

# Understanding and Managing Organizational Behavior



Sixth Edition



PEARSON

Jennifer M George  
Gareth R Jones

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International Edition

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SIXTH EDITION

International Edition



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# Preface

In the sixth edition of *Understanding and Managing Organizational Behavior*, we keep to our theme of providing students with the most contemporary and up-to-date account of the changing issues involved in managing people in organizations. In revising this book, we have continued our focus on making our text relevant and interesting to students—something we have learned from feedback received from instructors who tell us the text engages students and encourages them to make the effort necessary to assimilate the text material. We continue to mirror the changes taking place in the real world of work by incorporating recent developments in organizational behavior and research and by providing vivid, current examples of the way managers and employees of companies large and small have responded to the changing workplace. Indeed, we have increased our focus on small businesses and startups and the organizational behavior challenges their employees face.

The number and complexity of the organizational and human resource challenges facing managers and employees at all levels has continued to increase over time, especially because of today's hard economic times. In most companies, managers and employees are playing “catch-up” as organizations work to meet these challenges by employing fewer employees and implementing new and improved organizational behavior techniques and practices to increase performance. Today, relatively small differences in performance between companies, for example, in the speed at which they can bring new products to market, or in the ways they motivate their employees to find ways to reduce costs or improve customer service, can combine to give one company a competitive edge over another. Managers and companies that utilize proven organizational behavior (OB) techniques and practices in their decision making increase their effectiveness over time. Companies and managers that are slower to implement new OB techniques and practices find themselves at a growing competitive disadvantage, especially because their best employees often depart to join faster-growing companies.

Our challenge in revising *Understanding and Managing Organizational Behavior* has been to incorporate and integrate the latest advances in theorizing and research and provide a thorough and contemporary account of the factors that influence organizational behavior. Importantly, we strived to convey this knowledge to students in a very readable, applied, hands-on format to increase their understanding and enjoyment of the learning process.

## What's New in This Edition

In response to the positive comments and support of our users and reviewers, we have continued to refine and build on the major revisions we made to the last edition. The revised edition of *Understanding and Managing Organizational Behavior* mirrors the changes taking place in the world today, both on a global dimension and in terms of the ways the changing nature of work is affecting organizational behavior.

First, we have extended our coverage of ethics, ethical behavior, and social responsibility because of the continuing controversies and scandals that have involved a growing number of well-known companies in the 2000s. We have more in-depth coverage of ethics both in terms of new content areas within chapters and in the many kinds of company examples we use to illustrate what organizations can do to curb individual self-interest and promote ethical organizational behavior. Many specific issues such as ethical dilemmas, ethical leadership, building a socially responsible culture, and the role of ethics officers are now included in the new edition. Second, the increasing globalization of business and diversity of the workforce has led us to extend our coverage of the many opportunities and challenges globalization and diversity pose for understanding and managing organizational behavior today. Some of the major specific changes or updates we have made to our book include:

- New opening chapter cases that deal with important contemporary issues. For example, the Opening Case for Chapter 7 profiles how the innovative on-line retailer Zappos motivates its employees to provide exceptional service to customers; the Opening Case for Chapter 9 provides a close look at the devastating effects that job loss has had for employees and

their families around the United States; and the Opening Case for Chapter 10 describes how Cisco Systems relies on teams to innovate around the globe. In addition, new and updated chapter boxes and new closing cases to encourage in-class discussion. For example, the closing case for Chapter 2 describes how Mark Wilson, founder of Ryla Inc., created a different kind of customer contact business by providing a supportive, caring, and developmental environment for employees; the closing case for Chapter 7 describes how Google motivates employees; and the Global View box in Chapter 8 profiles the changing nature of psychological contracts and employment relations in Japan. We have carefully chosen a wide range of large and small companies to examine the issues facing companies as they attempt to increase their effectiveness in an increasingly competitive global environment.

- New material on how tough economic times can spur employees to take proactive steps to modify the design of their jobs via job crafting, which also leads managers to change the design of jobs; what managers can do to motivate and reward employees when resources are scarce, especially when their employees are also required to perform additional tasks or work harder to maintain organizational performance; and new material about job loss and its consequences, including rising stress, that arise because of economic concerns (for example, new material on job satisfaction levels at record lows in the United States and why layoffs can be so devastating for employees and hence the need for organizations to managing layoffs in a humane fashion).
- Expanded coverage of ethics and the steps organizations can take to improve the way managers and employees make ethical choices, especially in uncertain situations; and many new boxes on the way employees respond to ethical problems and on how organizations are emphasizing the importance of enforcing codes of ethics.
- Increased coverage of issues that arise from increasing workforce diversity at a time when millions of baby boomers are retiring and fewer middle managers exist because of downsizings and layoffs; and how organizations such as Northrop Grumman and GE are creating heterogeneous groups composed of younger and older, more experienced employees, to help transfer job-specific knowledge and experience to younger, inexperienced employees.
- Expanded discussion of the role of personality, emotion, and mood in organizations and of recent research on emotional intelligence (for example, new coverage about how people reported to be somewhat introverted have been successful in their careers, including Bill Gates, Warren Buffett, Charles Schwab, and Andrea Jung).
- Increased coverage of the importance of organizational learning at all levels from CEO to first-level employees and how increased training and education of employees is resulting in many changes in the way organizations operate—at the task, job, group, and organizational levels.

Our intention has been to provide students with the most up-to-date, readable, succinct account of organizational behavior on the market. To accomplish this, we have only drawn on the theories and concepts that have received the most empirical research support and acceptance by the academic community. We have also worked hard to streamline the discussion in the text and make the material even more appealing to students.

## Organization of the Book

Once again, in terms of the way our book is organized, Chapter 1 discusses contemporary organizational behavior issues and challenges; it also provides an approach to understanding and managing organizational behavior that sets the scene for the rest of the book. In Part One, “Individuals in Organizations,” we underscore the many ways in which people can contribute to organizations and how an understanding of factors such as personality, emotional intelligence, creativity, and motivation can help organizations and their members channel effort and behavior in ways that promote the achievement of organizational objectives and the well-being of all organizational stakeholders including employees. Chapters 2, 3, and 4 provide extensive

coverage of personality, emotional intelligence, mood and emotion, values and ethics, and the proactive management of diversity; importantly, we link these factors to important behaviors and determinants of organizational effectiveness. Chapter 5 conveys the variety of ways in which organizational members can and do learn, with a new emphasis on continuous learning through creativity.

Our treatment of the important issue of work motivation is divided into two chapters. In Chapter 6, we provide an integrated account of work motivation and the latest development in motivation theory and research. Chapter 7 then focuses on how to create a motivating work environment through job design, organizational objectives, and goal setting. Chapter 8 addresses the changing nature of the employment relationship and the implications of factors such as outsourcing, performance appraisal, pay differentials, and boundaryless careers for motivation and performance. Lastly, in Chapter 9, we focus on the stressors people face, how they can be effectively managed, and how to find a balance between work and other aspects of life. Overall, Part One reflects both contemporary theorizing and research and the challenges and opportunities facing organizations and their members.

In Part Two, “Group and Team Processes,” we bring together the many ways in which organizational members work together to achieve organizational objectives, the challenges they face, and how to achieve real synergies. Chapters 10 and 11 focus on the key factors that lead to effective work groups and teams. Chapter 12 provides an updated treatment of leadership, particularly transformational leadership in organizations. Chapter 13 contains our discussion of power, politics, conflict, and negotiation. In Chapter 14, we discuss how the latest developments in information technology have changed the nature of communication in and between organizations. The final chapter in this part, Chapter 15, provides updated coverage of decision making, knowledge management, and innovation.

Part Three, “Organizational Processes,” separates our treatment of organizational structure and organizational culture to allow for an integrated treatment of organizational culture and to underscore the importance of ethics. Chapter 16 focuses on organizational design, structure, and control and the factors that affect important organizational design choices. Chapter 17 presents an integrated treatment of organizational culture and ethical behavior. It focuses on the informal and formal social processes in organizations that affect the ways people behave, the sources of organizational culture, including organizational ethics, and the nature, causes, and consequences of ethical behavior. We also discuss the factors that can lead to unethical behavior. Finally, Chapter 18 provides updated coverage of organizational change and development to reflect current realities in the very dynamic environment in which organizations operate.

In summary, the organization and content of our book keeps to its goal of providing instructors and students with a cutting-edge coverage of organizational behavior topics and issues that our users have appreciated in prior editions. For students, we provide a treatment of organizational behavior that allows for self-assessment because it (1) is comprehensive, integrated, and makes important theories and research findings accessible and interesting to them; (2) is current, up-to-date, and contains expanded coverage of significant contemporary issues including ethics, diversity, globalization, and information technology; (3) uses rich, real-life examples of people and organizations to bring key concepts to life and provide clear managerial implications; and, (4) is experiential and applied. Our extensive and engaging end-of-chapter experiential exercises contained in “Exercises in Understanding and Managing Organizational Behavior” give students the opportunity to catch the excitement of organizational behavior as a fluid, many-faceted discipline, and they allow students to develop and practice their own skills.

## Pedagogical Structure and Teaching Support

We believe no other organizational behavior textbook has the sheer range of learning features for students that our book has. These features—some integrated into the text and some at the end of each chapter or part—engage students’ interest and facilitate their learning of organizational behavior. The overall objective of these features is to help instructors actively involve their students in the chapter content. The teaching support includes the following:



## Instructor's Resource Center

At [www.pearsonglobaleditions.com](http://www.pearsonglobaleditions.com), instructors can access a variety of print, media, and presentation resources available with this text in downloadable, digital format. Registration is simple and gives you immediate access to new titles and new editions. As a registered faculty member, you download resource files and receive immediate access and instructions for installing Course Management content on your campus server.

If you ever need assistance, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.co.uk> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available to adopting instructors:

- Instructor's Manual
- Test Item File
- TestGen Test Generating Software
- PowerPoints
- DVD

## Videos on DVD

Video segments illustrate the most pertinent topics in organizational behavior today and highlight relevant issues that demonstrate how people lead, manage, and work effectively. Contact your Pearson representative for the DVD.

## mymanagementlab

mymanagementlab ([www.mymanagementlab.com](http://www.mymanagementlab.com)) is an easy-to-use online tool that personalizes course content and provides robust assessment and reporting to measure individual and class performance. All of the resources you need for course success are in one place and are flexible and easily adapted for your course experience. Some of the resources include an a Pearson eText version of the textbook quizzes, video clips, simulations, assessments, and PowerPoint presentations that engage you while helping you study independently.

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Finding a way to coordinate and integrate the rich and diverse organizational behavior literature is no easy task. Neither is it easy to present the material in a way that students can easily understand and enjoy, given the plethora of concepts, theories, and research findings. In writing *Understanding and Managing Organizational Behavior*, we have been fortunate to have the assistance of several people who have contributed greatly to the book's final form. We are very grateful to Eric Svendsen, our editor-in-chief, and Meg O'Rourke, editorial project manager, for providing us with timely feedback and information from professors and reviewers that have allowed us to shape the book to meet the needs of its intended market; and to Kerri Tomasso, production editor, for ably coordinating the book's progress. We also appreciate the word-processing and administrative support of Patsy Hartmangruber, Texas A&M University, and Margaret R. De Sosa of Rice University.

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# CHAPTER 1

## Introduction to Organizational Behavior

### Outline

Overview

What Is Organizational Behavior?

Challenges for Organizational Behavior

Challenge 1: The Changing Social and Cultural Environment

Challenge 2: The Evolving Global Environment

Challenge 3: Advancing Information Technology

Challenge 4: Shifting Work and Employment Relationships

Summary

Exercises in Understanding and Managing Organizational Behavior

Appendix: A Short History of Organizational Behavior

### Learning Objectives

*After reading this chapter, you should be able to:*

- Define organizational behavior and explain how and why it determines the effectiveness of an organization.
- Appreciate why the study of organizational behavior improves a person's ability to understand and respond to events that take place in a work setting.
- Differentiate between the three levels at which organizational behavior is examined.
- Appreciate the way changes in an organization's external environment continually create challenges for organizational behavior.
- Describe the four main kinds of forces in the environment that pose the most opportunities and problems for organizations today.



## Opening Case

# URSULA BURNS SUCCEEDS ANNE MULCAHY AS CEO OF XEROX

***How did Xerox's CEOs turn the company around?***

Getty Images, Inc. - Liaison



*Anne Mulcahy (left) and Ursula Burns devised a successful turnaround plan to save Xerox. Mulcahy and Burns worked closely with customers to develop new strategies for Xerox based on improved products and services. In 2009, Mulcahy became the chairperson of Xerox and hand-picked Burns to succeed her as CEO, which Burns did in 2010.*

In the early 2000s, Xerox, the well-known copier company, was near bankruptcy because aggressive Japanese competitors were selling low-priced digital copiers that made Xerox's pioneering light-lens copying process obsolete. The result was plummeting sales as U.S. customers bought Japanese copies and Xerox was losing billions of dollars. Xerox searched for a new CEO who had the management skills to revitalize the company's product line; 26-year Xerox veteran Anne Mulcahy was chosen to lead the company's transformation. Mulcahy had begun her career as a Xerox copier salesperson, transferred into human resource management, and then used her considerable leadership and communication skills to work her way up the company's hierarchy to become its president.

As the new CEO, the biggest organizational challenge Mulcahy faced was to find ways to reduce Xerox's high operating costs but, at the same time, find ways to develop innovative new lines of copiers. Specifically, she had to decide how to invest the company's research dollars to develop desperately needed new kinds of digital copiers that would attract customers back to the company and generate new revenues and profits. Simultaneously achieving both of these objectives is one of the biggest challenges a manager can face, and how well she performed these tasks would determine Xerox's fate—indeed its very survival.<sup>1</sup>

To find a solution to this problem, Mulcahy, known as an unassuming person who as CEO prefers to stay in the background, focused her efforts on involving and listening to Xerox's managers, employees, and customers describe its problems. Mulcahy began a series of "town hall" meetings with Xerox employees, asked them for all kinds of creative input and their best efforts, but told them that tough times were ahead and that layoffs would be necessary. At the same time, she emphasized that only their motivation to work hard and find ways to reduce costs and develop new products could save the company. To discover how the company should best invest its R&D budget, Mulcahy made reaching out to customers her other main priority. She insisted that managers and engineers at all levels visit, meet, and talk to customers to uncover what they most wanted from new digital copiers—and from Xerox. During one of her initiatives, called "Focus 500," which required Xerox's top 200 managers to visit its top 500 customers, Mulcahy came to increasingly appreciate the skills of Ursula Burns, who had joined Xerox 4 years after her and was quickly establishing her own reputation as a manager who knew how to motivate and lead employees. Burns had started her career as a mechanical engineer and was now the top manager in charge of its manufacturing and supply chain activities—the main source of its high operating costs.

By listening closely to both employees and customers, Mulcahy, Burns, and Xerox's engineers gained insights that allowed them to transform the company's product line. Their goal was to spend Xerox's shrinking R&D funds to develop two new lines of digital copiers:



a line of state-of-the-art digital color copying machines for use by large businesses and a line of low-end copiers offering print quality, speed, and prices that even Japanese competitors could not match. To shrink costs, Mulcahy was forced to flatten Xerox's management hierarchy and streamline its operating units that reduced the number of employees from 95,000 to 55,000 and cut 26 percent from corporate overhead. By 2007, it was clear that Mulcahy and her managers—in particular Ursula Burns, who was now Mulcahy's second in command—had devised a successful turnaround plan to save Xerox, and all of its employees were committed to work together to continually improve its products and performance.

Continuing to work closely with customers, Mulcahy and Burns developed new strategies for Xerox based on improved products and services. In talking to Xerox customers, for example, it became clear they wanted a combination of copying software and hardware that would allow them to create highly customized documents for their own customers. Banks, retail stores, and small businesses needed personalized software to create individual client statements, for example. Mulcahy decided to grow the customized services side of Xerox's business to meet these specialized needs. She also decided to replicate Xerox's sales and customer service operations around the globe and customize them to the needs of customers in each country. The result was soaring profits.

In 2009, Mulcahy decided she would leave the position of CEO to become Xerox's chairperson, and her hand-picked successor Ursula Burns became its next CEO.<sup>2</sup> The move to transfer power from one woman CEO to another at the same company is exceptional, and Burns is also the first African American woman to head a public company as large as Xerox. Within months of becoming CEO, Burns announced a new major initiative to acquire Affiliated Computer Services for \$6.4 billion so Xerox could increase its push to provide highly customized customer service. Burns said the acquisition would be a major game changer because it would triple Xerox's service revenue to over \$10 billion and increase total company revenues to \$22 billion. Also, \$400 million in cost savings were expected. Xerox's shares have climbed 40 percent since Burns took over as CEO, and in March 2010 Mulcahy announced her intention to retire. With Ursula Burns at the helm, however, Xerox's future looks bright indeed.

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## Overview

At Xerox, Mulcahy and Burns found a way to create a set of new organizational behaviors that have led to a cooperative, win-win situation for the company and its employees. Xerox's employees work hard, are committed to their company, and today they are less inclined to leave their jobs than employees who work for many other high-tech companies. This favorable work situation has been created because Xerox:

- Strives to increase employees' skills and knowledge and encourages them to take responsibility and to work closely with customers in ways that lead to a stream of new and improved products and better customer service.
- Provides employees at all levels with rewards to encourage high performance and makes sure that employees' contributions are recognized.
- Creates a work setting in which employees develop a longer-term commitment to their organization and are willing to cooperate and work hard to further their company's goals.

As the example of Xerox suggests, creating a favorable work situation in which people at all levels want to behave in ways that result in customers' receiving a high-quality product does not happen by chance. It is the result of careful planning and a solid understanding and appreciation of *how* people behave in organizations and *what* kinds of things cause them to behave the way they do. The best way to gain such an understanding of people at work, and the forces that shape their work behavior, is to study *organizational behavior*—the subject of this book.

In this chapter, we first define organizational behavior and discuss how a working knowledge of organizational behavior is essential for any person in today's complex, global world. We then examine how changes taking place *outside* an organization in the global, social, technological, and work or employment environments are changing the way people work together and cooperate *inside* an organization. The way rapid changes in an organization's environment have posed challenges for the behavior of all the people who work inside organizations is our focus. By the end of this chapter, you will understand the central role that organizational behavior plays in determining how effective an organization and all the men and women who are part of it are in achieving their goals.

## What Is Organizational Behavior?

To begin our study of organizational behavior, we could just say that it is the study of behavior in organizations and the study of the behavior of organizations, but such a definition reveals nothing about what this study involves or examines. To reach a more useful and meaningful definition, let's first look at what an organization is. An **organization** is a collection of people who work together and coordinate their actions to achieve a wide variety of goals. The goals are what individuals are trying to accomplish as members of an organization (earning a lot of money, helping promote a worthy cause, achieving certain levels of personal power and prestige, enjoying a satisfying work experience, and so forth). The goals are also what the organization as a whole is trying to accomplish (providing innovative goods and services that customers want; getting candidates elected; raising money for medical research; making a profit to reward stockholders, managers, and employees; and being socially responsible and protecting the natural environment). An effective organization is one that achieves its goals.

Police forces, for example, are formed to achieve the goals of providing security for law-abiding citizens and providing police officers with a secure, rewarding career while they perform their valuable services. Paramount Pictures was formed to achieve the goal of providing people with entertainment while making a profit in the process. Actors, directors, writers, and musicians receive well-paid and interesting work.

Organizations exist to provide goods and services that people want, and the amount and quality of these goods and services are products of the behaviors and performance of an organization's employees—of its managers, of highly skilled employees in sales or research and development, and of the employees who actually produce or provide the goods and services. Today, most people make their living by working in or for some kind of company or organization. People such as a company's owners or managers—or company employees who desire to become future owners or managers—all benefit from studying organizational behavior. Indeed, people who seek to help or volunteer their time to work in nonprofit or charitable organizations also must learn the principles of organizational behavior. Like most employees today, volunteers attend training courses that help them understand the many kinds of issues and challenges that arise when people work together and cooperate in a company or organization to benefit others, such as when they seek to aid ill, distressed, or homeless people.

## The Nature of Organizational Behavior

**Organizational behavior (OB)** is the study of the many factors that have an impact on how people and groups act, think, feel, and respond to work and organizations, and how organizations respond to their environments. Understanding how people behave in an organization is important because most people work for an organization at some point in their lives and are affected—both positively and negatively—by their experiences in it. An understanding of OB can help people to enhance the positive, while reducing the negative, effects of working in organizations.

Most of us think we have a basic, intuitive, commonsense understanding of human behavior in organizations because we all are human and have been exposed to different work experiences. Often, however, our intuition and common sense are wrong, and we do not really understand why people act and react the way they do. For example, many people assume that happy employees are productive employees—that is, that high job satisfaction causes high job

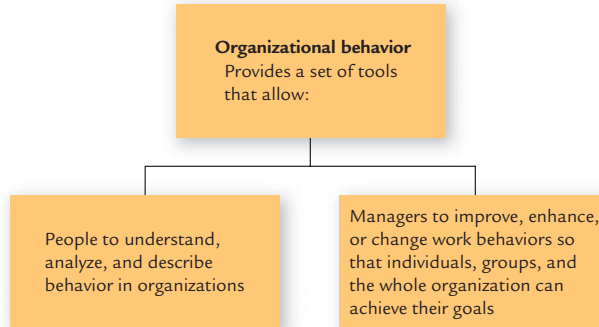
### ORGANIZATION

A collection of people who work together and coordinate their actions to achieve individual and organizational goals.

### ORGANIZATIONAL BEHAVIOR

The study of factors that affect how individuals and groups act in organizations and how organizations respond to their environments.



**EXHIBIT 1.1****What is Organizational Behavior?**

performance—or that punishing someone who performs consistently at a low level is a good way to increase performance or that it is best to keep pay levels secret. As we will see in later chapters, all of these beliefs are either false or are true only under very specific conditions, and applying these principles can have negative consequences for employees and organizations.

The study of OB provides guidelines that help people at work to understand and appreciate the many forces that affect behavior in organizations. It allows employees at all levels in an organization to make the right decisions about how to behave and work with other people in order to achieve organizational goals. OB replaces intuition and gut-feeling with a well-researched body of theories and systematic guidelines for managing behavior in organizations. The study of OB provides a set of tools—concepts and theories—that help people to understand, analyze, and describe what goes on in organizations and why. OB helps people understand, for example, why they and others are motivated to join an organization; why they feel good or bad about their jobs or about being part of the organization; why some people do a good job and others don't; why some people stay with the same organization for 30 years and others seem to be constantly dissatisfied and change jobs every 2 years. In essence, OB concepts and theories allow people to correctly understand, describe, and analyze how the characteristics of individuals, groups, work situations, and the organization itself affect how members feel about and act within their organization (see Exhibit 1.1).

**Levels of OB**

In practice, OB is examined at three main levels: the individual, the group, and the organization as a whole. A full understanding of OB is impossible without a thorough examination of the factors that affect behavior at each level (see Exhibit 1.2).

**EXHIBIT 1.2****Levels of Analysis in Organizational Behavior**

Much of the research in OB has focused on the way in which the characteristics of individuals (such as personality, feeling, and motivation) affect how well people do their jobs, whether they like what they do, whether they get along with the people they work with, and so on. In Chapters 2 through 9, we examine individual characteristics critical in understanding and managing behavior in organizations: personality and ability; attitudes, values, and moods; perception and attribution; learning; motivation; and stress and work-life linkages (see Exhibit 1.3).

The effects of group or team characteristics and processes (such as communication and decision making) on OB also need to be understood. A **group** is two or more people who interact to achieve their goals. A **team** is a group in which members work together intensively and develop team-specific routines to achieve a common group goal. A **virtual team** is a group whose members work together intensively via electronic means using a common IT platform, and who may never actually meet. The number of members in a group, the type and diversity of team members, the tasks they perform, and the attractiveness of a group to its members all influence not just the behavior of the group as a whole but also the behaviors of individuals within the group. For example, a team can influence its members' decisions on how diligently they should do their jobs or how often they are absent from work, as happens at Xerox. Chapters 10 through 15 examine the ways in which groups affect their individual members and the processes involved in group interactions such as leadership, communication, and decision making.

Many studies have found that characteristics of the organization as a whole (such as its culture and the design of an organization's structure) have important effects on the behavior of individuals and groups. The values and beliefs in an organization's culture influence how people, groups, and managers interact with each other and with people (such as customers or suppliers) outside the organization. Organizational culture also shapes and controls the attitudes and behavior of people and groups within an organization and thus influences their desire to work toward achieving organizational goals. An organization's structure controls how people and groups cooperate and interact to achieve organizational goals. The principal task of organizational structure is to encourage people to work hard and coordinate their efforts to ensure high levels of organizational performance. Chapters 16 through 18 examine

#### GROUP

Two or more people who interact to achieve their goals.

#### TEAM

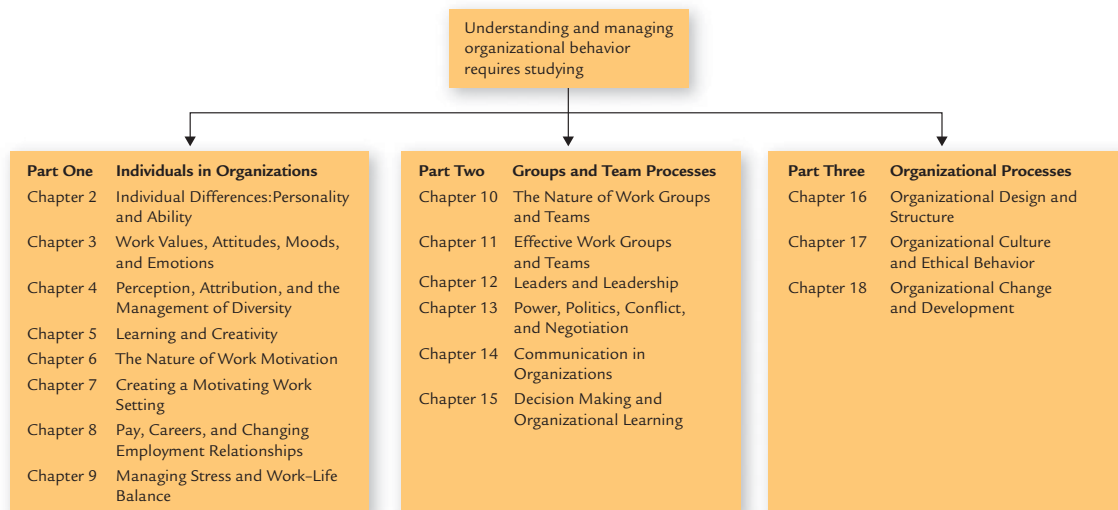
A group in which members work together intensively and develop team specific routines to achieve a common group goal.

#### VIRTUAL TEAM

A group whose members work together intensively via electronic means, and who may never actually meet.

### EXHIBIT 1.3

#### Components of Organizational Behavior



the ways organizational structure and culture affect performance, and they also examine how factors such as the changing global environment, technology, and ethics impact work attitudes and behavior.

### OB and Management

The ability to use the tools of OB to *understand* behavior in organizations is one reason for studying this topic. A second reason is to learn how to *use* and *apply* these concepts, theories, and techniques to improve, enhance, or change behavior so that employees, groups, and the whole organization can all better achieve their goals. For example, a salesperson working in Neiman Marcus in Houston has the individual goal, set by his supervisor, of selling \$5,000 worth of men's clothing per week. In addition, he and the other members of the men's clothing department have the group goals of keeping the department looking neat and attractive and of never keeping customers waiting. The store as a whole (along with all the other stores in the nationwide Neiman Marcus chain) has goals of being profitable by selling customers unique, high-quality clothes and accessories and providing excellent service. If all these different goals are met, employees receive a large yearly pay bonus and Neiman Marcus makes a profit.

Knowledge of OB can help Neiman Marcus employees earn their bonuses. For example, OB research has found that organizations whose employees have been taught how to work as a team, and to take pains to be helpful, courteous, and agreeable to each other *and* to customers will be more effective than those organizations whose employees do not behave in this way. At Neiman Marcus, employees know what kinds of behaviors result in satisfied customers. They know that if they work hard to be courteous and agreeable to each other and to customers, they will sell more clothes and so they will achieve (a) their personal sales goal, (b) their department's goal of never keeping customers waiting, and (c) the organization's goals of being profitable and providing excellent service.

A working knowledge of OB is important to employees at all levels in the organization because it helps them to appreciate the work situation and how they should behave to achieve their own goals (such as promotion or higher income). But knowledge of OB is particularly important to **managers**, people who direct and supervise the activities of one or more employees. For example, Sam Palmisano, CEO of IBM, and Ursula Burns, CEO of Xerox, have ultimate responsibility for the behavior of the hundreds of thousands of employees who work for these companies. The sales managers of IBM's or Xerox's southern region, who control hundreds of salespeople, are also managers, as are the managers (or supervisors) in charge of these companies' technical service centers who supervise small teams of service technicians.

Managers at all levels confront the problem of understanding the behavior of their subordinates and responding appropriately. Palmisano and Burns have to manage their companies' **top-management teams**, the group of high-ranking executives who jointly work to develop the strategies that allow an organization to achieve its goals. Similarly, sales managers have to train their salespeople so that they can offer each customer the mix of IT hardware and software that best satisfies their company's specific needs. And, service managers have to manage IT technicians so that they respond promptly and courteously to customers' appeals for help and quickly solve their IT problems—providing customers with high-quality customized or personalized service is currently a major strategy of both IBM and Xerox.

Each of these managers faces the common challenge of finding ways to help the organization achieve its goals. A manager who understands how individual, group, and organizational characteristics affect and shape work attitudes and behavior can begin to experiment to see whether changing one or more of these characteristics might increase the effectiveness of the organization—and the individuals and groups it consists of. **Organizational effectiveness** is the ability of an organization to achieve its goals. The study of OB helps managers meet the challenge of improving organizational effectiveness by providing them with a set of tools.



K.M. Cannon/Getty Images, Inc. - Liaison

*Sam Palmisano introduces the companies' new products to reporters and analysts at trade meetings.*

#### MANAGERS

Persons who supervise the activities of one or more employees.

#### TOP-MANAGEMENT TEAMS

High-ranking executives who plan a company's strategy so that the company can achieve its goals.

#### ORGANIZATIONAL EFFECTIVENESS

The ability of an organization to achieve its goals.

- A manager can work to raise an employee's self-esteem or beliefs about his or her ability to accomplish a certain task in order to increase the employee's productivity or job satisfaction.
- A manager can change the reward system to change employees' beliefs about the extent to which their rewards depend on their performance.
- A manager can change the design of a person's job or the rules and procedures for doing the job to reduce costs, make the task more enjoyable, or make the task easier to perform.

Recall from the chapter-opening case that Xerox's goal is to attract customers by providing them with high-quality, affordable copiers and customized service. To achieve this goal, Xerox's CEOs created a work setting in which employees were taught what kinds of organizational behaviors are necessary to create superior color copiers customized to the needs of different organizations. Xerox succeeded because it chose a way to motivate and reward employees that encourages them to work hard and well and behave in a way that benefits everyone. A key challenge for all organizations, and one that we address throughout this book, is how to encourage organizational members to work effectively for their own benefit, the benefit of their work groups, and the benefit of their organization.

### Managerial Functions

The four principal functions or duties of **management** are planning, organizing, leading, and controlling an organization's human, financial, material, and other resources to increase its effectiveness.<sup>3</sup> And, as our previous examples show, managers who are knowledgeable about OB are in a good position to improve their ability to perform these functions (see Exhibit 1.4).

#### MANAGEMENT

The process of planning, organizing, leading, and controlling an organization's human, financial, material, and other resources to increase its effectiveness.

#### PLANNING

Deciding how best to allocate and use resources to achieve organizational goals.

**PLANNING** In **planning**, managers establish their organization's strategy—that is, they decide how best to allocate and use resources to achieve organizational goals. At Southwest Airlines, for example, CEO Gary Kelly's goal is to provide customers with low-priced air travel, and to achieve this Southwest has created many strategies to use its resources as efficiently as possible.<sup>4</sup> For example, Southwest uses only one kind of plane, the Boeing 737, to keep down operating, training, and maintenance costs; employees cooperate and share jobs when necessary to keep down costs; and the company sells its tickets on its own website—one of the easiest to use in the industry.

Planning is a complex and difficult task because managers must make decisions under uncertain conditions and so considerable risks are involved when they choose which strategies to pursue. A knowledge of OB can help improve the quality of decision making, increase the chances of success, and lessen the risks inherent in planning and decision

#### EXHIBIT 1.4

##### Four Functions of Management



making. First, the study of OB reveals how decisions get made in organizations and how politics and conflict affect the planning process. Second, the way in which group decision making affects planning, and the biases that can influence decisions, are revealed. Third, the theories and concepts of OB show how the composition of an organization's top-management team can affect the planning process. As a result, the study of OB can improve a CEO's and top management team's planning abilities and allow them to increase organizational performance.

### ORGANIZING

Establishing a structure of relationships that dictates how members of an organization work together to achieve organizational goals.

**ORGANIZING** In **organizing**, managers establish a structure of work relationships that determines how members of an organization will cooperate and act jointly to achieve organizational goals. Organizing involves grouping employees into groups, teams, or departments according to the kinds of tasks or jobs they perform. At Southwest and Xerox, for example, the technicians who service and maintain their products (planes and copiers) are grouped into the service-operation department; and their salespeople are grouped into the sales department.

OB offers many guidelines on how best to organize employees (an organization's human resources) to make the most effective use of their personal skills and capabilities. In later chapters, we discuss various methods of grouping workers to enhance communication and coordination while avoiding conflict or politics. At Southwest Airlines, for example, although employees are members of particular departments (pilots, flight attendants, baggage handlers), they are expected to perform one another's nontechnical jobs when needed.

### LEADING

Encouraging and coordinating individuals and groups so that all organizational members are working to achieve organizational goals.

**LEADING** In **leading**, managers encourage workers to do a good job (work hard, produce high-quality products) and coordinate individuals and groups so that all organizational members are working to achieve organizational goals. The study of different leadership methods and of how to match leadership styles to the characteristics of the organization and all its components is a major concern of OB. Today, the way managers lead employees is changing because millions of employees work in **self-managed teams**—groups of employees who are given both the authority and responsibility to manage important aspects of their *own* work behaviors. These groups, for example, are often responsible for interviewing job applicants and for selecting their new team members who they often train as well. Also, these groups work together to improve work methods and procedures that can increase their effectiveness and help each other raise their own personal job skills and knowledge. The managers who used to actively supervise the team now play a different role—that of coaches or mentors. Their new role is to provide advice or support as needed and to champion the team and help it to obtain additional resources that will allow it to perform at a higher level and earn greater rewards as well.

### CONTROLLING

Monitoring and evaluating individual, group, and organizational performance to see whether organizational goals are being achieved.

**CONTROLLING** Finally, in **controlling**, managers monitor and evaluate individual, group, and organizational performance to see whether organizational goals are being achieved. If goals are met, managers can take action to maintain and improve performance; if goals are not being met, managers must take corrective action. The controlling function also allows managers to evaluate how well they are performing their planning, organizing, and leading functions.

Once again, the theories and concepts of OB allow managers to understand and accurately diagnose work situations in order to pinpoint where corrective action may be needed. Suppose the members of a group are not working effectively together. The problem might be due to personality conflicts between individual members of the group, to the faulty leadership approach of a supervisor, or to poor job design. OB provides valuable tools managers can use to diagnose which of these possible explanations is the source of the problem, and it enables managers to make an informed decision about how to correct the problem. Control at all levels of the organization is impossible if managers do not possess the necessary organizational-behavior knowledge. The way in which Joe Coulombe founded a retail company called Trader Joe's, which follows this approach to managing OB, illustrates many of these issues as the following OB Today suggests.



## OB TODAY

## How Joe Coulombe Used OB to Make Trader Joe's a Success Story

Trader Joe's, an upscale specialty supermarket chain, was founded in 1967 by Joe Coulombe, who then owned a few convenience stores that were fighting an uphill battle against the growing 7-11 chain. 7-11 offered customers a wider selection of lower-priced products, and Coulombe could not compete. If his small business was to survive, Coulombe needed to change his strategy. He decided to supply his

customers with upscale specialty products such as wine, drinks, and gourmet foods. Coulombe changed the name of his stores to Trader Joe's and stocked them with every variety and brand of California wine that was produced. He also began to offer fine foods like bread, crackers, cheese, fruits, and vegetables to complement and encourage wine sales. His planning paid off, customers loved his new upscale supermarket concept, and the premium products he chose to stock sold quickly—and they were more profitable to sell.

From the beginning, Coulombe realized that finding a new niche in the supermarket business was only the first step to help his small, growing company succeed. He knew that to encourage customers to visit his stores and buy more expensive gourmet products, he needed to provide them with excellent customer service. So, he had to find ways to motivate his salespeople to perform at a high level. His approach to organizing was to decentralize authority and empower salespeople to take responsibility for meeting customer needs. Rather than instructing employees to follow strict operating rules

and to get the approval of their supervisor before making customer-specific decisions, employees were given autonomy to make their own decisions and provide personalized customer service. This approach led employees to feel they “owned” their supermarkets, and Coulombe worked to develop a culture based on values and norms about providing excellent customer service and developing personalized relationships with customers, who are often on first-name terms.

Coulombe led by example and created a store environment in which employees were treated as individuals and felt valued as people. For example, the theme behind the design of his stores was to create the feeling of a Hawaiian resort: employees wear loud Hawaiian shirts, store managers are called captains, and the store décor features lots of wood and Tiki huts where employees provide customers with food and drink samples and interact with them. Once again, this helped to create strong values and norms that emphasize personalized customer service.

Finally, Joe Coulombe's approach was strongly influenced by the way he went about controlling salespeople. From the outset, he created a policy of promotion from within the company so that the highest performing salespeople could rise to become store captains and beyond in the organization. And, from the beginning, he recognized the need to treat employees in a fair and equitable way to encourage them to develop the customer-oriented values and norms needed to provide personalized customer service. He decided that full-time employees should earn at least the median household income for their communities, which averaged \$7,000 a year in the 1960s and is \$48,000 today—an



Michael Nagle/Getty Images, Inc. • Liaison

*The Trader Joe's approach to organizing entails decentralizing authority and empowering salespeople to take responsibility for meeting customer needs. Employees are given autonomy to make decisions and provide personalized customer service.*

astonishingly high amount compared to the pay of employees of regular supermarkets such as Kroger's and Safeway. Moreover, store captains, who are vital in helping create and reinforce Trader Joe's store culture, are rewarded with salaries and bonuses that can exceed \$100,000 a year. And, all salespeople know that as the store chain expands, they may also be promoted to this level. In sum, Coulombe's approach to developing the right set of organizational behaviors for his small business created a solid foundation on which this upscale specialty supermarket has grown and prospered.

### ROLE

A set of behaviors or tasks a person is expected to perform because of the position he or she holds in a group or organization.

### Managerial Roles

Managers perform their four functions by assuming specific roles in organizations. A **role** is a set of work behaviors or tasks a person is expected to perform because of the position he or she holds in a group or organization. One researcher, Henry Mintzberg, has identified ten roles that manager's play as they manage the behavior of people inside and outside the organization (such as customers or suppliers).<sup>5</sup> (See Exhibit 1.5.)

### SKILL

An ability to act in a way that allows a person to perform well in his or her role.

### Managerial Skills

Just as the study of OB provides tools that managers can use to increase their abilities to perform their functions and roles, it can also help managers improve their skills in managing OB. A **skill** is an ability to act in a way that allows a person to perform well in his or her role.

## EXHIBIT 1.5

### Types of Managerial Roles

Type of Role	Examples of Role Activities
Figurehead	Gives speech to workforce about future organizational goals and objectives; opens a new corporate headquarters building; states the organization's ethical guidelines and principles of behavior that employees are to follow in their dealings with customers and suppliers.
Leader	Gives direct commands and orders to subordinates; makes decisions concerning the use of human and financial organizational resources; mobilizes employee commitment to organizational goals.
Liaison	Coordinates the work of managers in different departments or even in different parts of the world; establishes alliances between different organizations to share resources to produce new products.
Monitor	Evaluates the performance of different managers and departments and takes corrective action to improve their performance; watches for changes occurring in the industry or in society that may affect the organization.
Disseminator	Informs organizational members about changes taking place both inside and outside the organization that will affect them and the organization; communicates to employees the organization's cultural and ethical values.
Spokesperson	Launches a new organizational advertising campaign to promote a new product; gives a speech to inform the general public about the organization's future goals.
Entrepreneur	Commits organizational resources to a new project to develop new products; decides to expand the organization globally in order to obtain new customers.
Disturbance handler	Moves quickly to mobilize organizational resources to deal with external problems facing the organization, such as environmental crisis, or internal problems facing the organization, such as strikes.
Resource allocator	Allocates organizational resources between different departments and divisions of the organization; sets budgets and salaries of managers and employees.
Negotiator	Works with suppliers, distributors, labor unions, or employees in conflict to solve disputes or to reach a long-term contract or agreement; works with other organizations to establish an agreement to share resources.

**CONCEPTUAL SKILLS**

The ability to analyze and diagnose a situation and to distinguish between cause and effect.

**HUMAN SKILLS**

The ability to understand, work with, lead, and control the behavior of other people and groups.

**TECHNICAL SKILLS**

Job-specific knowledge and techniques.

Managers need three principal kinds of skill in order to perform their organizational functions and roles effectively: conceptual, human, and technical skills.<sup>6</sup>

**Conceptual skills** allow a manager to analyze and diagnose a situation and to distinguish between cause and effect. Planning and organizing require a high level of conceptual skill, as do the decisional roles previously discussed. The study of OB provides managers with many of the conceptual tools they need to analyze organizational settings and to identify and diagnose the dynamics of individual and group behavior in these settings.

**Human skills** enable a manager to understand, work with, lead, and control the behaviors of other people and groups. The study of how managers can influence behavior is a principal focus of OB, and the ability to learn and acquire the skills needed to coordinate and motivate people is a principal difference between effective and ineffective managers.

**Technical skills** are the job-specific knowledge and techniques that a manager requires to perform an organizational role—for example, in manufacturing, accounting, or marketing. The specific technical skills a manager needs depend on the organization the manager is in and on his or her position in the organization. The manager of a restaurant, for example, needs cooking skills to fill in for an absent cook, accounting and bookkeeping skills to keep track of receipts and costs and to administer the payroll, and artistic skills to keep the restaurant looking attractive for customers.

Effective managers need all three kinds of skills—conceptual, human, and technical. The lack of one or more of these skills can lead to a manager's downfall. One of the biggest problems that entrepreneurs confront—a problem often responsible for their failure—is lack of appropriate conceptual and human skills. Similarly, one of the biggest problems faced by scientists, engineers, and others who switch careers and go from research into management is their lack of effective human skills. Management functions, roles, and skills are intimately related, and the ability to understand and manage behavior in organizations is indispensable to any actual or prospective manager over the long run.

## Challenges for OB

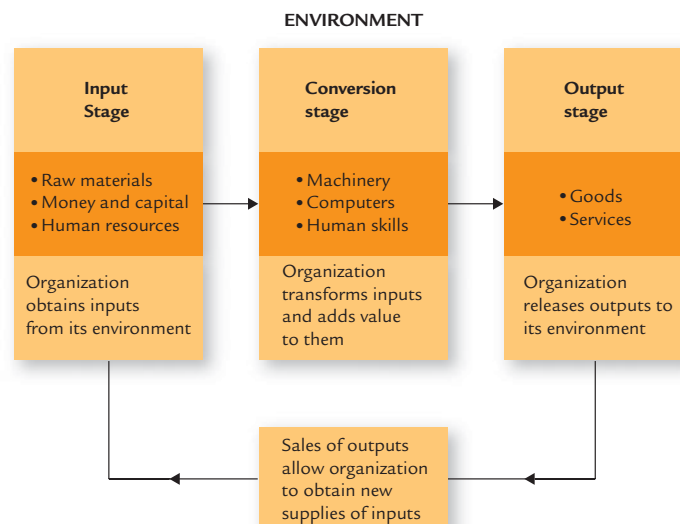
In the last few decades, the challenges facing organizations to effectively utilize and develop the skills, knowledge, and “human capital” of their employees have been increasing. As we noted earlier, among these challenges, those stemming from changing pressures or forces in the social and cultural, global, technological, and work environments stand out. To appreciate the way changes in the environment affect behavior in organizations, it is useful to model an organization from an open-systems perspective. In an **open system**, an organization takes in resources from its external environment and converts or transforms them into goods and services that are sent back to that environment, where customers buy them (see Exhibit 1.6).

**OPEN SYSTEM**

Organizations that take in resources from their external environments and convert or transform them into goods and services that are sent back to their environments where customers buy them.

**EXHIBIT 1.6**

### An Open System View of Organizational Behavior





**ORGANIZATIONAL  
PROCEDURE**

A rule or routine an employee follows to perform some task in the most effective way.

The activities of most organizations can be modeled using the open-systems view. At the *input stage*, companies such as Ford, General Electric, Ralph Lauren, Xerox, and Trader Joe's acquire resources such as raw materials, component parts, skilled employees, robots, and computer-controlled manufacturing equipment. The challenge is to create a set of organizational behaviors or procedures that allow employees to identify and purchase high-quality resources at a favorable price. An **organizational procedure** is a behavioral rule or routine an employee follows to perform some task in the most effective way.

Once the organization has gathered the necessary resources, conversion begins. At the *conversion stage*, the organization's workforce—using appropriate skills, tools, techniques, machinery, and equipment—transforms the inputs into outputs of finished goods and services such as cars, appliances, clothing, and copiers. The challenge is to develop the set of behaviors and procedures that results in high-quality goods and services produced at the lowest possible cost.

At the *output stage*, the organization releases finished goods and services to its external environment where customers purchase and use them to satisfy their needs. The challenge is to develop the set of behaviors and procedures that attract customers to a company's products and who come to believe in the value of a company's goods and services and thus become loyal customers. The money the organization obtains from the sales of its outputs to customers allows the organization to acquire more resources so that the cycle can begin again.

The system just described is said to be open because the organization continuously interacts with the external environment to secure resources to make its products and then to dispose of its products or outputs by selling them to customers. Only by continually altering and improving its work behaviors and operating procedures to respond to changing environmental forces can an organization adapt and prosper over time. Organizations that fail to recognize the many changing forces in the environment lose their ability to acquire resources and sell products, so they often disintegrate and disappear over time.

In the next sections, we introduce the four major OB challenges resulting from a changing environment that confront people who work in companies and organizations today. We then examine these challenges in more depth throughout the rest of the book to reveal the many dramatic ways in which managers can use constantly improving OB tools and procedures to allow organizations to adapt, change, and prosper.

## Challenge 1: The Changing Social and Cultural Environment

Forces in the social and cultural environment are those that are due to changes in the way people live and work—changes in values, attitudes, and beliefs brought about by changes in a nation's culture and the characteristics of its people. **National culture** is the set of values or beliefs that a society considers important and the norms of behavior that are approved or sanctioned in that society. Over time, the culture of a nation changes, and this affects the values and beliefs of its members. In the United States, for example, beliefs about the roles and rights of women, minorities, gays, and the disabled—as well as feelings about love, sex, marriage, war, and work—have all changed in each passing decade.

Organizations must be responsive to the changes that take place in a society because they affect all aspects of their operations. Change affects their hiring and promotion practices, for one, as well as the types of organizational behaviors and procedures considered as appropriate in the work setting. For example, in the last 10 years, the number of women and minorities assuming managerial positions in the workforce has increased by over 25 percent. As we discuss in detail in later chapters, organizations have made many significant changes to their organizational rules and procedures to prevent employees from discriminating against others because of factors such as age, gender, or ethnicity, and to work to prevent sexual harassment. Two important challenges facing OB today are those that derive from a breakdown in ethical values and from the increasing diversity of the workforce.

### Developing Organizational Ethics and Well-Being

Over the last decade, major ethical scandals have plagued hundreds of U.S. companies such as Lehman brothers, Countryside Mortgage, WorldCom, Tyco, and Enron whose top managers put personal gain ahead of their responsibility toward their employees, customers, and investors.

**NATIONAL CULTURE**

The set of values or beliefs that a society considers important and the norms of behavior that are approved or sanctioned in that society.

**ETHICS**

The values, beliefs, and moral rules that managers and employees should use to analyze or interpret a situation and then decide what is the “right” or appropriate way to behave.

**ETHICAL DILEMMA**

The quandary managers experience when they have to decide if they should act in a way that might benefit other people or groups, and is the “right” thing to do, even though doing so might go against their own and their organization’s interests.

**WELL-BEING**

The condition of being happy, healthy, and prosperous.

**SOCIAL RESPONSIBILITY**

An organization’s obligations toward people or groups directly affected by its actions.

Many of these companies’ stock prices collapsed and they have been absorbed into other companies, but ordinary Americans have seen the value of their pension plans and investments plunge in value as a result of the financial crises caused by their managers’ unethical behavior. In light of these scandals, the effect of ethics—an important component of a nation’s social and cultural values—on the behavior of organizations and their members has increasingly taken center stage.<sup>7</sup>

An organization’s **ethics** are the values, beliefs, and moral rules that its managers and employees should use to analyze or interpret a situation and then decide what is the “right” or appropriate way to behave to solve an ethical dilemma.<sup>8</sup> An **ethical dilemma** is the quandary managers experience when they have to decide if they should act in a way that might benefit other people or groups, and that is the “right” thing to do, even though doing so might go against their own and their organization’s interests. An ethical dilemma may also arise when a manager has to decide between two different courses of action, knowing that whichever course chosen will inevitably result in harm to one person or group even while it may benefit another. The ethical dilemma here is to decide which course of action is the “lesser of two evils.”

Managers and employees know they are confronting an ethical dilemma when their moral scruples come into play and cause them to hesitate, debate, and reflect upon the “rightness” or “goodness” of a course of action. The ethical problem is to decide how a particular decision or action will help or harm people or groups—both inside and outside the organization—who will be affected by it.<sup>9</sup> Ethical organizational behavior is important because it can enhance or reduce the **well-being**—that is, the happiness, health, and prosperity—of a nation and its citizens in several ways.<sup>10</sup>

First, ethics help managers establish the goals that their organizations should pursue and the way in which people inside organizations should behave to achieve them.<sup>11</sup> For example, one goal of an organization is to make a profit so that it can pay the managers, employees, suppliers, shareholders, and others who have contributed their skills and resources to the company. Ethics specify what actions an organization should take to make a profit. Should an organization be allowed to harm its competitors by stealing away their skilled employees or by preventing them from obtaining access to vital inputs? Should an organization be allowed to produce inferior goods that may endanger the safety of customers? Should an organization be allowed to take away the jobs of U.S. employees and transfer them overseas to employees in countries where wages are \$5 per day? What limits should be put on organizations’ and their managers’ attempts to make a profit? And who should determine those limits?<sup>12</sup> For example, Apple’s 2010 ethics report revealed that sweatshop conditions still existed in over 55 of the 102 factories it uses abroad to assemble its products which had ignored its rule that workers cannot work more than 60 hours a week. Apple is continuing its efforts to reduce these abuses, so it is publically defining its ethical position.<sup>13</sup>

The devastating effect of a lack of organizational ethics is illustrated by the behavior of the company Metabolife International that made and sold the drug Ephedra, which used to be a widely used supplement taken for weight loss or body-building purposes. Although fears about this drug’s side effects had been around for years, Metabolife resisted attempts by the Food and Drug Administration (FDA) to obtain a list of customer reports about the effects they had experienced from using its pills. After being threatened with a criminal investigation, Metabolife released over 16,000 customer reports about its Ephedra products that listed nearly 2,000 adverse reactions including 3 deaths, 20 heart attacks, 24 strokes, and 40 seizures.<sup>14</sup> Metabolife did not have to reveal this negative information about its products’ side effects because no laws existed to force supplement makers to do so, although pharmaceutical companies are governed by laws that require them to reveal side effects. Its actions might have been legal but they were unethical, and those who had suffered adverse reactions from using its pills began to sue the company and win large settlements.<sup>15</sup> A national lobbying campaign began to ban Ephedra from the market, and the FDA eventually banned the drug.

In addition to defining right and wrong behavior for employees, ethics also define an organization’s **social responsibility**, or its obligations and duty toward people or groups outside the organization that are affected by its actions.<sup>16</sup> Organizations and their managers must establish an ethical code and standards that describe acceptable behaviors, and they must create a system of rewards and punishments to enforce this ethical code.

Different organizations have different views about social responsibility.<sup>17</sup> To some organizations, being socially responsible means performing any action as long as it is legal. Other organizations do more than the law requires and work to advance the well-being of their employees, customers, and society in general.<sup>18</sup> Target, UPS, and Ben & Jerry’s, for example, each contribute

a percentage of their profits to support charities and community needs and expect their employees to be socially active and responsible. Starbucks and Green Mountain Coffee Roasters seek out coffee-growing farmers and cooperatives that (1) do not use herbicides and pesticides on their crops, (2) control soil erosion, and (3) treat their employees fairly and with respect in terms of safety and benefits. Starbucks also signs contracts with small coffee growers abroad to ensure they receive a fair price for their coffee crop, even if world prices for coffee plunge—they want their growers to remain honest and loyal.

Not all organizations are willing or able to undertake such programs, but all organizations need codes of conduct that spell out fair and equitable behavior if they want to avoid doing harm to people and other organizations. Developing a code of ethical standards helps organizations protect their reputations and maintain the goodwill of their customers and employees. Today, most companies are strengthening their ethical standards, and employees at all levels have to sign off that they understand and will abide by them. For example, the Sarbanes-Oxley Act requires that the CEO and chief financial officer (CFO) personally sign their company's financial reports to affirm that they are a true and accurate account of its performance.<sup>19</sup>

The challenge is to create an organization whose members resist the temptation to behave in illegal and unethical ways that promote their own interests at the expense of the organization or promote the organization's interests at the expense of people and groups outside the organization. Employees and managers have to recognize that their behavior has important effects not only on other people and groups inside and outside the organization but also on the organization itself.<sup>20</sup> The well-being of organizations and the well-being of the society of which they are a part are closely linked and are the responsibility of everyone.<sup>21</sup> (How to create an ethical organization is an issue that we discuss throughout the text.) With this in mind, take a look at the ethical exercise in "A Question of Ethics," found in *Exercises in Understanding and Managing Organizational Behavior*, a collection of experiential exercises located at the end of every chapter of this book. For an example of the way unethical behavior can destroy an organization, consider the actions of the CEO of the meat-packing plant discussed in the following Ethics in Action box.

## ETHICS IN ACTION

### How Unethical Behavior Shut Down a Meat-packing Plant

By all appearances, the Westland/ Hallmark Meat Co. based in Chico, California, was considered an efficient and sanitary meat-packing plant. Under the control of its owner and CEO, Steven Mendell, the plant regularly passed inspections by the U.S. Department of Agriculture (USDA). Over 200 workers were employed to slaughter cattle and prepare the beef for shipment to fast-food restaurants such as Burger King and Taco Bell. Also, millions of pounds of meat the plant produced yearly was delivered under contract to one of the federal government's most coveted accounts: the National School Lunch Program.<sup>22</sup>

So, when the Humane Society turned over a videotape, secretly filmed by one of its investigators who had taken a job as a plant employee, to the San Bernardino County District Attorney that showed major violations of health procedures, this caused an uproar. The videotape showed two workers dragging sick cows up the ramp that led to the slaughterhouse using metal chains and forklifts, and shocking them with electric prods and shooting streams of water in their noses and faces. Not only did the tape show inhumane treatment of animals, it also provided evidence that the company was flaunting the ban on allowing sick animals to enter the food supply chain—something that federal regulations explicitly outlaw because of fears for human health and safety.

Once the USDA was informed that potentially contaminated beef products had entered the supply chain—especially the one to the nation's schools—it issued a notice for the recall of the 143 million pounds of beef processed in the plant over the last



Steven Mendell watches a video of cattle being ill-treated at his slaughterhouse while he testifies before the House Energy and Commerce Committee on Capitol Hill. The largest ground beef recall in U.S. history was announced after hidden video was released of cattle being slaughtered under unethical and illegal conditions. The recall involved 143 million pounds of ground beef, some of which was used in school lunch programs.

2 years—the largest recall in history. In addition, the plant was shut down as the investigation proceeded. CEO Steven Mendell was subpoenaed to appear before the House Panel on Energy and Commerce Committee. He denied that these violations had taken place and that diseased cows had entered the food chain. However, when panel members demanded that he view the videotape he claimed he had not seen (even though it was widely available), he was forced to acknowledge that “two cows” had entered the plant and inhumane treatment of animals had occurred.<sup>23</sup> Moreover, federal investigators turned up evidence that as early as 1996 the plant had been cited for overuse of electric prods to speed cattle through the plant and had been cited for other violations since, suggesting that these abuses had been going on for a long period. This opinion strengthened when one of the workers shown in the videotape claimed that he had just been “following orders from his supervisor” and workers were under pressure to process 500 cows a day so the plant could meet its output goal and allow its owner to enjoy the high profits the meat-packing business provides.

Not only consumers and schoolchildren have been harmed by these unethical actions—the plant itself was permanently shut down, and all 220 workers lost their jobs. In addition, the employees directly implicated in the video were prosecuted and one, who pleaded guilty to animal abuse, was convicted and sentenced to 6 months imprisonment.<sup>24</sup> Clearly, all the people and groups connected to the meat-packing plant have suffered from its unethical and inhumane organizational behaviors and practices.

## DIVERSITY

Individual differences resulting from age, gender, race, ethnicity, religion, sexual orientation, and socioeconomic background.

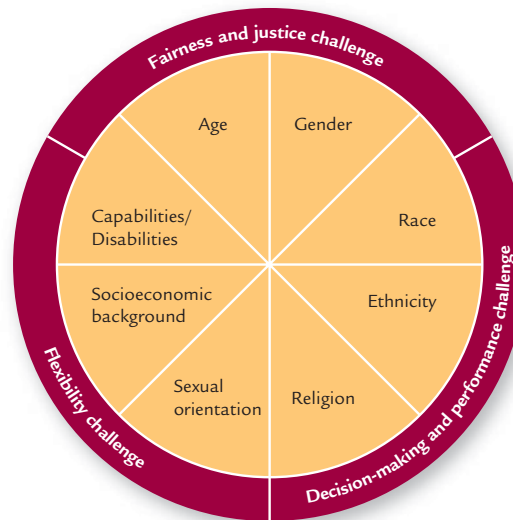
## Dealing with a Diverse Workforce

A second social and cultural challenge is to understand how the diversity of a workforce affects OB. **Diversity** results from differences in age, gender, race, ethnicity, religion, sexual orientation, socioeconomic background, and capabilities or disabilities. If an organization or group is composed of people who are all of the same gender, ethnicity, age, religion, and so on, the attitudes and behavior of its members are likely to be very similar. Members are likely to share the same attitudes or values and will tend to respond to work situations (projects, conflicts, new tasks) in similar ways. By contrast, if the members of a group differ in age, ethnicity, and other characteristics, their attitudes, behavior, and responses are likely to differ as well.

In the last 20 years, the demographic makeup of employees entering the workforce and advancing to higher-level positions in organizations has been changing rapidly. For example, the percentage of African-American, Hispanic, Asian, and female employees has steadily increased through the 2000s as the U.S. labor force has also increased in size; these employees are also reaching higher levels in organizations. However, they are still underrepresented and paid less than comparable white male employees who still comprise the largest group of U.S. employees.<sup>25</sup> Finally, because of increased globalization, the diversity of the U.S. population is increasing because of the large numbers of people born in other nations who immigrate to the United States to live and work.

The increasing diversity of the workforce presents three challenges for organizations and their managers: a fairness and justice challenge, a decision-making and performance challenge, and a flexibility challenge (see Exhibit 1.7).

**FAIRNESS AND JUSTICE CHALLENGE** Jobs in organizations are a scarce resource, and obtaining jobs and being promoted to a higher-level job is a competitive process. Managers are challenged to allocate jobs, promotions, and rewards in a fair and equitable manner. As diversity increases, achieving fairness can be difficult because many organizations have traditionally appointed white-male employees to higher organizational positions but today all kinds of diverse employees must be judged by the same equitable and unbiased criteria if companies are to avoid

**EXHIBIT 1.7****The Challenge Posed by Diverse Workplace**

employment lawsuits that have cost companies such as Walmart hundreds of millions of dollars.<sup>26</sup> Increasing diversity can strain an organization's ability to satisfy the aspirations of all the diverse groups in its workforce—and this can create problems that, in turn, affect the well-being of employees and organizational performance. Deciding how to promote diversity to increase employee well-being and organizational performance poses difficult ethical problems for managers.

**DECISION-MAKING AND PERFORMANCE CHALLENGE** Another important challenge posed by a diverse workforce is how to take advantage of differences in the attitudes and perspectives of people of different ages, genders, or races, in order to improve decision making and raise organizational performance.<sup>27</sup> Many organizations have found that tapping into diversity and taking advantage of the potential of diverse employees, leads to new and improved OBs and procedures.<sup>28</sup> Accenture, the global management consulting company, provides an example of one company that has enjoyed huge success because of the way it has developed an approach to diversity that reflects the needs of its employees, customers, and its environment.<sup>29</sup>

Accenture serves the IT needs of thousands of client companies located in over 120 countries around the world. A major driving force behind Accenture's core organizational vision is to manage and promote diversity in order to improve employee performance and client satisfaction. At Accenture, managers at all levels realize that its highly diverse consultants bring distinct experiences, talents, and values to their work, and a major management initiative is to take advantage of that diversity to improve the service Accenture provides to each of its global clients. Because Accenture's clients are also diverse by country, religion, ethnicity, and so forth, it tries to match its teams of consultants to the attributes of its diverse clients.

Accenture provides hundreds of diversity management training programs to its consultants each year using its 13 teams of global human capital and diversity experts who collaborate to create its programs. Accenture also encourages each of its consultants to pursue opportunities to "work across different geographies, workforces, and generations to create agile global leaders."<sup>30</sup> In 2010, one-third of its global workforce was composed of women, who also hold 16 percent of its management positions at all levels. Accenture chooses to buy from suppliers who can also demonstrate their commitment to diversity and in 2010 nearly \$300 million or 15 percent of Accenture's purchasing came from small minority- or women-owned suppliers. The firm also provides diversity training programs to its suppliers and prospective suppliers around the world to show them how diversity can increase their efficiency and effectiveness. In all these ways, Accenture uses its expertise in managing diversity to promote individual and organizational performance—one reason it has become the most successful and fast-growing consultancy company in the world. Takahiro Moriguchi, when CEO of Union Bank of California has a similar philosophy, as he eloquently said when accepting a diversity award for



his company, “By searching for talent from among the disabled, both genders, veterans, all ethnic groups, and all nationalities, we gain access to a pool of ideas, energy, and creativity as wide and varied as the human race itself. I expect diversity will become even more important as the world gradually becomes a truly global marketplace.”<sup>31</sup>

**FLEXIBILITY CHALLENGE** A third diversity challenge is to be sensitive to the needs of different kinds of employees and to try to develop flexible employment approaches that increase employee well-being. Examples of some of these approaches include the following:

- New benefits packages customized to the needs of different groups of employees such as single employees with no children and families, gays and lesbians in long-term committed relationships, and employees caring for aged parents or disabled children
- Flexible employment conditions (such as flextime or working from home) that give employees input into the length and scheduling of their workweek
- Arrangements that allow for job sharing so that two or more employees can share the same job (to take care of children or aged parents, for example)
- Designing jobs and the buildings that house organizations to be sensitive to the special needs of handicapped employees (and customers)
- Creating management programs designed to provide constructive feedback to employees about their personal styles of dealing with minority employees
- Establishing mentoring relationships to support minority employees
- Establishing informal networks among minority employees to provide social support

Managing diversity is an ongoing activity that has many important implications for organizations. We discuss diversity in depth in Chapter 4.

## Challenge 2: The Evolving Global Environment

### GLOBAL ORGANIZATIONS

Companies that produce or sell their products in countries and regions throughout the world.

The challenge of responding to social and cultural forces increases as organizations expand their operations globally and set up international operations in countries throughout the world. **Global organizations**, like GM, Toyota, Xerox, Nokia, PepsiCo, and Sony, are companies that produce or sell their products in countries and regions throughout the world. Each country has a different national culture, and so when they expand their operations abroad global organizations encounter much greater differences in social and cultural values, beliefs, and attitudes. They therefore face the increased challenge of dealing with ethical and diversity-related issues across countries and national boundaries.<sup>32</sup> Two important challenges facing global organizations are to appreciate the differences that exist between countries and then to benefit from this new global knowledge to find ways to improve organizational behavior.<sup>33</sup>

### Understanding Global Differences

Companies must learn about many different kinds of factors when they operate globally.<sup>34</sup> First, there are the considerable problems of understanding OB in different global settings.<sup>35</sup> Evidence suggests that people in different countries have different values, beliefs, and attitudes about the value of the jobs they perform and the organizations they work for. For example, U.S. employees have an individualistic orientation toward work while Japanese employees have a collectivist orientation and this cultural difference affects employees’ personal work behavior, their behavior in groups, and their commitment and loyalty to an organization.

OB becomes especially complex at a global level because the attitudes, aspirations, and values of the workforce differ by country. For example, most U.S. employees are astonished to learn that in Europe the average employee receives from 4 to 6 weeks paid vacation a year. In the United States, a comparable employee receives only 1 or 2 weeks. Similarly, in some countries, promotion by seniority is the norm, but in others, level of performance is the main determinant of promotion and reward. Understanding the differences between national cultures is important in any attempt to manage behavior in a global organization.

Second, problems of coordinating the activities of an organization to match its environment become much more complex as an organization’s activities expand across the globe.<sup>36</sup> Decision making, for example, must be coordinated between managers at home and abroad—each of whom are likely to have different views about what goals and strategies their organization should pursue. One of the most important organizing tasks of global

managers is to decide how to allocate decision-making authority and responsibility between managers at home and abroad.

Third, in many cases global organizations locate in a particular country abroad because this allows them to reduce operating costs and operate more effectively—but by doing so, this also can affect their domestic operations in important ways. In the 2000s, for example, the need to reduce the costs of making and selling goods to stay competitive with companies abroad has pushed many U.S. companies to make their products abroad, that is, to outsource production. Outsourcing occurs when a company contracts with manufacturers in countries where labor costs are low to make their products; these products are then shipped back to the U.S. for sale. In the last decade, over 10 million jobs have been lost in the U.S. garment-making industry as clothing companies have outsourced manufacturing to companies in China, Honduras, Thailand, and so on. Companies like Levi Strauss, which made all their clothing in the United States 20 years ago, now outsource virtually all their clothing to companies abroad in order to reduce costs and remain competitive. The way IKEA successfully met all these challenges by developing a set of consistent global organizational behaviors and procedures is discussed in the following Global View.

## GLOBAL VIEW

### IKEA's Worldwide Approach to OB

IKEA is the largest furniture chain in the world, and in 2010 the Swedish company operated over 267 stores in 25 countries.<sup>37</sup> In 2009, IKEA sales soared to \$33 billion, over 20 percent of the global furniture market, but to its managers and employees this was just the tip of the iceberg. They believe IKEA is poised for massive growth throughout the world in the coming decade because it can provide what the average customer wants: well-designed contemporary furniture at an affordable price. IKEA's ability to provide customers with affordable furniture is very much the result of its approach to OB, that is, to the way it treats its employees and operates its global store empire. IKEA's approach revolves around simplicity, attention to detail, cost-cutting, and customer responsiveness in creating every aspect of its organizational behaviors and procedures.

The origins of IKEA's successful approach derive from the personal values and beliefs of its founder Ingvar Kamprad, concerning how organizations should treat their employees and customers.<sup>38</sup> Kamprad, who is in his early eighties, (and in 2010 ranked as the 11th richest person in the world), was born in Smaland, a poor Swedish province whose citizens are well known for being entrepreneurial, frugal, and hard working. Kamprad absorbed these values, for when he entered the furniture business, he made them the core of his approach to OB. He teaches store managers and employees his values; his beliefs about the need to operate in a no-frills, cost-

conscious way; and, that they are all in business “together,” by which he means that every person in his company plays an essential role and has an obligation to everyone else.

What does Kamprad's frugal, cost-conscious approach mean in practice? All IKEA's members fly coach class on business, stay in inexpensive hotels, and work to keep traveling expenses to a minimum. And, IKEA stores operate on the simplest set of behavioral rules and procedures possible, and employees are expected to work together to solve problems on an ongoing basis to get the job done. Many famous stories exist about how



AP Wide World Photos

*Ingvar Kamprad, founder and CEO of IKEA, whose enthusiasm for managing his company and working with IKEA's associates to provide excellent customer service has never waned. Today, he is one of the richest people in the world.*

the frugal Kamprad always flies coach class and, when he takes a coke can from the mini-bar in a hotel room, he replaces it with one bought in a store.

IKEA's employees see what his approach to OB means as soon as they are recruited to work in one of its stores. Starting at the bottom of the ladder, they are quickly trained to perform all the various jobs involved in operating the stores. They also learn the importance IKEA attaches to learning to take the initiative and responsibility for solving problems and for focusing on the customer. Employees are rotated between departments and sometimes stores, and rapid promotion is possible for those who demonstrate the enthusiasm and togetherness that signifies they have bought into IKEA's approach. Most of IKEA's managers rose from its ranks and, to make sure top executives are constantly in touch with stores, IKEA holds "breaking the bureaucracy weeks" when they are required to work in stores and warehouses for a week each year. Everyone wears informal clothes to work at IKEA, Kamprad has always worn an open-neck shirt, and there are no marks of status such as executive dining rooms or private parking places.

All employees believe that if they buy into IKEA's work values and behave in ways that will keep its operations simple and streamlined, and if they focus on being one step ahead of potential problems, that they will share in its success. Promotion, training, above-average pay, a generous store-bonus system, and the personal well-being that comes from working in a place where people are valued by their coworkers are some of the rewards Kamprad pioneered to build and strengthen IKEA's global OB approach.

Whenever IKEA enters a new country, or opens a new store in a new city, it sends its most experienced store managers to establish its global OB approach in its new stores. When IKEA first entered the United States, the attitude of U.S. employees puzzled its managers. Despite their obvious drive to succeed and good education, employees seemed reluctant to take the initiative and assume responsibility. IKEA's managers discovered that their U.S. employees were afraid mistakes would result in the loss of their jobs, so they strived to teach employees the "IKEA way" and its approach to OB has prevailed. The United States has become its second-best country market, and IKEA plans to open many more U.S. stores over the next decade.<sup>39</sup>

## Global Learning

Although the changing global environment has been a major threat to U.S. organizations and workers, it also offers them many opportunities to improve the ways they operate. By fostering **global learning**—the process of acquiring and learning the skills, knowledge, and OBs and procedures that have helped companies abroad become major global competitors—U.S. companies have also prospered.<sup>40</sup> For example, U.S. companies have been able to gain access to many kinds of valuable resources present in companies abroad. Ford and GM have bought the design skills of Italian companies like Ferrari and Lamborghini, electronic components from Japanese companies like NEC and Matsushita (well known for their quality), and machine tools and manufacturing equipment from German companies like Daimler and BASF (well known for their excellent engineering skills). Through global learning, companies also learn how to better serve the needs of their customers and of course they can attract more customers for their goods and services. For example, the potential size of the U.S. market for hamburgers is 335 million people, but there are 3 billion potential burger-eaters in Asia alone. Thus, it is not surprising that McDonald's has expanded globally, opening restaurants throughout Asia and the rest of the world in order to take advantage of the huge global appetite for hamburgers, french fries, and milk shakes.<sup>41</sup>

To respond to the global challenge, more and more companies are rotating their employees and moving them to their overseas operations so they can learn firsthand the problems and opportunities that arise when working in countries overseas. **Expatriate managers** are those who live and work for companies in countries abroad. There are many ways they can help their companies develop improved OBs and procedures. First, expatriate managers can learn about the sources of low-cost inputs and the best places to assemble their products throughout the world. Second, expatriate managers in functions such as research and development, manufacturing, and sales can take advantage of their presence in a foreign country to learn the skills and techniques used by that country's companies. They can apply this knowledge to improve the

## GLOBAL LEARNING

The process of acquiring and learning the skills, knowledge, and organizational behaviors and procedures that have helped companies abroad become major global competitors.

## EXPATRIATE MANAGERS

The people who work for a company overseas and are responsible for developing relationships with organizations in countries around the globe.



performance not only of their operations abroad but also of their domestic or home operations. Many companies also use global virtual teams to increase global learning.<sup>42</sup>

After World War II, for example, many of Toyota's manufacturing managers visited the U.S. car plants of GM and Ford to learn how these companies assembled cars. Those Japanese managers took that manufacturing knowledge back to Japan and then improved on these techniques and developed the lean manufacturing technology that gave Toyota and other Japanese automakers their competitive advantage over U.S. companies in the 1990s. But, recognizing the lead Japanese companies had gained in quality manufacturing techniques, GM, Ford, Xerox, and many other U.S. companies sent their managers to Japan to learn about the new techniques. These U.S. companies then incorporated the Japanese techniques into their manufacturing operations, often improving on them in the process, so that in the 2000s companies like Ford and Xerox have substantially narrowed the efficiency gap. In this way, global learning continually takes place as global organizations compete with one another worldwide for customers. Organizational effectiveness and peoples' well-being increases because all global companies must learn how to apply recent advances in technology and adopt the best organizational behaviors and procedures if they are to survive and prosper—especially after the latest economic recession.

### Global Crisis Management

Today, global learning is also important to tackle another challenging issue: global crisis management. Extensive global learning allows for more effective responses to the increasing number of crises or disasters that are occurring from natural or manmade causes or because of international terrorism and geopolitical conflicts. Crises that arise because of natural causes include the wave of hurricanes, tsunamis, earthquakes, famines, and diseases that have devastated so many countries in the 2000s—hardly any country has been left untouched by their effects. Manmade crises, such as those that are the result of global warming, pollution, and the destruction of the natural habitat or environment, also seem to be increasing. For example, pollution has become an increasingly important problem for companies and countries to deal with, for example, the BP oil disaster due to the explosion of the Deepwater Horizon drilling rig in the Gulf of Mexico in 2010. Companies in heavy industries such as coal and steel have polluted millions of acres of land around major cities in Eastern Europe and Asia, and huge cleanups are necessary. Disasters such as the Chernobyl nuclear power plant meltdown released over 1,540 times as much radiation into the air as occurred at Hiroshima, and over 50,000 people have died from this while hundreds of thousands more have been affected.<sup>43</sup> The need to avoid crises of this kind is of paramount importance.

Manmade crises, such as global warming due to emissions of carbon dioxide and other gases, may have made the effects of natural disasters more serious. For example, increasing

*Relief efforts at the former Deepwater Horizon oil drilling platform site where an explosion led to the biggest oil spill in history in 2010. So far, the effects of the oil spill on the natural environment have yet to be seen.*



Dwaine Scott/AP Wide World Photos

global temperatures and acid rain may have increased the intensity of hurricanes; led to unusually strong rains and lengthy droughts; and caused the destruction of coral reefs, forests, and the natural habitat in many parts of the world. The shrinking polar icecaps are expected to raise the sea level by a few, but vital, inches.

Finally, increasing geopolitical tensions that are the result of the speed of the process of globalization have upset the global balance of power as different countries or world regions try to protect their own economic and political interests. Rising oil prices, for example, have strengthened the bargaining power of major oil-supplying countries, which has led the United States to adopt global political strategies, including its war on terrorism, to secure the supply of oil that is vital to protect the national interest. In a similar way, countries in Europe have been forming contracts and allying with Russia to obtain its supply of natural gas as Japan and China have been negotiating with Iran and Saudi Arabia.

OB has an important role to play in helping people and organizations respond to such crises, for it provides lessons as to how to manage and organize the resources needed to respond to a crisis. As we discuss in later chapters, crisis management involves important decisions such as (1) creating teams to facilitate rapid decision making and communication, (2) establishing the organizational chain of command and reporting relationships necessary to mobilize a fast response, (3) recruiting and selecting the right people to lead and work in such teams, and (4) developing bargaining and negotiating strategies to manage the conflicts that arise whenever people and groups have different interests and objectives. How well managers make these decisions determines how quickly an effective response to a crisis can be implemented and sometimes can prevent or reduce the severity of the crisis itself.

### Challenge 3: Advancing Information Technology

One kind of technology that poses a major challenge for organizations today is information technology (IT). Just decades ago, science fiction writers like Robert Heinlein and Isaac Asimov imagined devices such as wrist-held videophones, virtual reality machines, and speech-programmed, hand-held computers. Today, companies like Apple, Palm, HP, Nokia, Sony, and Microsoft are offering these devices to their customers. Even science fiction writers did not imagine the development of the **World Wide Web (WWW)**, a global store of information that contains the products of most kinds of human knowledge such as writing, music, and art. Such knowledge can be accessed and enjoyed by anyone connected to the global network of interlinked computers that is the **Internet**. We live in a different world than just a mere decade ago; advances in IT have changed the way people think and the very nature of OB. To understand how IT has changed OB and the way companies operate it is necessary to understand the concept of information.

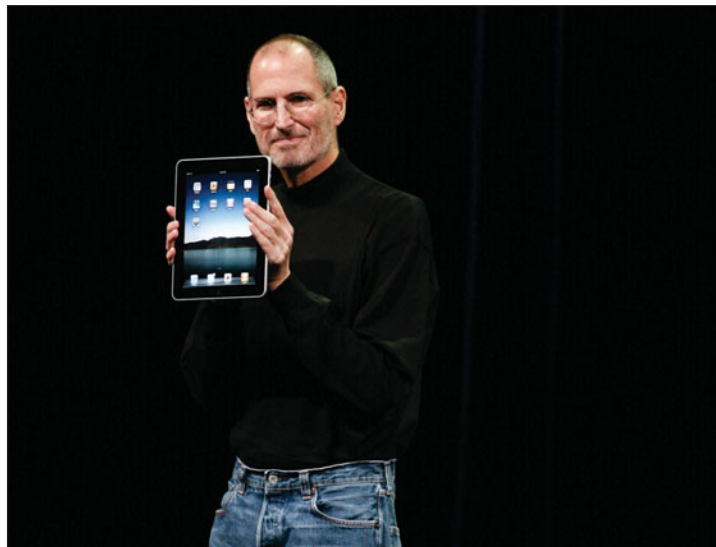
#### WORLD WIDE WEB

A global store of information that contains the products of most kinds of human knowledge such as writing, music, and art.

#### INTERNET

The global network of interlinked computers.

*What was once science fiction is now becoming science fact. Apple Inc. CEO Steve Jobs announces Apple's latest creation, the iPad, a mobile tablet browsing device that is a cross between the iPhone and a MacBook laptop.*



Ryan Anson/Getty Images, Inc. AFP

**INFORMATION**

A set of data, facts, numbers, and words that has been organized in such a way that it provides its users with knowledge.

**KNOWLEDGE**

What a person perceives, recognizes, identifies, or discovers from analyzing data and information.

**INFORMATION TECHNOLOGY**

The many different kinds of computer and communications hardware and software, and the skills of their designers, programmers, managers, and technicians.

**ORGANIZATIONAL LEARNING**

The process of managing information and knowledge to achieve a better fit between the organization and its environment.

**INTRANETS**

A network of information technology linkages inside an organization that connects all its members.

Suppose you add up the value of the coins in your pocket and find you have \$1.36 in change. You have been manipulating basic data, the numerical value of each individual coin, to obtain information, the total value of your change. You did so because you needed to know, for example, if you have enough change to buy a coke and a candy bar. **Information** is a set of data, facts, numbers, and words that has been organized in such a way that they provide their users with knowledge. **Knowledge** is what a person perceives, recognizes, identifies, or discovers from analyzing data and information. Over time, the result of acquiring more and better information and knowledge is learning. In an organization, the issue is to use and develop IT that allows employees to acquire more and better information that increases an organization's ability to respond to its environment.

**Information technology (IT)** is the many different kinds of computer and communications hardware and software and the skills of their designers, programmers, managers, and technicians. IT is used to acquire, define, input, arrange, organize, manipulate, store, and transmit facts, data, and information to create knowledge and promote organizational learning. **Organizational learning** occurs when its members can manage information and knowledge to achieve a better fit between the organization and its environment. In the following, we examine the effect IT has on two important kinds of OB. First, those behaviors that increase effectiveness by helping an organization improve the quality of its products and lower their cost. Second, those behaviors that increase effectiveness by promoting creativity and organizational learning and innovation.

**IT and Organizational Effectiveness**

The Internet and the growth of **intranets**—a network of information technology linkages inside an organization that connects all its members—dramatically changed OB and procedures. With information more accurate, plentiful, and freely available, IT allows for the easy exchange of know-how and facilitates problem solving.<sup>44</sup> And as computers increasingly take over routine work tasks, employees have more time to engage in constructive, work-expanding kinds of activities such as finding better ways of performing a task or providing customers better service.<sup>45</sup>

IT has allowed organizations to become much more responsive to the needs of their customers—as at Xerox, discussed in the Opening Case. Similarly, organizations like retail stores, banks, and hospitals depend entirely on their employees performing behaviors that result in high-quality service at reasonable cost. And, as the United States has moved to a service-based economy (in part because of the loss from manufacturing jobs going abroad), advances in IT have made many kinds of service organizations more effective. Developing IT has also opened new opportunities for entrepreneurs to found small dot.com's to better satisfy customers.

Finally, inside companies, integrating and connecting an organization's employees around the world through electronic means such as video teleconferencing, e-mail, and intranets, is becoming increasingly important—especially as smartphones become ever more sophisticated and capable of videoconferencing between their users. Because the success of a global company depends on communication between employees in its various business operations both at home and abroad, the importance of real-time communication through the use of personal digital assistants such as smartphones and tablet PCs such as Apple's iPhones and iPad and Google's Android-based devices available from an increasing number of companies has increased enormously. For example, teleconferencing (especially through smartphones) allows managers in different countries to meet face-to-face through broadband hookups. It reduces communication problems, allows decisions to be made quickly, and facilitates learning when managers in domestic and overseas divisions must work together to solve mutual problems.

**IT, Creativity, and Organizational Learning**

Today, using new IT to help employees, individually and in groups, to be creative and enhance organizational innovation and learning is a major challenge. *Creativity* is the generation of novel and useful ideas. One of its outcomes is *innovation*, an organization's ability to make new or improved goods and services or improvements in the way they are produced. The United States is home to some of the most innovative companies in the world, and innovation is the direct result or outcome of the level of creativity in an organization.

IT plays a major role in fostering creativity and innovation because it changes OBs and procedures. Innovation is an activity that requires constant updating of knowledge and a constant search

for new ideas and technological developments that can be used to improve a product over time. Typically, innovation takes place in small groups or teams and IT can be used to create virtual teams that can enhance creativity and cooperation between employees. Developing an IT system that allows scientists and engineers from all parts of a company to cooperate by way of bulletin boards, chatrooms, or teleconferencing is also a way to use IT to speed creativity and innovation. One good example of a company using IT to promote creativity and innovation is IBM.

IBM's thousands of consultants are experts in particular industries such as the automotive, financial services, or retail industries. They have a deep understanding of the particular problems facing companies in those industries and how to solve them. Palmisano asked IBM's consultants to work closely with its software engineers to find ways to incorporate their knowledge into advanced software that can be implanted into a customer's IT system. IBM has developed 17 industry "expert systems," which are industry-specific, problem-solving software organizations that researchers and scientists can use to improve their abilities to innovate new products. One of these expert systems was developed in the pharmaceutical industry. Using IBM's new software, a company can use IBM's expert system to simulate and model the potential success of its new drugs under development. Currently only 5–10 percent of new drugs make it to the market; IBM's new software will increase scientists' ability to develop innovative new drugs, for they will now know better where to focus their time and effort.

As this example suggests, there are many, many ways in which IT can be used at all levels in the organization, between departments, and between its global divisions to enhance learning, speed decision making, and promote creativity and innovation. Throughout this book, you will find many more examples of the importance of facilitating learning and creativity in OB today.

## Challenge 4: Shifting Work and Employment Relationships

In the last few decades, the relationship between an organization and its members has been changing because of increasing globalization and the emergence of new information technologies.<sup>46</sup> The effects of these changes on OB have taken many forms, and important developments include a shortening employment relationship because of downsizing, the growth in the number of contingent or temporary employees, and outsourcing.<sup>47</sup>

In the past, it was quite common for many people to spend their whole careers at a large company like IBM, Microsoft, or Ford, often moving up the organizational hierarchy over time to higher seniority and better-paying jobs. Throughout the 2000s, most companies have been pressured by global competition to find ways to reduce operating costs and the result has been that tens of millions of employees have found themselves laid off by their companies and forced to search for new jobs.

**Downsizing** is the process by which organizations lay off managers and workers to reduce costs. The size and scope of these downsizing efforts have been enormous. It is estimated that, in the last few decades, Fortune 500 companies have downsized so much that they now employ about 15–20 percent fewer employees than they used to. The drive to reduce costs is often a response to increasing competitive pressures in the global environment.<sup>48</sup> While companies often realize considerable cost savings by downsizing, the remaining employees in downsized organizations often work under stress, both because they fear they might be the next employees to be let go and because they are forced to do the work previously performed by the lost employees—work that often they cannot cope with.<sup>49</sup>

The increasing tendency of companies to lay off hard-working, loyal employees when the need arises seems to be changing the employment relationship between employees and the companies they work for.<sup>50</sup> Employees now realize that to keep their jobs and to advance to better ones, they need to invest more in themselves and make sure that they keep their job skills and knowledge up to date. They also need to search for new job opportunities. Some experts argue that people presently starting their careers can expect to make at least six to eight job and organizational changes over the course of their working lives—some because of their own personal choice, but also some because of layoffs.<sup>51</sup>

Other important trends that go hand in hand with downsizing are the increasing use of empowered self-managed teams, contingent or temporary workers, and outsourcing. **Empowerment** is the process of giving employees throughout an organization the authority to make important decisions and to be responsible for their outcomes. Self-managed teams are work groups who have been empowered and given the responsibility for leading themselves and ensuring that they accomplish their goals.<sup>52</sup>

### DOWNSIZING

The process by which organizations lay off managers and workers to reduce costs.

### EMPOWERMENT

The process of giving employees throughout an organization the authority to make important decisions and to be responsible for their outcomes.

**CONTINGENT WORKERS**

People employed for temporary periods by an organization and who receive no benefits such as health insurance or pensions.

**OUTSOURCING**

The process of employing people, groups, or a specialist organization to perform a specific type of work activity or function previously performed inside an organization.

**FREELANCERS**

People who contract with an organization to perform specific services.

As organizations have downsized, there has also been an increasing trend for companies to employ contingent workers to keep costs down. **Contingent workers** are people employed for temporary periods by an organization and who receive no benefits such as health insurance or pensions. Contingent workers may work by the day, week, or month performing some functional task, or they may contract with the organization for some fee to perform a specific service to the organization. Thus, for example, an organization may employ ten temporary accountants to “do the books” when it is time, or it may contract with a software programmer to write some specialized software for a fixed fee.

The advantages an organization obtains from contingent workers are (1) they cost less to employ since they receive no benefits and (2) they can be let go easily when their services are no longer needed. It has been estimated that 20 percent of the U.S. workforce today consists of part-time employees who work by the day, week, month, or even year. Part-time employees pose a new OB challenge because they cannot be motivated by the prospect of rewards such as job security, promotion, or a career within an organization.

Finally, also as a way to reduce costs, organizations are engaging in an increasing amount of outsourcing. **Outsourcing** is moving a specific type of work activity, process, job, or function that was performed inside an organization to outside, where it is carried out by another person or company. At the individual level, for example, companies may outsource particular kinds of jobs such as bookkeeping, computer support, and website design to **freelancers**—independent specialists who contract with an organization to perform specific tasks. They often work from their homes and are connected to an organization by computer, phone, fax, and express package delivery. Freelancers are similar to contingent workers except that they do not physically work inside a company.

Sometimes an organization outsources a whole value-creation activity such as manufacturing, marketing, or the management of its IT to a specialist company that can perform it at a lower cost than the organization itself. In this case, an organization stops performing the value-creation itself. For example, a company may hire a specialist IT company to manage its computer network or a national distributor to deliver its products to stores or a specialist in customer service to manage its customer call center. Dell, for example, employs 10,000 people in India to manage requests from customers around the world for help with purchasing or operating their computers. It announced in 2006 that it would be adding 5,000 more.<sup>53</sup> The huge wave of outsourcing by U.S. companies has resulted in the loss of hundreds of thousands of call-center jobs at home. Millions more jobs have been lost as companies have outsourced their manufacturing operations to companies in countries like Mexico, China, and Malaysia.

## *You're the Management Expert*

### **Moving to Self-Managed Teams**

Tony Norris is the owner of a large building-products supply company. He has decided that he could operate more effectively if he organizes his 30 employees into three self-managed work teams. Previously, his employees worked separately to stock the shelves, answer customer questions, and checkout customers under the supervision of five department managers. Norris believes this system did not encourage employees to find ways to improve operating procedures and raised costs. He believes he can offer better customer service if he changes to team-based OBs and procedures.

Norris has asked you, one of his best managers, to think about the kinds of opportunities and problems this shift to teams might cause. He also wants your frank opinion of his idea and whether you think it will increase the effectiveness of the company. When you meet with him tomorrow, what will be your response to his ideas? Why?



*Free-trade around the globe cuts both ways, as the people of Mauritius, a tiny island off the coast of Africa, discovered. For two decades, Mauritius's citizens manufactured clothing for U.S. clothing labels outsourcing the work. But the country's prosperity unraveled when lower-cost producers like China and Vietnam captured much of the business.*



Lakruwan Wanniarachchi/Getty Images, Inc. AFP

While outsourcing has helped to change the nature of the employment relationship in the United States, it is also having dramatic effects abroad. Today, many of the countries that gained the jobs lost by U.S. workers are experiencing the same problem themselves as other countries use their *still lower* labor costs to compete for manufacturing contracts. Take the example of Mauritius, a tiny island off the coast of South-East Africa famous for its white sand beaches. In the 1980s, to alleviate its enormous poverty, Mauritius created a low-tax export zone to encourage foreign clothing companies to locate there and employ its citizens who at that time worked for 10 cents an hour or less. For many years, this worked well for the island, the income of its people climbed steeply, and it became one of the most prosperous countries in Africa. More and more companies such as Gap and The Limited had their clothing made in Mauritius, and by 2000 it exported over \$1 billion of low-cost clothing to the United States.

After 2000, however, the picture was not so rosy on Mauritius because its labor costs had increased and countries like India and China, whose billions of people still are paid some of the lowest wages in the world, now had the lowest costs. The result was that U.S. clothing companies shifted their business to India and China and unemployment increased dramatically in Mauritius, which has learned the hard way that global competition is a fierce process. And, unlike the United States, whose vibrant economy creates new jobs, its people are struggling to cope with the new reality of a low-cost global economy.

Downsizing, empowered self-managed teams, the employment of part-time contingent workers, and outsourcing are ways in which organizations are changing OBs and procedures to battle effectively against domestic and global competitors. Several OB researchers believe that organizations in the future will increasingly become composed of a “core” of organizational employees who are highly trained and rewarded by an organization and a “periphery” of part-time employees or freelancers who are employed when needed but will never become true “organizational employees.” The challenge facing people today is to continually improve their skills and knowledge and build their human capital so that they can secure well-paying and satisfying employment either inside or outside an organization.

## Summary

OB is a developing field of study. Changes in the environment constantly challenge organizations and their owners', managers', and employees' abilities to adapt and change work behaviors and procedures to increase the effectiveness with which they operate. In this chapter, we made the following major points:

1. Organizations exist to provide goods and services that people want, and the amount and quality of these goods and services are products of the behaviors and performance of an organization's employees.
2. OB is the study of the many factors that have an impact on how people and groups act, think, feel, and respond to work and organizations and how organizations respond to their

environments. OB provides a set of tools—theories and concepts—to understand, analyze, describe, and manage attitudes and behavior in organizations.

3. The study of OB can improve and change individual, group, and OB to attain individual, group, and organizational goals.
4. OB can be analyzed at three levels: the individual, the group, and the organization as a whole. A full understanding is impossible without an examination of the factors that affect behavior at each level.
5. A significant task for an organization's managers and employees is to use the tools of OB to increase organizational effectiveness, that is, an organization's ability to achieve its goals.
6. The activities of most organizations can be modeled as an open system in which an organization takes in resources from its external environment and converts or transforms them into goods and services that are sent back to that environment, where customers buy them.
7. Changing pressures or forces in the social and cultural, global, technological, and employment or work environment pose many challenges for OB, and organizations must respond effectively to those challenges if they are to survive and prosper.
8. Two major challenges of importance to OB today from the social and cultural environment are those that derive from a breakdown in ethical values, social responsibility, and from the increasing diversity of the workforce.
9. Three important challenges facing organizations from the global environment are to appreciate the differences that exist between countries; to benefit from this new global knowledge to improve OBs and procedures; and to use global learning to find better ways to respond to global crises.
10. Changes in the technological environment, and particularly advances in information technology (IT), are also having important effects on OB and procedures. IT has improved effectiveness by helping an organization improve the quality of its products, lower their costs, and by promoting creativity and organizational learning and innovation.
11. Many changes have also been taking place in the employment or work environment, and important developments that have affected OB include a shortening employment relationship because of downsizing, the growth in the number of contingent or temporary employees, and global outsourcing.

## Exercises in Understanding and Managing Organizational Behavior

### Questions for Discussion and Review

1. Why is a working knowledge of OB important to organizations and their employees?
2. Why is it important to analyze the behavior of individuals, groups, and the organization as a whole in order to understand OB in work settings?
3. What is an open system and why is it important for an organization to be open to its environment?
4. Select a restaurant, supermarket, church, or some other familiar organization, and think about which kinds of OBs and procedures are the most important determinant of its effectiveness.
5. What are organizational ethics, and why is ethics such an important issue facing organizations today?
6. Why is diversity an important challenge facing organizations today?
7. What special challenges does managing behavior on a global scale pose for organizations?
8. In what ways does IT change OBs and procedures?
9. Why has the employment relationship been shortening?

## Key Terms in Review

Conceptual skills 39	Information 50	Organizational effectiveness 34
Contingent workers 52	Information technology 50	Organizational learning 50
Controlling 36	Internet 49	Outsourcing 52
Diversity 43	Intranets 50	Planning 35
Downsizing 51	Knowledge 50	Role 38
Empowerment 51	Leading 36	Self-managed teams 36
Ethics 41	Management 35	Skill 38
Ethical dilemma 41	Managers 34	Social responsibility 41
Expatriate managers 47	National culture 40	Team 33
Freelancers 52	Open system 39	Top-management teams 34
Global organizations 45	Organizing 36	Virtual team 33
Global learning 47	Organization 31	Technical skills 39
Group 33	Organizational behavior 31	Well-being 41
Human skills 39	Organizational procedure 40	World Wide Web 49

## OB: Increasing Self-Awareness

### Behavior in Organizations

Think of an organization—a place of employment, a club, a sports team, a musical group, an academic society—that provided you with a significant work experience, and answer the following questions.

1. What are your attitudes and feelings toward the organization? Why do you think you have these attitudes and feelings?
2. Indicate, on a scale from one to ten (with one being not at all and ten being extremely), how hard you worked for this organization or how intensively you participated in the organization's activities. Explain the reasons for your level of participation.
3. How did the organization communicate its performance expectations to you, and how did the organization monitor your performance to evaluate whether you met those expectations? Did you receive more rewards when you performed at a higher level? What happened when your performance was not as high as it should have been?
4. How concerned was your organization with your well-being? How was this concern reflected? Do you think this level of concern was appropriate? Why or why not?
5. Think of your direct supervisor or leader. How did this person's leadership style affect your attitudes and behaviors?
6. How did the attitudes and behaviors of your coworkers affect yours, particularly your level of performance?
7. Given your answers to these questions, how would you change OBs and procedures to make this organization more effective?

## A Question of Ethics

### Ethical versus Unethical Behavior

What factors determine whether behavior in organizations is ethical or unethical? Divide up into small groups, and each person think of some unethical behaviors or incidents that you have observed in organizations. The incidents could be something you experienced as an employee, a customer, or a client, or something you observed informally.

Discuss these incidents with other group members. Then, identify three important criteria to use to determine whether a particular action or behavior is ethical. These criteria need to differentiate between ethical and unethical OB. Be ready to describe the incidents of unethical behavior and criteria with the rest of the class.



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## Small Group Break-Out Exercise

### Identifying an Open System

Form groups of three or four people and appoint one member as the spokesperson who will communicate your conclusions to the rest of the class.

1. Think of an organization you are all familiar with such as a local restaurant, store, or bank. Once you have chosen an organization, model it from an open-systems perspective. For example, identify its input, conversion, and output processes.
2. Identify the specific forces in the environment that have the greatest opportunity to help or hurt this organization's ability to obtain resources and dispose of its goods or services.
3. Using the three views of effectiveness discussed in the chapter, discuss which specific measures are most useful to managers in evaluating this organization's effectiveness.

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### Topic for Debate

Now that you understand the nature of OB and management, and the kinds of issues they address, debate the following topic:

**Team A.** The best way to increase organizational effectiveness is to clearly specify each employee's job responsibilities and then to closely supervise his or her work behavior.

**Team B.** The best way to increase organizational effectiveness is to put employees in teams and allow them to work out their own job responsibilities and supervise each other.

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## Experiential Exercise

### Ethical Issues in Globalization

There are many laws governing the way companies in the United States should act to protect their employees and to treat them in a fair and equitable manner. However, many countries abroad do not have similar laws and treat employees in ways that would be seen as unacceptable and unethical in the United States.

Either individually or in small groups, think about the following issues and answer the questions they raise.

1. In Pakistan and India, it is common for children as young as 8 years old to weave the hand-made carpets and rugs that are exported to Western countries. Many of these children work for a pittance and are losing their eyesight because of the close attention they have to devote to their tasks, often for 12 hours a day. Do you think these children should be employed in such occupations? Do you think it is ethical to buy these rugs?
2. Millions of U.S. workers in manufacturing industries have lost their jobs because companies have moved their operations to low-cost countries overseas. There, many women and children work long hours every day for low wages, performing the jobs that used to be done by workers in the United States. Do you think it is ethical for multinationals to operate just on the basis of where they can obtain low-cost resources? Do you think laws should be passed to prevent global companies from relocating abroad to protect the relatively high-paying jobs of U.S. workers?

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# Closing Case

## HOW JEFF BEZOS MANAGES AT AMAZON.COM

In 1994, Jeffrey Bezos, a computer science and electrical engineering graduate from Princeton University, was growing weary of working for a Wall Street investment bank. His computer science background led him to see an entrepreneurial opportunity in the fact that Internet usage was growing at an accelerating pace. Bezos decided that the online book-selling market offered an opportunity for him to take advantage of his technical skills in the growing virtual marketplace. Determined to make a break, he packed up his belongings and drove to the West Coast, deciding while en route that Seattle, Washington—a new Mecca for high-tech software developers, and the hometown of Starbucks's coffee shops—would be an ideal place to begin his venture.

Bezos's plan was to develop an online bookstore that would be customer friendly, easy to navigate, and offer the broadest possible selection of books at low prices.<sup>54</sup> Bezos realized that, compared to a real “bricks and mortar” bookstore, an online bookstore could offer customers any book in print; his task was to provide online customers with an easy way to search for and learn about any book in print.

Working with a handful of employees and operating from his garage in Seattle, Bezos launched his venture online in July 1995 with \$7 million in borrowed capital.<sup>55</sup> Within weeks, he was forced to relocate to new, larger premises and hire additional employees, as book sales soared. The problem facing him now was how to best motivate and coordinate his employees to best meet his new company's goals. His solution was to organize employees into small groups and teams based on the work tasks they needed to perform in order to satisfy his customers.

First, Bezos created the information technology (IT) team to continue to develop and improve the proprietary software he had initially developed. Then he formed the operations group to handle the day-to-day implementation of these systems and to manage the interface between the customer and the organization. Third, he created the materials management/logistics group to devise the most cost-efficient ways to obtain books from book publishers and distributors and then to ship them quickly to customers. As Amazon.com grew, these groups have helped it to expand into providing many other kinds of products for its customers such as CDs, electronics, and gifts. By 2006, Amazon.com had 24 different storefronts, with operations in eight countries, and it sold its products to hundreds of millions of customers around the globe.

To ensure that Amazon.com strived to meet its goals of delivering books speedily with excellent customer service, Bezos paid attention to the way he motivated and controlled his employees. Realizing that providing good customer service is the most vital link between customers and a company, he decentralized authority and empowered employees to search for ways to better meet customer needs. Also, from the beginning, Bezos socialized his employees into his company by encouraging them to adopt his values of excellent customer service; he also established strong norms about how employees' first task is to satisfy customers. All Amazon.com employees are carefully selected and recruited; they are then socialized by the members of their work groups so that they quickly learn how to provide excellent customer service. Also, to ensure his employees are motivated to provide excellent service, Bezos gives all employees stock in the company—today employees own over 10 percent of Amazon.com's stock.

Finally, as a leader, Bezos is a hands-on manager who works closely with employees to find innovative, cost-saving solutions to problems. Moreover, Bezos acts as a figurehead, and he behaves in a way that personifies Amazon's desire to increase the well-being of employees and customers. Indeed, he spends a great deal of his time flying around the world to publicize his company and its activities and he has succeeded because Amazon.com is one of the most well-known dot.com companies. At Amazon.com, Jeff Bezos behaves in ways that help to improve employees' work attitudes and increase their performance, which improves the well-being of employees, customers, and his company.

### Questions for Discussion

1. In what ways has Jeff Bezos used organizational behavior tools and principles to motivate and coordinate his employees?
2. As Amazon.com continues to grow in size, what challenges do you think Jeff Bezos and his managers will confront as they attempt to increase the company's performance?
3. Search the Internet to find out how well Amazon.com is currently performing and give examples of how it has used OB to enhance its effectiveness.

## APPENDIX

### A Short History of OB

The systematic study of OB began in the closing decades of the nineteenth century, after the industrial revolution had swept through Europe and America. In the new economic climate, managers of all types of organizations—political, educational, and economic—were increasingly turning their focus toward finding better ways to satisfy customers' needs. Many major economic, technical, and cultural changes were taking place at this time. With the introduction of steam power and the development of sophisticated machinery and equipment, the industrial revolution changed the way goods were produced, particularly in the weaving and clothing industries. Small workshops run by skilled employees who produced hand-manufactured products (a system called crafts production) were being replaced by large factories in which sophisticated machines controlled by hundreds or even thousands of unskilled or semiskilled employees made products. For example, raw cotton and wool that, in the past, families or whole villages working together had spun into yarn was now shipped to factories where employees operated machines that spun and wove large quantities of yarn into cloth.

Owners and managers of the new factories found themselves unprepared for the challenges accompanying the change from small-scale crafts production to large-scale mechanized manufacturing. Moreover, many of the managers and supervisors in these workshops and factories were engineers who had only a technical orientation. They were unprepared for the social problems that occur when people work together in large groups (as in a factory or shop system). Managers began to search for new techniques to manage their organizations' resources, and soon they began to focus on ways to increase the efficiency of the employee-task mix. They found help from Frederick W. Taylor.

#### F. W. Taylor and Scientific Management

Frederick W. Taylor (1856–1915) is best known for defining the techniques of scientific management, the systematic study of relationships between people and tasks for the purpose of redesigning the work process to increase efficiency. Taylor was a manufacturing manager who eventually became a consultant and taught other managers how to apply his scientific-management techniques. Taylor believed that if the amount of time and effort that each employee expends to produce a unit of output (a finished good or service) can be reduced by increasing specialization and the division of labor, the production process will become more efficient. Taylor believed the way to create the most efficient division of labor could best be determined using scientific-management techniques, rather than intuitive or informal rule-of-thumb knowledge. Based on his experiments and observations as a manufacturing manager

in a variety of settings, he developed four principles to increase efficiency in the workplace:<sup>56</sup>

- *Principle 1: Study the way employees perform their tasks, gather all the informal job knowledge that employees possess, and experiment with ways of improving how tasks are performed.*

To discover the most efficient method of performing specific tasks, Taylor studied in great detail and measured the ways different employees went about performing their tasks. One of the main tools he used was a time and motion study, which involves the careful timing and recording of the actions taken to perform a particular task. Once Taylor understood the existing method of performing a task, he then experimented to increase specialization; he tried different methods of dividing up and coordinating the various tasks necessary to produce a finished product. Usually, this meant simplifying jobs and having each employee perform fewer, more routine tasks, as at the pin factory or on Ford's car-assembly line. Taylor also sought to find ways to improve each employee's ability to perform a particular task—for example, by reducing the number of motions employees made to complete the task, by changing the layout of the work area or the type of tool employees used, or by experimenting with tools of different sizes.

- *Principle 2: Codify the new methods of performing tasks into written rules and standard operating procedures.*

Once the best method of performing a particular task was determined, Taylor specified that it should be recorded so that the procedures could be taught to all employees performing the same task. These rules could be used to further standardize and simplify jobs—essentially, to make jobs even more routine. In this way, efficiency could be increased throughout an organization.

- *Principle 3: Carefully select employees so that they possess skills and abilities that match the needs of the task, and train them to perform the task according to the established rules and procedures.*

To increase specialization, Taylor believed employees had to understand the tasks that were required and be thoroughly trained in order to perform the task at the required level. Employees who could not be trained to this level were to be transferred to a job where they were able to reach the minimum required level of proficiency.<sup>57</sup>

- *Principle 4: Establish a fair or acceptable level of performance for a task, and then develop a pay system that provides a reward for performance above the acceptable level.*

To encourage employees to perform at a high level of efficiency and to provide them with an incentive to reveal the most efficient techniques for performing a task, Taylor

advocated that employees benefit from any gains in performance. They should be paid a bonus and receive some percentage of the performance gains achieved through the more efficient work process.

By 1910, Taylor's system of scientific management had become nationally known and in many instances faithfully and fully practiced.<sup>58</sup> However, managers in many organizations chose to implement the new principles of scientific management selectively. This decision ultimately resulted in problems. For example, some managers using scientific management obtained increases in performance, but rather than sharing performance gains with employees through bonuses as Taylor had advocated, they simply increased the amount of work that each employee was expected to do. Many employees experiencing the reorganized work system found that, as their performance increased, managers required them to do more work for the same pay. Employees also learned that increases in performance often meant fewer jobs and a greater threat of layoffs, because fewer employees were needed. In addition, the specialized, simplified jobs were often very monotonous and repetitive, and many employees became dissatisfied with their jobs.

From a performance perspective, the combination of the two management practices—(1) achieving the right mix of employee–task specialization and (2) linking people and tasks by the speed of the production line—resulted in the huge savings in cost and huge increases in output that occur in large, organized work settings. For example, in 1908, managers at the Franklin Motor Company using scientific-management principles, redesigned the work process. The output of cars increased from 100 cars a month to 45 cars a day; employees' wages, however, increased by only 90 percent.<sup>59</sup>

Taylor's work has had an enduring effect on the management of production systems. Managers in every organization, whether it produces goods or services, now carefully analyze the basic tasks that employees must perform and try to create a work environment that will allow their organizations to operate most efficiently. We discuss this important issue in Chapters 6 and 7.

## The Work of Mary Parker Follett

Much of Mary Parker Follett's (1868–1933) writing about management, and the way managers should behave toward employees, was a response to her concern that Taylor was ignoring the human side of the organization.<sup>60</sup> She pointed out that management often overlooks the multitude of ways in which employees can contribute to the organization when managers allow them to participate and exercise initiative in their everyday work lives.<sup>61</sup> Taylor, for example, never proposed that managers should involve employees in analyzing their jobs to identify better ways to perform tasks, or even ask employees how they felt about their jobs. Instead, he used time and motion experts to analyze employees' jobs for them. Follett, in contrast, argued that because employees know the most about their jobs, they should be involved in job analysis and managers should allow them to participate in the work-development process.

Follett proposed that “Authority should go with knowledge... whether it is up the line or down.” In other words, if employees have the relevant knowledge, then employees, rather than managers, should be in control of the work process itself, and managers should behave as coaches and facilitators—not as monitors and supervisors. In making this statement, Follett anticipated the current interest in self-managed teams and empowerment. She also recognized the importance of having managers in different departments communicate directly with each other to speed decision making. She advocated what she called “cross-functioning”: members of different departments working together in cross-departmental teams to accomplish projects—an approach that is increasingly utilized today.<sup>62</sup> She proposed that knowledge and expertise, and not managers' formal authority deriving from their position in the hierarchy, should decide who would lead at any particular moment. She believed, as do many OB researchers today, that power is fluid and should flow to the person who can best help the organization achieve its goals. Follett took a horizontal view of power and authority, rather than viewing the vertical chain of command as most essential to effective management. Thus, Follett's approach was very radical for its time.

## The Hawthorne Studies and Human Relations

Probably because of its radical nature, Follett's work went unappreciated by managers and researchers until quite recently. Most continued to follow in the footsteps of Taylor and, to increase efficiency, they studied ways to improve various characteristics of the work setting, such as job specialization or the kinds of tools employees used. One series of studies was conducted from 1924 to 1932 at the Hawthorne Works of the Western Electric Company.<sup>63</sup> This research, now known as the Hawthorne studies, was initiated as an attempt to investigate how characteristics of the work setting—specifically the level of lighting or illumination—affect employee fatigue and performance. The researchers conducted an experiment in which they systematically measured employee productivity at various levels of illumination.

The experiment produced some unexpected results. The researchers found that regardless of whether they raised or lowered the level of illumination, productivity increased. In fact, productivity began to fall only when the level of illumination dropped to the level of moonlight, a level at which presumably employees could no longer see well enough to do their work efficiently.

As you can imagine, the researchers found these results very puzzling. They invited a noted Harvard psychologist, Elton Mayo, to help them. Mayo proposed another series of experiments to solve the mystery. These experiments, known as the relay assembly test experiments, were designed to investigate the effects of other aspects of the work context on job performance, such as the effect of the number and length of rest periods and hours of work on fatigue and monotony.<sup>64</sup> The goal was to raise productivity.

During a 2-year study of a small group of female employees, the researchers again observed that productivity increased over time, but the increases could not be solely attributed to the effects of changes in the work setting. Gradually, the researchers discovered that, to some degree, the results they were obtaining were influenced by the fact that the researchers themselves had become part of the experiment. In other words, the presence of the researchers was affecting the results because the employees enjoyed receiving attention and being the subject of study and were willing to cooperate with the researchers to produce the results they believed the researchers desired.

Subsequently, it was found that many other factors also influence employee behavior, and it was not clear what was actually influencing Hawthorne employees' behavior. However, this particular effect—which became known as the Hawthorne effect—seemed to suggest that the attitude of employees toward their managers affects the level of employees' performance. In particular, the significant finding was that a manager's behavior or leadership approach can affect performance. This finding led many researchers to turn their attention to managerial behavior and leadership. If supervisors could be trained to behave in ways that would elicit cooperative behavior from their subordinates, then productivity could be increased. From this view emerged the human relations movement, which advocates that supervisors be behaviorally trained to manage subordinates in ways that elicit their cooperation and increase their productivity.

The importance of behavioral or human relations training became even clearer to its supporters after another series of experiments—the bank wiring room experiments. In a study of employees making telephone-switching equipment, researchers Elton Mayo and F. J. Roethlisberger discovered that the employees, as a group, had deliberately adopted a norm of output restriction to protect their jobs. Other group members subjected employees who violated this informal production norm to sanctions. Those who violated group-performance norms and performed above the norm were called “ratebusters”; those who performed below the norm were called “chisellers.”

The experimenters concluded that both types of employees threatened the group as a whole. Ratebusters threaten group members because they reveal to managers how fast the work can be done. Chisellers are looked down on because they are not doing their share of the work. Work-group members discipline both ratebusters and chisellers in order to create a pace of work that the employees (not the managers) think is fair. Thus, the work group's influence over output can be as great as the supervisors' influence. Since the work group can influence the behavior of its members, some management theorists argue that supervisors should be trained to behave in ways that gain the goodwill and cooperation of employees so that supervisors, not employees, control the level of work-group performance.

One of the main implications of the Hawthorne studies was that the behavior of managers and employees in the work setting is as important in explaining the level of performance as the technical aspects of the task. Managers must understand the workings of the informal organization, the system of behavioral rules and norms that emerge in a group, when they try to manage or change behavior in organizations. Many studies

have found that, as time passes, groups often develop elaborate procedures and norms that bond members together, allowing unified action either to cooperate with management in order to raise performance or to restrict output and thwart the attainment of organizational goals.<sup>65</sup> The Hawthorne studies demonstrated the importance of understanding how the feelings, thoughts, and behaviors of work-group members and managers affect performance. It was becoming increasingly clear to researchers that understanding behavior in organizations is a complex process that is critical to increasing performance.<sup>66</sup> Indeed, the increasing interest in the area of management known as OB, the study of the factors that have an impact on how individuals and groups respond to and act in organizations, dates from these early studies.

## Theory X and Theory Y

Several studies after the Second World War revealed how assumptions about employees' attitudes and behavior affect managers' behavior. Perhaps the most influential approach was developed by Douglas McGregor. He proposed that two different sets of assumptions about work attitudes and behaviors dominate the way managers think and affect how they behave in organizations. McGregor named these two contrasting sets of assumptions Theory X and Theory Y.<sup>67</sup>

### Theory X

According to the assumptions of Theory X, the average employee is lazy, dislikes work, and will try to do as little as possible. Moreover, employees have little ambition and wish to avoid responsibility. Thus, the manager's task is to counteract employees' natural tendencies to avoid work. To keep employees' performance at a high level, the manager must supervise them closely and control their behavior by means of “the carrot and stick”—rewards and punishments.

Managers who accept the assumptions of Theory X design and shape the work setting to maximize their control over employees' behaviors and minimize the employees' control over the pace of work. These managers believe that employees must be made to do what is necessary for the success of the organization, and they focus on developing rules, SOPs, and a well-defined system of rewards and punishments to control behavior. They see little point in giving employees autonomy to solve their own problems because they think that the workforce neither expects nor desires cooperation. Theory X managers see their role as to closely monitor employees to ensure that they contribute to the production process and do not threaten product quality. Henry Ford, who closely supervised and managed his workforce, fits McGregor's description of a manager who holds Theory X assumptions.

### Theory Y

In contrast, Theory Y assumes that employees are not inherently lazy, do not naturally dislike work, and, if given the opportunity, will do what is good for the organization. According to Theory Y, the characteristics of the work setting



determine whether employees consider work to be a source of satisfaction or punishment; and managers do not need to closely control employees' behavior in order to make them perform at a high level, because employees will exercise self-control when they are committed to organizational goals. The implication of Theory Y, according to McGregor, is that "the limits of collaboration in the organizational setting are not limits of human nature but of management's ingenuity in discovering how to realize the potential represented by its human resources."<sup>68</sup> It is the manager's task to create a work setting that encourages commitment to organizational goals and provides opportunities for employees to be imaginative and to exercise initiative and self-direction.

When managers design the organizational setting to reflect the assumptions about attitudes and behavior suggested by Theory Y, the characteristics of the organization are quite different from those of an organizational setting based on Theory X. Managers who believe employees are motivated to help the organization reach its goals can decentralize authority and give more control over the job to employees, both as individuals and in groups. In this setting, individuals and groups are still accountable for their activities, but the manager's role is not to control employees but to provide support and advice, to make sure they have the resources they need to perform their jobs, and to evaluate them on their ability to help the organization meet its goals.

# CHAPTER 2

## Individual Differences: Personality and Ability

### Outline

Overview

The Nature of Personality

The Big Five Model of Personality

Other Organizationally Relevant Personality Traits

The Nature of Ability

The Management of Ability in Organizations

Summary

Exercises in Understanding and Managing Organizational Behavior

### Learning Objectives

*After studying this chapter, you should be able to:*

- Understand the nature of personality and how it is determined by both nature and nurture.
- Describe the Big Five personality traits and their implications for understanding behavior in organizations.
- Appreciate the ways in which other personality traits, in addition to the Big Five, influence employees' behaviors in organizations.
- Describe the different kinds of abilities that employees use to perform their jobs.
- Appreciate how organizations manage ability through selection, placement, and training.





## NOOYI'S DETERMINATION

Item not available in this eBook

***What does it take to lead one of the largest global companies in the snack, food, and beverage industry?***

As CEO and chairman of the board of PepsiCo, Indra Nooyi leads a company with over 198,000 employees and over \$43 billion in revenues. Pepsi-Cola, Fritos, Lay's, Tropicana, Gatorade, Quaker, Doritos, and Mountain Dew are among PepsiCo's brands known the world over.<sup>1</sup> Nooyi's conscientiousness, determination, self-discipline, openness to new ideas, sociability, and affectionate nature have been with her throughout her impressive career. And her career has certainly been impressive. She has been included in *Time* magazine's list of "The World's Most Influential People" and has been ranked the most powerful woman in business by *Fortune* magazine for 3 years in a row.<sup>2</sup>

Newscom

*PepsiCo Chairman and CEO Indra Nooyi has increased the portion of PepsiCo products that can be considered healthy to eat, such as grains, nuts, and fruits, increased the varieties of staple products like potato chips and orange juice, and acquired or partnered with a wide variety of food product companies such as a foreign hummus producer and a nut packager.*

Nooyi was born and raised in India. From an early age, her openness to new experiences was evident—not only did she participate in debate and play cricket, but she also learned how to play the guitar and had her own all-girl rock band.<sup>3</sup> She earned a BS from Madras Christian College, an MBA from the Indian Institute of Management, and a Master of Public and Private Management from Yale University.<sup>4</sup> Her determination and openness to new experiences lead her to obtain a variety of leadership positions before assuming the top post at Pepsi. She started off her career in India as a project manager for Johnson & Johnson and Mettler Bearings, Ltd.<sup>5</sup> In the United States, she managed global strategy projects for The Boston Consulting Group and was Vice President and Director of Corporate Strategy and Planning for Motorola. Prior to joining PepsiCo in 1994, she was Senior Vice President of Strategy and Strategic Marketing for Asea Brown Boveri, and she held a variety of senior leadership positions at Pepsi before assuming the top post.<sup>6</sup>

Nooyi's originality is reflected in her vision for PepsiCo—"Performance with Purpose"—which embodies a commitment to nourishing, tasty, and healthy foods, a commitment to protect the natural environment, and a commitment to the well-being and development of PepsiCo's employees.<sup>7</sup> On her watch, PepsiCo has increased the portion of its products that can be considered to be healthy to eat such as grains, nuts, and fruits, increased the varieties of staple products like potato chips and orange juice, and acquired or partnered with a wide variety of food products companies such as a hummus producer in Israel and a nut packager in Bulgaria.<sup>8</sup>

While leading PepsiCo in new and innovative directions, Nooyi's determination, persistence, hard work, and self-discipline help to ensure that new initiatives are successful. She sets very high standards for herself and her employees and persistently encourages employees to solve difficult problems. When she reviews projects and proposals, they are heavily marked up with all sorts of comments aimed at improvements. When subordinates approach her with a problem, she pushes them to persist and come up with a viable solution.<sup>9</sup>

While very conscientious and open to new approaches, Nooyi also is very sociable and affectionate. She has dinner parties for members of her top management team and their partners and encourages their partners to ask her any questions that might be on their minds. She is down-to-earth, sincere, and genuine in her interactions with employees, sings at some company gatherings, and celebrates employees' birthdays with a cake.<sup>10</sup>

In fact, when PepsiCo's Board of Directors chose Nooyi to become CEO over the other contender for the top post, Michael White, Nooyi went to great lengths to ensure that her great relationship with White would not be hurt.<sup>11</sup> White was vacationing in Cape Cod, Massachusetts, at the time and Nooyi flew to Cape Cod where the two strolled the beach, ate ice cream, and made some music together (White playing the piano and Nooyi sang). Not only did Nooyi want to preserve their friendship, she also wanted to continue to have White's support and advice and have him stay with PepsiCo as a member of her team. Showing her affection and admiration for White at a gathering announcing her appointment to the top post, Nooyi said, "I treat Mike as my partner. He could easily have been CEO."<sup>12</sup> All in all, Nooyi's determination and conscientiousness, coupled with an openness to new experiences and approaches and an affectionate and sociable nature have served her well throughout her career and as CEO and chairman of PepsiCo.

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## Overview

Each member of an organization has his or her own style and ways of behaving. Effectively working with others requires an understanding and appreciation of how people differ from one another. Indra Nooyi, for example, is persistent and determined, open to new experiences, and sociable and affectionate, qualities that have contributed to her success as CEO of PepsiCo. In order to effectively work with Nooyi, it is important that Nooyi's subordinates and colleagues understand what she is like and what is important to her.

In this chapter, we focus on **individual differences**, the ways in which people differ from each other. Managers need to understand individual differences because they have an impact on the feelings, thoughts, and behaviors of each member of an organization. Individual differences affect, for example, job satisfaction, job performance, job stress, and leadership. Organizational members interact with each other on a daily basis, and only if they understand each other are their interactions likely to result in high levels of satisfaction and performance.

Individual differences may be grouped into two categories: personality differences and differences in ability. We focus on the nature, meaning, and determinants of personality and on the ways that personality and situational factors combine to influence feelings, thoughts, and behavior in organizations. We discuss specific personality traits that are particularly relevant to organizational behavior. We then turn our attention to differences in ability. After describing various types of ability, we discuss the key issue for managers: how ability can be managed to ensure that employees can effectively perform their jobs.

## The Nature of Personality

People's personalities can be described in a variety of ways. Some people seem to be perfectionists; they can be critical, impatient, demanding, and intense. Other kinds of people are more relaxed and easygoing. You may have friends or coworkers who always seem to have something to smile about and are fun to be around. Or perhaps you have friends or coworkers who are shy and quiet; they are hard to get to know and may sometimes seem dull. In each of these examples, we are describing what people are generally like without referring to their specific feelings, thoughts, and behaviors in any given situation. In formulating a general description of someone, we try to pinpoint something relatively enduring about the person, something that seems to explain the regularities or patterns we observe in the way the person thinks, feels, and behaves.

**Personality** is the pattern of relatively enduring ways that a person feels, thinks, and behaves. Personality is an important factor in accounting for why employees act the way they do in organizations and why they have favorable or unfavorable attitudes toward their jobs and organizations.<sup>13</sup>

### INDIVIDUAL DIFFERENCES

The ways in which people differ from each other.

### PERSONALITY

The pattern of relatively enduring ways that a person feels, thinks, and behaves.

Personality has been shown to influence career choice, job satisfaction, stress, leadership, and some aspects of job performance.

### Determinants of Personality: Nature and Nurture

Why are some employees happy and easygoing and others intense and critical? An answer to this question can be found by examining the determinants of personality: nature and nurture.

#### NATURE

Biological heritage, genetic makeup.

Personality is partially determined by **nature**, or biological heritage. The genes you inherited from your parents influence how your personality has unfolded.<sup>14</sup> Although specific genes for personality have not yet been identified, psychologists have studied identical twins in an attempt to discover the extent to which personality is inherited.<sup>15</sup>

Because identical twins possess identical genes, they have the same genetic determinants of personality. Identical twins who grow up together in the same family have the same permissive or strict parents and similar life experiences. If the twins have similar personalities, it is impossible to identify the source of the similarity because they have not only the same genetic makeup but also similar life experiences.

In contrast, identical twins who are separated at birth and raised in different settings (perhaps because they are adopted by different families) share the same genetic material but often have very different life experiences. Evidence from research on separated identical twins and other studies suggests that approximately 50 percent of the variation we observe in people's personalities can be attributed to nature—to genetic factors (see Exhibit 2.1).<sup>16</sup> Thus, about half of the variation we observe in employees' personalities in organizations reflects the distinctive ways of thinking, feeling, and behaving they inherited from their parents. The other 50 percent reflects the influence of **nurture**, or life experiences.

#### NURTURE

Life experiences.

Personality develops over time, responding to the experiences people have as children and as adults. Factors such as the strictness or permissiveness of a child's parents, the number of other children in the family, the extent to which parents and teachers demand a lot from a child, success or lack of success at making friends or getting and keeping a job, and even the culture in which a person is raised and lives as an adult are shapers of personality.

Because about half of the variation in people's personalities is inherited from their parents and, thus, is basically fixed at birth, it comes as no surprise that personality is quite stable over periods of time ranging from 5 to 10 years. This does not mean that personality cannot change; it means that personality is likely to change only over many years. Thus, the impact of any specific work situation or crisis on an employee's personality is likely to be felt only if the situation continues for many years. An important outcome of this fact is that managers should not expect to change employees' personalities. In fact, for all practical purposes, managers should view employees' personalities as relatively fixed in the short run.

Personality, nevertheless, is an important individual difference that managers and other organizational members need to take into account in order to understand why people feel, think, and act as they do in organizations. For example, realizing that an employee complains a lot and often gets upset because of his or her personality will help a manager deal with this type of employee, especially if the employee's job performance is acceptable.

### Personality and the Situation

Because personality accounts for observable regularities in people's attitudes and behaviors, it would seem reasonable to assert that it would account for such regularities at work. A substantial body of literature in psychology and a growing set of studies in organizational behavior suggest that personality is useful for explaining and predicting how employees generally feel, think, and behave on the job.<sup>17</sup> Personality has been shown to influence several work-related attitudes and behaviors, including job satisfaction (Chapter 3), the ability to handle work-related stress (Chapter 9), the choice of a career (Chapter 8), and leadership (Chapter 12).<sup>18</sup> Because of personality, some people, like Indra Nooyi in the opening case, are very conscientious about most things they do and, thus, perform at a higher level than those who are not so conscientious, as we discuss later in this chapter.<sup>19</sup>

#### EXHIBIT 2.1

##### Nature and Nurture: The Determinants of Personality



*When there are strong situational pressures to perform specific behaviors in a certain manner, as is the case on an assembly line, personality may not be a good predictor of on-the-job behavior.*



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However, in addition to personality, the organizational situation also affects work attitudes and behaviors. In some organizations, strong situational constraints and pressures (such as job requirements or strict rules and regulations) force people to behave in a certain way, regardless of their personalities.<sup>20</sup> For example, an employee on an assembly line manufacturing bicycles must put handlebars on each bicycle that passes by. A bike passes by every 75 seconds, and the employee has to be sure that the handlebars are properly attached to each bicycle within that time frame. It doesn't matter whether the employee is shy or outgoing; regardless of his or her personality, the employee has a specific task to perform day in and day out in the same manner. Because the employee is not free to vary his or her behavior, personality is not useful for understanding or predicting job performance in this situation.

Consider another example. Employees at McDonald's and other fast-food restaurants follow clearly specified procedures for preparing large quantities of burgers, fries, and shakes and serving them to large numbers of customers. Because each employee knows exactly what the procedures are and how to carry them out (they are spelled out in a detailed manual), the food is always prepared in the same manner, regardless of the employees' personalities.

As these two examples show, in organizations in which situational pressures on employees' behaviors are strong, personality may not be a good predictor of on-the-job behavior. When situational pressures are weak, however, and employees have more choice about how to perform a job, personality plays a more important role, and what a person can put into his or her job performance will sometimes depend on the kind of person he or she is. For instance, a statewide English curriculum requires English teachers to teach Shakespeare's *Macbeth* to high-school seniors, but the curriculum does not specify exactly how the play is to be taught. A teacher who is outgoing and has a flair for the dramatic may bring the play and its themes to life by dressing up in period costumes and acting out scenes. A teacher who is less outgoing may simply ask students to take turns reading aloud from the play or ask them to write a paper on how Shakespeare reveals a certain theme through the play's dialog and action. Both teachers are following the curriculum but, as you can see, their individual personalities affect *how* they do so.

By now, it should be clear that both personality and situational factors affect organizational behavior.<sup>21</sup> It is the interaction of personality and situational factors that determines how people think, feel, and behave in general and, specifically, how they do so within an organization (see Exhibit 2.2). Robert Greene, for example, is an executive in an advertising agency responsible for coming up with advertising campaigns and presenting them to the agency's clients. Greene is a creative, achievement-oriented person who has good ideas and has developed the agency's most successful and lucrative campaigns. But Greene is also shy and quiet and cannot always effectively communicate his ideas to clients. Greene's personality and the situation combine or interact to determine his overall performance. He performs well when working on his own or with his team to develop advertising campaigns, but in interpersonal situations, such as when he presents his campaigns to clients, he performs poorly.