workers handle family matters through initiatives such as on-site day care and elder care, and concierge services for miscellaneous needs such as dry cleaning and getting a haircut. Others have adopted innovative programs like work sabbaticals—FedEx, Genentech, Patagonia, and General Mills are now offering sabbaticals as a way to motivate (and retain) their best performers.<sup>55</sup> A few even offer limitless vacation time. Leading Canadian builder Ellis Don offers its employees the option to take as much vacation time as they want whenever they want. The same goes for software provider RL Solutions.<sup>56</sup>

## Compensation and Benefits

It may be that no other work issue receives as much attention as pay. **Base compensation** in the form of a market-competitive salary or hourly wage helps in hiring the right people. The way pay increases are subsequently handled can have a significant impact on employees’ job attitudes, motivation, and performance, and it can also influence the likelihood of them looking for a better job elsewhere.

Benefits also rank right near the top of the list in importance, along with pay, as a way of helping to attract and retain workers. How many times does a graduating university or college student hear, “Be sure to get a job with benefits?”<sup>57</sup> But with rising costs to employers, these benefits—retirement plans and health benefits in particular—are becoming harder to negotiate. Most employers that still offer them require employees to pay at least part of the costs.<sup>58</sup>

**Merit Pay Systems** The trend in compensation today is largely toward “pay-for-performance.” If you are part of a **merit pay** system, your pay increases will be based at least in part on some assessment of how well you perform. The idea is that a good merit raise is a positive signal to high performers; no merit raise or a low merit raise sends a negative signal to low performers. Because their pay is contingent on performance, both groups are expected to work harder in the future.

Although they make sense in theory, merit systems are also not free of problems. A survey reported by the *Wall Street Journal* found that only 23 percent of employees understood their companies’ reward systems.<sup>59</sup> Typical questions include: Who assesses performance? What happens if the employee

doesn't agree with the assessment? Is the system fair and equitable to everyone involved? Is there enough money available to make the merit increases meaningful?

**Bonuses and Profit-Sharing Plans** How would you like to someday receive a letter like this one, once sent to two top executives by Amazon.com's chairman Jeff Bezos? "In recognition and appreciation of your contributions," his letter read, "Amazon.com will pay you a special bonus in the amount of \$1,000,000."<sup>60</sup> **Bonus pay** plans provide one-time or lump-sum payments to employees who meet specific performance targets or make some other extraordinary contribution, such as an idea for a work improvement. These pay plans have been most common at the executive level, but many companies now use them more extensively across all levels. At the Applebee's restaurant chain, for example, "Applebucks" are small cash bonuses given to reward employee performance and increase loyalty to the firm.

In contrast to straight bonuses, **profit-sharing** plans give employees a portion of the net profits earned by the organization during a performance period. **Gain-sharing** plans extend the profit-sharing concept by allowing groups of employees to share in any savings or "gains" realized when their efforts or ideas result in measurable cost reductions or productivity increases. As incentive systems, profit-sharing plans, gain-sharing plans, and bonus plans have the advantage of helping to ensure that individual employees work hard by linking their pay to the performance of the organization as a whole. In 2015, Ford Motor Co. achieved a record pretax profit and rewarded 53,000 hourly employees with \$9,300 each.<sup>61</sup>

**Stock Ownership and Stock Options** Some employers provide employees with ways to accumulate stock

in their companies and thus develop a sense of ownership. The idea is that stock ownership will motivate employees to work hard so that the company becomes and stays successful. **Employee stock ownership plans**, or ESOPs, help employees purchase stock in their employing companies, sometimes at special discounted rates. For example, almost 95 percent of employees are stock owners at Anson Industries, a Chicago construction firm with offices in Vancouver.<sup>62</sup> An administrative assistant says it has made a difference in her job performance: "You have a different attitude ... everyone here has the same attitude because it's our money." Of course, there are downside risks of ESOPs. When a company's market value falls, so does the value of any employee-owned stock—and possibly, employee morale.

Another approach is to grant employees **stock options** linked to their performance or as part of their hiring packages. Stock options give owners rights to buy shares of stock at a future date at a fixed price. Employees gain financially if the stock price rises above the option price, but the stock options lose value if the stock price drops. The logic is that option holders will work hard so that the company performs well and they can reap some of the financial benefits. The Hay Group, a global human resource management consulting firm, reports that the most admired U.S. companies are those that offer stock options to a greater proportion of their workforces.<sup>63</sup>

**Benefits** **Employee benefits** packages include nonmonetary forms of compensation that are intended to improve the work and personal lives of employees. Some benefits are required by law, such as employer contributions to employment insurance and the payment of workers' compensation insurance premiums. Many organizations offer additional benefits in order to attract and retain highly qualified employees.

## Management is Real 13.5 Choices | Think before You Act

There are differences in how U.S. and Canadian HR policy-makers view work

### Know the differences between Canadian and U.S. workplace legislation

Despite our similarities, when you look closely, differences between our countries become apparent, and many of these differences relate to work legislation. In general, Canadian workers have more legal workplace rights and job protections. HR professionals working for companies that operate both in Canada and the United States should understand these key differences in HR practices.

**Termination of Employment:** Employers in Canada, unlike in the United States, do not practice at-will employment. In the States an employer can generally dismiss someone for any reason and without warning, providing the decision is not based on a reason such as age, gender, or race. In Canada, every employment relationship is governed by an arrangement that gives terminated employees rights. Canadian managers are encouraged to first rely on progressive discipline to help people correct problem behaviour before dismissals.



Graham Hardy USA/Alamy Stock Photo

**Parental Benefits:** Canadian parents receive much more generous leave than their southern neighbours. Canadian birth mothers receive 15 to 17 weeks of paid maternity leave, and both parents—same-sex couples, opposite-gender couples, and adoptive parents—are allowed to take an additional 27 to 35 weeks of parental leave,



and can split it however they choose. Female employees in large U.S. organizations (more than 50 employees) can take 12 weeks of unpaid maternity leave, while there is no legal right to paid or unpaid leave in smaller organizations. This difference can be a challenge when drafting policy manuals for both sides of the border.

**Marijuana Legalization:** Changing attitudes about marijuana have created unique challenges for employers on both sides of the border. In the U.S., states have taken the lead on regulating marijuana while Canadian legislation has made cannabis legal across the country. Canadian employers have a duty to accommodate employees with disabilities under federal and provincial laws, so be mindful that the substance is sometimes used to treat an illness or medical condition.

**Sexual Harassment and #MeToo:** Across Canada, federal human rights legislation has protected against sexual orientation and gender discrimination for years. Harassment tends to be covered in provincial occupational health and safety laws, adding a layer of protection for workers and obligations on employers. It's a legal responsibility for HR to create a toxic-free workplace. Human Rights legislation is driving organizational change.

#### What's Your Take?

Which side of the border has a competitive advantage when it comes to HR issues? Is one country better for the employees? Or better for business owners? From an HR perspective, how would you manage a cross-border company?

They include health care benefits, retirement plans, and pay for time not worked—such as personal days, sick leave, and maternity and paternity leave benefits beyond what is mandated by law. But the majority of Canadian workers still don't have access to such discretionary benefits.

The ever-rising costs of benefits, particularly medical benefits and retirement plans, are a major concern for employers. Many are attempting to gain control over health care expenses by shifting more of the benefits costs to employees. Some also are encouraging healthy lifestyles as a way to decrease health insurance claims, such as those related to short-term disabilities.

**Flexible benefits** programs are increasingly common. These plans allow employees to choose a set of benefits within a certain dollar amount. The trend also is toward more **family-friendly benefits** that help employees balance work and non-work responsibilities. These include child care, elder care, flexible schedules, topped-up parental leave, and part-time employment options, among others. Increasingly common as well are **employee assistance programs** that help employees deal with personal problems. Such programs may offer assistance in dealing with stress, counselling on alcohol and substance abuse, referrals for domestic violence and sexual abuse, and sources for family and marital counselling.

## Retention and Turnover

Retirement is one of those experiences that can increase employees' fears and apprehensions as it approaches. Many organizations offer special counselling and other forms of support for retiring employees, including advice on company benefits, financial management, estate planning, and use of leisure time. Increasingly on the radar at many firms are **early retirement incentive programs**. These programs give workers financial incentives to retire early. The potential benefits for employers include the opportunity to lower payroll costs by reducing positions, replacing higher-wage workers with less expensive newer hires, and creating openings that can be used to hire workers with different, more current skills and talents.

The most extreme replacement decisions involve **termination**, or the involuntary and permanent dismissal of an employee. In some cases, termination is based on performance

problems or violations of organizational policy. In other cases, the employees involved may be performing well, but may be terminated as part of strategic restructuring through workforce reduction. In all cases, terminations must be handled fairly, according to organizational policies and in full legal compliance with all relevant federal and provincial/territorial statutes.

Canadian law states that an employer can only terminate an employee **without cause**, or without a reason, where it provides the employee with "reasonable notice" of the termination or compensation in lieu of notice.<sup>64</sup> Otherwise, the employee is considered to have been **wrongfully dismissed**. Likewise, employees may quit their job at any time for any reason, provided they give the minimum notice required by law. Human rights laws give workers legal protections against discriminatory firings, and employers must have bona-fide job-related cause to terminate the employee. In situations where workers belong to unions, terminations also are potentially subject to labour contract rules and specifications.

## Labour–Management Relations

**Labour unions** are organizations to which workers belong and that deal with employers on the workers' behalf.<sup>65</sup> They are found in many industrial and business occupations, as well as among public-sector employees including teachers, police officers, firefighters, and government workers. Unions have historically played an important role in Canadian society. Although they are often associated with mediating wage and benefit complaints, workers also join unions in order to address things like poor relationships with supervisors, favouritism or lack of respect by supervisors, little or no influence with employers, and failure of employers to provide a mechanism for grievance and dispute resolution.<sup>66</sup>

About four million Canadian workers belong to a union. That's 30 percent of Canadian workers, employed in such occupations as nurses, teachers, journalists, pro athletes, retail store clerks, manufacturing workers, miners, university professors and staff, workers at government organizations such as provincial liquor control boards, and electricians. Only 16 percent of unionized workers are in the private sector.<sup>67</sup>

Collective action of unions in Canada has achieved many of the workplace benefits we take for granted today, such as

workers' compensation, a reduced working day, minimum wage, the right to strike and bargain collectively, paid holidays, a shorter work week, employment insurance, and the right to safety at work.

Although membership in unions has been declining over the past decades, unions serve as a collective “voice” for their members and act as bargaining agents to negotiate **labour contracts** with employers. These contracts specify the rights and obligations of employees and management with respect to wages, work hours, work rules, seniority, hiring, grievances, and other conditions of employment. They are developed through **collective bargaining**, the process through which labour and management representatives negotiate, administer, and interpret labour contracts (called “collective agreements”). It typically involves face-to-face meetings between labour and management representatives. During these meetings, a variety of demands, proposals, and counterproposals are exchanged. Several rounds of bargaining may be required before a contract is reached or a dispute over a contract issue is resolved.

As you might expect, the collective bargaining process is time-consuming and expensive, and it can lead to problems. When negotiations break down and labour–management relations take on an adversarial character, the conflict can be

prolonged and extremely costly for both sides. This happens primarily when labour and management view each other as “win–lose” adversaries. In these situations, the collective bargaining becomes more of a battle than a constructive dialogue. The ideal process, by contrast, is characterized by a mutual “win–win” objective, with a focus on achieving benefits to labour in terms of fair treatment and to management in terms of workforce quality.

## Learning Check

**LEARNING OBJECTIVE 13.4** Summarize how managers help organizations maintain a quality workforce.

**Be Sure You Can** • define work–life balance • explain why compensation and benefits are important elements in human resource management • explain potential benefits and problems for merit pay plans • differentiate among bonuses, profit sharing, and stock options • define flexible benefits plans and discuss their advantages • define labour union and collective bargaining

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 13.1** Explain the human resource management process and its legal framework.

- The human resource management process involves attracting, developing, and maintaining a quality workforce.
- Human resource management becomes strategic when it is integrated into the organization's strategic management process.
- Employees have legal protections against employment discrimination; equal employment opportunity requires that employment and advancement decisions be made without discrimination.
- Current legal issues in human resource management include sexual harassment, comparable worth, rights of independent contractors, and employee privacy.

**For Discussion** What gaps in legal protections against employment discrimination still exist?

**LEARNING OBJECTIVE 13.2** Describe how managers help organizations attract a quality workforce.

- Human resource planning analyzes staffing needs and identifies actions to fill these needs over time.

- Recruitment is the process of attracting qualified job candidates to fill positions.
- Realistic job previews provide candidates with both positive and negative information about the job and organization.
- Selection involves gathering and assessing information about job candidates and making decisions about whom to hire.
- The selection process often involves screening applicants for qualifications, interviewing applicants, administering employment tests, and doing preemployment checks.

**For Discussion** Is it realistic to expect that when interviewing with a potential employer you will get a “realistic” job preview?

**LEARNING OBJECTIVE 13.3** Discuss how managers help organizations develop a quality workforce.

- Orientation is the process of formally introducing new employees to their jobs, performance expectations, and the organization.
- On-the-job training includes job rotation, coaching, modelling, and mentoring; off-the-job training includes approaches like management development programs.
- Performance appraisal serves both evaluation and development purposes.

- Common performance appraisal methods focus on evaluating employees' traits, behaviours, or performance achievements.

**For Discussion** What are the potential downsides to using 360-degree feedback in the performance review process?

**LEARNING OBJECTIVE 13.4** Summarize how managers help organizations maintain a quality workforce.

- Complex demands of job and family responsibilities have made work–life balance programs increasingly important in human resource management.

- Compensation and benefits packages must be attractive so that an organization stays competitive in labour markets.
- Merit pay plans link compensation and performance; bonuses, profit sharing, and stock options are also forms of incentive compensation.
- Retention decisions in human resource management involve promotions, retirements, and/or terminations.
- The collective bargaining process and labour–management relations are carefully governed by law.

**For Discussion** What creative options can employers offer to attract and retain motivated lower-wage employees?

## Chapter Glossary

**360-degree appraisal** A performance assessment method that includes superiors, subordinates, peers, and even customers in the appraisal process.

**Assessment centre** A type of employment test that examines how job candidates handle simulated work situations.

**Base compensation** A salary or hourly wage paid to an individual.

**Behavioural interview** An interview in which job applicants are asked about past behaviours.

**Behaviourally anchored rating scale** A scale that uses specific descriptions of actual behaviours to rate various levels of performance.

**Biodata method** A type of employment test that collects certain biographical information that has been proven to correlate with good job performance.

**Bona fide occupational requirements** Employment criteria justified by the capacity to perform a job.

**Bonus pay** A plan that provides one-time payments based on performance accomplishments.

**Coaching** A form of training where an experienced employee offers performance advice to a less experienced co-worker.

**Collective bargaining** The process of negotiating, administering, and interpreting a labour contract.

**Constructive dismissal** Where a company unilaterally changes the terms of employment or expresses an intention to do so thus forcing the employee to quit

**Critical-incident technique** A performance assessment technique that keeps a log of employees' effective and ineffective job behaviours.

**Early retirement incentive program** A program that offers workers financial incentives to retire early.

**Employee assistance program** A program that helps employees cope with personal stresses and problems.

**Employee benefits** Nonmonetary forms of compensation such as health benefits and retirement plans.

**Employee stock ownership plan** A plan that helps employees purchase stock in their employing companies.

**Employee value propositions** Packages of opportunities and rewards that make diverse and talented people want to belong to and work hard for the organization.

**Employment equity** The requirement that employers in the federal government and federally regulated industries increase the representation of women, people with disabilities, Indigenous people, and members of visible minorities in their workplaces to match their availability in the workforce.

**External recruitment** The process of seeking job applicants from outside the organization.

**Family-friendly benefits** A program that helps employees achieve better work–life balance.

**Flexible benefits** A program that allows employees to choose from a range of benefit options.

**Gain-sharing** A plan that allows employees to share in cost savings or productivity gains realized by their efforts.

**Graphic rating scale** A type of performance assessment that uses a checklist of traits or characteristics to evaluate performance.

**Human capital** The economic value of people with job-relevant knowledge, skills, abilities, ideas, energies, and commitments.

**Human resource management** The process of attracting, developing, and maintaining a talented workforce.

**Human resource planning** The process of analyzing staffing needs and identifying actions to fill those needs.

**Independent contractors** Workers who are hired as needed and are not part of the organization's permanent workforce.

**Internal recruitment** The process of seeking job applicants from inside the organization.

**Job analysis** A study of exactly what is done in a job, and why.

**Job description** A list of the duties and responsibilities of a job holder.

**Job discrimination** What occurs when someone is denied a job or work assignment, or treated differently from other employees, for reasons that are not job relevant. Laws in Canada protect workers from discrimination on the grounds of race, national or ethnic origin, colour, religion, sex, age, mental or physical disability, pregnancy, marital status, and gender identity.

**Job rotation** A form of training in which people switch tasks to learn multiple jobs.

**Job specifications** A list of the qualifications required of a job holder.

**Labour contract** A formal agreement between a union and an employer about the terms of work for union members.

**Labour union** An organization that deals with employers on the workers' collective behalf.

**Leniency** The tendency to give employees a higher performance rating than they deserve.

**Management development** Training to improve knowledge and skills in the management process.

**Mentoring** A form of training that assigns new hires and early-career employees as proteges to more senior employees.

**Merit pay** Pay increases awarded in proportion to performance contributions.

**Multiperson comparison** A formal comparison of one manager's performance evaluation of an employee with ratings provided by another manager.

**Onboarding or orientation** The familiarization of new hires with the organization's mission and culture, their jobs and co-workers, and performance expectations.

**Pay equity or comparable worth** The notion that persons performing jobs of similar importance should be paid at comparable levels.

**Performance assessment or performance review**

The process of formally evaluating performance and providing feedback to a job holder.

**Performance coaching** A form of evaluation that provides frequent and developmental feedback for how a worker can improve job performance.

**Performance management system** A system that sets standards, assesses results, and plans for performance improvements.

**Permatemps** Workers who are employed in a temporary status for an extended period of time.

**Person–job fit** The extent to which an individual's knowledge, skills, experiences, and personal characteristics are consistent with the requirements of their work.

**Person–organization fit** The extent to which an individual's values, interests, and behaviour are consistent with the culture of the organization.

**Profit-sharing** A plan that distributes to employees a proportion of net profits earned by the organization.

**Realistic job preview** A recruitment technique that provides job candidates with all pertinent information about a job and an organization, both positive and negative.

**Recency bias** The overemphasis of the most recent behaviours when evaluating individuals' performance.

**Recruitment** A set of activities designed to attract a talented pool of job applicants.

**Reliability** The characteristic of a selection device that repeatedly gives consistent results.

**Reverse mentoring** A form of training where younger employees mentor seniors to improve their technology skills.

**Selection** The process of choosing individuals to hire from a pool of qualified job applicants.

**Sexual harassment** Behaviour of a sexual nature that affects a person's employment situation.

**Situational interview** An interview in which job applicants are asked how they would react in specific situations.

**Social recruiting** What occurs when employers browse social media sites looking for prospective job candidates.

**Socialization** A process of learning and adapting to the organizational culture.

**Stock option** The right to purchase shares at a fixed price in the future.

**Strategic human resource management** The mobilization of human capital to implement organizational strategies.

**Termination** The involuntary dismissal of an employee.

**Traditional recruitment** A recruitment process that focuses on selling the job and organization to applicants.

**Training** The provision of learning opportunities to acquire and improve job-related skills.

**Unstructured interview** A job interview in which the interviewer does not work from a formal and pre-established list of questions that are asked of all interviewees.

**Validity** The characteristic of scores on a selection device that have a demonstrated correlation with future job performance.

**Without cause** The requirement in Canada for employers to give employees reasonable notice of termination or compensation in lieu of notice.

**Work sampling** A type of employment test in which applicants are evaluated while performing actual work tasks.

**Workplace privacy** The right to privacy while at work.

**Work–life balance** The balancing of career demands with personal and family needs.

**Wrongful dismissal** A doctrine giving workers legal protections against termination without cause.

## Self-Test 13

### Multiple-Choice Questions

- Human resource management is the process of \_\_\_\_\_, developing, and maintaining a high-quality workforce.
  - attracting
  - compensating
  - appraising
  - training
- \_\_\_\_\_ programs are designed to ensure equal employment opportunities for persons historically underrepresented in the workforce.
  - Realistic recruiting
  - External recruiting
  - Employment equity
  - Employee assistance
- The intent of the human rights code in Canada is to ensure the right of all citizens to gain and keep employment based only on \_\_\_\_\_.
  - their ability to do the job and their performance on the job
  - their ability to be proficient in one of the two official languages
  - their commitment to the vision and mission of the organization
  - the regularity of their attendance on the job
- \_\_\_\_\_ is the idea that jobs that are similar in terms of their importance to the organization should be compensated at the same level.
  - Employment equity
  - Realistic pay
  - Merit pay
  - Pay equity
- A \_\_\_\_\_ is a criterion that can be legally justified for use in screening candidates for employment.
  - job description
  - bona fide occupational requirement
  - job specification
  - BARS
- The first step in strategic human resource management is to \_\_\_\_\_.
  - forecast human resource needs
  - forecast labour supplies
  - assess the existing workforce
  - review organizational mission, objectives, and strategies
- In human resource planning, a(n) \_\_\_\_\_ is used to determine exactly what is done in an existing job.
  - critical-incident technique
  - assessment centre
  - job analysis
  - multiperson comparison
- If an employment test yields different results over time when taken by the same person, it lacks \_\_\_\_\_. If it bears no relation to actual job performance, it lacks \_\_\_\_\_.
  - equity, reliability
  - specificity, equity
  - realism, idealism
  - reliability, validity

9. Which phrase is most consistent with a recruiter offering a job candidate a realistic job preview?
- “There are just no downsides to this job.”
  - “No organization is as good as this one.”
  - “You’ll be promoted within a year.”
  - “Let me tell you what you might not like once you start work.”
10. Socialization of newcomers occurs during the \_\_\_\_\_ step of the staffing process.
- recruiting
  - orientation
  - selecting
  - training
11. The \_\_\_\_\_ purpose of performance appraisal is being addressed when a manager describes training options that might help an employee improve future performance.
- development
  - evaluation
  - judgement
  - legal
12. When a team leader is required to rate 10 percent of team members as “superior,” 80 percent as “good,” and 10 percent as “unacceptable” for their performance on a project, this is an example of the \_\_\_\_\_ approach to performance appraisal.
- graphic
  - forced distribution
  - behaviourally anchored rating scale
  - realistic
13. An employee with domestic problems due to substance abuse would be pleased to learn that their employer had a(n) \_\_\_\_\_ plan to help on such matters.
- employee assistance
  - cafeteria benefits
  - pay equity
  - collective bargaining
14. Whereas bonus plans pay employees for special accomplishments, gain-sharing plans reward them for \_\_\_\_\_.

- helping to increase social responsibility
- regular attendance
- positive work attitudes
- contributing to cost reductions

15. In labour–management relations, the process of negotiating, administering, and interpreting a labour contract is known as \_\_\_\_\_.
- arbitration
  - mediation
  - reconciliation
  - collective bargaining

### Short-Response Questions

16. What are the different advantages of internal and external recruitment?
17. Why is orientation an important part of the human resource management process?
18. Why is a BARS potentially superior to a graphic rating scale for use in performance appraisals?
19. How does mentoring work as a form of on-the-job training?

### Essay Question

20. Sy Smith is not doing well in his job. The problems began to appear shortly after Sy’s job was changed from a manual to computer-based operation. He has tried hard but is just not doing well in learning to use the computer; as a result, he is having difficulty meeting performance expectations. As a 55-year-old employee with over 30 years with the company, Sy is both popular and influential among his work peers. Along with his performance problems, you have also noticed that Sy seems to be developing a more negative attitude toward his job. As Sy’s manager, what options would you consider in terms of dealing with the issue of his retention in the job and in the company? What would you do, and why?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. Tattoos in the Office

A co-worker has come to you with a problem. He has tattoo “sleeves” on both arms that extend to the wrists. Even in a long-sleeved shirt they are difficult to cover. He’s upset because he learned that someone else got the promotion he had been hoping for. Everyone respects his high performance, diligence, and loyalty to the company. But it’s also common knowledge that the boss “doesn’t like tattoos.” What advice can you give to your colleague about handling the current situation regarding the lost promotion? What advice, if any, can you offer about having both a career and tattoos?

##### 2. Bad Appraisal System

As the new head of retail merchandising at a local department store, you are disappointed to find that the sales associates are evaluated on a graphic rating scale that uses a simple list of traits to gauge their performance. You believe that better alternatives are available, ones that will not only meet the employer’s needs but also be helpful to the sales associates themselves. After raising this issue with your boss, she says, “Fine, I hear you. Give me a good proposal and I’ll take it to the store manager for approval.” What will you propose, and how will you justify it as being good for both the sales associates and the boss?

### 3. The Union Wants In

There's a drive to organize the student teaching assistants of your institution and have them represented by a union. The student leaders on campus are holding a forum to gather opinions on the pros and cons of unionized teaching assistants. Because you represent a

popular student organization in your institution, you are asked to participate in the forum. You are expected to speak for about three minutes in front of the other student leaders. So, are you for or against the unionization of teaching assistants? What will you say at the forum, and why?

## Reflect on the Self-Assessment

### Performance Assessment Assumptions

#### Instructions

In each of the following pairs, check the statement that best reflects your assumptions about performance assessment and appraisal.<sup>68</sup>

#### Performance assessment is:

1. (a) a formal process that should be done annually.  
(b) an informal process that should be done continuously.
2. (a) a process best planned *for* the person being assessed.  
(b) a process best planned *with* the person being assessed.
3. (a) done as an organizational requirement.  
(b) done regardless of organizational requirements.
4. (a) a time for team leaders to evaluate performance of team members.  
(b) a time for team members to evaluate their team leaders.
5. (a) a time to clarify performance standards for a worker.  
(b) a time to clarify a worker's career needs.
6. (a) a time to confront poor performance.  
(b) a time to express appreciation.

7. (a) an opportunity to improve direction and control.  
(b) an opportunity to increase enthusiasm and commitment.
8. (a) only as good as the organization's procedures for it.  
(b) only as good as the manager's coaching skills.

#### Scoring

There is no formal scoring for this assessment, but if you look carefully and think through your answers there may be a pattern worth thinking more about.

#### Interpretation

The "(a)" responses represent a more traditional approach to performance appraisal that emphasizes its evaluation function. This role largely puts the supervisor in the role of documenting a subordinate's performance for control and administrative purposes. The "(b)" responses represent more emphasis on the counselling or development role. Here, the supervisor is concerned with helping the subordinate perform better and learn how he or she might be of help.

## Contribute to the Class Exercise

### Upward Appraisal

#### Instructions

Form into work groups as assigned by the instructor. After the instructor leaves the room, complete the following tasks.<sup>69</sup>

1. Create a master list of comments, problems, issues, and concerns about the course experience to date that members would like to communicate to the instructor.
2. Select one person from the group to act as the spokesperson who will give your feedback to the instructor when he or she returns to the classroom.
3. The spokespersons should meet to rearrange the room (placement of tables, chairs, etc.) for the feedback session. This arrangement should allow the spokespersons and instructor to communicate in view of the other class members.
4. While spokespersons are meeting, group members should discuss what they expect to observe during the feedback session.
5. The instructor should be invited in; spokespersons should deliver feedback while observers make notes.
6. After the feedback session is complete, the instructor will call on observers for comments, ask the spokespersons for their reactions, and engage the class in general discussion about the exercise and its implications.

## Manage a Critical Incident

### Manager's Dilemma

#### Situation

You are the manager of a local fast food restaurant. Two employees have presented you, their employer, with a request to start the process that will lead to unionization. They state that the employees feel it is in their best interests to have union protection when it comes to financial and physical well-being. Since you are a private company you wonder if the employees are within their rights. The employees are letting you

know that they are going to start distributing formal union cards for signatures next week. This is a complete surprise to you.

#### Questions

You have to contact the restaurant owner, but you want to be well prepared. What notes will you make about goals, critical issues, possible outcomes, and stakeholders in this situation? What will be on your list of possible recommendations? What will be your preferred course of action, and why?

## Collaborate on the Team Activity

### Future of Labour Unions

#### Question

What is the future for labour unions in Canada?

#### Instructions

1. Perform library research to identify trends in labour union membership in Canada.
2. Analyze the trends to identify industries and settings where unions are gaining and losing strength. Develop possible explanations for your findings.

3. Talk with members of labour unions—friends, family, community members—to gather their viewpoints on the benefits of unions and issues affecting the future of unions in Canada.
4. Talk with managers in different types of organizations to get their views on unions, how they work, and the advantages and disadvantages they present to management.
5. Consider examining data on labour union trends in other countries.
6. Prepare a report that uses the results of your research to answer the project question.

## Analyze the Case Study

### Case 13.1 RealRecruit | Protecting Student Athletes

Go to Management Cases for Critical Thinking at the end of the book to find this case.

# CHAPTER 14



Erin Combs/Toronto Star/Getty Images

## Leading and Leadership Development

Terry Fox was 21 years old when his leg was amputated above the knee due to cancer. As he was going through therapy he became aware of all the other young Canadians who had also been stricken by the terrible disease. “I had to do something about it,” said Fox, so he decided that he would raise money for cancer research, using his skills as an athlete, by running across Canada. “I’m stubborn and competitive,” he said, undaunted by the task he set before him. The country followed him on his trek, greeting him along the way, watching him hop and step as he ran—a style he called his “fox-trot.” He ran 42 km (26 miles) every day—a daily marathon. After running 143 days and 5,373 km (3,339 miles), he was forced to end his “Marathon of Hope.” The cancer had spread to his lungs. Two months later, Fox died. The nation was grief-stricken but remains to this day inspired by his leadership and

his dream. Over \$700 million has been raised for cancer research in his name.

A glance at the shelves in your local bookstore will quickly confirm that “leadership” is one of the most popular topics in the field of management. The consensus is that leaders become great by bringing out the best in the people who follow them. For instance, the internationally recognized management scholar from McGill University, Henry Mintzberg, believes that it’s all about engagement. “[Leaders who engage the people they lead] care a lot more than they cure, they connect a lot more than they control, they demonstrate a lot more than they decide...”<sup>1</sup> Canada’s renowned former astronaut, Chris Hadfield, agrees. “Ultimately,” states Hadfield, “leadership is not about glorious crowning acts. It’s about keeping your team focused on a goal



and motivated to do their best to achieve it, especially when the stakes are high and the consequences really matter. It is about laying the groundwork for others' success, and then standing back and letting them shine."<sup>2</sup> Both Mintzberg and Hadfield express a common theme in leadership thinking today: leaders thrive through and from the successes of others.

Although the leadership message seems clear, the task of leading isn't easy. Managers and team leaders often face daunting responsibilities. Resources can be scarce and performance expectations high. Time frames for getting things accomplished can be short, while problems to be resolved are complex, ambiguous, and multidimensional.<sup>3</sup> It takes high self-awareness and hard work to be a great leader. There are many challenges to be mastered on the pathways toward leadership success at work, in our communities, and at home with families and loved ones. This chapter offers an opportunity to find out more about the leader who resides in you.

## Chapter Quick Start

"Leadership" is one of those words that we hear and use all the time but may rarely stop to think much about. In fact, leadership is a very complicated process that demands a great deal from leaders and followers alike, and requires lots of background understanding and personal insight. This review of the research foundations of leadership and its implications for leadership development can help you build skills to reach your full leadership potential.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 14.1 The Nature of Leadership

**14.1** Discuss leadership and explain its foundations in power, vision, and service.

#### 14.2 Leadership Traits and Behaviours

**14.2** Describe key leader behaviours that impact leadership effectiveness.

#### 14.3 Contingency Approaches to Leadership

**14.3** Identify how situational contingencies influence leadership effectiveness.

#### 14.4 Personal Leadership Development

**14.4** Summarize the challenges of personal leadership development.

### What to Look for **Inside**

#### Management Is Real

- 14.1 Wisdom** Learn from Role Models  
June Callwood, the Journalist Advocate
- 14.2 Analysis** Make Data Your Friend  
Followers Report Shortcomings of Leaders
- 14.3 Ethics** Know Right from Wrong  
A Step over the Line into Community Service
- 14.4 Insight** Keep Learning about Yourself  
There's No Substitute for Integrity
- 14.5 Choices** Think before You Act  
Sometimes "No" May Be Your Best Answer

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Least-Preferred Co-Worker Scale
- **Contribute** *to the Class Exercise:*  
Most-Needed Leadership Skills
- **Manage** *a Critical Incident:*  
Playing Favourites as a Team Leader
- **Collaborate** *on the Team Activity:*  
Leadership Believe-It-or-Not
- **Analyze** *the Case Study:*  
Broadband TV | Shahrzad Rafati's "Rapid-Fire" Drive

## 14.1 The Nature of Leadership

### LEARNING OBJECTIVE 14.1

Discuss leadership and explain its foundations in power, vision, and service.

#### Learn More About

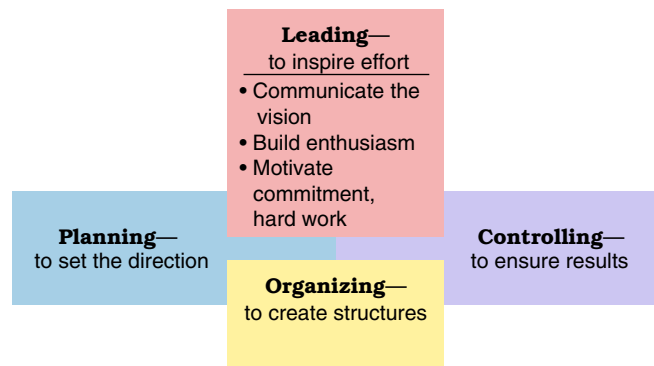
- Leadership and power • Leadership and vision
- Leadership and service • Leadership and followership

It helps to think of **leadership** as the process of inspiring others to work hard to accomplish important tasks.<sup>4</sup> As shown in **Figure 14.1**, it also is one of the four functions that constitute the management process. *Planning* sets the direction and objectives; *organizing* brings together resources to turn plans into action; *leading* builds the commitments and enthusiasm for people to apply their talents to help accomplish plans; and *controlling* makes sure plans turn out right.

## Leadership and Power

Leadership success begins with the ways we use power to influence the behaviour of other people. Harvard professor Rosa-beth Moss Kanter once called *power* “America’s last great dirty word.”<sup>5</sup> She was concerned that too many people, including managers, are uncomfortable with the concept of power. They don’t realize how critical it is for leadership.

**Power** is the ability to get others to do something you want done, or to make things happen the way you want. The “positive” face of power is that it is the foundation of effective leadership. This means using power not with the desire to influence others for the sake of personal satisfaction, but for the good of the group or organization as a whole.<sup>6</sup>



**FIGURE 14.1** Leading viewed in relationship to the other management functions.

#### Power of the POSITION:

*Based on things managers can offer to others.*

**Rewards:** “If you do what I ask, I’ll give you a reward.”

**Coercion:** “If you don’t do what I ask, I’ll punish you.”

**Legitimacy:** “Because I am the boss; you *must* do as I ask.”

**FIGURE 14.2** Position power.

Theoretically, anyone in a managerial position—team leader, department head, supervisor—has power, but how well it is used varies from person to person. Leaders gain power both from the position they hold (see **Figure 14.2**) and from their personal qualities (see **Figure 14.3**).<sup>7</sup> You can remember this as an equation:  $\text{Managerial Power} = \text{Position Power} + \text{Personal Power}$ . The three bases of position power are reward power, coercive power, and legitimate power; three important bases of personal power are expertise, information and networking, and referent power.

**Position Power** When it comes to the position of being a manager, **reward power** is the ability to influence through rewards. It is the capacity to offer something of value—a positive outcome—as a way to influence others’ behaviour. This involves use of incentives such as pay raises, bonuses, promotions, special assignments, and verbal or written compliments. In mobilizing reward power, a manager says, in effect: “If you do what I ask, I’ll reward you.” As you might expect, this approach works as long as people want the reward and the manager/leader makes it continuously available. But take the value of the reward or the reward itself away, and the power is quickly lost.

**Coercive power** is the ability to achieve influence through punishment. It is the capacity to punish or withhold positive outcomes to influence others’ behaviour. A manager may attempt to coerce by threatening with verbal reprimands, pay penalties, and even termination. In mobilizing coercive power, a manager says, in effect: “If you don’t do what I want, I’ll punish you.” How would you feel if threatened in these ways? If you’re like most people, you’d resent both the threat and the person making it. You might do what you’re told or at least go through the motions. But you’re unlikely to continue once the threat is gone.

**Legitimate power** is the ability to influence through authority. It is the right to exercise control by virtue of organizational position or status. In mobilizing legitimate power,

#### Power of the PERSON:

*Based on how managers are viewed by others.*

**Expertise**—as a source of special knowledge and information.

**Information and Network**—as a source of social networks and social capital.

**Reference**—as a person with whom others like to identify.

**FIGURE 14.3** Personal power.

a manager says, in effect: “I am the boss; therefore, you need to do what I ask.” When your instructor assigns homework, exams, and team projects, most often you do what the instructor requested. Why? You do it because the requests seem legitimate in the context of the course. But if the instructor moves outside of the boundaries of the course, such as telling you to attend a campus sports event, the legitimacy is lost and you are much less likely to comply.

**Personal Power** Position power alone isn’t sufficient for any manager. It’s very often the amount of personal power you can mobilize through expertise and reference that makes the difference between success and failure in a leadership situation, and in your career in general.

**Expert power** is the ability to achieve influence through special skills, knowledge, and reputation. It is the capacity to influence others’ behaviour because of expertise and a high-performance reputation. When a manager uses expert power, the implied message is one of credibility: “You should do what I want because of what I know and what I have accomplished.” This expertise is part of our **human capital**, which is the ability to get things done based on what we know and can do. It can be earned from credentials, experience, and visible performance achievements. But it has to be maintained by protecting credibility, not overstepping boundaries or pretending to have expertise that isn’t really there. Although some people, such as medical doctors and lawyers, are granted at least temporary expertise due to credentials, they can quickly lose it through mistakes and bad behaviour. Most of us acquire expertise one step at a time. Gaining it, in fact, may be among your biggest early career challenges.

**Information and networking power** is the ability to achieve influence through access to information and contacts with other people.<sup>8</sup> It is the capacity to influence others due to being central to information flows and social networks, and as a result of being trusted as a credible information source and reliable networking partner. When a manager uses information and networking power, the implied message is: “I have access to information and people, I can get things done.” This power is linked to the informal structures and social networks—both interpersonal and media driven—that give life to day-to-day organizational dynamics. It is part of what is called **social capital**, having a strong base of connections who can help you get things done.

**Referent power** is the ability to achieve influence through identification. It is the capacity to influence others’ behaviour because of their admiration and their desire for positive identification with you. Referent power derives from charisma or interpersonal likability. When a manager uses referent power, the implied message is: “You should do what I want in order to maintain a positive, self-defined relationship with me.” It’s helpful to view referent power as something that can be developed and maintained through good interpersonal relationships that encourage others’ admiration and respect. It is a lot easier to get others to do what you want when they like you than when they don’t.

**The Power Paradox** Dr. Dacher Keltner, professor of psychology at Berkeley, has conducted research on the use and

misuse of power. We assume that power is a negative attribute associated with coercion and domination, often misused; and to a certain extent, that’s true. Writes Keltner, “studies show that once people assume positions of power, they’re likely to act more selfishly, impulsively, and aggressively, and they have a harder time seeing the world from other people’s points of view.” Herein lies the paradox. The skills most important for obtaining power and leading effectively are the very skills that deteriorate once we have power. Keltner’s work is dedicated to providing evidence to show how a person can use power for the benefit of others. The following summarizes his five-fold path to enduring power:

1. Be aware of your feelings about power. Are you in your position for fame and money or to enhance the greater good?
2. Practise humility. Don’t be impressed with your own work. Stay critical of it.
3. Stay focused on, and give to others. This will prove to be the most important foundation not only of your making a lasting difference, but of your own sense of happiness and meaning in life.
4. Practise respect. Ask questions. Listen with intent. Be curious about others. Acknowledge them. Compliment and praise with gusto. Express gratitude.
5. Change the psychological context of powerlessness. Create opportunities in your workplace that empower those who have suffered disempowerment due to the moral mistakes or systemic racism of the past.<sup>9</sup>

## Leadership and Vision

“Great leaders,” it is said, “get extraordinary things done in organizations by inspiring and motivating others toward a common purpose.”<sup>10</sup> Their power is enhanced by their ability to communicate a compelling **vision**—a hoped-for future that if achieved will improve the present state of affairs. But simply having a vision isn’t enough. Truly exceptional leaders excel at transforming their vision into accomplishments.

The term **visionary leadership** describes the behaviours of leaders who offer a clear and compelling view of the future, as well as an understanding of the actions needed to get there successfully.<sup>11</sup> This means having a clear vision, communicating the vision, and getting people motivated and inspired to pursue the vision in their daily work. Think of it this way. Visionary leadership gives meaning to people’s work; it makes what they do seem worthwhile and valuable. Certainly, those who have followed in Terry Fox’s footsteps—literally and figuratively—were inspired by his vision of funding research in the hopes of creating a world without cancer. Noted educational leader Lorraine Monroe says: “The job of a good leader is to articulate a vision that others are inspired to follow.”<sup>12</sup> Her views match those of the late John Wooden, a champion U.S. men’s college basketball coach. Wooden once said: “Effective leadership means having a lot of people working toward a common goal.” If you can achieve that with no one caring who gets the credit, you’re going to accomplish a lot.<sup>13</sup>

## Leadership and Service

Institutions function better when the idea, the dream, is to the fore, and the person, the leader, is seen as servant to the dream.

—Robert Greenleaf of the Greenleaf Center for Servant Leadership<sup>14</sup>

The real leader is a servant of the people she leads. A really great boss is not afraid to hire smart people. You want people who are smart about things you are not smart about.

—Lorraine Monroe of the Monroe Leadership Institute<sup>15</sup>

When thinking about leadership, power, and vision, it is critical to consider personal integrity. According to Peter Drucker, the concept of “service” is central to integrity, and leaders who have integrity act as “servants of the organization.”<sup>16</sup> More and more today you’ll hear conversations about **servant leadership**—leading by serving others and helping them fully use their talents so that organizations benefit society.<sup>17</sup> Ask this question: Who is more important, the leader or the followers? For those who believe in servant leadership, the correct answer is clear—it’s the followers. A servant leader is “other-centred”

and not “self-centred.” One Canadian who believed in servant leadership was the journalist June Callwood, discussed in Management Is Real 14.1.

When servant leaders shift the focus away from themselves and toward others, what happens? The answer is **empowerment**. This is the process of allowing others to exercise power and achieve organizational influence. Servant leaders realize that power is not a “zero-sum” quantity. They reject the idea that in order for someone to gain power, another has to give it up.<sup>18</sup> They empower others by providing them with the information, responsibility, authority, and trust to make decisions and act independently. They also expect that people who are empowered will work hard so that the organization is better equipped to pursue its cause or mission.

## Leadership and Followership

The discussion of servant leadership and empowerment is a nice transition into the subject of “followership.” What roles do followers play in leadership? How do followers influence leadership success and failure? Do follower perceptions and expectations of effective leadership vary in discoverable ways? These

### Management Is Real 14.1: Wisdom | Learn from Role Models

“Journalists must place themselves in the thick of it....”

#### June Callwood, the Journalist Advocate

June Callwood (1924–2007) was one of Canada’s most revered and fearless journalists who fought tirelessly for the right of journalists to advocate for causes in which they believed. In her era, it had been frowned upon for any journalist to enter into any community activity in case they’d be seen as biased in their reporting. Callwood called this belief that journalists must be completely impartial “skim-milk journalism,” a “myth of objectivity,” and a “pious camouflage.”

“Hogwash,” exclaimed Callwood. Quoting E.B. White, the famous American essayist, she wrote: “All writing is slanted. A writer cannot be perpendicular, but can aspire to be upright.” Journalists had been discouraged from joining community organizations in the name of purer reporting, which Callwood thought was “sinister.” Who better to report than someone who was familiar with the people about whom he or she was reporting?

Callwood was an idealist with a vision of contributing to “something wonderful” by associating with grassroots organizations. She argued that journalists who were encouraged to do so were in fact less likely to skew the news because they wouldn’t miss the real essence of the story. She argued for the necessity for journalists to have regular communication with those who “toil in the front lines.” This involvement would reduce the “disasters that are caused when journalism reflects partial truths, misunderstanding, and prejudice.”

It was important for Callwood to be a brave voice for change. Her concern was poverty, racism, violence, and human suffering. Her voice would not be silenced. “Journalists must place themselves in the thick of it,” she wrote, “and do their level best to help this country understand what’s happening and find the will to take better care of one another.”



Dick Loek/Toronto Star/Getty Images

June Callwood was a visionary who participated in many causes: child poverty, Indigenous rights, homelessness, free speech, racism, reproductive freedom, capital punishment, and prison reform. She assisted in the organization of over 50 community agencies in Toronto, including the AIDS hospice Casey’s House, Nellie’s for abused homeless women, Maggie’s for sex workers, and Digger House for teenagers at risk. Among her many recognitions, she was awarded a Companion of the Order of Canada.

#### Find Inspiration

Is visionary leadership necessarily something that works only at the very top of organizations? What about this notion that leaders should be follower-centred? Does that mean that followers get to determine what gets done and when? What are the lessons June Callwood teaches for everyday leaders at all levels in organizations of all types and sizes? How could her determination to challenge the status quo serve you?

are but a few of the questions that leaders and followers alike should be asking in teams and organizations.

If leadership is the act of inspiring others, **followership** is the act of joining with a leader to accomplish tasks and goals.<sup>19</sup> The work of scholar Mary Uhl-Bien and others strongly suggests that the emphasis in this definition should be on the word “joining.” They view leadership as something that is “co-produced” by leaders and followers, rather than being a singular result of a leader’s actions alone. They criticize the *romance of leadership* and the *subordination of followership*, which together create situations in which leaders get credit for accomplishments and the contributions of followers get overlooked.<sup>20</sup>

In research on followership, the perceptions of both leaders and followers are of interest. Some followers, for example, tend to see themselves as passive players whose job it is to obey and take little responsibility for shared leadership. They are comfortable being told what to do and may get stressed and uncomfortable with a leader who emphasizes empowerment and independence. Other followers may see themselves as proactive partners with responsibility to make real leadership contributions. They are likely to be unhappy in a top-down leadership climate, but energized and motivated in a shared leadership climate. From an empowering leader’s perspective, followers tend to get high ratings for showing initiative, enthusiasm, and loyalty, and get low ratings for showing incompetence and conformity.<sup>21</sup>

## Learning Check

**LEARNING OBJECTIVE 14.1** Discuss leadership and explain its foundations in power, vision, and service.

**Be Sure You Can** • define *power* • illustrate three types of position power and discuss how managers use each • illustrate three types of personal power and discuss how managers use each • define *vision* • explain the concept of visionary leadership • explain the notion and benefits of servant leadership • define *empowerment* and *followership* • explain the “romance of leadership” and “subordination of followership”

## 14.2 Leadership Traits and Behaviours

**LEARNING OBJECTIVE 14.2**

Describe key leader behaviours that impact leadership effectiveness.

### Learn More About

Leadership traits • Leadership behaviours • Classic leadership styles

Societies have recognized for centuries that while some people do really well as leaders, others do not. The question still debated is: “Why?” Historically, the answer has been sought by studying leader traits, behaviours, and situational contingencies. Each approach differs in terms of how leadership effectiveness is explained, and all offer useful insights on leadership development.

## Leadership Traits

**Question**—What personal traits and characteristics are associated with leadership success?

An early direction in leadership research involved the search for universal traits or distinguishing personal characteristics that separate effective from ineffective leaders.<sup>22</sup> Sometimes called the “great person theory,” the results of many years of research on this theory can be summarized as follows.

Certain personal traits are common among the best leaders. A study of more than 3,400 managers, for example, revealed that followers tend to consistently admire leaders who are honest, competent, forward looking, inspiring, and credible.<sup>23</sup> A comprehensive review by Shelley Kirkpatrick and Edwin Locke identifies these personal traits of many successful leaders:<sup>24</sup>

- *Drive*—Successful leaders have high energy, display initiative, and are tenacious.
- *Self-confidence*—Successful leaders trust themselves and have confidence in their abilities.
- *Creativity*—Successful leaders are creative and original in their thinking.
- *Cognitive ability*—Successful leaders have the intelligence to integrate and interpret information.
- *Job-relevant knowledge*—Successful leaders know their industry and its technical foundations.
- *Motivation*—Successful leaders enjoy influencing others to achieve shared goals.
- *Flexibility*—Successful leaders adapt to fit the needs of followers and the demands of situations.
- *Honesty and integrity*—Successful leaders are trustworthy, honest, predictable, and dependable. Unfortunately, it seems that leaders with honesty and integrity are perceived by their followers to be in short supply, as shown in Management Is Real 14.2.

## Leadership Behaviours

**Question**—How is leadership success affected by the ways leaders behave when engaging with followers?

After the early trait studies, researchers turned their attention to the issue of how leaders behave when dealing with followers.<sup>25</sup> If the most effective behaviours could be identified, they reasoned, then it would be possible to train leaders to become skilled at using these behaviours.

A stream of research that began in the 1940s, spearheaded by studies at Ohio State University and the University

## Management Is Real 14.2: Analysis | Make Data Your Friend

Only 37 percent of workers in a Harris survey believe leaders display “integrity and morality.”

### Followers Report Shortcomings of Leaders

Harris Interactive periodically conducts surveys of workers’ attitudes toward their jobs and employers. The results for “leaders” and “top managers” reveal some surprising shortcomings:

- 37 percent believe their top managers display integrity and morality.
- 39 percent believe leaders most often act in the best interest of the organization.
- 22 percent see leaders as ready to admit mistakes.
- 46 percent believe their organizations give them freedom to do their jobs.
- 25 percent of women and 16 percent of men believe their organizations pick the best people for leadership.
- 33 percent of managers are perceived by followers as “strong leaders.”



Andersen Ross Photography Inc./DigitalVision/Getty Images

### What Are the Implications?

How do the leaders you have had experience with stack up? Which ones rate as strong or weak, or as moral or immoral? How would you describe your best leader and his or her impact on you? What makes the greatest difference in how leaders are viewed by followers?

of Michigan, focused attention on two dimensions of leadership behaviour: (1) concern for the task to be accomplished, and (2) concern for the people doing the work. The Ohio State studies used the terms *initiating structure* and *consideration* for the respective dimensions; the University of Michigan studies called them *production-centred* and *employee-centred*.<sup>26</sup> Regardless of the terminology used, the characteristics of each dimension of leadership behaviour were quite clear.

- A leader high in concern for task—plans and defines the work to be done, assigns task responsibilities, sets clear work standards, urges task completion, and monitors performance results.
- A leader high in concern for people—acts with warmth and supportiveness toward followers, maintains good social relations with them, respects their feelings, is sensitive to their needs, and shows trust in them.

The results of leader behaviour research at first suggested that followers of people-oriented leaders should be the most productive and satisfied.<sup>27</sup> However, researchers eventually discovered that effective leaders were high in concerns for both people and task; the “high-high” position.<sup>28</sup> This type of leader focuses on task accomplishments while also sharing decisions with team members, empowering them, encouraging participation, and supporting teamwork.

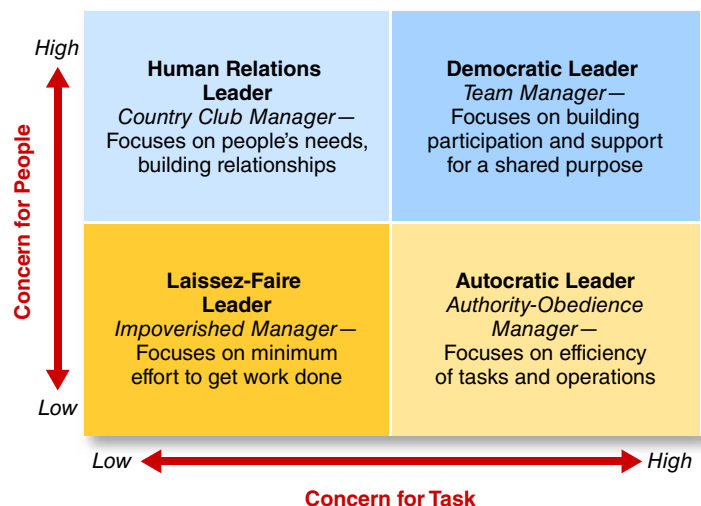
## Classic Leadership Styles

**Question**—How do different leadership styles combine concerns for task and concerns for people?

Work in the leader behaviour tradition made it easy to talk about different **leadership styles**—the recurring patterns

of behaviours exhibited by leaders. When people talk about the leaders with whom they work, even today, their vocabulary often describes the classic styles of leadership shown in **Figure 14.4**.<sup>29</sup> These styles represent different combinations of concerns for task and concerns for people in the leadership experience.

A leader identified with an **autocratic style** emphasizes task over people, retains authority and information, and acts in a unilateral, command-and-control fashion. A leader with a **human relations style** does just the opposite and emphasizes people over task. A leader with a **laissez-faire style** shows little concern for the task, lets the group make decisions, and acts with a “do the best you can and don’t bother me” attitude.



**FIGURE 14.4** Classic leadership styles combining concerns for task and concerns for people.

A leader with a **democratic style**, the “high-high” team manager, is committed to both task and people. This leader tries to get things done while sharing information, encouraging participation in decision-making, and otherwise helping others develop their skills and capabilities.

## Learning Check

**LEARNING OBJECTIVE 14.2** Describe key leader behaviours that impact leadership effectiveness.

**Be Sure You Can** • contrast the trait and leader-behaviour approaches to leadership research • identify five personal traits of successful leaders • illustrate leader behaviours consistent with a high concern for task • illustrate leader behaviours consistent with a high concern for people • describe behaviours associated with four classic leadership styles

## 14.3 Contingency Approaches to Leadership

**LEARNING OBJECTIVE 14.3**

Identify how situational contingencies influence leadership effectiveness.

### Learn More About

Fiedler's contingency model • Hersey-Blanchard situational leadership model • House's path-goal leadership theory • Leader-member exchange theory • Leader-participation model

Over time scholars became increasingly dissatisfied with both the trait and leader behaviour approaches. They concluded that no one set of traits or behaviours or styles works best all of the time. In response, they developed a number of contingency approaches to explain the conditions for leadership success in different situations.

## Fiedler's Contingency Model

**Question**—Which leadership styles work best in the specific situations that leaders face?

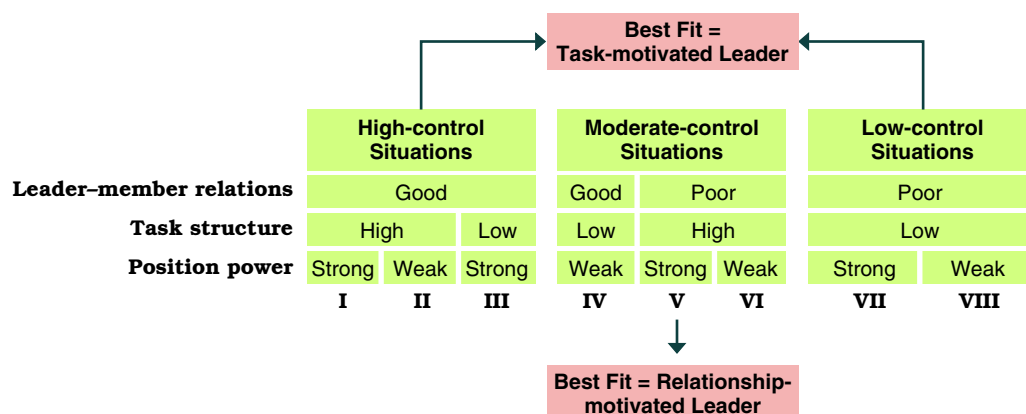
One of the first contingency leadership models was developed by Fred Fiedler. He proposed that good leadership depends on a match or fit between a person's leadership style and situational demands.<sup>30</sup> Fiedler viewed leadership style as part of personality and therefore difficult to change. He didn't place much hope in trying to change styles and train leaders to behave in new ways. Instead, he suggested that the key to success was to put existing leadership styles to work in the situations where they fit best. In order to achieve these style-situation matches, leaders have to understand both their personal styles and the situational strengths and weaknesses of those styles.<sup>31</sup>

### Understanding Leadership Styles and Situations

Leadership style in Fiedler's model is measured using the **least-preferred co-worker scale**, known as the LPC scale (see end-of-chapter self-assessment). It measures tendencies to behave either as a *task-motivated leader* (low LPC score) or *relationship-motivated leader* (high LPC score).

Leadership situations in Fiedler's model are assessed according to the amount of control they offer the leader. Three contingency variables measure situational control. The *quality of leader-member relations* (good or poor) measures the degree to which the group supports the leader. The degree of *task structure* (high or low) measures the extent to which task goals, procedures, and guidelines are clearly spelled out. The amount of *position power* (strong or weak) measures the degree to which the position gives the leader power to reward and punish subordinates.

**Figure 14.5** shows eight leadership situations that result from different combinations of these contingency variables.



**FIGURE 14.5** Predictions on style-situation fit from Fiedler's contingency leadership model.

They range from the most favourable situation of high control (good leader–member relations, high task structure, strong in position power) to the least favourable situation of low control (poor leader–follower relations, low task structure, weak in position power).

### Matching Leadership Style and Situation

Fiedler's research showed that neither the task-oriented nor the relationship-oriented leadership style was effective all the time. Instead, as summarized here and shown in Figure 14.5, each style seemed to work best when used in the right situation.

- *Task-motivated style*—This leader will be most successful in either very favourable high-control situations or very unfavourable low-control situations.
- *Relationship-motivated style*—This leader will be most successful in situations of moderate control.

Consider some examples. Assume you are the leader of a team of market researchers. The researchers seem highly supportive of you, and their job is clearly defined regarding what needs to be done. You have the authority to evaluate their performance and to make pay and promotion recommendations. This is a high-control situation consisting of good leader–member relations, high task structure, and high position power. Figure 14.5 shows that a task-motivated leader would be most effective in this situation.

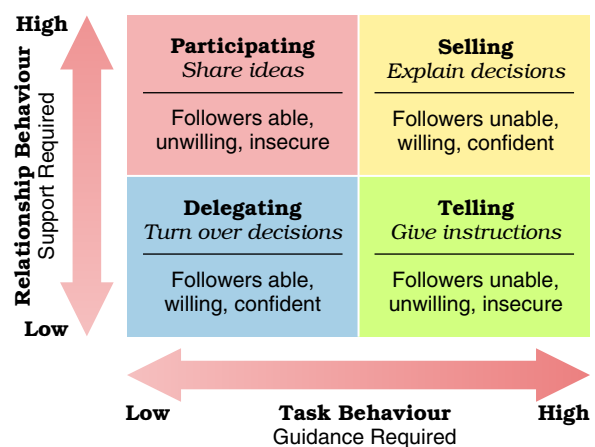
Suppose now that you are the faculty chairperson of a committee asked to improve student–faculty relationships in a university. Although the goal is clear, no one can say for sure how to accomplish it, and task structure is low. Because the committee is voluntary and members are free to quit any time, the chairperson has little position power. Because student members thought that the chair should be a student rather than a faculty member, leader–member relations are mixed. According to Figure 14.5, this low-control situation also calls for a task-motivated leader.

Finally, assume that you are the new head of a fashion section in a large department store. Because you were selected over one of the popular sales associates you now supervise, leader–member relations are poor. Task structure is high because the associate's job is well defined. Your position power is low because associates work under a seniority system and fixed wage schedule. From Figure 14.5, you can see that Fiedler identifies a relationship-motivated leader as the best fit for this moderate-control situation.

## Hersey-Blanchard Situational Leadership Model

**Question**—How should leaders adjust their leadership styles according to the task readiness of followers?

In contrast to Fiedler's notion that leadership style is hard to change, the Hersey-Blanchard situational leadership model suggests that successful leaders do adjust their styles. But they



**FIGURE 14.6** Leadership implications of the Hersey-Blanchard situational leadership model.

do so wisely and based on the task readiness, or task maturity, of followers.<sup>32</sup> “Readiness,” in this sense, refers to how able and willing or confident followers are performing required tasks. The four leadership styles to choose from are shown in Figure 14.6 as:

- *Delegating*—allowing the group to take responsibility for task decisions; a low-task, low-relationship style.
- *Participating*—emphasizing shared ideas and participative decisions on task directions; a low-task, high-relationship style.
- *Selling*—explaining task directions in a supportive and persuasive way; a high-task, high-relationship style.
- *Telling*—giving specific task directions and closely supervising work; a high-task, low-relationship style.

The delegating style works best in high-readiness situations with able, willing, and confident followers. The telling style works best at the other extreme of low readiness, where followers are unable and unwilling, or insecure. The participating style is recommended for low-to-moderate-readiness followers—able but unwilling, or insecure. Finally, the selling style is most effective for moderate-to-high-readiness followers—not yet able, but willing or confident.

Hersey and Blanchard also believed that leadership styles should be adjusted as followers change over time. If the correct styles are used in lower-readiness situations, followers will “mature” and grow in ability, willingness, and confidence. This allows leaders to become less directive and more participative as followers mature. Although the Hersey-Blanchard model is intuitively appealing, limited research has been accomplished on it to date.<sup>33</sup>

## House's Path–Goal Leadership Theory

**Question**—How can leaders use alternative leadership styles to add value in different types of situations?



The path-goal theory advanced by Robert House seeks the right fit between leadership style and situation.<sup>34</sup> Unlike Fiedler, House believed that a leader can use all of the following leadership styles and actually shift back and forth among them:

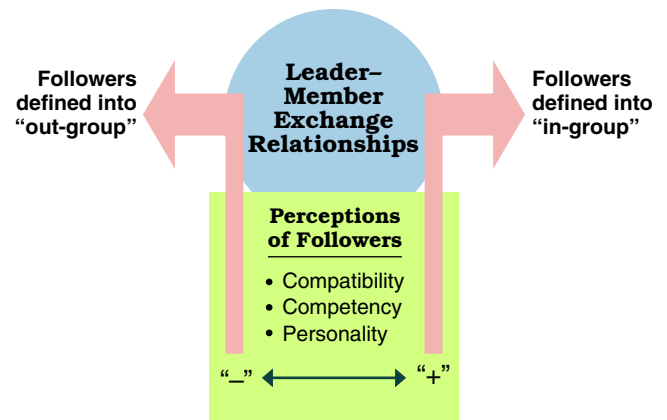
- *Directive leadership*—letting followers know what is expected; giving directions on what to do and how; scheduling work to be done; maintaining definite performance standards; clarifying the leader’s role in the group.
- *Supportive leadership*—doing things to make work more pleasant; treating team members as equals; being friendly and approachable; showing concern for the well-being of subordinates.
- *Achievement-oriented leadership*—setting challenging goals; expecting the highest levels of performance; emphasizing continuous performance improvement; displaying confidence in meeting high standards.
- *Participative leadership*—involving team members in decision-making; consulting with them and asking for suggestions; using these suggestions when making decisions.

**Path-Goal Contingencies** House’s path-goal theory suggests that the key task of any leader is to “add value” to a situation. Good leaders do this by shifting among the four leadership styles in ways that contribute what is missing or needs strengthening. They avoid redundancy by not trying to do things that are already taken care of. When team members are already expert and competent at their tasks, for example, it is unnecessary and even dysfunctional for the leader to tell them how to do things.

There is a variety of research-based guidance on how to contingently match path-goal leadership styles with situational characteristics. When job assignments are unclear, *directive leadership* helps to clarify task objectives and expected rewards. When worker self-confidence is low, *supportive leadership* can increase confidence by emphasizing individual abilities and offering needed assistance. When task challenge is insufficient in a job, *achievement-oriented leadership* helps to set goals and raise performance aspirations. When performance incentives are poor, *participative leadership* might clarify individual needs and identify appropriate rewards.<sup>35</sup>

**Substitutes for Leadership** Path-goal theory contributed to the recognition of what we call **substitutes for leadership**.<sup>36</sup> These are aspects of the work setting and the people involved that reduce the need for active leader involvement. In effect, substitutes provide leadership from within the situation and thus make leadership from the outside unnecessary.

Possible substitutes for leadership include follower characteristics such as ability, experience, and independence; task characteristics such as the presence or absence of routine and the availability of feedback; and organizational characteristics such as clarity of plans and formalization of rules and procedures. When these substitutes for leadership are present, managers are advised in true path-goal fashion to avoid duplicating them. Instead, they should concentrate on making other and more important leadership contributions.



**FIGURE 14.7** Elements of leader-member exchange (LMX) theory.

## Leader-Member Exchange Theory

**Question**—How do in-group and out-group dynamics influence leader-follower relationships?

One of the things you may have noticed is the tendency of certain leaders to develop “special” relationships with some team members, even to the point where not everyone is always treated in the same way. (See Management Is Real 14.3.) This notion is central to leader-member exchange theory, or LMX theory, as it is often called.<sup>37</sup>

Depicted in **Figure 14.7**, LMX theory recognizes that not everyone is treated the same by leaders. People fall into “in-groups” and “out-groups,” and the group you are in can make a big difference in your experience with the leader.<sup>38</sup> In-group members enjoy special and trusted high-exchange relationships with leaders and often get special rewards, assignments, privileges, and access to information. For a follower in the leader’s in-group, it’s motivating and satisfying to receive such favourable treatment. Out-group members have a low-quality exchange relationship and may be marginalized or ignored, and receive fewer benefits than in-group members with higher-quality exchange relationships. For out-group members, it is frustrating and demotivating to receive fewer rewards, less information, and little or no special attention.

Just look around. You might see examples of this in classroom situations between instructors and certain students, and in work teams between leaders and certain team members. The notion of leader in-groups and out-groups seems to correspond to working realities experienced by many people. Not surprisingly, research shows that members of leaders’ in-groups get more positive performance evaluations and report higher levels of job satisfaction. They also are more loyal followers and are less prone to turnover than are out-group members.<sup>39</sup>

## Leader-Participation Model

**Question**—How should leaders make decisions in different types of problem situations?

The Vroom-Jago leader-participation model links leadership success with the use of decision-making methods that best

## Management Is Real 14.3: Ethics | Know Right from Wrong

The boss expects you to spend part of your workday on one of her community fundraising activities.

### A Step over the Line into Community Service

What if your company's CEO is active in a local community group? It sounds great and she gets a lot of press for philanthropy and leadership in the local Red Cross, homeless shelter, food bank, and more. The company's reputation for social responsibility also gains from her outreach efforts. But first thing this morning she appeared in your office and asked you to spend a good part of the workweek helping organize a fundraising event for one of her local charities. Caught off guard, you've given her a weak "okay."

Now that you've had time to think a bit more about it, you're not sure you should comply. After all, you've already got a lot of top priority work on your desk, there's no direct connection between the charity and the firm's business, and the charity isn't one that you personally support.

Helping your boss with this request will obviously be good for her. You'll also probably benefit from increased goodwill in your relationship with her. However, the organization could actually end up being worse off as your regular work slips behind schedule, affecting not only you but client activities that depend on you. Sure, you're getting paid to do what she asks—but who benefits?



Chris Ryan/Getty Images

### What Do You Think?

Is it ethical to help your manager in the situation just described? Are you doing a disservice to the organization's other stakeholders if you go along with this request? Is it acceptable for a manager or team leader or top executive to ask others to help them with tasks and activities that are not directly tied to work? Just where would you draw the line on requests like these?

fit particular problem situations.<sup>40</sup> An **authority decision** is made by the leader and then communicated to the team. A **consultative decision** is made by the leader after gathering information from team members either individually or as a group. A **group** or **team decision** is made by the team either on its own or with the leader's participation as a contributing member.<sup>41</sup>

**Figure 14.8** shows that a leader's choice among alternative decision-making methods is governed by three factors: (1) *Decision quality*—who has the information needed for problem solving; (2) *Decision acceptance*—the importance of follower

acceptance to the decision's eventual implementation; and (3) *Decision time*—the time available to make and implement the decision. Each decision method has advantages and disadvantages with respect to these factors. As a consequence, effective leaders continually shift among the methods as they deal with daily problems and opportunities.

Authority decisions work best when leaders have the expertise needed to solve problems and are confident acting alone, when followers are likely to accept and implement leaders' decisions, and when there is little or no time available for group discussion. Consultative and group decisions work best when the leader lacks the expertise or information needed to solve a problem, when the problem is unclear, follower acceptance is uncertain but necessary for implementation, and adequate time is available.

Vroom and Jago believed that consultative and group decisions offer special benefits.<sup>42</sup> Participation helps improve decision quality by bringing more information to bear on the problem. It helps improve decision acceptance as participants gain understanding and commitment. It also contributes to leadership development by allowing others to gain experience in the problem-solving process. Of course, the lost efficiency of consultative and group decisions is a potential negative. Participative decision-making is time consuming and leaders don't always have time to involve group members in the process. When problems must be resolved immediately, an authority decision may be the only option.<sup>43</sup>



**FIGURE 14.8** Leadership implications of the Vroom-Jago leader-participation model.

## Learning Check

**LEARNING OBJECTIVE 14.3** Identify how situational contingencies influence leadership effectiveness.

**Be Sure You Can** • contrast the leader-behaviour and contingency leadership approaches • explain Fiedler’s contingency model • identify the four leadership styles in the Hersey-Blanchard situational model • explain House’s path-goal theory • define *substitutes for leadership* • explain LMX theory • contrast the authority, consultative, and group decisions in the Vroom-Jago model

14.4

## Personal Leadership Development

**LEARNING OBJECTIVE 14.4**

Summarize the challenges of personal leadership development.

### Learn More About

Charismatic and transformational leadership  
 • Emotional intelligence and leadership • Gender and leadership • Moral leadership • Drucker’s “good old-fashioned” leadership

There is no one answer to the question of what will make a particular person—say you—an effective leader. Personal leadership development is best viewed as a goal that you are more likely to reach if you know key leadership concepts and scholarly models. But success in personal leadership development also requires lots of self-awareness and a commitment to continuous learning as you move from one practical experience to the next.

## Charismatic and Transformational Leadership

It is common today to hear people talk about “superleaders,” people whose vision and strong personality have an extraordinary impact on others.<sup>44</sup> Dr. Martin Luther King, Jr., who delivered his famous “I Have a Dream” speech in August 1963 in Washington, D.C., is a good example. Some call people like King **charismatic leaders** because of their ability to inspire others in exceptional ways. We used to think charisma was limited to only a few lucky people. It’s now considered one of several personal qualities—including honesty, credibility,

and competence—that can be developed with foresight and practice.

It is also important to keep in mind the dark side of charisma. We can become enamoured in subtle ways by a charismatic leader whose sheer presence and confidence can dominate a team. Such a leader can be so persuasive no one questions his or her decisions and where followers develop blind loyalty which, in turn, can lead to poor or unethical decisions. A safeguard against the dark side of charisma is to build a psychologically safe culture where everyone’s voice is freely shared and heard.<sup>45</sup>

Leadership scholars James MacGregor Burns and Bernard Bass linked the more positive qualities of charisma such as enthusiasm and inspiration with something called **transformational leadership**.<sup>46</sup> They described transformational leaders as using their personalities, character, and insight to inspire followers. These leaders get others so excited about their jobs and organizational goals that these followers strive for extraordinary performance accomplishments. Indeed, the easiest way to spot a truly transformational leader is through his or her followers. They are likely to be enthusiastic about the leader, loyal, devoted to his or her ideas, and willing to work exceptionally hard to achieve the leader’s vision.

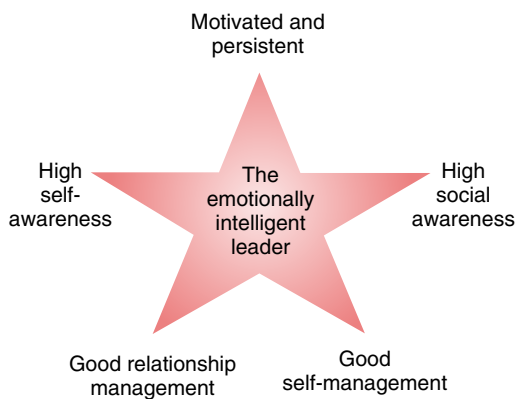
The pathway to transformational leadership starts with the willingness to bring real emotion to the leader-follower relationship. It involves acting with integrity and living up to the trust of others. It requires both having a compelling vision of the future and the ability to communicate that vision in ways that influence others to work hard together to achieve it. Transformational leaders excel in part because of their strong focus on high aspirational goals, confidence, and contagious enthusiasm.

## Emotional Intelligence and Leadership

The role of personality in transformational leadership relates to another area of inquiry in leadership development—**emotional intelligence**. Popularized by the work of Daniel Goleman, emotional intelligence, or EI for short, is the ability to understand emotions in yourself and others and use this understanding to handle social relationships effectively.<sup>47</sup> “Great leaders move us,” say Goleman and his colleagues. “Great leadership works through emotions.”<sup>48</sup>

Emotional intelligence shows up in research as an important influence on leadership success, particularly in more senior management positions. In Goleman’s words: “the higher the rank of the person considered to be a star performer, the more emotional intelligence capabilities showed up as the reason for his or her effectiveness.”<sup>49</sup> This is a pretty strong endorsement for Goleman’s position that EI a key leadership asset; and luckily, it is one that we can each develop.

Consider the five emotional intelligence competencies or qualities shown in **Figure 14.9**.<sup>50</sup> Emotional intelligence in leadership involves *motivation and persistence* in being willing to work hard for reasons other than money and status. Leaders



**FIGURE 14.9** Qualities of an emotionally intelligent leader.

who are high in emotional intelligence display *social awareness*, or empathy. They have the ability to understand the emotions of others and to use this understanding to relate to them more effectively. Emotionally intelligent leaders are good at *self-management*, or self-regulation. This is the ability to think before acting and to control otherwise disruptive impulses. A leader high in emotional intelligence is good at *relationship management*. This is the ability to establish rapport with others and to build social capital through relationships and informal social networks. A leader strong in emotional intelligence possesses *self-awareness*. This is the ability to understand one's own moods and emotions, and to understand their impact on one's own work and on others' work.

## Gender and Leadership

When Sara Levinson was president of NFL Properties, Inc., she asked the all-male members of her NFL management team this question: "Is my leadership style different from a man's?" "Yes," they replied, and even suggested that the very fact that she was asking the question was evidence of the difference. They said her leadership style emphasized communication as well as gathering ideas and opinions from others. When Levinson probed further by asking "Is this a distinctly 'female' trait?" the men said they thought it was.<sup>51</sup>

Are there gender differences in leadership? In pondering this question, three background findings deserve highlighting. First, social science research largely supports the **gender similarities hypothesis**. That is, males and females are very similar to one another in terms of psychological properties.<sup>52</sup> Second, research leaves no doubt that both women and men can be equally effective as leaders.<sup>53</sup> Third, research does show that men and women are sometimes perceived as using different styles, and perhaps arriving at leadership success from different angles.<sup>54</sup>

When men and women are perceived differently as leaders, the perceptions tend to fit traditional stereotypes.<sup>55</sup> Men may be expected to act as "take-charge" leaders who are task-oriented, directive, and assertive while trying to get things done in traditional command-and-control ways. Women may be expected to act as "take-care" leaders who behave in supportive and

nurturing ways. These stereotyped expectations can create what has been called a **leadership double bind** for women. In this situation a female leader gets criticized when displaying stereotypical male leadership characteristics and also gets criticized for showing female ones. In other words, the female leader can't win when either breaking or conforming to stereotyped expectations.<sup>56</sup>

Studies and articles also report favourable perceptions of female leaders. Prime Minister Jacinda Ardern's response to COVID-19 pandemic in New Zealand is a good example. Harvard scholar Rosabeth Moss Kanter says that "women get high ratings on exactly those skills required to succeed in the global information age, where teamwork and partnering are so important."<sup>57</sup> For example, female leaders have been rated by peers, subordinates, and supervisors as more participative than male leaders and as strong on motivating others, emotional intelligence, persuading, fostering communication, listening to others, mentoring, and supporting high-quality work.<sup>58</sup> In research using 360-degree assessments, female managers were rated more highly than male managers in all but one area of leadership—visioning. The possible explanation was that because women are less directive as leaders, they aren't perceived as visionaries.<sup>59</sup>

The pattern of positive leader behaviours sometimes attributed to women is called **interactive leadership**.<sup>60</sup> Interactive leaders are democratic, participative, connecting, and inclusive. They approach problems and decisions through collaboration and teamwork, show respect for others, and use connections to share power and information. They build good interpersonal relations through communication and involvement and have the confidence to seek consensus.<sup>61</sup> They also tend to get things done more through personal power and good interpersonal relationships than through command-and-control use of position power.<sup>62</sup>

One of the risks in any discussion of gender and leadership is falling prey to stereotypes that place individual men and women into leadership boxes in which they don't necessarily belong.<sup>63</sup> Perhaps it would be most useful to accept the gender similarities hypothesis and focus instead on the notion of interactive leadership. The likelihood is that an interactive leader is likely to be a very good fit with the needs of today's organizations and their members. There is no reason why men and women can't adopt this style equally well.<sup>64</sup>

## Moral Leadership

Society expects organizations to be run with **moral leadership**. This is leadership that adheres to ethical standards that clearly meet the test of being "good" and "correct."<sup>65</sup> Strength in moral leadership begins with personal integrity, a concept fundamental to the notion of transformational leadership. People who lead with **integrity** act in an honest, credible, and consistent way to put their values into action (see Management Is Real 14.4). A leader with integrity earns the trust of followers. When followers believe leaders are trustworthy, they try to behave in ways that live up to their leader's expectations.

## Management Is Real 14.4: Insight | Keep Learning about Yourself

Our personal character gets revealed by how we treat those with no power.

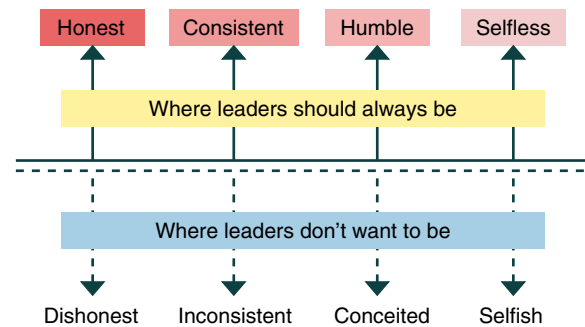
### There's No Substitute for Integrity

Whether you call it ethical leadership or moral leadership, the lesson is the same: Respect flows toward leaders who behave with integrity. If you have integrity, you'll be honest, credible, and consistent in all that you do. This might seem obvious.

So why are there so many well-publicized examples of leaders who act without integrity? Where, so to speak, does integrity go when some people find themselves in positions of leadership? CEO coach Kenny Moore says that our personal character gets “revealed by how we treat those with no power.” Look closely at how people in leadership positions treat everyday workers—servers, technicians, custodians, and clerks, for example. Moore says that the way we deal with people who are powerless “brings out our real dispositions.”

The “integrity line” in the figure marks the dividing line between the characteristics we should embrace and those we shouldn't. Below the line are leaders who lie, blame others for personal mistakes, want others to fail, and take credit for others' ideas. They're conceited, and they're also selfish. Above the integrity line are honest, consistent, humble, and selfless leaders. Some call such leaders “servants” of the organization and its members.

### Leadership and the Integrity Line



### Get to Know Yourself Better

Why is it that in the news and in everyday experience we so often end up wondering where leadership integrity has gone? Ask: How often have I worked for someone who behaved below the “integrity line”? How did I feel about it, and what did I do? Write a set of notes on your behaviour in situations where your own leadership integrity could be questioned. What are some of the lessons available from this experience? Who are your leadership exemplars, the ones you most admire and would like to emulate? At this point in your life, who is the real leader in you?

If moral leadership is the goal, why don't we see more of it? Are you surprised by a survey commissioned by the Ted Rogers Leadership Centre that found only 22 percent of Canadians say they trust CEOs? “The world of business runs on trust,” says Chris MacDonald, Director of the Leadership Centre and author of the report. “Contracts and warranties only go so far; without trust, markets suffer.”<sup>66</sup>

One of the risks we face in living up to the expectations of moral leadership is **moral overconfidence**, falling prey to an overly positive view of one's own strength of character.<sup>67</sup> Leaders with moral overconfidence may act unethically without realizing it or while using inappropriate rationalizations to justify their behaviour. The claim that “I'm a good person, so I can't be wrong,” might just be a sign of a leader's moral overconfidence.<sup>68</sup>

The concept of servant leadership fits with the concept of a moral leader. So, too, does the notion of **authentic leadership**. Fred Luthans and Bruce Avolio describe an authentic leader as one with a high level of self-awareness and a clear understanding of his or her personal values.<sup>69</sup> An authentic leader acts in ways that are consistent with those values, being honest and avoiding self-deception. Because of this approach, an authentic leader is perceived by followers as genuine, gains their respect, and develops a capacity to positively influence their behaviours.<sup>70</sup> The values and actions of authentic leaders create a positive ethical climate in their organizations.<sup>71</sup>

**Character leadership** is about leaders with the values, traits, and virtues that engender credibility and trust. Attributes

such as conscientiousness, openness to experience, extroversion, agreeableness, and neuroticism feature prominently when assessing a person's character. Other attributes include self-confidence, ambition, perfectionism, dominance, and persistence. A leader's values reveal what he or she believes to be worthwhile; they serve as guideposts for the leader's conduct. Good leaders manifest their values; they don't merely espouse them. Virtues are those behavioural habits that leaders can exhibit consistently. Crossan, et al. (2012) focus on virtues that their research suggests correlates highly with effective leadership: humility, integrity, collaboration, justice, courage, temperance, and transcendence, all in the service of good judgment. Their evidence suggests that good character can be developed, is the foundation for effective decision-making, and brings out the best in leaders and others.<sup>72</sup>

## Drucker's “Good Old-Fashioned” Leadership

The widely respected consultant Peter Drucker took a time-tested and very pragmatic view of leadership. His many books and articles remind us that leadership effectiveness must have strong foundations, something he referred to as the “good old-fashioned” hard work of a successful leader.<sup>73</sup>

Drucker believed that the basic building block for success as a leader is defining and establishing a sense of mission. A

## Management Is Real 14.5: Choices | Think before You Act

Sooner or later someone in “authority” is going to ask us to do something that seems odd or incorrect, or just plain suspicious.

### Sometimes “No” May Be Your Best Answer

*McDonald’s Restaurant*—A telephone caller claiming to be a police officer and having “corporate” on the line, directs the assistant store manager to take a female employee into the back room and interrogate her while he is on the line. The assistant manager does so for over three hours and follows “Officer Scott’s” instructions. The hoax was discovered only when the assistant manager called her boss to check out the story. The caller was later arrested and found to have tried similar tricks at over 70 McDonald’s restaurants. The manager was fired and the employee victim underwent therapy and medication to address post-traumatic stress disorder depression following the abusive interrogation.

Managers are supposed to make decisions, and employees are supposed to follow their lead. Although that is certainly the conventional wisdom, sometimes saying “Yes” to an authority figure isn’t the correct thing to do. There may be times when it’s best to disobey. Sooner or later someone in “authority” is going to ask for something that seems odd or incorrect or just plain suspicious. If what’s asked is wrong, but you still comply with the request, you’ll share the blame. Blind followership can’t be excused with the claim: “I was just following orders.” But who’s prepared for the unexpected?

It is good to remind us of the Milgram experiment that focused on obedience to authority figures. These studies were a series of social psychology experiments conducted by Yale University psychologist Stanley Milgram. These studies measured the willingness of participants, men from a diverse range of occupations, to obey an authority figure that instructed them to give shocks to “learners” whenever they made mistakes. While no shocks were



Masterfile

actually given, participants were ordered to push buttons that gave ever-increasing powerful shocks to “learners” who then pretended to receive them. The “learners” screamed in pain and would eventually pass out from the severity of the shocks. The authority figure would continue to tell the participants to give “learners” shocks. A very high proportion of participants would fully obey the instructions, albeit reluctantly.

#### What’s Your Take?

If obedience isn’t always the right choice, how can you know when it’s time to disobey? Should students get more training on both spotting bad directives and learning how to say “No”? Do management courses have enough to say about tendencies to obey, how to double-check decisions to make sure obedience to a manager’s request is justified, and even about the price of disobedience? Is it possible to educate and train students to be “principled” followers who don’t always follow orders and sometimes question them?

good leader sets the team’s goals, priorities, and standards. And a good leader keeps them always clear and visible. As Drucker put it, “The leader’s first task is to be the trumpet that sounds a clear sound.”<sup>74</sup> Drucker also believed that leadership should be viewed as a responsibility rather than a rank. He pointed out that good leaders surround themselves with talented people, aren’t afraid to develop strong and capable followers, don’t blame others when things go wrong, and accept the adage that has become a hallmark of leadership—“The buck stops here.” Drucker urged leaders to do the following:

- Define and communicate a clear vision.
- Accept leadership as a responsibility, not a rank.
- Surround yourself with talented people.
- Don’t blame others when things go wrong.
- Keep your integrity; earn the trust of others.
- Don’t be clever, be consistent.

Management is Real 14.5 speaks about the need for strong followers who can think for themselves and question authority when necessary. A good leader values such followers.

Finally, Drucker also stressed the importance of earning and keeping others’ trust. The key to doing this is the leader’s personal integrity. Followers of good leaders trust in their leadership. They believe the leader means what he or she says, and they know that his or her actions will be consistent with what is said. “Effective leadership is not based on being clever,” said Drucker, “it is based primarily on being consistent.”<sup>75</sup>

## Learning Check

**LEARNING OBJECTIVE 14.4** Summarize the challenges of personal leadership development.

**Be Sure You Can** • define *transformational leadership* • explain how emotional intelligence contributes to leadership success • discuss research insights on the relationship between gender and leadership • define *interactive leadership* • discuss integrity as a foundation for moral leadership • list Drucker’s essentials of good old-fashioned leadership

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 14.1** Discuss leadership and explain its foundations in power, vision, and service.

- Leadership is the process of inspiring others to work hard to accomplish important tasks.
- The ability to communicate a vision—a clear sense of the future—is essential for effective leadership.
- Power is the ability to get others to do what you want them to do through leadership.
- Sources of position power include rewards, coercion, and legitimacy or formal authority; sources of personal power include expertise, referent, and information and networking power.
- Servant leadership is follower-centred and focused on empowering others and helping them to fully utilize their talents.
- Followership is the act of joining with a leader to accomplish tasks and goals.
- There is a tendency to give credit to leaders—the romance of leadership, and overlook the contributions of followers—the subordination of followership.

**For Discussion** When is a leader justified in using coercive power?

**LEARNING OBJECTIVE 14.2** Describe key leader behaviours that impact leadership effectiveness.

- Traits that seem to have a positive impact on leadership include drive, integrity, and self-confidence.
- Research on leader behaviours has focused on alternative leadership styles based on concerns for tasks and concerns for people.
- One finding of leader-behaviour researchers is that effective leaders are team-based and participative, showing both high task and people concerns.

**For Discussion** Are any personal traits indispensable “must haves” for success in leadership?

**LEARNING OBJECTIVE 14.3** Identify how situational contingencies influence leadership effectiveness.

- Contingency leadership approaches point out that no one leadership style always works best; the best style is one that properly matches the demands of each unique situation.
- Fiedler’s contingency model matches leadership styles with situational differences in task structure, position power, and leader-member relations.
- The Hersey-Blanchard situational model recommends using task-oriented and people-oriented behaviours, depending on the “maturity” levels of followers.
- House’s path-goal theory points out that leaders add value to situations by using supportive, directive, achievement-oriented, or participative styles.
- The Vroom-Jago leader-participation model advises leaders to choose decision-making methods—individual, consultative, group—that best fit the problems to be solved.

**For Discussion** What are the career development implications of Fiedler’s contingency model of leadership?

**LEARNING OBJECTIVE 14.4** Summarize the challenges of personal leadership development.

- Transformational leaders use charisma and emotion to inspire others toward extraordinary efforts and performance excellence.
- Emotional intelligence—the ability to manage our relationships and ourselves effectively—is an important leadership capability.
- The interactive leadership style emphasizes communication, involvement, and interpersonal respect.
- Managers are expected to be moral leaders who communicate high ethical standards and show personal integrity in all dealings with other people.

**For Discussion** Is transformational leadership always moral leadership?

## Chapter Glossary

**Authentic leadership** Leadership that activates positive psychological states to achieve self-awareness and positive self-regulation.

**Authority decision** A decision made by the leader and then communicated to the group.

**Autocratic-style leader** A leader who acts in a command-and-control fashion.

**Character leadership** Leaders have the values, traits, and virtues that engender credibility and trust.

**Charismatic leader** A leader who inspires followers in extraordinary ways.

**Coercive power** The capacity to punish or withhold positive outcomes as a means of influencing other people.

**Consultative decision** A decision made by a leader after receiving information, advice, or opinions from group members.

**Democratic-style leader** A leader who emphasizes both tasks and people.

**Emotional intelligence** The ability to manage our emotions in social relationships.

**Empowerment** What enables others to gain and use decision-making power.

**Expert power** The capacity to influence others because of specialized knowledge.

**Followership** The act of joining with a leader to accomplish tasks and goals.

**Gender similarities hypothesis** The notion that males and females have similar psychological properties.

**Group or team decision** A decision made by team members.

**Human capital** The ability to get things done based on what we know and can do.

**Human relations-style leader** A leader who emphasizes people over task.

**Information and networking power** The ability to influence others through access to information and contacts with other people.

**Integrity** What one shows when one acts with honesty, credibility, and consistency in putting values into action.

**Interactive leader** A leader who is a strong communicator and acts in democratic and participative ways with followers.

**Laissez-faire-style leader** A leader who has a “do the best you can and don’t bother me” attitude.

**Leadership** The process of inspiring others to work hard to accomplish important tasks.

**Leadership double bind** The situation where women get criticized for displaying stereotypical male leadership characteristics and also for displaying stereotypical female leadership characteristics.

**Leadership style** A recurring pattern of behaviours exhibited by a leader.

**Least-preferred co-worker scale** A measure of leadership style used in Fiedler’s contingency model.

**Legitimate power** The capacity to influence others by virtue of formal authority, or the rights of office.

**Moral leadership** Leadership that is always “good” and “right” by ethical standards.

**Moral overconfidence** An overly positive view of one’s strength of character.

**Power** The ability to get others to do something you want done or to make things happen the way you want.

**Referent power** The capacity to influence other people because of their desire to identify personally with you.

**Reward power** The capacity to offer something of value as a means of influencing other people.

**Servant leadership** Leadership that is follower-centred and committed to helping others in their work.

**Social capital** The ability to get things done because of who you know.

**Substitutes for leadership** Factors in the work setting that direct work efforts without the involvement of a leader.

**Transformational leadership** Leadership that is inspirational and arouses extraordinary effort and performance.

**Vision** A clear sense of the future.

**Visionary leadership** Leadership that brings to the situation a clear sense of the future and an understanding of how to get there.

## Self-Test 14

### Multiple-Choice Questions

- Someone with a clear sense of the future and the actions needed to get there is considered a \_\_\_\_\_ leader.
  - task-oriented
  - people-oriented
  - transactional
  - visionary
- Leader power = \_\_\_\_\_ power + \_\_\_\_\_ power.
  - reward, punishment
  - reward, expert
  - legitimate, position
  - position, personal
- A manager who says “Because I am the boss, you must do what I ask” is relying on \_\_\_\_\_ power.
  - reward
  - legitimate
  - expert
  - referent
- When a leader assumes that others will do as she asks because they want to positively identify with her, she is relying on \_\_\_\_\_ power to influence their behaviour.
  - expert
  - referent
  - legitimate
  - reward
- The personal traits now considered important for managerial success include \_\_\_\_\_.
  - self-confidence
  - gender
  - age
  - height
- In the leader-behaviour approaches to leadership, someone who does a very good job of planning work, setting standards, and monitoring results would be considered a(n) \_\_\_\_\_ leader.
  - task-oriented
  - control-oriented
  - achievement-oriented
  - employee-centred
- When leader behaviour researchers concluded that “high-high” was the pathway to leadership success, what were they referring to?
  - High initiating structure and high integrity.
  - High concern for task and high concern for people.
  - High emotional intelligence and high charisma.
  - High job stress and high task goals.
- A leader whose actions indicate an attitude of “do as you want, and don’t bother me” would be described as having a(n) \_\_\_\_\_ leadership style.
  - autocratic
  - country club
  - democratic
  - laissez-faire
- In Fiedler’s contingency model, both highly favourable and highly unfavourable leadership situations are best dealt with by a \_\_\_\_\_ leader.
  - task-motivated
  - laissez-faire
  - participative
  - relationship-motivated
- \_\_\_\_\_ leadership model suggests that leadership style is strongly anchored in personality and therefore hard to change.
  - Trait
  - Fiedler’s
  - Transformational
  - Path-goal
- House’s \_\_\_\_\_ theory of leadership says that successful leaders find ways to add value to leadership situations.
  - trait
  - path-goal
  - transformational
  - life-cycle



12. A leader who \_\_\_\_\_ would be described as achievement-oriented in the path-goal theory.
- sets challenging goals for others
  - works hard to achieve high performance
  - gives directions and monitors results
  - builds commitment through participation
13. The critical contingency variable in the Hersey-Blanchard situational model of leadership is \_\_\_\_\_.
- followers' maturity
  - LPC
  - task structure
  - LMX
14. Vision, charisma, integrity, and symbolism are all on the list of attributes typically associated with \_\_\_\_\_ leaders.
- contingency
  - informal
  - transformational
  - transactional
15. The interactive leadership style, sometimes associated with women, is characterized by \_\_\_\_\_.
- inclusion and information sharing
  - use of rewards and punishments
  - command and control
  - emphasis on position power

## Short-Response Questions

16. Why does a person need both position power and personal power to achieve long-term managerial effectiveness?
17. What is the major insight of the Vroom-Jago leader-participation model?
18. What are the three variables that Fiedler's contingency model uses to diagnose the favourability of leadership situations, and what does each mean?
19. How does Peter Drucker's view of "good old-fashioned leadership" differ from the popular concept of transformational leadership?

## Essay Question

20. When Marcel Henry took over as leader of a new product development team, he was both excited and apprehensive. "I wonder," he said to himself on the first day in his new assignment, "if I can meet the challenges of leadership." Later that day, Marcel shared this concern with you during a coffee break. Based on the insights offered in this chapter, how would you describe the implications of current thinking on transformational leadership and moral leadership for his personal leadership development?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Autocratic Boss

Some might say it was bad luck. Others will tell you it's life and you'd better get used to it. You've just gotten a new team leader, and within the first week it was clear to everyone that she is as "autocratic" as can be. The previous leader was very "democratic," and so is the higher-level manager, with whom you've always had a good working relationship. Is there anything you and your co-workers can do to remedy this situation without causing anyone, including the new boss, to lose their jobs?

#### 2. New to the Team

You've just been hired as a visual effects artist by a top movie studio. The team you are joining has already been together for about two months. There's obviously an in-group when it comes to team leader

and team member relationships. This job is important to you; the movie is going to be great resumé material. But you're worried about the leadership dynamics and your role as a newcomer to the team. What can you do to get on board as soon as possible, work well with the team leader, and be valued by other team members?

#### 3. Out of Comfort Zone

Okay, it's important to be "interactive" in leadership. Your personality, though, makes you a bit withdrawn. If you could do things by yourself, that's the way you would approach your work. That's your comfort zone. Yet you are talented and ambitious. Career growth in your field requires taking on management responsibilities. So, here you are agreeing to take over as a team leader in your first upward career move. Can you succeed by leading within your comfort zone? If not, what can you do to "stretch" your capabilities into new leadership territories?

## Reflect on the Self-Assessment

### Least-Preferred Co-Worker Scale

#### Instructions

Think of all the different people with whom you have ever worked—in jobs, in social clubs, in student projects, or other areas of your life. Next, think of the one person with whom you could work least

well—that is, the person with whom you had the most difficulty getting a job done. This is the one person—a peer, boss, or subordinate—with whom you would least want to work. Describe this person by circling numbers at the appropriate points on each of the following pairs of bipolar adjectives. Work fast. There are no right or wrong answers.<sup>76</sup>

Pleasant	8	7	6	5	4	3	2	1	Unpleasant
Friendly	8	7	6	5	4	3	2	1	Unfriendly
Rejecting	1	2	3	4	5	6	7	8	Accepting
Tense	1	2	3	4	5	6	7	8	Relaxed
Distant	1	2	3	4	5	6	7	8	Close
Cold	1	2	3	4	5	6	7	8	Warm
Supportive	8	7	6	5	4	3	2	1	Hostile
Boring	1	2	3	4	5	6	7	8	Interesting
Quarrelsome	1	2	3	4	5	6	7	8	Harmonious
Gloomy	1	2	3	4	5	6	7	8	Cheerful
Open	8	7	6	5	4	3	2	1	Guarded
Backbiting	1	2	3	4	5	6	7	8	Loyal
Untrustworthy	1	2	3	4	5	6	7	8	Trustworthy
Considerate	8	7	6	5	4	3	2	1	Inconsiderate
Nasty	1	2	3	4	5	6	7	8	Nice
Agreeable	8	7	6	5	4	3	2	1	Disagreeable
Insincere	1	2	3	4	5	6	7	8	Sincere
Kind	8	7	6	5	4	3	2	1	Unkind

### Self-Assessment Scoring

Calculate your “least-preferred co-worker” (LPC) score by totalling all the numbers you circled; enter that score here [LPC \_\_\_\_\_].

### Interpretation

The LPC scale is used by Fred Fiedler to identify a person’s dominant leadership style. He believes that this style is a relatively fixed part of

our personality and is therefore difficult to change. Thus, he suggests the key to leadership success is finding (or creating) good “matches” between style and situation. If your score is 73 or above, Fiedler considers you a “relationship-motivated” leader. If your score is 64 or below, he considers you a “task-motivated” leader. If your score is between 65 and 72, Fiedler leaves it up to you to determine which leadership style is most like yours.

## Contribute to the Class Exercise

### Most-Needed Leadership Skills

#### Instructions

1. Work individually to make a list of the leadership skills you believe you need to develop further in order to be ready for success in your next full-time job.
2. Share your list with teammates, discuss the rationale for your choices, and listen to what they have to say about the list of skills.
3. Prepare a master list of the five leadership skills that your team believes are most important for further development.
4. For each skill on the team list prepare a justification that describes what the skill involves, why it is important to leadership success, and why it is still a candidate for further skills development among your teammates.
5. Present your leadership skills development list along with justifications to the whole class for discussion.

## Manage a Critical Incident

### Playing Favourites as a Team Leader

#### Situation

One of your colleagues just returned from a leadership training session at which the instructor presented the LMX, or leader-member

exchange, theory. Listening to her talk about the training prompted thoughts about your own leader behaviours, and you came to a somewhat startling conclusion: You may be playing “favourites.” In fact, the last person you recommended for promotion was a good friend and a member of your bi-weekly poker night club. Of course he was

competent and is doing a good job in the new position. But as you think more about it, there were also two others on the team who may well have been equally good choices. Did you give them a fair chance when preparing your promotion recommendation, or did you short-change them in favour of your friend?

### Questions

Well, it's a new day for the team, and basically the start of the rest of your leadership career. What can you do as a team leader to make sure that tendencies toward favouritism don't disadvantage some members? What warning signs can you watch for to spot when and if you are playing favourites?

## Collaborate on the Team Activity

### Leadership Believe-It-or-Not

You would think leaders would spend lots of time talking with the people who make products and deliver services, trying to understand problems and asking for advice. But *Business Week* reports a survey showing that quite the opposite is true. Persons with a high school education or less are asked for advice by only 24 percent of their bosses; for those with a university degree, the number jumps to 54 percent.

### Question

What stories do your friends, acquaintances, family members, and you tell about their bosses that are extraordinary or that are truly hard to believe?

### Instructions

1. Listen to others and ask others to talk about the leaders they have had in the past or currently do have. What strange-but-true stories are they telling?
2. Create a journal that can be shared with class members that summarizes, roleplays, or otherwise communicates the real-life experiences of people whose bosses sometimes behave in ways that are hard to believe.
3. For each of the situations in your report, try to explain the boss's behaviours.
4. For each of the situations, assume that you observed or heard about it as the boss's supervisor. Describe how you would "coach" or "counsel" the boss to turn the situation into a "learning moment" for positive leadership development.

## Analyze the Case Study

### Case 14.1 Broadband TV | Shahrzad Rafati's "Rapid-Fire" Drive

Go to Management Cases for Critical Thinking at the end of the book to find this case.

# CHAPTER 15



JohnnyGreig/Getty Images

## Individual Behaviour

You don't have to take a selfie to gain more self-awareness. What does your smart phone, tablet, or laptop screen say about your personality?

In his books *Leadership Is an Art* and *Leadership Jazz*, Max DePree, former chairperson of the publicly traded furniture manufacturer Herman Miller, Inc., talks about a millwright who worked for his father. When the man died, DePree's father, wishing to express his sympathy to the family, went to their home. There he listened as the widow read some beautiful poems that, to his father's surprise, the millwright had written. DePree says that he and his father often wondered, "Was the man a poet who did millwright's work, or a millwright who wrote poetry?" He summarized the lesson this way: "It is fundamental that leaders endorse a concept of persons," basically meaning you have to care enough to find and respect the whole person residing behind the face.<sup>1</sup>

Another champion of individuals is Dr. Barbara Landau, who has been a catalyst for change for the status of women in Canada. Women were not allowed to vote until the First

World War and until 1929 they were not considered "persons" under the Canadian constitution for the purpose of serving in the Senate—something that might seem appalling today. Landau writes of situations that would be considered "unthinkable" and "demoralizing" today that she experienced, which prompted her work on behalf of women's advancements. "I am both a psychologist and a lawyer," writes Landau. "In the early 1960s when I told the Deans of both (graduate) Psychology and the Law School that I was planning to apply, their response was: 'Why would we want to waste a graduate school position on a woman—you will just get married, have babies and stay home?... Even if we accepted you, no one would give you a job, except possibly to make coffee in the lunch room.' This is not hyperbole. This was the experience of most women who aspired to work in a profession. Dr. Landau has been ceaseless ever since in advancing the status of women in Canada and has been widely recognized for her work.<sup>2</sup>

How does respect for individuals play out in the workplace? Perceptions, personalities, attitudes, emotions, and

moods can have a positive or a negative influence on individual behaviour. When employees are treated without respect, as reflected in Dr. Landau's story, they may respond with low performance, poor customer service, absenteeism, and even antisocial behaviour. In contrast, when individuals work in supportive settings, positive work behaviour is much more likely to emerge—including higher levels of work performance, less withdrawal and dysfunction, and helpful citizenship behaviour.

## Chapter Quick Start

When people work, play, and live together, they experience lots of ups and downs. There are relationship and communication miscues, and bonds of friendship that fill life with pleasure. Within this natural ebb and flow are individual differences in perceptions, personalities, attitudes, moods, and emotions. Those who understand and respect differences are more likely to succeed than those who are self-centred and insensitive.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

#### 15.1 Perception

**15.1** Summarize perceptual tendencies and distortions that influence behaviour.

#### 15.2 Personality

**15.2** Explain common personality differences and their behavioural implications.

#### 15.3 Attitudes

**15.3** Discuss the components of attitudes and the importance of job satisfaction.

#### 15.4 Emotions, Moods, and Stress

**15.4** Illustrate how emotions, moods, and stress influence individual behaviour.

### What to Look for **Inside**

#### Management Is Real

- 15.1 Choices** Think before You Act  
Curbing Bias in Hiring Decisions
- 15.2 Ethics** Know Right from Wrong  
Is Personality Testing in Your Future?
- 15.3 Insight** Keep Learning about Yourself  
Keep Ambition on Your Side
- 15.4 Wisdom** Learn from Role Models  
Positive Thinking Propels Serial Entrepreneur to Success
- 15.5 Analysis** Make Data Your Friend  
Paying a High Price for Incivility at Work

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Self-Monitoring
- **Contribute** *to the Class Exercise:*  
Job Satisfaction Preferences
- **Manage** *a Critical Incident:*  
Facing Up to Attributions
- **Collaborate** *on the Team Activity:*  
Difficult Personalities
- **Analyze** *the Case Study:*  
G Adventures Canada | The Path Less Travelled

# 15.1 Perception

## LEARNING OBJECTIVE 15.1

Summarize perceptual tendencies and distortions that influence behaviour.

### Learn More About

- Perception and psychological contracts
- Perception and attribution
- Perception tendencies and distortions
- Perception and impression management

**Perception** is the process through which people receive and interpret external information from the environment. It affects the impressions we form of ourselves, other people, and our daily experiences. You can think of perception as a screen or filter through which information passes into our consciousness and affects how we think about the world. Because perceptions are influenced by factors such as cultural background, values, and other personal and situational circumstances, people can and do perceive the exact same people, events, situations, or circumstances in very different ways. Importantly, we most often behave in accordance with our perceptions.<sup>3</sup>

## Perception and Psychological Contracts

One of the ways in which perceptions influence work behaviour is through the **psychological contract**—what the individual employee expects both to give and to receive from the employment relationship.<sup>4</sup> **Figure 15.1** shows that a healthy psychological contract offers a balance between the contributions individuals make on behalf of their organization and inducements they receive. These contributions include time, energy, effort, creativity, commitment, and loyalty. Inducements are

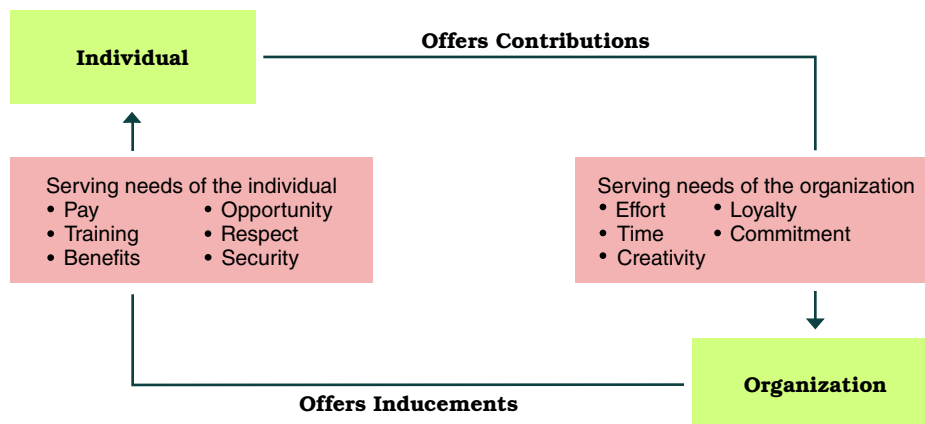
what the organization gives to employees in exchange for these contributions. These inducements include pay, fringe benefits, training and opportunities for personal growth and advancement, a sense of professional identity, and job security.

Human resource managers use the term **employee value proposition**, or EVP, to describe the organization’s intentions for creating value on the employee and employer sides of the psychological contract. The ideal EVP is one where the exchanges made on each side of the psychological contract are perceived as fair by both parties. Problems are likely to occur when the psychological contract is perceived as out of balance or broken. For example, employees who perceive they are receiving too little in exchange for what they contribute might compensate by reducing their performance and withdrawing through absenteeism or tardiness.

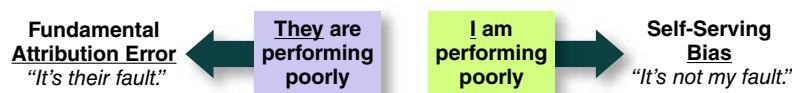
## Perception and Attribution

What happens when you perceive that someone else in a job or student team isn’t performing up to the expectations of the team or their supervisor/instructor? How do you personally explain this less-than-ideal level of performance? Given your explanation, how do you react? These questions involve **attribution**, which is the process of developing explanations for events.

Attribution theory describes how people try to explain perceptions of their own behaviour and the behaviour of other people, often making errors in the process.<sup>5</sup> The **fundamental attribution error** occurs when someone’s performance problems are blamed more on internal failures of the individual than on external factors relating to the environment. In the case of poor-quality work, for example, a team leader might blame a team member’s lack of job skills or laziness—an unwillingness to work hard enough to get the job done. In response, the leader may try to resolve the problem through rewards, punishment, or even replacement. Because the fundamental attribution error neglects possible alternative, external explanations for poor-quality work, such as unrealistic time pressures, bad technology, or poor training, opportunities to improve these factors can easily be missed.



**FIGURE 15.1** Components in the psychological contract.



**FIGURE 15.2** Fundamental attribution error vs. self-serving bias.

Attribution theory also recognizes tendencies toward **self-serving bias**. This happens when individuals blame their own personal failures or problems on external causes, while attributing successes to internal causes. You can recognize it when people say, “It’s not my fault!” when something goes wrong, but “It was me, I did it!” when things go right (Figure 15.2). Think of the self-serving bias the next time your favourite team loses a close game—“It was bad officiating!” or when your team wins a close one—“It was because of great coaching and play-making!” Self-serving bias creates a false sense of confidence. We don’t place responsibility for outcomes in a consistent way, which also causes us to overlook opportunities for personal change and development. Because the outcome influences where we ultimately place responsibility, we can’t learn effectively from either our victories or our defeats.

## Perception Tendencies and Distortions

A variety of perceptual tendencies and distortions also influence the way we communicate with and behave toward one

another. Inappropriate use of stereotypes, halo effects, selective perception, and projections can cause us to lose sight of important individual differences.

**Stereotypes** A **stereotype** is upheld when someone is identified with a particular group or category, and then oversimplified attributes associated with that group or category are used to describe the individual, to make assumptions about how the individual will behave, or the kinds of things the individual is likely to think or assume. We all make use of stereotypes and they aren’t always negative or ill-intended. But stereotypes based on individual differences such as gender, age, race, religion, able-bodiedness, national origin, or sexual orientation can, and unfortunately often do, bias our perceptions of other people (Management Is Real 15.1).<sup>6</sup> And because perceptions influence behaviour, we may behave toward people in unfair and even disrespectful ways.

The problem with making decisions under the influence of stereotypes is that each individual is just that—an individual, and not a generic archetype. For example, female managers in Canada and all over the world get a smaller percentage of

### Management Is Real 15.1: Choices | Think before You Act

“... if you have several pair of shoes available, you’re much more likely to be able to compare different attributes of the shoes.”

#### Curbing Bias in Hiring Decisions

*Study* Harvard University scholars Iris Bohnet, Alexandra van Geen, and Max H. Bazerman asked 100 participants to act as candidates for a new job. They performed a variety of “math and verbal tasks” chosen by the researchers because of the common gender stereotype that “females are believed to be worse at math tasks and better at verbal tasks than males.” Another 554 study participants then acted as evaluators to select candidates from this set of 100 for a second round of testing. They were given test results and gender for each candidate. Some evaluators were asked to evaluate the candidates one at a time while others directly compared male and female candidates.

*Findings* Gender stereotypes influenced the one-by-one evaluations, with female candidates more often chosen for further verbal testing and male candidates for further math testing. When male and female candidates were evaluated together, however, gender stereotypes largely disappeared.

*Conclusion* One way to curb bias in hiring decisions is to make sure evaluators compare candidates to each other rather than assessing them one by one. Bohnet and colleagues point out: “If you look at one pair of shoes, it’s hard to evaluate the quality of those shoes. You will be much more likely to go with stereotypes ... about shoes. But if you have several pair of shoes available, you’re much more likely to be able to compare different attributes of the shoes.”



Jon Feingersh Photography/SuperStock

#### What’s Your Take?

Does this research suggest a simple way to remove gender bias from human resource decisions? Is it time to stop assessing candidates one at a time and instead compare them to one another directly?

international assignments than men, which curbs their chances at top leadership positions requiring international experience. The reasons companies usually give for not assigning women are: women don't want to leave their families, other countries don't want women making business deals, and women lack the skills.<sup>7</sup> However, Rosalie L. Tung, a professor of international business at Simon Fraser University in British Columbia, found these reasons were "outright myths." In her research she discovered that more women than men were willing to accept an international assignment, many international companies were willing to deal with women because they assumed the women must be very good if their organizations were sending them, women are often considered to be good at human relations and listening, and more women have MBAs today than their male counterparts. Competence is not likely to be a factor. As a matter of fact, says Tung, women are the ideal candidates for overseas posts.<sup>8</sup> Just ask Indra Nooyi of Pepsico, Ursula Burns of Xerox, Mary Barra of General Motors, Marillyn Hewson of Lockheed Martin, and Virginia Rometty of IBM—who would surely agree.

**Halo Effects** A **halo effect** occurs when one personal attribute is used to develop an overall impression of a person or of a situation. When meeting someone new, for example, the halo effect may cause one trait, such as a pleasant smile or a firm handshake, to trigger an overall positive perception of that individual. A unique hairstyle or style of clothes, by contrast, may trigger a generalized negative impression. Halo effect errors often show up during performance evaluations. One factor, such as a person's punctuality or pleasant personality, may become the "halo" for a positive overall performance assessment, even though an accurate evaluation of the full set of available performance facts would not have led to the same positive appraisal.

**Selective Perception** **Selective perception** is the tendency to single out those aspects of an individual or situation that reinforce one's existing beliefs, values, or needs.<sup>9</sup> Information that makes us feel uncomfortable tends to get screened out, while information that makes us feel comfortable is allowed in. What this often means in organizations is that people from different departments or functions—such as marketing and information systems—see organizational events from their own point of view but fail to recognize the validity of others' point of view. One way to reduce or avoid selective perception is to be sure to gather inputs and opinions from people with divergent points of view.

**Projection** **Projection** involves the assignment of personal attributes to other individuals. A classic projection error is to assume that other people share our own needs, desires, and values. For example, suppose that you enjoy a lot of responsibility and challenge in your work. Suppose, also, that you are the newly appointed head of a team whose jobs you see as dull and routine. You might move quickly to redesign jobs within the team so that members take on more responsibilities and perform more challenging tasks. But this may not be a good decision. Instead of designing jobs to best fit the

team members' needs, you might just have spent a lot of time and effort designing their jobs to fit with your own needs. The members may, in fact, have been satisfied doing jobs that seem routine to you. Projection errors can be controlled through self-awareness and a willingness to try to see things from others' points of view.

## Perception and Impression Management

Richard Branson, CEO of the Virgin Group, is one of the richest and most famous executives in the world.<sup>10</sup> He's also known for informality and being a casual dresser. One of his early successes was launching Virgin Airlines as a competitor to British Airways (BA). The former head of BA, Lord King, said: "If Richard Branson had worn a shirt and tie instead of a goatee and jumper, I would not have underestimated him."<sup>11</sup> This anecdote reveals how much impressions can influence our experiences with others—both positive and negative.

Scholars discuss **impression management** as the systematic attempt to influence how others perceive us.<sup>12</sup> Impression management is really a matter of routine in everyday life. The way we dress, talk, act, and surround ourselves with objects (e.g., headphones, jewellery, car) conveys what we perceive to be a desirable image to others. We try to create an image of ourselves. When well done, impression management can help to develop personal relationships with likable people, advance in jobs and careers, form professional relationships with people we admire, and even create inroads to group memberships, internships, and prestigious universities. Some of the basic impression management tactics are worth remembering. Dress in ways that convey positive appeal—for example, know when to "dress up" and when to "dress down." Use words to flatter other people in ways that generate positive feelings toward you. Make eye contact and smile when engaged in conversations to create a personal bond. Display a high level of energy that suggests lots of work commitment and initiative.<sup>13</sup>

**Willful Blindness** We all have blind spots about what we choose to see and acknowledge in the world. No one of us lives in a world of immaculate perception. If an idea goes against what we believe we often fail to acknowledge it. Another type of blind spot that is more egregious is "willful blindness," a term which has its origins in British law where it is used to describe defendants found guilty of something they could know, and should know but don't know or admit to knowing because it feels better not to know. It's the process of turning a blind eye, of ignoring the obvious in our midst.

Margaret Heffernan, entrepreneur and writer, asks "Why do we turn a blind eye to something going on in our midst that is not right?" In her book, *Willful Blindness: Why we Ignore the Obvious at our Peril*, she explains that some people are "blind" because of fear of retaliation or recrimination. Other people believe that it's futile to speak up. They feel that nothing's going to change so why bother. "You know what happens to



whistleblowers,” they rationalize. Willful blindness is a type of perceptual choice that we can overcome when we become determined to use the freedom we have to speak up, the voice to express it, and the will to make explicit the wrongdoing among us. Courage helps.<sup>14</sup>

## Learning Check

**LEARNING OBJECTIVE 15.1** Summarize perceptual tendencies and distortions that influence behaviour.

**Be Sure You Can** • define *perception* • explain the benefits of a healthy psychological contract • explain fundamental attribution error and self-serving bias • define *stereotype*, *halo effect*, *selective perception*, and *projection* and illustrate how each can adversely affect work behaviour • explain impression management

15.2

## Personality

**LEARNING OBJECTIVE 15.2**

Explain common personality differences and their behavioural implications.

### Learn More About

Big five personality dimensions • Myers-Briggs type indicator • Technology personality • Personal conception and emotional adjustment traits

How often do you complain about someone’s “bad personality,” tell a friend how much you like someone because of their “great personality,” or worry that co-workers mistake your “quiet shyness” for a lack of competency? These same kinds of personality-driven impressions of other people emerge at work as frequently as they do in our everyday lives. Perhaps you have been part of conversations like these: “I can’t give him that job; with a personality like that there’s no way he can work with customers.” “Put Shanice on the project—her personality is perfect for the intensity that we expect from the team.” “Olga should present our team’s proposal—she’s got a really outgoing personality.”

We use the term **personality** in management to describe the profile of enduring characteristics that makes each of us unique as an individual. No one can doubt that an individual’s personality can influence how she or he behaves and how that behaviour is regarded by others. The implications of personality extend from how we face problems and pursue tasks, to how we handle relationships with everyone, whether family, friends, or co-workers.

## Big Five Personality Dimensions

Although there are many different personality traits, some of the most widely recognized are a short list of five that are especially significant in the workplace. Known as the *Big Five*,<sup>15</sup> these personality dimensions are:

- 1. Extraversion**—the degree to which someone is outgoing, sociable, and assertive. An extravert is comfortable and confident in interpersonal relationships; an introvert is more withdrawn and reserved.
- 2. Agreeableness**—the degree to which someone is good-natured, cooperative, and trusting. An agreeable person gets along well with others; a disagreeable person is a source of conflict and discomfort for others.
- 3. Conscientiousness**—the degree to which someone is responsible, dependable, and careful. A conscientious person focuses on what can be accomplished and meets commitments; a person who lacks conscientiousness is careless, often trying to do too much and failing, or doing little.
- 4. Emotional stability**—the degree to which someone is relaxed, secure, and generally unworried. A person who is emotionally stable is calm and confident; a person lacking in emotional stability is anxious, nervous, and tense.
- 5. Openness to experience**—the degree to which someone is curious, open to new ideas, and imaginative. An open person is broad-minded, receptive to new things, and comfortable with change; a person who lacks openness is narrow-minded, has few interests, and is resistant to change.

A considerable body of evidence from published academic research links these personality dimensions with a range of individual behaviours at work and elsewhere. For example, conscientiousness is a good predictor of job performance for most occupations. Extraversion often is associated with success in management and sales.<sup>16</sup> Indications are that extraverts tend to be happier than introverts in their lives overall, that conscientious people tend to be less risky, and that those more open to experience are more creative.<sup>17</sup>

You can easily spot the Big Five personality traits in people with whom you work, study, and socialize in your everyday life. But don’t forget that these traits also apply to you! Others form impressions of your personality, and respond to it, just as you do with theirs. Managers often use personality judgments when making job assignments, building teams, and otherwise engaging in the daily social give-and-take of work within an organization. Some employers even give personality tests to job candidates before being hired (see Management In Real 15.2).

## Myers-Briggs Type Indicator

The Myers-Briggs Type Indicator is another popular approach to personality assessment. It “types” personalities based on a questionnaire that probes into how people act or feel in various

## Management Is Real 15.2: Ethics | Know Right from Wrong

If you want the job, take the personality test.

### Is Personality Testing in Your Future?

Dear [your name goes here]:

I am very pleased to invite you to a second round of screening interviews with our firm. Your on-campus session with our representative went very well, and we would like to consider you further for a full-time position. Please contact me to arrange a visit date. We will need a full day. The schedule will include several meetings with executives and your potential team members, as well as a round of personality tests.

Thank you again for your interest in working with our firm. I look forward to meeting you during the next step in our recruiting process.

Sincerely,  
[signed]  
Human Resource Director

Getting a letter like this is great news. It serves as confirmation of your hard work and performance in school. You obviously made a good first impression. But have you thought about how you feel about the whole “personality test” thing? What do you know about personality tests and how they are used for employment screening? Do you feel comfortable doing one? Some people consider their use to be an invasion of personal privacy.



Rob Wilkinson/Alamy Stock Photo

### What Do You Think?

What are the ethical issues associated with personality testing? What responsibilities does an employer have if these tests are being used to make selection or promotion decisions? Should your employer be required to have data showing that personality tests actually predict key areas of employees' performance on the job? Just when is personality testing inappropriate and an invasion of privacy? How should all these issues be assessed by a job candidate as in the case just presented?

situations. Called the *MBTI* for short, it was developed by Katharine Briggs and her daughter Isabel Briggs-Myers from foundations set forth in the work of psychologist Carl Jung.<sup>18</sup>

Jung's model of personality differences included three main distinctions. The first is how people differ in the ways in which they relate to others—by extraversion (outgoing and sociable) or introversion (shy and quiet). The second is how they differ in the ways in which they gather information—by sensation (emphasizing details, facts, and routine) or by intuition (looking for the “big picture” and being willing to deal with various possibilities). The third is how they differ in the ways in which they evaluate information—by thinking (using reason and analysis) or by feeling (responding to the feelings and desires of others). Briggs and Briggs-Myers used all three of Jung's personality dimensions in developing the MBTI. But they added a fourth dimension that describes how people differ in the ways in which they relate to the outside world—judging or perceiving. The four MBTI dimensions are:

- *Extraverted vs. introverted (E or I)*—social interaction: whether a person tends toward being outgoing and sociable or more comfortable being by themselves and focusing on thoughts and feelings.
- *Sensing vs. intuitive (S or I)*—gathering data: whether a person tends to focus on details or on the big picture in dealing with problems.
- *Thinking vs. feeling (T or F)*—decision making: whether a person tends to rely on logic or emotions in dealing with problems.

- *Judging vs. perceiving (J or P)*—work style: whether a person prefers order and control or acts with flexibility and spontaneity.

Sixteen MBTI personality types result from the various possible combinations of the four dimensions just described.<sup>19</sup> The following is a sample of Myers-Briggs types often found in work settings:

- *ESTJ (extraverted, sensing, thinking, judging)*—decisive, logical, and quick to dig in; common among managers.
- *ENTJ (extraverted, intuitive, thinking, judging)*—analytical, strategic, quick to take charge; common for leaders.
- *ISFJ (introverted, sensing, feeling, judging)*—conscientious, considerate, and helpful; common among team players.
- *INTJ (introverted, intuitive, thinking, judging)*—insightful, free thinking, determined; common for visionaries.

These kinds of systematic, easily understandable personality classifications have made the Myers-Briggs Type Indicator an extremely popular management tool.<sup>20</sup> Employers and trainers like it because people can be taught to understand their own personality types, and to learn how to work better with people with different personalities.

## Technology Personality

Recent thinking also suggests that personality differences extend to the ways in which people interact with technology.

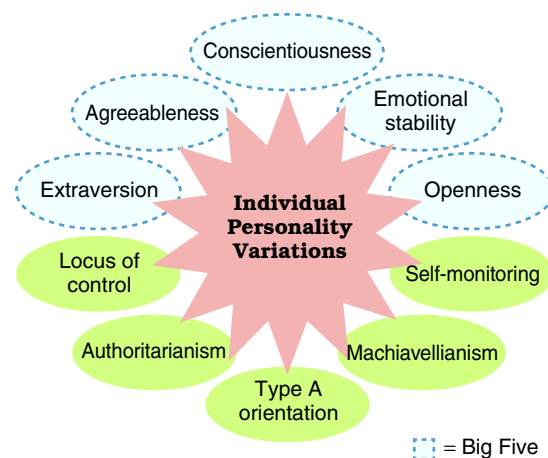
People's **technology personality** is reflected in their frequency of technology and social media use, as well as the ways in which it is used.<sup>21</sup> The following seven technology personality types have been identified in the U.S. adult population. Why not pause and use this list to check your technology personality and consider its implications for your work and social relationships?

1. *Always On*—8 percent—early adopters who use technology to create content, actively engage others, and make connections with people they'd like to know, not merely the people they know already.
2. *Live Wires*—35 percent—very connected, actively use technology
3. *Social Skimmers*—6 percent—highly connected, use social media sites, have substantial online networks and connect with family and friends using mobile technology; primarily use technology to gather information rather than to engage others.
4. *Broadcasters*—8 percent—less connected, selectively use technology to tell others what they're doing, are less likely to be active on social media, and tend not to text.
5. *Toe Dippers*—27 percent—low connectivity, use technology to converse, own desktops and laptops; most likely to prefer person-to-person contact with others.
6. *Bystanders*—15 percent—relatively unconnected, mostly own only desktops; use technology primarily to keep up with the news and less frequently to connect with family and friends.
7. *Never-Minders*—2 percent—relative outliers, who do not use cell phones, texting, or social media; are apprehensive about technology use and see technology as isolating.

## Personal Conception and Emotional Adjustment Traits

In addition to the Big Five Personality Dimensions, the Myers-Briggs Type Indicator, and the more recently postulated technology personality, psychologists have long studied a wide range of other personality traits. As shown in **Figure 15.3**, some traits with special relevance to the workplace include the personal conception traits of locus of control, authoritarianism, Machiavellianism, and self-monitoring, as well as the emotional adjustment trait of Type A orientation.<sup>22</sup> In general, you can think of a *personal conception trait* as describing how people's personality influences how they tend to relate to the environment, while an *emotional adjustment trait* describes how they are inclined to handle stress and uncomfortable situations.

**Locus of Control** Scholars have long had a strong interest in **locus of control**, recognizing that some people believe they are in control of their destiny, while others believe that what happens to them is beyond their control.<sup>23</sup> "Internals" are self-confident and accept responsibility for their own actions



**FIGURE 15.3** Common personality dimensions that influence human behaviour at work.

and the outcomes they lead to. "Externals" are more likely to blame others and outside forces for what happens to them. Research suggests that internals tend to be more satisfied and less alienated from their work than externals.

**Authoritarianism** **Authoritarianism** is the degree to which a person yields to authority and accepts interpersonal status differences.<sup>24</sup> Someone with an authoritarian personality tends to behave in a rigid, control-oriented way when serving as a leader. This same person is likely to behave in a subservient way and to comply with rules when serving as a follower. The tendency of people with an authoritarian personality to obey rules and follow procedures can cause problems if they follow orders to the point of acting unethically or even illegally.

**Machiavellianism** In his 16th-century book *The Prince*, Niccolò Machiavelli gives his hypothetical prince advice on how to use power to achieve personal goals.<sup>25</sup> The personality trait of **Machiavellianism** describes the extent to which someone is emotionally detached and manipulative in his or her use of power.<sup>26</sup> A person with a "high-Mach" personality is viewed as exploitative and unconcerned about others, often acting with the assumption that the end (i.e., goal) justifies the means (i.e., how the goal is accomplished). A person with a "low-Mach" personality, by contrast, is deferential in allowing others to exert power over him or her, and does not seek to manipulate others.

**Self-Monitoring** **Self-monitoring** reflects the degree to which individuals are able to adjust and modify their behaviour in response to the immediate situation and to external factors.<sup>27</sup> A person high in self-monitoring tends to be a learner, comfortable with feedback, and is both willing and able to change. Because high self-monitors are flexible in changing behaviour from one situation to the next, it may be hard to get a clear read on exactly where they stand on any particular issue. A person low in self-monitoring, by contrast, is predictable and tends to act in a consistent way regardless of circumstances or regardless of who happens to be present within a particular situation.

## Management Is Real 15.3: Insight | Keep Learning about Yourself

**Individuals blinded by ambition can end up sacrificing substance for superficiality, and even sacrificing right for wrong.**

### Keep Ambition on Your Side

When it comes to understanding people's behaviour, their attitudes, and their professional interactions with others, one of the most important distinctions is their level of ambition, which is the desire to succeed, accomplish things, and achieve high goals. Ambition shows up in personality as a sense of competitiveness and the urge to be the best at something.

We tend to think of ambition as a positive individual quality to be admired and developed. Scholar and consultant Ram Charan calls it a "personal differentiator" that separates "people who perform from those who don't." But there's also a potential downside. Charan points out that individuals blinded by ambition can end up sacrificing substance for superficiality, and even sacrificing right for wrong.

Overly ambitious people may exaggerate their accomplishments to themselves and others. They also may try to do too much and end up accomplishing less than they would otherwise have accomplished. Ambitious people who lack integrity can also get trapped by corruption and misbehaviour driven by ambition.

The following are personal traits, or "personal differentiators," associated with high performers:

- Ambition—to achieve
- Drive—to solve
- Tenacity—to persevere
- Confidence—to act
- Openness—to experience
- Realism—to accept
- Learning—to grow
- Integrity—to fulfill

### Get to Know Yourself Better

Review the list of "personal differentiators." How do you score? Can you say that your career ambition is backed with a sufficient set of personal traits and skills to make success a real possibility? Ask others to comment on the ambition you display as you go about your daily activities. Write a short synopsis of two situations—one in which you showed ambition and one in which you did not.

**Type A Personality** A **Type A personality** is high in achievement orientation, impatience, and perfectionism. One of the negative aspects of the Type A personality is the tendency for Type A individuals to bring stress on themselves, even in situations others are likely to find relatively stress free. The following patterns of behaviour reveal Type A personality tendencies in yourself and others:<sup>28</sup>

- Always moving, walking, and eating rapidly.
- Acting impatient, hurrying others, put off by waiting.
- Doing, or trying to do, several things at once.
- Feeling guilty when relaxing.
- Hurrying or interrupting the speech of others.

People with Type A personalities are usually very ambitious (Management Is Real 15.3).

## Learning Check

**LEARNING OBJECTIVE 15.2** Explain common personality differences and their behavioural implications.

**Be Sure You Can** • list the Big Five personality traits and give work-related examples of each • list and explain the four dimensions used to assess personality in the MBTI • explain and illustrate different technology personality types • list five personal conception and emotional adjustment personality traits and give work-related examples for each

## 15.3 Attitudes

### LEARNING OBJECTIVE 15.3

Discuss the components of attitudes and the importance of job satisfaction.

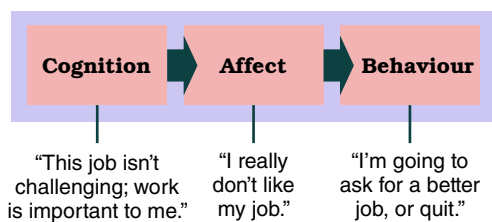
### Learn More About

- What is an attitude? • What is job satisfaction?
- Job satisfaction trends • Job satisfaction outcomes

Lt. Col. Maryse Carmichael became the first woman in Canadian history to fly with the famous Snowbirds aerobatic team. She first served as an air cadet in 1984, then joined the Canadian Forces. In 1994 she completed pilot training and soon flew a Canadair CE-144 and the CCE-Challenger. When she joined the Snowbirds she was promoted to the rank of Major and became the team's Executive Officer, then Commander, becoming the first female pilot to lead the famous squad.<sup>29</sup> That, simply put, is what can be characterized as a "can-do" attitude!

## What Is an Attitude?

**Attitudes** are predispositions to act in a certain way toward people and events in our environment.<sup>30</sup> In order to fully



**FIGURE 15.4** Components of individual attitudes.

understand attitudes it helps to recognize the three components shown in **Figure 15.4**. First, the *cognitive component* reflects beliefs or opinions. You might believe, for example, that your management course is very interesting. Second, the *affective or emotional component* of an attitude reflects a specific feeling. For example, you might feel very good about being a management major. Third, the *behavioural component* of an attitude reflects an intention to behave in a way that is consistent with the belief and feeling. Using the same example again, you might say to yourself: “I am going to work hard and try to get an A in all of my management courses.” Management Is Real 15.4 shows how a positive attitude can translate into entrepreneurial success.

The intentions reflected in an attitude may or may not be confirmed through actual behaviour. Despite having a positive

attitude and good intentions in your management courses, for example, demands on your time from family, friends, or leisure activities have the potential to keep you from studying and preparing for your class. You end up not working hard enough to get an A, and fail to live up to your original intentions to get a good grade in the course.

The psychological concept of **cognitive dissonance** describes the discomfort felt when one's attitude and behaviour are inconsistent with one another.<sup>31</sup> For most people, dissonance is very uncomfortable and results in changing the attitude to fit the behaviour—“Oh, I really don't like management that much anyway,” changing future behaviour to fit the attitude—dropping out of intramural sports to get extra study time in order to get a good grade in the course, or rationalizing to force the two to be compatible—“Management is an okay major, but being a manager also requires the experience I'm gaining in my extracurricular activities.”

## What Is Job Satisfaction?

People hold attitudes about many aspects of their experiences at work—supervisors, co-workers, tasks, policies, goals, pay, and promotion opportunities, among many others. One of the most often discussed work attitudes is **job satisfaction**, which is the degree that employees feel positively or negatively about

### Management Is Real 15.4: Wisdom | Learn from Role Models

“Having a positive outlook helped develop my skillset substantially.”

#### Positive Thinking Propels Serial Entrepreneur to Success

*Be positive! Embrace challenge! Believe in yourself and good things will happen.* This is the advice of Frank Cianciulli, one of Canada's most successful serial entrepreneurs. Cianciulli was born and raised in Toronto and holds a BA from York University (1997). After graduation he worked for a conferencing company, learned the business, then, in 2001, co-founded a conferencing services company of his own called Enunciate Conferencing. Within five years he had launched nine more leading-edge collaboration products, which landed him on the list of *Profit* magazine's “Hot 50” Canadian companies.

Cianciulli founded PEOPLEsource Staffing Solutions, followed by OneConnect to provide business-class VoIP services, then came Momentum Conferencing, which he located in western Canada. This last business landed him on *Profit*'s “Hot 50,” but this time in the number one spot. Since then he's co-founded four more successful companies. Cianciulli is the first to admit that a positive attitude has been essential to his success. “Having a positive outlook,” he says, “helped develop my skillset substantially.” Cianciulli offers this advice for budding entrepreneurs: “Stir in a positive work ethic, put in the productivity, add in persistence and you're well on your way to becoming a successful entrepreneur.”



Courtesy of Frank Cianciulli

#### Find Inspiration

Frank Cianciulli demonstrates the power of positive thinking. Just how far can positive thinking carry entrepreneurs? Does there come a point where continuing to build and expand a business requires more than just a positive attitude; where it requires systematic, professional management approaches and tactics? How about in our personal lives? Is there more to be gained by looking for positives than negatives in our everyday experiences and relationships with others? Do you maintain a positive outlook in your own life?

various aspects of work.<sup>32</sup> The following facets of job satisfaction are commonly discussed and measured:

- *Work itself*—Does the job offer responsibility, interest, challenge?
- *Quality of supervision*—Are task help and social support available?
- *Co-workers*—How much harmony, respect, and friendliness is there?
- *Opportunities*—Are there avenues for promotion, learning, and growth?
- *Pay*—Is compensation, actual and perceived, fair and substantial?
- *Work conditions*—Do conditions offer comfort, safety, support?
- *Security*—Is the job secure?

## Job Satisfaction Trends

If you watch the news on television or read it on the Internet, you'll regularly find reports on employees' job satisfaction. You'll also find reports on lots of job satisfaction studies from the academic literature. The results from these various sources and studies don't always agree. But they do show that job satisfaction tends to be higher in small firms and lower in large firms, that it tends to be correlated with overall life satisfaction, that it is higher for workers 50+ years old, and that bosses tend to be more satisfied than workers.<sup>33</sup>

In an international study that compared 8,000 workers from five countries, Canadians (64 percent of them) were the most satisfied with their jobs, with stating so. The Netherlands was next (57 percent), followed by India (55 percent), the United States (53 percent), France (43 percent), and lastly, Germany (34 percent). The study found that younger workers were most likely to be unhappy at work, with 15 percent under the age of 25 disliking their work and thinking they could do better. The older the worker, the more satisfied he or she was. The highest-paid Canadian workers were also the most satisfied. U.S. respondents were the most likely to say they disliked their jobs, with 15 percent saying they didn't like or hated their current role.<sup>34</sup>

## Job Satisfaction Outcomes

Effective managers and team leaders help their employees and teammates to achieve not just higher levels of work performance, but higher job satisfaction as well. People deserve to have satisfying work experiences, and job satisfaction is an important goal, if for no other reason than on quality-of-work-life grounds alone. But is job satisfaction important in other than a "feel-good" sense? In other words, does job satisfaction matter when it comes to measurable organization-critical outcomes? Here is what we know about the consequences of job satisfaction.

## Job Satisfaction and Withdrawal Behaviours

There is a strong relationship between job satisfaction and the **withdrawal behaviours** of temporary absenteeism and actual job turnover. With regard to *absenteeism*, workers who are more satisfied with their jobs are absent less often than workers who are dissatisfied with their jobs. With regard to *turnover*, satisfied workers are also more likely to stay in their positions while dissatisfied workers are more likely to quit their jobs.<sup>35</sup>

Both findings are important. Absenteeism and turnover are costly in terms of the recruitment and training needed to replace workers, as well as in the productivity lost while new workers are learning how to perform the job tasks of the vacated positions up to expectations.<sup>36</sup> In fact, the results from one recent study revealed that changing retention rates up or down results in magnified changes to corporate earnings. It also warns about the negative impact of declining employee loyalty and high turnover on corporate performance.<sup>37</sup> Job satisfaction can hit the bottom line in many ways.

## Job Satisfaction and Employee Engagement

**Employee engagement** is a strong positive feeling about one's job and the level of commitment one has toward the job. The primary behaviours of an engaged employee are: speaking positively about the organization to co-workers, potential employees, and customers; having a strong desire to be a member of the organization; and exerting extra effort to the organization's success. Yet employee engagement seems to be elusive. A Canada Human Resources Centre poll shows that 60 percent of Canadian workers are not engaged, 15 percent are actively disengaged, and only 25 percent are engaged. What does this mean for Canadian business? Unhappy workers cost money. In North America, this dissatisfaction amounts to well over \$350 billion annually in lost productivity.

What accounts for a worker's disengagement? Disillusionment with the job results in low commitment, lack of loyalty, absenteeism, and turnover. Sometimes the worker is the problem. But most times it's a matter of hiring the right person for the right position rather than putting the emphasis on hiring someone as soon as possible. Fit matters.<sup>38</sup>

Employee engagement is strongly connected with two other attitudes that influence work behaviour. **Job involvement** is the extent to which an employee feels dedicated to a job. Someone with high job involvement psychologically identifies with her or his job, and, for example, would be likely to work beyond expectations to complete a special project, or stay late to help a co-worker finish an assignment. **Organizational commitment** reflects the degree of loyalty an employee feels toward the organization. Individuals with a high level of organizational commitment identify strongly with the organization and take pride when viewing themselves as an organization member. Researchers find that strong *emotional commitment* to the organization—based on values and interests of others—has as much as four times more positive influence on performance than *rational commitment*—which is based primarily on pay and self-interest.<sup>39</sup>

## Job Satisfaction and Organizational Citizenship

Have you ever wondered about those people who are always willing to "go beyond the call of duty" or "go the

extra mile” in their work?<sup>40</sup> Such actions represent **organizational citizenship behaviour**, OCB, and are linked with job satisfaction.<sup>41</sup> A good organizational citizen does things that, although not formally required, help advance the performance of co-workers, the work unit, and the organization as a whole. Examples of OCBs include a service worker who goes to extraordinary lengths to take care of a customer, a team member who is always willing to take on extra tasks, or an employee who often volunteers to stay late just to make sure a key assignment gets done right.

Of course, the flip side of positive organizational citizenship is antisocial and counterproductive behaviour that disrupts work processes, relationships, teamwork, satisfaction, and performance.<sup>42</sup> Two common forms are incivility and bullying.<sup>43</sup> **Incivility** is antisocial behaviour that shows up as individual or group displays of disrespectful acts, social exclusion, and use of language that is hurtful to others (Management Is Real 15.5). **Bullying** is antisocial behaviour, again individual or group, that is intentionally aggressive, intimidating, demeaning, and/or abusive toward the recipients. Both incivility and bullying behaviours occur on a continuing basis, making them clearly different from what might be considered just one-time “bad” behaviours.

**Job Satisfaction and Job Performance** Airline passengers are easily frustrated, but a report on passenger satisfaction by J. D. Power & Associates states a conclusion that probably seems obvious: Customers tend to be more satisfied when airline employees smile when dealing with them. The



**FIGURE 15.5** The link between job satisfaction and job performance.

report went on to state “When you see companies that have high internal employee satisfaction, they have high customer satisfaction as well.”<sup>44</sup> Although it makes sense that an employee’s job satisfaction in service industries will be linked with customer satisfaction, scholars report that the satisfaction and performance relationship is generally more complicated.<sup>45</sup> Three plausible explanations are depicted in **Figure 15.5**.

There is probably a modest link between job satisfaction and objective or quantifiable performance.<sup>46</sup> But it is important to stress the word *modest* when describing this relationship. We shouldn’t rush to conclude that making employees happy or increasing their job satisfaction is a foolproof way to improve their job performance. The reality is that some employees will tend to like their jobs, be very satisfied, and still will not

## Management Is Real 15.5: Analysis | Make Data Your Friend

**Managers don’t have a good handle on the real costs incurred when employees are rude and disrespectful toward one another.**

### Paying a High Price for Incivility at Work

Look for losses in the bottom line when rudeness pervades the workplace. Most managers say they are against incivility and try to stop it whenever they can. But it’s also the case that managers often don’t have a good handle on the real costs incurred when employees are rude and disrespectful toward one another. When researchers asked 800 workers from different industries about how they responded when exposed to incivility at work, results showed:

- 48 percent decreased work effort
- 47 percent cut back time spent at work
- 80 percent lost work time due to worry
- 63 percent performed less well
- 78 percent were less committed to the organization
- 25 percent took frustration out on customers



Alex Brylov/Alamy Stock Photo

### What Are the Implications?

Have you been on the receiving end of incivility? Is incivility taking a toll on the teams and organizations in your life? Is improved civility a hidden pathway to higher performance in our workplaces? How can such improvements be achieved? Are you, for one, ready to put your best foot forward?

perform very well. That is just part of the complexity regarding the potential impact of individual differences on job performance. Consider the implications of this sign that once hung in a tavern near a Ford plant in Michigan: “I spend 40 hours a week here, am I supposed to work too?”

There also is a link between high levels of work performance and job satisfaction. High-performing employees are likely to feel satisfied with their work. Here again, caution is called for; not everyone is likely to fit the model. Some employees may get their jobs done effectively and efficiently, meet high performance expectations, but still not feel satisfied with their job. Given that job satisfaction is a good predictor of absenteeism and turnover, managers are well advised to take steps to avoid losing highly productive but unhappy workers. Unless changes are made to increase their job satisfaction, productive employees may choose to leave, hurting firm performance.

Finally, job satisfaction and job performance most likely have a reciprocal influence on one another—each playing a role in the level of the other. But the relationship between job satisfaction and performance is also most likely to hold only under certain conditions, particularly those related to rewards. We know that job performance followed by rewards that employees value and perceive as fair tends to create job satisfaction. This experienced satisfaction is likely to increase motivation to work hard and achieve high performance in the future in order to gain additional rewards.

**The Progress Principle** Harvard researchers Teresa Amabile and her husband, Stephen Kramer, spent several years analyzing the diaries of several thousand subjects who recorded what gave them encouragement and what created discouragement at work. Disengagement characterized the workplace at the time and performance was suffering. What the researchers discovered was that managers had the power to energize and revitalize the creative vitality of their employees by acknowledging them with meaningful work. What seemed to work was encouraging small wins, and supporting people and their progress. Where discouragement or setbacks cycled back into low performance, encouragement and small wins gave employees the spirit to continue. The researchers called this the Progress Principle.<sup>47</sup>

## Learning Check

**LEARNING OBJECTIVE 15.3** Discuss the components of attitudes and the importance of job satisfaction.

**Be Sure You Can** • define *attitude* and list the three components of an attitude • define *job satisfaction* and list its components • explain the potential consequences of high and low job satisfaction • define *employee engagement*, *job involvement*, *organizational commitment*, and *organizational citizenship behaviour* • explain three explanations for the job satisfaction and performance relationship

## 15.4 Emotions, Moods, and Stress

### LEARNING OBJECTIVE 15.4

Illustrate how emotions, moods, and stress influence individual behaviour.

#### Learn More About

Emotions • Moods • Stress and strain

*Situation:* The Boeing 787 Dreamliner is falling further behind on its promised delivery schedule. Boeing’s head of Asia-Pacific sales, John Wojick, is in a meeting with the chief sales officer. After a “heated” discussion over delivery dates and customer promises, Wojick “storms” out. He says: “Quite frankly we were failing at meeting our commitment to customers. Some of us may have been able to handle our emotions a little better than others.” Wojick, who went on to become Boeing’s senior vice president of global sales before retiring, was described as having “an understated manner” and an underlying “fiery temper.”<sup>48</sup>

Looking at this incident we might say that Wojick was emotional about the fact that his customers weren’t being well served. His temper flared and his anger got the better of him during the meeting. Whether that was good or bad for his clients ... for him ... and for his boss, is an open question. But, for a time at least, he and his boss both probably ended up in bad moods because of their stressful confrontation.

## Emotions

**Emotional intelligence** is an important human skill for managers and an essential leadership capability. Daniel Goleman defines “EI” as the ability to understand emotions in ourselves and in others, and to use this understanding to manage relationships effectively.<sup>49</sup> He argues that we perform at our best when we are good at recognizing and dealing with emotions. Emotional intelligence helps us to avoid letting our emotions “get the better of us.” Emotional intelligence also allows individuals to show restraint when the emotions of others would otherwise get the better of them.<sup>50</sup>

An **emotion** is a strong feeling directed toward someone or something. For example, you might feel positive emotion or elation when an instructor congratulates you on a fine class presentation; you might feel negative emotion or anger when an instructor criticizes you in front of the class. In both cases the object of your emotion is the instructor, but the impact of the instructor’s behaviour on your feelings is quite different.



How you respond to the aroused emotions is likely to differ as well—perhaps breaking into a wide smile with the compliment, or making a nasty side comment after the criticism. The emotion behind a statement such as “I was really mad when Professor Nitpicker criticized my presentation” has the following traits:

- Linked with a specific cause
- Tends to be brief or episodic
- Specific effect on attitude, behaviour
- Might turn into a mood

## Moods

Whereas emotions tend to be short term and clearly targeted, **moods** are more generalized positive and negative feelings or states of mind that may persist for a longer period of time.<sup>51</sup> Everyone experiences moods, and we each know the full range of possibilities they represent. How often do you wake up in the morning and feel excited, refreshed, and happy? In contrast, how often do you wake up feeling low, depressed, and generally unhappy? What are the consequences of these different moods for your behaviour with friends and family, and your performance at work or at school?

Positive and negative emotions can spill over and become “contagious,” causing others to display similarly positive and negative moods. This **mood contagion** can easily influence one’s co-workers and teammates, as well as family and friends.<sup>52</sup> When a leader’s mood contagion is positive, for example, researchers find that followers display more positive moods, report being more attracted to their leaders, and rate their leaders more favourably.<sup>53</sup> And in social media, emotion and mood contagion has been identified in networks of online connections. In a study of Facebook posts, James Fowler and colleagues found that positive updates tend to generate positive posts by others while negative updates tend to generate negative ones. The contagion effect is higher for positive posts. Fowler’s interpretation of these data is that “people are not just choosing other people like themselves to associate with but actually causing their friends’ emotional expressions to change ... emotional expressions spread online ... positive expressions spread more than negative.”<sup>54</sup>

With regard to CEO moods, a *BusinessWeek* article claims it pays to be likable.<sup>55</sup> If a CEO goes to a meeting in a good mood and gets described as “cheerful,” “charming,” “humorous,” “friendly,” and “candid,” she or he may be viewed as being on a professional upswing. But if the CEO is in a bad mood and comes away perceived as “prickly,” “impatient,” “remote,” “tough,” “acrimonious,” or even “ruthless,” she or he may be more likely to be perceived as being on a professional downhill slide. Many CEOs, C-suite executives, and ambitious managers hire executive coaches to help them learn how to better manage emotions and moods to come across as personable and friendly at public relations events and in professional relationships.<sup>56</sup> A mood, such as that reflected in the statement, “I just

feel lousy today and don’t have any energy. I’ve been down all week,” has the following traits:

- Hard to identify the cause
- Tends to linger, and be long-lasting
- Has a general effect on attitude, behaviour
- Can be “negative” or “positive”

## Stress and Strain

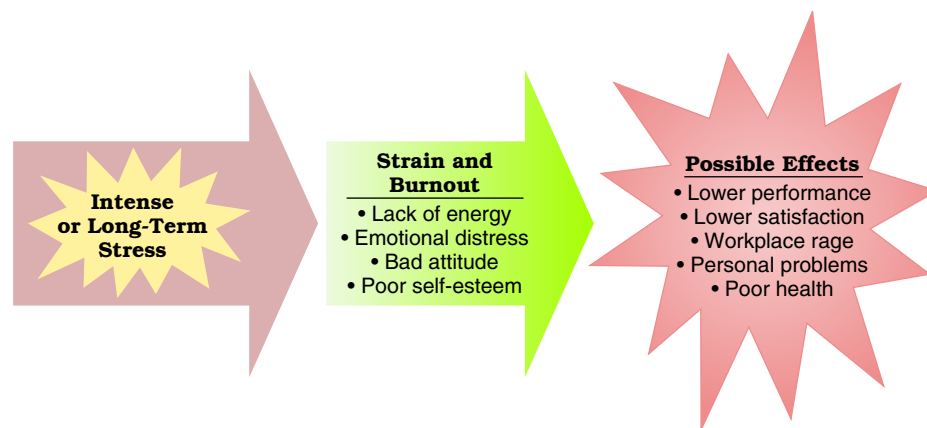
Closely aligned with emotions and moods is **stress**, a state of tension caused by extraordinary demands, constraints, or opportunities.<sup>57</sup> It is an extremely powerful force in all our lives. In one survey of college graduates, for example, 31 percent reported working over 50 hours per week, 60 percent rushed meals, 34 percent ate lunches “on the run,” and 47 percent of those under 35 and 28 percent of those over 35 had feelings of job burnout.<sup>58</sup> A study by the Society for Human Resources Management found that 70 percent of those surveyed worked over and above scheduled hours, including putting in extra time on the weekends; over 50 percent said that the pressure to do the extra work was “self-imposed.”<sup>59</sup>

**Stressors** **Stressors** are the experiences and events that cause tensions in our lives. Whether they come from work or non-work situations, from personality, or from trauma, stressors influence our attitudes, emotions and moods, behaviour, job performance, and even health.<sup>60</sup> Having the Type A personality discussed earlier is an example of a personality stressor. Stressful life situations include such things as family events (e.g., the birth of a child, marriage, divorce, moving), economics (e.g., a sudden loss of extra income), and personal affairs (e.g., a preoccupation with a bad relationship). Importantly, stressors from one space—work or non-work—can spill over to affect other areas of one’s life.

Work can be full of stressors. In fact, 34 percent of workers in one survey reported that their jobs were so stressful that they thought of quitting.<sup>61</sup> Work stressors might include long hours of work, excessive emails, unrealistic deadlines, difficult supervisors or co-workers, unwelcome or unfamiliar work, and unrelenting change. Potential stressors also include excessively high or low task demands, role conflicts or ambiguities, poor interpersonal relations, and career progress that is too slow or too fast. Two troublesome stress syndromes caused by managerial miscues are *set up to fail*—holding performance expectations that are impossible to reach or for which the available support is inadequate to the task, and *mistaken identity*—putting people in jobs that don’t match their talents, or that they simply don’t like.<sup>62</sup>

## Constructive Stress and Destructive Strain

Outcomes associated with the process of experiencing and dealing with stress vary from person to person and also from situation to situation. Sometimes we experience **constructive**



**FIGURE 15.6** Potential negative consequences of a destructive job stress–burnout cycle.

**stress**, sometimes called **eustress**, that is energizing and performance enhancing.<sup>63</sup> This is a positive stress outcome that encourages increased effort, stimulates creativity, and enhances diligence, while still not overwhelming the individual or causing negative health or behavioural outcomes. Individuals with a Type A personality, for example, are likely to work long hours and are less likely to be satisfied with poor performance. Challenging task demands move them toward ever-higher levels of task accomplishment. Even non-work stressors such as new family responsibilities may cause them to work harder in anticipation of greater financial rewards.

But more often, perhaps, we may experience **destructive stress** or **strain** that shows up as a dysfunctional or negative impact on physical well-being, mental health, and behaviour.<sup>64</sup> Medical researchers, for example, are concerned that too much strain harms health by reducing resistance to disease and increasing the likelihood of physical and/or mental illness. Other possible adverse health problems related to stress include hypertension, ulcers, substance abuse, overeating, depression, and muscle aches, among a wide range of other negative health outcomes.<sup>65</sup>

**Figure 15.6** shows that people experiencing destructive stress at work may react through turnover, absenteeism, errors, accidents, dissatisfaction, and reduced work performance. A common outcome is **job burnout**, feelings of physical and mental exhaustion that can be personally incapacitating. A less common but very troubling outcome is **workplace rage**, aggressive behaviour toward co-workers and the work setting in general. Most often this rage is temporary and moderate, such as when we lose our temper. But it can also explode into disturbing acts of violence and personal tragedy.<sup>66</sup>

**Stress and Strain Management** The best strategy to manage work stress and strain is to prevent it from becoming excessive in the first place. A top priority for individuals and employers is **personal wellness**. Individually, personal wellness means taking personal responsibility for your physical and mental health through a disciplined approach to such things as smoking, alcohol use, diet, exercise, and physical fitness. As an employer, it could mean setting up wellness programs and

assistance plans to help employees follow through with wellness commitments to healthy living, and insurance plans that include preventative services.

Strain can also be managed by taking actions to cope with and, hopefully, minimize the impact of personal and non-work stressors. Family difficulties may be relieved by a change in work schedule, or the anxiety these stressors cause may be reduced by a supportive supervisor.<sup>67</sup> Work stressors can sometimes be dealt with by role clarification through frank and open communication between supervisors and co-workers. Jobs can sometimes be redesigned to eliminate a poor fit between individuals' abilities and job demands.

Some employers are trying to reduce the tendency to “work too much” as a way of helping people “do better work.” Surveys by Glassdoor, for example, show that only 25 percent of American workers used all their vacation days, and that 15 percent didn't take any at all.<sup>68</sup> The consulting firm KPMG uses a wellness scorecard to track and counsel workers who skip vacations and work excessive hours of overtime. Harvard scholar Leslie Perlow says the goal is to avoid “a feeling of having no time truly free from work, no control over work and no opportunity to ask questions to clarify foggy priorities.”<sup>69</sup> The work–life balance issue—and getting a break from work—is critical for relieving the negative consequences of work stressors, including significant negative employee health outcomes.<sup>70</sup>

## Learning Check

**LEARNING OBJECTIVE 15.4** Illustrate how emotions, moods, and stress influence individual behaviour.

**Be Sure You Can** • define *emotion*, *mood*, and *stress* • explain how emotions and moods influence behaviour • identify the common stressors found in work and in personal life • differentiate constructive stress and destructive strain • define *job burnout* and *workplace rage* • discuss personal wellness as a stress management strategy

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 15.1** Summarize perceptual tendencies and distortions that influence behaviour.

- Perception acts as a filter through which people receive and process information from the environment.
- Because people perceive things differently, they may interpret and respond to situations differently.
- A healthy psychological contract occurs with perceived balance between work contributions, such as time and effort, and inducements received, such as pay and respect.
- Fundamental attribution error occurs when we blame others for performance problems while excluding possible external causes; self-serving bias occurs when we take personal credit for successes and blame failures on external factors.
- Stereotypes, projection, halo effects, and selective perception can distort perceptions and result in errors as people relate with one another.

**For Discussion** Are there times when self-serving bias is actually helpful?

**LEARNING OBJECTIVE 15.2** Explain common personality differences and their behavioural implications.

- Personality is a set of traits and characteristics that cause people to behave in unique ways.
- The personality factors included in the Big Five model are extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience.
- The Myers-Briggs Type Indicator profiles personalities in respect to tendencies toward extraversion–introversion, sensing–intuitive, thinking–feeling, and judging–perceiving.
- Additional personality dimensions of work significance include the personal conception traits of locus of control, authoritarianism, Machiavellianism, and behavioural self-monitoring, as well as the emotional adjustment trait of Type A orientation, and technology personality.

**For Discussion** What dimension would you add to make the “Big Five” the “Big Six” personality model?

**LEARNING OBJECTIVE 15.3** Discuss the components of attitudes and the importance of job satisfaction.

- An attitude is a predisposition to respond in a certain way to people and things.
- Cognitive dissonance occurs when a person’s attitude and behaviour are inconsistent.
- Job satisfaction is an important work attitude that reflects a person’s evaluation of the job, co-workers, and other aspects of the work setting.
- Job satisfaction influences work attendance and turnover and is related to other attitudes, such as job involvement and organizational commitment.
- Three possible explanations for the job satisfaction-to-performance relationship: satisfaction causes performance, performance causes satisfaction, and rewards cause both performance and satisfaction.

**For Discussion** What should a manager do with an employee who has high job satisfaction but relatively low performance?

**LEARNING OBJECTIVE 15.4** Illustrate how emotions, moods, and stress influence individual behaviour.

- Emotions are strong feelings that are directed at someone or something; they influence behaviour, often with intensity and for short periods of time.
- Moods are generalized positive or negative states of mind that can persistently influence one’s behaviour.
- Stress is a state of tension experienced by individuals facing extraordinary demands, constraints, or opportunities.
- Stress can be constructive, in the form of eustress, or destructive, when experiencing strain; a moderate level of stress typically has a positive impact on performance.
- Strain can be managed through both prevention and coping strategies, including a commitment to personal wellness.

**For Discussion** Is a Type A personality required for managerial success?

## Chapter Glossary

**Agreeableness** The trait of being good-natured, cooperative, and trusting.

**Attitude** A predisposition to act in a certain way.

**Attribution** The process of explaining events.

**Authoritarianism** The degree to which a person tends to defer to authority.

**Bullying** Antisocial behaviour that is intentionally aggressive, intimidating, demeaning, and/or abusive.

**Cognitive dissonance** The discomfort felt when attitude and behaviour are inconsistent.

**Conscientiousness** The trait of being responsible, dependable, and careful.

**Constructive stress or eustress** A positive stress outcome that can increase effort, stimulate creativity, and encourage diligence in one's work.

**Destructive stress or strain** A negative stress outcome that impairs the performance and well-being of an individual.

**Emotional intelligence** An ability to understand emotions and manage relationships effectively.

**Emotional stability** The trait of being relaxed, secure, and unworried.

**Emotions** Strong feelings directed toward someone or something.

**Employee engagement** A strong positive feeling about one's job and the level of commitment one has toward the job.

**Employee value proposition** A description of the organization's intentions for creating value for both the employee and employer sides of the psychological contract.

**Extraversion** The trait of being outgoing, sociable, and assertive.

**Fundamental attribution error** The overestimation of internal factors and underestimation of external factors driving individual behaviour.

**Halo effect** What occurs when one attribute is used to develop an overall impression of a person or situation.

**Impression management** The systematic attempt to influence how others perceive us.

**Incivility** Antisocial behaviour in the forms of disrespectful acts, social exclusion, and use of hurtful language.

**Job burnout** A feeling of physical and mental exhaustion from work stress.

**Job involvement** The extent to which an individual feels dedicated to a job.

**Job satisfaction** The degree to which an individual feels positive or negative about a job.

**Locus of control** The extent to which one believes that what happens is within one's control.

**Machiavellianism** The extent to which someone is emotionally detached and manipulative.

**Mood contagion** The spillover of one's positive or negative moods to others.

**Moods** Generalized positive and negative feelings or states of mind.

**Openness to experience** The degree to which one is curious, receptive to new ideas, and imaginative.

**Organizational citizenship behaviour** A willingness to "go beyond the call of duty" or "go the extra mile" in one's work.

**Organizational commitment** The loyalty an individual feels toward the organization.

**Perception** The process through which people receive, organize, and interpret information from the environment.

**Personal wellness** The pursuit of one's full potential through a personal health-promotion program.

**Personality** The profile of characteristics making a person unique from others.

**Projection** The assignment of personal attributes to other individuals.

**Psychological contract** The set of individual expectations about the employment relationship.

**Selective perception** The tendency to define problems from one's own point of view.

**Self-monitoring** The degree to which someone is able to adjust behaviour in response to external factors.

**Self-serving bias** The tendency to explain personal success by internal causes and personal failures by external causes.

**Stereotype** What occurs when attributes commonly associated with a group are assigned to an individual.

**Stress** A state of tension caused by extraordinary demands, constraints, or opportunities.

**Stressor** Anything that causes tension.

**Technology personality** A reflection of an individual's levels of social media use and how they use media to connect to others.

**Type A personality** A personality oriented toward extreme achievement, impatience, and perfectionism.

**Withdrawal behaviours** Individual behaviours that include absenteeism, job engagement, and job turnover.

**Workplace rage** The demonstration of aggressive behaviour toward co-workers or the work setting.

## Self-Test 15

### Multiple-Choice Questions

- In the psychological contract, job security is a(n) \_\_\_\_\_, whereas loyalty is a(n) \_\_\_\_\_.
  - satisfier factor, hygiene factor
  - intrinsic reward, extrinsic reward
  - inducement, contribution
  - attitude, personality trait
- Self-serving bias is a form of attribution error that involves \_\_\_\_\_.
  - blaming yourself for problems caused by others
  - blaming the environment for problems you caused
  - poor emotional intelligence
  - authoritarianism
- If a new team leader changes job designs for persons on her work team mainly "because I would prefer to work the new way rather than the old," the chances are that she is committing a perceptual error known as \_\_\_\_\_.
  - halo effect
  - stereotype
  - selective perception
  - projection
- If a manager allows one characteristic of a person, say a pleasant personality, to bias performance ratings of that individual overall, the manager is committing a perceptual distortion known as \_\_\_\_\_.
  - halo effect
  - stereotype
  - selective perception
  - projection
- Use of special dress, manners, gestures, and vocabulary words when meeting a prospective employer in a job interview are all examples of how people use \_\_\_\_\_ in daily life.
  - projection
  - selective perception
  - impression management
  - self-serving bias
- A person with a(n) \_\_\_\_\_ personality would most likely act unemotionally and manipulatively when trying to influence others to achieve personal goals.
  - extraverted
  - sensation-thinking
  - self-monitoring
  - Machiavellian
- When a person believes that he or she has little influence over things that happen in life, this indicates a(n) \_\_\_\_\_ personality.
  - low emotional stability
  - external locus of control
  - high self-monitoring
  - intuitive-thinker

8. Among the Big Five personality traits, \_\_\_\_\_ indicates someone who is responsible, dependable, and careful with respect to tasks.
- authoritarianism
  - agreeableness
  - conscientiousness
  - emotional stability
9. The \_\_\_\_\_ component of an attitude is what indicates a person's belief about something, whereas the \_\_\_\_\_ component indicates a specific positive or negative feeling about it.
- cognitive, affective
  - emotional, affective
  - cognitive, attributional
  - behavioural, attributional
10. The term used to describe the discomfort someone feels when his or her behaviour is inconsistent with an expressed attitude is \_\_\_\_\_.
- alienation
  - cognitive dissonance
  - job dissatisfaction
  - person–job imbalance
11. Job satisfaction is known from research to be a good predictor of \_\_\_\_\_.
- job performance
  - job burnout
  - conscientiousness
  - absenteeism
12. A person who is always willing to volunteer for extra work or to help someone else with his or her work is acting consistent with strong \_\_\_\_\_.
- job performance
  - self-serving bias
  - emotional intelligence
  - organizational citizenship
13. Which statement about the job satisfaction–job performance relationship is most likely based on research?
- A happy worker will be a productive worker.
  - A productive worker will be a happy worker.
  - A productive worker well rewarded for performance will be a happy worker.
  - There is no link between being happy and being productive in a job.
14. A(n) \_\_\_\_\_ represents a rather intense but short-lived feeling about a person or a situation, whereas a(n) \_\_\_\_\_ describes a more generalized positive or negative state of mind.
- stressor, role ambiguity
  - external locus of control, internal locus of control
  - self-serving bias, halo effect
  - emotion, mood
15. Through \_\_\_\_\_, the stress people experience in their personal lives can create problems for them at work while the stress experienced at work can create problems for their personal lives.
- eustress
  - self-monitoring
  - spillover effects
  - selective perception

### Short-Response Questions

16. What is a healthy psychological contract?
17. What is the difference between self-serving bias and fundamental attribution error?
18. Which three of the Big Five personality traits do you believe most affect how well people work together in organizations, and why?
19. Why is it important for a manager to understand the Type A personality?

### Essay Question

20. When Scott Yaremchuk picked up a magazine article on how to manage health care workers, he was pleased to find some advice. Scott was concerned about poor or mediocre performance on the part of several physiotherapists in his clinic. The author of the article said that the “best way to improve performance is to make your workers happy.” Scott was glad to have read this article and made a pledge to himself to start doing a much better job of making his employees happy. But should Scott follow this advice? What do we know about the relationship between job satisfaction and performance, and how could we apply this knowledge to the performance problems Scott has observed at his clinic?

## Management Skills & Competencies: Make Yourself Valuable!

### Evaluate Career Situations

#### What Would You Do?

##### 1. Putting Down Seniors

While standing in line at the office coffee machine, you overhear the person in front of you saying this to his friend: “I’m really tired of having to deal with the old-timers in here. It’s time for them to call it quits. There’s no way they can keep up the pace and handle all the new technology we’re getting these days.” You can listen and forget, or you can

listen and act. What would you do or say here, and why? What does this comment suggest regarding age-based attributions of technology personality?

##### 2. Compulsive Co-Worker

You’ve noticed that one of your co-workers is always rushing, always uptight, and constantly criticizing herself while on the job. She never takes breaks when the rest of you do, and even at lunch it’s hard to get

her to stay and just talk for a while. Your guess is that she’s fighting stressors from some sources other than work and the job itself. How can you help her out? What might you say?

**3. Bad Mood in the Office**

Your department head has just told you that some of your team-mates have complained to him that you have been in a really bad

mood lately. They like you and point out that this isn’t characteristic of you at all. But they also think your persistent bad mood is rubbing off on others in this situation. What can you do? Is there anything your supervisors or co-workers might do to help you get out of your funk?

**Reflect on the Self-Assessment**

**Self-Monitoring**

**Instructions**

Indicate your agreement with the following statements by circling the value that aligns with your belief. For example, if you believe that a statement is always false, circle the 0 next to that statement.<sup>71</sup>

- 5 = Certainly, always true
- 4 = Generally true
- 3 = Somewhat true, but with exceptions
- 2 = Somewhat false, but with exceptions
- 1 = Generally false
- 0 = Certainly, always false

1. In social situations, I have the ability to alter my behaviour if I feel that something else is called for.	5 4 3 2 1 0
2. I am often able to read people’s true emotions correctly through their eyes.	5 4 3 2 1 0
3. I have the ability to control the way I come across to people, depending on the impression I wish to give them.	5 4 3 2 1 0
4. In conversations, I am sensitive to even the slightest change in the facial expression of the person I’m conversing with.	5 4 3 2 1 0
5. My powers of intuition are quite good when it comes to understanding others’ emotions and motives.	5 4 3 2 1 0
6. I can usually tell when others consider a joke in bad taste, even though they may laugh convincingly.	5 4 3 2 1 0
7. When I feel that the image I am portraying isn’t working, I can readily change it to something that does.	5 4 3 2 1 0
8. I can usually tell when I’ve said something inappropriate by reading the listener’s eyes.	5 4 3 2 1 0
9. I can usually change my behaviour to suit different people and different situations.	5 4 3 2 1 0
10. I have found that I can adjust my behaviour to meet the requirements of any situation I find myself in.	5 4 3 2 1 0
11. If someone is lying to me, I usually know it at once from that person’s manner of expression.	5 4 3 2 1 0
12. I can usually put up a good front even when it might be to my disadvantage.	5 4 3 2 1 0
13. Once I know what the situation calls for, it is easy for me to regulate my actions accordingly.	5 4 3 2 1 0

**Scoring**

Add the circled numbers except for 9 and 12. These are reverse-scored and you should add them into your total using these conversions: 5 = 0, 4 = 1, 3 = 2, 2 = 3, 1 = 4, 0 = 5. High self-monitoring is indicated by scores above 53.

**Interpretation**

This instrument offers an indication of your awareness of how you are being perceived by others and their reactions to your behaviour in

social situations. Persons with a high self-monitoring score tend to be quite aware of their public persona—the impression that they are giving others. They can use their ability to self-monitor to create a favourable social impression. Their behaviour tends to change to match the demands of the situation. Persons with a low self-monitoring score, by contrast, are less aware of the impact that their words, actions, and expressions are having on others. They tend to maintain a fairly consistent self-presentation style and manner, regardless of their audience or the circumstances.

**Contribute to the Class Exercise**

**Job Satisfaction Preferences**

**Preparation**

Rank the following conditions for how important (1 = least important to 9 = most important) they are to your future job satisfaction.<sup>72</sup>

*My job will be satisfying when it—*

- (a) is respected by other people.
- (b) encourages continued development of knowledge and skills.
- (c) provides job security.

- (d) provides a feeling of accomplishment.
- (e) provides the opportunity to earn a high income.
- (f) is intellectually stimulating.
- (g) rewards good performance with recognition.
- (h) provides comfortable working conditions.
- (i) permits advancement to high administrative responsibility.

### Instructions

Form into groups as designated by your instructor. The group should be split by gender into two subgroups—one composed of men and one composed of women. Each group should first rank the conditions on their own. Then, the men should develop a consensus ranking of the items as they think women ranked them, and the women should

do a consensus ranking of the items as they think men ranked them. The two subgroups should then get back together to share and discuss their respective rankings, paying special attention to reasons for the rankings attributed to the opposite gender group. A spokesperson for the men and for the women in each group should share their subgroup's rankings and highlights of the total group discussion with the class.

### Optional Instructions

Form into groups consisting entirely of men or women. Each group should meet and decide which of the work values members of the opposite sex will rank first. Do this again for the work value ranked last. The reasons should be discussed, along with the reasons why each of the other values probably was not ranked first or last. A spokesperson for each group should share group results with the rest of the class.

## Manage a Critical Incident

### Facing Up to Attributions

#### Situation

You are the senior section manager for a medium-sized manufacturing firm producing high-tech digital devices. You've worked with this company for eight years and supervise teams of materials engineers. As senior manager, you manage these teams, keep them working together effectively, and find ways to cut costs and increase profits. Because of recent government regulations, your manufacturing processes have undergone substantial changes. The firm has had to hire outside consultants to help with the manufacturing transition. The consultants have been tasked with training the engineers on the new protocol and evaluating their performance, which has declined substantially since the transition. Although historically the engineers have

been very productive and received high performance evaluations, this last quarter the majority received poor evaluations and has been formally reprimanded by upper management. You have also been reprimanded for the reduced performance. The consultants have attributed the performance declines to poor leadership and poor motivation. You know that neither the leadership these teams are given nor their motivation has changed.

#### Questions

What role might fundamental attribution errors and self-serving bias be playing here? What are the potential consequences of these poor performance evaluations and formal reprimands, and what can you do to offset any negatives? How might you explain the declining performance of the engineers, and what might you do to stop these declines?

## Collaborate on the Team Activity

### Difficult Personalities

#### Question

What personalities cause the most problems when people work together in teams, and what can be done to best deal with them?

#### Instructions

1. Do a survey of friends, family, co-workers, and even members of the public to get answers to these questions:
  - (a) When you work in a team, what personalities do you have the most difficulty dealing with?
  - (b) How do these personalities affect you, and how do they affect the team as a whole?

- (c) In your experience and for each of the "difficult personalities" that you have described, what have you found to be the best way of dealing with them?
  - (d) How would you describe your personality, and are there any circumstances or situations in which you believe others could consider your personality "difficult" to deal with?
  - (e) Do you engage in any self-management when it comes to your personality and how it fits when you are part of a team?
2. Gather the results of your survey, organize them for analysis, and then analyze them to see what patterns and insights your study has uncovered.
  3. Prepare a report to share your study with the rest of your class.

## Analyze the Case Study

### Case 15.1 G Adventures Canada | The Path Less Travelled

Go to Management Cases for Critical Thinking at the end of the book to find this case.



dpa picture alliance/Alamy Stock Photo

## Motivation Theory and Practice

When starting Amazon, Jeff Bezos was met with a lot of questions about whether it could even get off the ground. In an interview with *60 Minutes*, he explained the how difficult it was to raise early funds for the business.<sup>1</sup> “I had to take 60 meetings to raise \$1 million, and I raised it from 22 people at approximately \$50,000 a person,” Bezos recalled. “It was nip and tuck whether I was going to be able to raise that money. So, the whole thing could have ended before the whole thing started. That was 1995, and the first question every investor asked me was: ‘What’s the internet?’” Eventually, a motivated Bezos was able to get people excited about what he was building.

Did you know that only about 13 percent of global workers surveyed by Gallup report that they are actively “engaged”

while 24 percent say they are actively “disengaged” on any given workday?<sup>2</sup> In a survey of human resource managers, 69 percent regarded employee engagement as a problem in their organizations and 84 percent felt that senior leaders and managers were responsible for that problem.<sup>3</sup> Such data raise questions like: Why do some people work enthusiastically, persevere in the face of difficulty, and often exceed the requirements of their job? Why do others hold back, do the minimum needed to avoid reprimand or termination, and quit at the first negative feedback? What can leaders and managers do to ensure that every person, at every task, in every job, on every workday puts in their best possible performance?<sup>4</sup>



## Chapter Quick Start

There are times when all of us lack the motivation to do something and other times when we are so “psyched” it’s hard to stop what we’re doing. These contrasting states have intrigued and perplexed generations of social scientists. Even though there’s more work for researchers to do, we’ve learned a lot about the conditions under which people—ourselves and others—can be highly motivated to work hard on the job, at school, and in leisure pursuits.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

**16.1** Individual Needs and Motivation

**16.1** Explain how individual needs motivate behaviour.

**16.2** Process Theories of Motivation

**16.2** Contrast how expectancy, equity, goal setting, and self-efficacy motivate behaviour.

**16.3** Reinforcement Theory

**16.3** Discuss the motivational implications of reinforcement principles and strategies.

**16.4** Motivation and Job Design

**16.4** Summarize the motivational implications of job designs and work schedules.

### What to Look for **Inside**

#### Management Is Real

- 16.1 Insight** Keep Learning about Yourself  
The Personal Side of Engagement
- 16.2 Wisdom** Learn from Role Models  
Video Game Motivates High-Risk Kids to Take Medicines
- 16.3 Ethics** Know Right from Wrong  
Information Goldmine Creates Equity Dilemma
- 16.4 Choices** Think before You Act  
To Pay or Not to Pay More than Minimum Wage
- 16.5 Analysis** Make Data Your Friend  
One in 10 Canadian Employees Works from Home

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Student Engagement Survey
- **Contribute** *to the Class Exercise:*  
Why We Work
- **Manage** *a Critical Incident:*  
Great Worker Won’t Take Vacation
- **Collaborate** *on the Team Activity:*  
CEO Pay ... Too High, or Just Right?
- **Analyze** *the Case Study:*  
Salesforce | Instant Praise, Instant Criticism

## 16.1 Individual Needs and Motivation

### LEARNING OBJECTIVE 16.1

Explain how individual needs motivate behaviour.

#### Learn More About

Hierarchy of needs theory • ERG theory • Two-factor theory • Acquired needs theory • Intrinsic vs extrinsic motivation

The term **motivation** describes forces within individuals that account for the level, direction, and persistence of effort they expend at work. Simply put, a highly motivated person works hard at a job while an unmotivated person does not. One of a manager's most important responsibilities is to create conditions under which people feel consistently inspired to work hard.

Most discussions of motivation begin with the concept of individual **needs**—individuals' unfulfilled physiological or psychological desires. Although each of the following theories discusses a slightly different set of needs, all agree that needs create tensions that lead individuals to act in ways to help meet their needs. They suggest that managers should attempt to help people satisfy important needs through their work, and try to eliminate obstacles that block the satisfaction of needs.

### Hierarchy of Needs Theory

Abraham Maslow's theory of human needs is an important foundation in the history of management thought. The **lower-**

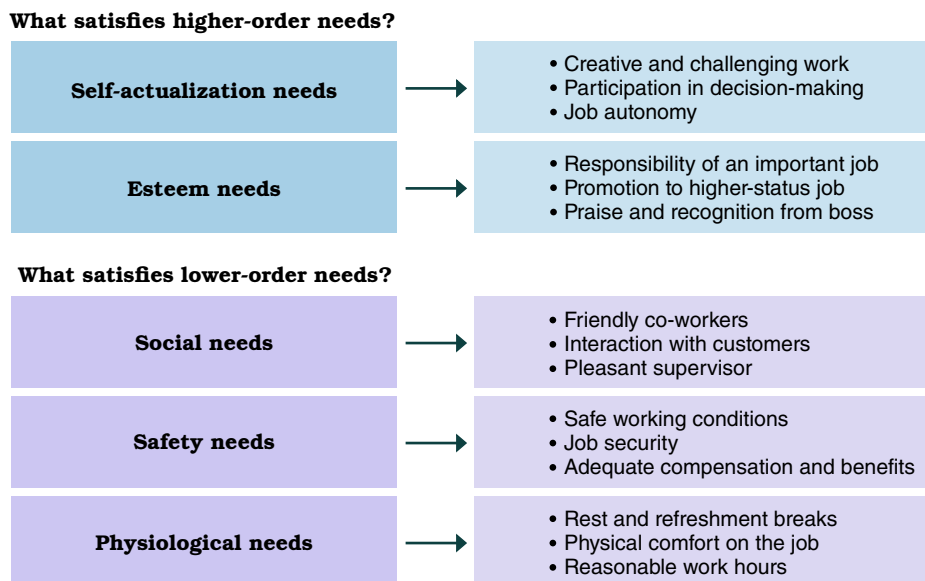
**order needs** in his hierarchy include physiological, safety, and social concerns, while **higher-order needs** include esteem and self-actualization concerns.<sup>5</sup> Lower-order needs focus on desires for physical and social well-being; higher-order needs focus on desires for psychological development and growth.

Maslow used two principles to describe how these needs affect human behaviour. The **deficit principle** proposes that a satisfied need no longer motivates behaviour. People are expected to act in ways that satisfy deprived needs—that is, needs for which there is a “deficit.” The **progression principle** states that the need at one level does not become activated until the next-lower-level need in the hierarchy is already satisfied. People are expected to advance step by step up the hierarchy in their quest for need satisfaction. This progression principle ends at the level of self-actualization. According to the theory, the need to self-actualize can never be met fully. In fact, the more the need for self-actualization is satisfied, the stronger it is theorized to grow.

**Figure 16.1** illustrates how managers can use Maslow's ideas to better meet the needs of the people with whom they work. Notice that higher-order self-actualization needs are served by opportunities like creative and challenging work and job autonomy; esteem needs are served by respect, responsibility, praise, and recognition. The satisfaction of lower-order social, safety, and physiological needs depends on aspects of the work environment, such as positive interactions with others, compensation and benefits, and reasonable working conditions. Both lower-order and higher-order needs can contribute to the engagement of employees—and students, as shown in Management Is Real 16.1.

### ERG Theory

One of the most promising efforts to build on Maslow's work is the ERG theory proposed by Clayton Alderfer.<sup>6</sup> This theory collapses Maslow's five needs categories into three. **Existence needs** are desires for physiological and material well-being.



**FIGURE 16.1** Opportunities for satisfaction according to Maslow's hierarchy of human needs.

## Management Is Real 16.1: Insight | Keep Learning about Yourself

Are you enthusiastic or lethargic, diligent or lazy, willing to do more than expected or willing to do only what is expected?

### The Personal Side of Engagement

One of the hot topics in management these days is engagement. You might think of engagement as personal initiative and the willingness to “go the extra mile” at work. Differences in job engagement show up in many ways. Are you enthusiastic or lethargic, diligent or lazy, willing to do more than expected or willing to do only what is expected? According to Tim Galbraith, vice president of people development at Yum Brands, Inc., “A person who’s truly engaged says ‘I’m willing to give a little bit more; I’m willing to help my team members when I see they’re in need.’”

The Conference Board defines engagement as “a heightened emotional connection” with the organization that influences an employee to “exert greater discretionary effort in his or her work.” Its surveys show that high engagement generates positive outcomes like lower turnover, higher productivity, and better customer service.

There is a great deal of variation in employees’ work engagement, and in students’ school engagement. Consider your experiences as a customer. When you’re disappointed, perhaps with how a banking

transaction or how a flight delay is handled, ask: Would a high level of employee engagement generate better customer service in such situations? How about engagement by your teammates in your management course? What do you see and what would you predict for the future of your classmates based on their engagement as students?

The following are some signs that an employee has high engagement:

- Looks for problems and fixes them.
- Does more than the minimum required.
- Starts early, stays late, does the “extras.”
- Helps others who are overwhelmed.
- Makes improvements.
- Thinks ahead and plans for the future.

### Get to Know Yourself Better

Ask: “How engaged am I in projects at school and at work? Ask also: “What could my instructor do to help increase my engagement? By the same token, what could I do?” Write a summary of your answers. Discuss their implications for both (a) your remaining time as a student, and (b) your future career and your future actions in the workplace.

**Relatedness needs** are desires for satisfying interpersonal relationships. **Growth needs** are desires for continued psychological growth and development.

Existence and relatedness needs are similar to the lower-order needs in Maslow’s hierarchy, while growth needs are essentially the higher-order needs in Maslow’s hierarchy. Beyond that, the dynamics of ERG theory differ somewhat from Maslow’s hierarchy of needs.

ERG theory doesn’t include the progression principle that certain needs must be satisfied before other needs become activated. Instead, it maintains that the various needs can influence individuals’ behaviour at any given time. Alderfer also rejects the deficit principle that only unsatisfied needs have motivational impact. According to his **frustration-regression principle**, an already satisfied need can become reactivated and influence behaviour when a higher-level need cannot be satisfied. Workers who are stuck in simple and repetitive jobs that offer little room for growth and limited opportunities for

promotion, for example, will be frustrated in attempts to satisfy their growth needs. Their response could be to refocus attention on getting better work schedules, working conditions, and even pay and benefits to further fulfill their existence needs.

## Two-Factor Theory

Frederick Herzberg developed the two-factor theory of motivation from a pattern discovered in almost 4,000 interviews.<sup>7</sup> When asked what they disliked about their jobs, respondents talked mostly about issues related directly to the nature of the work itself. Herzberg called these **satisfier factors**, or motivator factors. When asked what they liked, respondents talked more about issues related to the actual work environment. Herzberg called these **hygiene factors**. As shown in **Figure 16.2**, Herzberg argued that these two factors affect people in different ways.

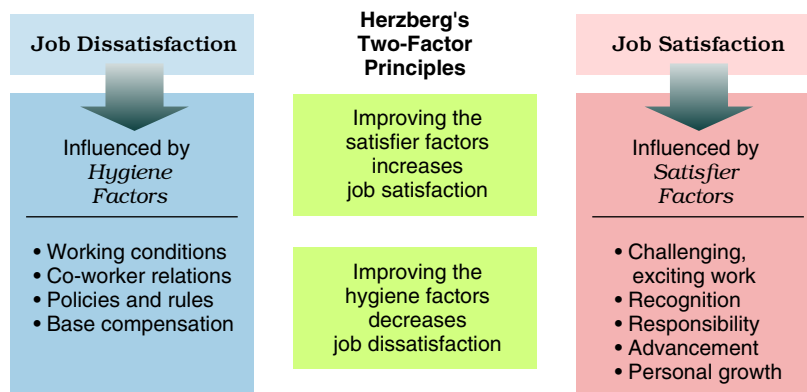


FIGURE 16.2 Elements in Herzberg’s two-factor theory.

## Management Is Real 16.2: Wisdom | Learn from Role Models

The non-profit's mission is combining “rigorous research with innovative solutions to improve the health and quality of life of young people with chronic illness.”

### Video Game Motivates High-Risk Kids to Take Medicines

Although many of us play video games just for fun, teens with cancer can now play games that can help them to beat the disease. Picture a teenager who has a tough time keeping up with cancer medication schedules. Now imagine him playing the video game called Re-Mission and manoeuvring a nanobot called Roxxi through the body of a cancer patient to destroy cancer cells. Then think about an article in the medical journal *Pediatrics* that reports teen patients who play the game at least one hour a week do a better job of sticking to their medication schedules.

This scenario is the brainchild of HopeLab, founded by Pam Omidyar. An immunology researcher and gaming enthusiast, Omidyar saw the possible link between games and fighting disease. The non-profit's mission is combining “rigorous research with innovative solutions to improve the health and quality of life of young people with chronic illness.”

One of HopeLab's products is Zamzee, described as a “game-based website.” It includes an activity meter where kids earn points for movement and activity. A recent research study looking at possible benefits concluded that “kids using Zamzee increased their



Joshua Sudock/MCT/News.com

moderate-to-vigorous physical activity (MVPA) by an average of 59 percent—or approximately 45 additional minutes of MVPA per week.”

#### Find Inspiration

Re-Mission is one positive step in the war against childhood cancer. One of HopeLab's current priorities is to use video gaming in the fight against childhood obesity. Think about how creative approaches to motivation might be used to improve peoples' lives in other ways as well.

Two-factor theory links hygiene factors with job dissatisfaction. Job dissatisfaction goes up as hygiene quality goes down. Hygiene factors are found in the job context—the environment in which the work takes place—and include factors such as working conditions, interpersonal relations, organizational policies and administration, and compensation. Herzberg argued that improving these factors, such as remodeling workspaces or adding a quality cafeteria, can help to decrease job dissatisfaction. But these hygiene improvements will not increase job satisfaction and motivation.

Satisfier factors are linked with job satisfaction. They are found in the job content—the nature of the work itself—and include things like job challenge, recognition for work well done, a sense of responsibility, the opportunity for advancement, and feelings of personal growth. Herzberg believed that the more satisfier factors present in a job, the higher individuals' work motivation. The way to build such high-content jobs, he argued, is to make job holders responsible for not just doing the work, but also planning and controlling its accomplishment. Management Is Real 16.2 shows how engaging in a challenging activity motivates teenage cancer patients to take their medication regularly.

Scholars have criticized Herzberg's research as being method-bound and difficult to replicate.<sup>8</sup> But he reports confirming studies from around the world.<sup>9</sup> At the very least, the two-factor theory is a reminder that all jobs have two important aspects: *job content*—what people do in terms of job tasks—and *job context*—the work setting in which they do it. Herzberg's

advice to managers also makes good sense: (1) Correct poor job context to eliminate potential job dissatisfaction and (2) build satisfier factors into job content to maximize job satisfaction.

## Acquired Needs Theory

David McClelland and his colleagues developed yet another approach to the study of human needs. They began by asking people to view pictures and write stories about what they saw.<sup>10</sup> These stories were then content-analyzed for themes that display the strengths of three needs—achievement, power, and affiliation. According to McClelland, people acquire or develop these needs over time as a result of individual life experiences. Because each need can be linked with a distinct set of work preferences, he encourages managers to understand these needs in themselves and in others, and to try to create work environments responsive to them.

**Need for achievement** is the desire to do something better or more efficiently, to solve problems, or to master complex tasks. People with a high need for achievement like to put their competencies to work; they take moderate risks in competitive situations, and are willing to work alone. As a result, high-need achievers' work preferences include individual responsibility for results, achievable but challenging goals, and performance feedback.

**Need for power** is the desire to control other people, to influence their behaviour, or to be responsible for them. People

with a high need for power are motivated to behave in ways that have a clear impact on other people and events. They enjoy being in control of situations and being recognized for this responsibility. Importantly, though, McClelland distinguishes between two forms of the power need. The *need for personal power* is exploitative and involves manipulation purely for the sake of personal gratification. This type of power need does not lead to management success. The *need for social power* involves the use of power in socially responsible ways directed toward group or organizational objectives rather than personal gains. This need for social power is essential to effective managerial leadership.

**Need for affiliation** is the desire to establish and maintain friendly and warm relations with other people. People with a high need for affiliation seek companionship, social approval, and satisfying interpersonal relationships. They tend to like jobs that involve working with people and that offer opportunities for social approval. This is consistent with managerial work. But McClelland believes that managers must be careful that high needs for affiliation don't interfere with decision-making. There are times when managers and leaders must act in ways that others disagree with. If the need for affiliation limits the ability to make these tough decisions, managerial effectiveness gets lost. In McClelland's view, successful executives are likely to have a high need for social power that is greater than their strong need for affiliation.

## Intrinsic vs Extrinsic Motivation

When you have the incentive to engage in an activity because you might receive a reward or a punishment, you are motivated to do the task by an external or extrinsic incentive. Intrinsic motivation, on the other hand, is an incentive to engage in an activity because you want to do it for the pleasure you derive from doing it and not for any external benefit. Extrinsic motivation works well for mechanical, routine tasks or those activities that help us meet the basic needs of living. For creative, innovative, or conceptual problem-solving tasks, evidence suggests that intrinsic motivation results in better performance than extrinsic reward. This is especially true if you have autonomy in solving the problem, the chance to improve and pursue mastery, and the realization that your efforts serve a purpose greater than your own.<sup>11</sup>

### Learning Check

**LEARNING OBJECTIVE 16.1** Explain how individual needs motivate behaviour.

**Be Sure You Can** • define *motivation* and *needs* • describe work practices that satisfy higher-order and lower-order needs in Maslow's hierarchy • contrast Maslow's hierarchy with ERG theory • describe work practices that influence hygiene factors and satisfier factors in Herzberg's two-factor theory • explain McClelland's needs for achievement, power, and affiliation • describe work conditions that satisfy people with a high need for achievement • understand the differences between intrinsic and extrinsic motivation

## 16.2 Process Theories of Motivation

### LEARNING OBJECTIVE 16.2

Contrast how expectancy, equity, goal-setting, and self-efficacy motivate behaviour.

#### Learn More About

Equity theory • Expectancy theory • Goal-setting theory • Self-efficacy theory

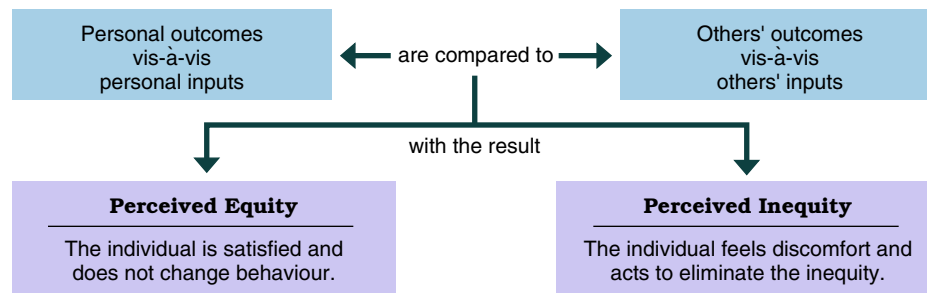
Although the details vary, each of the needs theories offers insights on individual differences and how managers can deal effectively with them. Another set of motivation theories, the process theories, add further to this understanding. These include the equity, expectancy, goal-setting, and self-efficacy theories.

## Equity Theory

*Fact:* In 1965, the average CEO pay in S&P companies was 24 times that of the typical worker. In 1980 it was 42 times; in 2001 it was 202 times; by 2014 it was 303 times.

How do these data strike you?<sup>12</sup> Do they motivate you to aspire to become a CEO? Or do they concern you as someone who empathizes with hourly and lower-wage workers? For many people, facts like these bring the words “equity” and “fairness” to mind. In fact, one of the best known motivation theories is the equity theory of motivation, brought to us through the work of J. Stacy Adams.<sup>13</sup> Equity theory is based on the idea that we all want to be treated fairly in comparison with others. The theory suggests that being unfairly treated (whether we receive too little or too much when compared with someone else) makes people uncomfortable. When this happens, we're motivated to eliminate the discomfort and restore a sense of perceived equity to the situation.

**Equity and Social Comparison** Figure 16.3 shows how the equity dynamic works. According to equity theory, people compare their outcomes-to-inputs ratio with the outcomes-to-inputs ratios of others (called a *referent*). Outcomes are what an individual receives from work—including things like pay, benefits, job security, advancement opportunities, autonomy, interesting work experiences, and anything else that the employee values. Inputs are the qualifications an individual possesses and the contributions made to the organization—including things like education, experience,



**FIGURE 16.3** Equity theory and the role of social comparison.

special skills and training, the quality and quantity of work completed, and a positive attitude and loyalty.

Perceived inequities occur whenever people feel that the outcomes they receive for their work contributions are unfair compared with the outcomes received by others. Equity comparisons are especially common whenever managers allocate rewards such as pay raises, preferred job assignments, work privileges, and even office space or new technology. Equity comparisons can be made with co-workers (individual equity comparisons), others at different levels within the same organization (internal equity comparisons), or even people employed by other organizations (external equity comparisons).

**Equity Dynamics** A key point in the equity theory is that people behave according to their perceptions. For example, in the case of a pay raise, it isn't the reward's absolute value or the manager's intentions that influence individuals' behaviour; it is the recipient's perceptions that determine the motivational impact of the raise.

An individual who perceives that she or he is being treated unfairly in comparison to others will be motivated to act in ways that reduce the perceived inequity. There are two basic types of inequity: over-reward inequity and under-reward inequity. **Over-reward inequity** (or **positive inequity**) occurs when individuals perceive that they are receiving more than what is fair. That is, the outcomes-to-inputs ratio is greater than that of a referent other. Although such perceptions do sometimes occur, it is much more common for individuals to experience **under-reward inequity** (or **negative inequity**). The perception here is of receiving less than what is deserved in comparison with someone else. Adams predicted that people try to deal with such perceived negative inequity in the following ways:

- Changing their work inputs by putting less effort into their jobs—"If that's all I'm going to get, I'm going to do a lot less."
- Changing the rewards received by asking for better treatment—"Next stop, the boss's office; I should get what I deserve."
- Changing the inputs or outcomes of their referent—"Rizwan either needs to work as hard as the rest of us or else he shouldn't get the same bonus that we get."
- Choosing a different person to compare yourself with in order to make things seem better—"Well, if I look at Marissa's situation, I'm still doing pretty well."

- Changing the situation by leaving the job—"No way I'm going to stick around here if this is the way people get treated."

**Equity Research and Insights** The research on equity theory is most conclusive with respect to perceived negative inequity. Those who feel under-rewarded appear to be more likely to make active attempts to restore equity than those who feel over-rewarded.<sup>14</sup> But there is some evidence that equity dynamics can occur among people who feel perceived positive inequity from being over-rewarded. In such cases, attempts to restore perceived equity may involve increasing the quantity or quality of work, taking on more difficult assignments, or advocating for others to be compensated more fairly.

Managers should anticipate that perceptions of negative inequity arise when especially visible rewards such as pay or promotions are given. They should make sure that processes for allocating rewards are objectively fair, and also that they are perceived to be fair. One way to do this is to be as transparent as possible. At a minimum, managers should communicate the intended value of the rewards being given, clarify the performance appraisals on which they are based, and suggest appropriate comparison points. This advice is particularly relevant in organizations using merit-based pay-for-performance systems. A common problem in these systems is that what constitutes "meritorious" performance can be a source of debate. Any disagreement over performance ratings increases the likelihood of negative equity dynamics problems.

**Equity Sensitivity** While equity theory is based on the premise that all employees desire fairness, research suggests that equity considerations are not equally important to all individuals. The idea of **equity sensitivity** proposes that people have different preferences for equity and thus react differently to perceptions of inequity. Differences in equity sensitivity are usually described as follows.<sup>15</sup> *Benevolents* are less concerned about being under-rewarded. They more readily accept situations of negative inequity while situations of positive inequity make them very uncomfortable. *Sensitives* have a strong preference for equitable distribution of rewards (see Management Is Real 16.3). They react as the basic theory proposes. *Entitleds* have a desire to be over-rewarded. They try to create situations of positive inequity for themselves and react very negatively in situations of perceived negative inequity.

**Management Is Real 16.3: Ethics | Know Right from Wrong**

“Should I pass this information around anonymously so that everyone knows what’s going on?”

**Information Goldmine Creates Equity Dilemma**

A worker opens the top of the office photocopier and finds a document someone has left behind. It’s a list of performance evaluations, pay, and bonuses for 80 co-workers. She reads the document, and finds something very surprising. Someone she considers a “nonstarter” is getting paid more than others regarded as “super workers.” New hires are also being brought in at much higher pay and bonuses than those of current staff. To make matters worse, the worker who makes the discovery sees that she’s in the middle of the list and not near the top, where she would have expected to be. The fact is she makes a lot less money than many others.

Looking at the data, she begins to question why she is spending extra hours working evenings and weekends at home, trying to do a really great job for the firm. She wonders to herself: “Should I pass this information around anonymously so that everyone knows what’s going on? Or should I quit and find another employer who fully values me for my talents and hard work?”

In the end she decides to quit, saying: “I just couldn’t stand the inequity.” She also decides not to distribute the information to others in the office because “it would make them depressed, like it made me depressed.”



Image Source/Getty Images

**What Do You Think?**

What would you do in this situation? You’re going to be concerned and perhaps upset. Would you hit “print,” make about 80 copies, and put them in everyone’s mailboxes—or even just leave them stacked in a couple of convenient locations? That would get the information out into the gossip chains pretty quickly. But is this ethical? If you don’t send out the information, on the other hand, is it ethical to let other workers go about their days with inaccurate assumptions about the firm’s pay practices? By quitting and not sharing the information, did this worker commit an ethics mistake?

**Expectancy Theory**

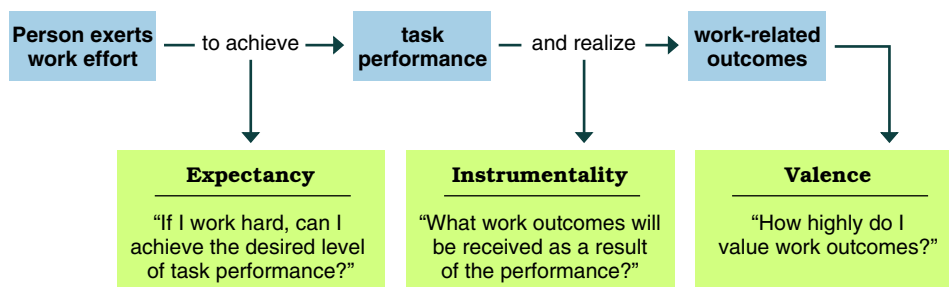
Victor Vroom’s expectancy theory of motivation asks the question: What determines people’s willingness to work hard at organizational-critical tasks?<sup>16</sup> The answer is that motivation depends on the relationships between three expectancy factors, as depicted in **Figure 16.4** and described here:

- **Expectancy**—a person’s belief that working hard will result in achieving a desired level of task performance. (This is sometimes called effort-performance expectancy.)
- **Instrumentality**—a person’s belief that successful performance will be followed by rewards and other work-related outcomes. (This is sometimes called performance-outcome expectancy.)
- **Valence**—the value a person assigns to the possible rewards and other work-related outcomes.

**Motivation = Expectancy × Instrumentality × Valence**

In expectancy theory, motivation (M), expectancy (E), instrumentality (I), and valence (V) are related to one another in a multiplicative fashion:  $M = E \times I \times V$ . In other words, motivation is determined by expectancy times instrumentality times valence. Mathematically, a zero at any location on the right side of the equation (that is, for E, I, or V) will result in zero motivation. What this means in practice is that all three factors must be high and positive for motivation to also be high.<sup>17</sup>

Suppose, for example, that a manager is wondering whether or not the prospect of earning a promotion will be motivational to a job holder. Expectancy theory predicts that a person’s motivation to work hard for a promotion will be low if any one or more of the following three conditions apply. First, if expectancy is low, motivation will suffer. In this case, the answer his to the question, “If I try hard, will I succeed?” will be negative. The person may lack confidence that he or she can



**FIGURE 16.4** Elements in the expectancy theory of motivation.

achieve the performance level necessary to get promoted. So, why try? Second, if instrumentality is low, motivation will suffer. Here again, a negative answer would be given to the question, “If I succeed, will I be rewarded?” The employee may lack confidence that a high level of task performance will result in being promoted. Perhaps the manager is notorious for promoting close friends or hiring from the outside, so why try? Third, if valence is low, motivation will suffer. A low-valence answer to the question, “What does the possible reward for this hard work and performance achievement mean to me?” will also be negative, as the employee may place little value on receiving a promotion because it would require longer hours away from home or because it would require relocation to another city. It simply isn’t a desired reward. So, why try for it?

Managing according to the expectancy theory requires three things.

1. *Create high expectancies*—Select capable workers, train them well, support them with adequate resources (including competitive pay—see Management Is Real 16.4).
2. *Create high instrumentalities*—Clarify rewards earned by performance, give rewards on performance-contingent basis.
3. *Create positive valences*—Identify individual needs, offer rewards that satisfy these needs.

**Expectancy Theory Applications** Expectancy theory reminds managers and team leaders that people answer the question “Why should I work hard today?” in different ways.

Every person has unique needs, preferences, and concerns at work. Knowing this, a manager should try to build work environments that respect individual differences so that expectancies, instrumentalities, and valences all support motivation.

*To maximize expectancy, people must believe in their abilities.* They must believe that if they try, they can perform. This is an issue of perceived competency. Managers can build positive expectancies by selecting workers with the right abilities for the jobs to be done, providing them with the best training and development, and supporting them with resources so that the jobs can be accomplished. *To maximize instrumentality, people must see the link between high performance and work outcomes.* This is an issue of rewards for accomplishments. Managers can create positive instrumentalities by clarifying the possible rewards for high performance and then allocating these rewards fairly and on a performance-contingent basis. *To maximize positive valence, people must value the outcomes associated with high performance.* This is an issue of individual differences. Managers can use the content theories to help understand what needs are important to different individuals. Steps can then be taken to link these needs with positive valence outcomes that can be earned through high performance.

## Goal-Setting Theory

Steven A. Davis rose through a series of management jobs to become CEO of Bob Evans Farms in Columbus, Ohio.<sup>18</sup> His parents gave him lots of encouragement as a child. “They never

### Management Is Real 16.4: Choices | Think before You Act

**“Our decision to invest in front-line employees will directly support our business, and is [a decision] that we expect to deliver a return many times over.”**

#### To Pay or Not to Pay More than Minimum Wage

More and more Canadians are finding themselves in hourly paid jobs, and many of these jobs—perhaps most—don’t pay very well. The responsibility for enacting and enforcing the minimum wage rests with the provinces and territories. Wages range from \$16.00 an hour in Nunavut to \$11.32 in Saskatchewan. Ontario pays \$14.00 per hour, with other provinces averaging around \$12.63.

It’s tempting for employers to view wages strictly as costs of production and try to minimize these costs. The less you can pay for labour, the argument goes, the higher the “bottom line.” But that’s not necessarily true, or fair. Several provinces are seeking to raise the minimum wage to \$15 an hour in order to fight poverty. Some employers, such as Costco and Whole Foods, factor in a higher than minimum wage as simply good for business. At Whole Foods Markets, co-CEO Walter Robb believes that paying more than the minimum and more than competitors pay builds a stronger and more committed workforce. He believes in “conscious capitalism” where business operates as a balancing act between owner/shareholders, customers, and employees as key stakeholders. One way of achieving balance is paying employees more than either the law or market conditions would require.



CandyBoxImages/Getty Images

#### What’s Your Take?

Should employers wait for provincial or territorial governments to raise the minimum wage, or should they act on their own to pay more than the required minimum no matter what it may be? Are Costco and Whole Foods onto something that more employers might learn—pay better and get more loyalty and higher performance? Or are these firms just interesting specialty cases that make good news but probably wouldn’t apply in most other settings?



said that because you are an African-American, you can only go this far or do only this or that,” he says, “they just said ‘go for it.’” Davis set goals when he graduated from college—to be a corporate vice president in 10 years and a president in 20. Expectancy theory would suggest that his parents increased his motivation by creating high positive expectancy during his school years. Goal-setting theory would suggest that Davis found lots of motivation through the goals he set as a college graduate.

**Goal-Setting Essentials** The basic premise of Edwin Locke’s goal-setting theory is that task goals can be highly motivating if they are properly set and well managed.<sup>19</sup> Goals give people direction in their work. They clarify the performance expectations in supervisory relationships, between co-workers, and across organizational subunits. They establish a frame of reference for task feedback. Goals also set a foundation for behavioural self-management.

The motivational benefits of goal setting occur when managers and team leaders work with others to set the right goals in the right ways. Goal specificity, goal difficulty, goal acceptance, and goal commitment are all important. Managers can use goal setting in these and related ways to enhance employees’ work performance and job satisfaction. Here is how managers can make goal setting work for them.

- *Set specific goals:* These lead to higher performance than do more generally stated ones, such as “do your best.”
- *Set challenging goals:* When viewed as realistic and attainable, more difficult goals lead to higher performance than do easy goals.
- *Build goal acceptance and commitment:* People work harder for goals they accept and believe in; they resist goals forced on them.
- *Clarify goal priorities:* Make sure that expectations are clear as to which goals should be accomplished first, and why.
- *Provide feedback on goal accomplishment:* Make sure that people know how well they are doing with respect to goal accomplishment.
- *Reward goal accomplishment:* Don’t let positive accomplishments pass unnoticed; reward people for doing what they set out to do.

**Goal Setting and Participation** Participation goes a long way toward unlocking the motivational power of task goals. When managers and team members join in a participative process of goal setting and performance review, members are likely to experience greater motivation. Participation increases understanding of task goals, increases acceptance and commitment to them, and creates more readiness to receive feedback bearing on goal accomplishment.

It isn’t always possible to allow participation when selecting which goals need to be pursued. But it can be possible to allow participation in deciding how best to pursue them. It’s also true that the constraints of time and other factors in some situations may not allow for participation. But Locke’s research suggests that workers respond positively to externally imposed goals if supervisors assigning them are trusted, and if workers

believe they will be adequately supported in their attempts to achieve them.

**Goal-Setting Downsides** It is important to remember that poorly set and managed goals can have a downside that actually turns the motivation to accomplish them into performance negatives rather than positives.<sup>20</sup> When unrealistic goals involve public services that are a matter of life or death, the results can be tragic. An example is the scandal over patient waiting times for Canadian veterans diagnosed with mental illness such as depression or post-traumatic stress disorder. They had been told to wait several months before the federal government would pay for psychological counselling. These veterans couldn’t wait. Tragically, several didn’t. A *Globe and Mail* report found that 62 soldiers had taken their lives after returning from Afghanistan. The Veterans Affairs standard to adjudicate disability benefit applications is within 112 days. Only 56 percent of claims met that standard in 2016.<sup>21</sup>

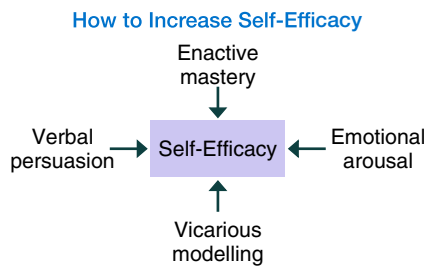
Research identifies goal-setting downsides when managers and leaders set or encourage unrealistically high goals, when individuals are expected to meet high goals over and over again, and when people striving to meet high goals aren’t given the support they need to accomplish them.<sup>22</sup> Scholars Gary Latham (University of Toronto) and Gerard Seijts (University of Western Ontario) sum up the research implications this way: “It is foolish and even immoral for organizations to assign employees stretch goals without equipping them with the resources to succeed—and still punish them when they fail to reach those goals. This lack of guidance often leads to stress, burnout, and in some instances, unethical behaviour.”<sup>23</sup>

## Self-Efficacy Theory

Closely related to both the expectancy and goal-setting approaches to motivation is self-efficacy theory, also referred to as social learning theory. Based on the work of Canadian-born psychologist Albert Bandura, **self-efficacy** is a person’s belief that she or he is capable of performing a specific task.<sup>24</sup> You can think of self-efficacy using such terms as confidence, competence, and ability. From a manager’s perspective, the major point is that anything done to boost employees’ feelings of self-efficacy is likely to pay off with increased motivation.

Mahatma Gandhi once said: “If I have the belief that I can do it, I shall surely acquire the capacity to do it, even if I may not have it at the beginning.”<sup>25</sup> This is the essence of self-efficacy theory. When people believe themselves to be capable, they will set higher goals for themselves, be more motivated to work hard at these goals, and persist longer in the face of any obstacles that impede their progress. The *Wall Street Journal* has called this “the unshakable belief some people have that they have what it takes to succeed.”<sup>26</sup>

There are clear links between Bandura’s self-efficacy theory, elements of Vroom’s expectancy theory, and Locke’s goal-setting theory. With respect to Vroom, a person with higher self-efficacy will have greater expectancy that he or she can achieve a high level of task performance. With respect to Locke, a person with higher self-efficacy should be more willing



**FIGURE 16.5** Increasing self-efficacy.

to set challenging performance goals. In terms of expectancy and goal setting, managers who help create feelings of self-efficacy in others should boost their motivation to work.

Bandura identifies four major ways that we can enhance self-efficacy (see **Figure 16.5**).<sup>27</sup> First is *enactive mastery*—gaining confidence through positive experience. The greater your initial success and the more experience you have with a task, the more confident you become at doing it. Second is *vicarious modelling*—learning by observing others. When someone else is good at a task and we observe how they do it, we gain confidence that we can do it ourselves. Third is *verbal persuasion*—being told that we can perform or being encouraged to perform a task. Hearing others praise our efforts and link those efforts with performance successes can be very motivational. Fourth is *emotional arousal*—being highly stimulated or energized to perform well in a situation. A good analogy for arousal is how athletes get “psyched up” and highly motivated to compete.

## Learning Check

**LEARNING OBJECTIVE 16.2** Contrast how expectancy, equity, goal-setting, and self-efficacy motivate behaviour.

**Be Sure You Can** • explain the role of social comparison in Adams’s equity theory • describe how people with felt negative inequity behave • define *equity sensitivity* • define *expectancy*, *instrumentality*, and *valence* • explain Vroom’s expectancy theory equation:  $M = E \times I \times V$  • explain Locke’s goal-setting theory • define *self-efficacy* and explain four ways to increase it

## 16.3 Reinforcement Theory

**LEARNING OBJECTIVE 16.3**

Discuss the motivational implications of reinforcement principles and strategies.

### Learn More About

The law of effect • Reinforcement strategies • Positive reinforcement • Punishment

The motivation theories discussed so far have tried to explain why people do things in terms of satisfying needs, resolving felt inequities, evaluating expectancies, and pursuing task goals. Reinforcement theory, by contrast, views human behaviour as determined by its environmental consequences. Instead of looking within the individual to explain what drives motivation, this perspective focuses on the external environment.

## The Law of Effect

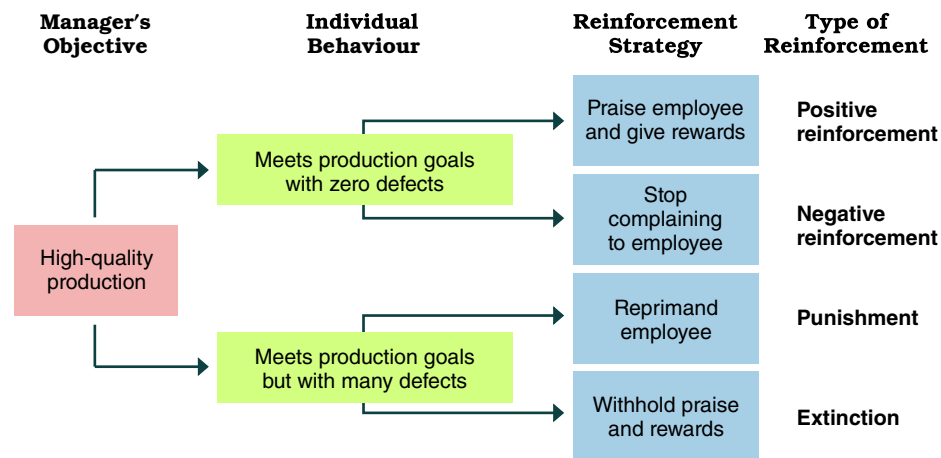
The basic premise of reinforcement theory is based on what E.L. Thorndike called the **law of effect**. It states: Behaviour that results in a pleasant outcome is likely to be repeated; behaviour that results in an unpleasant outcome is not likely to be repeated.<sup>28</sup> This law underlies the concept of **operant conditioning**, which was popularized by psychologist B.F. Skinner as the process of applying the law of effect to control behaviour by manipulating its consequences.<sup>29</sup> You may think of operant conditioning as learning by reinforcement. When applied in management, its goal is to use reinforcement principles to systematically reinforce desirable work behaviour and discourage undesirable work behaviour.<sup>30</sup>

## Reinforcement Strategies

**Figure 16.6** shows four strategies of reinforcement that can be used in operant conditioning—positive reinforcement, negative reinforcement, punishment, and extinction. The figure uses a quality example to illustrate how these strategies can be used to influence work behaviour. Note that both positive and negative reinforcement strategies strengthen desired work behaviour when it occurs; punishment and extinction strategies weaken or eliminate undesirable behaviours.

**Positive reinforcement** strengthens or increases the frequency of desirable behaviour. It does so by making a pleasant consequence contingent on its occurrence. *Example:* A manager compliments an employee on his or her creativity in making a helpful comment during a staff meeting. **Negative reinforcement** also strengthens or increases the frequency of desirable behaviour, but it does so by making the avoidance of an unpleasant consequence contingent on its occurrence. *Example:* A manager who has been nagging a worker every day about tardiness stops nagging when the individual shows up on time for work.

**Punishment** decreases the frequency of an undesirable behaviour—or eliminates it entirely. It does so by making an unpleasant consequence contingent on its occurrence. *Example:* A manager issues a written reprimand to an employee whose careless work is creating quality problems. **Extinction** also decreases the frequency of or eliminates an undesirable behaviour, but does so by making the removal of a pleasant consequence contingent on its occurrence. *Example:* A manager observes that a disruptive employee is receiving social approval from co-workers who laugh at his jokes during staff meetings; the manager counsels co-workers to ignore the jokes and stop providing approval of this behaviour.



**FIGURE 16.6** Four reinforcement strategies: Case of total quality management.

## Positive Reinforcement

Positive reinforcement deserves special attention among the reinforcement strategies. It should be part of any manager's motivational toolkit. Sir Richard Branson, founder of Virgin Group, is a believer. "For the people who work for you or with you, you must lavish praise on them at all times," he says. "If a flower is watered, it flourishes. If not, it shrivels up and dies." Besides, he adds, "It is much more fun looking for the best in people."<sup>31</sup> David Novak, CEO of Yum! Brands, Inc., is also a believer. He claims that one of his most important tasks as CEO is "to get people fired up." and says that "you can never underestimate the power of telling [people they're] doing a good job." Novak advocates celebrating "first downs and not just touchdowns," which means publicly recognizing and rewarding small wins that keep everyone motivated for the long haul.<sup>32</sup>

One way to put positive reinforcement into action is through a process known as **shaping**.<sup>33</sup> This is the creation of a new behaviour by the positive reinforcement of successive approximations to it. **Continuous reinforcement** administers a reward each time a desired—or approximated—behaviour occurs. **Intermittent reinforcement** rewards behaviour only periodically. Continuous reinforcement tends to work best to encourage desired behaviours through positive shaping, while intermittent reinforcement works best to maintain it. The following are some useful guidelines for positive reinforcement:

- Clearly identify desired work behaviours.
- Maintain a diverse inventory of rewards.
- Inform everyone what must be done to get rewards.
- Recognize individual differences when allocating rewards.
- Follow the laws of immediate and contingent reinforcement.

The power of positive reinforcement is governed by two important laws.<sup>34</sup> First is the **law of contingent reinforcement**. It states that for a reward to have maximum reinforcing value, it must be delivered only if the desired behaviour is exhibited. Second is the **law of immediate reinforcement**. It states that

the more immediate the delivery of a reward after the occurrence of a desirable behaviour, the greater the reinforcing value of the reward.

## Punishment

As a reinforcement strategy, punishment attempts to eliminate undesirable behaviour by making an unpleasant consequence contingent on its occurrence. For example, a manager may punish an employee by issuing a verbal reprimand, suspending the employee, or fining the employee. Just as with positive reinforcement, punishment can be done poorly or it can be done well. But because punishment can have a harmful effect on relationships, it should be used sparingly. The following is advice on how best to handle punishment as a reinforcement strategy:

- Tell the person what is being done wrong.
- Tell the person what is being done right.
- Focus on the undesirable behaviour, not on personal characteristics.
- Make sure the punishment matches the behaviour so that it is neither too harsh nor too lenient.
- Administer the punishment in private.
- Follow the laws of immediate and contingent reinforcement.

## Learning Check

**LEARNING OBJECTIVE 16.3** Discuss the motivational implications of reinforcement principles and strategies.

**Be Sure You Can** • explain the law of effect and operant conditioning • illustrate how positive reinforcement, negative reinforcement, punishment, and extinction influence work behaviour • explain the reinforcement technique of shaping • describe how managers can use the laws of immediate and contingent reinforcement • list guidelines for positive reinforcement and punishment

## 16.4 Motivation and Job Design

### LEARNING OBJECTIVE 16.4

Summarize the motivational implications of job designs and work schedules.

#### Learn More About

Job simplification • Job enrichment • Alternative work schedules

One place where motivation theories can have a significant impact is on **job design**, the process of arranging work tasks for individuals and groups. Building jobs so that satisfaction and performance go hand in hand is in many ways an exercise in generating “fit” between task requirements and people’s needs, capabilities, and interests.<sup>35</sup> The alternatives range from job simplification at one extreme to job enrichment at the other.

### Job Simplification

**Job simplification** standardizes work procedures and employs people in well-defined and highly specialized tasks.<sup>36</sup> Simplified jobs, such as those in classic automobile assembly lines, limited menu restaurants such as McDonald’s, and call centre phone solicitation, are narrow in *job scope*—the number and variety of tasks a person performs.

The logic of job simplification is straightforward. Because these jobs don’t require complex skills, workers should be more easily and quickly trained, less difficult to supervise, and easily replaced if they leave. Because tasks are well defined, workers should become more efficient by performing them over and over again. But things don’t always work out as planned.<sup>37</sup> Routine, structured, and repetitive tasks can cause problems if workers become bored and alienated. Productivity can decline when unhappy workers do poor work. Costs can increase when low job satisfaction leads to more absenteeism and turnover.

One way to eliminate the problems with job simplification is **automation**, the total mechanization of a job. One example is in manufacturing where robots are being used to perform tasks previously done by humans. A second is evident each time you use an ATM; this technology is basically an automated replacement for a human teller.

Another way to deal with job simplification problems, **job rotation** gives workers more variety by periodically shifting them between jobs. Also, **job enlargement** increases task variety by combining into one job two or more tasks that were previously assigned to separate workers. It is sometimes called *horizontal loading*, which simply means making a job bigger by

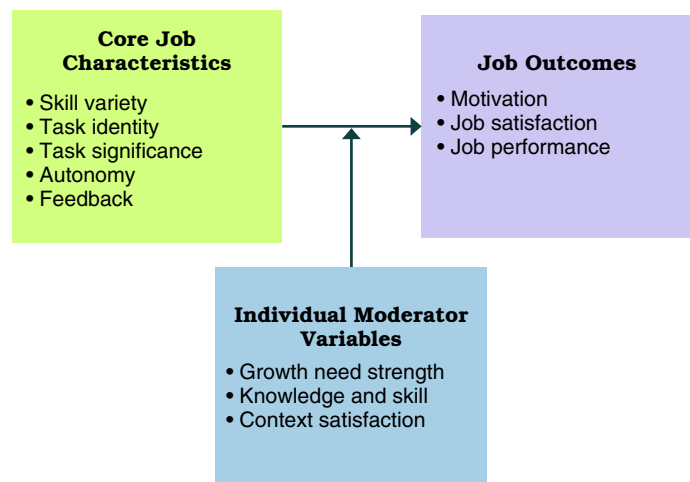
allowing the worker to do tasks from earlier and later stages in the workflow.

### Job Enrichment

Frederick Herzberg, whose two-factor theory of motivation was discussed earlier, not only questions the motivational value of job simplification, he also is critical of job enlargement and rotation. “Why,” he asks, “should a worker become motivated when one or more meaningless tasks are added to previously existing ones, or when work assignments are rotated among equally meaningless tasks?” By contrast, he says: “If you want people to do a good job, give them a good job to do.”<sup>38</sup> Herzberg believes this is best done through **job enrichment** that expands job content and increases *job depth*—the extent to which planning and controlling duties are performed by individual workers rather than the supervisor. Job enrichment is a form of *vertical loading*, which means increasing job depth and giving employees more responsibility for the way they carry out their tasks.

**Job Characteristics Model** Management theory now takes job enrichment a step beyond Herzberg’s approach. It adopts a contingency perspective that recognizes job enrichment may not be good for everyone. This thinking is evident in the job characteristics model developed by Hackman and Oldham and shown in **Figure 16.7**.<sup>39</sup> It focuses attention on the presence or absence of *five core job characteristics*:

1. **Skill variety**—the degree to which a job requires a variety of activities to carry out the work and involves the use of different skills and talents.
2. **Task identity**—the degree to which the job requires completion of a “whole” and identifiable piece of work, one that involves doing a job from beginning to end with a visible outcome.
3. **Task significance**—the degree to which the job has a substantial impact on the lives or work of other people elsewhere in the organization, or in the external environment.

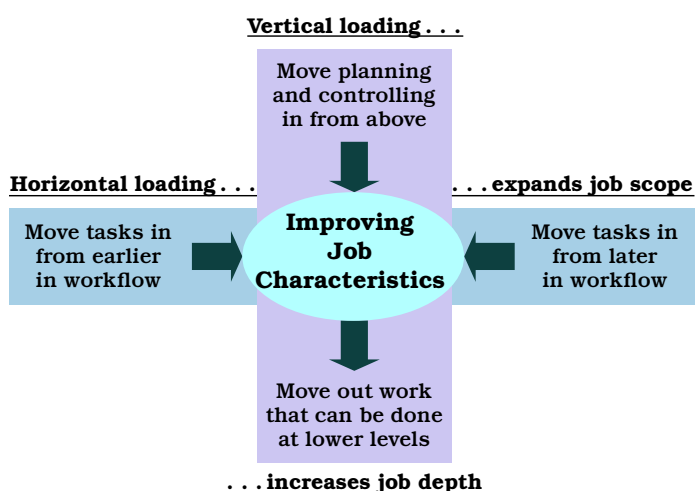


**FIGURE 16.7** Job design essentials using the job characteristics model.

4. *Autonomy*—the degree to which the job gives the individual freedom, independence, and discretion in scheduling work and in choosing procedures for carrying it out.
5. *Feedback from the job itself*—the degree to which work activities required by the job result in the individual obtaining direct and clear information on his or her job performance.

A job that is high in the five core characteristics is considered enriched. But in true contingency fashion, an enriched job will not affect everyone in the same way. Figure 16.7 indicates that people who respond most favourably to enriched jobs will have strong growth needs, as described in Alderfer's ERG theory; appropriate job knowledge, skills, and abilities; and be otherwise satisfied with job context, as discussed in Herzberg's two-factor theory. This creates a good person–job fit. When people without these characteristics are placed in enriched jobs, however, a poor person–job fit may cause their satisfaction and performance to fall instead of rise.

**Improving Job Characteristics** For people and situations in which job enrichment is a good choice, Hackman and his colleagues recommend five ways to improve the core job characteristics. First, *combine tasks*. Expand job responsibilities by pulling a number of smaller tasks previously done by others into one larger job. Second, *form natural units of work*. Make sure that the tasks people perform are logically related to one another and provide a clear and meaningful task identity. Third, *establish client relationships*. Put people in contact with others who, as clients inside or outside the organization, benefit from their work. Fourth, *practise vertical loading*, which gives people authority to perform the planning and controlling previously done by supervisors. Fifth, *open feedback channels*. Provide opportunities for people both to receive performance feedback as they work and to learn how performance changes over time. In contrast to job enlargement and job rotation, which merely make jobs bigger horizontally by expanding job scope, **Figure 16.8** shows that job enrichment expands job depth to make jobs vertically bigger as well.



**FIGURE 16.8** Vertical loading vs. horizontal loading.

## Alternative Work Schedules

“Flexibility” is the key to emergence of a range of alternative ways for people to schedule their work time.<sup>40</sup> Employers are finding that alternative work schedules help attract and retain motivated workers by offering them flexibility to deal with the complications of maintaining work–life balance.

**Flexible Working Hours** The term **flexible working hours**, also called *flextime*, describes any work schedule that gives employees some choice in allocating their daily work hours. Flexible schedules for starting and ending the workday give employees greater autonomy while meeting their work responsibilities. Some may choose to come into work earlier and leave earlier while still completing a full workday; others may choose to start later and leave later. Flexible scheduling allows employees to handle personal and family needs such as medical appointments, home emergencies, and child care issues, as long as they get their work done. Reports indicate that flexible schedules reduce employee stress and diminish job turnover.<sup>41</sup> All top 100 companies in *Working Mother* magazine's list of best employers for working moms offer flexible scheduling.

**Compressed Workweek** A **compressed workweek** is any work schedule that allows a full-time job to be completed in less than the standard five days of 8-hour shifts. The most common form is the “4–40”; that is, accomplishing 40 hours of work in four 10-hour days. A key feature of the 4–40 schedule is that employees receive three consecutive days off from work each week. Many employees are on a four-day schedule at USAA, a diversified financial services company headquartered in San Antonio, Texas, listed among the 100 best companies to work for in the United States. The schedule's advantages include improved employee morale, lower overtime costs, less absenteeism, and fewer days lost to sick leave, as well as lower commuting costs.<sup>42</sup> Potential disadvantages of the compressed workweek include increased fatigue and family adjustment problems for individual employees, as well as scheduling problems for employers.

**Job Sharing** **Job sharing** splits one full-time job between two or more persons. This can be done in a variety of ways, from half day to weekly or monthly sharing arrangements. Organizations benefit by employing talented people who are unable or unwilling to commit to a full-time job. A parent with young children, for example, might be unable to stay away from home for a full workday, but be able to work half a day.

**Telecommuting and Working from Home** It is increasingly popular for people to work by **telecommuting**, an arrangement that allows them to work from home or outside the office for at least a portion of scheduled time. It is facilitated by smart wireless devices that allow easy electronic links with customers and co-workers. New terms are even associated with telecommuting practices. We speak of *hotelling* when telecommuters come to the central office and use temporary office facilities. We also refer to *virtual offices*

that include everything from an office at home to a mobile workspace in an automobile.

Although it would seem that telecommuting should be a perfect fit with the modern workplace, the issues associated with it are far from straightforward. When asked what they like about this work arrangement, telecommuters report increased productivity, fewer distractions, less time spent commuting to and from work, and the freedom to schedule their own time. On the negative side, they may complain about working too much, difficulty separating work and personal life, and having less family time (see Management Is Real 16.5).<sup>43</sup> One telecommuter offers this advice: “You have to have self-discipline and pride in what you do, but you also have to have a boss that trusts you enough to get out of the way.”<sup>44</sup>

From the employer’s perspective, offering options to telecommute and work from home are ways of attracting and retaining talented workers who want this flexibility. But a lack of face-to-face contact can also detract from the desired work culture. When Yahoo!’s CEO Marissa Mayer made a controversial decision to cut back on telecommuting, her justification was that people are “more collaborative and innovative when

they’re together.”<sup>45</sup> What do you think? Is telecommuting a motivating cure all for stress and work–family conflicts? Or is it a culture killer that reduces collaboration and productivity? Many Canadians are now living within this work-from-home experiment.

### Alternative Employment Contracts: Contingency and Part-Time Work

If there is one trend that has been reinforced by our tight economy, it’s the use of more **contingency workers**, hired on a temporary and part-time basis to supplement the regular workforce.<sup>46</sup> You’ll hear them called temps, freelancers, and contract hires working within the “**gig economy**.” A gig economy—drawn from musicians who used the term for a one-time performance, is where organizations hire independent workers for short-term commitments. These workers provide just-in-time and as-needed work for employers who want to avoid the cost and responsibilities of hiring full-timers. One business analyst says the appeal for employers is that a temporary force is “easy to lay off, no severance; no company funded retirement plan; pay own health insurance; get zero sick days and no vacation.”<sup>47</sup>

## Management Is Real 16.5: Analysis | Make Data Your Friend

**For millennials, telecommuting is not just a cost-saving measure, it’s an incentive.**

### One in 10 Canadian Employees Works from Home

Even prior to the COVID-19 pandemic, the work-from-home option was one of the fastest-growing benefits being offered by Canadian employers. Some 1.8 million paid workers (excluding the self-employed) are working at home—that’s 11.2 percent of Canadian employees. It’s a win-win situation: workers can save time and money in commuting while maintaining a better work–life balance and employers can save money in office equipment, space, and other overhead. Those companies that allow their employees the option to work from home can also “draw from a larger talent pool,” says Sheryl Boswell, director of marketing for the job website Monster Canada. The shift in growth since the 1990s is the result of improvements in technology. In 2016, Monster Canada reported that it listed nearly 5,000 home-based employment positions.

Although working from home can save workers time and money, for millennials, telecommuting is not just a cost-saving measure, it’s an incentive. The Conference Board of Canada reports that over 70 percent of full-time workers aged 18–29 would be more satisfied with their jobs if they could work from home. Their older colleagues weren’t far behind.

- A study conducted by the Telework Research Network for WORKShift Calgary determined that if the 4.3 million Canadians with jobs that can be done from home began part-time telecommuting, it could save employers over \$10,000 per employee.
- Teleworkers save from \$1,600 to \$6,800 in yearly commuting costs.
- Employees who were allowed to work from home reported 25 percent lower stress levels, 73 percent said they ate healthier



Monkey Business Images/Shutterstock.com

working from home, and 76 percent were more loyal to their company.

- 90 percent of those working from home said they work harder and longer, but have more work–life balance.
- If a million people worked from home just one weekday each year, Canada could save some 250 million kg of carbon dioxide emissions, 100 million litres of fuel, and 800 million kilometres driven on our roads.

### What Are the Implications?

After the initial effects of COVID-19 on the workplace, do these data seem consistent or inconsistent with your experiences, and what you hear from family and friends? How important is the telecommuting option for you? How do you explain its motivational impact on workers from different age groups and geographical locations? What are the potential risks to the employer, and are these risks worth taking given potential motivational gains for the workforce? Is working from home the new normal?

It is now possible to hire on a part-time basis every kind of personnel, from executive support, such as a chief financial officer, to expertise in areas like engineering, computer programming, and market research. Some worry that temporary employees lack the commitment of permanent workers, and thus may be less productive and provide lower product or service quality. Others argue that contingent employees frequently do just as good a job and offer cost savings of up to 30 percent over full-time workers.<sup>48</sup> But these cost advantages are also controversial.

Contingency workers are generally paid less than their full-time counterparts, can experience stress and anxiety from their part-time and non-secure job status, and generally do not receive important benefits such as expanded health care, life insurance, pension plans, paid vacations, or even sick days. Many also end up in “permatemp” status where they are stuck in a cycle of part-time and contract work without hope for long-term employment. The results can be personal hardship, stress,

and anxiety caused by financial insecurity. As society adjusts to this new era of impermanence in employment contracts, calls for economic justice are on the rise.

## Learning Check

**LEARNING OBJECTIVE 16.4** Summarize the motivational implications of job designs and work schedules.

**Be Sure You Can** • illustrate a job designed by simplification, rotation, and enlargement • list five core job characteristics • describe how an enriched job scores on these characteristics • describe advantages of the compressed workweek, flexible work hours, job sharing, and telecommuting • discuss the role of part-time contingency workers in the economy

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 16.1** Explain how individual needs motivate behaviour.

- Motivation predicts the level, direction, and persistence of effort expended at work; simply put, a highly motivated person works hard.
- Maslow’s hierarchy of needs suggests a progression from lower-order physiological, safety, and social needs to higher-order esteem and self-actualization needs.
- Alderfer’s ERG theory identifies existence, relatedness, and growth needs.
- Herzberg’s two-factor theory describes the importance of both job content and job context to motivation and performance.
- McClelland’s acquired needs theory identifies the needs for achievement, affiliation, and power, all of which may influence what a person desires from work.

**For Discussion** How can team leaders meet the individual needs of members while still treating everyone fairly?

**LEARNING OBJECTIVE 16.2** Contrast how expectancy, equity, goal-setting, and self-efficacy motivate behaviour.

- Adams’s equity theory recognizes that social comparisons take place when rewards are distributed in the workplace.
- People who feel inequitably treated are motivated to act in ways that reduce the sense of inequity; perceived negative inequity may result in someone working less hard in the future.

- The concept of equity sensitivity suggests that not all employees are equally concerned about being treated equitably and that not all employees respond to different types of inequity in the same way.
- Vroom’s expectancy theory states that  $\text{Motivation} = \text{Expectancy} \times \text{Instrumentality} \times \text{Valence}$ .
- Locke’s goal-setting theory emphasizes the motivational power of goals; task goals should be specific rather than ambiguous, difficult but achievable, and set with employees’ participation.
- Bandura’s self-efficacy theory predicts that when people believe they are capable of performing a task, they experience a sense of confidence and are more highly motivated to work hard at it.

**For Discussion** What are the most common triggers of felt inequity in the workplace, and what can a manager do about them?

**LEARNING OBJECTIVE 16.3** Discuss the motivational implications of reinforcement principles and strategies.

- Reinforcement theory recognizes that human behaviour is influenced by its environmental consequences.
- The law of effect states that behaviour followed by a pleasant consequence is likely to be repeated; behaviour followed by an unpleasant consequence is unlikely to be repeated.
- Reinforcement strategies used by managers include positive reinforcement, negative reinforcement, punishment, and extinction.

- Positive reinforcement works best when applied according to the laws of contingent and immediate reinforcement.

**For Discussion** Can a manager or a parent rely solely on positive reinforcement strategies?

**LEARNING OBJECTIVE 16.4** Summarize the motivational implications of job designs and work schedules.

- Job design is the process of creating or defining jobs by assigning specific work tasks to individuals and groups.
- Job simplification creates narrow and repetitive jobs composed of well-defined tasks with routine operations, such as typical assembly-line jobs.

- Job enlargement allows individuals to perform a broader range of simplified tasks; job rotation allows individuals to shift among different jobs with similar skill levels.
- The job characteristics model of job design analyzes jobs according to skill variety, task identity, task significance, autonomy, and feedback; a job high in these characteristics is considered enriched.
- Alternative work schedules make work hours more convenient and flexible to better fit workers' needs and personal responsibilities; options include the compressed workweek, flexible working hours, job sharing, telecommuting, and part-time work.

**For Discussion** Should getting an enriched job be reward enough for job holders, or should they also get pay increases?

## Chapter Glossary

**Automation** The total mechanization of a job.

**Compressed workweek** A work schedule that allows a full-time job to be completed in less than five days.

**Contingency workers** Workers who are employed on a part-time and temporary basis to supplement a permanent workforce.

**Continuous reinforcement** The giving of rewards each time a desired behaviour occurs.

**Deficit principle** The principle that a satisfied need does not motivate behaviour.

**Equity sensitivity** The tendency for people to have different preferences for equity and to react differently to perceptions of inequity.

**Existence needs** Desires for physical well-being.

**Expectancy** A person's belief that working hard will result in high task performance.

**Extinction** The discouraging of behaviour by making the removal of a desirable consequence contingent on its occurrence.

**Flexible working hours** A work schedule that gives employees some choice in daily work hours.

**Frustration-regression principle** The principle that an already satisfied need can become reactivated when a higher-level need is blocked.

**Gig economy** Where organizations hire independent workers for short-term commitments.

**Growth needs** Desires for personal growth and development.

**Higher-order needs** Esteem and self-actualization needs in Maslow's hierarchy.

**Hygiene factors** Factors that contribute to motivation that are found in the job context, such as working conditions, interpersonal relations, organizational policies, and compensation.

**Instrumentality** A person's belief that various outcomes will occur as a result of task performance.

**Intermittent reinforcement** The giving of rewards for behaviour only periodically.

**Job design** The arrangement of work tasks for individuals and groups.

**Job enlargement** Increasing task variety by combining into one job two or more tasks previously done by separate workers.

**Job enrichment** Increasing job depth by adding work planning and evaluating duties normally performed by the supervisor.

**Job rotation** Increasing task variety by periodically shifting workers between different jobs.

**Job sharing** Splitting one job between two people.

**Job simplification** Employing people in clearly defined and specialized tasks with narrow job scope.

**Law of contingent reinforcement** The principle that a reward should be given only when a desired behaviour occurs.

**Law of effect** The principle that behaviour followed by pleasant consequences is likely to be repeated; behaviour followed by unpleasant consequences is not.

**Law of immediate reinforcement** The principle that a reward should be given as soon as possible after a desired behaviour occurs.

**Lower-order needs** Physiological, safety, and social needs in Maslow's hierarchy.

**Motivation** The level, direction, and persistence of effort expended at work.

**Need** An unfulfilled physiological or psychological desire.

**Need for achievement** The desire to do something better, to solve problems, or to master complex tasks.

**Need for affiliation** The desire to establish and maintain good relations with people.

**Need for power** The desire to control, influence, or be responsible for other people.

**Negative reinforcement** The strengthening of behaviour by making the avoidance of an undesirable consequence contingent on its occurrence.

**Operant conditioning** The control of behaviour by manipulating its consequences.

**Over-reward inequity or positive inequity** What occurs when an individual perceives that rewards are more than what is fair.

**Positive reinforcement** The strengthening of behaviour by making a desirable consequence contingent on its occurrence.

**Progression principle** The principle that a need isn't activated until the previous lower-level need is satisfied.

**Punishment** Discouraging behaviour by making an unpleasant consequence contingent on its occurrence.

**Relatedness needs** Desires for good interpersonal relationships.

**Satisfier factors** Factors that contribute to motivation that are found in job content, such as challenging and exciting work, recognition, responsibility, advancement opportunities, or personal growth.

**Self-efficacy** A person's belief that she or he is capable of performing a task.

**Shaping** Positive reinforcement of successive approximations to the desired behaviour.

**Telecommuting** Working from home or outside the office at least part of the time.

**Under-reward inequity or negative inequity** What occurs when an individual perceives that rewards are less than what is fair.

**Valence** The value a person assigns to work-related outcomes.



## Self-Test 16

### Multiple-Choice Questions

- Lower-order needs in Maslow's hierarchy match well with \_\_\_\_\_ needs in ERG theory.
  - growth
  - affiliation
  - existence
  - achievement
- When a team member shows strong ego needs in Maslow's hierarchy, the team leader should find that \_\_\_\_\_ will be motivating to him or her.
  - alternative work schedules
  - praise and recognition for job performance
  - social interactions with other team members
  - easy performance goals
- A worker with a high need for \_\_\_\_\_ power in McClelland's theory tries to use power for the good of the organization.
  - position
  - expert
  - personal
  - social
- In Herzberg's two-factor theory, base pay is considered a(n) \_\_\_\_\_ factor.
  - valence
  - satisfier
  - equity
  - hygiene
- Which of the following is a correct match?
  - McClelland—ERG theory
  - Skinner—reinforcement theory
  - Vroom—equity theory
  - Locke—expectancy theory
- The expectancy theory of motivation says that motivation = expectancy × \_\_\_\_\_ × \_\_\_\_\_.
  - rewards, valence
  - instrumentality, valence
  - equity, instrumentality
  - valence, equity
- When someone has a high and positive "expectancy" in the expectancy theory of motivation, this means that the person \_\_\_\_\_.
  - believes he or she can meet performance expectations
  - highly values the rewards being offered
  - sees a link between high performance and available rewards
  - believes that rewards are equitable
- In the \_\_\_\_\_ theory of motivation, someone who perceives herself under-rewarded relative to a co-worker might be expected to reduce his or her performance in the future.
  - ERG
  - acquired needs
  - two-factor
  - equity
- In goal-setting theory, the goal of "doing a better job" would not be considered a good source of motivation because it fails the test of goal \_\_\_\_\_.
  - acceptance
  - specificity
  - challenge
  - commitment
- The law of \_\_\_\_\_ states that behaviour followed by a positive consequence is likely to be repeated, whereas behaviour followed by an undesirable consequence is not likely to be repeated.
  - reinforcement
  - contingency
  - goal setting
  - effect
- \_\_\_\_\_ is a positive reinforcement strategy that rewards successive approximations to a desirable behaviour.
  - Extinction
  - Negative reinforcement
  - Shaping
  - Merit pay
- B.F. Skinner would argue that "getting a paycheque on Friday" reinforces a person for coming to work on Friday, but it does not reinforce the person for having done an extraordinary job on Tuesday. This is because the Friday paycheque fails the law of \_\_\_\_\_ reinforcement.
  - negative
  - continuous
  - immediate
  - intermittent
- When a job is redesigned to allow a person to do a whole unit of work from beginning to end, it becomes high on which core characteristic?
  - Task identity
  - Task significance
  - Task autonomy
  - Feedback
- A typical compressed workweek schedule involves 40 hours of work done in \_\_\_\_\_ days.
  - 3
  - 4
  - 5
  - a flexible number of
- A term often used to describe someone who is a long-term but part-time hire is \_\_\_\_\_ worker.
  - contingency
  - virtual
  - flexible
  - permatemp

### Short-Response Questions

- What preferences does a person with a high need for achievement bring to the workplace?
- Why is participation important to goal-setting theory?
- Where is the common ground in Maslow's, Alderfer's, and McClelland's views of human needs?
- Why might an employer not want to offer employees the option of a compressed workweek schedule?

### Essay Question

- How can a manager combine the powers of goal setting and positive reinforcement to create a highly motivational work environment for workers with high needs for achievement?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Paying the Going Rate

As the owner-manager of a small engineering company, you need to hire a replacement for a recently retired senior employee. The salaries you pay have always been a little below average, but it has never been an issue because you offer excellent benefits and a great work environment. The individual you want to hire has made it clear that she will not accept the job unless the offer is \$5,000 more than you'd really like to pay, but it's also the competitive market rate. If you pay her the higher salary you'll risk alienating your current workforce. If you don't, you'll miss out on a great new hire. How can you best handle this dilemma?

#### 2. Across-the-Board Raises

Because of a poor economy your company has not been able to offer pay raises to employees for the past three years. This year the salary

budget has been increased by 5 percent. Your initial thought was to give everyone a 5-percent raise. Is this a good idea? How should you allocate salary increases in this situation?

#### 3. Job Redesign for Better or for Worse?

As the manager of the university bookstore, you have come up with a plan to give part-time student workers more autonomy and control over their jobs. Your assistant manager believes this is a bad idea. She says that the student workers show no capacity for initiative or responsibility, and just want to do what they're told to do and get their weekly paycheques. She also predicts that both productivity and customer service will suffer under your plan. You think the student workers are bored and disengaged, but otherwise capable. What are you going to do and why?

## Reflect on the Self-Assessment

### Student Engagement Survey

#### Instructions

Use this scale to show the degree to which you agree with the following statements. Write your choices in the margin next to each question.<sup>49</sup>

1—No agreement; 2—Weak agreement; 3—Some agreement;  
4—Considerable agreement; 5—Very strong agreement

1. I know what is expected of me in this course.
2. I have the resources and support I need to do my coursework correctly.
3. In this course, I have the opportunity to do what I do best all the time.
4. In the last week, I have received recognition or praise for doing good work in this course.
5. My instructor seems to care about me as a person.
6. There is someone in the course who encourages my development.
7. In this course, my opinions seem to count.
8. The mission/purpose of the course makes me feel my area of study is important.

9. Other students in the course are committed to doing quality work.
10. I have a good friend in the course.
11. In the last six class sessions, someone has talked to me about my progress in the course.
12. In this course, I have had opportunities to learn and grow.

#### Scoring

Score the instrument by adding up all your responses. A score of 0–24 suggests you are “actively disengaged” from the learning experience; a score of 25–47 suggests you are “moderately engaged”; a score of 48–60 indicates you are “actively engaged.”

#### Interpretation

This instrument is a counterpart to a survey used by the Gallup Organization to measure the “engagement” of American workers. The Gallup results are surprising—indicating that up to 19 percent of U.S. workers are actively disengaged, with the annual lost productivity estimated at some \$300 billion per year. One has to wonder: What are the costs of academic disengagement among students?

## Contribute to the Class Exercise

### Why We Work

#### Preparation

Read this “ancient story.”<sup>50</sup>

In days of old, a wandering youth happened upon a group of men working in a quarry. Stopping by the first man, he said: “What are you doing?”

The worker grimaced and groaned as he replied: “I am trying to shape this stone, and it is backbreaking work.” Moving to the next man, the youth repeated the question. This man showed little emotion as he answered: “I am shaping a stone for a building.” Moving to the third man, our traveller heard him singing as he worked. “What are you doing?” asked the youth. “I am helping to build a cathedral,” the man proudly replied.

**Instructions**

In groups assigned by your instructor:

1. Discuss this short story.
2. Ask and answer the question: “What are the motivation and job design lessons of this ancient story?”
3. Discuss the question: How can managers help employees feel more inspired about what they are doing?
4. Have someone prepared to report and share the group’s responses with the class as a whole.

## Manage a Critical Incident

### Great Worker Won’t Take Vacation

**Situation**

Todd is a super hard worker and one of your team’s top performers. He’s also one of those workers who just won’t take a vacation. Oh yes, he takes a day here and there. But each year he leaves as much as two weeks of vacation time on the table. You believe he would benefit from the occasional break, working happier and maybe more productively with some vacation time under his belt. His unwillingness to take time off is also a subject of conversation among his teammates. Their view is that he is starting to make them look and feel bad when they take the

vacation time that they earn. Some are starting to act a bit resentfully toward him, and you recently overheard this comment: “Take a little time off, Todd—for the good of the team, if not for yourself.”

**Questions**

What can you do as the team leader to avoid having Todd’s reluctance to take vacation turn into major team morale and working relationships problems? How might you motivate Todd to take more vacation time, without risking his high performance commitment and work ethic? How can you motivate his teammates to accept his behaviour and be able to confidently continue with their own work styles?

## Collaborate on the Team Activity

### CEO Pay ... Too High, or Just Right?

**Question**

Executive compensation is often discussed in newspapers and in business magazines. What do you think about how well CEOs are paid?

**Instructions**

1. Check the latest reports on CEO pay. Get the facts and prepare a brief report as if you were writing a short, informative article for *Canadian Business* magazine. The title of your article should be “Status Report: Where We Stand Today on CEO Pay.”
2. Address the equity issue: Are CEOs paid too much, especially relative to the pay of average workers?
3. Address the pay-for-performance issue: Do corporate CEOs get paid for performance or for something else?
4. Gather some data: What do the researchers say? What do the business analysts say? What do the unions say? Find some examples to explain and defend your answers to these questions.
5. Address social responsibility issues: Is it “right” for CEOs to accept pay packages that reward them many times over what workers receive?
6. Take a position: Should a limit be set on CEO pay? If not, why not? If yes, what type of limit should be set? And who should set these limits—the government, company boards of directors, or someone else?

## Analyze the Case Study

### Case 16.1 Salesforce | Instant Praise, Instant Criticism

Go to Management Cases for Critical Thinking at the end of the book to find this case.



Gregory Shamus/Staff/Getty Images Sport/Getty Images

## Teams and Teamwork

“Sticks in a bundle are hard to break.”

Kenyan proverb

“Never doubt that a small group of thoughtful, determined people can change the world: indeed, it’s the only thing that ever has.”

Margaret Mead, anthropologist

“Pick good people, use small teams and give them great tools so that they are very productive.”

Bill Gates, businessman and philanthropist

“Gettin’ good players is easy. Gettin’ ’em to play together is the hard part.”

Casey Stengel, Hall of Fame Major League Baseball manager

Teamwork is a consistent focal point of collective organization and is widely recognized as a critical tool for accomplishing great things.<sup>1</sup> Even so, the words *group* and *team* elicit both positive and negative reactions in the minds of many people who have been involved—either as observers or participants—in these collectives. Although it is an embedded idiom in Western culture that “two heads are better than one,” we are also cautioned by an idiom equally embedded in our culture that “too many cooks spoil the broth.” A true skeptic of the kind of collective action implied by groups or teams might be heard to say: “A camel is a horse put together by a committee.”

Teams have a great deal of potential for organizations but also are extremely complex in how they function. Teams can be supercharged vehicles for the achievement of great successes, and they can also be the cause of equally huge failures.<sup>2</sup> More than a third of individuals participating in teams report

dissatisfaction with teamwork. Less than half of team members report receiving training in team dynamics.<sup>3</sup> Still, many people prefer to work in teams than to work independently. What is clear is that there is a great deal of variability in feelings about the effectiveness of teams in organizations today.

## Chapter Quick Start

Surely you've experienced the highs and the lows of teams and teamwork—as a team contributor or as a team leader. Teams and teammates can be inspirational and they can be frustrating. They can accomplish great things or do very little of consequence. The more we know about teams, teamwork, and our personal tendencies toward team contributions, the better prepared we are to participate in today's team-driven organizations.

### CHAPTER OUTLINE

### LEARNING OBJECTIVES

**17.1** Teams in Organizations

**17.1** Explain the ways teams contribute to organizations.

**17.2** Trends in the Use of Teams

**17.2** Describe current trends in the use of teams in organizations.

**17.3** How Teams Work

**17.3** Summarize the key processes through which teams work.

**17.4** Decision-Making in Teams

**17.4** Discuss the ins and outs of team decision-making.

### What to Look for **Inside**

#### Management Is Real

- 17.1 Ethics** Know Right from Wrong  
Social Loafing Is Hurting Team Performance
- 17.2 Analysis** Make Data Your Friend  
Unproductive Meetings Are Major Time Wasters
- 17.3 Choices** Think before You Act  
Creating Disharmony to Build a Better Team
- 17.4 Wisdom** Learn from Role Models  
Amazon's Jeff Bezos Feeds Innovation with Two-Pizza Teams
- 17.5 Insight** Keep Learning about Yourself  
The Teamwork Effect

#### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Team Leader Skills
- **Contribute** *to the Class Exercise:*  
Work Team Dynamics
- **Manage** *a Critical Incident:*  
The Rejected Team Leader
- **Collaborate** *on the Team Activity:*  
Superstars on the Team
- **Analyze** *the Case Study:*  
Team Canada '72 | The Power of Teamwork

## 17.1 Teams in Organizations

### LEARNING OBJECTIVE 17.1

Explain the ways teams contribute to organizations.

#### Learn More About

Teamwork pros • Teamwork cons • Meetings, meetings, meetings • Organizations as networks of groups

A **team** is a relatively small set of people with complementary skills who regularly interact with one another, working together interdependently to achieve shared goals.<sup>4</sup> **Teamwork** is the process of team members working together to accomplish these goals. Managers must be prepared to perform at least four important teamwork roles. A *team leader* serves as the appointed head of a team or a work unit. A *team member* serves as a contributing part of a project team. A *network facilitator* serves as the peer leader and networking hub for a special task force. A *coach or developer* serves as a team's advisor on ways to improve team processes and performance. These roles are shown in **Figure 17.1**.

A fundamental difference between teams and groups is whether members work interdependently with one another or independently of one another. The **interdependence** that is characteristic of teams puts members in positions where they depend on each other to fulfill tasks and carry out work effectively.<sup>5</sup> Interdependence influences the way team members combine inputs such as ideas and efforts to create outcomes such as a completed task or project.<sup>6</sup> And when team members are interdependent, they tend to share information and communicate with one another more often, as well as act cooperatively and helpfully toward one another.<sup>7</sup>

### Teamwork Pros

Although working effectively with other members within a team can be hard work, the effort is worth it when the team meets anticipated performance expectations.<sup>8</sup> The real benefit of teams is their capacity to accomplish goals and performance

expectations far greater than those attainable by individuals alone. This collective performance potential is called **synergy**, which is the creation of a whole that is greater than the sum of its individual parts.

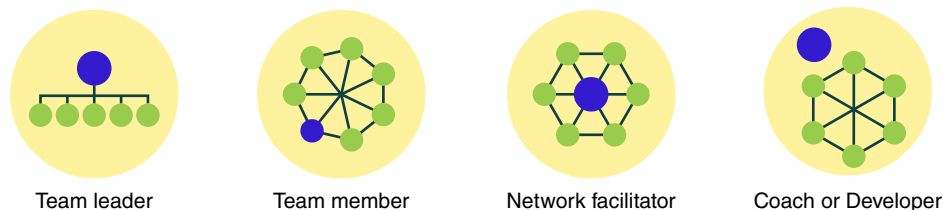
Synergy pools the individual talents and efforts of a team's members to create extraordinary results through collective action. When Jens Voigt, one of the top racers on the Tour de France, was asked to describe a "perfect cyclist," for example, he created a composite of his nine-member team: "We take the time trial legs of Fabian Cancellara, the speed of Stuart O'Grady, the climbing capacity of our leaders and my attitude." His point in describing each of these individual's talents was that the tour is simply too hard for a single rider to win based on his own talents. Like so many other performance drivers in the workplace, the synergies made possible through effective teamwork represent a critical key to the success of teams.<sup>9</sup>

Just being a member of a team is often good for its members. The personal connections developed through membership can help employees to do their jobs better—getting help, making contacts, sharing ideas, responding to favours, and avoiding roadblocks. The personal relationships that develop among team members can help satisfy important needs that may be difficult to meet in regular work or personal settings, offering positive interpersonal interactions, a sense of security and belonging, and emotional support.<sup>10</sup> The following are some of the many benefits of teams:

- Performance gains through purpose synergy
- More resources for problem solving
- Improved creativity and innovation
- Improved decision-making quality
- Greater member commitment to tasks
- Increased member motivation
- Increased need satisfaction of members

### Teamwork Cons

Although teams have a great potential to increase the collective performance of members, what is also clear is that expectations and anticipated performance gains don't always materialize as intended when teams and teamwork are used. Problems with teams and members within teams can easily transform their great potential into frustration and failure.<sup>11</sup>



Roles managers play in teams and teamwork

FIGURE 17.1 Different managerial approaches.

## Management Is Real 17.1: Ethics | Know Right from Wrong

The student complained that free-riders were making it hard for her team to perform well.

### Social Loafing Is Hurting Team Performance

1. *Psychology study:* A German researcher asked people to pull on a rope as hard as they could. First, individuals pulled alone. Second, they pulled as part of a group. The results from this study showed that people pull harder when working alone than when working as part of a team. Such “social loafing” is the tendency for individuals to reduce their level of effort when working with others.
2. *Faculty office:* A student wants to speak with the instructor about her team’s performance on the last project. There were four members, but two did almost all of the work. The other two largely disappeared, showing up only at the last minute to be part of the formal presentation. Her point is that the team was disadvantaged because two free-riders were responsible for reduced performance capacity.
3. *Telephone call from the boss:* “John, I really need you to serve on this committee. Will you do it? Let me know tomorrow.” In thinking about this, John ponders: I’m overloaded, but I don’t want to turn down the boss. I’ll accept but let the committee members know about my situation. I’ll be active in discussions



George Doyle & Ciaran Griffin/Stockbyte/Getty Images

and try to offer viewpoints and perspectives that are helpful. However, I’ll let them know up front that I can’t be a leader or volunteer for any extra work.

#### What Do You Think?

What are the ethical issues involved in team situations when some members sit back and let others do more of the work the entire team is responsible for doing? When you join a team, do all of the team’s members have an ethical obligation to do a similar amount of work? Why or why not? When it comes to John, does the fact that he intends to be honest with the other committee members make any difference? Isn’t he still going to be a social loafer while earning credit from his boss for serving on the committee? Is his approach ethical—or should he simply decline to participate on the committee? What factors would make you more/less comfortable with another member not pulling their weight on the team?

Personality conflicts and work style differences can disrupt how well teams function. Unclear tasks, ambiguous agendas, and ill-defined problems and roles can cause teams to work too long on the wrong things. Sometimes team members start out motivated and then lose their motivation because teamwork takes too much time and effort away from other tasks, deadlines, and priorities. A lack of success can also hurt members’ morale. It’s also easy for members to lose motivation when the team is poorly organized and led, or when other members slack off.<sup>12</sup>

Anyone who’s had extensive experience working in teams has encountered **social loafing**. This is the presence of “free-riders” who slack off because responsibility for various tasks is diffused in teams and others are present to do the work, picking up the slack (Management Is Real 17.1).<sup>13</sup> Although social loafing can be very frustrating and can hurt team performance, there are things that team leaders or concerned team members can do when others don’t do their work. The possibilities include making individual contributions more visible, rewarding individuals for their contributions, making task assignments more interesting, and keeping team sizes small so that free-riders are subject to more intense peer pressure and leader evaluation.<sup>14</sup>

One way teams can overcome some of the negative aspects of group work is through a group contract. A group contract is a document that the team members create that outlines the expectations for group members. It might include: communication method, decision-making approach, participation expectations, group norms, and accountability

processes. Each member should sign indicating his or her agreement to the contract.

## Meetings, Meetings, Meetings

“We have the most ineffective meetings of any company,” says a technology executive. “We just seem to meet and meet and meet, and we never seem to do anything,” says another in the package delivery industry. “We realize our meetings are unproductive. A consulting firm is trying to help us, but we’ve got a long way to go,” says a corporate manager.<sup>15</sup> The common phenomenon of unproductive meetings is the topic of Management Is Real 17.2.

1. People arrive late, leave early, and don’t take things seriously.
2. The meeting is too long, sometimes twice as long as necessary.
3. People don’t stay on topic; they digress and are easily distracted.
4. The discussion lacks candour; people are unwilling to tell the truth.
5. The right information isn’t available, so decisions are postponed.
6. Nothing happens when the meeting is over; no one puts decisions into action.
7. Things never get better; the same mistakes are made meeting after meeting.

## Management Is Real 17.2: Analysis | Make Data Your Friend

Meetings are frequent, but many say the ones they attend are ineffective.

### Unproductive Meetings Are Major Time Wasters

A survey of some 38,000 workers around the world links low productivity with bad meetings, poor communication, and unclear goals.

- 69 percent of meetings attended are considered ineffective.
- 32 percent of workers complain about team communication.
- 31 percent complain about unclear objectives and priorities.

#### What Are the Implications?

Do the results from this survey match your own experiences with team meetings? Given the common complaints about meetings, what can a team leader do to improve them? Think about recent meetings you have attended. In what ways were the best meetings different from the worst meetings? Did your own behaviour play a significant role in both of these cases? How do the interactions of team members influence the quality of these meetings? Why?



Leontura/E+/Getty Images

What do you think when someone says: “Let’s have a meeting”? Are you ready and willing, or apprehensive and even upset about having to participate? We aren’t always happy to get a request to add another meeting to our busy schedules. The problems described in the list below don’t help.<sup>16</sup> These are the seven deadly sins of meetings.

You might even be able to add to this list of deadly meeting sins from personal experience. What might you do to lessen the chance of these deadly sins occurring with teams you are engaged with? One way is to develop a team contract, which outlines the way you are going to operate as a team. This development will help your team perform.

Good meetings don’t happen by accident. People have to work hard and work together to make meetings productive and rewarding. In face-to-face and virtual meetings, lots of information is shared, decisions get made, and people gain understanding of the issues and of one another. They’re important and necessary. This is why knowing more about teams and teamwork is so useful.

## Organizations as Networks of Groups

**Formal groups** are officially recognized and supported by the organization. They may be called departments (e.g., market research department), units (e.g., audit unit), groups (e.g., customer service group), or divisions (e.g., office products division), among other possibilities. These formal groups form interlocking networks that serve as the foundation of the organization’s structure, and managers are key “linking pins” among them. Managers lead formal groups at one level while also serving as members of groups at the next higher level and in groups formed across functional areas.<sup>17</sup>

**Informal groups** also are present and important in all organizations. They emerge from natural or spontaneous relationships among members. Some informal groups are *interest*

*groups* where workers join together to pursue a common cause, such as better working conditions. Some emerge as *friendship groups* that develop for a wide variety of personal reasons, including shared non-work interests and social connections. Others exist as *support groups*, in which members basically help one another to do their jobs or to cope with common problems.

Although people may sometimes use informal groups as a forum for airing dissatisfactions and spreading rumours, the social connections they offer can also play many positive roles in organizations. Tapping into relationships within informal groups can help speed workflow and “get things done” in ways not possible within the formal structure defined in an organizational chart. Members of informal groups can also satisfy needs that are otherwise left unmet in their formal work assignments. These include gaining friendship, security, support, and a sense of belonging.

### Learning Check

**LEARNING OBJECTIVE 17.1** Explain the ways teams contribute to organizations.

**Be Sure You Can** • define *team* and *teamwork* • explain why *interdependence* is a key characteristic of teams • identify four roles managers perform in teams • define *synergy* • explain teamwork pros and cons • discuss the implications of social loafing • explain the potential benefits of informal groups



## 17.2 Trends in the Use of Teams

### LEARNING OBJECTIVE 17.2

Describe current trends in the use of teams in organizations.

#### Learn More About

- Committees, project teams, and task forces
- Cross-functional teams • Self-managing teams
- Virtual teams • Team building

A trend toward greater empowerment in organizations today shows up as an emphasis on committees, project teams, task forces, cross-functional teams, and self-managing teams. Importantly, all of these different forms function in both face-to-face and virtual forms.

### Committees, Project Teams, and Task Forces

A **committee** brings employees together outside of their daily job duties to work together for a specific purpose. A committee's purpose is typically narrow, focused, and ongoing. Organizations usually have a variety of permanent or standing committees dedicated to a wide variety of issues, such as diversity, quality, and product development. Committees are led by a designated head or chairperson, who is held accountable for the committee's performance.

**Project teams** or **task forces** bring people together to work on common problems, but on a temporary rather than permanent basis. The goals and task assignments are specific

and completion deadlines are clear. Creativity and innovation may be part of the agenda. Project teams, for example, can be formed to develop a new advertising campaign, redesign an office layout, or streamline a work process.<sup>18</sup>

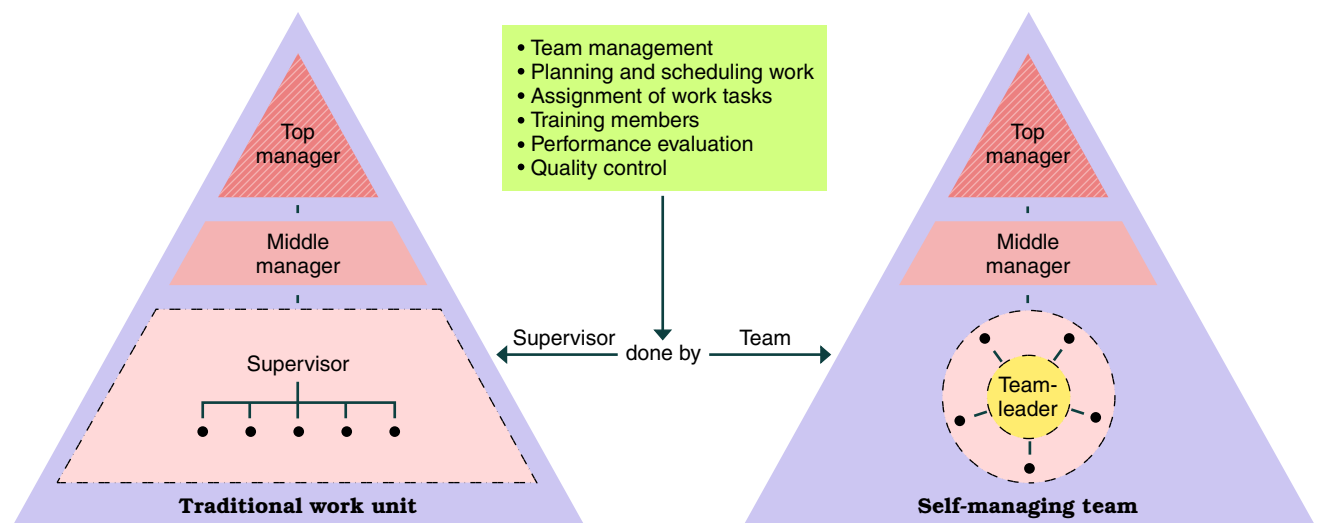
### Cross-Functional Teams

Many organizations make use of **cross-functional teams** that pull together members from across different functional units to work on common goals. These teams help reduce the **functional chimneys problem** by eliminating “walls” that can otherwise limit communication and cooperation among employees from different departments and functions. For example, Gregg Steinhafel, the CEO of U.S. discount chain Target, says that his firm uses cross-functional teams from “merchandising, marketing, design, communications, presentation, supply chain and stores” to create and bring to customers new limited-edition fashions.<sup>19</sup>

### Self-Managing Teams

Traditional work teams consisting of first-level supervisors and their immediate subordinates are increasingly being replaced in a growing number of organizations with **self-managing work teams**. As shown in **Figure 17.2**, these teams operate with a high degree of task interdependence, authority to make many decisions about how they work, and collective responsibility for results.<sup>20</sup> The expected advantages from self-managed teams are better performance, reduced costs, and high levels of morale.

Multitasking is a key feature of all self-managing teams, whose members each have the skills to perform several different jobs. Within a team the emphasis is always on participation. Self-managing teams operate with members sharing tasks and taking collective responsibility for management functions traditionally performed by supervisors. The “self-management” responsibilities include planning and scheduling work, training members in various tasks, distributing tasks, meeting performance goals, ensuring high quality, and solving day-to-day



**FIGURE 17.2** Organizational and management implications of self-managing work teams.

operating problems. In some self-managing teams, members have the authority to “hire” and “fire” other members. Typical characteristics of self-managing teams include:

- Members are held collectively accountable for performance results.
- Members have discretion in distributing tasks within the team.
- Members have discretion in scheduling work within the team.
- Members are able to perform more than one job on the team.
- Members train one another to develop multiple job skills.
- Members evaluate one another’s performance contributions.
- Members are responsible for the total quality of team products.

## Virtual Teams

*Scene:* Canadian-based IT manager needs to meet with team members in Brazil, the Philippines, and Poland. Rather than pay for everyone to fly to a common location, he checks world time zones, sends an email to schedule, and then turns on his tablet to join the other team members online at the scheduled time using a virtual meeting tool such as Teams, Google Meets, or Zoom.

Recently, with the impact on the workplace from the COVID-19 health pandemic, almost everyone in the workforce joined a virtual team. The constant emergence of new technologies is making virtual collaboration both easier and more common. At *home* it may be Twitter, LinkedIn, or Instagram; at the *home office* it’s likely to be a wide variety of online meeting resources. Members of **virtual teams**, also called **distributed teams**, work together through computer mediation rather than face to face.<sup>21</sup> They operate like other teams with respect to what gets done. In virtual teams, it’s the way that things get done that is different. This difference has both potential advantages and disadvantages.<sup>22</sup>

In terms of potential advantages, virtual teams can save a significant amount of time and travel expense when members work in different locations. They can also be easily expanded to include more members as needed, and the discussions and shared information can be archived for later access. Virtual teams are usually quite efficient because members are less prone to stray off task and get sidetracked by interpersonal difficulties. A vice president for human resources at Marriott, for example, once called electronic meetings “the quietest, least stressful, most productive meetings you’ve ever had.”<sup>23</sup>

The lack of face-to-face interaction in virtual teams also creates potential disadvantages. It dampens the role of emotions and non-verbal cues in communication and often contributes to member relationships that are depersonalized.<sup>24</sup> “Human beings are social animals for whom building relationships matters a great deal,” says one scholar. “Strip away the social side of teamwork and, very quickly, people feel isolated and unsupported.”<sup>25</sup> The following guidelines can help keep the possible downsides of virtual teamwork to a minimum:<sup>26</sup>

- Select team members high in initiative and capable of self-starting.
- Select members who will join and engage the team with positive attitudes.
- Select members known for working hard to meet team goals.
- Begin with social messaging that allows members to exchange information about each other in order to personalize the process.
- Assign clear goals and roles so that members can focus while working alone and also know what others are doing.
- Gather regular feedback from members about how they think the team is doing and how it might work more effectively.
- Provide regular feedback to team members about team accomplishments.

## Team Building

High-performance teams operate with characteristics like the following:<sup>27</sup>

- Clear and elevating goals
- Task-driven, results-oriented structure
- Competent, hard-working members
- Collaborative culture
- High standards of excellence
- External support and recognition
- Strong, principled leadership

Real, effective teamwork and the great results teamwork can generate don’t happen by accident. **Team building** is a series of planned activities used to analyze the functioning of a team and to make constructive, systematic changes in how it operates.<sup>28</sup> The process begins with developing awareness that a problem may be present or may develop within the team. Members then work together to gather data and fully understand the nature of the problem, make plans to correct it, implement the plans the team develops, and evaluate results from the plan. This whole process is repeated as difficulties or new problems are discovered within the team.

There are many ways to gather data for team building, including structured and unstructured interviews, survey questionnaires, and team meetings. Regardless of the method used to help understand what’s happening, the basic principle of team building remains the same. It is a careful and collaborative assessment of all of the various aspects of the team, ranging from how members work together to the results they are able to achieve.

Team building can be done with the help of consultants or under the direction of a manager. It can also be done in the workplace or take place at outside locations. A popular approach is to bring team members together in special, experiential settings where their capacities for teamwork are put to the test through unusual intellectually or physically demanding experiences, such as obstacle courses, simulation

exercises, or case studies. There's lots of room for innovation in team building, with options including activities like scavenger hunts, charity work, cooking lessons, building and sculpting, and competitive games.<sup>29</sup> Says one team-building trainer: "We throw clients into situations to try and bring out the traits of a good team."<sup>30</sup>

## Learning Check

**LEARNING OBJECTIVE 17.2** Describe current trends in the use of teams in organizations.

**Be Sure You Can** • differentiate a committee from a task force • explain the benefits of cross-functional teams • discuss potential advantages and disadvantages of virtual teams • list the characteristics of self-managing work teams • explain how self-managing teams are changing organizations • describe the typical steps in team building

## 17.3 How Teams Work

**LEARNING OBJECTIVE 17.3**

Summarize the key processes through which teams work.

### Learn More About

Team inputs • Stages of team development • Norms and cohesiveness • Task and maintenance roles • Communication networks

An **effective team** does three things well—performs its tasks, satisfies its members, and remains viable for the future.<sup>31</sup> On the *task performance* side, a work team is expected to transform resource inputs (such as ideas, materials, and information) into product outputs (such as a report, decision, service, or commodity). With respect to *member satisfaction*, members should take pleasure from both the team's performance accomplishments and their contributions toward making these happen. As to *future viability*, the team should have a social fabric and work climate that makes its members willing and able to work well together in the future, again and again as needed.

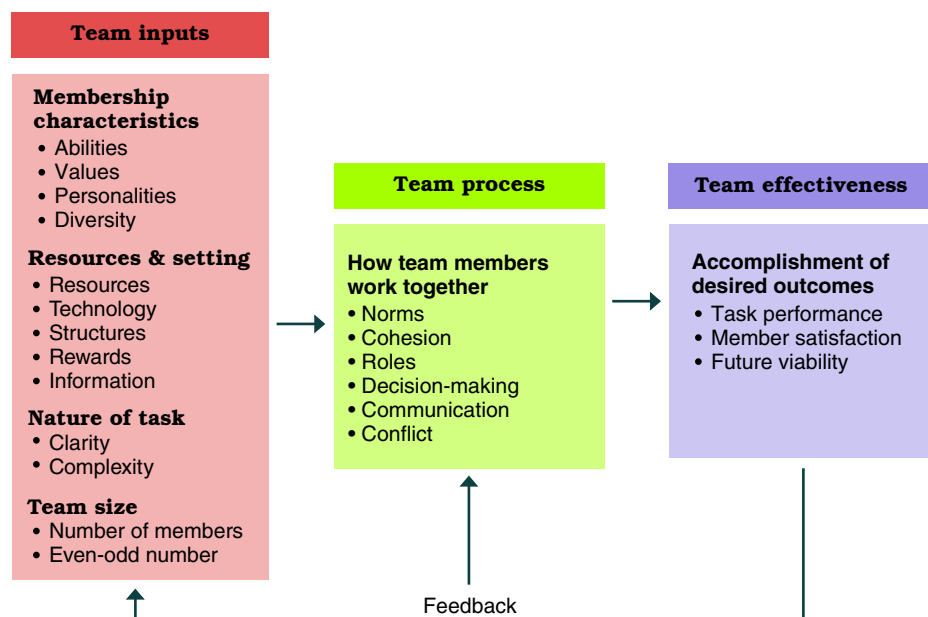
You sometimes hear top executives saying that team effectiveness comes from having "the right players in the right seats on the same bus, headed in the same direction."<sup>32</sup> The open-systems model in **Figure 17.3** reflects this view. It shows that a team's effectiveness is influenced by inputs—"right players in the right seats"—and by process—"on the same bus, headed in the same direction."<sup>33</sup> You can remember the implications of this figure by the following **Team Effectiveness Equation**:<sup>34</sup>

$$\text{Team effectiveness} = \text{Quality of inputs} + (\text{Process gains} - \text{Process losses})$$

## Team Inputs

Among the important inputs that influence team effectiveness are membership characteristics, resources and setting, nature of the task, and team size.<sup>35</sup> These conditions prepare the team for action. A team with the right inputs has a greater chance of being effective.

**Membership Characteristics** The right blend of member characteristics on a team is critical for success. Teams need members with the right abilities, or skill sets, to



**FIGURE 17.3** An open-systems model of team effectiveness.

## Management Is Real 17.3: Choices | Think before You Act

“There is no ‘I’ in team!” is a common cry. Basketball superstar Michael Jordan has a different perspective: “There is an ‘I’ in win.”

### Creating Disharmony to Build a Better Team

“There is no ‘I’ in team!” is a common cry. Basketball superstar Michael Jordan has a different perspective: “There is an ‘I’ in win.” What’s his point? Jordan is suggesting that someone who is an expert in task direction shouldn’t always be subordinated to the team. Rather, the team’s job may be to support his or her talents so that they shine to their brightest potential.

In his book, *There Is an I in Team: What Elite Athletes and Coaches Really Know about High Performance* (Harvard Business Review Press, 2012), Cambridge scholar Mark de Rond notes that sports metaphors abound in the workplace. We talk about “heavy hitters” and ask teammates to “step up to the plate.” The real world of teamwork is dominated by the quest for cooperation, perhaps at the cost of needed friction. And that, according to de Rond, is a potential performance problem. “When teams work well,” de Rond says, “it is because, not in spite, of individual differences.”

*Those in agreement with de Rond’s views* are likely to argue that even if superstars bring a bit of conflict to the team, the result may well be added creativity and a performance boost. Instead of trying to make everyone happy, perhaps it’s time for managers and team leaders to accept that disharmony can be functional, adding a needed edge. A bit of team tension may be a price worth paying for high performance. *Those who disagree with de Rond’s views* might say there’s a fine line between a superstar’s real performance



Jonathan Daniel/Allsport/Getty Images

contribution and the collateral damage or negative impact caused by personality and temperament clashes. That line is a hard one to spot and to manage.

#### What’s Your Take?

Given what we know about teams and your personal experiences with them, should we be finding ways to accommodate superstars on a team ... or avoid them?

master and perform tasks well. Teams must also have members whose attitudes, values, and personalities are sufficiently compatible for everyone to work well together. How often, for example, have you read or heard about sports teams where a lack of the right “chemistry” among talented players leads to subpar team performance? As one of the chapter opening quotes states: “Gettin’ good players is easy. Gettin’ ’em to play together is the hard part.”<sup>36</sup> Somewhat counterintuitively, it may be that one key to successful teams is letting the “superstars” shine (see Management Is Real 17.3).

**Team diversity**—the different values, personalities, experiences, demographics, and cultures among the members of the team—affects how teams work.<sup>37</sup> It is easier to manage relationships among members of more *homogeneous teams*—teams where members share similar characteristics. It is harder to manage relationships among the members of more *heterogeneous teams*—where members are more dissimilar to one another. As team diversity increases, so does the complexity of members’ interpersonal relationships. Yet the potential complications of membership diversity also come with special performance opportunities. When heterogeneous teams are well managed, the variety of ideas, perspectives, and experiences within them can be a valuable problem-solving and performance asset.

**Resources and Setting** The available resources and organizational setting can influence how well team members use and pool their talents to accomplish team tasks. Teams function best when members have good information, material resources, technology, organization structures, and rewards. The physical workspace is also critical, and the physical plant spaces of many organizations are being architecturally designed to directly facilitate teamwork. At SEI Investments, employees work in a large, open space without cubicles or space dividers; each has a private set of office furniture and fixtures—all of it on wheels. All of the technology that employees use easily plugs and unplugs from suspended power beams that run overhead. This makes it easy for project teams to convene and disband as needed, and for people to meet and communicate during the ebb and flow of daily work.<sup>38</sup>

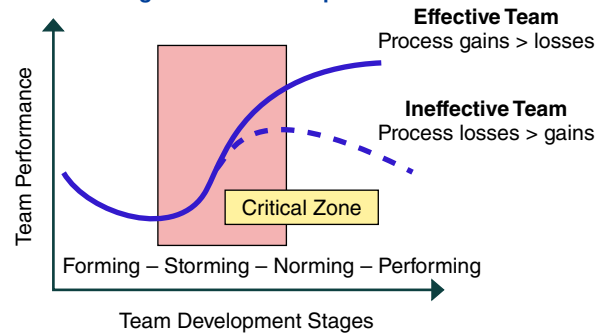
**Nature of the Task** The nature of the tasks teams are responsible for not only sets standards for the talents needed by team members, it also affects how they work together. Clearly defined tasks are easier to deal with. Complex tasks require a lot more of members in terms of information sharing and coordinated action.<sup>39</sup> The next time you fly, check out the ground crews. You should notice some similarities between them and NASCAR pit crews. If you’re headed south and you fly United Airlines, in fact, there’s a chance that the members of the

ramp crews have been through “Pit Crew U.” United is among the many organizations sending employees to Pit Instruction & Training in Mooresville, North Carolina. At this facility, where NASCAR racing crews train, United’s ramp workers learn to work under intense pressure while meeting the goals of teamwork, safety, and job preparedness. Teams participate in the training at the Mooresville facility to achieve better teamwork to reduce aircraft delays and service problems.<sup>40</sup>

**Team Size** Team size affects how well team members work together, handle disagreements, and make decisions. Having an odd number of members, such as with juries, helps prevent “ties” when votes need to be taken. And importantly, the number of potential interactions among team members increases geometrically as teams get bigger. Large team size creates communication and relationship problems for members and leaders. It’s also easier for individuals to hide and engage in social loafing in larger teams.

The general conclusions from social science research are that very small teams—four members or fewer—may be dominated by one or two strong characters. Six- to eight-member teams are probably best for creative problem solving because their members are better able to form trusting relationships and function more like families. When teams get larger than this, the added size and complexity can be difficult to manage.<sup>41</sup> Amazon.com’s founder and CEO Jeff Bezos is a great fan of teams. But he also has a simple rule when it comes to sizing the firm’s product development teams: No team should be larger than two pizzas can feed.<sup>42</sup> (See Management is Real 17.4.) Have you ever been on a team that was too large? How did the members interact?

### Critical Zone of Team Effectiveness and Stage of Team Development



**FIGURE 17.4** The critical zone of team effectiveness and development.

## Stages of Team Development

Although having the right inputs is critical, it doesn’t guarantee team effectiveness. **Team process** also plays an important role. This refers to the way that the members of a team actually work together as they transform inputs into output. Also called *group dynamics*, the process aspects of any group or team include how members develop norms and cohesiveness, share roles, make decisions, communicate with one another, and handle conflicts.<sup>43</sup> Importantly, teams experience different process challenges as they pass through the stages of team development—forming, storming, norming, performing, and adjourning (Figure 17.4).<sup>44</sup>

**Forming Stage** The forming stage of team development involves the first entry of individual members into a team. This is

## Management Is Real 17.4: Wisdom | Learn from Role Models

If two pizzas aren’t enough to feed a team, it’s too big.

### Amazon’s Jeff Bezos Feeds Innovation with Two-Pizza Teams

Amazon.com’s founder and CEO Jeff Bezos is one of the top business people in the United States and a technology visionary. He’s also a great fan of teams. Bezos coined a simple rule when it comes to sizing the firm’s product development teams: If two pizzas aren’t enough to feed a team, it’s too big.

Don’t expect to spot a stereotypical corporate CEO in Jeff Bezos. His standard office attire is still blue jeans and a blue collared shirt. But this attire comes with a unique personality and a great business mind. Bezos’s vision has been behind such things as the “Gold Box” on the Amazon website, which offered special deals lasting only an hour. If you join Amazon Prime and “One-Click” your way to free shipping and a hassle-free checkout, you’re benefiting from his vision as well.

Amazon’s innovations don’t just come out of the blue. They’re part and parcel of the management philosophy Bezos has instilled at the firm. And teams are a central ingredient in the innovation process. Bezos calls Amazon’s small “two-pizza” teams “innovation engines.”



Yves Forestier/Sigma/Getty Images

### Find Inspiration

Is Bezos onto a great management lesson with his notion of the two-pizza team? What difference does team size make, in your experience? Can you come up with an example of a team with over a dozen members that performed really well? If so, how can you explain its success? On the other hand, can a team be too small? What example can you give of a team that would have done better if it had been just a little bigger?

a time of initial task orientation and interpersonal testing. When people first come together, they ask questions: “What can or does this team offer me?” “What will I be asked to contribute?” “Can my needs be met while my efforts serve the task needs of the team?”

In the forming stage individuals begin to identify with other members and with the team itself. They are concerned with getting acquainted, establishing relationships, discovering what behaviour is acceptable, and learning how others perceive the team’s task. This may also be a time when some members rely on others who appear “powerful” or especially “knowledgeable.” Such things as prior experience with team members in other contexts and personal impressions of organization culture, goals, and practices may affect emerging relationships between members. Difficulties in the forming stage tend to be greater in more demographically diverse teams.

**Storming Stage** The storming or second stage is a period of high emotionality and can be the most difficult stage to pass through successfully. Tensions often emerge over tasks and interpersonal concerns. There may be periods of outright hostility and infighting. Coalitions or cliques may form around personalities or interests. Subgroups may form around fault-lines defined by areas of agreement and disagreement. Conflict also may develop as members compete to impose their preferences on other members and to become influential.

Important changes occur in the storming stage as task agendas become clarified and members begin to understand one another’s styles. Attention begins to shift toward obstacles that stand in the way of task accomplishment. Efforts are made to find ways to meet team goals while also satisfying members’ individual needs. The storming stage is part of a “critical zone” in team development, where successes create long-term gains, while failures create long-lasting problems.

At this stage, the question, “Why are we working together?” often arises. Discussing the team’s purpose can help the team get through the storming stage by setting guidelines and direction. Simon Sinek started a “movement” to help people become more inspired at work, and in turn inspire their colleagues and customers. Sinek calls this powerful idea “The Golden Circle.” It asks teams to address “What we do” and “How we do it,” with the central circle focusing on “Why we do it.” This approach provides a framework upon which teams can be built and people can be inspired.<sup>45</sup>

**Norming Stage** It is in the norming stage that team members begin to cooperate with one another. Shared rules of conduct emerge and the team develops a sense of leadership as each member starts to occupy and fulfill key roles. Interpersonal hostilities start to diminish and harmony is emphasized, but minority viewpoints may unfortunately still tend to be discouraged.

The norming stage is also part of the critical zone of team development. As members develop initial feelings of closeness, a division of labour, and shared expectations, this helps protect the team from disintegration. In fact, holding the team together may be more important than accomplishing important tasks.

**Performing Stage** Teams in the performing stage are more mature, organized, and well-functioning. They score high

	Very poor			Very good	
1. Trust among members	1	2	3	4	5
2. Feedback mechanisms	1	2	3	4	5
3. Open communications	1	2	3	4	5
4. Approach to decisions	1	2	3	4	5
5. Leadership sharing	1	2	3	4	5
6. Acceptance of goals	1	2	3	4	5
7. Valuing diversity	1	2	3	4	5
8. Member cohesiveness	1	2	3	4	5
9. Support for each other	1	2	3	4	5
10. Performance norms	1	2	3	4	5

**FIGURE 17.5** Criteria for assessing the maturity of a team.

on the criteria of team maturity shown in **Figure 17.5**.<sup>46</sup> Performing is a stage of integration in which team members are able to deal in creative ways with complex tasks and interpersonal conflicts. The team operates with a clear and stable structure, and members are motivated by team goals. The primary challenges in the performing stage are to continue to refine how the team operates and build relationships to keep everyone working well together as an integrated unit.

**Adjourning Stage** The final stage of team development is adjourning, when team members prepare to achieve closure and disband. Temporary committees, task forces, and project teams should disband with a sense that important goals have been accomplished. This can be an emotional period after team members have worked together intensely for a period of time. Adjourning is a time when it is important to acknowledge everyone’s contributions, praise them, and celebrate the team’s success. A team ideally disbands with everyone feeling they would like to work with one another again in the future.

## Norms and Cohesiveness

A **norm** is a behavioural expectation of team members.<sup>47</sup> It is a “rule” or “standard” that guides behaviour. Typical team norms relate to such things as helpfulness, participation, timeliness, work quality, creativity, and innovation. A team’s performance norm is critical, as it defines the level of work effort and performance that members are expected to contribute. Work groups and teams with positive performance norms are more successful accomplishing task objectives than are teams with negative performance norms such as people regularly coming late to meetings, high interpersonal conflict, or missing deadlines.

**Managing Team Norms** Team leaders should help and encourage members to develop positive norms. During the forming and storming stages of development, for example,

norms relating to expected attendance and levels of commitment are important. By the time the performing stage is reached, norms relating to adaptability and change become relevant. Here are some things leaders can do to help their teams build positive norms:<sup>48</sup>

- Act as a positive role model.
- Reinforce desired behaviours with rewards.
- Control results by performance reviews and regular feedback.
- Train and orient new members to adopt desired behaviours.
- Recruit and select new members who exhibit desired behaviours.
- Hold regular meetings to discuss progress and ways of improving.
- Use team decision-making methods to reach agreement.

One normative issue of growing research interest is the extent to which members of teams display virtuousness and share a commitment to moral behaviour. The work of scholar Kim Cameron, for example, discusses **team virtuousness** in respect to the following five norms of moral behaviour.<sup>49</sup> *Optimism*—Team members are expected to strive for success even when experiencing setbacks. *Forgiveness*—Team members are expected to forgive one another's mistakes and avoid assigning blame. *Trust*—Team members are expected to be courteous with one another and interact in respectful, trusting ways. *Compassion*—Team members are expected to help and support one another and to show kindness in difficult times. *Integrity*—Team members are expected to be honest in what they do and say while working together.

**Managing Team Cohesiveness** Team members vary in their adherence to established group norms. Conformity to norms is largely determined by the strength of team **cohesiveness**, the degree to which members are attracted to and motivated to remain part of a team.<sup>50</sup> Members of teams that are highly cohesive value their membership and strive to maintain positive relationships with other team members. Because of this, they tend to conform to team norms. In the extreme,

violation of a norm on a highly cohesive team can result in a member being expelled or socially ostracized.

**Figure 17.6** shows the power of cohesiveness. The “best-case” scenario is a team with high cohesiveness and a high performance norm. Strong conformity to norms by members of “high-high” teams is likely to have a beneficial effect on team performance. Contrast this with the “worst-case” scenario of high cohesiveness and a low performance norm. Members of “high-low” teams conform to the low performance norm and restrict their work efforts in order to adhere to the norm.

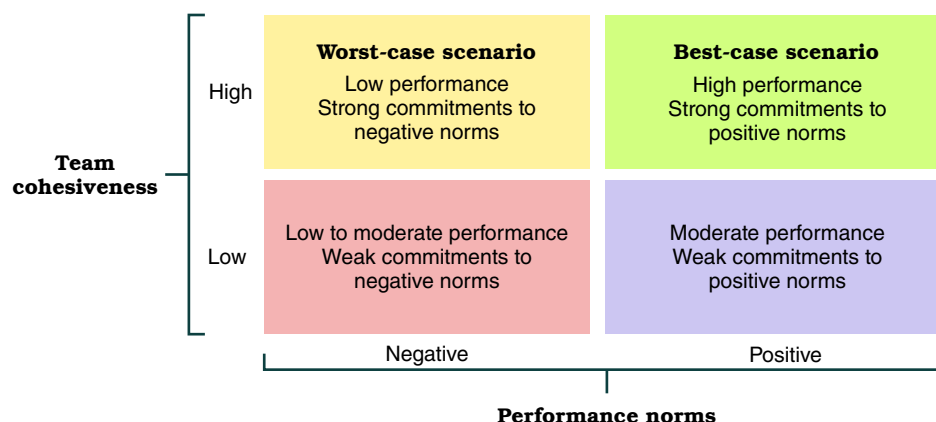
We've already discussed ways to build positive norms. But managers must also be good at building high levels of cohesiveness (see Figure 17.6). This can be done in the following ways:

- Create agreement on team goals.
- Reward team rather than individual results.
- Increase membership homogeneity.
- Increase interactions among members.
- Decrease team size.
- Introduce competition with other teams.
- Provide physical isolation from other teams.

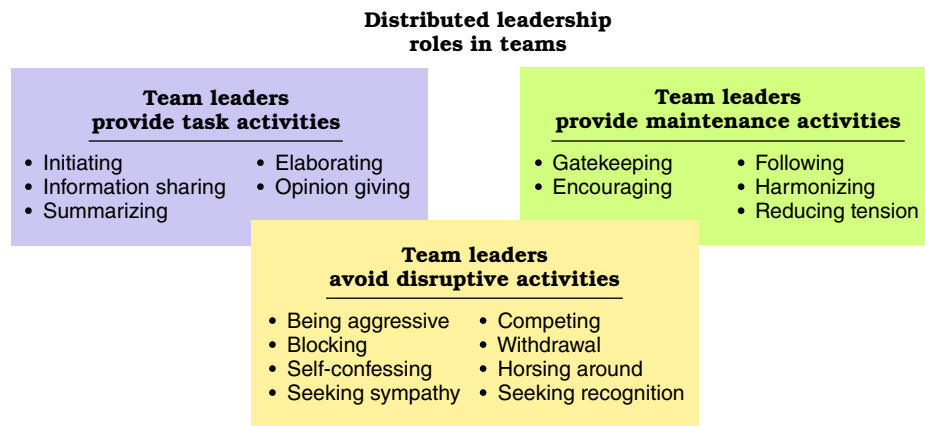
## Task and Maintenance Roles

Research on the social psychology of collectives such as groups and teams identifies two types of roles or activities that are essential if members are to work well together.<sup>51</sup> **Task activities** contribute directly to the team's performance purpose, while **maintenance activities** support the emotional life of the team as an ongoing social system.

Although the team leader or supervisor should be expected to give these activities special attention, the responsibility for task and maintenance activities should also be shared and distributed among all team members. Anyone can help lead a team by acting in ways that satisfy these needs. The concept of **distributed leadership** in teams makes every member continually responsible both for recognizing when task or maintenance activities are needed, and also for taking actions to provide them.



**FIGURE 17.6** How cohesiveness and norms influence team performance.



**FIGURE 17.7** Distributed leadership helps teams meet task and maintenance needs.

*Leading through task activities* involves making an effort to define and solve problems, and to advance work activities toward performance results. Without the relevant task activities such as initiating agendas, sharing information, and others (as shown in **Figure 17.7**), teams have difficulty accomplishing their objectives. *Leading through maintenance activities*, by contrast, helps strengthen the team as a social system. When maintenance activities such as gatekeeping,

encouraging others, and reducing tensions are engaged in, good interpersonal and working relationships are achieved, increasing the probability that the team will stay together over the longer term. Management Is Real 17.5 talks about the benefits that staying together over longer periods of time brings to a team.

Both Team task and maintenance activities both stand in distinct contrast to the **disruptive activities** described in

## Management Is Real 17.5: Insight | Keep Learning about Yourself

**Sports teams whose members play together the longest win more because the players get to know each other's moves and playing tendencies.**

### The Teamwork Effect

*Scene—Hospital operating room:* Scholars notice that heart surgeons have lower death rates for procedures performed in hospitals where they do more operations than in hospitals where they do fewer operations.

Why? Researchers say the operations are more likely to be successful in those hospitals where doctors do a lot of work because they spend more time working together with members of their surgical teams. It's not only the surgeon's skills that count. They say, "The skills of the team, and of the organization, matter." The ability to practise together increases how effectively the skills of the members of the surgical team can be integrated with one another. Practice increases the potency of team contributions.

*Scene—NBA basketball court:* Scholars find that basketball teams win more games the longer the players have been together.

Why? Researchers claim it's a "teamwork effect." Sports teams whose members have played together the longest tend to win more games because the players get to know each other's moves and playing tendencies. Players develop a sense, over time, of what their teammates are thinking and where they will be on the court

before they get there. Knowledge of other team members increases the benefits of team contributions.

A large part of your career success will depend on how well you work in and lead teams. Take a look at the list of "must-have" team skills presented here. Do you have the skills portfolio and personal commitment to make truly valuable team contributions?

- Encouraging and motivating others
- Accepting suggestions
- Listening to different points of view
- Communicating information and ideas
- Persuading others to cooperate
- Resolving and negotiating conflict
- Building consensus
- Fulfilling commitments
- Avoiding disruptive acts and words

### Get to Know Yourself Better

Have a serious conversation with others who know and work with you about your performance as a team member and team leader. What do you expect they'll say? Ask for suggestions on how you could improve your team contributions. Prepare a short presentation to a potential employer describing your team skills. Write a set of notes on how you will describe yourself and what examples you will give to support your potential as a team leader and member.



Figure 17.7. Activities such as showing incivility toward other members, withdrawing from discussions, and fooling around are self-serving and detract from team effectiveness. Unfortunately, very few teams are immune to dysfunctional behaviour. Every team member shares in the responsibility for minimizing its occurrence.

## Communication Networks

There is considerable research on the team interaction patterns and communication networks shown in **Figure 17.8**.<sup>52</sup> When team members must interact intensively and work closely together on complex tasks, this need is best met by a **decentralized communication network**. Sometimes called the *all-channel* or *star communication network*, this pattern of interaction encourages members to communicate directly with one another. At other times, team members can work on tasks independently, with the required work being divided among them. This creates a **centralized communication network**, sometimes called a *wheel* or *chain communication structure*. In this pattern of interaction, activities are coordinated and results pooled by a central point of control.

When teams are composed of subgroups experiencing issue-specific disagreements, such as a temporary debate over the best way to achieve a goal, the resulting interaction pattern often involves a **restricted communication network**. Here, polarized subgroups contest one another and may even engage in conflict. Communication between subgroups is limited and biased, with negative consequences for group process and effectiveness.

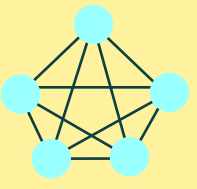
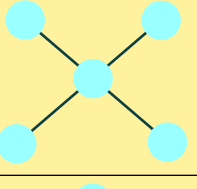
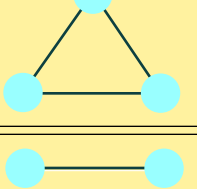
The best teams use each of these communication networks, but they use them in the right ways and at the right

times. Centralized communication networks seem to work better for simple tasks.<sup>53</sup> These tasks lend themselves to more centralized control because they require little creativity, information processing, problem solving, or collaborative effort. The reverse is true for more complex tasks, for which interacting groups perform better. Decentralized communication networks support the more intense interactions and information sharing required to perform complicated tasks. Even conflict within groups can be useful. For example, if a team get complacent and productivity drops, the conflict that may emerge among teammates could be a source of creativity and critical evaluation to help them get reengaged. But if these subgroups stop communicating and helping one another, task accomplishment typically suffers—at least in the short term.

### Learning Check

**LEARNING OBJECTIVE 17.3** Summarize the key processes through which teams work.

**Be Sure You Can** • define team *effectiveness* • identify inputs that influence effectiveness • discuss how membership diversity influences team effectiveness • list five stages of group development • define group *norm* and list ways to build positive group norms • define *cohesiveness* and list ways to increase group cohesion • explain how norms and cohesiveness influence team performance • differentiate between task, maintenance, and disruptive activities • describe the use of decentralized and centralized communication networks

Pattern	Diagram	Characteristics
Interacting Group Decentralized communication network		High interdependency around a common task Best at complex tasks
Co-acting Group Centralized communication network		Independent individual efforts on behalf of common task Best at simple tasks
Counteracting Group Restricted communication network		Subgroups in disagreement with one another Slow task accomplishment

**FIGURE 17.8** Interaction patterns and communication networks in teams.

## 17.4 Decision-Making in Teams

### LEARNING OBJECTIVE 17.4

Discuss the ins and outs of team decision-making.

#### Learn More About

Ways teams make decisions • Advantages and disadvantages of team decisions • Groupthink • Creativity in team decision-making

**Decision-making**, the process of making choices among alternative possible courses of action, is one of the most important activities that occurs in groups and teams. The best teams will use a variety of decision-making methods over time as they face different kinds of problems.<sup>54</sup> But as with other aspects of teamwork, decision-making can also be challenging.<sup>55</sup> Edgar Schein, a respected scholar and consultant, says all this can be better understood when we recognize that teams use at least six methods to make decisions: lack of response, authority rule, minority rule, majority rule, consensus, and unanimity.<sup>56</sup>

### Ways Teams Make Decisions

In *decision by lack of response*, one idea after another is suggested without any discussion taking place. When the team finally accepts an idea, all others have been bypassed by simple lack of response rather than by critical evaluation. The last alternative is chosen by default.

In *decision by authority rule*, the leader, manager, committee head, or other authority figure makes a decision for the team. This can be done with or without discussion and is very time-efficient. Whether the decision ultimately is good or bad, however, depends on whether the authority figure has the necessary information and expertise, and on how well this approach is accepted by other team members.

In *decision by minority rule*, two or three people are able to dominate or “railroad” the team into making the decision that they prefer. This often is done by providing a suggestion and then forcing quick agreement by challenging the team with such statements as “Does anyone object? No? Well, let’s go ahead then.”

One of the most common things teams do, particularly when signs of disagreement emerge, is to take a vote and arrive at a *decision by majority rule*. Although this is broadly consistent with the democratic processes, it has some potential problems. The very act of voting can create coalitions as some people become “winners” and others “losers.” Those in the minority—the “losers”—may feel left out or discarded without having had a fair say. They may be unenthusiastic about implementing

the decision of the “majority,” and lingering resentments may impair future team effectiveness. Such possibilities are well illustrated in the political arena, where candidates receiving only small and controversial victory margins end up struggling against entrenched opposition from the losing party.

Teams are often encouraged to achieve *decision by consensus*, wherein full discussion leads to one alternative being favoured by most members, and supported by the others. When a consensus is reached, even those who may have opposed the decision know that their views have been heard by everyone involved. Consensus does not require unanimous support, but it does require that members be able to argue, engage in reasonable conflict, and still get along with and respect one another.<sup>57</sup> As pointed out in the list below, true consensus occurs only when any dissenting members have been able to speak their mind and know they’ve been heard.<sup>58</sup> The following are some ways to achieve consensus:

1. Don’t argue blindly; consider others’ reactions to your points.
2. Don’t change your mind just to reach quick agreement.
3. Avoid conflict reduction by voting, coin tossing, or bargaining.
4. Keep everyone involved in the decision process.
5. Allow disagreements to surface so that issues can be deliberated over.
6. Don’t focus on winning versus losing; seek acceptable alternatives.
7. Discuss assumptions, listen carefully, and encourage members’ inputs.

A *decision by unanimity* may be the ideal state of affairs. “Unanimity” means that all team members agree on the course of action to be taken. This is a theoretically perfect outcome, but it also is extremely difficult to achieve in practice. One of the reasons that teams sometimes turn to authority decisions, majority voting, or even minority decisions is the difficulty of managing team processes to achieve consensus or unanimity.

Another group decision-making approach is the “Six Thinking Hats” system, developed by Edward de Bono.<sup>59</sup> The Six Thinking Hats approach advises looking at problems from different perspectives, one perspective at a time. Each “Thinking Hat” represents a different perspective or style that is explored individually to solve a problem.

- **White Hat:** “wearing” this thinking hat, problem solvers focus on the available data, looking at existing information, including past trends. Gaps in knowledge are also explored.
- **Red Hat:** with the Red Hat, the problem is looked at by drawing from the group’s intuition, gut reaction, and emotion. It is important that members voice their own emotions and explore others’ emotional reactions.
- **Black Hat:** using Black Hat thinking, the group looks at potentially negative outcomes. Drawing upon facts, groups explore why a given proposed solution might **not** work. This is an important perspective as it highlights

weaknesses and focuses the team on how to either eliminate or alter plans, and how to prepare contingency plans.

- **Yellow Hat:** this hat focuses on positivity; from this optimistic viewpoint, team members examine all the benefits and value of a proposed decision. Yellow Hat thinking helps the group find the positive energy to keep progressing.
- **Green Hat:** the Green Hat represents creativity. By using this perspective, creative solutions are generated to solve a problem. It is a freewheeling way of thinking, in which there is little criticism of ideas.
- **Blue Hat:** this hat represents process control. Wearing this hat, the group ensures that all voices are heard and protocols are followed.

Decisions made using the Six Thinking Hats technique can be particularly sound and resilient, and the approach may also help to avoid possible pitfalls. Think about how you might use the Six Thinking Hats system in your future group work projects.

## Advantages and Disadvantages of Team Decisions

When teams take time to make decisions by consensus or unanimity, they gain special advantages over teams relying more on individual or minority decision methods.<sup>60</sup> The process of making a true team decision increases the availability of useful information, knowledge, and expertise. It expands the number of action alternatives teams examine, and helps to avoid bad decisions that emerge through tunnel vision and the consideration of only one or a few options. Team decisions also increase members' understanding and acceptance. This helps to build members' commitment to work hard to implement decisions the team has made together.

The potential disadvantages of team decision-making trace largely to difficulties with group processes. It can be hard to reach agreement when many people are trying to make a team decision. There may be social pressure to conform and even minority domination, where some members feel forced or "railroaded" into accepting a decision advocated by one vocal individual or small coalition. The time required to make team decisions can also sometimes be a real disadvantage. As more people are involved in the dialogue and discussion, decision-making takes longer. This added time may be costly, even prohibitively so under certain circumstances.

## Groupthink

One of the potential downsides of team decision-making is what psychologist Irving Janis calls **groupthink**, the tendency for highly cohesive teams to lose their critical evaluative capabilities.<sup>61</sup> Although it may seem counterintuitive, a high level of cohesiveness can be a disadvantage if strong feelings of team loyalty make it hard for members to criticize and evaluate one another's ideas and suggestions objectively.

Members of very cohesive teams may feel so strongly about the group that they won't say or do anything that might harm it. They end up publicly agreeing with actual or suggested courses of action about which they have serious private, unspoken doubts or objections. Groupthink occurs when the desire to hold the team together and avoid disagreements results in poor decisions. The following are symptoms of groupthink:

- *Illusions of invulnerability*—Members believe that the team is too good for criticism or is beyond attack.
- *Rationalizing unpleasant and disconfirming data*—Members refuse to accept contradictory data or to thoroughly consider alternatives.
- *Belief in inherent group morality*—Members act as though the group is inherently right and above reproach.
- *Stereotyping competitors as weak, evil, and stupid*—Members refuse to look realistically at other groups.
- *Applying direct pressure to deviants to conform to group wishes*—Members refuse to tolerate anyone who suggests the team may be wrong.
- *Self-censorship by members*—Members refuse to communicate personal concerns to the whole team.
- *Illusions of unanimity*—Members accept consensus prematurely, without testing its completeness.
- *Mind guarding*—Members protect the team from hearing disturbing ideas or outside viewpoints.

Janis suggests that groupthink played a role in such well-known historical mistakes and disasters as the Bay of Pigs invasion under U.S. President John F. Kennedy, the many roads that led to the U.S. difficulties in the Vietnam War, and the space shuttle Challenger explosion.

Janis believes that when groupthink symptoms are spotted, managers and team leaders can prevent them from causing too much harm if they act proactively. Janis noted, for example, that after suffering the Bay of Pigs fiasco, President Kennedy approached the Cuban missile crisis quite differently. He purposely did not attend some cabinet discussions and allowed the group to deliberate without him. His absence helped the cabinet members talk more openly and to be less inclined to say only things that were consistent with his own thinking. When a decision was finally reached, the crisis was successfully resolved.

In addition to having the leader stay absent for some team discussions, Janis has other advice on how to get a team that is moving toward groupthink back on track. You can assign one member to act as a critical evaluator or "devil's advocate" during each meeting. Subgroups can be assigned to work on issues and share their findings with the team as a whole. Outsiders can be brought in to observe and participate in team meetings and offer their advice and viewpoints on team processes and tentative decisions. The team can also hold a "second chance" meeting after an initial decision is made to review, change, or even cancel the decision. With actions like these available, there's no reason to let groupthink lead a team down the wrong path.

## Creativity in Team Decision-Making

When team creativity is needed in special situations, managers might want to try using the time-tested brainstorming and nominal group techniques. Both techniques can be used in face-to-face or in virtual team settings.

Classic **brainstorming** usually asks members to follow these guidelines. *Don't criticize each other*—withhold judging or evaluating ideas as they are being presented. *Welcome “free-wheeling”*—the wilder or more radical the idea, the better. *Go for quantity*—the more ideas generated, the greater the likelihood that one or more will be outstanding. *Keep building on one another's ideas*—don't hesitate to piggyback and tweak one or more existing ideas into new forms.

At the Aloft Group, Inc., a small advertising firm in Newburyport, Massachusetts, President Matt Bowen says brainstorming works best if he specifies the goal and communicates it to team members a day or two ahead of the session. He limits the brainstorming session to an hour, and keeps the group small—ideally five to seven members. He allows no criticism—there is no such thing as a “bad” idea. He also encourages everyone to build on one another's ideas and follows up by implementing something from the brainstorming session.<sup>62</sup>

In situations where brainstorming won't work, such as in a situation prone to intense disagreement and interpersonal conflicts, an approach known as the **nominal group technique**

can sometimes be useful.<sup>63</sup> It uses a highly structured meeting agenda that allows everyone to contribute ideas without the interference of evaluative comments by others. Participants are first asked to work alone and respond in writing with possible solutions to a stated problem. Ideas are then shared in round-robin fashion without any criticism or discussion, and all ideas are recorded as they are presented. Ideas are next discussed and clarified in another round-robin sequence, with no evaluative comments allowed. Finally, members individually and silently follow a written voting procedure that ranks all alternatives in priority order.

### Learning Check

**LEARNING OBJECTIVE 17.4** Discuss the ins and outs of team decision-making.

**Be Sure You Can** • illustrate how groups make decisions by authority rule, minority rule, majority rule, consensus, and unanimity • list advantages and disadvantages of group decision-making • define *groupthink* and identify its symptoms • illustrate how brainstorming and the nominal group technique can improve creativity in team decision-making

## Management Learning Review: Get Prepared for Quizzes and Exams

### Summary

**LEARNING OBJECTIVE 17.1** Explain the ways teams contribute to organizations.

- A team is a collection of people working together interdependently to accomplish a common goal.
- Teams help organizations perform through synergy—the creation of a whole that is greater than the sum of its parts.
- Teams help satisfy important needs for their members by providing sources of job support and social satisfactions.
- Social loafing and other problems can limit the performance of teams.
- Organizations operate as networks of formal and informal teams and groups.

**For Discussion** Why do people often tolerate social loafers at work?

**LEARNING OBJECTIVE 17.2** Describe current trends in the use of teams in organizations.

- Committees and task forces are used to accomplish special tasks and projects.
- Cross-functional teams bring members together from different departments and help improve lateral relations and integration in organizations.
- New developments in information technology are making virtual teams commonplace at work, but virtual teams also pose special management challenges.
- Self-managing teams are changing organizations, as team members perform many tasks previously done by their supervisors.
- Team building engages members in a process of assessment and action planning to improve teamwork and future performance.

**For Discussion** What are some of the things that virtual teams can't do as well as face-to-face teams?

**LEARNING OBJECTIVE 17.3** Summarize the key processes through which teams work.

- An effective team achieves high levels of task performance, member satisfaction, and team viability.
- Important team inputs include the organizational setting, nature of the task, size, and membership characteristics.
- A team matures through various stages of development, including forming, storming, norming, performing, and adjourning.
- Norms are the standards or rules of conduct that influence team members' behaviour; cohesion is the appeal of the team to its members.
- In highly cohesive teams, members tend to conform to norms; the best situation is a team with positive performance norms and high cohesiveness.
- Distributed leadership occurs as members share in meeting a team's task and maintenance needs.
- Effective teams make use of alternative communication structures, such as centralized and decentralized networks, to best complete tasks with distinct communication requirements.

**For Discussion** What can be done if a team gets trapped in the storming stage of group development?

**LEARNING OBJECTIVE 17.4** Discuss the ins and outs of team decision-making.

- Teams can make decisions by lack of response, authority rule, minority rule, majority rule, consensus, and unanimity.
- Although group decisions often make more information available for problem solving and generate more understanding and commitment, they are slower than individual decisions and may involve social pressures to conform.
- Groupthink is the tendency for members of highly cohesive teams to lose their critical evaluative capabilities and make poor decisions.
- Techniques for improving creativity in teams include brainstorming and the nominal group technique.

**For Discussion** Is it possible that groupthink doesn't only occur when groups are highly cohesive, but also when they are in the FORMING stage?

## Chapter Glossary

**Brainstorming** The engagement of group members in an open, spontaneous discussion of problems and ideas.

**Centralized communication network** A pattern of interaction in which communication flows only between individual members and a hub, or centre point.

**Cohesiveness** The degree to which members are attracted to and motivated to remain part of a team.

**Committee** A group that is designated to work on a special task on a continuing basis.

**Cross-functional team** A team that operates with members who come from different functional units of an organization.

**Decentralized communication network** A pattern of interaction that allows all members to communicate directly with one another.

**Decision-making** The process of making choices among alternative possible courses of action.

**Disruptive activities** Self-serving behaviours that interfere with team effectiveness.

**Distributed leadership** What occurs when all members of a team contribute helpful task and maintenance behaviours.

**Effective team** A team that achieves high levels of task performance, membership satisfaction, and future viability.

**Formal group** An officially recognized collective that is supported by the organization.

**Functional chimneys problem** A lack of communication across functions.

**Groupthink** A tendency for highly cohesive teams to lose their evaluative capabilities.

**Informal group** A team that is unofficial and emerges from relationships and shared interests among members.

**Interdependence** The extent to which employees depend on other members of their team to carry out their work effectively.

**Maintenance activity** An action taken by a team member that supports the emotional life of the team.

**Nominal group technique** An approach to decision-making that structures interaction among team members discussing problems and ideas.

**Norm** A behavioural expectation, rule, or standard to be followed by team members.

**Project team or task force** A group convened for a specific purpose that disbands when its task is completed.

**Restricted communication network** A pattern of interaction in which subgroups have limited communication with one another.

**Self-managing work team** A team in which members have the authority to make decisions about how they share and complete their work.

**Social loafing** The tendency of some members to avoid responsibility by "free-riding" during group tasks.

**Synergy** The creation of a whole greater than the sum of its individual parts.

**Task activity** An action taken by a team member that directly contributes to the team's performance purpose.

**Team** A collection of people who regularly interact to pursue common goals.

**Team building** A sequence of activities to analyze a team and make changes to improve its performance.

**Team diversity** The differences in values, personalities, experiences, demographics, and cultures among team members.

**Team Effectiveness Equation** Team effectiveness = Quality of inputs + (Process gains – Process losses).

**Team process** The way team members work together to accomplish tasks.

**Team virtuousness** The extent to which team members adopt norms that encourage shared commitments to moral behaviour.

**Teamwork** The process of people actively working together interdependently to accomplish common goals.

**Virtual team or distributed team** A team in which members work together and solve problems through computer-based interactions.

## Self-Test 17

### Multiple-Choice Questions

- When a group of people is able to achieve more than what its members could by working individually, this is called \_\_\_\_\_.
  - social loafing
  - consensus
  - viability
  - synergy
- One of the recommended strategies for dealing with a group member who engages in social loafing is to \_\_\_\_\_.
  - redefine tasks to make individual contributions more visible
  - ask another member to encourage this person to work harder
  - give the person extra rewards and hope he or she will feel guilty
  - just forget about it
- In an organization operating with self-managing teams, the traditional role of \_\_\_\_\_ is replaced by the role of team leader.
  - chief executive officer
  - first-line supervisor
  - middle manager
  - general manager
- An effective team is defined as one that achieves high levels of task performance, member satisfaction, and \_\_\_\_\_.
  - resource efficiency
  - future viability
  - consensus
  - creativity
- In the open-systems model of teams, the \_\_\_\_\_ is an important input factor.
  - communication network
  - decision-making method
  - performance norm
  - set of membership characteristics
- The team effectiveness equation states the following: Team effectiveness = Quality of inputs + ( \_\_\_\_\_ - Process losses).
  - Process gains
  - Leadership impact
  - Membership ability
  - Problem complexity
- A basic rule of team dynamics states that the greater the \_\_\_\_\_ in a team, the greater the conformity to norms.
  - membership diversity
  - cohesiveness
  - task structure
  - competition among members
- Members of a team tend to start to get coordinated and comfortable with one another in the \_\_\_\_\_ stage of team development.
  - forming
  - norming
  - performing
  - adjourning
- One way for a manager to build positive norms within a team is to \_\_\_\_\_.
  - act as a positive role model
  - increase group size
  - introduce groupthink
  - isolate the team
- To increase the cohesiveness of a group, a manager would be best off \_\_\_\_\_.
  - starting competition with other groups
  - increasing the group size
  - acting as a positive role model
  - introducing a new member
- Groupthink is most likely to occur in teams that are \_\_\_\_\_.
  - large in size
  - diverse in membership
  - high-performing
  - highly cohesive
- A team member who does a good job at summarizing discussion, offering new ideas, and clarifying points made by others is providing leadership by contributing \_\_\_\_\_ activities to the group process.
  - required
  - task
  - disruptive
  - maintenance
- A \_\_\_\_\_ decision is one in which all members agree on the course of action to be taken.
  - consensus
  - unanimous
  - majority
  - nominal
- A team performing very creative and unstructured tasks is most likely to succeed using \_\_\_\_\_.
  - a decentralized communication network
  - decisions by majority rule
  - decisions by minority rule
  - more task than maintenance activities
- Which of the following approaches can help groups achieve creativity in situations where lots of interpersonal conflicts are likely to occur?
  - nominal group technique
  - minority rule
  - consensus
  - brainstorming

### Short-Response Questions

- How can a manager improve team effectiveness by modifying inputs?
- What is the relationship among a team's cohesiveness, performance norms, and performance results?
- How would a manager know that a team is suffering from groupthink? (Give two symptoms.) What could the manager do about it? (Give two responses.)
- What makes a self-managing team different from a traditional work group?

### Essay Question

- Marcos Martinez has just been appointed manager of a production team operating the 11 p.m. to 7 a.m. shift in a large manufacturing firm. An experienced manager, Marcos is pleased that the team members really like and get along well with one another, but they also appear to be restricting their task outputs to the minimum acceptable levels. What could Marcos do to improve things in this situation, and why should he do them?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. New Task Force

It's time for the first meeting of the task force that you have been assigned to lead. This is a big opportunity, since it's the first time your supervisor has given you this level of responsibility. There are seven members of the task force, all of whom are your peers and co-workers. The task is to develop a proposal for increased use of flexible work schedules and telecommuting in the organization. What will your agenda be for the first meeting, and what opening statement will you make?

#### 2. Declining Performance

You've been concerned for quite some time about a drop in the performance of your work team. Although everyone seems to like one another, the "numbers" in terms of measured daily performance are

on the decline. It's time to act. What will you look at, and why, to determine where and how steps might be taken to improve the effectiveness of the work team?

#### 3. Groupthink Possibilities

The members of the executive compensation committee that you are chairing show a high level of cohesiveness. It's obvious that they enjoy being part of the committee and are proud to be on the board of directors. But the committee is about to approve extraordinarily high bonuses for the CEO and five other senior executives. This is occurring at a time when executive pay is getting a lot of criticism from the press, unions, and the public at large. What can you do to make sure groupthink isn't causing this committee to potentially make a bad decision? What clues might you use to determine whether groupthink is having an influence on what is taking place?

## Reflect on the Self-Assessment

### Team Leader Skills

#### Instructions

Consider your experience in groups and work teams while completing the following inventory. Rate yourself on each item using the following scale (circle the number that applies).<sup>64</sup>

- 1 = Almost never
- 2 = Seldom
- 3 = Sometimes
- 4 = Usually
- 5 = Almost always

Question: "How do I behave in team leadership situations?"

1. Facilitate communications with and among team members between team meetings.	1 2 3 4 5
2. Provide feedback/coaching to individual team members on their performance.	1 2 3 4 5
3. Encourage creative and "out-of-the-box" thinking.	1 2 3 4 5
4. Continue to clarify stakeholder needs/expectations.	1 2 3 4 5
5. Keep team members' responsibilities and activities focused within the team's objectives and goals.	1 2 3 4 5
6. Organize and run effective and productive team meetings.	1 2 3 4 5
7. Demonstrate integrity and personal commitment.	1 2 3 4 5
8. Have excellent persuasive and influencing skills.	1 2 3 4 5
9. Respect and leverage the team's cross-functional diversity.	1 2 3 4 5
10. Recognize and reward individual contributions to team performance.	1 2 3 4 5
11. Use the appropriate decision-making style for specific issues.	1 2 3 4 5
12. Facilitate and encourage effective relationship building with the team's key stakeholders.	1 2 3 4 5
13. Ensure that the team meets its commitments.	1 2 3 4 5
14. Bring team issues and problems to the team's attention and focus on constructive problem solving.	1 2 3 4 5
15. Provide a clear vision and direction for the team.	1 2 3 4 5

**Self-Assessment Scoring**

The inventory measures seven dimensions of team leadership. Add your scores for the items listed next to each dimension below to get an indication of your potential strengths and weaknesses.

- 1, 9 Building the Team
- 2, 10 Developing People
- 3, 11 Team Problem Solving and Decision-Making
- 4, 12 Stakeholder Relations
- 5, 13 Team Performance
- 6, 14 Team Process
- 7, 8, 15 Providing Personal Leadership

**Interpretation**

The higher your score, the more confident you are of your possession of that particular skill or leadership capability. Consider giving this inventory to people who have worked with you in teams and have them rate you. Compare the results with your self-assessment. Remember it is doubtful that any one team leader is capable of exhibiting all of the skills listed. More and more, organizations are emphasizing teams that blend a variety of skills, rather than depending on the vision of the single, heroic leader figure. As long as the necessary leadership skills are represented within the membership of the team, it is more likely that the team will be healthy and achieve a high level of performance. Of course, the more skills you bring with you to team leadership situations, the better the team is likely to perform.

**Contribute to the Class Exercise****Work Team Dynamics****Preparation**

Think about your class work group, a work group you are involved in for another course, or any other group suggested by your instructor. Use this scale to indicate how often each of the following statements accurately reflects your experience in the group.<sup>65</sup>

- 1 All the time
- 2 Very often
- 3 Sometimes
- 4 Never happens

1. My ideas get a fair hearing.
2. I am encouraged to give innovative ideas and take risks.
3. Diverse opinions within the group are encouraged.
4. I have all the responsibility I want.

5. There is a lot of favouritism shown in the group.
6. Members trust one another to do their assigned work.
7. The group sets high standards of performance excellence.
8. People share and change jobs a lot in the group.
9. You can make mistakes and learn from them in this group.
10. This group has good operating rules.

**Instructions**

In a small group have all members share their ratings. Discuss each item and try to determine what accounts for different member ratings. In general, the better a team scores on this instrument, the higher its creative potential. Make a list of the five most important things members believe they can do to help future teams perform better. Nominate a spokesperson to summarize your discussion for the class as a whole.

**Manage a Critical Incident****The Rejected Team Leader****Situation**

You have been a team leader at a big-box electronics store for three years, and the team you supervise is great. Everyone is hard working, gets along really well, helps one another, and gets the job done. The members go out together after work and are good friends with each other and with you. A week ago, your team was assigned exclusive responsibility for designing and setting up the upcoming product display for tablets and other mobile devices in an entire section of the store. Crystal—one of your team members—was especially excited about the project. She has been taking online courses at the local community college and wants to move into advertising design as a career. Because the team works so well together, you had expected the whole process to go smoothly with a bunch of great display formats figured out for you to choose from. But by the end of the week, you'd

only received one proposal from the team, and it wasn't very good. You talked to each team member individually. They all stood behind the design the team had submitted. They got mad at you for suggesting that they come up with another design, and wouldn't even listen to you. They wouldn't tell you how they came up with the design, how they figured things out, or share any information with you at all. Even though you are the supervisor, you are also a friend, so it was hard for you when they reacted in such a hostile way to your feedback—particularly in light of the looming deadline.

**Questions**

What is happening in this team? These employees know and trust you, but you can't even get them to talk to you about what's happening—why? What can you do to get through the wall they've put around themselves? Why have you been shut out of the team in this way? What does it mean for the project and how you handle the team moving forward?



## Collaborate on the Team Activity

### Superstars on the Team

During a period of reflection following a down cycle for his teams, Sasho Cirovski, head coach of the University of Maryland men's soccer team, came to a realization. "I was recruiting talent," he said. "I wasn't doing a very good job of recruiting leaders." With a change of strategy, his teams moved back to top-ranked national competition.

#### Question

What do you do with a "superstar" on your team? Everywhere you look—in entertainment, in sports, and in business—a lot of attention goes to the superstars. Do teams and groups with superstars really outperform the rest? What is the real impact of a superstar's presence

on a team or in the workplace? Consider the potential cost of having a superstar on a team using the equation:  $\text{Benefits} = \text{Cost} - \text{Value}$ . What is the bottom line of having a superstar on the team?

#### Instructions

1. Interview athletic coaches on your campus. Ask them the previous questions about superstars. Compare and contrast their answers. Interview players from various teams, and ask them the same questions.
2. Develop a set of guidelines for creating team effectiveness in a situation where a superstar is present. Be thorough and practical.

## Analyze the Case Study

### Case 17.1 Team Canada '72 | The Power of Teamwork

Go to *Management Cases for Critical Thinking* at the end of the book to find this case.



John Lund/Blend Images/Alamy stock photo

## Communication and Collaboration

Kayak.com's chief technology officer Paul English placed a two-foot-tall elephant toy, Annabelle, in the conference room where it can't be ignored. "So often at work," he says, "people have issues that they can't resolve because they won't talk about them."

Whether you work high up in an organization—building support for strategies and goals—or in teams at other levels—interacting with teammates and co-workers to support their efforts and your own—your career toolkit must include the ability to achieve positive impact through communication

and collaboration. They are foundations for **social capital**, the capacity to attract support and help from others in order to get things done. Whereas intellectual capital comes from what you know, social capital comes from the people you know and how well you relate to them. It's all about communication, connections, and relationships, and it's something all managers need. Pam Alexander, former CEO of Ogilvy Public Relations Worldwide, says: "Relationships are the most powerful form of media. Ideas will only get you so far these days. Count on personal relationships to carry you further."<sup>1</sup>

# Chapter Quick Start

A lot of what we accomplish in life and at work depends on our abilities to communicate well and collaborate with others. Recruiters prize job candidates with strong communication skills who can achieve positive impact through their writing and presentations, and in teamwork and interpersonal settings. The ability to communicate and collaborate also includes being able to deal with conflict and negotiation situations. How well we handle them often makes the difference between success and failure when multiple interests are at play.

## CHAPTER OUTLINE

## LEARNING OBJECTIVES

### 18.1 The Communication Process

**18.1** Identify the elements in the communication process.

### 18.2 Improving Collaboration through Communication

**18.2** Describe ways to improve the effectiveness of communication.

### 18.3 Managing Conflict

**18.3** Discuss how conflict can be functional and managed successfully.

### 18.4 Managing Negotiation

**18.4** Explain ways to negotiate successfully and avoid negotiation pitfalls.

## What to Look for **Inside**

### Management is Real

- 18.1 Choices** Think before You Act  
Tapping into the Science of Persuasion
- 18.2 Wisdom** Learn from Role Models  
Lane Bryant CEO Linda Heasley Gives Others Reasons to Work with Her
- 18.3 Analysis** Make Data Your Friend  
Are Annual Performance Appraisals Effective After All?
- 18.4 Ethics** Know Right from Wrong  
Blogging Is Easy, but Bloggers Should Beware
- 18.5 Insight** Keep Learning about Yourself  
Collaboration Begins with Communication and Networking

### Skills Make You Valuable

- **Evaluate** *Career Situations:*  
What Would You Do?
- **Reflect** *on the Self-Assessment:*  
Conflict Management Strategies
- **Contribute** *to the Class Exercise:*  
Feedback Sensitivities
- **Manage** *a Critical Incident:*  
Headphones on in the Office
- **Collaborate** *on the Team Activity:*  
How Words Count
- **Analyze** *the Case Study:*  
Snapchat | Snap the Story of the Moment

## 18.1 The Communication Process

### LEARNING OBJECTIVE 18.1

Identify the elements in the communication process.

#### Learn More About

- Effective communication • Persuasion and credibility in communication • Communication barriers
- Cross-cultural communication

**Figure 18.1** illustrates **communication** as an interpersonal process of sending and receiving messages. This process can be understood in terms of a series of questions: “Who?” (*sender*) “says what?” (*message*) “in what ways?” (*channel*) “to whom?” (*receiver*) “with what result?” (*meaning*). It is through this process that people build and use social capital, exchange and share information, lead and inspire followers, and influence one another’s attitudes, behaviours, and understanding.

It is important to respect and understand the communication process as the glue that binds together the four functions of planning, organizing, leading, and controlling.<sup>2</sup> *Planning* is accomplished and plans are shared through the communication of information. *Organizing* identifies and structures communication links among people and positions. *Leading* uses communication to achieve positive influence over organization members and stakeholders. *Controlling* relies on communication to process information to measure performance results.

### Effective Communication

Most of us probably think we’re pretty good at communicating. However, this sense of confidence can cause a significant problem in the communication process: We take our abilities for granted and end up disappointed when things go wrong. Getting things to “go right” requires alertness to issues of “effectiveness” and “efficiency” in the ways we communicate. **Effective communication** occurs when the sender’s message

is fully understood by the receiver. **Efficient communication** occurs at minimum cost in terms of resources expended. It’s great when our communications are both effective and efficient, but trade-offs between the two are common.

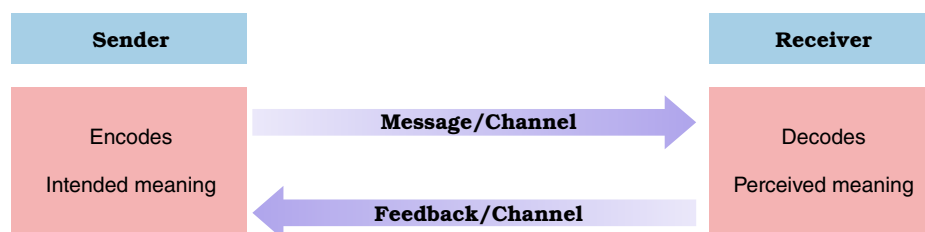
An efficient communication may not be effective. We are often too busy or too lazy to invest enough time to make sure that communication is effective. Instead, we shoot for efficiency. Picture your instructor taking the time to communicate individually with each student about this chapter. It would be virtually impossible and certainly very costly in terms of the instructor’s time. This is why managers, co-workers, and even family members often communicate with others by leaving voice mail and sending texts and messages rather than visiting face to face. These choices are efficient but not always effective ways of communicating. Although an email sent to several people on a distribution list may save the sender’s time, receivers might not all interpret the message in the same way.

By the same token, an effective communication may not be efficient. If a team leader visits each team member individually to explain new procedures, this may guarantee that everyone truly understands the change. But it also requires a lot of the leader’s time. And rightly or wrongly, saving time may sometimes be a top priority.

### Persuasion and Credibility in Communication

Communication is not only about sharing information or being “heard.” It’s about the intent of one party to influence or motivate the other in a desired way. **Persuasive communication** results in a recipient agreeing with or supporting the message being presented (see Management Is Real 18.1).<sup>3</sup> Managers, for example, get things done by drawing on social capital in their relationships with peers, teammates, co-workers, and bosses. Their success often comes about more by convincing than by giving orders. Scholar and consultant Jay Conger says that without credibility there is little chance that persuasion can be successful.<sup>4</sup> He describes **credible communication** as that which is based on trust, respect, and integrity in the eyes of others.

Credibility is gained through expertise, being knowledgeable about the issue in question, or having a successful track record in dealing with similar issues in the past. In a hiring situation where you are trying to persuade team members to select candidate



**FIGURE 18.1** The interactive two-way process of interpersonal communication.

## Management Is Real 18.1: Choices | Think before You Act

Researchers found that tip-giving increased when servers gave customers a piece of candy when presenting the bill.

### Tapping into the Science of Persuasion

*Scene 1.* Hoteliers want to wash fewer towels. So how do they get their customers to reuse more of them? The science of persuading suggests that it's best to identify the request with a social norm. Researchers found that guests reused 33 percent more towels when left a message card that said "75 percent of customers who stay in this room reuse their towels."

*Lesson:* Want to persuade? Identify with the social norm.

*Scene 2.* Restaurant servers want to maximize tips. How can they get more customers to leave bigger tips? The science of persuading suggests that it's best to create a sense of reciprocity in the server-customer relationship. Researchers found that tip-giving increased when servers gave customers a piece of candy when presenting the bill.

*Lesson:* Want to persuade? Create a sense of reciprocity.

#### What's Your Take?

Can these lessons be turned into advice for leaders? Leadership is complicated in any setting. But it ultimately requires success at influencing other people. Do a self-check of your success in



Rana Faure/Fancy - Vacation Homes - These young couples, families, and solo travelers/Corbis/Getty Images

leadership situations: To what extent is "persuasion" part of your leadership skill portfolio? How about the leaders you work with: Do they pass or fail as masters of the science of persuasion? If persuasion is so important, should we spend more time learning and practising how to do it really well?

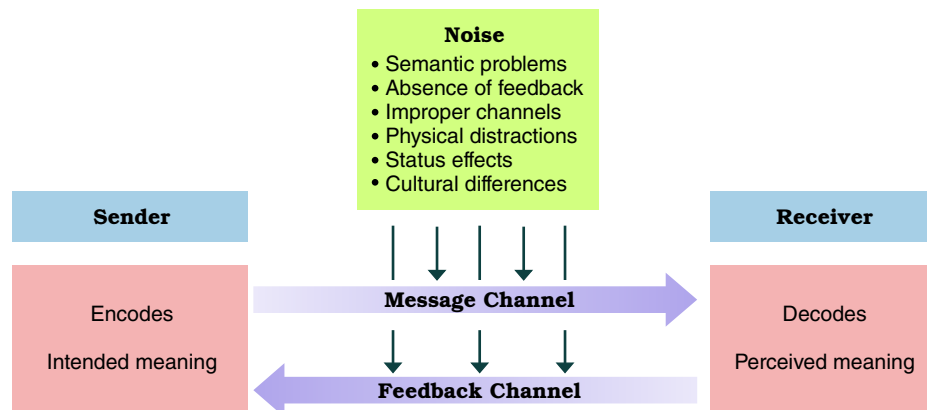
A rather than B, for example, you must be able to defend your reasons for this choice. And it will always be better if your past recommendations turned out to be good for the team.

Credibility is also gained through relationships, when you work well and get along with the people to be persuaded. In a hiring situation where you want to persuade your boss to provide a special bonus package to attract top job candidates, for example, having a good relationship with your boss can add credibility to your request. This is another example of social capital: It is always easier to get someone to do what you want if that person likes you.

## Communication Barriers

*Scene:* A Japanese executive used an interpreter when meeting with representatives of the firm's American joint venture partner. *Result:* About 20 percent of his intended meaning was lost in the exchange between himself and the interpreter, while another 20 percent was lost between the interpreter and the Americans.<sup>5</sup>

**Figure 18.2** depicts what is referred to as **noise**, anything that interferes with the effectiveness of the communication process. And this isn't just a cross-cultural issue. It can also be generational. Do you recognize the potential for noise in



**FIGURE 18.2** Downsides of noise, shown as anything that interferes with the effectiveness of the communication process.

everyday conversations, such as the following text messages exchanged between a high-tech millennial and her low-tech baby boomer manager? *Millennial to baby boomer*: “sry abt mtg b rdy nxt 1.” *Baby boomer to millennial*: “Missed you at important meeting. Don’t forget next one. Stop by to discuss.” The differences show a clash of generational cultures and the challenges of communicating across these boundaries. Common sources of noise include information filtering, poor choice of channels, poor written or oral expression, failure to recognize non-verbal signals, and physical distractions.

**Information Filtering** “Criticize my boss? I don’t have the right to.” “I’ll tell her everything is fine.” These comments display tendencies toward **information filtering**—the intentional distortion of information to make it appear favourable to the recipient. Management author and consultant Tom Peters calls it “Management Enemy Number 1.” He even goes so far as to say that “once you become a boss you will never hear the unadulterated truth again.”<sup>6</sup>

The problem with information filtering is that someone tells the boss only what they think the boss wants to hear. Whether the reason is career protection, fear of retribution for bringing bad news, unwillingness to identify personal mistakes, or just a general desire to please, the end result is the same. The higher level gets biased and inaccurate information from below and ends up making bad decisions. It’s a continuing challenge for managers to fight this problem, and the larger the organization, the bigger the problem seems to get. Leadership consultant Deborah J. Cornwall says: “There’s a tendency for people in large, hierarchical organizations to tell the boss what he wants to hear.” During hearings before the U.S. Congress on the General Motors ignition switch recall scandal, CEO Mary Barra confirmed that employees do not share bad news with the boss in her comment: “I cannot tell you why it took years for the safety defect to be announced in that program.” Former Ford global vice president Martin Zimmerman says: “You get blindsided when things deteriorate. You want to know about mistakes.”<sup>7</sup>

**Poor Choice of Channels** A **communication channel** is the pathway or medium through which a message is conveyed from sender to receiver (see **Figure 18.3**). Good communicators choose the right channel or combination of channels to accomplish their intended purpose.<sup>8</sup>

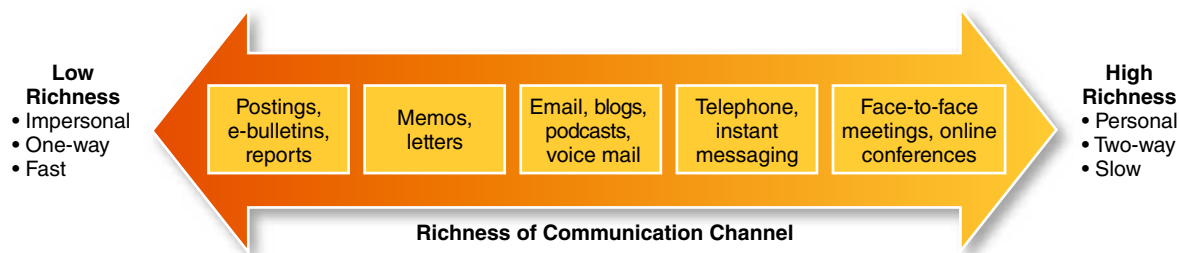
*Written channels*—paper or electronic—are most acceptable for simple messages that are easy to convey, and for

those that require quick and extensive dissemination to a wide audience. They also are useful when it is important to document information or directives. But it’s important to remember that these messages are largely impersonal and one-way interactions with limited opportunity for feedback from recipients. *Spoken channels*—face-to-face or electronic—work best for complex and difficult messages and where immediate feedback to the sender is valuable. They are more personal and more likely to be perceived by the receiver as supportive or inspirational.

**Poor Written or Oral Expression** Communication is effective only when the sender expresses the message in a way that is clearly understood by the receiver. Words must be well chosen and used properly, something we all too often fail to do. Consider the following “bafflegab” found among some executive communications.<sup>9</sup>

- *A business report said*: “Consumer elements are continuing to stress the fundamental necessity of a stabilization of the price structure at a lower level than exists at the present time.”
- *Translation*: Consumers keep saying that prices must go down and stay down.
- *A manager said*: “Substantial economies were affected in this division by increasing the time interval between distributions of data-eliciting forms to business entities.”
- *Translation*: The division saved money by sending out fewer questionnaires.
- *A university president said*: “We have strived to be as transparent as possible about the strategic alliance plans within the confines of our ... closed negotiations.”
- *Translation*: The negotiations were confidential.

**Failure to Recognize Non-Verbal Signals** **Non-verbal communication** takes place through gestures, facial expressions, body posture, eye contact, and the use of interpersonal space. Research shows that up to 55 percent of a message’s impact may come through non-verbal communication.<sup>10</sup> The lack of gestures and other non-verbal signals is one of the weaknesses of voice mail, texts, and other electronic communications. Clickable emoticons don’t make up for their absence. This has also proven to be a challenge the more we move to virtual team meetings; it is difficult to



**FIGURE 18.3** The communication channel.

access non-verbal clues over a Zoom call with 20 people on your computer screen.

Think of how non-verbal signals play out in your own communications.<sup>11</sup> Sometimes our body language “talks” even as we maintain silence. And when we do speak, our body may “say” different things than our words actually convey. This is called a **mixed message**—where words communicate one message while actions and body language communicate something else. Watch how people behave in a meeting. A person who feels under attack may move back in a chair or lean away from the presumed antagonist, even while expressing verbal agreement. All of this may be done quite unconsciously, but the mixed message will be picked up by those tuned in to non-verbal signals.

**Overloads and Distractions** Overloads and distractions caused by the availability and abundance of electronic communications and social media can make it hard to communicate well. McKinsey reports that professionals are spending 28 percent of their time dealing with email, while the Radicati Group reports that the average business person deals with 108 emails per day.<sup>12</sup> According to a poll conducted by Harris/Decima for CIBC, average smartphone owners in Canada check their devices at least six times per hour. Canadians aged 18 to 24 check their phones up to 10 times per hour.<sup>13</sup> (If you’re in that age group, does that number match your habits?) Scholar Gloria Mark’s research confirms these results. She found that people check their email inboxes as many as 74 times per day, causing her to say, “It’s really out of control.”<sup>14</sup> Couple this information with everyday personal experience—emails, messages, and chats pretty much follow us wherever we go. They coexist simultaneously on our computer screens and smart devices, and they compete with one another, social media, and video streams for our attention. Our effectiveness in attending to this ever-present and shifting mix of electronic communications is often compromised by the size and stress of overwhelming demands.

Even a scheduled meeting may be compromised by overloads and distractions in the form of telephone interruptions, texts, emails, drop-in visitors, and lack of privacy. Consider the following exchange between George and his manager.<sup>15</sup>

Okay, George, let’s hear your problem [phone rings, manager answers it and promises caller to deliver a report “just as soon as I can get it done”]. Uh, now, where were we—oh, you’re having a problem with your technician. She’s ... [manager’s assistant brings in some papers that need his immediate signature]

... you say she’s overstressed lately, wants to leave. I tell you what, George, why don’t you [phone beeps a reminder, boss looks and realizes he has a lunch meeting] ... uh, take a stab at handling it yourself. I’ve got to go now [starts texting].

It’s obvious that this manager was not effective in communicating with George, even if he really wanted to. But errors like these can be easily avoided by anyone sincerely interested in communicating face to face with someone. At a minimum,

adequate time should be set aside and arrangements made for privacy. The likelihood of interruptions such as the telephone, drop-in visitors, and electronic messages should be anticipated and then avoided by good planning and the discipline to stay focused on the visitor rather than on devices.

## Cross-Cultural Communication

After taking over as the CEO of the Dutch publisher Wolters Kluwer, Nancy McKinstry initiated major changes in strategy and operations—cutting staff, restructuring divisions, and investing in new business areas. She was the first American to head the firm, and she described herself as “aggressive” when first meeting with her management team. After learning that her use of that word wasn’t well received by Europeans, she switched to “decisive.” McKinstry says: “I was coming across as too harsh, too much of a results-driven American to the people I needed to get on board.”<sup>16</sup>

Communicating across cultures requires lots of sensitivity, awareness, and the ability to quickly learn local rights and wrongs. The most difficult situations arise when you don’t speak the local language, or when one or both of the people trying to communicate are weak in a shared second language. Advertising messages are notorious for getting lost in translation. A Pepsi ad in Taiwan that was intended to say “The Pepsi Generation” came out as “Pepsi will bring your ancestors back from the dead.” A KFC ad in China that was intended to say “finger lickin’ good” came out as “eat your fingers off.”<sup>17</sup>

**Ethnocentrism** is a major enemy of effective cross-cultural communication. This is the tendency to consider one’s culture superior to other cultures. It hurts communication in at least three major ways. First, it may lead to poor listening. Second, it may cause someone to address or speak with others in ways that alienate them. Third, it may lead to the use of inappropriate stereotypes.<sup>18</sup>

One of the ways ethnocentrism manifests itself is as a failure to understand cultural differences in non-verbal communication.<sup>19</sup> The “thumbs-up” sign is an insult in Ghana and Australia; signalling “OK” with thumb and forefinger circled together is not okay in parts of Europe. Waving “hello” with an open palm is an insult in West Africa, suggesting the other person has five fathers.<sup>20</sup>

## Learning Check

**LEARNING OBJECTIVE 18.1** Identify the elements in the communication process.

**Be Sure You Can** • describe the communication process and identify its key components • differentiate between effective and efficient communication • explain the role of credibility in persuasive communication • list the common sources of noise that limit effective communication • explain how mixed messages interfere with communication • explain how ethnocentrism affects cross-cultural communication

## 18.2 Improving Collaboration through Communication

### LEARNING OBJECTIVE 18.2

Describe ways to improve the effectiveness of communication.

#### Learn More About

Transparency and openness • Use of electronic media • Active listening • Constructive feedback • Sensemaking as an interpretative communication process • Space design

Effective communication is essential as people work together in teams and organizations. The better the communication, the more likely it is that collaboration will be successful. Pathways toward better communication are found in such things as attention to transparency and openness, good use of electronic media, active listening practices, focusing on constructive feedback, and appropriate space design.

## Transparency and Openness

At HCL Industries, a large technology outsourcing firm, former CEO and current Senior Advisor to HCL Vineet Nayar believes that one of his most important tasks as CEO was to create transparency so that a “culture of trust” would exist within the firm. Transparency at HCL means that the firm’s financial information is fully posted on its internal website. “We put all the dirty linen on the table,” Nayar says. Transparency also means that the results of 360-degree feedback reviews for HCL’s 3,800 managers get posted as well, including Nayar’s own reviews. When managers present plans to the top management team, Nayar insists that they also get posted so that everyone can read them and offer comments. His intent is to stimulate what he calls a company-wide process of “massive collaborative learning.” This ensures that by the time a plan gets approved, it’s most likely to be a good one.<sup>21</sup> Management Is Real 18.2 tells the story of another CEO who believes in transparent communication.

**Communication transparency** involves being honest in sharing accurate and complete information about your organization and workplace affairs. A lack of communication transparency is evident when managers try to hide information and restrict access to it by organizational members. High communication transparency, such as that just illustrated in the HCL case, is evident when managers openly share information throughout an organization. Employee performance reviews are a form of communication transparency (see Management Is Real 18.3).

### Management Is Real 18.2: Wisdom | Learn from Role Models

“I like to know the bad news as soon as you know it—I promise no recriminations.”

#### Lane Bryant CEO Linda Heasley Gives Others Reasons to Work with Her

Would you like to work for a boss who encourages you to keep your eyes open for other job opportunities? That’s the message Linda Heasley, current CEO of Lane Bryant, communicated to members of her former team at The Limited. That message contributed to her executive success. About employees, she says it’s her job to “re-recruit them every day and give them a reason to choose to work for us and for me as opposed to anyone else.” This is part of a leadership philosophy based on the belief that “it’s not about me ... it’s very much about the team.”

Newcomers to Heasley’s team are advised to follow a 90-day rule when it comes to communication. Based on her experience living in Thailand as a high school exchange student, she believes in taking the first 90 days to “watch and listen,” trying “not to talk at meetings,” and working to build relationships. And when it comes to performance, she also says: “I like to know the bad news as soon as you know it—I promise no recriminations—but I will expect to know what we could’ve avoided so it doesn’t happen again.”

When asked what she looks for in new hires, Heasley highlights things like passion, curiosity, energy, willingness to take risks, and a sense of humour. During interviews she uses proven questions to



ZUMA Press/Alamy Stock Photo

try to draw out job candidates and discover their capabilities. She might ask “What books have you read lately?” or “Can you describe a challenging situation you’ve been in and where you took a controversial position?”

#### Find Inspiration

Linda Heasley seems very comfortable with herself and her role as CEO of this major retailer. Can you see where communication is one of her strengths? Would you respond well to a leader like this? In what respects might Heasley become a role model for making communication skills part of your own leadership approach?



## Management Is Real 18.3: Analysis | Make Data Your Friend

Only two in five employees (41 percent) feel their performance assessments improve their performance.

### Are Annual Performance Appraisals Effective After All?

Canadian workers and HR managers have mixed views regarding the value of annual performance appraisals. For instance:

- 65 percent of HR managers schedule annual performance appraisal meetings even though only two in five employees (41 percent) feel the assessments improve their performance.
- 95 percent of HR managers believe their organization's performance appraisal practice is at least *somewhat effective*.
- 33 percent of organizations schedule performance reviews on an "as needed" basis.
- 70 percent of multinational companies are eliminating the annual performance review and moving to regular conversations about performance and developmental change when projects finish, milestones are met, and challenges emerge.



#### What Are the Implications?

Performance review is often a hot topic. But is it really possible to have a performance measurement system that is respected by managers and workers alike? Do the data reported here fit with your own experiences? What are their implications for management practice? Will we soon see a dramatic increase in the number of employers who shift away from formal annual reviews and replace them with something less formal and more timely, such as on an "as-needed" basis?

The term **open book management** describes a form of communication transparency in which employees are provided with essential financial information about their companies. At Bailard, Inc., a private investment firm, this openness extends to salaries. If you want to know how much others are earning at the firm, all you need to do is ask the chief financial officer. The firm's co-founder and CEO, Thomas Bailard, believes open book management is a good way to defeat office politics. "As a manager," he says, "if you know that your compensation decisions are essentially going to be public, you have to have pretty strong conviction about any decision you make."<sup>22</sup>

As the prior examples suggest, the benefits of communication transparency start with better decision-making. When people are well informed, they can be expected to make good decisions that serve the best interests of the organization. But the benefits of transparency also extend into the realm of motivation and engagement. When people are trusted with information, they also can be expected to feel more loyal and show more engagement as organizational members.

### Use of Electronic Media

Are you part of the Twitter community, a regular poster to Facebook, a frequent messenger on WhatsApp or Line, or generally a heavy user of your mobile devices? Technology hasn't just changed how we communicate. It has created a social media revolution—one that can be a performance asset or detriment in the world of work.<sup>23</sup>

To begin, we may be getting so familiar with writing online shorthand that we use it in the wrong places. Sending a

message like "Thnx for the IView! I Wd Lv to Wrk 4 U!! ;)" isn't the follow-up most employers want to receive from job candidates. When Tory Johnson, founder and CEO of Women for Hire, Inc., received a thank-you note by email from an intern candidate, it included "hiya," "thanx," three exclamation points, and two emoticons. She says: "That email just ruined it for me."<sup>24</sup> Textspeak and emoticons may be the norm in social networks, but their use can be inappropriate in work settings.

Privacy is also a concern in any form of electronic communication.<sup>25</sup> When Facebook's CEO, Mark Zuckerberg, says privacy is "no longer a social norm," it's time to take the issue seriously. Canadian lawyer Daniel Lubin, a specialist in workplace legal disputes, reports: "Although the rules are slowly changing, an employee's personal privacy is still more of an expectation at work, rather than a right." Many employers monitor employees' workplace computers, their emails, and their Internet usage to ensure the devices are not being misused. Despite the fact that there is privacy legislation in Canada, there is still no clear "right to privacy" for most workers.<sup>26</sup>

When it comes to Web browsing and using social media at work, the best advice comes down to this: Find out the employer's policy and follow it. Don't ever assume that you have electronic privacy; chances are the employer is checking or can easily check on you.<sup>27</sup>

The electronic grapevine that passes messages and information among members of social networks is now a fact of life. Electronic messages—both accurate and inaccurate—fly with great speed around our world. The YouTube grapevine stung Domino's Pizza executives when a posted video showed two employees doing nasty things to sandwiches. It was soon viewed over a million times. By the time the video was pulled

(by one of its authors who apologized for “faking”), Domino’s faced a crisis in customer confidence. The CEO finally created a Twitter account and posted a YouTube video message to present the company’s own view of the story.<sup>28</sup>

## Active Listening

Whether trying to communicate electronically or face to face, managers must be very good at listening. When people “talk,” they are trying to communicate something. That “something” may or may not be what they are actually saying.

**Active listening** is the process of taking action to help someone say exactly what he or she really means or wants to communicate.<sup>29</sup> It involves being sincere and trying to find out the full meaning of what is being expressed. It also involves being disciplined in controlling emotions and withholding premature evaluations or interpretations. Different responses to the following two questions contrast how a “passive” listener and an “active” listener might act in real workplace conversations.<sup>30</sup>

- *Question 1:* “Don’t you think employees should be promoted on the basis of seniority?” *Passive listener’s response:* “No, I don’t!” *Active listener’s response:* “It seems to you that they should, I take it?”
- *Question 2:* “What does the supervisor expect us to do about these out-of-date computers?” *Passive listener’s response:* “Do the best you can, I guess.” *Active listener’s response:* “You’re pretty frustrated with those machines, aren’t you?”

The following are guidelines for active listening:

1. *Listen for message content:* Try to hear exactly what content is being conveyed in the message.
2. *Listen for feelings:* Try to identify how the source feels about the content in the message.
3. *Respond to feelings:* Let speakers know that their feelings are being recognized.
4. *Note all cues:* Be sensitive to non-verbal and verbal messages; be alert for mixed messages.
5. *Paraphrase and restate:* State back to the source what you think you are hearing.
6. *Invite clarification:* Ask questions that help to bring out a deeper understanding of the speaker’s message.

An interesting aspect of how we process what we hear is something called the right-ear advantage. When we listen with our right ear, our comprehension of language is usually better and faster. Perhaps you’ve noticed that when you have ear buds on or when you answer the phone, you switch your focus to your right ear to understand what you’re hearing. The reason is because of the lateralization of the brain. What you hear in the right ear is sent first to the left side of the brain, where the area responsible for the comprehension of speech is located.

A left-ear advantage is responsible for the recognition of the emotional aspects of speech. It’s also responsible for perception and appreciation of music. For left-handed people, the

advantages may be reversed. We often tilt our heads to one side or the other when listening to others. If we tip our heads to the left, we are exposing our right ear and probably more interested in the emotional side of the conversation; to the right, we are trying to better understand the cognitive, or literal, side of the message.

Observe where you tilt your head when you are actively listening to others. Notice where others tilt their heads when they listen to you.<sup>31</sup>

## Constructive Feedback

Telling other people how you feel about something they did or said, or about the situation in general, is called **feedback**. It occurs in the normal give-and-take of working relationships, and in more formal performance review sessions.

The art of giving feedback is an indispensable skill, particularly for managers who must regularly give feedback to other people. When poorly done, feedback can be threatening to the recipient and cause resentment. Properly handled feedback—even performance criticism—can be listened to, accepted, and used to good advantage by the receiver.<sup>32</sup> Consider someone who comes late to meetings. Feedback from the meeting chair might be *evaluative*—“You are unreliable and always late for everything.” It might be *interpretive*—“You’re coming late to meetings; you might be spreading yourself too thin and have trouble meeting your obligations.” It might also be *descriptive*—“You were 30 minutes late for today’s meeting and missed a lot of the context for our discussion.”<sup>33</sup>

Feedback is most useful and constructive when it offers real benefits to the receiver and doesn’t just satisfy some personal need of the sender. A supervisor who berates a computer programmer for errors, for example, may actually be angry about having failed to give clear instructions in the first place. Some do’s and don’ts for becoming a better receiver of critical feedback are shown below.<sup>34</sup>

- *Don’t* get mad or cry.
- *Do* say: “Let me give this some thought and we can talk later.”
- *Don’t* be defensive or deny things.
- *Do* say: “I’m surprised. Can you give me some examples?”
- *Don’t* blame others.
- *Do* say: “That wasn’t my impression. How did you come to see it that way?”

Advice on becoming a better giver of constructive feedback includes the following tips.<sup>35</sup>

- Give feedback directly and with real feeling, based on trust between you and the receiver.
- Make sure that feedback is specific rather than general; use good, clear, and preferably recent examples to make your points.
- Give feedback at a time when the receiver seems most willing or able to accept it.

- Make sure the feedback is limited to issues the receiver can be expected to address.
- Give feedback in small doses; never give more than the receiver can handle at any particular time.

## Sensemaking as an Interpretative Communication Process

How do we make sense of a situation that we've never faced before? Organizational behavioural psychologist Robert Weick demonstrates how meaning is socially constructed through communication, particularly in circumstances of complexity and chaos.

When an experience is constantly changing, making sense of it is a process of evolving interpretations. We often try to make sense of a situation based on the discrepancies between what we expected to happen and what actually happened. Sensemaking involves engaging in conversations and arguments supporting certain interpretations of the event in order that we can reach a shared understanding. The object isn't absolute accuracy, but plausibility. Does this explanation fit? The sensemaking process involves three stages: sensebreaking, sensegiving, and sensemaking.

Sensebreaking is the phase of convincing others that the present situation has changed. For example, what employees thought was job security is slowly being undermined by layoffs or attrition. Such a situation creates a need to find new meaning. To make sense of this new situation requires sensegiving communication to help others create a new meaning that explains their situation. Sensegivers need to find plausible interpretations, and communicate them effectively so that they make sense to others. Through this process employees can arrive at a new understanding.

Weick offers that organizations can effectively manage sensemaking in the face of surprise by: a) learning how to manage early and weak signals that things are not going as planned, b) avoid the temptation to simplify interpretations of the situation, c) continually draw upon the expertise within the organization, and d) possess a sensitivity to ongoing operations understanding where disruptions and blindspots are likely to occur. By doing so, sensemakers can begin to take needed and necessary change actions early so as to increase organizational resilience and adaptability.

Sensemaking complements the work of Kurt Lewin and his three-step theory of change involving unfreezing (sensebreaking), change (sensegiving) and freezing (sensemaking).<sup>36</sup>

## Space Design

**Proxemics** is the study of how we use space.<sup>37</sup> And space counts in communication. The distance between people conveys varying intentions in terms of intimacy, openness, and status in interpersonal communications. Even the physical layout of an office or room is a form of non-verbal communication. Think about it. Offices with chairs available for side-by-side seating convey different messages than offices where the manager's chair sits behind the desk and those for visitors sit facing it in front.

Organizations today are being run with the premise that the better people communicate with one another, the better the organization will perform. We live in an increasingly connected world, and the same levels of connectedness are sought in the workplace. Google, for example, thrives and depends on high levels of innovation. So, the company's headquarters is designed to make it easy for employees to have casual, not just formal, communications. "We want it to be easy [for] Googlers to bump into one another," says a spokesperson.<sup>38</sup>

Part of the push toward greater connectedness and more casual conversations is found in what is the demise of the office cubicle. Before COVID-19, it was popular to design office spaces with small cubicles for individual workers and larger meeting rooms for meetings. The new trend is toward smaller teams, less formal meetings, and more frequent casual interaction. Architects and office supply firms are responding with new designs. They are creating lots of small office "nests" of six to eight co-workers and "focus rooms" where a few people can huddle up while exchanging ideas, working on a project, or just having a chat. The Canadian federal government launched a project called Workplace 2.0, which includes redesigning its offices with lower or no cubicle walls and flexible workstations so employees can better collaborate. Big companies like Microsoft are in on the trend as well. Martha Clarkson heads Microsoft's global workplace strategy. She says it's based on a post-cubicle model because "Work is really getting done in smaller teams."<sup>37</sup>

### Learning Check

**LEARNING OBJECTIVE 18.2** Describe ways to improve the effectiveness of communication.

**Be Sure You Can** • explain how transparency and openness improve communication • discuss possible uses of electronic media by managers • define *active listening* and list active listening rules • illustrate the guidelines for constructive feedback • explain how space design influences communication

18.3

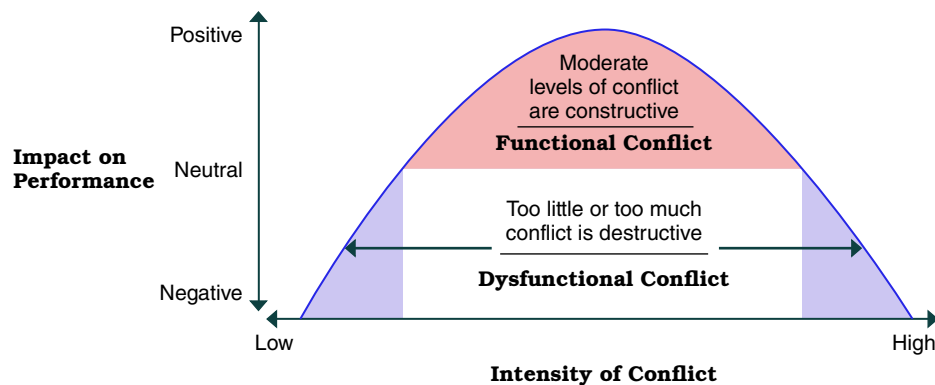
## Managing Conflict

**LEARNING OBJECTIVE 18.3**

Discuss how conflict can be functional and managed successfully.

### Learn More About

Functional and dysfunctional conflict • Causes of conflict • Conflict resolution • Conflict management styles • Structural approaches to conflict management



**FIGURE 18.4** The relationship between conflict and performance.

**Conflict** occurs when there are disagreements on substantive or emotional issues.<sup>40</sup> These disagreements can be overt and openly expressed, or covert and hidden behind false surface harmony and political intrigue. The ability to deal with conflicts is a critical communication and collaboration skill in the social settings of teams and organizations. Managers and team leaders become ineffective and lose credibility when they deny or hide from conflicts, or pass conflict situations on for others to handle.<sup>41</sup>

**Substantive conflicts** involve disagreements over such things as goals and tasks, allocation of resources, distribution of rewards, policies and procedures, and job assignments. **Emotional conflicts** result from feelings of anger, distrust, dislike, fear, and resentment, as well as from personality clashes and relationship problems. Both forms of conflict can cause difficulties. But they can also stimulate creativity and high performance.

## Functional and Dysfunctional Conflict

The inverted “U” curve depicted in **Figure 18.4** shows that conflict of moderate intensity can be good for performance.

This **functional conflict**, or constructive conflict, moves people toward greater work efforts, cooperation, and creativity. It helps teams achieve their goals and avoid making poor decisions because of groupthink. **Dysfunctional conflict**, or destructive conflict, harms performance, relationships, and even individual well-being. It occurs when there is either too much or too little conflict. Too much conflict is distracting and overwhelming. Too little conflict promotes groupthink, complacency, and the loss of a high-performance edge.

## Causes of Conflict

A number of drivers can cause or set the stage for conflict. Management Is Real 18.4 shows how a conflict arose between an employee who blogged about her colleagues and her work and the management of the company. *Role ambiguities* in the form of unclear job expectations and other task uncertainties increase the likelihood for people to work at cross-purposes. *Resource scarcities* cause conflict when people have to share or compete for them. *Task interdependencies* breed conflict when

### Management Is Real 18.4: Ethics | Know Right from Wrong

A Christmas party was described in detail, including an executive’s “unforgivable faux pas.”

#### Blogging Is Easy, but Bloggers Should Beware

It is easy and tempting to set up your own blog, write about your experiences and impressions, and then share your thoughts with others online. So, why not do it?

Catherine Sanderson, a British citizen living and working in Paris, might have asked this question before launching her blog, *LaPetite Anglaise*. At one point it was so “successful” that she had 3,000 readers. But the Internet diary included reports on her experiences at work—and her employer wasn’t happy when it became public knowledge.

Even though Sanderson was blogging anonymously, her photo was on the site, and the connection was eventually discovered. Noticed, too, was her running commentary about bosses, colleagues, and life at the office. A Christmas party was described in detail, including an executive’s “unforgivable *faux pas*.” When her



Magali Delporte/eyevine/Redux Pictures

blog came to management attention, Sanderson says that she was “dooced”—a term used to describe being fired for what one writes in a blog. She sued for financial damages and confirmation of her rights, on principle, to have a private blog. The court awarded her a year’s salary.

### What Do You Think?

What are the ethical issues here from both the blogger’s and the employer’s perspective? What rights do employees have

with regard to communicating about their work experiences? Is it ethical for a supervisor to fire an employee any time the employee says something negative about the organization? For example, which is the bigger “crime,” to get drunk at the office holiday party or to write a blog that reports that your supervisor got drunk at the office party? What obligations do employees have to their employers even when they are off the clock? In contrast, where does the employer’s ability to control employee behaviours outside of work end?

people depend on others to perform well in order to perform well themselves.

Competing objectives are also opportunities for conflict. When goals are poorly set or reward systems are poorly designed, individuals and groups may come into conflict by working to one another’s disadvantage. Structural differentiation breeds conflict. Differences in organization structures and in the characteristics of the people staffing them may foster conflict because of incompatible approaches toward work. And unresolved prior conflicts tend to erupt in later conflicts. Unless a conflict is fully resolved, it may remain latent only to emerge again in the future.

## Conflict Resolution

When conflicts do occur, they can be “resolved” in the sense that the causes are dealt with, or “suppressed” in that the causes remain but the conflict behaviours are controlled. Suppressed conflicts tend to fester and recur at a later time. They postpone issues and problems that may be best addressed immediately, and the suppression itself can be a source of personal stress.<sup>42</sup> True **conflict resolution** eliminates the underlying causes of conflict and reduces the potential for similar conflicts in the future.

## Conflict Management Styles

People tend to respond to interpersonal conflict through different combinations of cooperative and assertive behaviors.<sup>43</sup> *Cooperativeness* is the desire to satisfy another party’s needs and concerns. *Assertiveness* is the desire to satisfy one’s own needs and concerns. **Figure 18.5** shows five interpersonal styles of conflict management resulting from combinations of these two tendencies.<sup>44</sup>

- **Avoidance** or *withdrawal*—being uncooperative and unassertive, downplaying disagreement, withdrawing from the situation, and/or staying neutral at all costs.
- **Accommodation** or *smoothing*—being cooperative but unassertive, letting the wishes of others rule, smoothing over or overlooking differences to maintain harmony.
- **Competition** or *authoritative command*—being uncooperative but assertive, working against the wishes of the other party, engaging in win–lose competition, and/or forcing through the exercise of authority.
- **Compromise**—being moderately cooperative and assertive, bargaining for “acceptable” solutions in which each party wins a bit and loses a bit.



**FIGURE 18.5** Alternative conflict management styles.

- **Collaboration** or *problem solving*—being cooperative and assertive, trying to fully satisfy everyone’s concerns by working through differences, finding and solving problems so that everyone gains. This often takes considerable time to achieve.

The avoiding and accommodating styles often create **lose–lose conflict**.<sup>45</sup> No one achieves their true desires, and the underlying reasons for conflict remain. Although the conflict appears settled or may even disappear temporarily, it tends to recur in the future. Avoidance pretends that conflict doesn’t really exist. Everyone withdraws and hopes it will simply go away. Accommodation plays down differences and highlights areas of agreement. Peaceful coexistence is the goal, but the real essence of a conflict may be ignored.

Competing and compromising styles tend to create **win–lose conflict** where each party strives to gain at the other’s expense. Because win–lose methods don’t address the root causes of conflict, future conflicts of the same or a similar nature are likely to recur. In competition, one party wins because superior skill or outright domination allows his or her desires to be forced on the other. An example is authoritative command, whereby a supervisor simply dictates a solution to subordinates. Compromise occurs when trade-offs are made such that each party to the conflict gives up and gains something. But because each party loses something, antecedents for future conflicts are established.

A collaborating or problem-solving style is a form of **win–win conflict** where issues get resolved to everyone’s benefit. Parties to the conflict recognize that something is wrong and needs attention, and they confront the issues head-on. Win–win outcomes eliminate the underlying causes of the conflict because all matters and concerns are raised and discussed openly. But this approach also takes more time because it involves efforts in information collection and analysis of one another’s positions.

It is important to note that while collaboration appears to be the best style, there are times when each of the other approaches is also effective. Can you think of times when avoiding or accommodation might be helpful alternatives?

## Structural Approaches to Conflict Management

Not all conflict can be resolved at the interpersonal level. Think about it. Aren’t there likely to be times when personalities and emotions prove irreconcilable? In such cases a structural approach to conflict management often can help.<sup>46</sup>

When conflict traces back to a resource issue, the structural solution is to *make more resources available*. Although costly and not always possible, this is a straightforward way to resolve resource-driven conflicts. When people are stuck in conflict and just can’t seem to appreciate one another’s points of view, *appealing to higher-level goals* can sometimes focus their attention on mutually desirable outcomes. In a student team where members are arguing over content choices for a PowerPoint presentation, for example, it might help to remind

everyone that the goal is to get an “A” from the instructor. An appeal to higher goals offers a common frame of reference for analyzing differences and reconciling disagreements. The following are some structural ways to manage conflict:

- Make resources available.
- Appeal to higher goals.
- Change the people.
- Change the environment.
- Use integrating devices.
- Provide training.
- Change reward systems.

It may be necessary to *change the people*. There are times when a manager may need to replace or transfer one or more of the conflicting parties to eliminate conflict. When the people can’t be changed, they may have to be separated by *altering the physical environment*. Sometimes it is possible to rearrange facilities, workspace, or workflows to physically separate conflicting parties and decrease opportunities for contact with one another. Organizations can also use *integrating devices* to help manage conflicts between groups. These approaches include assigning people to formal liaison roles, convening special task forces, setting up cross-functional teams, and even switching to the matrix form of organization.

By *changing reward systems* it is sometimes possible to reduce conflicts that arise when people feel they have to compete with one another for attention, pay, and other rewards. An example is shifting individual pay bonuses, or even individual student project grades, to the group level. Using this approach allows individuals to benefit in direct proportion to how well the team performs as a whole. This is a way of reinforcing teamwork and reducing the tendencies of team members to compete with one another. Last, people who get good *training in interpersonal skills* are better prepared to communicate and work effectively in conflict-prone situations. When employers list criteria for recruiting recent graduates, such “soft” or “people” skills are often right at the top of that list. You can’t succeed in today’s horizontal and team-oriented organizations if you can’t work well with other people, even when disagreements are inevitable.

### Learning Check

**LEARNING OBJECTIVE 18.3** Discuss how conflict can be functional and managed successfully.

**Be Sure You Can** • differentiate between substantive and emotional conflict • differentiate between functional and dysfunctional conflict • explain the common causes of conflict • define *conflict resolution* • explain the conflict management styles of avoidance, accommodation, competition, compromise, and collaboration • discuss lose–lose, win–lose, and win–win conflicts • list the structural approaches to conflict management

18.4

## Managing Negotiation

### LEARNING OBJECTIVE 18.4

Explain ways to negotiate successfully and avoid negotiation pitfalls.

#### Learn More About

Negotiation goals and approaches • Gaining agreement • Negotiation pitfalls • Third-party dispute resolution

- *Situation:* Your employer offers you a promotion, but the pay raise being offered is disappointing.
- *Situation:* You have enough money to send one person for training from your department, but two really want to go.
- *Situation:* Your team members are having a “cook-out” on Saturday afternoon and want you to attend, but your husband wants you to go with him to visit his mother in a neighbouring town.
- *Situation:* Someone on your sales team has to fly to Montreal to meet an important client; you’ve made the last two trips out of town and don’t want to go; another member of the team hasn’t been out of town in a long time and “owes” you a favour.

These are examples of the many work situations that lead to **negotiation**—the process of making joint decisions when the parties involved have different preferences. Stated a bit differently, negotiation is a way of reaching agreement. People negotiate over job assignments, work schedules, work locations, and salaries.<sup>47</sup> Any and all negotiations are potential sources of conflict. And they are a stiff test of anyone’s communication and collaboration skills, particularly when it comes to salary negotiation.<sup>48</sup> Here are some ins and outs of negotiating salaries.

- *Prepare, prepare, prepare*—Do the research beforehand and find out what others make for a similar position inside and outside the organization, including salary, benefits, bonuses, incentives, and job perks.
- *Document and communicate*—Identify and communicate your performance value; put forth a set of accomplishments that show how you have saved or made money for, and created value in, your present job or for a past employer.
- *Identify critical skills and attributes*—Make a list of your strengths and link each of these with potential contributions to the new employer; show how *you* offer talents and personal attributes of immediate value to the work team.

- *Advocate and ask*—Be your own best advocate; the rule in salary negotiation is “Don’t ask, don’t get.” But don’t ask too soon; your boss or interviewer should be the first to bring up salary.
- *Stay focused on the goal*—Your goal is to achieve as much as you can in the negotiation; this means not only doing well at the moment but also getting better positioned for future gains.
- *View things from the other side*—Test your requests against the employer’s point of view; ask if you are being reasonable, convincing, and fair; ask how the boss could explain to higher levels and to your peers a decision to grant your request.
- *Don’t overreact to bad news*—Never “quit on the spot” if you don’t get what you want; be willing to search for and consider alternative job offers.

## Negotiation Goals and Approaches

Two important goals should be considered in any negotiation. **Substance goals** are concerned with negotiation outcomes. They are tied to content issues. **Relationship goals** are concerned with negotiation processes. They are tied to the ways in which people work together while negotiating and how they (and any constituencies they represent) will be able to work together again in the future.

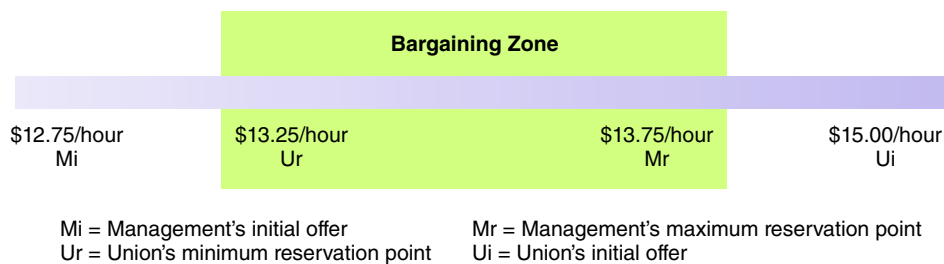
**Effective negotiation** occurs when issues of substance are resolved and working relationships among the negotiating parties are maintained or even improved. The three criteria of effective negotiation are: (1) *Quality*—negotiating a “wise” agreement that is truly satisfactory to all sides. (2) *Cost*—negotiating efficiently, using a minimum of resources and time. (3) *Harmony*—negotiating in a way that fosters, rather than inhibits, good relationships.<sup>49</sup>

## Gaining Agreement

In **distributive negotiation** each party makes claims for certain preferred outcomes.<sup>50</sup> This emphasis on substance can become self-centred and competitive, with all parties thinking the only way for them to gain is for others to lose. Relationships often get sacrificed as process breaks down in these win–lose situations.

In **principled negotiation**, sometimes called **integrative negotiation**, the orientation is win–win. The goal is to achieve a final agreement based on the merits of each party’s claims. No one should lose in a principled negotiation, and positive relationships should be maintained in the process. Four pathways or rules for gaining such integrated agreements are set forth by Roger Fisher and William Ury in their book *Getting to Yes*:<sup>51</sup>

1. Separate the people from the problem.
2. Focus on interests, not on positions.
3. Generate many alternatives before deciding what to do.
4. Insist that results be based on some objective standard.



**FIGURE 18.6** The bargaining zone in classic two-party negotiation.

The attitudinal foundations of principled negotiation involve each party's willingness to trust, share information, and ask reasonable questions. The information foundations involve both parties knowing what is important to them and finding out what is important to the other party.

Attitudes and information both come into play during classic two-party labour-management negotiations over a new contract and salary increase.<sup>52</sup> Look at **Figure 18.6** and consider the situation from the labour union's perspective. The union negotiator has told her management counterpart that the union wants a new wage of \$15.00 per hour. This expressed preference is the union's initial offer. However, she also has in mind a minimum reservation point of \$13.25 per hour. This is the lowest wage she is willing to accept for the union. Now look at it from the perspective of the management negotiator. His initial offer is \$12.75 per hour. But his maximum reservation point—the highest wage he is prepared to eventually offer the union—is \$13.75 per hour.

The **bargaining zone** in a negotiation is defined as the space between one party's minimum reservation point and the other party's maximum reservation point. In this case it lies between \$13.25 per hour and \$13.75 per hour. It is a "positive" zone since the reservation points of the two parties overlap. If the union's minimum reservation point was greater than management's maximum reservation point, say \$14 per hour, there would be no room for bargaining. A key task for any negotiator is to discover the other party's reservation point. It is difficult to negotiate effectively until this is known and each party realizes that there is a positive bargaining zone.

## Negotiation Pitfalls

The negotiation process is admittedly complex, and negotiators must guard against common pitfalls. The first is the *myth of the "fixed pie,"* the belief that in order for you to gain, the other person must give something up. This win-lose belief fails to recognize the integrative assumption that the "pie" can sometimes be expanded or utilized to everyone's advantage. A second negotiation error is *nonrational escalation of conflict*, in which the negotiator gets locked into previously stated "demands" and allows the personal need to "save face" to inflate the perceived importance of satisfying the demands.

A third negotiating error is *overconfidence and ignoring the other's needs*. The negotiator becomes overconfident, believes his or her position is the only correct one, and fails to consider

the needs of the other party. The fourth error is *too much "telling" and too little "hearing."* The "telling" error occurs when parties to a negotiation don't really make themselves understood to each other. The "hearing" error occurs when they fail to listen well enough to understand what the other party is saying.<sup>53</sup>

Another potential negotiation pitfall in our global business environment is *premature cultural comfort*. This occurs when a negotiator is too quick to assume that he or she understands the intentions, positions, and meanings of a negotiator from a different culture. A negotiator from a low-context culture, for example, may be used to getting information through direct questions and answers. But this style might lead to difficulties if used with negotiators from a high-context culture. Their tendencies may be to communicate indirectly with nondeclarative language, non-verbal signals, and avoidance of hard-and-fast position statements.<sup>54</sup>

It is important to avoid the *trap of ethical misconduct*. The motivation to negotiate unethically sometimes arises from pure greed and undue emphasis on the profit motive. This may be experienced as a desire to "get just a bit more" or to "get as much as you can" from a negotiation. The motivation to behave unethically may also result from a sense of competition, a desire to "win" a negotiation just for the sake of winning it, or because of the misguided belief that someone else must "lose" in order for you to gain.

When unethical behaviour occurs in negotiation, the persons involved may try to explain it away with inappropriate rationalizing: "It was really unavoidable." "Oh, it's harmless." "The results justify the means." "It's really quite fair and appropriate."<sup>55</sup> These and other excuses for unethical behaviour are morally unacceptable. Their use also runs the risk that any short-run gains will be offset by long-run losses. Unethical negotiators risk being viewed with distrust, disrespect, and dislike, and even being targeted for revenge in future negotiations.

## Third-Party Dispute Resolution

Even with the best of intentions, it may not always be possible to achieve integrative agreements. Management Is Real 18.5 shows that recruiters are looking for people who can tackle conflicts and negotiate successfully.

When disputes reach a point of impasse, third-party assistance with dispute resolution can be useful. **Mediation** involves a neutral third party who tries to improve communication



## Management Is Real 18.5: Insight | Keep Learning about Yourself

**Recruiters give communication and networking skills high priority when screening candidates for internships and first jobs.**

### Collaboration Begins with Communication and Networking

Recruiters give communication and networking skills high priority when screening candidates for internships and first jobs. They're looking for candidates who can communicate well both orally and in writing, and who are able to network well with others for collaboration and teamwork. They also want people who maximize social capital through communication and networking so that they can handle conflicts and negotiate successfully. But if you're like many of us, there's work to be done to master these challenges.

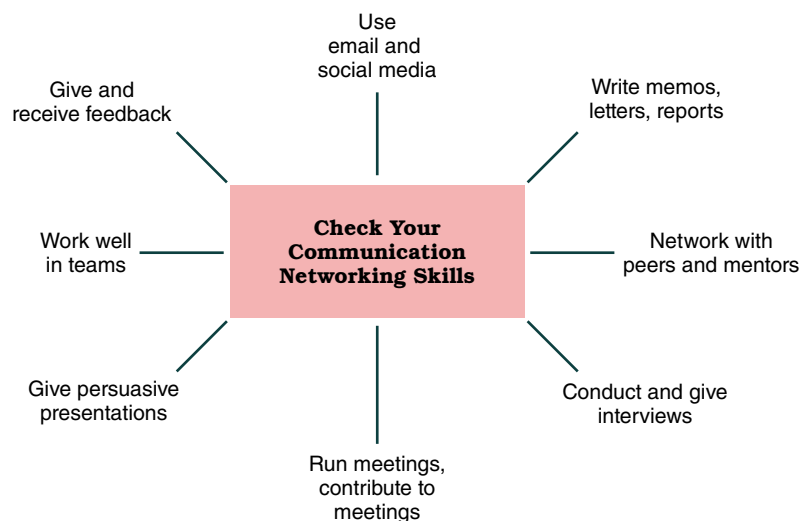
A Canadian Management Centre report states that organizations are not communicating very well with their employees. "Less than half (46%) of Canadian employees are satisfied with internal communications, more than a quarter are dissatisfied...only half (49%) of Canadian employees feel their company is listening to them," the report found.

When it comes to communicating respect in the workplace, an Angus Reid Institute survey found that 43 percent of women complain about sexual harassment at work, which includes leering, taunting, sexual jokes, and derogatory language.

The same social networking skills that are so popular on campuses and among young professionals, can transfer to the workplace. A good networker acts as a *hub*—connected with others; *gatekeeper*—moving information to and from others; and *pulse-taker*—staying abreast of what is happening.

#### Get to Know Yourself Better

Can you convince a recruiter that you are ready to run effective meetings? ... write informative reports? ... deliver persuasive presentations? ... conduct job interviews? ... use email and social media well? network well with peers and mentors? ... keep conflicts constructive and negotiations positive? Where does social capital rank on your own list of personal strengths? Ask friends, co-workers, and family members to rate your communication and networking skills. Turn these ratings into a personal development "To Do" list that you can share with your instructor.



between negotiating parties and keep them focused on relevant issues. The mediator does not issue a ruling or make a decision, but can take an active role in discussions. This may include making suggestions in an attempt to move the parties toward agreement.

**Arbitration**, such as salary arbitration in professional sports, is a stronger form of dispute resolution. It involves a neutral third party, the arbitrator, who acts as a "judge" and issues a binding decision. This usually includes a formal hearing in which the arbitrator listens to both sides and reviews all facets of the case before making a ruling that all parties are required to follow.

Some organizations provide for a process called *alternative dispute resolution*. This approach uses mediation or arbitration, but does so only after direct attempts to negotiate agreements between conflicting parties have failed.

A designated **ombudsperson** who listens to complaints and disputes often plays a key role in this process.

### Learning Check

**LEARNING OBJECTIVE 18.4** Explain ways to negotiate successfully and avoid negotiation pitfalls.

**Be Sure You Can** • differentiate between distributive and principled negotiation • list four rules of principled negotiation • define *bargaining zone* and use this term to illustrate a labour-management wage negotiation • describe the potential pitfalls in negotiation • differentiate between mediation and arbitration

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTIVE 18.1** Identify the elements in the communication process.

- Communication is the interpersonal process of sending and receiving messages.
- Effective communication occurs when the sender and the receiver of a message both interpret it in the same way.
- Efficient communication occurs when the message is sent at low cost for the sender.
- Persuasive communication results in the recipient acting as intended by the sender; credibility earned by expertise and good relationships is essential to persuasive communication.
- Noise is anything that interferes with the effectiveness of communication; common examples are poor utilization of channels, poor written or oral expression, physical distractions, and status effects.

**For Discussion** When, if ever, is it okay to sacrifice effectiveness in order to gain efficiency in communication?

**LEARNING OBJECTIVE 18.2** Describe ways to improve the effectiveness of communication.

- Transparency, in the sense of conveying information to others that is honest, credible, and fully disclosed, is an important way to improve communication in the workplace.
- Interactive management through structured meetings, use of electronic media, and advisory councils can improve the flow of communication from the lower levels of an organization to upper management.
- Active listening, through reflecting back and paraphrasing, can help overcome barriers and improve communication.
- Constructive feedback is specific, direct, well-timed, and limited to things the receiver can change.
- Office architecture and space designs can be used to improve communication in organizations.
- Proper choice of channels and use of information technology can improve communication in organizations.
- Greater cross-cultural awareness and sensitivity are important if we are to overcome the negative influences of ethnocentrism on communication.

**For Discussion** Which of the rules of active listening do people most often fail to adhere to?

**LEARNING OBJECTIVE 18.3** Discuss how conflict can be functional and managed successfully.

- Conflict occurs when there are disagreements over substantive or emotional issues.
- Moderate levels of conflict are functional for performance and creativity; too little or too much conflict becomes dysfunctional.
- Conflict may be managed through structural approaches that involve changing goals, resources, or work arrangements.
- Personal conflict management styles include avoidance, accommodation, compromise, competition, and collaboration.
- True conflict resolution involves problem solving through a win-win collaborative approach.

**For Discussion** When can it be better to avoid conflict rather than to engage in it?

**LEARNING OBJECTIVE 18.4** Explain ways to negotiate successfully and avoid negotiation pitfalls.

- Negotiation is the process of making decisions in situations in which participants have different preferences.
- Substance goals concerned with outcomes and relationship goals concerned with processes are both important in successful negotiation.
- Effective negotiation occurs when issues of substance are resolved while the process maintains good working relationships.
- Distributive negotiation emphasizes win-lose outcomes; integrative negotiation emphasizes win-win outcomes.
- Common negotiation pitfalls include the myth of the fixed pie, overconfidence, too much telling and too little hearing, and ethical misconduct.
- Mediation and arbitration are structured approaches to third-party dispute resolution.

**For Discussion** How can you successfully negotiate with someone who is trapped in the “myth of the fixed pie”?

## Chapter Glossary

**Accommodation** A conflict management style in which the person plays down differences and highlights similarities to reduce conflict.

**Active listening** The process of taking action to help someone say exactly what he or she really means or wants to communicate.

**Arbitration** The process whereby a neutral third party issues a binding decision to resolve a dispute.

**Avoidance** A conflict management style in which the person pretends that a conflict doesn't really exist.

**Bargaining zone** The space between one party's minimum reservation point and the other party's maximum reservation point.

**Collaboration** A conflict management style in which the person works through conflict differences and solves problems so everyone wins.

**Communication** The process of sending and receiving symbols with meanings attached.

**Communication channel** The pathway through which a message moves from sender to receiver.

**Communication transparency** The open sharing of honest and complete information about the organization and workplace affairs.

**Competition** A conflict management style in which the person uses force, superior skill, or domination to "win" a conflict.

**Compromise** A conflict management style in which each party to a conflict gives up something of value to the other.

**Conflict** A disagreement over issues of substance and/or an emotional antagonism.

**Conflict resolution** The removal of the substantive and emotional reasons for a conflict.

**Credible communication** Communication that earns trust, respect, and integrity in the eyes of others.

**Distributive negotiation** Negotiation in which each party makes claims for certain preferred outcomes.

**Dysfunctional conflict** A disagreement that is destructive and hurts task performance.

**Effective communication** Communication in which the intended meaning is fully understood by the receiver.

**Effective negotiation** The resolution of issues of substance while maintaining a positive process.

**Efficient communication** Communication that occurs at minimum cost.

**Emotional conflict** Conflict that results from feelings of anger, distrust, dislike, fear, and resentment, as well as from personality clashes.

**Ethnocentrism** The tendency to consider one's culture superior to any and all others.

**Feedback** The process of telling someone else how you feel about something that person did or said.

**Functional conflict** Conflict that is constructive and helps task performance.

**Information filtering** The intentional distortion of information to make it appear more favourable to the recipient.

**Lose-lose conflict** Conflict in which no one achieves their true desires, and the underlying reasons for conflict remain.

**Mediation** A process whereby a neutral party tries to help conflicting parties improve communication to resolve their dispute.

**Mixed message** What results when words communicate one message while actions, body language, or appearance communicate something else.

**Negotiation** The process of making joint decisions when the parties involved have different preferences.

**Noise** Anything that interferes with the effectiveness of communication.

**Non-verbal communication** Communication that takes place through gestures and body language.

**Ombudsperson** A person designated by an organization to listen to complaints and disputes in an attempt to resolve them.

**Open book management** What occurs when managers provide employees with essential financial information about their companies.

**Persuasive communication** Communication that presents a message in a manner that causes the other person to support it.

**Principled negotiation or integrative negotiation** Negotiation in which the orientation is win-win and the goal is to achieve a final agreement based on the merits of each party's claims.

**Proxemics** The use of space in communication.

**Relationship goals** Goals in negotiation that are concerned with the ways people work together.

**Social capital** A capacity to get things done with the support and help of others.

**Substance goals** Goals in negotiation that are concerned with outcomes.

**Substantive conflict** Conflict that involves disagreements over goals, resources, rewards, policies, procedures, and job assignments.

**Win-lose conflict** Conflict in which one party achieves its desires, and the other party does not.

**Win-win conflict** Conflict that is resolved to everyone's benefit.

## Self-Test 18

### Multiple-Choice Questions

1. When the intended meaning of the sender and the interpreted meaning of the receiver are the same, a communication is \_\_\_\_\_.

- a. effective
- b. persuasive
- c. selective
- d. efficient

2. The use of paraphrasing and reflecting back what someone else says in communication is characteristic of \_\_\_\_\_.

- a. mixed messages
- b. active listening
- c. projection
- d. lose-lose conflict

3. Which is the best example of a supervisor making feedback descriptive rather than evaluative?

- a. You are a slacker.
- b. You are not responsible.
- c. You cause me lots of problems.
- d. You have been late to work three days this month.

4. When interacting with an angry co-worker who is complaining about a work problem, a manager skilled at active listening would most likely try to \_\_\_\_\_.

- a. suggest that the conversation be held at a better time
- b. point out that the conversation would be better held at another location
- c. express displeasure in agreement with the co-worker's complaint
- d. rephrase the co-worker's complaint to encourage him to say more

5. When a manager uses email to send a message that is better delivered face to face, the communication process suffers from \_\_\_\_\_.

- a. semantic problems
- b. a poor choice of communication channels
- c. physical distractions
- d. information overload

6. If a visitor to a foreign culture makes gestures commonly used at home even after learning that they are offensive to locals, the visitor can be described as \_\_\_\_\_.

- a. a passive listener
- b. ethnocentric
- c. more efficient than effective
- d. an active listener

7. In order to be consistently persuasive when communicating with others in the workplace, a manager should build credibility by \_\_\_\_\_.

- a. making sure rewards for compliance are clear
- b. making sure penalties for noncompliance are clear
- c. making sure they know who is the boss
- d. making sure good relationships have been established

8. A manager who understands the importance of proxemics in communication would be likely to \_\_\_\_\_.

- a. avoid sending mixed messages
- b. arrange workspaces so as to encourage interaction
- c. be very careful in the choice of written and spoken words
- d. make frequent use of email messages to keep people well informed

9. A conflict is most likely to be functional and have a positive impact on performance when it is \_\_\_\_\_.

- a. based on emotions
- b. resolved by arbitration
- c. caused by resource scarcities
- d. of moderate intensity

10. An appeal to higher-level goals is an example of a(n) \_\_\_\_\_ approach to conflict management.

- a. avoidance
- b. structural
- c. dysfunctional
- d. self-serving

11. The conflict management style with the greatest potential for true conflict resolution involves \_\_\_\_\_.

- a. compromise
- b. competition
- c. smoothing
- d. collaboration

12. When a person is highly cooperative but not very assertive in approaching conflict, the conflict management style is referred to as \_\_\_\_\_.

- a. avoidance
- b. authoritative
- c. smoothing
- d. collaboration

13. The three criteria of an effective negotiation are quality, cost, and \_\_\_\_\_.

- a. harmony
- b. timeliness
- c. efficiency
- d. effectiveness

14. In classic two-party negotiation, the difference between one party's minimum reservation point and the other party's maximum reservation point is known as the \_\_\_\_\_.

- a. critical choice
- b. arena of indifference
- c. myth of the fixed pie
- d. bargaining zone

15. The first rule of thumb for gaining integrative agreements in negotiations is to \_\_\_\_\_.

- a. separate the people from the problems
- b. focus on positions
- c. deal with a minimum number of alternatives
- d. avoid setting standards for measuring outcomes

### Short-Response Questions

16. Briefly describe how a manager would behave as an active listener when communicating with subordinates.

17. Explain the relationship between conflict intensity and performance.

18. How do tendencies toward assertiveness and cooperativeness in conflict management result in win-lose, lose-lose, and win-win outcomes?

19. What is the difference between substance and relationship goals in negotiation?

### Essay Question

20. After being promoted to store manager for a new branch of a large department store chain, Mei-Yu was concerned about communication in the store. Six department heads reported directly to her, and 50 full-time and part-time sales associates reported to them. Given this structure, Mei-Yu worried about staying informed about all store operations, not just those coming to her attention as the senior manager. What steps might Mei-Yu take to establish and maintain an effective system of transparency and openness in this store?

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Work versus Family

Your boss just sent a text message saying that he wants you at a meeting starting at 3 p.m. Your daughter is performing in a program at her elementary school at 4:00 p.m., and she expects you to attend. You're out of the office making previously scheduled sales calls that put you close to the school in the early afternoon. The office is all the way across town, and going there will mean you can't get back to the school in time to see your daughter's performance. Do you call your boss, text him, or send him an email? What exactly will you say?

#### 2. Bearer of Bad News

The restaurant you own is hit hard by the COVID-19 crisis. Even after getting permission to re-open customer count is down. So is the average dinner bill. You have a staff of 12, but it's obvious that you have to

cut back so that the payroll covers no more than 8. One of the servers has just told you that a regular customer is tweeting that the restaurant is going to close its doors after the weekend. The staff is "buzzing" about the news and customers are asking questions. How do you deal with this situation?

#### 3. Can't Get Along

Two of your co-workers are constantly bickering. They just can't seem to get along, and it's starting to affect the rest of the team—including you. Their bickering seems to have something to do with a difference in wages. One has been there a long time while the other is relatively new. But the newcomer earns more than the veteran. The other team members think it's time to take the problem to the team leader, and they have asked you to do it. You're willing, but want to give the team leader not just the message but also a suggested plan of action. What will it be?

## Reflect on the Self-Assessment

### Conflict Management Strategies

#### Instructions

Think of how you behave in conflict situations in which your wishes differ from those of others. In the space to the left, rate each of the following statements on a scale of "1" = "not at all" to "5" = "very much." *When I have a conflict at work, school, or in my personal life, I do the following:*<sup>56</sup>

- \_\_\_\_\_ 1. I give in to the wishes of the other party.
- \_\_\_\_\_ 2. I try to realize a middle-of-the-road solution.
- \_\_\_\_\_ 3. I push my own point of view.
- \_\_\_\_\_ 4. I examine issues until I find a solution that really satisfies me and the other party.
- \_\_\_\_\_ 5. I avoid a confrontation about our differences.
- \_\_\_\_\_ 6. I concur with the other party.
- \_\_\_\_\_ 7. I emphasize that we have to find a compromise solution.
- \_\_\_\_\_ 8. I search for gains.
- \_\_\_\_\_ 9. I stand for my own and the other's goals.
- \_\_\_\_\_ 10. I avoid differences of opinion as much as possible.
- \_\_\_\_\_ 11. I try to accommodate the other party.
- \_\_\_\_\_ 12. I insist we both give in a little.
- \_\_\_\_\_ 13. I fight for a good outcome for myself.
- \_\_\_\_\_ 14. I examine ideas from both sides to find a mutually optimal solution.

- \_\_\_\_\_ 15. I try to make differences seem less severe.
- \_\_\_\_\_ 16. I adapt to the other party's goals and interests.
- \_\_\_\_\_ 17. I strive whenever possible toward a 50-50 compromise.
- \_\_\_\_\_ 18. I do everything to win.
- \_\_\_\_\_ 19. I work out a solution that serves my own as well as others' interests as much as possible.
- \_\_\_\_\_ 20. I try to avoid a confrontation with the other person.

#### Scoring

Total your scores for items 1. to 20. as follows:

Yielding tendency: **1. + 6. + 11. + 16.** = \_\_\_\_\_.

Compromising tendency: **2. + 7. + 12. + 17.** = \_\_\_\_\_.

Forcing tendency: **3. + 8. + 13. + 18.** = \_\_\_\_\_.

Problem-solving tendency: **4. + 9. + 14. + 19.** = \_\_\_\_\_.

Avoiding tendency: **5. + 10. + 15. + 20.** = \_\_\_\_\_.

#### Interpretation

Each of the scores above approximates one of the conflict management styles discussed in the chapter. Look back to Figure 18.5 and make the matchups. Although each style is sometimes used in management, only collaboration or problem solving leads to true conflict resolution. You should consider any patterns that may be evident in your scores and think about how best to handle future conflict situations in which you become involved.

## Contribute to the Class Exercise

### Feedback Sensitivities

#### Preparation

Indicate the degree of discomfort you would feel in each situation below by circling the appropriate number:<sup>57</sup>

1. High discomfort
2. Some discomfort
3. Undecided
4. Very little discomfort
5. No discomfort

1. Telling an employee who is also a friend that she or he must stop coming to work late.	1 2 3 4 5
2. Talking to an employee about his or her performance on the job.	1 2 3 4 5
3. Asking an employee for comments about your rating of her or his performance.	1 2 3 4 5
4. Telling an employee who has problems in dealing with other employees that he or she should do something about it.	1 2 3 4 5
5. Responding to an employee who is upset over your rating of his or her performance.	1 2 3 4 5
6. Responding to an employee's becoming emotional and defensive when you tell her or him about mistakes on the job.	1 2 3 4 5
7. Giving a rating that indicates improvement is needed to an employee who has failed to meet minimum requirements of the job.	1 2 3 4 5
8. Letting a subordinate talk during an appraisal interview.	1 2 3 4 5
9. Having an employee challenge you to justify your evaluation during an appraisal interview.	1 2 3 4 5
10. Recommending that an employee be discharged.	1 2 3 4 5
11. Telling an employee that you are uncomfortable having to judge his or her performance.	1 2 3 4 5
12. Telling an employee that her or his performance can be improved.	1 2 3 4 5
13. Telling an employee that you will not tolerate his or her taking extended coffee breaks.	1 2 3 4 5
14. Telling an employee that you will not tolerate her or his making personal telephone calls on company time.	1 2 3 4 5

#### Instructions

Form three-person teams as assigned by your instructor. Identify the three situations with which each person indicates the most discomfort. Then each team member should practise performing the behaviours

outlined in each situation with another member, while the third member acts as an observer. Listen to feedback from the observer and act out the behaviours again, perhaps with different members of the group practising each behaviour. When finished, discuss the overall exercise.

## Manage a Critical Incident

### Headphones on in the Office

#### Situation

Sean has just started a new job in your company, where everyone works in an open-plan office. He's just out of university and is happy and getting into his new responsibilities. A music lover, he has been wearing earbuds off and on during the day while working on the computer at his workstation. Yesterday an older colleague came over and offered him some advice. "You should take off the headphones in the office," she said, "it's not the way we do things here. People are starting to say that you aren't a team player." Now Sean is relating the incident to you. His point is that headphones today are as common in some

offices as they are on the streets. For him it's "just normal to listen to music while I work" and "it keeps me relaxed so that I work better." But as a newcomer to the company and its corporate culture, Sean is perceived as sending out a non-verbal message when he puts the earbuds in: "Do not disturb!" Sean is looking at you and expecting a reply, probably one that takes his side.

#### Questions

What do you say, and why? Do you do more than speak with Sean about this situation, and what it might represent in terms of work expectations and the new generation of workers? If so, what will you do and why?

## Collaborate on the Team Activity

### How Words Count

#### Question

What words do people use in organizations that carry unintended meanings that create awkward consequences for the speaker?

#### Research Directions

1. Brainstorm with others to make a list of words that you have used or heard used by people that can sometimes cause other persons to react or respond negatively and even with anger toward the person speaking them.
2. For each word on the list, write its “positive” meaning and “negative” meaning.
3. Choose two or three of the words that seem especially significant. Write role-plays that display speakers using each word in the positive sense in conversations and in which the words are interpreted positively by receivers.
4. For these same words, write role-plays that display speakers using each word conversationally with positive intentions but in which they are interpreted negatively by receivers.
5. Explain the factors that influence whether the same words are interpreted positively or negatively by receivers.
6. Draft a report that explains how people in organizations can avoid getting trapped unintentionally in problems caused by ill-informed word choice in their conversations.

## Analyze the Case Study

### Case 18.1 Snapchat | Snap the Story of the Moment

Go to Management Cases for Critical Thinking at the end of the book to find this case.



Bloomberg/Getty Images

## Operations and Services Management

Win the world with the essentials of operations and services management

Jeff Bezos's Amazon has found a way to optimize its operations and service management. The online retailer's history is one of rapid growth through relentless operational innovations. Amazon reshaped supply chain management by strategically placing warehouse locations, adding sophisticated technology

driven inventory distribution, and developing multi-tier inventory management, which all helped to achieve the shortest possible time between customer order and product delivery. And, Amazon achieved all that plus the added bonus of Prime pricing. This focus on operations has helped Amazon become one of the most well known and most profitable organizations in the world.



## Chapter Quick Start

Organizations today operate in a world that places a premium on productivity, technology utilization, quality, customer service, and innovation. Businesses large and small are struggling and innovating as they try to succeed in a world of intense competition, continued globalization of markets and business activities, and rapid technological change.<sup>1</sup> Just how top executives approach these challenges differs from one organization to the next, but they all focus on moving services and products into the hands of customers in ways that create loyalty and profits.<sup>2</sup>

### OUTLINE

**A.1** Operations Management Essentials

**A.2** Value Chain Management

**A.3** Service and Product Quality

**A.4** Work Processes

### LEARNING OBJECTIVES

**A.1** Identify the essentials of operations and services management.

**A.2** Explain what value chain management encompasses.

**A.3** Describe how organizations manage customer service and product quality.

**A.4** Explain how work processes can be designed for productivity.

## A.1 Operations Management Essentials

### LEARNING OBJECTIVE A.1

Identify the essentials of operations and services management.

#### Learn More About

Manufacturing and services settings • Productivity and competitive advantage • Operations technologies

In one way or another, all organizations must master the challenges of **operations management**—getting work done by managing the systems through which organizations transform resources into finished products, goods, and services for customers and clients.<sup>3</sup> The span of operations management covers the full input-throughput-output cycle. Typical operations management decisions address such things as resource acquisition, inventories, facilities, workflows, technologies, and product quality.

## Manufacturing and Services Settings

The essentials of operations management apply to all types of organizations, not just to product manufacturers. Yes, Xerox transforms resource inputs into quality photocopier machines; BMW transforms these inputs into attractive, high-performance automobiles; and Roots transforms them into fashionable clothing and accessories. But in the services sector, WestJet transforms resource inputs into lower-cost, dependable air travel; the Bank of Nova Scotia transforms them into financial services; Toronto's Hospital for Sick Children transforms them into health care services; and governments transform them into public services.

## Productivity and Competitive Advantage

The core issues in operations and services management boil down to how “productivity” and “competitive advantage” are achieved. These goals focus management attention on the various processes and activities that turn resources—in the form of people, materials, equipment, and capital—into finished goods and services.

**Productivity** Operations management in both manufacturing and services is very concerned with **productivity**—a quantitative measure of the efficiency with which inputs are transformed into outputs. The basic productivity equation is:

$$\text{Productivity} = \text{Output/Input}$$

If, for example, a local Canadian Blood Services centre collects 100 units of donated blood in one eight-hour day, its productivity would be 12.5 units per hour. If we were in charge of centres in several locations, the productivity of the centres could be compared on this measure. Alternatively, one might compare the centres using a productivity measure based not on hours of inputs, but on numbers of full-time staff. Using this input measure, a centre that collects 500 units per week with two full-time staff members (250 units per person) is more productive than one that collects 600 units per week with three (200 units per person).

When Microsoft studied the productivity of office workers in an online survey of more than 38,000 people across 200 countries, the results showed a variety of productivity shortfalls.<sup>4</sup> Although people reported working 47 hours per week, they were unproductive during 17 of the hours, and 69 percent of respondents said time spent in meetings was unproductive. Productivity obstacles included unclear objectives and priorities, as well as procrastination and poor communication.

**Competitive Advantage** Inefficiencies like those reported by Microsoft are costly; lost productivity by any measure is a drain on organizational competitiveness. Operating efficiencies that increase productivity, by contrast, are among the ways organizations gain **competitive advantage**—defined earlier in the book as a core competency that allows an organization to outperform competitors.<sup>5</sup> Potential drivers of competitive advantage include such things as the ability to outperform based on product innovation, customer service, speed to market, manufacturing flexibility, and product or service quality. But regardless of how competitive advantage is achieved, the key result is the same: an ability to consistently do something of high value that one's competitors cannot replicate quickly or do as well.

Consider the example of Panasonic—maker of cell phones, televisions, cameras, and other electronics. When productivity at Matsushita's plant in Saga, Japan, doubled in a four-year period, the executives didn't sit back and celebrate. They wanted still more. A huge set of conveyors was removed and robots were brought in along with sophisticated software to operate them. Plant manager Hitoshi Hirata says: "It used to be 2.5 days into a production run before we had our first finished product. But now the first is done in 40 minutes." One might expect Hirata to relax and take pleasure in a job well done. Instead, he goes on to say: "Next year we'll try to shorten the cycle even more."<sup>6</sup>

## Operations Technologies

The foundation of any transformation process is **technology**—the combination of knowledge, skills, equipment, and work methods used to transform resource inputs into organizational outputs. It is the way tasks are accomplished using tools, machines, techniques, and human know-how. The availability of appropriate technology is a cornerstone of productivity, and the nature of the core technologies in use is an important element in competitive advantage.

**Manufacturing Technology** It is common to classify manufacturing technology into three categories: small-batch production, mass production, and continuous-process

production.<sup>7</sup> In **small-batch production**, such as in a racing bicycle shop, a variety of custom products are tailor-made to order. Each item or batch of items is made somewhat differently to fit customer specifications. The equipment used may not be elaborate, but a high level of worker skill is often needed. In **mass production**, such as in a company that manufactures popular brands of recreational bicycles, the firm produces a large number of uniform products in an assembly-line system. Workers are highly dependent on one another as the product passes from stage to stage until completion. Equipment may be sophisticated, and workers often follow detailed instructions while performing simplified jobs.

Organizations using **continuous-process production** continuously feed raw materials through a highly automated production system with largely computerized controls. Such systems are equipment-intensive, but a relatively small labour force can often operate them. Classic examples are oil refineries and power plants.

In manufacturing technology today, the following trends are evident:<sup>8</sup>

- There is increased use of *robotics*, where computer-controlled machines perform physically repetitive work with consistency and efficiency.<sup>9</sup> If you visit any automobile manufacturer today, you will see that robotics is a major feature of the operations.
- There is increased use of *flexible manufacturing systems* that allow automated operations to quickly shift from one task or product type to another. The goal is to combine flexibility with efficiency, allowing what is sometimes called *mass customization*—efficient mass production of products meeting specific customer requirements.
- There is increased use of *cellular layouts* that place machines doing different work together, so that the movement of materials from one machine to the other is as efficient as possible. Cellular layouts also accommodate more teamwork on the part of machine operators.
- There is increased use of *computer-integrated manufacturing*, in which product designs, process plans, and manufacturing are driven from a common computer platform. Such approaches are now integrated with the Internet, so that customer purchasing trends in retail locations can be spotted and immediately integrated into production schedules at a manufacturing location.
- There is increased focus on *lean production* that continuously innovates and employs best practices to keep increasing production efficiencies. A master is Toyota. A *BusinessWeek* headline once said, "no one does lean like the Japanese."<sup>10</sup>
- There is increased attention to *design for disassembly*. The goal here is to design and manufacture products in ways that consider how their component parts will be recycled at the end of their lives.
- There is increased value to be found in *remanufacturing*. Instead of putting things together, remanufacturing takes used items apart and rebuilds them as products to be used again. One estimate is that using remanufactured materials saves up to 30 percent on costs.

**Service Technology** When it comes to service technology, the approaches are slightly different.<sup>11</sup> In health care, education, and related services, **intensive technology** focuses the efforts of many people with special expertise on the needs of patients, students, or clients. In banks, real estate firms, insurance companies, employment agencies, and others like them, **mediating technology** links together parties seeking a mutually beneficial exchange of values—typically a buyer and a seller. And **long-linked technology** can function like mass production, where a client is passed from point to point for various aspects of service delivery.

## Learning Check

**LEARNING OBJECTIVE A.1** Identify the essentials of operations and services management.

**Be Sure You Can** • define operations management • state the productivity equation • define competitive advantage • list alternative types of manufacturing and service technologies • discuss several trends in manufacturing technologies

## A.2 Value Chain Management

**LEARNING OBJECTIVE A.2**

Explain what value chain management encompasses.

### Learn More About

Value chain analysis • Supply chain management  
• Inventory management • Break-even analysis

Whereas productivity may be considered the major efficiency measure in both manufacturing and services, “value creation”

should be the target effectiveness measure. And in this sense, **value creation** means that the end result of a task or activity or work process is worth more than the effort and resources invested to accomplish it. In a manufacturing operation, for example, value is created when a raw material such as copper wire is combined with transistors and other electrical components to create a computer chip. In a service setting, value is created when a trained financial analyst provides a customer with advice that leads to profitable brokerage transactions in a stock portfolio.

## Value Chain Analysis

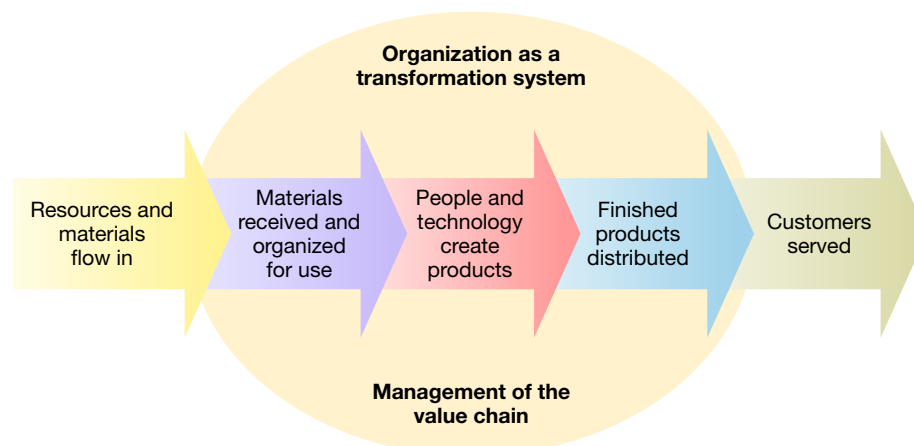
An organization’s **value chain**, as shown in **Figure A.1**, is the specific sequence of activities that results in the creation of products or services with value for customers. The value chain includes all *primary activities*—such as inbound logistics, operations, outbound logistics, marketing, sales, and after-sales service—as well as *support activities*—such as procurement, human resource management, technology development and support, and financial and infrastructure maintenance.<sup>12</sup>

Analysis of any organization’s value chain will show an intricate sequence of activities that step by step adds value to inputs, right up to the point at which finished goods or services are delivered to customers or clients.

As the customer of an online retailer such as Chapters Indigo, you can think of value in such terms as the price you pay, the quality you receive, and the timeliness of the delivery. From the standpoint of value chain management, Chapters Indigo’s value creation process can be examined from the point where books are purchased, to their transportation and warehousing, to electronic inventoring and order processing, to packaging and distribution to the ultimate customer.

## Supply Chain Management

An essential element in any value chain is the relationship between the organization and the many people and businesses that supply it with needed resources and materials. All of these supplier relationships on the input side of the



**FIGURE A.1** Elements in an organization’s value chain.

input-throughput-output action cycle must be well managed for productivity.

The concept of **supply chain management**, or SCM, involves strategic management of all operations linking an organization and its suppliers, including such areas as purchasing, manufacturing, transportation, and distribution.<sup>13</sup> The goals of supply chain management are to achieve efficiency in all aspects of the supply chain while ensuring on-time availability of quality resources and products. Walmart is still considered a master of supply chain management. As one example, the firm uses an advanced information system that continually updates inventory records and sales forecasts based on point-of-sale computerized information. Suppliers access this information electronically, allowing them to adjust their operations and rapidly ship replacement products to meet the retailer's needs. Amazon might now be considered the new master.

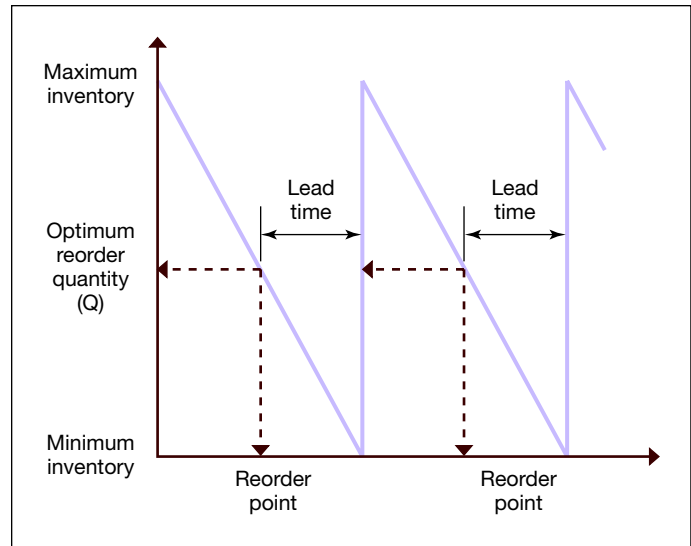
Purchasing plays an important role in supply chain management. Just as individuals try to control how much they spend, a thrifty organization must be concerned about how much it pays for what it buys. To leverage buying power, more organizations are centralizing purchasing to allow buying in volume. They are trimming supply chains and focusing on a small number of suppliers with whom they negotiate special contracts, gain quality assurances, and get preferred service. They are also finding ways to work together in supplier-purchaser partnerships. It is now more common, for example, for parts suppliers to maintain warehouses in their customers' facilities. The customer provides the space; the supplier does the rest. The benefits to the customer are lower purchasing costs and preferred service; the supplier gains an exclusive customer contract and more sales volume.

## Inventory Management

Another important issue in the value chain is management of **inventory**, the amount of materials or products kept in storage. Organizations maintain a variety of inventories of raw material, work in process, and finished goods. Whenever anything is held in inventory, there is a cost associated with it, and controlling these costs is an important productivity tool.

**Economic Order Quantity** The goal of inventory control is to make sure that a particular inventory is just the right size to meet performance needs, thus minimizing the cost. The **economic order quantity** (EOQ) method of inventory control involves ordering a fixed number of items every time an inventory level falls to a predetermined point. When this point is reached, as shown in **Figure A.2**, a decision is automatically made (typically by computer) to place a standard order to replenish the stock. The order sizes are mathematically calculated to minimize costs of inventory. The best example is the local supermarket, where hundreds of daily orders are routinely made on this basis.

**Just-in-Time Systems** Another approach to inventory control is **just-in-time scheduling** (JIT), made popular by the Japanese. JIT systems reduce costs and improve workflow



**FIGURE A.2** Inventory control by economic order quantity (EOQ).

by scheduling materials to arrive at a workstation or facility “just in time” to be used. Since almost no inventories are maintained, the just-in-time approach is an important productivity tool. When a major hurricane was predicted to hit Florida, for example, Walmart’s computer database anticipated high demand for, of all things, strawberry Pop-Tarts. Their pre-storm popularity has a lot to do with their long shelf-lives and that you can eat them with or without a toaster should the power go out during a hurricane. JIT kicked in to deliver them to the stores “just in time” for the storm.<sup>14</sup>

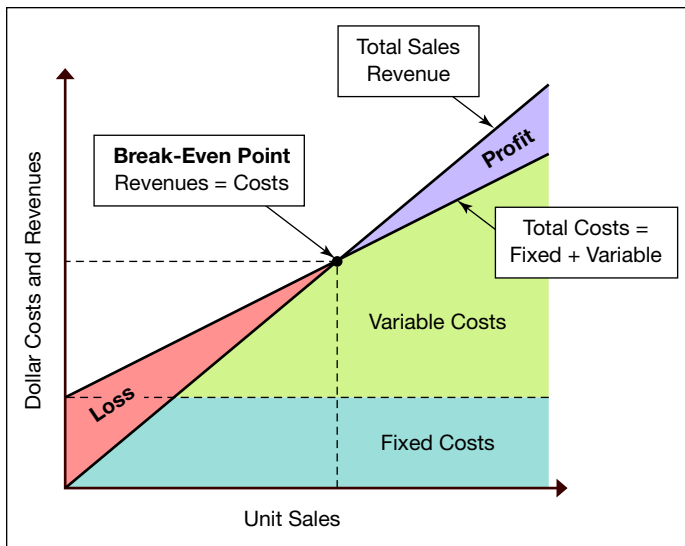
## Break-Even Analysis

Another important value chain management issue relates to capacity planning for the production of products or services, and pricing them for sales. In basic business terms: too much capacity raises costs, and too little capacity means unmet sales; too low a price fails to deliver revenues that cover costs, and too high a price drives away customers. Thus, when business executives are deliberating new products or projects, a frequent question is: “What is the ‘break-even point?’”

The graph in **Figure A.3** shows that the **break-even point** is where revenues just equal costs. You can also think of it as the point where losses end and profit begins. The formula for calculating break-even points is:

$$\text{Break-even point} = \text{Fixed costs} / (\text{price} - \text{Variable costs})$$

Managers use **break-even analysis** to improve control and perform “what if” calculations under different projected cost and revenue conditions. See if you can calculate some break-even points, doing the types of analyses that business executives perform every day. Suppose the proposed target price for a new product is \$8 per unit, fixed costs are \$10,000, and variable costs are \$4 per unit. What sales volume is required to break even? (Answer: the break-even point is at 2,500 units.) What happens if you are good at cost control and can keep



**FIGURE A.3** Break-even analysis.

variable costs to \$3 per unit? (Answer: the break-even point is at 2,000 units.) Now, suppose you can only produce 1,000 units in the beginning and at the original costs. At what price must you sell them to break even? (Answer: \$14.)

## Learning Check

**LEARNING OBJECTIVE A.2** Explain what value chain management encompasses.

**Be Sure You Can** • define *value creation* • describe the value chain for an organization • explain supply chain management • define *economic order quantity* • explain JIT • define *break-even point* and *break-even analysis* • use the formula to calculate break-even points

## A.3 Service and Product Quality

**LEARNING OBJECTIVE A.3**

Describe how organizations manage customer service and product quality.

### Learn More About

Customer relationship management • Quality management • Statistical quality control

Some years ago, at a time when North American industry was first coming to grips with fierce competition from Japanese

products, American quality pioneer J.M. Juran challenged an audience of Japanese executives with a prediction. He warned them against complacency, suggesting that North America would bounce back in business competitiveness.<sup>15</sup> North American businesses have since done a lot to live up to Juran's prediction, but the challenges of delivering consistent quality are still apparent. Have you ever heard conversations like this one?

“Here we go again—cut costs, cut costs, cut costs. How far can you cut costs and still have a viable operation? I think these top managers must have all graduated from the same MBA program, one that was dominated by ‘number crunchers.’ All they seem to know is how to cut costs. But where is it getting us? I see low morale, increasing problems meeting targets because we’re all so overloaded, and corners being cut that could well turn into major quality problems at some point. I don’t know about you, but I’m about fed up with it all.”

“I know, just look at the wait lines at some service establishments. How long does it take you to get to the car rental counter? Most service establishments these days are cutting back so far on staff that there are few people left to actually serve their customers. And the next time you’re in a restaurant, keep your eyes open. The chances are that the servers are being run ragged because there just aren’t enough of them. Don’t you wonder how much could be added to the bottom lines of these firms if they would just pay more to add staff at levels that customers would appreciate?”

A *Harvard Business Review* survey reports that North American business leaders rank customer service and product quality as the first and second most important goals in the success of their organizations.<sup>16</sup> Notwithstanding the goals, there is often a disconnect between intentions and results. In a survey by the market research firm Michelson & Associates, poor service and product dissatisfaction were also ranked number 1 and number 2, respectively, as reasons why customers abandon a retail store.<sup>17</sup>

Reaching the twin goals of providing great service and quality products isn’t always easy. But when they are pursued relentlessly, these goals can be an important source of competitive advantage. Bill Gates once said: “Your most unhappy customers are your greatest source of learning.” Just imagine what would happen if every customer or client contact for an organization was positive. Not only would these customers and clients return again and again, but they would also tell others and expand the customer base.

## Customer Relationship Management

Without a doubt, customers have very high expectations of today’s organizations. Like you, most want three things: (1) high quality, (2) low price, and (3) on-time delivery of the goods and services they buy. And, if customers do not get all of these, they get irritated. A survey of over 1,000 adult Canadians found that 34 percent had lost their temper with a customer service representative in the past year due to poor customer

relationship management. Because research shows that, on average, Canadians tell 13 people about their good customer relations experiences and 21 people about their bad experiences, these findings have important consequences for a company's reputation.<sup>18</sup>

### Essentials of Customer Relationship Management

Many organizations now use the principles of **customer relationship management** to establish and maintain high standards of customer service.<sup>19</sup> Known as CRM, this approach uses the latest information technologies to maintain intense communication with customers as well as to gather and use data regarding their needs and desires. At Marriott International, for example, CRM is supported by special customer management software that tracks information on customer preferences. When you check in, the likelihood is that your past requests for things like a king-size bed, no smoking room, and Internet access are already in your record. Says Marriott's chairman: "It's a big competitive advantage."<sup>20</sup>

There are probably many times in your experiences as a customer when you wonder why more managers don't get this message. Consider, for example, the case of Mona Shaw, a 76-year-old retired nurse. After arriving at an office of U.S. communications provider Comcast to complain about poor installation of cable TV service to her home, she sat on a bench for two hours waiting to see a manager. She then left and came back with a hammer. She smashed a keyboard and telephone in the office, yelling: "Have I got your attention now?" It cost Shaw an arrest and a \$375 (U.S.) fine, but she became a media sensation and a rallying point for unhappy customers everywhere. As for Comcast, a spokesperson said: "We apologize for any customer service issues that Ms. Shaw experienced."<sup>21</sup>

Comcast's apology is nice, but don't you also wonder: Did the system change as a result of this incident? Was customer relationship management engaged to ensure that service improved for Shaw and other customers in the future? Was the experience of this branch incident reviewed by top management and the learning disseminated throughout Comcast operations across the United States? Or did things quickly slide back into business as usual?

**External and Internal Customers** Customer relationship management applies equally to external and internal

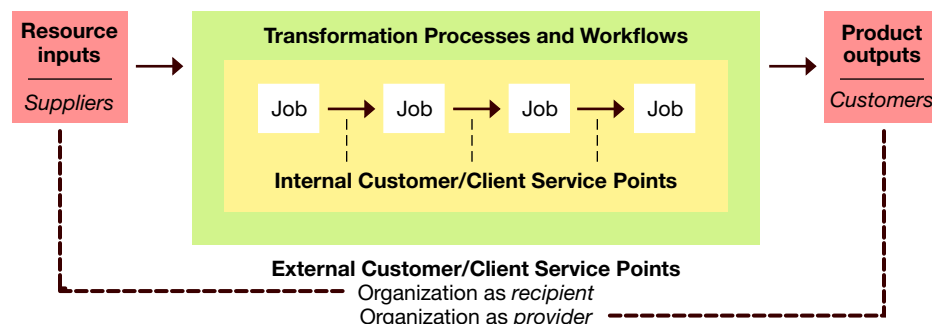
customers. **Figure A.4** depicts the complex internal operations of the organization, as well as its interdependence with the external environment. In this figure, the organization's *external customers* purchase the goods produced or use the services provided. They may be industrial customers—other firms that buy a company's products for use in their own operations—or they may be retail customers or clients who purchase or use the goods and services directly. *Internal customers*, by contrast, are found within the organization. They are the individuals and groups who use or otherwise depend on one another's work in order to do their own jobs well.

## Quality Management

When the topic of quality was first introduced in Chapter 2, we discussed how "world-class organizations" embed quality in all aspects of their operations.<sup>22</sup> What do SE Health, CMA Canada, Hill & Knowlton Canada, Trillium Health Centre, and G.E. Aviation have in common? They are all past recipients of the Canada Awards for Excellence, one of Canada's highest levels of quality recognitions. These and other organizations make exceptional progress toward establishing Canada as a world leader in quality.<sup>23</sup>

The work of W. Edwards Deming is a cornerstone of the quality movement. His approach to quality emphasizes constant innovation, use of statistical methods, and commitment to training in the fundamentals of quality assurance. One outgrowth of his work is **total quality management**, or TQM. This is a process that makes quality principles part of the organization's strategic objectives, applying them to all aspects of operations and striving to meet customers' needs by doing things right the first time.

Most TQM approaches insist that the total quality commitment applies to everyone in an organization and throughout the value chain—from resource acquisition and supply chain management, through production and into the distribution of finished goods and services, and ultimately to customer relationship management. Both TQM and the Deming approach are closely tied to the emphasis on **continuous improvement**—always looking for new ways to improve on current performance. Again, this applies throughout the value chain.<sup>24</sup> The basic notion driving continuous improvement is that one



**FIGURE A.4** The importance of external and internal customers.

can never be satisfied; something always can and should be improved on.

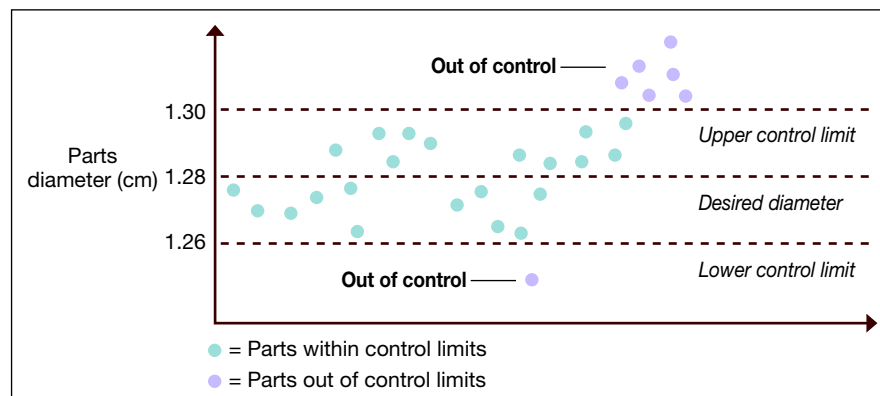
One indicator of how embedded quality objectives have become in operations management is the importance of **ISO certification** granted by the International Organization for Standardization in Geneva, Switzerland. Many countries have adopted ISO certification as a quality benchmark. Businesses that want to compete as “world-class companies” are increasingly expected to have ISO certification at various levels. To do so, they must refine and upgrade quality in all operations and then undergo a rigorous assessment by outside auditors to determine whether they meet ISO requirements.

## Statistical Quality Control

For Deming, maintaining quality is straightforward: tally defects, analyze and trace them to the sources, make corrections, and keep records of what happens afterwards.<sup>25</sup> He championed **statistical quality control** that takes samples of work, measures quality in the samples, and determines acceptability of results. Unacceptable results trigger investigation and corrective action. An easy way to apply this notion is through control charts, such as the one shown in **Figure A.5**.

**Control charts** are graphic ways of displaying trends so that exceptions to quality standards can be easily identified for special attention. In the figure, for example, an upper control limit and a lower control limit specify the allowable tolerances for measurements of a machine part. As long as the manufacturing process produces parts that fall within these limits, things are “in control.” As soon as parts fall outside the limits, it is clear that something is going wrong that is affecting quality. The process can then be investigated—even shut down—to identify the source of the errors and correct them.

Tallying and analyzing defects can be further extended with a variety of sophisticated statistical techniques. For example, many manufacturers now use a **Six Sigma** program, according to which, a firm’s quality performance standard will tolerate no more than 3.4 defects per million units of goods produced or services completed.<sup>26</sup> This translates to a perfection rate of 99.9997 percent.



**FIGURE A.5** Sample control chart showing upper and lower control limits.

## Learning Check

**LEARNING OBJECTIVE A.3** Describe how organizations manage customer service and product quality.

**Be Sure You Can** • discuss the importance of customer relationship management • differentiate internal and external customers of a firm • explain ISO certification • define TQM and continuous improvement • explain how control charts and Six Sigma programs are used in statistical quality control

A.4

## Work Processes

**LEARNING OBJECTIVE A.4**

Explain how work processes can be designed for productivity.

### Learn More About

- Work process analysis
- Process reengineering
- Process-driven organizations

The emphasis on productivity and competitive advantage through operations management includes business **process reengineering**.<sup>27</sup> This is defined as the systematic and complete analysis of work processes and the design of new and better ones.<sup>28</sup> The goal is to break old work habits and focus attention on better ways of doing things.

## Work Process Analysis

In his book *Beyond Reengineering*, Michael Hammer defines a **work process** as “a related group of tasks that together create a result of value for the customer.”<sup>29</sup> These tasks are what people

do to turn resource inputs into goods or services for customers. Hammer highlights the following key words as essential elements of his definition: *group*—tasks are viewed as part of a group rather than in isolation; *together*—everyone must share a common goal; *result*—the focus is on what is accomplished, not on activities; *customer*—processes serve customers, and their perspectives are the ones that really count.

The concept of **workflow**, or the way work moves from one point to another in manufacturing or service delivery, is central to the understanding of processes.<sup>30</sup> The various parts of a work process must all be completed to achieve the desired results, and they must typically be completed in a given order. An important starting point for a reengineering effort is to diagram or map these workflows as they actually take place. Then each step can be systematically analyzed to determine whether it is adding value, to consider ways of eliminating or combining steps, and to find ways to use technology to improve efficiency.

## Process Reengineering

Process reengineering can be used to regularly assess and fine-tune work processes to ensure that they directly add value to operations. Through a technique called **process value analysis**, core processes are identified and carefully evaluated for their performance contributions. Each step in a workflow is examined. Unless a step is found to be important, useful, and contributing to value-added results, it is eliminated. Process value analysis typically involves the following:<sup>31</sup>

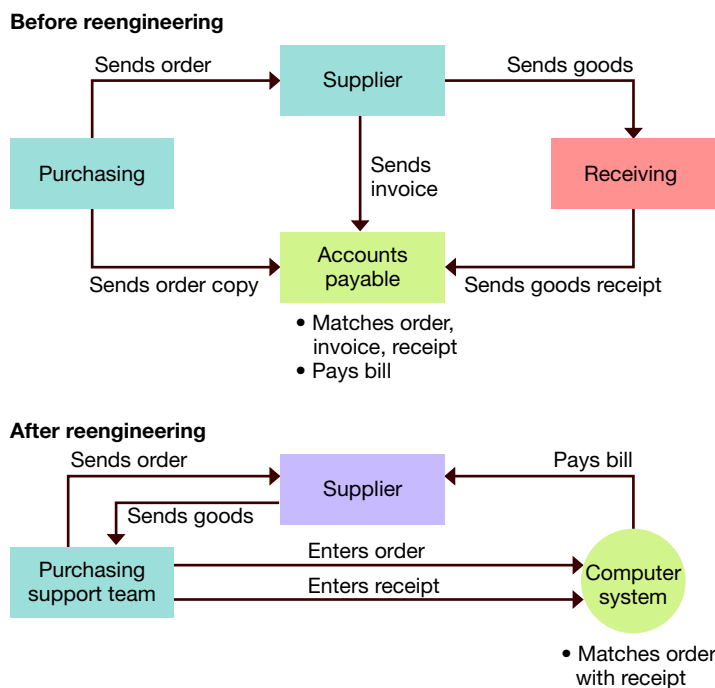
1. Identify the core processes.
2. Map the core processes with respect to workflows.
3. Evaluate all core process tasks.
4. Search for ways to eliminate unnecessary tasks or work.

5. Search for ways to eliminate delays, errors, and misunderstandings.
6. Search for efficiencies in how work is shared and transferred among people and departments.

**Figure A.6** shows an example of how reengineering and better use of computer technology can streamline a purchasing operation. Ideally, a purchase order should result in at least three value-added outcomes: order fulfillment, a paid bill, and a satisfied supplier. For all of these outcomes to occur, ordering, shipping, receiving, billing, and payment must all be well handled. A traditional business system might have purchasing, receiving, and accounts payable as separate functions, with each function communicating with each other and with the supplier. As the figure shows, there are lots of inefficiencies in this traditional approach. Applying process value analysis might result in reengineering the workflow and redesigning it to include a new purchasing support system. Team members can handle the same work more efficiently with the support of the latest computer technology.<sup>32</sup>

## Process-Driven Organizations

Customers, teamwork, and efficiency are central to Hammer's notion of process reengineering. He describes the case of Aetna Life & Casualty Company, where a complex system of tasks and processes once took as long as 28 days to accomplish.<sup>33</sup> Customer service requests were handled in a step-by-step fashion by many different people. After an analysis of workflows, the process was redesigned into a "one and done" format, where a single customer service provider handled each request from start to finish. After the change was made, an Aetna customer account manager said: "Now we can see the customers as individual people. It's no longer 'us' and 'them.'"<sup>34</sup>



**FIGURE A.6** How reengineering can streamline work processes.



Hammer also describes reengineering at a unit of Verizon Communications. Before reengineering, customer inquiries for telephone service and repairs required extensive consultation between technicians and their supervisors. After process value analysis, technicians were formed into geographical teams that handled their own scheduling, service delivery, and reporting. They were given cellphones and laptops to assist in managing their work, resulting in the elimination of a number of costly supervisory jobs. The technicians enthusiastically responded to the changes and opportunities. “The fact that you’ve got four or five people zoned in a certain geographical area,” said one, “means that we get personally familiar with our customers’ equipment and problems.”<sup>35</sup>

The essence of process reengineering is to locate control for processes with an identifiable group of people, and to focus each person and the entire system on meeting customer needs and expectations. It aims to eliminate duplication of work and systems bottlenecks so as to reduce costs, increase efficiency, and build capacity for change. The result is to create a process-driven organization that Hammer describes this way:

Its intrinsic customer focus and its commitment to outcome measurement make it vigilant and proactive in perceiving the need for change; the process owner, freed from other responsibilities and wielding the power of process design, is an institutionalized agent of change; and employees who have an appreciation for customers and who are measured on outcomes are flexible and adaptable.<sup>36</sup>

## Learning Check

**LEARNING OBJECTIVE A.4** Explain how work processes can be designed for productivity.

**Be Sure You Can** • define process reengineering and work process analysis • draw a map of the workflow in an organization familiar to you • explain how process value analysis can be used to streamline workflows and improve work performance • explain the concept of a process-driven organization

# Management Learning Review: Get Prepared for Quizzes and Exams

## Summary

**LEARNING OBJECTS A.1** Identify the essentials of operations and services management.

- The challenges of operations management relate to managing productive systems that transform resources into finished goods and services for customers and clients.
- Productivity measures the efficiency with which inputs are transformed into outputs:  $\text{Productivity} = \text{Output}/\text{Input}$ .
- Technology, including the use of knowledge, equipment, and work methods in the transformation process, is an important consideration in operations management.

**For Discussion** Does the concept of productivity apply equally well in all types of organizations?

**LEARNING OBJECTIVE A.2** Explain what value chain management encompasses.

- The value chain is the sequence of activities that create value at each stage involved in producing goods or services.
- Value chain analysis identifies each step in the value chain to ensure it is efficient.
- Supply chain management, or SCM, is the process of managing all operations linking an organization and its suppliers,

including purchasing, manufacturing, transportation, and distribution.

- Efficient purchasing and inventory management techniques such as just-in-time and economic order quantities are important forms of cost control.
- Break-even analysis identifies the point where revenues will equal costs under different pricing and cost conditions.

**For Discussion** Can value chain analysis be helpful in service organizations such as banks?

**LEARNING OBJECTIVE A.3** Describe how organizations manage customer service and product quality.

- Customer relationship management builds and maintains strategic relationships with customers.
- Quality management addresses the needs of both internal and external customers.
- Total quality management tries to meet customers’ needs—on time, the first time, and all the time.
- Organizations use control charts and statistical techniques such as the Six Sigma system to measure the quality of work samples for quality control purposes.

**For Discussion** Is it realistic to speak of “total” quality management?

**LEARNING OBJECTIVE A.4** Explain how work processes can be designed for productivity.

- A work process is a related group of tasks that together create value for a customer.
- Process engineering is the systematic and complete analysis of work processes and the design of new and better ones.

- In process value analysis, all elements of a process and its work-flows are examined to identify their exact contributions to key performance results.
- Reengineering eliminates unnecessary work steps and combines others, and uses technology to gain efficiency and reduce costs.

**For Discussion** Can process reengineering be overdone to the point where efficiency takes precedence over effectiveness?

## Chapter Glossary

**Break-even analysis** The calculation of the point at which revenues cover costs under different “what if” conditions.

**Break-even point** The point where revenues = costs.

**Competitive advantage** The ability to outperform one’s competitors due to a core competency that is difficult to copy or imitate.

**Continuous improvement** The constant search for new ways to improve work quality and performance.

**Continuous-process production** A production process where raw materials are continuously transformed by an automated system.

**Control charts** Charts that plot quality trends against control limits.

**Customer relationship management** The strategic attempt to build lasting relationships with and add value for customers.

**Economic order quantity** A form of inventory control that orders replacements whenever inventory level falls to a predetermined point.

**Intensive technology** Service technology that focuses the efforts and talents of many people to serve clients.

**Inventory** The amount of materials or products kept in storage.

**ISO certification** An indication of conformance with a rigorous set of international standards.

**Just-in-time scheduling** A method of minimizing inventory by sending out materials to workstations “just in time” to be used.

**Long-linked technology** Service technology in which a client moves from point to point during service delivery.

**Mass production** The manufacture of a large number of uniform products with an assembly-line system.

**Mediating technology** Service technology that links people together in a beneficial exchange of values.

**Operations management** The process of managing productive systems that transform resources into finished products.

**Process reengineering** The systematic analysis of work processes to design new and better ones.

**Process value analysis** Analysis that identifies and evaluates core processes for their performance contributions.

**Productivity** The efficiency with which inputs are transformed into outputs.

**Six Sigma** A quality standard of 3.4 defects or fewer per million products or service deliveries.

**Small-batch production** The manufacture of a variety of products crafted to fit customer specifications.

**Statistical quality control** The measurement of work samples for compliance with quality standards.

**Supply chain management** The strategic linking of all operations dealing with resource supplies.

**Technology** The combination of knowledge, skills, equipment, and work methods used to transform inputs into outputs.

**Total quality management** Managing with an organization-wide commitment to continuous improvement, product quality, and customer needs.

**Value chain** The specific sequence of activities that creates products and services with value for customers.

**Value creation** What occurs when the result of a work task or activity makes a product or service worth more in terms of potential customer appeal than at the start.

**Work process** A related group of tasks that together create value for the customer.

**Workflow** The movement of work from one point to another in a system.

## Self-Test A.1

### Multiple-Choice Questions

1. Productivity in a typical organization is calculated using the formula  $\text{Productivity} = \frac{\text{Output}}{\text{Input}}$ .

- a. Profit
- b. Cost
- c. Output
- d. Revenue

2. If you conducted a value chain analysis of a business, you would study \_\_\_\_\_.

- a. customer satisfaction with products
- b. how much TQM affects profits
- c. the flow of activities that transform resources into goods and services
- d. the links between performance and rewards

3. New computer technologies have made possible \_\_\_\_\_ that quickly and efficiently produces individualized products for customers.

- a. flexible manufacturing
- b. mass production
- c. mass customization
- d. design for disassembly

4. In remanufacturing, the focus is on \_\_\_\_\_.

- a. breaking down used products and using the parts to make new ones
- b. arranging machines in cellular layouts
- c. mass customization
- d. replacing people with robots

5. Walmart’s suppliers electronically access inventory data and sales forecasts in the stores and automatically ship replacement products. This is an example of IT utilization in \_\_\_\_\_.

- a. supply chain management
- b. customer relationship management
- c. total quality management
- d. strategic constituencies analysis

6. An economic order quantity approach to inventory control \_\_\_\_\_.
- uses computer control to accomplish JIT scheduling
  - reorders inventory automatically when a certain point is reached
  - allows for inventory to be purchased only when suppliers grant quantity discounts
  - means that inventory levels never exceed a preset reorder amount
7. In a break-even analysis, the break-even point occurs when \_\_\_\_\_.
- fixed costs = variable costs
  - profits = expenses
  - assets = liabilities
  - revenues = total costs
8. Benchmarking, continuous improvement, and reduced cycle times are examples of organizational practices that show a commitment to \_\_\_\_\_.
- affirmative action
  - total quality management
  - cost containment
  - supply chain management
9. A quality standard that has become essential for world-class companies competing in global markets is \_\_\_\_\_.
- the Deming prize
  - upper control limit
  - CRM
  - ISO certification
10. \_\_\_\_\_ is an example of a statistical quality control technique.
- Design for disassembly
  - SCM
  - Six Sigma
  - Quality circle
11. A work process is defined as a related group of tasks that together create value for \_\_\_\_\_.
- shareholders
  - customers
  - workers
  - society
12. The first step in process value analysis is to \_\_\_\_\_.
- look for ways to eliminate unnecessary tasks
  - map or diagram the workflows
  - identify core processes
  - look for efficiencies in transferring work among people and departments
13. In addition to operating efficiency, competitive advantage is often pursued through operations management initiatives that \_\_\_\_\_.
- increase use of minimum-wage workers
  - provide for customer service improvements
  - cut product quality to allow for lower pricing
  - use the same product designs over and over again
14. A major difference between operations management in manufacturing and in services is that \_\_\_\_\_.
- service organizations don't measure productivity
  - manufacturing organizations don't offer services
  - service organizations often use different technologies than do manufacturing organizations
  - supply chain management doesn't work in services
15. The techniques of operations management are closely aligned with the concept of the organization as a(n) \_\_\_\_\_.
- open system
  - closed system
  - top-down pyramid
  - machine-driven rather than people-driven system

### Short-Response Questions

16. What operating objectives are appropriate for an organization seeking competitive advantage through improved customer service?
17. What is the difference between an organization's external customers and its internal customers?
18. Why is supply chain management considered important in operations management?
19. If you were a reengineering consultant, how would you describe the steps in a typical approach to process value analysis?

### Essay Question

20. What are possible productivity measures for the following organizations?
- Canada Post
  - A university
  - A hospital
  - An amusement park
  - A restaurant

# Management Skills & Competencies: Make Yourself Valuable!

## Evaluate Career Situations

### What Would You Do?

#### 1. Efficiency of Operations

Your summer internship placement has you working as a production assistant in the operations department. One of your tasks is to fill out forms that report on daily production. It is somewhat time consuming

to do this and you ask a full-time employee where the report goes and who reads it. He says that he doesn't know the answer to either question and to just keep doing your job. You could put your head down and carry on with the task or you could ask your boss about this process to see if this is a needed task and if there might be a better way to do it. What do you do?

## 2. Rules and More Rules

At your new job there seem to be rules about how to interpret rules. The first three days on the job the manager worked with you to acquaint you with the many regulations the company has for undertaking the job. After the boss was satisfied that you had a good grasp on how to do things, she turned you over to a colleague who was assigned to help you. The first thing the employee said was to forget about all of the rules you had just been taught and that she was going to show you how to do the job. She proceeded to explain to you the “tricks” that would make your job easier, but not necessarily at the level of quality the boss expects. Left alone, who do you follow—the easier and apparently acceptable approach or the boss’s more difficult one?

## 3. What Is Our Competitive Advantage?

“We are all about quality products” was the answer that one of the partners gave to you when you asked the question about what makes this company special. However, that is not what the other partner stated. He said, “We get things done around here—always delivering on time—sometimes that means shipping goods that are not always perfect, but the client likes it that way.” As a consultant hired to undertake a value chain analysis, which partner’s vision would you draw from when undertaking your work?

## Reflect on the Self-Assessment

### Personal Numeracy

#### Instructions

In operations management and in other aspects of managerial and personal problem solving, we have to deal with numbers. But many of us struggle with basic math. How strong are your “numeracy” skills? Complete the following quiz. Compare your results with those of nearby classmates. Work together until you believe you have all the correct answers. Then, join in a class discussion addressing the question: “Why is personal numeracy so important as a life and career skill?”

1. How many zeros are there in a “googol”?
2. If there are two red, four green, and six blue Smarties left in a packet, what is the probability of picking a blue one?
3. What is “pi” rounded to 4 decimal places?
4. How is a trillion written in numbers?

5. What is  $1/40$  as a decimal?
6. If  $7x + y = 9$  and  $3x - y = 7$ , what are  $x$  and  $y$ ?
7. What is the perimeter of a triangular campus green if the bordering walkways measure 200, 610, and 380 metres, respectively?
8. Two angles in a triangle are 37 degrees and 64 degrees. What is the third angle?
9. Evie has \$10,000 invested in a tax-free money-market account. The account pays 1.75 percent interest and her marginal tax rate is 28 percent. If this account was taxable, what would Evie’s rate of interest be?
10. Salmah needs money for textbooks. She can get a paycheque loan of \$200 for a fee of \$30 every two weeks. What annual rate of interest is she paying for this loan?

Source: Developed in part from “Quiz: How’s Your Maths?” BBC News online, <http://newsvote.bbc.co.uk> (February 24, 2004).

## Contribute to the Class Exercise

### Straw Towers

#### Materials Needed

One box of straws per group

#### Procedure

1. Form groups as assigned by the instructor. The mission of each group or temporary organization is to build the tallest possible straw tower. Each group should determine worker roles: at least four students will be builders, two others will be consultants who offer suggestions, and any remaining students will be observers.
2. Rules for the exercise:
  - Ten minutes are allowed for planning the tower.

- Only 60 seconds can be used to build the tower.
  - No straws can be put together during the planning.
  - All straws must be put back in the box before the competition begins.
  - The completed tower must stand alone.
3. Discussion: What lessons for operations and services management are learned from this exercise?

Source: Adapted from Bonnie McNeely, “Using the Tinker Toy Exercise to Teach the Four Functions of Management,” *Journal of Management Education*, vol. 18, No. 4 (November 1994), pp. 468–472.

# Management Cases for Critical Thinking

Today's problems and opportunities are often complex and ambiguous. It takes lots of wisdom and good analytic skills to decode and solve them. Here are a number of organizations that have shown success in doing just that. Draw from their wisdom and learn what analytic skills they applied to achieve their success. Sir Isaac Newton once said, "If I have seen a little further, it is by standing on the shoulders of giants." In the following cases you will discover some giant shoulders to stand upon as you develop the critical thinking skills necessary for your own future success.

- Case 1** Vancity | Keeping Employees Happy and Healthy
- Case 2** Zara International | Fashion at the Speed of Light
- Case 3** Tentree International | A Canadian Firm Dedicated to Protecting
- Case 4** Patagonia | Leading a Green Revolution
- Case 5** Royalton Hicacos Varadero Cuba | One Foot in Capitalism; One in Communism
- Case 6** Shopify | Making Commerce Better
- Case 7** Amazon.com | One E-Store to Rule Them All
- Case 8** Uber | Riding the Gig Economy
- Case 9** Electronic Arts | Inside Fantasy Sports
- Case 10** Hudson's Bay Company | From Fur to Fendi to an Uneasy Future
- Case 11** Nike | Spreading Out to Win the Race
- Case 12** Gamification | Finding Legitimacy in the New Corporate Culture
- Case 13** RealRecruit | Protecting Student Athletes
- Case 14** BroadbandTV | Shahrazad Rafati's "Rapid-Fire" Drive
- Case 15** G Adventures Canada | The Path Less Travelled
- Case 16** Salesforce | Instant Praise, Instant Criticism
- Case 17** Team Canada '72 | The Power of Teamwork
- Case 18** Snapchat | Snap the Story of the Moment

Rosalie Esperan Anareta/123RF



## **Case 1** Vancity | Keeping Employees Happy and Healthy

*What makes a great organization? If winning multiple national awards is a positive sign, Vancity is definitely on*

*the right path! What does Vancity do to receive all of these accolades? Making decisions based upon company values is where Vancity starts.*

Vancity, a values-based financial co-operative, is based in the Coast Salish and Kwakwaka'wakw territories, and has 60 branches located across British Columbia. This cooperative was founded in 1946 and it began with only \$22 in total assets, aiming to lend money to those the banks ignored. How have they managed to succeed while still remaining true to their values?

Today, it is Canada's largest credit union, with over 2,600 employees and more than \$28 billion in assets. As a member-owned credit union, it provides a complete range of financial services to its 543,000 member-owners. Vancity continues to be committed to its original purpose and values: working with people and communities to help them thrive and prosper, all the while operating with integrity, innovation, and responsibility.

Vancity acknowledges that having a healthy and committed workforce is the reason it is able to sustain productivity and financial success within a competitive industry. Vancity provides its employees with the opportunity to help set corporate policies and procedures that affect both their work and home life. At work, employees enjoy business casual dress, listening to music while they work, participating on Vancity sports teams, and attending a host of social events. Vancity has family-friendly programs as well. For example, the cooperative understands that if an employee has a young child, it may be necessary to structure a workday that allows for flexibility. This positive approach recognizes the challenges of balancing work and life commitments and empowers employees to create the right environment to thrive at both.

The organization offers several alternative work options, including telecommuting, flexible hours, shortened workweeks (fewer hours with less pay), and compressed workweeks. Employees are given full pay for working 35 hours a week. Vancity is also the largest Canadian employer to become a "living wage employer." This program recognizes the social and economic benefits of paying a living wage for all its employees and service providers.

Over the years, primarily driven by its employees' desire for personal development, Vancity has initiated a number of healthy lifestyle programs, such as working with employee assistance program (EAP) providers to help employees develop personal plans for health and wellness.

Vancity offers a competitive pay and benefits program that includes dental and life insurance, three to six weeks of annual vacation, maternity and paternity leave top-ups, and care days that can be used for personal and family illness or injury. Other rewards include tuition reimbursement, retirement planning, and reduced rates on personal financial services such as mortgages and loans. Employees also have the chance to attend Vancity's cooperative studies program in Italy, where co-ops are well established.

Vancity has a young corporate culture—the average age of its employees is 41, and 94 percent of its new recruits are under 40. Even one of its longest-serving CEOs, Tamara Vrooman, was only 39 when she took the helm in 2007. Tamara Vrooman believes that "banking has a vital role in developing a healthy society—building the well-being of people and, at the same time, ensuring the long-term sustainability of the communities in which they live and work."

The cooperative once threw a party for 2,200 employees and guests, with hip-hop dancers and a slam poet entertaining the crowd until 3 a.m. Young employees organized the event for their peers. “We’re interested in creating energy, we’re interested in having people connect,” Vrooman says. “And young people tell us that’s an important part of the entire employee experience that they come to Vancity to enjoy.”

### Keeping the Organization Healthy

Vancity uses a triple bottom line business model; it is driven to achieve financial success but also focuses on environmental and social sustainability. Vancity is in a healthy financial position, with rising membership, because it takes an innovative approach in serving the financial needs of its members. It was the first Canadian financial institution to offer mortgages to women, the first to use traditional media to market directly to the gay and lesbian community, the first North American credit union to receive an R1 rating from the Dominion Bond Rating Service, and the first financial institution to offer its own socially responsible mutual fund.

Vancity’s vision to achieve positive social change has succeeded through a number of programs, including one called Shared Success. Through this program, Vancity gives back each year a significant portion of net profits (generally 30 percent) to members and to communities. Since the program was introduced, a total of \$287 million has been shared with members and redistributed as community grants and other funding initiatives. One of the positive changes supported is called Modo the Car Co-op, a program which has 8,000 members sharing 300 cars, trucks, and vans throughout metro Vancouver. Vancity provided the first grant for the co-op’s initial plug-in hybrid vehicles. Thanks to the success of the pilot program, 11 percent of Modo’s fleet is now hybrid or fully electric.

A focus on giving back to the community makes decision-making in a credit union more challenging, since maximizing shareholder profit is not the only goal. Vancity managers take leadership training in values-based decision-making. An employee survey found that 95 percent of Vancity workers said they feel great about the organization’s corporate social responsibility approach.

Starting in 1995, before doing so was popular, Vancity focused on its own environmental performance. Vancity achieved its target of being the first carbon-neutral North American-based financial institution. Through its climate change strategy, Vancity has supported innovative partnerships involving public transportation and green building projects. It also invests in organizations doing climate change work. The organization is also a strong supporter of women. For example, on its recent board of directors, six of 10 directors, including the chair, were women.

The credit union also focuses on critical challenges facing the Vancouver community. Looking specifically at single-room occupancy (SRO) housing, the “shelter rate” in British Columbia, which is the amount the provincial government pays directly to landlords on behalf of welfare recipients, is set at \$375 per month and has not increased since 2007. In a city as expensive as Vancouver it is nearly impossible to find housing at this rate. This shelter rate also provides too little income for landowners who want to maintain their buildings in good condition. As a result, landlords have been renovating SRO buildings using borrowed money and increasing their rents when the

projects are complete. So Vancity faced a dilemma: Should it lend money to help improve living conditions and accept the fact that people will be priced out, or not lend money for such projects and protect shelter-rate housing even if it is substandard? Vancity chose the second option. This has resulted in many challenging conversations. Christine Bergeron, the vice president of community business, says that the decision has not stopped Vancity from being an advocate for low-cost shelter by working with groups to find innovative alternatives and also encouraging the government to increase the shelter rate. Vancity believes it is possible to achieve better living conditions without running the risk of pricing individuals out of housing.

Today this financial institution continues to look for ways to improve. For example, during the COVID crisis, Vancity decided to keep just one-third of its branches on full-service status. To manage through the crisis they organized their staff into rotating squads. Employees spent one week serving members in branches, one week taking client calls from their homes, and one week on paid leave. This schedule was designed to reduce the risk of exposure and the stress associated with living through the pandemic. Vancity board chair Jan O’Brien said “The idea was to make it easier for people to go to work.” Vancity core values are expressed directly through their actions.

### Case Analysis Questions

- 1. Discussion** What is Vancity’s competitive advantage over other types of financial institutions?
- 2. Discussion** Which of the four functions of management does Vancity appear to be doing quite well? Draw from the case to support your answer.
- 3. Problem Solving** Looking at the shelter problem in Vancouver, what innovative solutions might you suggest for Vancity to consider in order to allow landlords to renovate yet keep housing affordable?
- 4. Further Research** What new initiatives is Vancity Credit Union undertaking right now for its employees and members? With Tamara Vrooman leaving Vancity, what impact has the new leadership had on this values-based organization?

**Sources:** Tiffany Crawford, “BC Hydro, Vancity Top List of Forbes Magazine’s Best Employers in Canada,” *Vancouver Sun* (February 24, 2016); Nick Rockel, “Luring Young Talent Sets Stage for the Future,” *The Globe and Mail* (June 1, 2010); *Vancity 2008–2009 Accountability Report*; Brian Morton, “Vancity’s Net Income Near Record Level,” *Vancouver Sun* (July 12, 2010), p. B6; Frances Bula, “The Queen of Vancity,” *News and Features Vancouver* (September 1, 2009); Regan Ray, “Q&A: Vancity’s Tamara Vrooman,” *Canadian Business* (November 19, 2007); “B.C.’s Top 100 Influential Women,” *Vancouver Sun* (October 29, 2010); “Vancity Believes We Can All Be Wealthy; New Accountability Report from One of Canada’s Top Three Corporate Citizens,” news release (July 8, 2010); Jobs at Vancouver City Savings Credit Union, [eluta.ca](http://eluta.ca), accessed at [eluta.ca/top-employer-vancity](http://eluta.ca/top-employer-vancity); Canada’s Greenest Employers 2016, [canadastop100.com/environmental](http://canadastop100.com/environmental); The 2016 Best 50 Corporate Citizens of Canada website, [corporatetechnights.com/magazines/2016-best-50-issue/2016-best-50-results-14652758/](http://corporatetechnights.com/magazines/2016-best-50-issue/2016-best-50-results-14652758/); “Tamara Vrooman,” biography, Vancity website, [vancity.com/AboutVancity/GovernanceAndLeadership/LeadershipTeam/CEOBiography/?xcid?about\\_megamenu\\_tamara](http://vancity.com/AboutVancity/GovernanceAndLeadership/LeadershipTeam/CEOBiography/?xcid?about_megamenu_tamara); [vancity.com/AboutVancity/VisionAndValues/Glance/](http://vancity.com/AboutVancity/VisionAndValues/Glance/) (accessed May 29, 2020); “Canadian companies are slow-walking, not running, back to the office,” Virginia Galt, May 28, 2020, *The Globe and Mail*.



Nano Calvo/VWPics/Redux Pictures

## Case 2 Zara International | Fashion at the Speed of Light

*In this world of “hot today, gauche tomorrow,” no company does fast fashion better than Zara International. Shoppers in a growing number of countries—more than 7,000 stores in 50 countries across 96 different markets—are fans of Zara’s knack for bringing the latest styles from sketchbook to clothing rack at lightning speed and reasonable prices.*

### In Fast Fashion, Moments Matter

Zara’s parent company Inditex is known for year-on-year strong sales gains. Low prices and a rapid response to fashion trends have pushed it into the top ranks of global clothing vendors. The chain specializes in lightning-quick turnarounds of the latest designer trends at prices tailored to the young—about \$27 an item. Former Louis Vuitton fashion director Daniel Piette described Zara as “possibly the most innovative and devastating retailer in the world.”

Inditex shortens the time from order to arrival using a complex system of just-in-time production and inventory management that keeps Zara ahead of the competition. Their distribution centres can have items in European stores within 24 hours of order receipt, and in North American and Asian stores in under 48 hours. “They’re a fantastic case study in terms of how they manage to get product to their stores so quickly,” said Stacey Cartwright, former executive vice president and CFO of Burberry Group PLC. “We are mindful of their techniques.”

The firm carefully controls design, production, distribution, and retail sales to optimize the flow of goods, without having to share profits with wholesalers or intermediary partners. Customers win with access to new fashions while they’re still fresh off the runway. Twice a week Zara’s finished garments are shipped to physical distribution centres, which all simultaneously distribute products to stores worldwide. These small production batches help the company avoid the risk of oversupply. Because batches always contain new products, Zara’s stores perpetually energize their inventories. Most clothing lines are not replenished. Instead they are replaced with new designs to create scarcity value—shoppers cannot be sure that designs in stores one day will be available the next day.

Store managers track sales data with handheld devices. They can reorder hot items in less than an hour. Zara always knows what’s selling and what’s not. When a look doesn’t pan out, designers promptly put together new products. New arrivals are rushed to store sales floors still on the black plastic hangers used in shipping. Shoppers who are in the know recognize these designs as the newest of the new; soon after, any items left over are rotated to Zara’s standard wood hangers.

Inside and out, Zara’s stores are designed to strengthen the brand. Inditex considers this to be very important because that is where shoppers ultimately decide which fashions make the cut. In a faux shopping street in the basement of the company’s headquarters, stylists craft and photograph eye-catching layouts that are e-mailed every two weeks to store managers for replication.

Zara stores sit on some of the glitziest shopping streets—including New York’s Fifth Avenue, near the flagship stores of leading international fashion brands—which make its reasonable prices stand out. It’s all part of the strategy. “Inditex gives people the most up-to-date fashion at accessible prices, so it is a real alternative to high-end fashion lines,” said Luca Solca, Managing Director, Luxury Goods with Sanford C. Bernstein in London. That is good news for Zara, as many shoppers trade down from higher-priced chains.

### A Single Fashion Culture

The Inditex group began in 1963 when Amancio Ortega Gaona, founder and former chairman of Inditex, got his start in textile manufacturing. After a period of growth, he assimilated Zara into a new holding company, Industria de Diseño Textil. Inditex has a tried-and-true strategy for entering new markets: start with a handful of stores and gain a critical mass of customers. Generally, Zara is the first Inditex chain to break ground in new countries, paving the way for the group’s other brands, including Pull and Bear, Massimo Dutti, and Bershka.

Inditex farms out much of its garment production to specialist companies, located on the Iberian Peninsula, which it supplies with its own fabrics. Although some pieces and fabrics are purchased in Asia—many of them not dyed or only partly finished—the company manufactures about half of its clothing in its hometown of A Coruña, Spain. Inditex CEO and chairman Pablo Isla believes in cutting expenses wherever and whenever possible. Zara spends just 0.3% of sales on ads, making the 3–4% typically spent by rivals seem excessive in comparison. Isla disdains markdowns and sales as well.

H&M, one of Zara’s top competitors, uses a slightly different strategy. Around one-quarter of its stock is made up of fast-fashion items that are designed in-house and farmed out to independent factories. As at Zara, these items move quickly through the stores and are replaced frequently with fresh designs. But, unlike its rival Zara, H&M also keeps a large inventory of basic, everyday items sourced from inexpensive Asian factories.

### Fast Fashion on the Move

Inditex launched its Zara online store in North America by offering free two-to-three-day shipping and free returns on the model of uber-successful e-retailer Zappos. The Zara iPhone app has been downloaded by more prospective clients in the United States than in any other market, according to Isla—more than a million users in just three months.

Over the years, Zara has evolved both its name—from Zorba to Zara—and its fashion ethos. The brand has built its reputation by trend spotting and delivering those trends to customers at warp speed. Zara’s founder, Amancio Ortega’s quick thinking served him well when the coronavirus hit Spain. He instructed 11 of his factories in Spain to immediately switch to making personal protective equipment (PPE). Zara also delivered washable, splash-proof, stylish turquoise hospital gowns to medical workers.

Yet, questions remain: Is Zara expanding too quickly—opening about 400 stores per year? Will Inditex’s rapid expansion bring undue pressure to its business? Will the rising number of overseas stores increase cost and complexity and strain operations and raise concerns of exploitation of foreign workers? Will its existing logistics system carry it into another decade of intense growth? Can fast-fashion win the long-term retailing race?

### Case Analysis Questions

**1. Discussion** In what ways are elements of the classical and behavioural management approaches evident in how things are done at Zara International? How can systems concepts and contingency thinking explain the success of some of Zara's distinctive practices?

**2. Discussion** Zara's logistics system and management practices can handle the current pace of growth, but they will need updating at some point in the future. How could quantitative management approaches and data analytics help Zara executives plan for the next generation of its logistics and management approaches?

**3. Problem Solving** As a consultant chosen by Zara to assist with the expansion of its U.S. stores, you have been asked to propose how evidence-based management might help the firm smooth its way to success with an American workforce. What areas will you suggest be looked at for evidence-based decision making, and why?

**4. Further Research** Gather the latest information on competitive trends in the apparel industry, and on Zara's latest actions and innovations. Is the firm continuing to do well? Are other retailers getting just as proficient with the fast-fashion model? Is Zara adapting and innovating in ways needed to stay abreast of both its major competition and the pressures of a changing global economy? Is this firm still providing worthy management benchmarks for other firms to follow? What is the environmental impact of fast fashion?

**Sources:** "Inditex: Who We Are: Concepts: Zara," *Inditex*, inditex.com (accessed 2/21/12); "Zara Grows as Retail Rivals Struggle," *Wall Street Journal* (March 26, 2009); "Zara, a Spanish Success Story," CNN (June 15, 2001); Inditex Press Dossier, inditex.com (accessed 3/14/10); Cecile Rohwedder and Keith Johnson, "Pace-setting Zara Seeks More Speed to Fight Its Rising Cheap-Chic Rivals," *Wall Street Journal* (February 20, 2008), p. B1; "The Future of Fast Fashion," *The Economist* (June 16, 2005) economist.com (accessed 4/4/06); "Zara: Taking the Lead in Fast-Fashion," *BusinessWeek* (April 4, 2006); "Shining Examples," *Economist* (June 17, 2006); "Zara Launches Online Shopping in the USA," *College Fashion*. Posted 9/7/11. collegefashion.net (accessed 2/23/12); Susan Berfield and Manuel Baigorri, "Zara's Fast Fashion Edge," *Bloomberg BusinessWeek* (November 14, 2013): businessweek.com (accessed 5/19/14); "Fast fashion was always a problem. Now, COVID-19 has deepened the inequity between garment workers and fashion labels rebranding themselves as saviours." Nishita Jha, *BuzzFeed*, May 14, 2020,



Tentree

### Case 3 Tentree International | A Canadian Firm Dedicated to Protecting the Planet

*It's a story conceived in Hawaii, nurtured in Canada, and soon spread around the world. Three young Canadian*

*environmentalists were determined to address climate change and poverty and to have an impact on the lives of others in positive and ethical ways. Impossible? Here's their story.*

In 2011, David Luba was on a student exchange program in Hawaii, finishing up his Business Administration degree from the University of Regina. In his free moments, he was enjoying the outdoor magnificence of the islands. He spent his days surfing, mountain climbing, hiking, bicycling—all the activities that an outdoor person enjoys. It became apparent to him that this natural beauty could be threatened by the climate change that other parts of the planet were already experiencing. As an outdoor enthusiast, David felt compelled to do something not only to minimize the planet's decline, but to create a growth-providing project that could protect our forests and natural landscapes from pollution, industrialization, and deforestation.

On his Facebook page he published images of the magnificence of the Hawaiian landscape and his reverence for it. Soon, another environmentalist, Kalen Emsley, noticed David's Facebook pages. They had played football against one another in university and soon began an online exchange that would eventually turn into a business partnership. Kalen and his brother Derrick had been running a tree farm in Canada since high school, and Kalen was also finishing his degree from the University of Western Ontario, Ivey School of Business. So Kalen and David had several common pursuits: business, sports, and the environment.

One day, David decided to call Kalen and suggested that they jump on a plane to Hawaii to experience its natural beauty. Kalen was on a plane the next day. They hiked, climbed, swam, surfed, dove, and through their subsequent conversations they deepened their bond by deciding to make the earth a better place by planting trees.

That was in 2011. Within a couple of years, their concept captured the attention of retail partners and consumers, and continued to grow rapidly throughout North America. Their first task was recruiting Kalen's brother Derrick as their CEO. When Derrick came on board, everyone's energy soared. To ensure that their product could support their goal of protecting the planet, environmentally progressive materials became imperative. As tree planters first, and a clothing brand second, sustainable materials such as cork, Tencel, and organic cotton quickly became standard fabrics within their product assortment. The apparel industry was beginning to see a shift, where consumers wanted to feel that their purchase was making a meaningful impact. The connection was: for every item a customer bought, ten trees are planted. Simple.

They launched their business in 2012 and began selling apparel using Kalen's basement as their inventory warehouse. Business took off quickly. They soon enlisted reforestation partners such as Parks Canada to help them decide where the trees should be planted, which indigenous trees they should plant, and how the stewardship of the trees should be monitored. Eventually they would work with other planting partners from around the world, such as Eden Projects, One-TreePlanted, and Trees for the Future. Each were key players in non-profit reforestation. Wherever tentrees chose to plant, they would make arrangements to ensure that the locals would be in charge of the project, create jobs, and take ownership to see the projects through. The locals benefited from jobs and a more stable livelihood that could be made from the trees themselves, such as by harvesting the fruit. The founders also felt an affinity for the needs of their customers, who wanted to feel that their actions made a difference.

By March of 2013, one year later, they got their first big break when they appeared on *Dragon's Den*, the hit TV show on which business people invest in promising businesses. Investors/panelists Arlene Dickinson and Bruce Croxon were so impressed with tentree's pitch, they teamed up to give David, Kalen, and Derrick what they came



for: \$100,000 and 20% of the business. As it turned out, after going through the necessary due diligence, the partners discovered that they didn't need the investment after all. However, the exposure they received from being on the show catapulted their business to staggering heights. Before appearing on *Dragon's Den*, they only planted in Canada. After their appearance on the show they were able to move to worldwide projects.

In 2014 they established a tree registry program that allowed customers to track where their trees were being planted and the impact their contribution was making. Here's how it works:

- A customer receives a unique tag with every piece of apparel with its own tree code that corresponds with the customer's own ten trees.
- The customer is asked to register their trees. This registration enables the customer to track their trees and see where they will be planted.
- Once the customer has their code, they can track their trees and the impact the trees are making on the environment.

Derrick expressed his and his partners' commitment to this tree registry program. "It's always been our goal to bring the customer closer to their impact. This purpose is what allows us to plant trees, provide jobs, and help an incredible number of people. We want every customer to feel emotionally connected to this impact. The tree registry program allows us to do this by highlighting where the trees will be planted and the type of tree—and then allows us to provide updates and progress."

Their second big break came in 2016 when they became certified as a B Corporation, B standing for *benefit*, more familiarly known as a B-Corp. This certification represents "the highest standards of verified social and environmental support, public transparency, and legal accountability to balance profit and purpose." At the time of their certification they had planted over a million trees, providing employment to underprivileged communities around the world in such countries as Madagascar, Brazil, Cambodia, and Haiti.

The trees helped to revitalize damaged ecosystems and remove pollution from the atmosphere. A candidate for B-Corp certification must achieve a minimum score of 80 points on various standards; tentree achieved a score of 124.6.

By March of 2019 they had reached another milestone: 30 million trees. Their products are currently either sold online or available in over 330 retail stores worldwide.

In 2020, after nine years of operation, they had planted 43 million trees, and were still as committed to "minimizing [their] environmental impact, uplifting the well-being of people with ethical labour practices [including worker] rights and a safe workplace, and recognizing their social responsibility to keep (their) business practices as transparent as possible."

Their current goal is to reach 1 billion trees planted by 2030.

### Case Analysis Questions

**1. Discussion** As our text explains, corporate social responsibility is "the obligation of an organization to act in ways that serve the interests of multiple stakeholders, including society at large." What factors have influenced the owners of tentree's approach to ethical decision making?

**2. Discussion** How do tentree apparel's practices demonstrate personal responsibility to act in ways that respect and protect the interests of their stakeholders?

**3. Problem Solving** What impact might a pandemic have on their international tree planting initiative? How might tentree ensure they can still deliver on their promise of planting 10 trees?

**4. Further Research** Since there were other similar social entrepreneurs that had first mover advantage over the co-founders of tentree, how did tentree benefit from the entrepreneurs who got there first?

**Sources:** [tentree.ca/pages/about](https://tentree.ca/pages/about) (accessed June 14, 2020); [youtube.com/watch?v=Ot8nFvEWCPk](https://www.youtube.com/watch?v=Ot8nFvEWCPk) (accessed June 14, 2020); "This Startup Plants 10 Trees for Every Item It Sells—Here's What Its Clothing Is Like in Real Life, Beyond the Instagram Hype," *Business Insider*, Mara Leighton, May 16, 2019 [businessinsider.com/tentree-sustainable-clothing-review](https://businessinsider.com/tentree-sustainable-clothing-review) (accessed June 14, 2020); [www.tentree.com/blogs/posts/the-story-of-tentree](https://www.tentree.com/blogs/posts/the-story-of-tentree) (accessed June 14, 2020).



KaiNeeden/aiif/Redux Pictures

### Case 4 Patagonia | Leading a Green Revolution

*How has Patagonia managed to stay both green and profitable even when the economy is down, consumers are tight for cash, and doing the profitable thing is not necessarily the same as doing the right thing? Are Patagonia's business practices just good for the environment and Patagonia, or are there lessons here others can follow?*

Twelve hundred Walmart buyers, a group legendary for their tough-as-nails negotiating tactics, sit in rapt attention in the company's Bentonville, Arkansas, headquarters. They're listening to a small man in a mustard-yellow corduroy sport coat lecture them on the environmental impact of Walmart's purchasing choices. When Patagonia's founder Yvon Chouinard finishes speaking, the buyers leap to their feet and applaud enthusiastically.

Such is the authenticity of Chouinard. Since 1972 he's built the company into one of the most successful outdoor clothing companies in the world, and one that is steadfastly committed to environmental sustainability. Even though the CEO reins were turned over to Rose Marcario several years ago, it's hard to discuss Patagonia without constantly referencing Chouinard. For all practical purposes the two are one. He breathes life into the company and models the outdoorsy athleticism of Patagonia's customers. In turn, Patagonia's business practices reflect Chouinard's values and insistence on minimizing environmental impact, even at the expense of corporate profits.

### Taking Risks to Succeed

Patagonia sits at the forefront of a cozy niche: high-quality, performance-oriented outdoor clothes and gear sold at top price points. Derided as *Pradagonia* or *Patagucci* by critics, the brand is aligned with top-shelf

labels like North Face and Mountain Hardware. Patagonia clothes are designed for fly fishermen, rock climbers, skiers, and surfers. The clothes are durable, comfortable, sustainably produced, and they are not cheap.

It seems counterintuitive, almost dangerous, to market a \$400 raincoat in a down economy. But the first thing you learn about Yvon Chouinard is that he's a risk taker. The second thing you learn is that he's usually right. "Corporations are real weenies," he says. "They are scared to death of everything. My company exists, basically, to take those risks and prove that it's a good business."

And it is a good business. Patagonia succeeds by staying true to Chouinard's vision. "They've become the Rolls-Royce of their product category," says Marshal Cohen, chief industry analyst with market research firm NPD Group. "When people were stepping back, and the industry became copycat, Chouinard didn't sell out, lower prices, and dilute the brand. Sometimes," he says, "the less you do the more provocative and truer of a leader you are."

### Ideal Corporate Behaviour

Chouinard is not shy about espousing the environmentalist ideals intertwined with Patagonia's business model. "It's good business to make a great product, and do it with the least amount of damage to the planet," he says. "If Patagonia wasn't profitable or successful, we'd be an environmental organization."

In many ways, Patagonia is just that—an environmental organization. The company publishes an online library of working documents, the *Footprint Chronicles*, which is intended to help employees make sustainability decisions in even the most mundane office scenarios. Its mission statement is to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

Chouinard has cofounded a number of external environmental organizations, including 1% For the Planet, which secures pledges from companies to donate 1% of annual sales to a worldwide network of environmental causes. The name comes from Patagonia's 30-year practice of contributing 10% of pre-tax profits or 1% of sales—whichever is *greater*—to environmental groups each year. Whatever you do, don't call it a handout. "It's not a charity," Chouinard flatly states. "It's a cost of doing business. We use it to support civil democracy."

Another core value at Patagonia is providing opportunities for motivated volunteers to devote themselves to sustainability causes. Employees can leave their jobs for up to two months to volunteer full-time for the environmental cause of their choice, while continuing to receive full pay and benefits from Patagonia. Every 18 months, the company hosts the Tools for Grassroots Activists Conference, where a handful of participants are invited to engage in leadership training, much of it derived from the advocacy experiences of Patagonia management.

### Growing Green

During its early growth phase Patagonia commissioned an external audit of the environmental impact of its manufacturing. Management anticipated bad news about petroleum-derived nylon and polyester. But they were shocked to learn that the production of cotton had a more negative impact on the environment—destructive soil and water pollution, adverse health consequences for fieldworkers, and the consumption of 25% of all the toxic pesticides used in agriculture. Chouinard's response was to source organic fibres for all cotton clothing products. Company representatives went directly to organic cotton farmers, ginners, and spinners, seeking pledges from them to increase production, dust off dormant processing equipment, and do whatever it would take to line up enough raw materials to fulfill the company's promise to its customers and the environment. Ever

since, all of Patagonia's cotton garments have been spun from organic cotton.

### Sustaining Momentum

Now in his 80s, Chouinard continues to seek better ways for Patagonia to do business. "I think entrepreneurs are like juvenile delinquents who say 'This sucks. I'll do it my own way,'" he says. "I'm an innovator because I see things and think I can make it better. So I try it. That's what entrepreneurs do."

One of his innovations is the Common Threads initiative. Designed to minimize the number of Patagonia clothes that wind up in landfills, the program commits the company to making clothes built to last, fix wear-and-tear items for consumers that can be repaired, and collect and recycle worn-out fashions as efficiently and responsibly as possible. Chouinard calls it "our promise that none of our stuff ever ends up in a landfill." Also, in terms of cradle to grave manufacturing, he describes "trying to convince zipper companies to make teeth out of polyester or nylon synth, which can be recycled infinitely." The goal is to then be able to "take a jacket and melt the whole thing down back to its original polymer to make more jackets."

The new CEO of Patagonia, Rose Marcario, continues to support Chouinard's vision. She has helped the organization achieve a billion dollars in revenue and has scaled the company's environmental conservation goals that helped get Patagonia *B Certification*, which means that the company is required to protect the interests of employees, investors, and the environment.

Despite his boundless enthusiasm for all things green, Chouinard admits that no process is truly sustainable. "I avoid using that word as much as I can," he says. He pauses for a moment and adds: "I keep at it, because it's the right thing to do." In 2018, acknowledging that sustainability and responsible practices are core to Patagonia, the Sierra Club recognized Yvon Chouinard with their top award, the John Muir Award.

### Case Analysis Questions

- 1. Discussion** How do you think Patagonia executives decide on what products to offer so that the outcomes will be both business practical (think profits) and environmentally friendly (think sustainability)? Take the case of a proposed new hiking boot. What criteria would you use to evaluate it as a new Patagonia product?
- 2. Discussion** Even though he is no longer the CEO, Yvon Chouinard still exerts major influence over Patagonia's business approach. What should he and other Patagonia executives be doing today to make sure that his ideals remain a permanent part of the company's culture after he's no longer active at the company?
- 3. Problem Solving** Picture yourself working for Patagonia. The CEO comes to you and asks for a proposal on a new—"forward looking"—sustainability agenda for the firm. The goal is to drive Patagonia's future, not just celebrate its past. What would you include in this proposed agenda in order to really stretch the firm beyond what it is already doing, and why?
- 4. Further Research** Evaluate the risk that ethics might someday lose out to greed even in a company with the idealism of Patagonia. Look carefully into Patagonia's products and practices and see if you can find any missteps where decisions put profits ahead of the company's publicly stated environmental goals. Can you find evidence for strong governance and leadership that will protect Chouinard's values and legacy far into the future? How about the competition? Just how does Patagonia operate today to ensure that ethics and social responsibility are not displaced as core company values? And finally, how about the competition? Is Patagonia still the best role model, or can you identify other firms that also deserve to be studied as role models in business and society relationships?

**Sources:** Monte Burke, “Wal-Mart, Patagonia Team To Green Business,” *Forbes*. Posted 5/6/10, 12:20 p.m. forbes.com (accessed 2/2/11); Kent Garber, “Yvon Chouinard: Patagonia Founder Fights for the Environment,” *U.S. News*. Posted 10/22/09. usnews.com (accessed 2/2/11); Diana Random, “Finding Success by Putting Company Culture First,” *Entrepreneur*. Posted 4/19/11. entrepreneur.com (accessed 5/2/14); Jennifer Wang, “Patagonia, From the Ground Up,” *Entrepreneur*. Posted 6/10. entrepreneur.com (accessed 5/2/14); “Home page.” *1% For the Planet*. onepercentfortheplanet.org (accessed 3/1/12); Kristall Lutz, “What Makes Patagonia ‘The Coolest Company on the Planet’: Insights from Founder Yvon Chouinard,” *Opportunity Green*. Posted 1/27/11. opportunitygreen.com (accessed 2/2/11); “Environmental Internships,” *Patagonia*. patagonia.com (accessed 2/3/11); “Tools for Grassroots Activists Conference,” *Patagonia*, patagonia.com (accessed 2/3/11); “Introducing the Common Threads Initiative,” *Patagonia*, patagonia.com (accessed 2/3/11); “Patagonia CEO Rose Marcario Is Not Afraid to Get Political,” *fastcompany.com/90475566/queer-50-rose-marcario*; (accessed May 29, 2020); Sierra Club Announces 2018 Award winners, October 2018. sierraclub.org/press-releases/2018/10/sierraclub-announces-2018-award-winners (accessed May 29, 2020).



Jasper Diks/EyeEm/Getty Images

### Case 5 Royalton Hicacos Varadero Cuba | One Foot in Capitalism; One in Communism

*You can't get much more workplace diversity than to have a capitalist company from Canada operate a property in communist Cuba. But thanks to open-minded management, the Royalton Hicacos resort in Varadero succeeds in pleasing its Canadian owners, its Cuban government-oriented hosts, and its guests from around the world.*

Paulina Chahin was the General Manager at the adults-only Royalton Hicacos Varadero Resort and Spa in Cuba and now leads the CHIC Punta Cana, another Royalton luxury resort. Ms. Chahin, with over 10 years of experience as a manager in Cuba, was the youngest leader of any of the major resorts in Varadero. Originally from Mexico, Chahin has been in the hospitality industry in a number of global locations and has found that leading in Cuba is vastly different than anywhere else she's worked, primarily because it is a communist country.

The Canadian-owned Royalton Hicacos has over 400 junior suites. Guests are first welcomed in a stylish lobby and then toured around the resort on their way to their low-rise rooms. There are the usual amenities you would expect at any five-star Cuban resort—beach restaurants at which to enjoy the sunsets, jazz and piano bars, pools, and beach-side Bali beds—all located near the famous white

sands of Varadero beach. There are many different places to eat at the Royalton Hicacos, but one of the most popular is the spot run by sandwich maker Tonia, who makes Cuban pork sandwiches just off the lobby bar. Patrons also speak glowingly of the staff, who willingly share insights and assistance and state that they are happy to be members of the Royalton Hicacos family.

GM Chahin's day begins at 7:00 a.m. and ends late in the evening. Fortunately, she lives on site so her commute is short. Every morning she has a meeting with her direct reports at 10:30 to review the last day's events and to discuss future topics, including guest flows, entertainment, personnel issues, key performance indicators, and myriad other matters. Attending these meetings are Chahin's seven direct reports as well as seven Cuban managers who mirror the same roles as her people. This parallel management structure is what makes leading in Cuba unique. The Cubans are employees of the government and work to integrate planning and operations within a tightly regulated federal system. As GM, Chahin needs to keep both her Canadian “capitalist” owners and Cuban “communist” partners happy. Meeting financial goals seems to be the sweet spot for both.

To achieve this goal, Chahin does a lot of coaching, working one-on-one with all of her staff. She takes good notes during these meetings and this helps her to connect with her staff. She is a delegator, yet she checks up regularly. She also leads by example. After welcoming new guests at a reception, Chahin can be seen picking up stray papers blown by the wind. Making the resort clean and welcoming is every-one's responsibility.

Chahin highlights that she is focused on further adapting the culture of the organization. Having people primarily from one culture (Cuba) meeting the diverse demands of people from all over the world is a challenging task. To succeed, she recognizes that it is important to build upon the value that Cuban society places on respect, and then to add a focus on speedy responses to customer needs, which is important to North American and European customers. She also pursues an overarching quest for quality, which is an almost universal demand from five-star customers.

And Chahin's approach is working. The hotel enjoys a high occupancy rate and is rated highly by visitors, ranking in the top two hotels in all of Cuba on TripAdvisor.com. Royalton Hicacos was recognized for its quality and guest experience by the Cuban Ministry of Tourism at a Cuban-Canadian Trade and Tourism Union industry event. “Royalton Hicacos has been adored by guests for many years and to be awarded by such a reputable agency in Cuba is an honour,” said Mohamad Fawzi, Senior Director of Operations, Blue Diamond Resorts, Cuba. “Each member of the staff at this resort is committed to delivering the highest quality of service to valued guests.” Recently, Chahin has taken their focus on excellence to another Royalton Resort. At this new location, the Royalton Punta Cana Resort & Spa, Condé Nast Traveler recognized it with a prestigious Readers' Choice Award.

Yet even this focus on quality might not be enough to survive the COVID-19 health crisis. The near-total disappearance of the tourist market was not on anyone's radar in the early days of 2020. Now everyone's concern is, how can a resort GM maintain a focus on quality, blend cultures together, and achieve success, all while mitigating the impacts of a global pandemic?

#### Case Analysis Questions

**1. Discussion** If you were the GM of the Royalton Hicacos in Varadero, how would you draw from culture theories to help the Cuban staff of the hotel adapt to their global vacationing customers?

**2. Discussion** It appears that this joint venture between Royal Hicacos and the Cuban Government is working. Drawing from the discussion on how to choose a venture partner in Chapter 5, discuss the strengths of this joint venture.

**3. Problem Solving** If you were hired by Royal Hicacos to look at whether the hotel chain should open a resort in Venezuela, what key factors in the business environment might you focus your report on?

**4. Further Research** What might a GM do with Canadian owners in a communist country to bring cultures together? What opportunities might this bring for managers like Paulina Chahin?

**Sources:** Jane Stevenson, “Love in Paradise: Inside Bachelorette Canada’s Cuban Adventure,” *Toronto Sun* (November 29, 2016); “Royalton Hicacos Named Leader in Quality by Cuban Ministry of Tourism,” company news release (November 11, 2016); “Royalton Luxury Resorts Opens a Second All-Inclusive Luxury Property in Cuba,” company news release (December 3, 2014); [bluediamondresorts.com/media-room/news/two-royalton-luxury-resorts-recognized-with-conde-nast-travelers-2019](http://bluediamondresorts.com/media-room/news/two-royalton-luxury-resorts-recognized-with-conde-nast-travelers-2019) (accessed May 29, 2020).

M4OS Photos/Alamy Stock Photo



## Case 6 Shopify | Making Commerce Better

*Starting a business is a risk in itself, but completely changing your product or service is even riskier. But like many entrepreneurs, Tobi Lütke and Scott Lake of Ottawa were willing to take that risk. When they realized the software powering their online snowboard store was a better business proposition than selling winter gear, they did a 180, and Shopify was born. The bet has paid off.*

In 2004, when Tobi Lütke and Scott Lake decided to sell high-end snowboards online, their ambitions were simple: to sell a product they loved on the Internet. Besides being an avid snowboarder, Lütke was a computer programmer from Germany, 22 years old and new to Canada. Lake, 12 years his senior, who also loved the sport, had spent some time in a previous start-up online business with a couple of friends and was eager to launch one of his own. When Lütke researched available software tools for retailing online, what he found was very disappointing. Nothing allowed retailers to keep their own brand and build close relationships with their customers. So, like any budding yet determined entrepreneurs, Lütke and Lake overcame that barrier by building software of their own. By chance, a new computer language called Ruby on Rails had become available in Japanese, but even without knowing Japanese, Lütke figured out the codes. Being new to such translations, he attracted the attention of other users with whom he freely shared components of his developing system.

As their snowboard business got off the ground, Lütke and Lake started to notice a remarkable thing. They were coming to believe that the software Lütke developed was an even better product than the high-end snowboards they were sourcing. So, they took a step back,

reassessed their business model, and decided to move from selling snowboards to selling software for others like themselves who wanted to engage in e-commerce. This was a risky shift in what they originally conceived as the purpose of their business. But they made the move just the same. Lake loved the rush of another start-up and Lütke had faith in his new program. They were off and running.

By 2006 they officially launched their easy-to-operate e-commerce platform, which they called “Shopify,” and began to hire more people. Their first hire was Daniel Weinand (now considered a co-founder), a fellow German programmer and a long-time friend of Lütke’s. By the time Scott Lake decided to leave the company in 2008, they had 10 people on staff. It was a propitious year for change. The economy had tanked, and thousands of people who were out of work were seeking autonomous ways to earn a living. Selling online was a go-to option that turned out to be a turning point for Shopify.

Growth during the next nine years was explosive. By 2017, the Shopify staff had grown to 1,750, working in modern offices in Toronto, San Francisco, Montreal, and Waterloo, and in its headquarters in Ottawa. That same year it had 325,000 merchants (customers) selling retail online, doing \$24 billion worth of business, operating in 150 countries. What accounts for such growth?

### What Shopify Offers Its Customers

Shopify offers a unified and affordable platform for merchants who are not necessarily tech-savvy but want to run a full-service, e-commerce business of their own. The software can be fully customized, with multiple sales channels, alternative payment methods, unlimited inventory, and the ability to track sales and growth. Plus, it has over 700 experts available to offer advice, as well as partnerships with key players such as Facebook, Pinterest, Twitter, and Amazon.

Although the product is attractive to small and medium-sized businesses, Shopify’s software is also trusted by large companies, including Red Bull, Cross Fit, Wikipedia, General Electric, and Tesla Motors—a model of which Lütke happens to own.

### Formula for Success

Shopify’s first success factor is the elegance and versatility of its software. It’s intuitive and simple to use, with over 100 themes and 1,500 apps from which a merchant can choose. The second factor is that Tobi Lütke has built a solid management team. When Scott Lake left in 2008, Lütke became CEO, a job about which he knew very little but learned quickly. He read everything he could and interviewed designers, programmers, and fellow entrepreneurs to learn from them, in what he called a crash-course MBA. He treated the task of learning to be CEO like a software problem he had to solve. “Any given thing,” Lütke says, “like how to do [the] finances of a company, how to organize a company internally, and HR, these things are problem domains to me. I’ll try to just understand them as I would try to understand something I need to build software for.” He achieved success because he was focused on developing incremental improvements in the product, while creating a smoothly functioning organization. In other words, money was not his main driver. Excellence was.

### Funding and the Shopify Business Model

To get his first business off the ground Lütke depended on 10 friends and family to stake him \$200,000 to sell snowboards. When Shopify started to show promise in 2008, he attracted a venture capitalist, John Phillips, who invested another \$250,000 in the business. Under Phillips’ guidance, Shopify soon sold shares, raising another \$100 million. Then, the big move came in 2015 when it went public with an IPO and raised an additional \$131 million with a valuation of \$1.27 billion. During that time, the company also changed its business model from charging merchants a percentage of sales, to selling monthly subscriptions, which was a more reliable source of revenue.

## Entrepreneurship Under Control

Shopify represents an interesting paradox. Although it sells its product online in a virtual marketplace, it operates its own businesses in bricks and mortar buildings. Shopify dropped the “e” from e-commerce and has started offering a platform that supports traditional retail as well. Harley Finkelstein, COO, explains: “Most people assume that the future of retail is one or the other: it’s online or it’s offline... Our view is that it’s all digital retail. In the future, consumers will dictate to the retailer how they want to purchase.” Shopify is making sure that all options are available to the merchant to sell to customers, whether it’s online, at an actual store, or at a farmers’ market using mobile payments.

New companies often fail when it comes to scaling a business. Many entrepreneurs can’t let go of all the facets of the business they once controlled and they begin to micromanage the people they’ve hired to do the job of expansion. Tobi Lütke, on the other hand, has successfully moved from the hands-on skill of programming and product development to becoming a visionary and strategic leader. This meant he had to surrender to the talents of others—a step many entrepreneurs are reluctant to take. What he maintains is the passion that he had when he first started out. He attributes much of Shopify’s success to the fact that the company is still being run by a founder who hasn’t lost sight of the vision and who still earnestly maintains and encourages a start-up state of mind. That is, he still shows the willingness to be curious and constantly ask why and what if. It means being open with information. It means reinforcing an attitude of action that is coupled with the courage to fail and the resilience to learn and refine. It means having a desire to make a personal impact on customers. Lastly, it means maintaining a relentless focus on imagining what is yet to be and fulfilling the promise of Shopify’s own possibilities—their mission is to dominate the commerce sector.

So far, it has shown no signs of slowing down, even in the face of a pandemic. Shopify took steps to help entrepreneurs who were struggling to keep their businesses alive during the COVID-19 crisis by giving its merchants the opportunity to allow customers to “buy now, pay later,” buy gift cards, and give tips. These changes were launched and shared at a virtual event. The pandemic has proven to be a boon for Shopify, as they became the most valuable, publicly traded company in Canada in May 2020.

### Case Analysis Questions

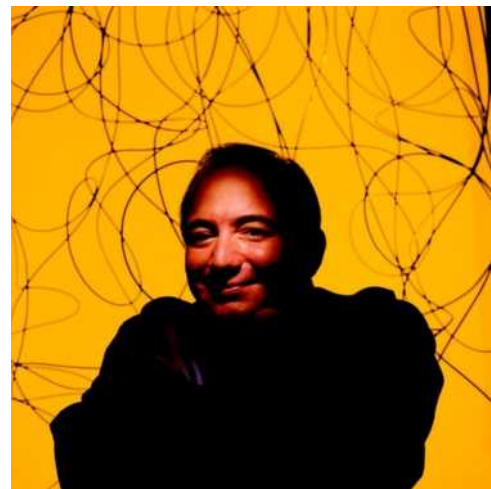
**1. Discussion** What attributes does Tobi Lütke possess that classify him as an entrepreneur?

**2. Discussion** When U.S. President Donald Trump in early 2017 ordered American borders closed to refugees and immigrants from seven countries for 90 days, Tobi Lütke signed a petition, along with thousands of other individuals from the tech industry, asking Ottawa to give temporary residency to those displaced by the ban. On the other hand, when 21,000 of his own customers signed a petition asking for Lütke to stop doing business with Steve Bannon, Trump’s chief strategist and executive chairman of Breitbart News, a publication known for encouraging racist nationalism, Lütke replied “if a merchant is selling products legally in the jurisdiction in which they are operating, they can use our software,” and he remained unmoved. Was Lütke right to have made the decisions he did? Did they seem inconsistent to you, or are they both consistent and defensible?

**3. Problem Solving** Some customers of the merchants who use Shopify’s software to conduct their businesses have complained of being scammed. Some complain of never having received the product they paid for, or not receiving refunds for products returned. Who should be responsible for addressing such complaints? Is it Shopify’s responsibility to vet its customers’ integrity as well as their legality? Defend your position.

**4. Further Research** Shopify has several competitors, including Amazon Webstore. What is Shopify’s value proposition and what significant competition does Shopify face?

**Sources:** Jessica Galang, “New Offices in Toronto and Waterloo Help Shopify Support Growing Verticals and Canadian Tech,” *Betakit* (January 23, 2017); Trevor Cole, “Our Canadian CEO of the Year You’ve Probably Never Heard of,” *The Globe and Mail Report on Business* (November 27, 2014); Shopify website, [www.shopify.ca](http://www.shopify.ca); Sarah Niedoba, “Shopify CEO Tobias Lütke on How to Maintain a Startup Culture at Scale,” *Canadian Business* (August 9, 2016); James Cowan, “Shopify COO Harley Finkelstein on the Future of Digital Retail,” *Canadian Business* (March 10, 2016); The Canadian Press, “ShopifyInc Looks to Help Businesses with Online Marketing by Acquiring Messaging App Kit CRM,” *Financial Post* (April 13, 2016); CB staff, “Should Shopify Heed Petitions to Ditch Breitbart as a Client?”—*Canadian Business* (January 20, 2017); “Shopify rolls out new tools for online selling during COVID-19,” (May 20, 2020), [cbc.ca/news/business/shopify-new-tools-1.5577463](http://cbc.ca/news/business/shopify-new-tools-1.5577463).



David Strick/Redux Pictures

## Case 7 Amazon.com | One E-Store to Rule Them All

*Amazon.com has soared ahead of other online merchants. What the firm can’t carry in its worldwide fulfillment centres, affiliated retailers distribute for it. CEO Jeff Bezos keeps introducing new products and services to keep customers glued to the Amazon site. What drives Bezos’s decisions, and will his moves and investments pay off in the years to come?*

### The Rocket Takes Off

From its modest beginning in Jeff Bezos’s garage in 1995 as an online bookstore, Amazon.com has quickly sprouted into the world’s preeminent online retailer. Once Bezos saw that Amazon could outgrow its role as an immense book retailer, even its logo was updated to symbolize that Amazon.com sells almost anything you can think of—from A to Z. Hundreds of other companies also list their products on the Amazon Marketplace. Amazon profits from the additional exposure and sales and the brand thrives by keeping on the site customers who might otherwise shop elsewhere.

Amazon keeps changing as it grows. No one is ever sure what will come next. CEO Jeff Bezos keeps investing to make his company bigger, stronger, and harder to catch. In 2017, Amazon announced its intention to buy U.S. upscale grocery chain Whole Foods for \$13.4 billion (U.S.). It would be the company’s first move into bricks and mortar

retailing. Amazon had been selling groceries online for nearly a decade but wanted to go head-to-head against Walmart, which sells food online and in its stores.

Its millions of square metres of distribution fulfillment space keep growing domestically and around the globe. The firm's products and services are continuously upgraded and expanded. Just go to the website and check out different products. Amazon's creative destruction of both traditional book publishing and retailing may be footnotes to the company's larger and more secretive goal: giving anyone on the planet access to an almost unimaginable amount of computing power through its cloud services.

### Priming the Competition

Time and time again, Amazon has squared off against retail competition. Amazon Prime, an annual subscription service providing free two-day shipping, was a big hit and has pushed other online retailers to follow suit in free shipping options and promotions. In taking on Apple, Amazon launched its music downloading service and then, in a move of digital one-upmanship, bought top-shelf audiobook vendor Audible.com.

Apple isn't the only company in Amazon's sights. It competes with the likes of Hulu and Netflix with Amazon Prime Instant Videos, a library of streaming movies and TV shows available at no extra cost to Amazon Prime customers. Prime subscribers can also borrow books from the Kindle Owners' Lending Library.

Beyond simply finding more and more products to sell, Bezos pushes continuous innovation that creates new levels of service to complement existing products. "We have to say, 'What kind of innovation can we layer on top of that that will be meaningful for our customers?'" he explains.

### Pressing Too Hard

While it often feels as if Amazon can't lose, this isn't actually the case. Some high-profile retailers have pulled their products from the Amazon Marketplace, including Target, The Gap, and Macy's. According to Neel Grover, CEO of Buy.com—another retailer that abandoned Amazon's ship—"We didn't want to give them information on products and sales that Amazon could potentially use against us."

Despite Amazon's success in so many new markets, some critics question whether Amazon.com, let alone the Internet, is the best place to make high-involvement purchases. Bezos is characteristically confident. "We sell a lot of high-ticket items," he characteristically says. "We sell diamonds that cost thousands of dollars and \$8,000 plasma TVs. There doesn't seem to be any resistance, and, in fact, those high-priced items are growing very rapidly as a percentage of our sales."

### Looking Ahead

Amazon's shares fluctuate in value and have a very high price-earnings ratio that financial analysts like to criticize. But Bezos believes that customer service and anticipating customers' needs, not the stock ticker, define the Amazon experience and its success. "I think one of the things people don't understand is we can build more shareholder value by lowering product prices than we can by trying to raise margins," he says. "It's a more patient approach, but we think it leads to a stronger, healthier company. It also serves customers much, much better."

In three decades, Amazon.com has grown from a one-man operation into the global giant of commerce. Amazon now employs over 8,400,000 workers around the world with more than 150 million people subscribed to Prime, paying an annual fee in exchange for access

to free, fast shipping. Bezos told *Businessweek* in 2001. "You can be two sizes: You can be big, or you can be small." Now, Amazon is a collection of systems that are either already big or one day might become big, including Amazon, Zappos, and Whole Foods; Amazon Web Services; its media platforms, Prime Video and Music, the Kindle store and Audible, and other platforms, like the streaming site Twitch; and Ring, the home-security-camera company.

Bezos is often reported as the richest individual alive, and one analyst predicted that Amazon would be worth \$3 trillion by around 2027. Now with a data centre in Montreal and corporate offices in Toronto, Amazon is focusing on Canada. By forging alliances to ensure that he has what customers want and making astute purchases, Jeff Bezos has made Amazon the go-to brand for online shopping. With its significant investments in new media and services, does the company risk spreading itself too thin? What impact has the COVID-19 pandemic had on their approach to business? Will customers—individual and corporate—continue to flock to Amazon, the go-to company for their every need?

### Case Analysis Questions

**1. Discussion** In what ways does CEO Jeff Bezos's decisions to develop and deliver the Kindle, Amazon Prime, and Amazon's web service lines show systematic and intuitive thinking?

**2. Discussion** How do you describe the competitive risk in Amazon's environment as other retailers, including Walmart and Apple, strengthen their online offerings?

**3. Problem Solving** Amazon is continuously looking for new markets to exploit. As Bezos addresses the strategic opportunity of streaming video, he calls on you for advice on gaining more customers from the younger generations. Amazon's presence and technology are well established, but Bezos sees a lot of untapped potential in this market. What decision error and traps might cause him to make the wrong decisions regarding Amazon's future moves in this regard, and why? What can he do to avoid these mistakes?

**4. Further Research** What are the latest initiatives coming out of Amazon? How do they stack up in relation to actual or potential competition? Is Bezos making the right decisions as he guides the firm through the ever-evolving challenges of today's cyber markets? Or is he starting to lose touch as the company grows and his other personal interests take more time and attention? And what about Alibaba? Will the world's largest e-commerce company take over Amazon's market?

**Sources:** Nick Wingfield and Michael J. de la Merced, "Amazon to Buy Whole Foods for \$13.4 Billion," *The New York Times* (June 16, 2017); Tim Mullaney, "5 Key Business Lessons from Amazon's Jeff Bezos," CNBC.com (January 12, 2017); Alexander Nazaryan, "How Jeff Bezos Is Hurling Toward World Domination," *Newsweek* (July 12, 2016); Thomas Ricker, "Amazon Adds Audible to Its Digital Empire," *engadget.com* (accessed May 28, 2008); Claire Cain Miller, "E-Books Top Hardcover at Amazon," *New York Times* (July 19, 2010); Zach Epstein, "Amazon to Sell 6 Million Kindle Fire Tablets, 8 Million eReaders in Q4," *Boy Genius Report* (posted December 13, 2011); "Amazon Prime Members Now Get Unlimited, Commercial-free, Instant Streaming of More Than 5,000 Movies and TV Shows at No Additional Cost," Amazon Media Room (posted February 22, 2011); Jason Boog, "Kindle Owners' Lending Library Unveiled," *Galleycat* (posted November 3, 2011), *mediabistro.com*; Jeffrey Ressler, "10 Questions for Jeff Bezos," *Time* (August 1, 2005, Vol. 166, Issue 5); "Amazon CEO Takes Long View," *USA Today* (July 6, 2005); "Amazon's Big Breakdown," John Herrman, *New York Times*, May 27, 2020.



Laura Hutton/Shutterstock.com

## Case 8 Uber | Riding the Gig Economy

*In many ways, the gig economy has begun to revolutionize how people consume products and services. Companies such as Airbnb, for example, provide an online marketplace that connects would-be renters with people seeking accommodations and eliminates the “middleman” in 192 countries worldwide. Companies following a “gig” approach are growing in number and popularity, with more appearing every day. The list is huge and includes—just to name a few—Lyft, which connects drivers with passengers; Turo, which connects rental cars with customers in need of a car; and OpenAirplane, RVshare, Sailo, Boatsetter, Parking Panda, Closet Collective, and Grubhub. We are seeing a revolution in the way the “market” functions . . . or are we?*

Perhaps the best known of the gig companies currently making big waves in the press and in the new economy is Uber. And it all started because no one would give them (Uber’s founders) a ride. In 2008, Travis Kalanick and Garrett Camp were in Paris and couldn’t get a cab. Their experience led to the development of an extremely convenient, relatively safe, and also rather inexpensive app-enabled online driver service. Founded in 2009 and currently operating in 63 countries and 700+ cities, Kalanick and Camp’s simple solution—Uber—has become a cultural phenomenon. Uber connects customers in need of a ride with “gig” workers who pick them up. The model is simple and extremely streamlined. Uber provides the market and takes a cut of the proceeds. No cash is exchanged between drivers and passengers. Uber, whose app-enabled market has changed the way people think about transportation, handles everything.

### Untraditional Financial Models

Following in the path of other well-known new economy companies, Uber has continued to generate eye-popping revenues—estimates put Uber’s revenues in excess of \$11 billion in 2018—its balance sheet is startling, but in the wrong way. Although these kinds of sales numbers are astonishing, particularly for a company that is only 10 years old, they have to be understood in light of the company’s massive financial losses during the same period. Uber is estimated to have lost

nearly \$2.8 billion in fiscal 2019 (exact figures are difficult to calculate because, as a privately held company, Uber is not required to disclose its financials) yet hopes to become profitable by 2021. It is estimated that Uber spends \$1.55 for every dollar in revenue it generates. So, although Uber generates huge annual sales numbers, it also spends a lot of money on drivers’ pay, incentives, and bonuses.

### What Is Uber Really Doing?

Uber is spending a substantial amount of money on technology. These investments, including the recent strategic purchase of Geometric Intelligence—a start-up cofounded by academic researchers focused on making artificial intelligence (AI) systems that can navigate in the real world—perhaps hint at the company’s longer-term strategic intent. This intent becomes more apparent when one considers that Uber’s investments in AI coincide with the fact that they are currently running fleets of self-driving cars. These vehicles are operating on the streets of California and in the city of Pittsburgh, Pennsylvania, where Uber is actively and aggressively testing its AI assets. The city streets have essentially become a laboratory for Uber to road test the machinery of its long-term vision. Given these kinds of investments, does their long-term vision also include human drivers?

### What’s the Long-Term Vision?

Although some estimates put the number of drivers currently employed by Uber at upward of 150,000, the company’s recent investments in AI, navigation technologies, and self-driving cars suggest that this particular gig employer may not be in it for the long term, at least as far as opportunities for human drivers are concerned. What do you think the new CEO of Uber, Dara Khosrowshahi, has in mind for the future of Uber? What role do you think he wants this emerging giant in the mass transit market to play moving forward? Do you think that investments in AI and self-driving cars are a good sign for future human employment with Uber? Why or why not? Is Uber the long-term answer for gig employees?

### Case Analysis Questions

**1. Discussion** Although many argue that the gig economy has opened up opportunities for individuals to be self-employed in ways that complement their lifestyle, the investments that gig giant Uber is making suggest a different kind of future for the uber-successful taxi substitute. What do think Uber has in mind?

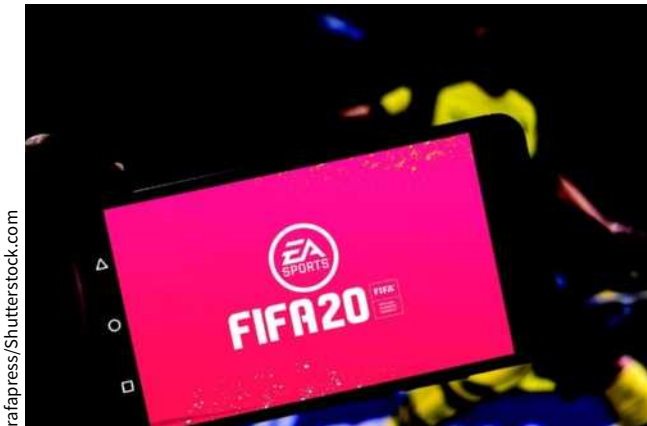
**2. Discussion** What are some of the potential applications for fleets of self-driving vehicles? What role might this kind of infrastructure play in towns and cities in the future? How might Uber leverage these kinds of assets to generate a profit? Do you see a way for Uber to be successful while still employing human drivers? How?

**3. Problem Solving** You’ve been hired on by Uber’s CEO Dara Khosrowshahi as the Chief Financial Officer and asked to address the issue of huge quarterly losses, despite massive sales revenues. The Uber fleet is not likely to be “self-driving” for at least another five years, and it isn’t clear whether the current model will be sustainable until then, particularly given increasing competitive pressures to raise drivers’ rates from companies such as Lyft. What steps could you take to address these competing pressures—market pressures to raise rates and the need to generate profits?

**4. Further Research** Look into some of the more well-known gig companies currently making headlines in the financial press. Are any of these companies generating a profit? What factors are at work here? How have these companies organized to become profitable? Are any of these companies moving toward models that remove the “human factor”—that mechanize in the way that it looks like Uber could be seeking to do? How are the financial values of some of these gig companies being determined? In light of the huge losses experienced by some gig

economies, what factors are likely playing a role in these financial evaluations? Are people speculating on an unknown future?

**Sources:** [uberestimator.com/cities](http://uberestimator.com/cities); [techcrunch.com/2016/12/21/uber-losses-expected-to-hit-3-billion-in-2016-despite-revenue-growth/](http://techcrunch.com/2016/12/21/uber-losses-expected-to-hit-3-billion-in-2016-despite-revenue-growth/); [techcrunch.com/2016/12/05/uber-acquires-geometric-intelligence-to-create-an-ai-lab/](http://techcrunch.com/2016/12/05/uber-acquires-geometric-intelligence-to-create-an-ai-lab/); [foxbusiness.com/features/2017/03/08/uber-self-driving-cars-are-coming-back-to-california-roads.html](http://foxbusiness.com/features/2017/03/08/uber-self-driving-cars-are-coming-back-to-california-roads.html); [qz.com/874548/uber-asked-a-lot-of-pittsburgh-for-its-self-driving-cars-and-offered-back-very-little/](http://qz.com/874548/uber-asked-a-lot-of-pittsburgh-for-its-self-driving-cars-and-offered-back-very-little/); “Uber Loses \$1.1 Billion, Targets Profitability In 2021,” Biz Carson, *Forbes* (accessed June 6, 2020), [forbes.com/sites/bizcarson/2019/11/04/uber-q3-earnings-revenue-beat-lost-another-billion/#4e719906306a](http://forbes.com/sites/bizcarson/2019/11/04/uber-q3-earnings-revenue-beat-lost-another-billion/#4e719906306a).



## Case 9 Electronic Arts | Inside Fantasy Sports

*Electronic Arts is the third-largest and one of the most profitable players in the video game industry. Exclusive contracts with professional sports teams have enabled it to dominate the sports gaming market. Can EA stay in the pole position as gaming shifts to mobile in a crowded and contentious market?*

Founded in 1982 by William “Trip” Hawkins, an early director of strategy and marketing for Apple Computer, EA gained quick distinction for its detail-oriented sports titles compatible with the Nintendo and Sega platforms. Although EA has also received good reviews for its strategy and first-person shooter games, it left its heart on the gridiron, diamond, court, or any other playing field long ago. According to former EA Sports marketing chief Jeffrey Karp, EA wanted to be “a sports company that makes games.”

### Ad Revenue In, Ad Revenue Out

Word of mouth may still be the most trusted form of advertising, and EA has always depended on fans to spread its gaming gospel. But in a highly competitive—and lucrative—gaming market, EA knows better than to skimp on brand building: it spends two to three times as much to market and advertise a title as it does to develop it.

The realism of EA’s graphics set it apart from competitors long ago, but the energy and talent used to depict that realism might have been wasted if EA games didn’t include the one element fans most want to see: their favourite players. However, top athletes aren’t cheap, and neither are their virtual depictions. EA spends \$100+ million annually to license athletes, players’ associations, and teams. It’s a complex dance: *FIFA Soccer for iPad*, for example, requires hundreds of different licenses from a total of 22 club leagues, 500 teams, and 15,000 players.

### Past Glory

EA’s past devotion to sports games has been a winning asset. But a funny thing happened on the way to the bank—over the course of a

few short years, the gaming market radically changed. The way games were played in the past is not the way they are played now.

Blame the Wii. Or blame Apple. Or blame Android and social media platforms. Or blame the success of Activision Blizzard’s massively successful *World of Warcraft (WoW)* that dominated EA’s failed *Star Wars: The Old Republic*, which was intended to compete with *WoW* for gaming dollars. Apple’s App Store and Android stores became self-sufficient gaming platform destinations for simple but time-swallowing games. With successive generations of improved iOS gaming, this industry has become a crowded field. This kind of gaming was worlds away from EA’s graphics-intense, true-to-life realism traditions, and it forced the company to do some serious reckoning on its future.

The competition EA faces now is coming on three fronts—one of the growing trends in the gaming industry is free-to-play, console-level quality, for mobile games. Quality and sophistication equivalent to EA’s best offerings are now enabled for use on mobile devices. And, it’s free! The most dangerous competition that EA may be facing comes from a North Carolina-based competitor, Epic Games, which is the gaming studio responsible for the tremendously successful, free-to-play, *Fortnite*. *Fortnite*’s tremendous success has been attributed to the fact that the console-level quality of this free-to-play game has seamless, cross-platform playability. The experiences that EA offers as a subscription-based pay-to-use service are now being offered for free by the competition. Numerous competitors in this space have emerged. Some of the most prominent include Critical Force, the studio behind the uber-successful *Critical Ops*, Mad Finger Games, whose first-person shooter *Shadow Gun* series have been downloaded tens of millions of times, and Gameloft, with a large stable of high-end graphic, mobile-enabled, free-to-play games, including the highly successful *Asphalt* franchise.

### Playing for Keeps

These competitive clashes have led to management turbulence at EA. Former CEO John Riccitiello stepped down in the face of management failures and tumbling market value. Although historically a leader and an innovator in the gaming space, EA may have become more of a trend follower than a trend setter under his waning days at the top. When arch rival Activision found market success with its game *Call of Duty*, Riccitiello tried to copy their success with similar products. But consumers showed fatigue with first-person shooter military-themed games. EA also failed to remain current with market trends, making a failed foray into online gaming with *SimCity* and not keeping pace with rivals in gaming hardware. Another threat emerged with the announcement that computer code from third-party servers could infiltrate some of the EA gaming platforms. And then unwanted bugs appeared in *Battlefield 4* and the market turned against EA games made for aging console players.

Although still a top player, EA faces substantial challenges from competing game companies, the cost of doing business, legal issues, dissatisfied gamers, and growing free-to-play, mobile-enabled competition. The next great bet by EA is another futuristic shooter game, *Titanfall*. EA has also launched its first wave of games on Steam in 2020, including more than 25 titles. Games like *Dragon Age: Inquisition*, *Need for Speed Heat*, and *Unraveled* are on the service right now. More games are coming, and EA says that new games it develops for PC will launch on Steam alongside other platforms.

It sounds good, but can EA overcome these threats and continue producing games with franchises that brought the company considerable success in the past? Above all, does EA have its operations under control as it makes plans for the growing big thing—free, high-quality, mobile-enabled games?

### Case Analysis Questions

**1. Discussion** How can feedforward, concurrent, and feedback controls help Electronic Arts meet its quality goals for video games?



**2. Discussion** Which of the control systems and techniques can be most useful to EA's next round of business decisions, and why?

**3. Problem Solving** Break the video-game production process down into its various components, a start-to-finish workflow model. Identify for each phase in the process the control standards that could be set so that managers make the process work best overall.

**4. Further Research** What is the latest in Electronic Arts' quest to regain its former glory as among the top gaming publishers? How is it doing? What's the quality of its games? Is it positioned for future competitive advantage in an industry moving fast into mobile? Overall, is EA's executive team in control and keeping the company on "top of its game"?

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AP Images/Nathan Denette



## Case 10 Hudson's Bay Company | From Fur to Fendi to an Uneasy Future

*After 350 years, Canada's oldest retailer knows a thing or two about change. Older than the country it serves, Hudson's Bay Company (HBC) has remained a landmark institution in Canada, navigating its way from rural outposts to over 250 locations and nearly 30,000 associates located in every province. Known best for its flagship department store Hudson's Bay (formerly The Bay), HBC also operates Saks Fifth Avenue and Saks Off Fifth.*

Despite its long and glorious past, all is not well at Canada's historic company. Leadership changes, increased competition, a fragmenting retail market, and plummeting sales have plagued HBC well into the new millennium. Will HBC be able to successfully weather the seas of change or will it sink into history?

### History

Two centuries before confederation, a pair of European explorers discovered a wealth of fur in the interior of Canada accessible by an inland sea, Hudson Bay. In 1670, with permission from the King of England, trading began and HBC traded goods and furs in a few forts and posts around James Bay and Hudson Bay throughout the next century. Later, competition forced HBC to expand into Canada's interior and a string of outposts grew up along river networks that would eventually become the modern cities of Winnipeg, Calgary, and Edmonton.

By the end of the 19th century, changing tastes caused the fur trade to lose importance, while western settlements and the gold rush introduced new clientele to HBC—ones who paid in cash, not fur. Trading posts gave way to sales shops with a greater selection of goods, transforming HBC into a modern retail organization. During this time, HBC also started selling homesteads to newly arrived settlers, eventually diversifying into a full-scale commercial property holding and development organization. Shipping and natural resources, particularly oil and gas, were important sidelines. The company has evolved many times in its history, adapting to changes in the market and in the competition.

### New Challenges

Early in 2001, HBC tried to reinvent itself with a more fashionable image for The Bay and reduced the focus on steep discounts. The economy, and frustrated customers, forced it to abandon the move and return to its value-based focus. To try to remain competitive with other low-cost retailers, HBC diversified, although unsuccessfully, through Designer Depot/Style Depot, which operated from 2004 to 2008. After remaining a Canadian company for over 330 years, HBC was bought in 2006 by U.S. financier Jerry Zucker. He sought to revive the firm by focusing on improving operations and customer satisfaction. In 2008, after Zucker's death, HBC was bought by U.S. private equity firm NRDC Equity Partners, which also owned the U.S. department store chain Lord & Taylor. NRDC's strategy was once again to revitalize HBC with better brands and better service.

Under NRDC's leadership, HBC quickly focused on re-attracting customers by dropping over 60 percent of its former brands and re-launching "The Room," a plush VIP suite at one of its Toronto locations, with high-end designers such as Armani, Ungaro, and Chanel. Despite the economic downturn in 2008 and while other organizations were laying off workers, HBC was in the black. Another coup for HBC was becoming the official clothing outfitter for the Canadian Olympic team. The \$100-million deal made HBC the clothing provider for the 2006, 2008, 2010, and 2012 games. The HBC apparel for the 2010 Winter Olympics in Vancouver was extremely popular, and new customers and those who hadn't shopped at HBC in years flocked back to snap up hoodies, coats, hats, and the iconic red mittens as fast as the merchandise could be put on the shelves. HBC's Olympic sponsorship was renewed through 2020.

The last several years have not been kind to HBC's bottom line. The company has continued to navigate its way through the wake of a weakened economy, changing consumer tastes, and intense competition. The popularity of big-box stores such as Walmart shifted consumer behaviour away from department store shopping, forcing HBC to compete on selection of merchandise and price. And then Amazon was added into the consumer mix.

## Moving Forward

HBC continued its reinvention, spearheaded a number of initiatives to make the retailer the country's top seller of women's shoes, along with introducing more British-based "cheap-chic" Topshop stores-within-stores. In 2016, HBC announced it would acquire online flash sales site the Gilt Groupe for \$250 million (U.S.). According to HBC spokesperson Jerry Storch, "The two most rapidly growing areas in retail today are Internet and off-price. We think this is a marriage made in heaven." The company hoped the deal would contribute \$500 million to HBC's fiscal year. Just a few months later, HBC announced that it would open up to 20 Hudson's Bay and Saks Off Fifth stores in the Netherlands—the first Hudson's Bay stores outside of Canada. Things looked bright for HBC.

Fast-forward to 2018 when a hack of five million confidential credit and debit cards compromised transactions at Saks Fifth Avenue and Lord & Taylor stores. Then in 2019, the ill-fated European expansion concluded with the closing of their last store and the announcement that the Lord & Taylor stores were to be sold. It was clear HBC were downsizing their operations. *Bloomberg* suggested that millennial shoppers prefer to make purchases online, or direct from various brands' own stores, and that HBC "has yet to offer something they can't find somewhere else and risks drifting into irrelevance."

In the midst of all of the challenges facing HBC, they also went through a privatization bid that was finalized in 2020. "Whether we are a public or private company, our strategy remains the same," said the then-CEO Helena Foulkes, highlighting a commitment to making focused investments designed to drive growth, enhancing customer experience, reducing operating costs, fixing fundamentals, and capitalizing on real-estate value. HBC has a strong brand, customer loyalty and deep Canadian roots. Despite some successes, many are questioning whether HBC is on the right track.

May 2, 2020 should have been an epic celebration for the 350-year-old company. Instead, the iconic department stores were closed due to the COVID-19 crisis. This was an added burden on the company. With Richard Baker at the helm now as CEO, will they again become a premier Canadian shopping destination or is it too late to revive the historic department store?

### Case Analysis Questions

- 1. Discussion** What does an analysis using Porter's five forces model reveal about the industry that HBC competes within and what are its strategic implications for the company?
- 2. Discussion** Describe the competitive strategy used by HBC after its sale to Zucker and NRDC. What strategy is HBC adopting now?
- 3. Problem Solving** What types of things should Richard Baker, as HBC's CEO and "strategic leader," be doing with respect to the company's employees to ensure successful strategy implementation?
- 4. Further Research** Are there other successful chains in the world that HBC could learn from by examining their innovative strategic path? If so, which ones, and why? What online competitors should HBC keep an eye on? Is the shopping model changing? Is HBC changing fast enough?

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Richard Clement/REUTERS

### Case 11 Nike | Spreading Out to Win the Race

*Nike is indisputably a giant in the athletics industry. But the Oregon company has reached the top by knowing how to stay small. Nike has managed to become an industry leader by focusing on core competencies—and outsourcing other tasks and functions. But can it stay out in front?*

#### Where's the Company

If you don't make anything, what do you actually do? It's not a joke or a Buddhist riddle. Rather, it's a conundrum about one of the most successful companies in the world—Nike. The company is known worldwide for its products, none of which it actually makes. But if you outsource everything, what's left? The answer, for starters, is a whole lot of brand recognition.

Since captivating the shoe-buying public in the early 1980s with legendary spokesperson Michael Jordan (who has made an estimated \$1.3 billion endorsing the brand), Nike continues to outpace the athletic shoe competition while spreading its brand through an ever-widening universe of sports equipment, apparel, and paraphernalia. The ever-present Swoosh graces everything from bumper stickers to sunglasses to amateur sports uniforms. Nike products embody a love of sport, discipline, ambition, practice, and other athletic traits.

#### Outsourcing Wins the Race

Nike has cleverly kept its advertising agency nestled close to home, but has relied extensively on outsourcing many nonexecutive and

back-office responsibilities to reduce overhead. The firm is structured around its core competency in product design—not manufacturing. But Nike has taken outsourcing to a new level, with subcontractors producing all of its shoes. Although this hasn't hurt product quality, it has challenged Nike's reputation for social responsibility.

In a move designed to turn critics into converts, Nike has posted information on its website detailing every one of the hundreds of factories that it uses to make shoes, apparel, and other sporting goods. It released the data in conjunction with a comprehensive corporate responsibility report summarizing the environmental impact and the labour situations of its contract factories.

### Jordan Isn't Forever

Banking on the star power of its Swoosh, Nike has successfully branded apparel, sporting goods, and even sunglasses. Like many large companies that have found themselves at odds with the possible limitations of their brand, Nike realized that it would have to master the one-two punch: identifying new needs and supplying creative and desirable products to fill those needs.

In fitting with the times, Nike's VP of Global Design, John R. Hoke III, encourages his designers to develop environmentally sustainable designs like the Nike Free, a lightweight running shoe that boosted sales dramatically. And Nike's Sustainable Business & Innovation Lab funds outside start-ups focused on alternative energies, more efficient approaches to manufacturing, and the promotion of healthy lifestyles. Nike has even partnered with China's Ministry of Education to help encourage physical activity in Chinese schools. Nike also recently started to market to plus-sized women, and the news was welcomed.

### Staying in Front

Pressure is mounting from outside Nike's Beaverton, Oregon, headquarters. German rival Adidas drew a few strides closer to Nike when it purchased Reebok. The new super group of shoes isn't far off from Nike's market size. But when faced with such challenges, Nike simply knocks its bat against its cleats and steps up to the plate. Says Nike spokesman Alan Marks: "Of course we're in a competitive business, but we win by staying focused on our strategies and our consumers. And from that perspective nothing has changed."

### Keeping It Together

Nike has so far balanced size and pressure to remain successful by leveraging a decentralized and networked organization structure. Individual business centres—such as research, production, and marketing—are free to focus on their core competencies without worrying about the effects of corporate bloat. The company has found continued marketplace success by positioning itself not simply as a sneaker company but as a brand that fulfills the evolving needs of today's athletes and athletes-at-heart. Will Nike continue to profit from its organization structure, or will it spread itself so thin that its competition will overtake it?

### Case Analysis Questions

- 1. Discussion** What factors drive Nike's decision to stick with some form of network organization structure rather than own its manufacturing operations?
- 2. Discussion** Could a shift toward a more mechanistic organizational design help Nike avoid past reputational problems with its global supply chain, such as unethical labour practices by some of its foreign contractors?
- 3. Problem Solving** Draw a diagram that shows what you believe Nike's present organization structure looks like. Be sure to include all

possible components. Next look at the diagram from the perspective of an organization design consultant. Ask: How can this structure be improved? How can Nike gain even more operating efficiency without losing its performance edge in terms of continually coming up with innovative, high-quality, top-design shoes?

**4. Further Research** What is the current state of competition in this industry? Is Nike continuing to pull away from rivals, or are they catching up? Are new, sleek, and faster rivals starting to get into the picture? What moves has Nike made in regard to how it handles the vast amount of subcontracting used in its supply chain? Does it still have problems keeping control of this supply chain? What impact might a reshoring movement have on Nike? Is Nike's organization structure still a major strength that contributes to its success, or is it creating problems that will call for organizational design changes in the future?

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Ann Hermes/Christian Science Monitor/Getty Images

## Case 12 Gamification | Finding Legitimacy in the New Corporate Culture

*Would you be surprised to see a co-worker playing a video game, and realizing the boss didn't care? Companies are increasingly using video games or "gamification" as a way to enhance productivity and increase creativity and satisfaction in the workplace.*

It is more common today to see people playing games at work and being praised—not criticized—for doing it. The new legitimacy of gaming in the corporate world is called "gamification." Games are being used to promote a culture of learning, individualism, and fun, while also focusing attention on the company's bottom-line performance goals.

## Enjoyment-Based Economy

Jesse Schell, CEO of Schell Games, says: “We are shifting into an enjoyment-based economy. And who knows more about making enjoyment than game developers?” Gamification is exploding in areas ranging from marketing and politics, to health and fitness, to business and higher education, with analysts predicting that gamification will soon be a multi-billion-dollar industry. The commercial contexts within which gamification continues to grow range from customer engagement, to employee performance to training, to innovation management, to personal development, to sustainability.

## Top Firms Are Playing Games

High-profile firms have now jumped on the gamification bandwagon. Many are beginning to use social media-linked games and simulations for recruiting and training. Games are being used to help make a connection with applicants, and to help predict how successful they’ll be on the job.

The mega-consumer products company Unilever has developed an entirely digital, user-friendly recruiting process (X). Applicants complete a short form connected to their LinkedIn profile, and from there, spend 20 minutes playing a series of games that provide insight into applicants’ personality, communication style, and problem-solving skills. Game results are then used to determine which applicants move to the next phase in the process. Gamification has allowed Unilever to streamline the recruitment process, to efficiently evaluate a much larger number of applicants, and ultimately to make the best selection decisions.

Marriott also uses social media applications to connect employees (and potential employees) through gamification. Marriott uses a Facebook-based game that provides potential employees insight into available career paths in the hospitality industry. The game is also used for training current employees. Siemens has also developed engaging gamification tools for employee training that are designed to help employees better understand their role with the company.

Games serve a growing number of multiple uses. At Khan Academy, a nonprofit educational institution founded by Harvard graduate Salman Khan, which reaches approximately 10 million students each month, gamification is a core method for enhancing students’ learning experience. An IBM executive says the firm’s use of gaming for employees who spend lots of time working from home or travelling is a “way to help colleagues connect and stay engaged.” Software Company SAP uses a game that includes “assigning sales leads and environmental challenges that award points for tasks like carpooling,” says its chief innovation strategist, Mario Herger.

## Games Change Cultures

Gaming interfaces are also changing traditional workplace rules and behavioural norms, or at least realigning them with popular culture. Users believe that gaming helps employees feel more engaged and connected in an online environment that they can enjoy independently from work activities. Gaming can be used in strategic planning to simulate various business scenarios. Reward and competition tactics in games can be applied to boost interest in mundane tasks like data entry and invoicing.

Although some fear that gaming has the potential to breed unhealthy competition and hurt relationships, experts claim it’s a great motivator that can increase employees’ enthusiasm for their

daily activities and the energy they bring to work. Game-specific problem solving can also enhance critical thinking and analytical abilities, as well as develop desirable personal attributes such as persistence, creativity, and resilience.

But, it’s also recognized that gamification has to be well integrated with business needs and objectives. Industry analyst Brian Burke cautions: “To achieve success for companies starting in gamification, the first design point is to motivate players to achieve their goals—and those goals should overlap with the business goals.”

## To Play or Not to Play

As the gamification trend continues to grow, employees may be asking themselves whether a virtual badge of gaming accomplishment is truly better than a good old-fashioned pat on the back and verbal “job well done” from a manager. Clearly it’s no cure-all for all of the issues that can potentially decrease the performance of a team, or an organization. “Adding gamification to the workplace drives performance but it doesn’t make up for bad management,” says Kris Duggan, co-founder of game-maker Badgeville.

## Case Analysis Questions

- 1. Discussion** What arguments can you make that support the legitimization of gamification in an organization’s culture? What examples can you give or create to justify your arguments?
- 2. Discussion** What arguments can you make against trying to make gamification part of an organization’s culture? What examples can you give or create to justify your arguments?
- 3. Problem Solving** Consider yourself the go-to “idea person” for friends who head two local organizations—a fire department and a public library. Both complain about morale problems and ask you for advice on creating a positive organizational culture. They want to know how your interest in gaming can be used to improve staff morale and performance. What will you suggest and why?
- 4. Further Research** Review how organizations, including major corporations, nonprofits, and the military, are using gaming. What role is gaming taking on in these settings, and how does its use affect the organizational cultures? What does the evidence suggest—is gamification merely a passing trend, or is it here to stay, and possibly to grow in use in the future?

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### Case 13 RealRecruit | Protecting Student Athletes

*Along with attention to equitable treatment, and the welfare and well-being of employees in organizations, there is an increased focus on how students—and in particular student-athletes—are treated once they matriculate to an institution of higher education. The issue has attracted significant attention in the popular press, from print to television to Internet to live streams and more. Some cases have risen to the level of high-profile scandals relating to how members of university staff, athletics team officials, and members of university administration have treated student athletes.*

Among high-profile university sexual abuse cases reaching the public eye, the behaviours of players, coaches, athletics trainers, sports medicine practitioners, as well as high-ranking university administrators including presidents and members of boards of trustees have all been brought into question. What can be done to get on top of these situations before they get out of hand and protect student athletes from being damaged through misbehaviour in universities?

The ubiquitous availability of sophisticated communications and data transmission technologies has fundamentally transformed the business landscape in areas including operations management, inventory management, research and development, manufacturing, recruitment, selection, training, marketing/advertising, sales, and service. Can the same be said of university and collegiate athletics?

Not surprisingly, technologies are fundamentally changing the ways in which student athletes make decisions about what program to matriculate to following acceptance to a college or university. A prime example is RealRecruit. Unless you are a highly recruited, high-profile American athlete, then the chances are good that you haven't heard of RealRecruit. But, the company—which makes heavy use of virtual communications technologies—is making real waves in the world of collegiate athletics. Perhaps this might be an entrepreneurial idea ready to prosper in Canada?

Founded by David Chadwick, a former collegiate basketball player at Rice and Valparaiso, RealRecruit helps universities and athletics department administrators manage their culture, and head off emergent issues before they become major—potentially catastrophic—issues. RealRecruit's technology platform collects data and information anonymously, from current student athletes. This information is put into a database that the company makes available to university employees and officials, using a format that allows key decision makers to see what's happening in broad strokes on the ground, but doesn't compromise the identity of the key respondents. The goal is to provide rich and ideally real-time feedback so that decision makers can stay on top of the difficult situations faced by student athletes.

RealRecruit was started by Chadwick as a class project in school, and was designed to operate as a Yelp-type interface to give prospective scholarship athletes the inside scoop on a given program. The “scoop” was to come directly from current student-athletes, those in the best positions to give real insights into what a given program was like and what it was like to be part of it. The goal was to develop a real-time, public database that athletes being recruited could use to make a more informed decision about where to go.

Chadwick's initial idea changed when he first tested out the system. Once his program went live, he found that what student athletes shared was extremely upsetting—reports of sexual assaults, hazing, drugs, sexual abuse, bullying, and misconduct by coaches, other students, teammates, and everything in between. With this realization, Chadwick shifted RealRecruit away from his initial vision as public database and toward becoming an anonymous channel where officials associated with the Athletics Department could learn about what's going on at their school—directly from the athletes and people involved in their programs.

RealRecruit has grown its client base to include over 70 universities. It has become a channel for administrators and university officials to communicate directly with student-athletes while simultaneously gaining lots of feedback and maintaining students' anonymity. The real-time feedback made possible by the platform gives university officials an opportunity to prevent problems before they get out of hand. The availability of this valuable information puts university officials in the driver's seat so they can get ahead of a scandal. It also puts them on the spot, because when something bad happens they're no longer in a position to say—“We didn't know.”

RealRecruit is also being used to help schools and athletics departments generate real-time ratings of the members of its athletics employees and staff by the stakeholders most directly knowledgeable of their performance—the student-athletes. This gives schools another layer of feedback that can be used for developmental purposes to improve the performance of these employees. The company is helping colleges and universities improve oversight of employee performance and the treatment of student-athletes, by allowing them to see what's happening in the Athletics Departments at these institutions.

#### Case Analysis Questions

**1. Discussion** In what ways can an anonymous, Internet-enabled database be useful to any organization concerned about not just its performance, but also employee welfare? What are the possible drawbacks associated with a data-driven tool like the one offered by RealRecruit that depends on anonymous feedback and information? What are the pros and cons of having an outside provider play this kind of liaison role between employees and the organization? As a team leader, how might you use an anonymous survey-based approach to improve your relationships with team members? What kinds of questions might you ask?

**2. Discussion** What impact can the presence of a company like RealRecruit have on the culture and operational activities of athletics departments at universities? Is the feedback it makes available enough to change things? Can RealRecruit really help stem the tide of the kinds of scandals that have been so much in the news lately? How about applications of this technology to students who are not involved in athletics? Why or why not? In what ways might it help them as well?

**3. Problem Solving** You are the athletic director (AD) at a university and have direct or indirect responsibility for hundreds of individuals. The university recently hired RealRecruit to provide information relating to your athletics program, and to help avoid the kind of scandal that led to the firing of your predecessor. Well, the first reports are in. You've learned that there is illegal sports gambling going on among student athletes, including football and the men's basketball program. This situation can lead

to a major, national media-level scandal, and a multi-year post-season suspension. What do you do, and why? Be as specific as possible—build out your plan and timeline for dealing with this situation.

**4. Further Research** What is the current status of RealRecruit? Are there any other up-and-coming players on the horizon in this business space? Is there room for more innovation in this area, something that could be developed by RealRecruit or a competitor? If you were a top university administrator or CEO of a company, what would you like to have at your disposal to fend off scandalous events and protect your students—athletes, organization staff, investors and others?

**Sources:** [hbr.org/2018/07/do-your-employees-feel-respected](http://hbr.org/2018/07/do-your-employees-feel-respected); [forbes.com/sites/leighsteinberg/2013/09/06/time-to-treat-college-athletes-fairly/](http://forbes.com/sites/leighsteinberg/2013/09/06/time-to-treat-college-athletes-fairly/); [startcharlotte.com/stories/realrecruit-helps-college-athletic-departments-find-competitive-edge/](http://startcharlotte.com/stories/realrecruit-helps-college-athletic-departments-find-competitive-edge/); [yelp.com/about](http://yelp.com/about).



AP Images/Sven Hoppe

## Case 14 BroadbandTV | Shahrzad Rafati's "Rapid-Fire" Drive

*At age 17, Shahrzad Rafati escaped the war in her home country of Iran to move to Vancouver. Living on her own in a studio apartment, she learned English, raised tuition money by teaching math to the local Persian community, and enrolled in a computer science program at the University of British Columbia. Rafati has since spent the last decade building BroadbandTV, a successful Canadian-based media company with close to 400 employees that draws more than 200 billion video views across the more than 78,000 creators in its network that has 587 million unique viewers. This makes BroadbandTV the second largest video property after Google.*

Rafati comes from a family of entrepreneurial leaders. Her mother built her own textile company and her father founded a real estate company. After completing her studies, she was invited to go into real estate but wanted something more exciting. In 2005, when YouTube was founded, she became aware of a huge legal battle between content owners and pirated content providers. Her idea was to get broadcasters to upload their official videos and connect them with advertisers directly so they could profit from their intellectual property. Success came quickly. "From day one, I wanted to work with the biggest clients," she says. And she did—landing the National Basketball Association in her first year of business. It has been an energetic career trajectory ever since.

Rafati offers insight for aspiring leaders. "Creating successful businesses isn't just about having a stand-out product, true success

ultimately comes down to having a team of stellar people." She suggests that leaders need to get to know their people. "Building personal relationships with your employees is the best way to make sure they feel heard." Developing a strong culture helps to build a strong company, says Rafati, who also recommends that leaders "put an ear to the ground and keep listening."

Rafati also recognizes that every leader fails at some point in their career. Key, though, is what is learned from that mistake. "When I founded BroadbandTV we began our operations in the over-the-top content, however, YouTube was created shortly after we began. So, we changed our business plan and pivoted to where the opportunity was." She calls these "quick failures" and learning from them a key to her success. "There's a reason why trial and error has lasted so long."

In 2013, Rafati sold 51 percent of the company to European media company RTL for \$36 million. Since that deal, BroadbandTV went on to become the largest multi-platform network. BroadbandTV's valuation climbed considerably since then, with viewership rising at an astonishing rate. Revenue at the company is believed to have increased 20-fold to over \$100 million.

Her associates attribute much of the company's success to its "hard driving, rapid-fire founder." Mentor and business associate Hamed Shabazi describes Rafati as an energetic leader whose "charisma really bowls you over." Rafati's company is positioned well for success. Shahrzad is the recipient of numerous awards and accolades including 2018 Ernst and Young's Pacific Entrepreneur of the Year (Technology), Canada's Top 40 under 40 in 2017, Canada's Top 150 Women in 2017, and Canadian SME Magazine's Business Woman of the Year in 2019.

Yet, she is not resting on her accomplishments. Rafati continues to follow her dreams. She is planning ahead for the next tech wave: virtual reality and augmented reality. Like many other business leaders, she is continually seeking the opportunities of tomorrow.

### Case Analysis Questions

**1. Discussion** What leadership traits and style does Shahrzad Rafati demonstrate at BroadbandTV? What aspects of her leadership can you criticize, if any?

**2. Discussion** Is her successful leadership approach transferable to other leaders and other organizations, or is it person- and situation-specific?

**3. Problem Solving** Shahrzad is a big thinker, and BroadbandTV is clearly her baby. Yet, she has sold 51 percent of the organization to another group and there are possibly other buyers or an IPO in the works. What steps might she take now to ensure that her vision lives on at BroadbandTV long after her departure?

**4. Further Research** Check out the latest on BroadbandTV and Shahrzad Rafati. How and what are each doing now? Do some research to compare and contrast the leadership style and characteristics of Shahrzad Rafati with those of other tech leaders like Susan Wojcicki, CEO of YouTube. How are the two CEOs' leadership styles alike? How do they differ? For whom would you rather work? Is one leader better than the other within their situational context?

**Sources:** Sean Silcoff, "Vancouver's BroadbandTV Could Fetch \$1-Billion as RTL Puts Company on Block," *The Globe and Mail* (January 31, 2017); Shahrzad Rafati, "What Steve Jobs Taught Executives About Hiring," *Fortune* (June 9, 2015); Eric Blattberg, "From War Zone to Boardroom: The Improbable Rise of BroadbandTV's Shahrzad Rafati," *Digiday.com* (May 26, 2015); Shahrzad Rafati, "Why It's Okay to Make Mistakes at Work," *Fortune* (March 31, 2015); Meagan Campbell, "It'll Be the Ultimate Human Experience": Shahrzad Rafati, Founder of BroadbandTV, on the Next Tech Wave," *Macleans.ca* (undated).



Rick Madonik/Getty Images

### Case 15 G Adventures Canada | The Path Less Travelled

*Organizations have cultures, but do they have personalities? If so, do businesses take on the personalities of their founders? Some would say Apple's innovativeness and tremendous success were reflections of Steve Jobs's incredible imagination, fearlessness, and perfectionist nature. G Adventures Canada founder Bruce Poon Tip walks to the beat of a different drum and so does the adventure travel company he founded.*

Recently, the travel world has changed. Speaking at a webinar for UK agents, Bruce Poon Tip said: “The travel industry is going to have a lot of change. There are going to be fewer people that want to join crowds of thousands of people in a single walled compound. And I don’t know how many of us want to put our 80-year-old parents on a cruise ship any time soon.” He went on to say that Covid-19 would expedite a trend that had already been emerging before the pandemic, with people wanting to travel to remote and quieter destinations. A trend that he saw coming.

Seemingly born to be an entrepreneur, at age 14 Bruce Poon Tip won a gold medal in the prestigious Junior Achievement youth business program. At age 16, he was fired from Denny’s restaurant after two weeks and dismissed from McDonald’s before his training was complete due to his maverick style that didn’t fit with the corporate culture of those organizations. Poon Tip then donned a backpack and set out to explore the world. Soon, his business acumen and personal drive fuelled a visionary, high-growth company and a new travel category: small-group tours to off-the-beaten-path destinations.

In 1990, at age 23, Poon Tip founded G Adventures (formerly Gap Adventures) with a passion to deliver authentic travelling experiences for those who craved a vacation that went beyond coach tours, cruise ships, and all-inclusive resorts. When the banks weren’t willing to provide a loan, Poon Tip maxed out his two credit cards. G Adventures is

now a \$300-million company and has grown to become the world’s largest eco-tour operator.

Twenty years after the company was founded, Poon Tip’s belief in its core values is as strong as ever. The company culture is driven by five core values: We love changing people’s lives, lead with service, embrace the bizarre, create happiness and community, and do the right thing.

Poon Tip is passionate about changing the lives of the more than 150,000 customers who partake in 650 types of adventures throughout the year. His belief that change is the key to innovation, and that people are the key to change, has him encouraging his customers and more than 2,200 employees in 28 offices worldwide to explore the road less travelled. His company has led the travel industry in customer service by developing unprecedented benefits such as no single-traveller supplements and 24/7 service. The company has been honoured by the travel industry for its innovation and customer service. In 2016, for example, G Adventures received the Best Adventure Holiday Tour Operator award at the Irish Travel Trade Awards.

Poon Tip was determined to build a business that could change the world by doing the right thing every time—including hiring locals in order to have a positive impact on the local economy. And instead of a traditional HR department, Poon Tip created the Culture Club, where people with the job title “Karma Chameleons” focus on raising company morale worldwide, and the Talent Agency, where staff are dedicated to recruiting and talent management. Poon Tip believes that the company’s culture is its brand—and that culture begins with employees. In the last stage of hiring, G Adventures puts candidates through a “culture fit” interview, asking them, for example, “If you were to be stuck on a desert island for five years, what three things would you not bring?” Three random G Adventures employees, from the mail clerk to a vice-president, participate in the culture fit interview, and later give the job candidate a “traffic light” rating. “A green light is 100 percent—that person’s a great fit,” says Poon Tip. “Yellow light? They had too many strikes so there has to be a greater discussion. Red light—there’s no exceptions, we can’t hire that person.”

Once hired, staffers at the Basecamp (company headquarters in Toronto) can run a campaign to be elected by co-workers as “mayor” of the company, get involved in the company’s charitable projects, and attend an annual weekend retreat, during which Poon Tip once spoke to employees for seven hours about his vision for the company. Annual staff turnover is 5 percent, whereas it is typically around 35 percent in the travel industry. Poon Tip’s constant focus on respect and unbridled enthusiasm keeps G Adventures focused on what matters most—community, people, and cultural exchange.

Poon Tip is also passionate about sustainability and philanthropy. Calling his business a social enterprise, he is committed to a “quadruple bottom line” instead of a “triple bottom line”; that is, corporate social responsibility, environmental responsibility, leading with service, and innovation. In 2003, Poon Tip founded the non-profit Planeterra Foundation to make a positive difference around the world, and to demonstrate his determination to lead his industry in sustainable tourism and community development. The Planeterra Foundation has over 50 social enterprise projects worldwide, supporting communities in education, health care, environment, and social development—any of which travellers have the opportunity to visit.

Poon Tip has demonstrated how travelling with a conscience can fulfill one’s purpose while being a highly profitable endeavour. He believes that “tourism as usual” is not enough. He believes business models need to adapt to changing societal concerns to create “tourism as a force for good.” Poon Tip believes that responsible travel is about personal integrity: people have changed the way they live at home—from recycling to eating more locally grown foods—and they

shouldn't abandon their beliefs when they go on vacation. The company created a "Ripple score" that highlights how much of the traveller's money is staying in the community. They have committed to improving the Ripple score wherever possible by finding additional local services for their tours.

The list of Poon Tip's awards for leadership and entrepreneurship is impressive. He was the recipient of the Ethics In Action Award, the World Savers Award by the prestigious *Condé Nast Traveler* magazine, and the Travel and Leisure Global Vision Leadership Award for "voluntourism," and was named the best "Do It All Outfitter" in the world by National Geographic Adventures. He has also received the Global Traders Leadership award for his groundbreaking ideas in exporting and international business. Poon Tip has also been honoured twice as the Ernst & Young Entrepreneur of the Year and was named one of the Top 10 Entrepreneurs in Canada by *Profit* magazine. G Adventures has been named one of Canada's 50 Best Managed Companies for several years, and a Top 100 Employer.

Poon Tip's passion, authenticity, and maverick personality are strongly reflected in his company. He has proven that you can live your values and be profitable too!

### Case Analysis Questions

- Discussion** On a scale of 1 to 10, how would you rate Bruce Poon Tip's profile on each of the characteristics of the Big Five personality dimensions? How does this rating on the Big Five influence the company's culture and its five core values?
- Discussion** Describe how Poon Tip's personality has had an influence on his company's success in terms of the personal conception traits of: Locus of Control, Authoritarianism, Machiavellianism, Self-monitoring, and Type A Personality.
- Problem Solving** How might another company—one that is having difficulty retaining its employees—draw from G Adventures' approach to develop a company "personality" that is as equally engaging?
- Further Research** Research news reports on how the COVID-19 crisis and the resulting downturn in the economy has affected the travel industry. Does G Adventures have special strengths that help it deal better than other travel companies with challenges such as those posed by a declining economy? If so, describe these strengths.

**Sources:** "About Us," G Adventures website, [gadventures.com/about-us/](http://gadventures.com/about-us/) (accessed June 4, 2020); Neil Steedman, "G Adventures Wins Inaugural 'Best Adventure Holiday Tour Operator' Award," *Irish Travel Trade News* (November 28, 2016); Nicole Lawton, "Bruce Poon Tip of G Adventures Makes Money Through His Love of Travel," *Stuff.co.nz* (May 5, 2016); Charlie Smith, "Dalai Lama Helps G Adventures Founder Bruce Poon Tip Discover Looptail to Happiness," *The Georgia Straight* (November 20, 2013); "Travel Style: Bruce Poon Tip," Johnny Jet website (March 22, 2012), [johnnyjet.com/2012/03/travel-style-bruce-poon-tip/#ixzz2TDrMzWF3](http://johnnyjet.com/2012/03/travel-style-bruce-poon-tip/#ixzz2TDrMzWF3); Todd Henneman, "Is HR at Its Breaking Point?," *Workforce* (April 5, 2013); Joanna Pachner, "The Gospel According to Bruce," *ProfitGuide.com* (October 7, 2011), [profitguide.com/manage-grow/human-resources/the-gospel-according-to-bruce-30224](http://profitguide.com/manage-grow/human-resources/the-gospel-according-to-bruce-30224); Elisa Birnbaum, "In Conversation with Bruce Poon Tip," *SeeChange Magazine* (December 4, 2012); "Beyond the Triple Bottom Line: Bruce Poon Tip Founder Gap Adventures," TEDx Toronto [video] (2012), [tedxtoronto.com/talks/beyond-the-triple-bottom-line-bruce-poon-tip-founder-gap-adventures/](http://tedxtoronto.com/talks/beyond-the-triple-bottom-line-bruce-poon-tip-founder-gap-adventures/); Sean Stanleigh, "Tourism Program for Latin America," *The Globe and Mail* (April 4, 2013), Travellers 'will avoid crowded resorts and ships,' says G Adventures founder, Lucy Huxley, *Travel Weekly*, June 5, 2020, [travelweekly.co.uk/articles/373826/travellers-will-avoid-crowded-resorts-and-ships-says-g-adventures-founder](http://travelweekly.co.uk/articles/373826/travellers-will-avoid-crowded-resorts-and-ships-says-g-adventures-founder) (accessed June 5, 2020).



David Paul Morris/Bloomberg/Getty Images

## Case 16 Salesforce | Instant Praise, Instant Criticism

*Instead of waiting a year for your annual performance review, how would you like to know where you stand by getting immediate feedback about how you're doing? Some critics argue that the once-a-year version is little more than a boss-administered exercise in unhelpful feedback.*

The typical annual review, including past performance, goal setting, pay, and improvement needs can be information overload for many. For goals accomplished today, how valuable and motivating is recognition and feedback six months from now? What if you could get real-time feedback and coaching by asking colleagues, managers, and peers questions such as, "What did you think of my presentation?" or "What can be done better?"

### Meaningful Recognition

In today's business environment of rapid speed, employers are beginning to realize the true value of real-time feedback for employee recognition, control, performance, and motivation. When Salesforce bought Rypple, a maker of performance management social software, CEO Mark Benioff said that "the next generation of HCM [human capital management] is not just about a cloud delivery model; it's about a fundamentally better way to recruit, manage, and empower employees in a social world." This approach is nothing new for the customer relationship management (CRM) megafirm. For most of its almost 20 years, Salesforce has used acquisitions to expand the CRM offerings it makes available to clients. In 2016 alone, Salesforce spent almost \$4.5 billion acquiring 13 companies.

Leading up to the acquisition, Rypple's top management pitched its software this way: "Performance management has become disconnected from real performance. Today, we move faster. We're more connected. This requires a new approach to performance." Rather than waiting a year to learn what managers think of them, employees using Rypple's platform send out a quick (50 words or less) pointed question to folks ranging from managers to peers to customers to suppliers. Some call this just-in-time performance improvement. Benioff called it a winner.

### Enter Work.com

Rebranded within Salesforce as Work.com, the Rypple product provides a real-time snapshot of employee performance in a single place,



on completion of a goal, project, or quarter. Benefits include the ability to give public thanks and solicit feedback in a timely way. A coaching interface allows workers to build coaching networks to spot needed improvements. This helps to resolve problems and issues as they arise rather than after the fact. It also means quicker implementation of needed changes.

Salesforce is always looking to expand the range of client needs it can serve. The CRM innovator has continued to develop strategic partnerships to fast-track its strategic goals. In February 2017, Salesforce announced that it had entered into an “artificial intelligence” partnership with IBM, with the goal of enhancing the range of analytical tools it provides to clients. Artificial intelligence plays a key role in the Salesforce.com model. Said Benioff of the IBM partnership: “AI is accelerating . . . partnering with IBM was a natural given how I respect how they have stayed true to customer values.”

### More or Less Motivation?

Some ask if too much feedback can be a bad thing. Reliance on so much feedback and what other people say can be a detriment to learning the hard way—by making mistakes. Others believe that people are motivated to work hard when their efforts are recognized in a public way. Are you willing to wait a year until your next performance review to get much-needed positive feedback? Or would you like to work in an environment where real-time report cards of your progress are common?

### Case Analysis Questions

**1. Discussion** Is the annual performance review past its “sell by” date or just in need of some revisions? If real-time reviews are available using software such as Salesforce’s Work.com, is there a need for an annual performance review?

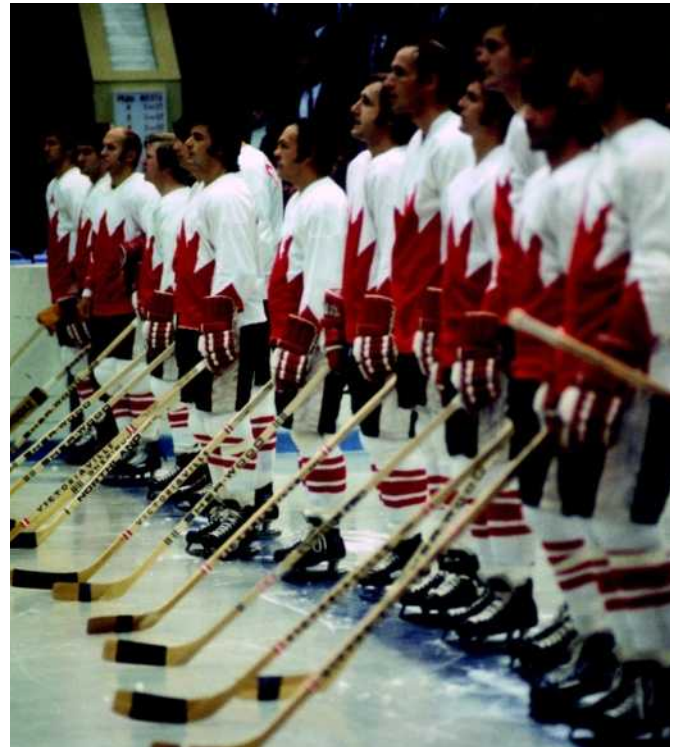
**2. Discussion** What are some of the potential benefits of having a “real-time” evaluation of your performance? What kinds of things can organizations do differently when employees have this kind of immediate feedback available to them? Is there a downside? What are some of the potential drawbacks of giving employees immediate feedback? Can feedback be “too” immediate—that is, too close to the situation? Why? In what ways?

**3. Problem Solving** You’ve just taken a new job in human resource management, and the organization’s president gave you this high-priority task: Give us a plan that can make performance reviews motivating to employees and bosses alike. “I’m tired,” she says, “of hearing everyone complain that annual reviews are demotivating. We need to review performance. Surely there are ways that we can make ours more valuable.” As you sit down to think about this assignment, make a few notes on the major issues and changes you might recommend. Use insights from motivation theories to justify what’s on your list.

**4. Further Research** How about the real-time and Web-based approach to performance reviews offered by Salesforce? Do some research and identify the latest developments by Salesforce and other programs like it. Is this online approach to performance assessment the right path to a more motivated workforce? What does the evidence say about benefits? What downsides are users reporting? Overall, what’s the current verdict on Work.com and similar products—good for bosses, employers, or employees?

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2012); Kate Abbot, “How I Got Here: Salesforce Rypple’s Daniel Debow,” *Bloomberg Businessweek* (June 27, 2012): businessweek.com (accessed November 12, 2012); Rachel Emma Silverman, “Yearly Reviews? Try Weekly,” *The Wall Street Journal* (September 6, 2011): online.wsj.com (accessed November 12, 2012); Samuel Culbert, “Get Rid of the Performance Review,” *The Wall Street Journal* (June 21, 2012): professional.wsj.com (accessed November 12, 2012); Lena Rao, “Salesforce Debuts Rypple Powered Work to Help Companies Manage Talent,” *TechCrunch* (September 19, 2012): techcrunch.com (accessed November 12, 2012); Michael J. de la Merced and Quentin Hardy, “Salesforce Says No to Takeover, Leaving Twitter to Fend for Itself,” *The New York Times* (October 15, 2016), p. B1; Marco della Cava, “IBM, Salesforce Join AI Forces with Watson, Einstein,” *USA Today* (March 6, 2017): usatoday.com (accessed March 13, 2017).



Melchior DiGiacomo/Getty Images

## Case 17 Team Canada '72 | The Power of Teamwork

*Team Canada 1972 was voted the Canadian “team of the century.” When talking about the iconic hockey series in which Canada beat the Soviets, many people remember the all-important goal in the final seconds of the last game. Yet Team Canada’s story is really about the greatest comeback in hockey history by a team that just would not give up. What lessons can managers learn from this success story?*

The Summit Series was the first competition between the Soviet national team and a Canadian team of professional NHL players. The Soviets had recently become the dominant force in international competitions, overtaking Canada. With this hockey rivalry and with the Summit Series being played at the height of the Cold War, it aroused intense feelings of nationalism in both countries.

With the first seven games resulting in a series draw, it was only during the last 34 seconds of the eighth and final game that

the outcome was finally decided. While the winning goal was a very important one for all of Canada, if the players hadn't worked together as a team in the other games, they wouldn't have been positioned to win. The real story about Team Canada '72's success was how they came together, overcame adversity, and won against an excellent Soviet team over those eight games, (or over those 28,800 seconds) to become Canada's Team of the Century.

### Recruiting the Team

Harry Sinden, who had been head coach of the Boston Bruins, was named Team Canada coach and general manager in the summer of 1972, leaving him only a few weeks to organize the team for the September series. Selecting the best players was the easiest part; convincing them to interrupt their off-season proved more challenging. "I don't think anyone in Canada, including the players, realized the significance of the series at the time," said Sinden. "Also, the players felt they had proven they were the top in their field during past NHL seasons; they had little motivation to play against the Soviets."

Sinden's first job was to convince those selected of the importance of the series and the impact it could have on their careers. He played to their sense of national pride. Coining the name "Team Canada" helped, as did showing players film footage of world championships in which he had played. It also helped that the media had started to focus on the series. When the 1972 Team Canada players were announced, the entire hockey world was certain of Canadian victory, and an eight-game sweep was predicted.

Team Canada and most of the sports media were therefore shocked when the Soviet team won the opening game, 7–3. The Soviet team had proven superior in their conditioning, discipline, and game plan. According to Pat Stapleton, Team Canada defenceman, there had been another major difference between the two teams. "The Soviets had long been practising and playing together as a team; whereas, as members of various NHL teams, we had been playing against each other as competitors," Stapleton said. "We needed time to get to know each other's strengths and get to the point where we began to trust each other as teammates rather than as competitors."

Canada won the second game 4–1, with the third game ending in a tie (4–4). When the Soviets won game four (5–3) in Vancouver, taking a two-to-one game lead, the fans booed Team Canada as the players left the ice. The captain, Phil Esposito, passionately scolded the fans on post-game national television. The Vancouver episode left Team Canada disheartened. However, Esposito's outburst fired up his teammates (and the nation), and the experience helped galvanize the team. Stapleton said, "Much of what makes a team successful is the players developing instinct and intuition for the game. We were up against a team that played a different style than we were used to, so it was taking a little time for us to develop the intuition and instinct we needed to make risky split-second decisions." He added, "Hockey is played *on the ice*—and you should never underestimate the competition!"

### Creating a High-Performance Team

According to Stapleton, one of Team Canada's biggest challenges was building the trusting relationships that are key to a cohesive team. When they trained in Toronto, many of the players were local and went home after practice. It was only when the team headed overseas for the last four games in the USSR and they spent all their time together that they started to bond. They first stopped in Sweden, spending 10 days together training hard; there the players began to understand each other's strengths and trust each other on the ice. The team was starting to develop their team culture.

But when the series resumed in Moscow, the Soviets won game five, leaving Team Canada with the daunting task of having to win all three remaining games. As the exhausted and dejected Team Canada

players skated off the ice, the few thousand Canadian fans who had made the trip to Moscow stood up and sang "O Canada" at the top of their lungs. This significant singing event galvanized the team—they now had a shared purpose. Peter Mahovlich speaks passionately about how they became focused as a team; they were playing for Canada.

Coach Sinden had chosen 35 star players for Team Canada with the intent that they would each play at least one game. Now, with the series on the line in every game, Sinden knew he had to choose the best 19 to continue. "We had to pick our team, and if somebody hadn't yet played, we were just going to have to break our promise," he recounted. "People who weren't playing were upset about it." But leaders emerged, Sinden said, who helped the group work through this conflict, convincing the disgruntled players that "this series is bigger than all of us" and that they had to pull together, whether they got ice time or not, and win the series for Canada.

The Canadians then started to develop a team mindset, recognizing which of their skills they could deploy to make the whole team stronger, and how they could best serve the team and accomplish the collective goal. "Each player was prepared to do whatever was required, even if it meant working in obscurity, for the good of the team," said Stapleton. Most of the players on Team Canada, who played very little or not at all, actively cheered on their teammates in their street clothes from the stands and behind the bench.

The team developed in other ways. For example, the Soviets' game was becoming very predictable. Sinden and Assistant Coach John Ferguson created an environment conducive to the Canadians adapting their playing style in order to neutralize the Soviets' strengths. Of Sinden, Stapleton said, "As the leader, Harry left the 'on-the-ice' decisions up to us players; he never passed judgement, he empowered us to figure out how to complement each other, to get the job done." The Canadians also began to draw on emotion, heart, and the will to win.

Overcoming one-sided officiating and other adversities, Team Canada won games six and seven. On the day of the eighth and final game, everything almost came to a stop across Canada as people watched the game at home, at school, or at work. Until the men's hockey gold-medal game of the 2010 Winter Olympics in Vancouver, the 1972 Summit Series was the most-watched sporting event in Canadian television history. In dramatic fashion, Canada won the final game, overcoming a two-goal Soviet lead after two periods by scoring three in the third. As the country sat on edge, Paul Henderson scored the final goal, with only 34 seconds left in the game!

"After the game, the entire team gathered in the locker room—those who had played and those who had not, everyone feeling equally part of the team. Emotions were running very high! Their burden was lifted; they would return to Canada as the world's best," Sinden said. Back in Canada, Team Canada was greeted by the prime minister in Montreal, then went on to Toronto, where fans lined the highway from the airport, in a rainstorm, to welcome them home.

Over the decades, the legacy of the Summit Series has grown, making it not just an important hockey moment, but also one of the most significant cultural events in Canadian history. Team Canada 1972 holds the rare distinction of being one of only two sports team inducted into Canada's Sports Hall of Fame and it was named the greatest team of the 20th century in a poll by the Canadian Press.

Most Canadians alive in 1972 know exactly where they were when "Henderson scored for Canada." Yet, the message from Team Canada is that all of the other seconds in the series were just as important in the team's success. It is the "Power of Teamwork" story of how a group of talented individuals came together as a team that is the real legacy of Team Canada. In 1972, it was Team Canada's goal to beat the Soviets. Now, it is the team's goal to have the important life lessons learned about the *Power of Teamwork* celebrated for generations.

### Case Analysis Questions

- 1. Discussion** From the information provided in the case, identify aspects of Team Canada's development in each of the five phases of the team's life cycle: forming, storming, norming, performing, and adjourning.
- 2. Discussion** Referencing the chapter material, describe the actions by Team Canada head coach Harry Sinden that contributed to team cohesiveness.
- 3. Problem Solving** When the 1972 Team Canada players were announced, the entire hockey world was certain of Canadian victory. However, as Pat Stapleton said, "Hockey is played *on the ice*—and you should never underestimate the competition!" Discuss how this "perception" and "action" understanding also relates to business organizations and highlight a business example. How do you ensure that perceptions (either negative or positive) do not overshadow the importance of undertaking the actions that need to be done?
- 4. Further Research** Which characteristics of high-performing teams were reflected in Team Canada 1972 and also in Canada's gold-medal men's and women's hockey teams at the Olympic Games in Vancouver in 2010 and Sochi in 2014? What characteristics of these teams can other organizations make use of to build their own "Power of Teamwork" teams?

**Sources:** Personal conversation with Team Canada 1972 Head Coach and General Manager Harry Sinden (August 8, 2013); personal conversation with Pat Stapleton, defenceman, Team Canada 1972 (July 30, 2013); Andrew Podnieks, *Team Canada 1972: The Official 40th Anniversary Celebration* (Toronto: Fenn/McClelland & Stewart, 2012); 1972 Summit Series website, 1972summitseries.com; Ted Blackman, "Esposito Booed, Raps Ungrateful Fans," *Montreal Gazette* (September 9, 1972), p. 25; "The Canada-Russia Summit Series: 40th Anniversary Special: Dispatches from Montreal Hockey Legends Red Fisher and Ted Blackman," *The Montreal Gazette* (2012), accessed at [hockeyinsideout.com/wp-content/uploads/2012/09/The-Canada-Russia-Summit-Series-40th-Anniversary.pdf](http://hockeyinsideout.com/wp-content/uploads/2012/09/The-Canada-Russia-Summit-Series-40th-Anniversary.pdf); Mary Janigan, "Hockey Sidetracked City for Three Hours as Fans All over Stayed Riveted to Screens," *Montreal Gazette* (September 29, 1972), p. 1.

Aleksandris Tihonovs/123RF



### Case 18 Snapchat | Snap the Story of the Moment

*We are in the midst of a constantly shifting technology landscape, and this pace of change is leading to an extremely fluid intersection of culture, communication, social media, and business. There may be no other social media company that so closely captures this intersection as Snapchat, at least for the moment.*

### It's About the Now

There has always been a generation gap separating how people in distinct age groups interact with one another, develop social expectations, talk, dress, think, and act. And, today, there are differences in how each generation uses, thinks, and interacts with technology. Generation X—which preceded the millennial generation—did not grow up with the technologies that predominate the current social media landscape. Neither did the baby boomers. In contrast, millennials and Gen Z were born into a world where the Internet was already widespread, and the use of social media was second nature. Although more and more baby boomers and Gen-Xers are logging on to Facebook, the popular site has seen a decline in popularity among millennials. (Twitter has also seen a decline among younger users.) Snapchat is different from more "traditional" social media sites because its content—Snaps—is, by definition, transitory. Send a Snap, and it's gone in 10 seconds. Add a Snap to your Story, and it's there for 24 hours. But, either way, the content disappears. Snapchat is all about the "now"—what is happening at this moment.

### The Changing Nature of Social Media

Historically, photographs—pictures—have been used, and still continue to be used, in many situations to capture important moments in people's lives. Today, particularly within social media contexts, the use of pictures has changed. This is most especially so with Snapchat, where pictures (and videos) are used to "talk." With the predominantly desktop technologies of a decade ago, pictures were primarily about accumulation of history. People took pictures, saved some to their profile, and gave "friends" the opportunity to comment or "like" the image. Over time, these images became the historic content of people's online identities. The Facebook timeline reflects this idea of historic identity.

Today, we have moved away from static desktop engagement with social media in unprecedented numbers. This saturation-level ownership has changed how we collectively engage social media. As CEO Evan Spiegel explains, "Now the mobile phone has really empowered this idea of instant expression, which is really showing someone where you are and how you're feeling in the moment." The images Snapchatters send ultimately provide a peek into their identity, which is at the core of social media. The images provide a signal of "who I am right now." Pictures no longer accumulate to tell a story; instead, stories are ones that Snapchatters tell about themselves in real time.

### A Cultural Phenomenon—A Visual Revolution?

As of March 2020, Snapchat had 229 million daily active users. Snapchatters send an estimated 4 billion snaps per day every day. This is equivalent to one third of the total number of people on the entire planet. What these numbers suggest is that Snapchat is more than simply a niche phenomenon. Renamed Snap Inc in September 2016—it is currently trading above \$20 per share, with a current market valuation of approximately \$29 billion, with revenues in excess of \$1.76 billion in 2019. Snap Inc is being viewed as a trend, not a fad. Young people are reading fewer books. We are becoming a more visual society. Facebook, video ads, YouTube—more and more people are looking for content delivered via images such as pictures and videos. The way we communicate with each other is changing, and Snap Inc is at the forefront of this change, providing a convenient way for people to share the details of their lives in stories with images that last 10 seconds. What does this change in how we communicate mean for business?

### Case Analysis Questions

- 1. Discussion** As a society, we are reading less and watching/viewing more. What implications does this shifting societal trend have for the ways that leaders communicate within their organizations? How



## Chapter 1

1. d 2. c 3. a 4. b 5. a 6. a 7. c 8. a 9. b 10. b 11. c 12. a 13. b 14. c 15. c

16. Managers must value people and respect subordinates as mature, responsible, adult human beings. This is part of their ethical and social responsibility as persons to whom others report at work. The work setting should be organized and managed to respect the rights of people and their human dignity. Included among the expectations for ethical behaviour would be actions to protect individual privacy, provide freedom from sexual harassment, and offer safe and healthy job conditions. Failure to do so is socially irresponsible. It may also cause productivity losses due to dissatisfaction and poor work commitments.

17. The manager is held accountable by her boss for performance results of her work unit. The manager must answer to her boss for unit performance. By the same token, the manager's subordinates must answer to her for their individual performance. They are accountable to her.

18. If the glass ceiling effect were to operate in a given situation, it would act as a hidden barrier to advancement beyond a certain level. Managers controlling promotions and advancement opportunities in the firm would not give them to Aboriginal candidates, regardless of their capabilities. Although the newly hired graduates might advance for a time, sooner or later their upward progress in the firm would be halted by this invisible barrier. Although unstated and perhaps even unrecognized as such by top management, this would be outright discrimination against the Aboriginals in this firm.

19. Globalization means that the countries and peoples of the world are increasingly interconnected and that business firms increasingly cross national boundaries in acquiring resources, getting work accomplished, and selling their products. This internationalization of work will affect most everyone in the new economy. People will be working with others from different countries, working in other countries, and certainly buying and using products and services produced in whole or in part in other countries. As countries become more interdependent economically, products are sold and resources purchased around the world, and business strategies increasingly target markets in more than one country.

20. One approach to this question is through the framework of essential management skills offered by Katz. At the first level of management, technical skills are important, and I would feel capable in this respect. However, I would expect to learn and refine these skills through my work experiences.

Human skills, the ability to work well with other people, will also be very important. Given the diversity anticipated for this team, I will need good human skills. Included here would be my emotional intelligence, or the ability to understand my emotions and those of others when I am interacting with them. I will also have a leadership responsibility to help others on the team develop and use these skills so that the team itself can function effectively.

Finally, I would expect opportunities to develop my conceptual or analytical skills in anticipation of higher-level appointments. In terms of personal development, I should recognize that the conceptual skills will increase in importance relative to the technical skills as I move upward in management responsibility. The fact that the members of

the team will be diverse, with some different demographic and cultural backgrounds from my own, will only increase the importance of my abilities in the human skills area.

It will be a challenge to embrace and value differences to create the best work experience for everyone and to fully value everyone's potential contributions to the audits we will be doing. Conceptually I will need to understand the differences and try to use them to solve problems faced by the team, but in human relationships I will need to excel at keeping the team spirit alive and keeping everyone committed to working well together over the life of our projects.

## Chapter 2

1. c 2. b 3. d 4. a 5. a 6. b 7. a 8. c 9. a 10. a 11. c 12. a 13. d 14. c 15. b

16. Theory Y assumes that people are capable of taking responsibility and exercising self-direction and control in their work. The notion of self-fulfilling prophecies is that managers who hold these assumptions will act in ways that encourage workers to display these characteristics, thus confirming and reinforcing the original assumptions. The emphasis on greater participation and involvement in the modern workplace is an example of Theory Y assumptions in practice. Presumably, by valuing participation and involvement, managers will create self-fulfilling prophecies in which workers behave this way in response to being treated with respect. The result is a positive setting where everyone gains.

17. According to the deficit principle, a satisfied need is not a motivator of behaviour. The social need will only motivate if it is not present, or in deficit. According to the progression principle, people move step by step up Maslow's hierarchy as they strive to satisfy needs. For example, once the social need is satisfied, the esteem need will be activated.

18. Contingency thinking takes an "if-then" approach to situations. It seeks to modify or adapt management approaches to fit the needs of each situation. An example would be to give more customer contact responsibility to workers who want to satisfy social needs at work, while giving more supervisory responsibilities to those who want to satisfy their esteem or ego needs.

19. The external environment is the source of the resources an organization needs to operate. In order to continue to obtain these resources, the organization must be successful in selling its goods and services to customers. If customer feedback is negative, the organization must make adjustments or risk losing the support needed to obtain important resources.

20. A bureaucracy operates with a strict hierarchy of authority, promotion based on competency and performance, formal rules and procedures, and written documentation. Enrique can do all of these things in his store, since the situation is probably quite stable and most work requirements are routine and predictable. However, bureaucracies are quite rigid and may deny employees the opportunity to make decisions on their own. Enrique must be careful to meet the needs of the workers and not to make the mistake—identified by Argyris—of failing to treat them as mature adults. While remaining well organized, the store manager should still be able to help workers meet higher-order esteem and self-fulfillment needs, as well as assume responsibility consistent with McGregor's Theory Y assumptions.

## Chapter 3

1. b 2. a 3. d 4. c 5. c 6. d 7. b 8. a 9. b 10. d 11. c 12. d 13. b 14. d 15. c

16. The individualism view is that ethical behaviour is that which best serves long-term interests. The justice view is that ethical behaviour is fair and equitable in its treatment of people.

17. The rationalizations are believing that: (1) The behaviour is not really illegal, (2) the behaviour is really in everyone's best interests, (3) no one will find out, and (4) the organization will protect you.

18. The socio-economic view of corporate social responsibility argues that investing in socially responsible behaviour is in a firm's long-run best interest. It should be good for profits, it creates a positive public image, it helps avoid government regulation, it meets public expectations, and it is an ethical obligation. In contrast, the classical view of social responsibility is that the firm's only obligation is to produce profits. This is what should drive executive decision-making, and direct expenditures to pursue socially responsible activities are wasteful. The argument is that by pursuing profits the firm will do what society wants most in the long run because, if it doesn't, profits will suffer as customers abandon the firm and its products. The market, in other words, is the arbiter of what society wants.

19. Management scholar Archie Carroll describes the immoral, amoral, and moral manager this way: An immoral manager does bad things on purpose, choosing to behave unethically. The amoral manager does bad things sometimes, but this is not intentional or calculated; it happens because the amoral manager just doesn't incorporate ethics into his or her analysis of the situation. The moral manager, by contrast, always includes ethics as a criterion for evaluating his or her approach to decisions and situations. This manager strives to act ethically and considers ethical behaviour a personal goal.

20. The manager could make a decision based on any one of the strategies. As an obstructionist, the manager may assume that Bangladesh needs the business and that it is a local matter as to who will be employed to make the gloves. As a defensive strategy, the manager may decide to require the supplier to meet the minimum employment requirements under Bangladeshi law. Both of these approaches represent cultural relativism. As an accommodation strategy, the manager may require that the supplier go beyond local laws and meet standards set by equivalent laws in the United States. A proactive strategy would involve the manager in trying to set an example by operating in Bangladesh only with suppliers that not only meet local standards, but also actively support the education of children in the communities in which they operate. These latter two approaches would be examples of universalism.

## Chapter 4

1. a 2. b 3. b 4. c 5. b 6. d 7. a 8. b 9. c 10. d 11. d 12. a 13. c 14. d 15. b

16. When it comes to organizational stakeholders, the list should always begin with customers and suppliers to establish the output/input players in the value chain. Employees should be included as well as shareholders/investors to identify the interests of the "producers" and the "owners." Given the significance of sustainability, it is important to include society at large and future generations in the stakeholder map; it is also important to include the local communities in which the organization operates. Beyond these basic map components, the stakeholders for any given organization will include a broad mix of people, groups, and organizations, such as regulators, activist organizations, government agencies, and more.

17. To make "sustainability" part of any goal statement or objective for an organization, the basic definition should reflect the concept of

sustainable development. That is, while the organization is making use of the environment to produce things of value today, it should also ensure and ideally enhance the potential for that environment to meet the needs of future generations.

18. Product innovations affect what goods and services an organization offers to its customers. Process innovations affect how the organization goes about its daily work in producing goods and services. Business model innovations affect the way the organization makes money and adds value to society.

19. Reverse innovation means finding innovations in alternative settings such as emerging markets and moving them into uses in established markets. An example would be portable and low-cost medical diagnostic equipment developed in markets like India and China and then brought to the United States and sold there.

20. First of all, it sounds like a good idea to have a Chief Sustainability Officer, or CSO, in order to focus attention on sustainability goals and also bring some point of accountability at the senior executive level for their accomplishment. In terms of the job description, I would argue that things like this would need to be reflected. First, there should be some acknowledgment of the "triple bottom line" of economic, social, and environmental performance. Second, there should be a clear focus on sustainable development with respect to moving the organization forward in ways that while making use of the environment and its resources, the capacity of the environment to nurture and serve future generations is also being protected. This sets the foundation for further priorities or objectives to be set in the areas of pushing for green management practices that support sustainability in all aspects of an organization's operations. And finally, there should be a responsibility to serve as the "champion" for sustainable innovations that advance the organization's capability to be sustainable by green products, green processes, and even green business models.

## Chapter 5

1. c 2. c 3. b 4. d 5. a 6. a 7. d 8. c 9. a 10. d 11. d 12. a 13. c 14. c 15. c

16. The relationship between a global corporation and a host country should be mutually beneficial. Sometimes, however, host countries complain that MNCs take unfair advantage of them and do not include them in the benefits of their international operations. The complaints against MNCs include taking excessive profits out of the host country, hiring the best local labour, not respecting local laws and customs, and dominating the local economy. Engaging in corrupt practices is another important concern.

17. The power-distance dimension of national culture reflects the degree to which members of a society accept status and authority inequalities. Since organizations are hierarchies with power varying from top to bottom, the way power differences are viewed from one setting to the next is an important management issue. Relations between managers and subordinates, or team leaders and team members, will be very different in high-power-distance cultures than in low-power-distance ones. The significance of these differences is most evident in international operations, when a manager from a high-power-distance culture has to perform in a low-power-distance one, or vice versa. In both cases, the cultural differences can cause problems as the manager deals with local workers.

18. A tight culture is one in which clear norms exist for social behaviour and members know that deviance from these norms will not be tolerated. There are both norms and a high degree of conformity to those norms. In a loose culture the norms and social expectations are often general and ambiguous. Individuals tend to behave with independence and in recognition that deviation is generally tolerated.

**19.** For each region of the world you should identify a major economic theme, issue, or element. For example: Europe—the European Union should be discussed for its economic significance to member countries and to outsiders; the Americas—NAFTA should be discussed for its importance to Canada, the United States, and Mexico, and also for implications in political debates within these countries; Asia—the Asia-Pacific Economic Forum should be identified as a platform for growing regional economic cooperation among a very economically powerful group of countries, including China; Africa—the non-racial democracy in South Africa should be cited as an example of growing foreign investor interest in the countries of Africa.

**20.** Monique must recognize that the cultural differences between Canada and Japan may affect the success of group-oriented work practices such as quality circles and work teams. Canada is a highly individualistic culture in Hofstede's study of national cultures; Japan is much more collectivist. Group practices such as the quality circle and teams are natural and consistent with the Japanese culture. When introduced into a more individualistic culture, these same practices might cause difficulties or require some time for workers to get used to them. At the very least, Monique should proceed with caution, discuss ideas for the new practices with the workers before making any changes, and then monitor the changes closely so that adjustments can be made to improve them as the workers gain familiarity with them and have suggestions of their own.

## Chapter 6

**1. c 2. a 3. b 4. b 5. b 6. a 7. d 8. a 9. d 10. b 11. a 12. b 13. c 14. c 15. d**

**16.** Entrepreneurship is rich with diversity. It is an avenue for business entry and career success that is pursued by many women and members of minority groups. Data show that of all self-employed persons in Canada, almost 36 percent are women. Many report leaving other employment because they had limited opportunities. For them, entrepreneurship made available the opportunities for career success that they had lacked.

**17.** The three stages in the life cycle of an entrepreneurial firm are birth, breakthrough, and maturity. In the birth stage, the leader is challenged to get customers, establish a market, and find the money needed to keep the business going. In the breakthrough stage, the challenges shift to becoming and staying profitable, and managing growth. In the maturity stage, a leader is more focused on revising and maintaining a good business strategy and more generally managing the firm for continued success, and possibly for more future growth.

**18.** The limited partnership form of small business ownership consists of a general partner and one or more "limited partners." The general partner(s) play an active role in managing and operating the business; the limited partners do not. All contribute resources of some value to the partnership for the conduct of the business. The advantage of any partnership form is that the partners may share in profits, but their potential for losses is limited by the size of their original investments.

**19.** A venture capitalist, often a business, makes a living by investing in and taking large ownership interests in fledgling companies, with the goal of large financial gains eventually, when the company is sold. An angel investor is an individual who is willing to make a financial investment in return for some ownership in the new firm.

**20.** My friend is right—it takes a lot of forethought and planning to prepare the launch of a new business venture. In response to the question of how to ensure that I am really being customer-focused, I would ask and answer for myself the following questions. In all cases I would try to frame my business model so that the answers are realistic, but still push my business toward a strong customer orientation. The "customer"

questions might include: "Who are my potential customers? What market niche am I shooting for? What do the customers in this market really want? How do these customers make purchase decisions? How much will it cost to produce and distribute my product/service to these customers? How much will it cost to attract and retain customers?" After preparing an overall executive summary, which includes a commitment to this customer orientation, I would address the following areas in writing up my initial business plan: a company description—mission, owners, and legal form—as well as an industry analysis, product and services description, marketing description and strategy, staffing model, financial projections with cash flows, and capital needs.

## Chapter 7

**1. c 2. b 3. c 4. a 5. a 6. c 7. c 8. b 9. a 10. c 11. b 12. c 13. a 14. b 15. d**

**16.** An optimizing decision is one that represents the absolute "best" choice of alternatives. It is selected from a set of all known alternatives. A satisficing decision selects the first alternative that offers a "satisfactory" choice, not necessarily the absolute best choice. It is selected from a limited or incomplete set of alternatives.

**17.** The ethics of a decision can be checked with the "spotlight" questions: "How would you feel if your family found out?" "How would you feel if this were published in the local newspaper?" "What would the person I know or know of who has the strongest character and best ethical judgement do in this situation?" Also, one can test the decision by evaluating it on four criteria: (1) Utility—does it satisfy all stakeholders? (2) Rights—does it respect everyone's rights? (3) Justice—is it consistent with fairness and justice? (4) Caring—does it meet responsibilities for caring?

**18.** A manager using systematic thinking is going to approach problem solving in a logical and rational way. The tendency will be to proceed in a linear, step-by-step fashion, handling one issue at a time. A manager using intuitive thinking will be more spontaneous and open in problem solving. He or she may jump from one stage in the process to another and deal with many different issues simultaneously.

**19.** It almost seems contradictory to say that one can prepare for a crisis, but it is possible. The concept of crisis management is used to describe how managers and others prepare for unexpected high-impact events that threaten an organization's health and future. Crisis management involves both anticipating possible crises and preparing teams and plans ahead of time for how to handle them if they do occur. Many organizations today, for example, are developing crisis management plans to deal with terrorism and cyber attacks.

**20.** This is what I would say in the mentoring situation: continuing developments in information technology are changing the work setting for most employees. An important development for the traditional white-collar worker falls in the area of office automation—the use of computers and related technologies to facilitate everyday office work. In the "electronic office" of today and tomorrow, you should be prepared to work with and take full advantage of the following: smart workstations supported by desktop computers; voice messaging systems, whereby computers take dictation, answer the telephone, and relay messages; database and word processing systems that allow storage, access, and manipulation of data, as well as the preparation of reports; electronic mail systems that send mail and data from computer to computer; electronic bulletin boards for posting messages; and computer conferencing and videoconferencing that allow people to work with one another every day over distance. These are among the capabilities of the new workplace. To function effectively, you must be prepared not only to use these systems to full advantage, but also to stay abreast of new developments as they emerge in the market.

## Chapter 8

1. d 2. a 3. a 4. d 5. b 6. c 7. a 8. d 9. a 10. b 11. a 12. c 13. c 14. d 15. c

16. The five steps in the formal planning process are: (1) Define your objectives, (2) determine where you stand relative to objectives, (3) develop premises about future conditions, (4) identify and choose among action alternatives to accomplish objectives, and (5) implement action plans and evaluate results.

17. Benchmarking is the use of external standards to help evaluate one's own situation and develop ideas and directions for improvement. The bookstore owner/manager might visit other bookstores in other towns that are known for their success. By observing and studying the operations of those stores and then comparing her store to them, the owner/manager can develop plans for future action.

18. Planning helps improve focus for organizations and for individuals. Essential to the planning process is identifying your objectives and specifying exactly where it is you hope to get in the future. Having a clear sense of direction helps keep us on track by avoiding getting sidetracked on things that might not contribute to accomplishing our objectives. It also helps us to find discipline in stopping periodically to assess how well we are doing. With a clear objective, present progress can be realistically evaluated and efforts refocused on accomplishing the objective.

19. Very often plans fail because the people who make the plans aren't the same ones who must implement them. When people who will be implementing are allowed to participate in the planning process, at least two positive results may happen that help improve implementation: (1) Through involvement they better understand the final plans, and (2) through involvement they become more committed to making those plans work.

20. I would begin the speech by describing the importance of goal alignment as an integrated planning and control approach. I would also clarify that the key elements are objectives and participation. Any objectives should be clear, measurable, and time defined. In addition, these objectives should be set with the full involvement and participation of the employees; they should not be set by the manager and then told to the employees. That understood, I would describe how each business manager should jointly set objectives with each of his or her employees and jointly review progress toward their accomplishment. I would suggest that the employees should work on the required activities while staying in communication with their managers. The managers in turn should provide any needed support or assistance to their employees. This whole process could be formally recycled at least twice per year.

## Chapter 9

1. a 2. b 3. d 4. b 5. b 6. b 7. d 8. b 9. b 10. c 11. a 12. b 13. c 14. c 15. c

16. The four steps in the control process are: (1) Establish objectives and standards, (2) measure actual performance, (3) compare actual performance with objectives and standards, and (4) take necessary action.

17. Feedforward control involves the careful selection of system inputs to ensure that outcomes are of the desired quality and up to all performance standards. In the case of a local bookstore, one of the major points of influence over performance and customer satisfaction is the relationship between the customers and the store's employees who serve them. Thus, a good example of feedforward control is exercising great care when the manager hires new employees and then trains them to work according to the store's expectations.

18. Douglas McGregor's concept of Theory Y involves the assumption that people can be trusted to exercise self-control in their work. This is

the essence of internal control—people controlling their own work by taking personal responsibility for results. If managers approach work with McGregor's Theory Y assumptions, they will, according to him, promote more self-control—or internal control—by people at work.

19. The four questions to ask when developing a balanced scorecard for inclusion on an executive dashboard are: (1) *Financial Performance*—To improve financially, how should we appear to our shareholders? (2) *Customer Satisfaction*—To achieve our vision, how should we appear to our customers? (3) *Internal Process Improvement*—To satisfy our customers and shareholders, at what internal business processes should we excel? (4) *Innovation and Learning*—To achieve our vision, how will we sustain our ability to change and improve?

20. A very large number of activities are required to complete a new student centre building on a college or university campus. Among them, one might expect the following to be core requirements: (1) land surveys conducted and planning permissions obtained from local government, (2) architect plans developed and approved, (3) major subcontractors hired, (4) site excavation completed, (5) building exterior completed, and (6) building interior completed and furnishings installed.

## Chapter 10

1. a 2. b 3. c 4. d 5. b 6. c 7. a 8. c 9. b 10. c 11. a 12. c 13. d 14. b 15. a

16. A corporate strategy sets long-term direction for an enterprise as a whole. Functional strategies set directions so that business functions such as marketing and manufacturing support the overall corporate strategy.

17. A SWOT analysis is useful during strategic planning. It involves the analysis of organizational strengths and weaknesses, and of environmental opportunities and threats.

18. The focus strategy concentrates attention on a special market segment or niche. The differentiation strategy concentrates on building loyalty to a unique product or service.

19. Strategic leadership is the ability to create enthusiasm in people to participate in continuous change, performance enhancement, and the implementation of organizational strategies. The special qualities of the successful strategic leader include the ability to make trade-offs, create a sense of urgency, communicate the strategy, and engage others in continuous learning about the strategy and its performance responsibilities.

20. Porter's competitive strategy model involves the possible use of three alternative strategies: differentiation, cost leadership, and focus. In this situation, the larger department store seems better positioned to follow the cost leadership strategy. This means that Kim may want to consider the other two alternatives.

A differentiation strategy would involve trying to distinguish Kim's products from those of the larger store. This might involve a "Made in Canada" theme, or an emphasis on leather, down, or some other type of clothing material. A focus strategy might specifically target university students and try to respond to their tastes and needs, rather than those of the larger community. This might involve special orders and other types of individualized services for the student market.

## Chapter 11

1. b 2. a 3. b 4. a 5. a 6. c 7. d 8. b 9. b 10. b 11. c 12. b 13. b 14. c 15. b

16. The functional structure is prone to problems of internal coordination. One symptom may be that the different functional areas, such as marketing and manufacturing, are not working well together. This structure also is slow to respond to changing environmental trends and challenges. If the firm finds that its competitors are getting to



market faster with new and better products, this is another potential indicator that the functional structure is not supporting operations properly.

**17.** A network structure often involves one organization “contracting out” aspects of its operations to other organizations that specialize in them. The example used in the text was of a company that contracted out its mailroom services. Through the formation of networks of contracts, the organization is reduced to a core of essential employees whose expertise is concentrated in the primary business areas. The contracts are monitored and maintained in the network to allow the overall operations of the organization to continue, even though they are not directly accomplished by full-time employees.

**18.** The term “contingency” is used in management to indicate that management strategies and practices should be tailored to fit the unique needs of specific situations. There is no universal solution that fits all problems and circumstances. Thus, in organizational design, contingency thinking must be used to identify and implement particular organizational points in time. What works well at one point in time may not work well at another, as the environment and other conditions change. For example, the more complex, variable, and uncertain the elements in the environment, the more difficult it is for the organization to operate. This situation calls for a more organic design. In a stable and more certain environment, the mechanistic design is appropriate, because operations are more routine and predictable.

**19.** Organizations are getting flatter, with fewer levels of management and with managers who possess wider spans of control. This trend has enabled organizations to be more agile in a changing marketplace. Managers, in turn, have delegated more to their employees, which has resulted in a more empowered workforce. Although a flatter organizational structure suggests a decentralized form of decision-making, with the advancement of information technology, top management can still maintain centralized control.

**20.** Faisal must first have confidence in the two engineers—he must trust them and respect their capabilities. Second, he must have confidence in himself, trusting his own judgement to give up some work and allow the others to do it. Third, he should follow the rules of effective delegation. These include being very clear on what must be accomplished by each engineer. Their responsibilities should be clearly understood. He must also give them the authority and resources to act in order to fulfill their responsibility, especially in relation to the other engineers. He must also not forget his own final accountability for the results. He should remain in control and, through communication, make sure that work proceeds as planned.

## Chapter 12

**1.** b **2.** a **3.** d **4.** a **5.** b **6.** a **7.** b **8.** b **9.** d **10.** c **11.** b **12.** c **13.** c **14.** d **15.** b

**16.** Core values indicate important beliefs that underlie organizational expectations about the behaviour and contributions of members. Sample values for high-performance organizations might include expressed commitments to honesty and integrity, innovation, customer service, quality, and respect for people.

**17.** Subcultures are important in organizations because of the many aspects of diversity found in the workforce today. Although working in the same organization and sharing the same organizational culture, members differ in subculture affiliations based on such aspects as gender, age, sexual orientation, religious and ethnic differences, as well as with respect to occupational and functional affiliations. It is important to understand how subculture differences may influence working relationships. For example, a 40-year-old manager of 20-year-old workers must understand that the values and behaviours of the younger workforce may not be totally consistent with what she believes in, and vice versa.

**18.** Lewin’s three phases of planned change and the relevant change leadership responsibilities are unfreezing—preparing a system for change; changing—moving or creating change in a system; and refreezing—stabilizing and reinforcing change once it has occurred. In addition, we might also talk about an additional or parallel phase of “improvising.” This calls for change leadership that is good at gathering feedback, listening to resistance, and making constructive modifications as the change is in progress to smooth its implementation and ensure that what is implemented is a best fit for the circumstances and people involved.

**19.** Use of force-coercion as a strategy of planned change is limited by the likelihood of compliance being the major outcome. People comply with force only so long as it remains real, visible, and likely, but they have no personal commitment to the behaviour. So, when the force goes away, so does the behaviour. Also, a manager who relies on forcing people to get changes made is likely to be viewed negatively and suffer from additional negative halo effects in other work with them. Rational persuasion and shared power are likely to have a more long-lasting impact on behaviour because employees respond to the change strategy by internalization of the value of the behaviour being encouraged. Because of this commitment, the influence on their actions is more likely to be long-lasting rather than temporary as in the case of force-coercion.

**20.** I disagree with this statement, because a strong organizational or corporate culture can be a positive influence on any organization, large or small. Also, issues of diversity, inclusiveness, and multiculturalism apply as well. In fact, such things as a commitment to pluralism and respect for diversity should be part of the core values and distinguishing features of the culture of every organization. The woman working for the large company is mistaken in thinking that the concepts do not apply to her friend’s small business. In fact, the friend—as owner and perhaps founder of the business—should be working hard to establish the values and other elements that will create a strong and continuing culture and respect for diversity. Employees of any organization should have core organizational values to serve as reference points for their attitudes and behaviour. The rites and rituals of everyday organizational life also are important ways to recognize positive accomplishments and add meaning to the employment relationship. It may even be that the friend’s roles as diversity leader and creator and sponsor of the corporate culture are magnified in the small business setting. As the owner and manager, she is visible every day to all employees. How she acts will have a great impact on any “culture.”

## Chapter 13

**1.** a **2.** c **3.** a **4.** d **5.** b **6.** d **7.** c **8.** d **9.** d **10.** b **11.** a **12.** b **13.** a **14.** d **15.** d

**16.** Internal recruitment deals with job candidates who already know the organization well. It also is a strong motivator because it communicates to everyone the opportunity to advance in the organization through hard work. External recruitment may allow the organization to obtain expertise not available internally. It also brings in employees with new and fresh viewpoints who are not biased by previous experience in the organization.

**17.** Orientation activities introduce a new employee to the organization and the work environment. This is a time when individuals may develop key attitudes and when performance expectations also will be established. Good orientation communicates positive attitudes and expectations and reinforces the desired organizational culture. It formally introduces the individual to important policies and procedures that everyone is expected to follow.

**18.** The graphic rating scale simply asks a supervisor to rate an employee on an established set of criteria, such as quantity of work

or attitude toward work. This leaves a lot of room for subjectivity and debate. The behaviourally anchored rating scale asks the supervisor to rate the employee on specific behaviours that have been identified as positively or negatively affecting performance in a given job. This is a more specific appraisal approach and leaves less room for debate and disagreement.

**19.** Mentoring is when a senior and experienced individual adopts a newcomer or more junior person with the goal of helping him or her develop into a successful worker. The mentor may or may not be the individual's immediate supervisor. The mentor meets with the individual and discusses problems, shares advice, and generally supports the individual's attempts to grow and perform. Mentors also are considered to be very useful for persons newly appointed to management positions.

**20.** As Sy's supervisor, I would face a difficult but perhaps expected human resource management problem. Not only is Sy influential as an informal leader, he also has considerable experience on the job and with the company. Even though he is experiencing performance problems using the new computer system, there is no indication that he doesn't want to work hard and continue to perform for the company. Although retirement is an option, Sy also may be transferred, promoted, or simply terminated. The last response seems unjustified and would likely cause legal problems. Transferring Sy, with his agreement, to another position could be a positive move; promoting Sy to a supervisory position in which his experience and networks would be useful is another possibility. The key in this situation seems to be moving Sy out so that a computer-literate person can take over the job, while continuing to utilize Sy in a job that better fits his talents. Transfer and/or promotion should be actively considered, both in his and in the company's interest.

## Chapter 14

**1. d 2. d 3. b 4. b 5. a 6. a 7. b 8. d 9. a 10. b 11. b 12. a 13. a 14. c 15. a**

**16.** Position power is based on reward; coercion, or punishment; and legitimacy, or formal authority. Managers, however, need to have more power than that made available to them by the position alone. Thus, they have to develop personal power through expertise, reference, and information and networking. This personal power is essential in helping managers to get things done beyond the scope of their position power alone.

**17.** The leader-participation model suggests that leadership effectiveness is determined in part by how well managers or leaders handle the many different problem or decision situations that they face every day. Decisions can be made through individual or authority, consultative, or group-consensus approaches. No one of these decision methods is always the best; each is a good fit for certain types of situations. A good manager or leader is able to use each of these approaches and knows when each is the best approach to use in particular situations.

**18.** The three variables used in Fiedler's model to diagnose situational favourableness are: (1) position power—how much power the leader has in terms of rewards, punishments, and legitimacy; (2) leader-member relations—the quality of relationships between the leader and followers; and (3) task structure—the degree to which the task is either clear and well defined, or open-ended and more ambiguous.

**19.** Drucker said that good leaders have more than the “charisma” or “personality” being popularized in the concept of transformational leadership. He reminded us that good leaders work hard to accomplish some basic things in their everyday activities. These include: (1) establishing a clear sense of mission; (2) accepting leadership as a responsibility, not a rank; and (3) earning and keeping the respect of others.

**20.** In his new position, Marcel must understand that the transactional aspects of leadership are not sufficient to guarantee him long-term leadership effectiveness. He must move beyond the effective use of task-oriented and people-oriented behaviours and demonstrate through his personal qualities the capacity to inspire others. A charismatic leader develops a unique relationship with followers, in which they become enthusiastic, highly loyal, and high achievers. Marcel needs to work very hard to develop positive relationships with the team members. In those relationships he must emphasize high aspirations for performance accomplishments, enthusiasm, ethical behaviour, integrity and honesty in all dealings, and a clear vision of the future. By working hard with this agenda and by allowing his personality to positively express itself in the team setting, Marcel should make continuous progress as an effective and a moral leader.

## Chapter 15

**1. c 2. b 3. d 4. a 5. c 6. d 7. b 8. c 9. a 10. b 11. d 12. d 13. c 14. d 15. c**

**16.** A psychological contract is the individual's view of the inducements he or she expects to receive from the organization in return for his or her work contributions. The contract is healthy when the individual perceives that the inducements and contributions are fair and balanced.

**17.** Self-serving bias is the attribution tendency to blame the environment when things go wrong—“It's not my fault; ‘they’ caused all this mess.” Fundamental attribution error is the tendency to blame others for problems that they have—“It's something wrong with ‘you’ that's causing the problem.”

**18.** All of the Big Five personality traits are relevant to the workplace. Consider the following basic examples. Extraversion suggests whether or not a person will reach out to relate and work well with others. Agreeableness suggests whether a person is open to the ideas of others and willing to go along with group decisions. Conscientiousness suggests whether or not someone can be depended on to meet commitments and perform agreed-on tasks. Emotional stability suggests whether someone will be relaxed and secure, or uptight and tense, in work situations. Openness to experience suggests whether or not someone will be open to new ideas or resistant to change.

**19.** The Type A personality is typical of people who bring stress on themselves by virtue of personal characteristics. These tend to be compulsive individuals who are uncomfortable waiting for things to happen, who try to do many things at once, and who generally move fast and have difficulty slowing down. Type A personalities can be stressful for both themselves and the people around them. Managers must be aware of Type A personality tendencies in their own behaviour and among others with whom they work. Ideally, this awareness will help the manager take precautionary steps to best manage the stress caused by this personality type.

**20.** Scott needs to be careful. Although there is modest research support for the relationship between job satisfaction and performance, there is no guarantee that simply doing things to make his employees happier at work will cause them to be higher performers. Scott needs to take a broader perspective on this issue and his responsibilities as a manager. He should be interested in job satisfaction for his therapists and do everything he can to help them to experience it. But he should also be performance-oriented and should understand that performance is achieved through a combination of skills, support, and motivation. He should be helping the therapists to achieve and maintain high levels of job competency. He should also work with them to find out what obstacles they are facing and what support they need—things that perhaps he can deal with on their behalf. All of this relates as well to research that performance can be a source of job

satisfaction. Finally, Scott should make sure that the therapists believe they are being properly rewarded for their work, because research shows that rewards have an influence on both job satisfaction and job performance.

## Chapter 16

1. c 2. b 3. d 4. d 5. b 6. b 7. a 8. d 9. b 10. d 11. c 12. c 13. a 14. b 15. d

16. People high in need for achievement will prefer work settings and jobs in which they have (1) challenging but achievable goals, (2) individual responsibility, and (3) performance feedback.

17. Participation is important to goal-setting theory because, in general, people tend to be more committed to the accomplishment of goals they have helped set. When people participate in the setting of goals, they also understand them better. Participation in goal setting improves goal acceptance and understanding.

18. Maslow, Alderfer, McClelland, and Herzberg would likely find common agreement regarding a set of “higher order” needs. For Maslow these are self-actualization and ego; they correspond with Alderfer’s growth needs, and with McClelland’s needs for achievement and power. Maslow’s social needs link up with relatedness needs in Alderfer’s theory and the need for affiliation in McClelland’s theory. Maslow’s safety needs correspond to Alderfer’s existence needs. Herzberg’s “satisfier-factors” correspond to satisfactions of Maslow’s higher needs, Alderfer’s growth needs, and McClelland’s need for achievement.

19. The compressed workweek, such as the 4–40 schedule, offers employees the advantage of time off, such as a three-day weekend. However, it can cause problems for employers in terms of ensuring that operations are covered adequately during the normal five workdays of the week. Labour unions may resist, and the compressed workweek will entail more complicated work scheduling. In addition, some employees find that the schedule is tiring and can cause family adjustment problems.

20. It has already been pointed out in the answer to question 16 that a person with a high need for achievement likes moderately challenging goals and performance feedback. Participation of both managers and subordinates in goal setting offers an opportunity to choose goals to which the subordinate will respond, and which also will serve the organization. Further, through goal setting, managers and individual subordinates can identify performance standards or targets. The manager can positively reinforce progress toward these targets. Such reinforcement can serve as an indicator of progress to someone with a high need for achievement, satisfying their desire for performance feedback.

## Chapter 17

1. d 2. a 3. b 4. b 5. c 6. a 7. b 8. b 9. a 10. a 11. d 12. b 13. b 14. a 15. a

16. Input factors can have a major impact on group effectiveness. In order to best prepare a group to perform effectively, a manager should make sure that the right people are put in the group (to maximize available talents and abilities), that these people are capable of working well together (membership characteristics should promote good relationships), that the tasks are clear, and that the group has the resources and environment needed to perform up to expectations.

17. A group’s performance can be analyzed according to the interaction between cohesiveness and performance norms. In a highly cohesive group, members tend to conform to group norms. Thus, when the performance norm is positive and cohesion is high, we can expect everyone to work hard to support the norm—high performance is

likely. By the same token, high cohesion and a low performance norm will yield the opposite result—low performance is likely. With other combinations of norms and cohesion, the performance results will be more mixed.

18. The textbook lists several symptoms of groupthink, along with various strategies for avoiding groupthink. For example, a group whose members censor themselves from contributing “contrary” or “different” opinions and/or whose members keep talking about outsiders as “weak” or the “enemy” may be suffering from groupthink. This may be avoided or corrected, for example, by asking someone to be the “devil’s advocate” for a meeting, and by inviting in an outside observer to help gather different viewpoints.

19. In a traditional work group, the manager or supervisor directs the group. In a self-managing team, the members of the team provide self-direction. They plan, organize, and evaluate their work, share tasks, and help one another develop skills; they may even make hiring decisions. A true self-managing team does not need the traditional “boss” or supervisor, because the team as a whole takes on traditional supervisory responsibilities.

20. Marcos is faced with a highly cohesive group whose members conform to a negative or low-performance norm. This is a difficult situation that is ideally resolved by changing the performance norm. In order to gain the group’s commitment to a high-performance norm, Marcos should act as a positive role model for the norm. He must communicate the norm to the group clearly and positively and should not assume that everyone knows what he expects of them. He may also talk to the informal leader and gain his or her commitment to the norm. He might carefully reward high-performance behaviours within the group and may introduce new members with high-performance records and commitments. He might also hold group meetings in which performance standards and expectations are discussed, with an emphasis on committing to new high-performance directions. If his attempts to introduce a high-performance norm fail, Marcos may have to take steps to reduce group cohesiveness so that individual members can pursue higher-performance results without feeling bound by group pressures to restrict their performance.

## Chapter 18

1. a 2. b 3. d 4. d 5. b 6. b 7. d 8. b 9. d 10. b 11. d 12. c 13. a 14. d 15. a

16. The manager’s goal in active listening is to help the subordinate say what he or she really means. To do this, the manager should carefully listen for the content of what is being said, paraphrase or reflect back what the person appears to be saying, remain sensitive to non-verbal cues and feelings, and not be evaluative.

17. The relationship between conflict intensity and performance can be pictured as an inverted “U” curve. It shows that performance increases as conflict intensity increases from low to moderate levels. Conflict of moderate intensity creates the zone of constructive conflict, where its impact on performance is most positive. As conflict intensity moves into extreme levels, performance tends to decrease. This is the zone of destructive conflict. When conflict is too low, performance also may suffer.

18. Win–lose outcomes are likely when conflict is managed through high-assertiveness and low-cooperativeness styles. In this situation of competition, conflict is resolved by one person or group dominating another. Lose–lose outcomes occur when conflict is managed through avoidance (where nothing is resolved), and possibly when it is managed through compromise (where each party gives up something to the other). Win–win outcomes are associated mainly with problem solving and collaboration in conflict management, which result from high assertiveness and high cooperativeness.

**19.** In a negotiation, both substance and relationship goals are important. Substance goals relate to the content of the negotiation. A substance goal, for example, may relate to the final salary agreement between a job candidate and a prospective employer. Relationship goals relate to the quality of the interpersonal relationships among the negotiating parties. Relationship goals are important, because the negotiating parties most likely have to work together in the future. For example, if relationships are poor after a labour–management negotiation, the likelihood is that future problems will occur.

**20.** Mei-Yu can do a number of things to establish and maintain a system of transparency and openness for her department store branch. To begin, she should, as much as possible, try to establish a highly interactive style of management based on credibility and trust. Credibility is earned by building personal power through expertise and reference. In regard to credibility, she might set the tone for the department managers by practising transparency and sharing information through open-book management. Once this pattern is established, trust will build between her and other store employees, and she should find that she learns a lot from interacting directly with them. Mei-Yu also should set up a formal communication structure, such as bimonthly store meetings, where she communicates store goals, results, and other issues to the staff and listens to them in return. An email system where Mei-Yu and her staff can send messages would also be beneficial.

## Appendix

**1. c 2. c 3. c 4. a 5. a 6. b 7. d 8. b 9. d 10. c 11. b 12. c 13. b 14. c 15. a**

**16.** Possible operating objectives reflecting a commitment to competitive advantage through customer service include: (1) providing high-quality goods and services, (2) producing at low cost so that goods and services can be sold at low prices, (3) providing short waiting times for goods and services, and (4) providing goods and services meeting unique customer needs.

**17.** External customers are the consumers or clients in the specific environment who buy the organization's goods or use its services. Internal customers are found internally in the workflows among people and subsystems in the organization. They are individuals or groups within the organization who use goods and services produced by others who are also inside the organization.

**18.** Supply chain management is important due to the costs of resources, the costs of holding things in inventory, and all the costs of transporting resources and supplies for the organization. SCM uses the latest technologies and systematic management to oversee all aspects of inbound logistics so that the various elements and activities in the organization's supply chains operate as efficiently and as effectively as possible.

**19.** The focus of process reengineering is on reducing costs and streamlining operations efficiency while improving customer service. This is accomplished by closely examining core business processes through the following sequence of activities: (1) identify the core processes; (2) map them in a workflows diagram; (3) evaluate all tasks involved; (4) seek ways to eliminate unnecessary tasks; (5) seek ways to eliminate delays, errors, and misunderstandings in the workflows; and (6) seek efficiencies in how work is shared and transferred among people and departments.

**20.** Although the appropriateness of the measure would vary by department or area of each organization that one is addressing, possible productivity measures are:

- a.** Canada Post—# letters delivered per day / # letter carriers on payroll
- b.** University—# students enrolled / # full-time + part-time faculty
- c.** Hospital—# patients per day / # available hospital beds
- d.** Amusement park—# paid admissions per day / # available rides
- e.** Restaurant—# Meals served per hour/# inventory turnover of food items

## Chapter 1

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## Chapter 2

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### Chapter 3

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## Chapter 6

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## Chapter 7

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## Chapter 8

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### Feature Notes

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### Chapter 16

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## Chapter 17

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**Chapter 18**

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### Feature Notes

*Opening Quote:* Claire Suddath, “Inside the Elephant in the Room,” *Bloomberg BusinessWeek* (December 10–16, 2012), pp. 83–85.

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### Appendix

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