

# 1

# Managers and Managing

## Learning Objectives

After studying this chapter, you should be able to:

- Describe what management is, why management is important, what managers do, and how managers utilize organizational resources efficiently and effectively to achieve organizational goals.
- Distinguish among planning, organizing, leading, and controlling (the four principal managerial functions), and explain how managers' ability to handle each one can affect organizational performance.
- Differentiate among three levels of management, and understand the responsibilities of managers at different levels in the organizational hierarchy.
- Identify the roles managers perform, the skills they need to execute those roles effectively, and the way new information technology is affecting these roles and skills.
- Discuss the principal challenges managers face in today's increasingly competitive global environment.



# A Manager's Challenge

## Steve Jobs Transforms Apple Computer

### What is high-performance management?

In 1976, Steven P. Jobs sold his Volkswagen van, and his partner Steven Wozniak sold his two programmable calculators. They then invested the proceeds of \$1,350 to build a computer circuit board in Jobs's garage. So popular was the circuit board, which was developed into the Apple II personal computer (PC), that in 1977 Jobs and Wozniak incorporated their new business as Apple Computer. By 1985 Apple's sales were almost \$2 billion; nevertheless, in the same year Jobs was forced out of the company he founded. Jobs's approach to management was a big part of the reason he lost control of Apple.<sup>1</sup>

After Apple was founded, Steve Jobs saw his role as leading the development effort to create new and improved PCs, and he started many different project teams to develop new and different PC models. Although this was a good strategy, Jobs's management style was often arbitrary and overbearing and caused many problems. He often played favorites among various employees and teams, championing some (e.g., his personal project, the Lisa PC team), against others (the Macintosh

team). His actions led to fierce competition among project teams, many misunderstandings, and a great deal of distrust among members of competing teams.<sup>2</sup>



Like many effective managers, Steve Jobs has learned from his mistakes.

Moreover, Jobs's abrasive management style brought him into conflict with other managers, particularly John Sculley, Apple's CEO. Employees became unsure whether Jobs (the chairman) or Sculley (the CEO) was leading the company, and both managers were so busy competing for control of Apple that neither had the time or energy to ensure that Apple's resources were being used efficiently. For example, little attention was paid to evaluating the performance of the project teams, and there was not even a budget in place to curb the teams' research and development spending. The result? Apple's costs started to soar and its performance and profits fell. Apple's board of directors became convinced that Jobs's management style was the heart of the problem and asked him to resign.

After leaving Apple, Jobs moved on to new ventures. He founded NEXT, which developed a powerful new PC, and Pixar, a computer animation company that became a major success story after it made movies such as *Toy Story* and *Finding Nemo*. In both these companies, Jobs developed a clear vision for managers to follow and built strong management teams. In the meantime, Apple was struggling to compete against Michael Dell's new, low-cost PCs and Microsoft's Windows software.

Apple's performance was declining rapidly, and in 1996 Jobs convinced Apple to buy NEXT for \$400 million and use its powerful operating system in the next generation of Apple PCs. In 1997, Apple asked Jobs to take full control of the company and once again become its CEO.<sup>3</sup> Jobs agreed and quickly began to put the new management skills he had developed over time to good use. Understanding, more than he had ever before, that what a company needs is clear leadership and a guiding mission to energize

and motivate employees, the charismatic Jobs strove to create a new vision for Apple.

Jobs decided that to survive, Apple had to introduce advanced PCs and related equipment. He instituted an across-the-board planning process, established clear company objectives, and created a team structure that allowed programmers and engineers to pool their skills to develop new PCs. He delegated considerable authority to the teams, but he also established strict timetables and challenging "stretch" goals, such as bringing new products to market as quickly as possible, for these groups to achieve. One result of these efforts was Apple's sleek new line of iMac PCs, which were quickly followed by a wide range of futuristic PC-related products. To profile the company's innovations, Jobs opened a nationwide chain of Apple stores.

Jobs's most recent attempt to revolutionize Apple and raise its performance came in 2003, when he announced that Apple was starting a new service called *iTunes*. Through iTunes, an online music store, people could legally download songs from the Internet by paying a dollar a song. At the same time, Apple introduced its iPod music player, which can store thousands of songs, and the player quickly became a runaway success. In 2004, Apple announced its new mini iPod, which was such a success that retailers could not keep it in stock. By then, Apple had 70 percent of the online music download business!<sup>4</sup>

In 2004, it seemed that a new Apple was emerging. Analysts credit Apple's rising performance to the management skills Jobs was forced to develop after his ouster from the company he had founded. However, with Dell the acknowledged low-cost PC maker, will Apple's new venture into the music business be enough to guarantee its future success?

## Overview

The history of Steve Jobs's ups and downs as both a founder and a manager at Apple Computer illustrates many of the challenges facing people who become managers: Managing a large company is a complex activity, and effective managers must possess many kinds of skills, knowledge, and abilities. Management is an unpredictable process. Making the right decision is difficult; even effective managers often make mistakes, but the most effective managers are the ones, like Jobs, who learn from their mistakes

and continually strive to find ways to help their companies increase their competitive advantage and performance.

In this chapter, we look at what managers do and what skills and abilities they must develop if they are to manage their organizations successfully over time. We also identify the different kinds of managers that organizations need and the skills and abilities they must develop if they are to be successful. Finally, we identify some of the challenges that managers must address if their organizations are to grow and prosper.

## What Is Management?

**management** The planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively.

When you think of a manager, what kind of person comes to mind? Do you see someone who, like Steve Jobs, can determine the future prosperity of a large for-profit company? Or do you see the administrator of a not-for-profit organization, such as a school, library, or charity, or the person in charge of your local Wal-Mart store or McDonald's restaurant, or the person *you* answer to if you have a part-time job? What do all these managers have in common? First, they all work in organizations. *Organizations* are collections of people who work together and coordinate their actions to achieve a wide variety of *goals*, or desired future outcomes.<sup>5</sup> Second, as managers, they are the people responsible for supervising the use of an organization's human and other resources to achieve its goals. **Management**, then, is the planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively. An organization's *resources* include assets such as people and their skills, know-how, and knowledge; machinery; raw materials; computers and information technology; and financial capital.

## Achieving High Performance: A Manager's Goal

One of the most important goals that organizations and their members try to achieve is to provide some kind of good or service that customers desire. The principal goal of CEO Steve Jobs is to manage Apple so that a new stream of goods and services—such as more powerful PCs, new kinds of wafer-thin computer monitors, Internet music players, and the improved ability to download music from the Internet—are created that customers are willing to buy. The principal goal of doctors, nurses, and hospital administrators is to increase their hospital's ability to make sick people well. Likewise, the principal goal of each McDonald's restaurant manager is to produce burgers, fries, and shakes that people want to buy for and eat.

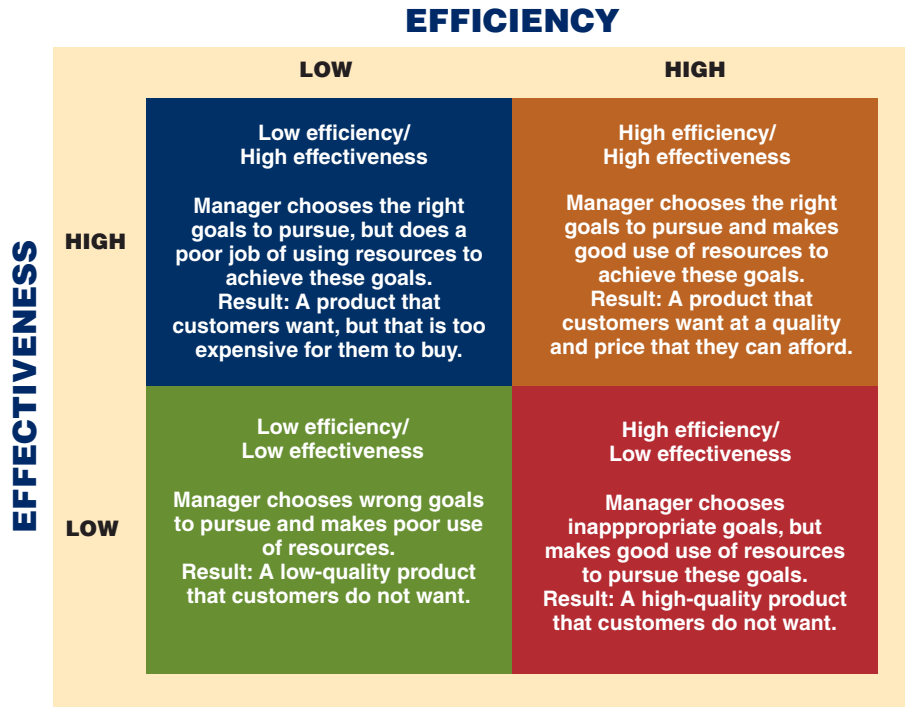
**organizational performance** A measure of how efficiently and effectively a manager uses resources to satisfy customers and achieve organizational goals.

**efficiency** A measure of how well or how productively resources are used to achieve a goal.

**Organizational performance** is a measure of how efficiently and effectively managers use resources to satisfy customers and achieve organizational goals. Organizational performance increases in direct proportion to increases in efficiency and effectiveness (see Figure 1.1, page 6).

**Efficiency** is a measure of how well or how productively resources are used to achieve a goal.<sup>6</sup> Organizations are efficient when managers minimize the amount of input resources (such as labor, raw materials, and component parts) or the amount of time needed to produce a given output of goods or services. For example, McDonald's developed a more efficient fat fryer that not only reduces the amount of oil used in cooking by 30 percent but also speeds up the cooking of french fries. Steve Jobs instructed Apple's engineers to develop a

**Figure 1.1**  
**Efficiency,**  
**Effectiveness,**  
**and Performance**  
**in an Organization**



High-performing organizations are efficient *and* effective.

smaller, more compact version of its iPod player, which became a huge success, and he has undoubtedly told them to develop new kinds of music players. A manager's responsibility is to ensure that an organization and its members perform as efficiently as possible all the activities needed to provide goods and services to customers.

**effectiveness** A measure of the appropriateness of the goals an organization is pursuing and of the degree to which the organization achieves those goals.

**Effectiveness** is a measure of the appropriateness of the goals that managers have selected for the organization to pursue and of the degree to which the organization achieves those goals. Organizations are effective when managers choose appropriate goals and then achieve them. Some years ago, for example, managers at McDonald's decided on the goal of providing breakfast service to attract more customers. The choice of this goal has proved very smart, for sales of breakfast food now account for more than 30 percent of McDonald's revenues. Jobs's goal is to create a constant flow of innovative PC and digital entertainment products. High-performing organizations, such as Apple, McDonald's, Wal-Mart, Intel, Home Depot, Accenture, and the March of Dimes, are simultaneously efficient and effective, as shown in Figure 1.1. Effective managers are those who choose the right organizational goals to pursue and have the skills to utilize resources efficiently.

## Why Study Management?

Today, more students are competing for places in business courses than ever before; the number of people wishing to pursue Master of Business Administration (MBA) degrees—today's passport to an advanced management position—

either on campus or from online universities is at an all-time high. Why is the study of management currently so popular?<sup>7</sup>

First, in any society or culture resources are valuable and scarce, so the more efficient and effective use that organizations can make of those resources, the greater the relative well-being and prosperity of people in that society. Because managers are the people who decide how to use many of a society's most valuable resources—its skilled employees, raw materials like oil and land, computers and information systems, and financial assets—they directly impact the well-being of a society and the people in it. Understanding what managers do and how they do it is of central importance to understanding how a society works and how it creates wealth.

Second, although most people are not managers, and many may never intend to become managers, almost all of us encounter managers because most people have jobs and bosses. Moreover, many people today are working in groups and teams and have to deal with co-workers. Studying management helps people to deal with their bosses and their co-workers. It reveals how to understand other people at work and make decisions and take actions that win the attention and support of the boss. Management also teaches people not yet in positions of authority how to lead co-workers, solve conflicts between them, and increase team performance.

Third, in any society, people are in competition for a very important resource—a well-paying job and an interesting and satisfying career—and understanding management is one important path toward obtaining such a position. In general, jobs become more interesting the more complex or responsible they are. Any person who desires a motivating job that changes over time might therefore do well to develop management skills and become promotable. A person who has been working for several years and then returns to school for an MBA can usually, after earning the degree, find a more interesting, satisfying job and one that pays significantly more than the previous job. Moreover, salaries increase rapidly as people move up the organizational hierarchy, whether it is a school system, a large for-profit business organization, or a not-for-profit charitable or medical institution.

Indeed, the salaries paid to top managers are enormous. For example, the CEOs and other top executives or managers of companies such as Apple, Dell, Walt Disney, GE, and McDonald's receive millions in actual salary each year. However, even more staggering is the fact that most top executives also receive stock or shares in the company they manage, as well as stock options that give them the right to sell these shares at a certain time in the future.<sup>8</sup> If the value of the stock goes up, then the managers keep the difference between the price they obtained the stock option for and what it is worth later. Michael Eisner, CEO of Walt Disney, for example, received stock options that were worth \$1 *billion* when Disney's stock soared in the 1990s. When Steve Jobs again became CEO of Apple, he decided he would accept a salary of only \$1 a year. However, Jobs was also awarded stock options that were worth over \$100 million by 2004 and will be worth double or treble this amount if Apple continues to perform well and its stock price rises (he was also given the free use of a \$90 million jet).<sup>9</sup> These incredible amounts of money provide some indication of both the responsibilities and the rewards that accompany the achievement of high management positions in major companies. What is it that managers actually do to receive such rewards?<sup>10</sup>

# Managerial Functions

The job of management is to help an organization make the best use of its resources to achieve its goals. How do managers accomplish this objective? They do so by performing four essential managerial functions: *planning*, *organizing*, *leading*, and *controlling* (see Figure 1.2). The arrows linking these functions in Figure 1.2 suggest the sequence in which managers typically perform the functions. French manager Henri Fayol first outlined the nature of these managerial activities around the turn of the twentieth century in *General and Industrial Management*, a book that remains the classic statement of what managers must do to create a high-performing organization.<sup>11</sup>

Managers at all levels and in all departments—whether in small or large organizations, for-profit or not-for-profit organizations, or organizations that operate in one country or throughout the world—are responsible for performing these four functions, which we look at next. How well managers perform these functions determines how efficient and effective their organizations are.

## Planning

**planning** Identifying and selecting appropriate goals; one of the four principal functions of management.

**Planning** is a process that managers use to identify and select appropriate goals and courses of action. Three steps in the planning process are (1) deciding which goals the organization will pursue, (2) deciding what courses of action to adopt to attain those goals, and (3) deciding how to allocate organizational resources to attain those goals. How well managers plan determines how effective and efficient the organization is—its performance level.<sup>12</sup>

As an example of planning in action, consider the situation confronting Michael Dell, CEO of Dell Computer, the most profitable PC maker and Apple's main competitor.<sup>13</sup> In 1984, the 19-year-old Dell saw an opportunity to enter the PC market by assembling PCs and then selling them directly to customers. Dell began to plan how to put his idea into practice. First, he decided that his goal was to sell an inexpensive PC, to undercut the prices of companies like Compaq and Apple. Second, he had to decide on a course of action to

**Figure 1.2**  
**Four Functions of Management**



Michael Dell sits in the dorm room at the University of Texas, Austin where he launched his personal computer company as a college freshman. The room is now occupied by freshmen Russell Smith (left) and Jacob Frith, both from Plano, Texas.



achieve this goal. He decided to sell directly to customers by telephone and to bypass expensive computer stores that sold Compaq and Apple PCs. He also had to decide how to obtain low-cost components and how to tell potential customers about his products. Third, he had to decide how to allocate his limited funds (he only had \$5,000) to buy labor and other resources. He chose to hire three people and work with them around a table to assemble his PCs.

Thus, to put his vision of making and selling PCs into practice, Dell had to plan, and as his organization grew, his plans changed and became progressively more complex. Dell and his managers are continually planning how to help the company maintain its position as the biggest and highest-performing PC maker. In 2003, Dell announced it would begin to sell printers and personal digital assistants (PDAs); this brought it into direct competition with Hewlett-Packard (HP) the leading printer maker, and Palm One, the maker of the Palm Pilot. In 2003, Dell also brought out its own Internet music player, the Digital Jukebox, to compete against Apple's iPod, and in 2004 it reduced the price of its player to compete more effectively against Apple. In April 2004, Dell's player was selling at \$50 less than Apple's, and analysts were wondering what effect this would have on iPod sales and Apple's future performance.

As the battle between Dell and Apple suggests, the outcome of planning is a **strategy**, a cluster of decisions concerning what organizational goals to pursue, what actions to take, and how to use resources to achieve goals. The decisions that were the outcome of Michael Dell's planning formed a *low-cost strategy*. A low-cost strategy is a way of obtaining customers by making decisions that allow the organization to produce its goods or services cheaply so that prices can be kept low. Dell has been constantly refining this strategy and exploring new strategies to reduce costs. Dell has become the most profitable PC maker as a result of its low-cost strategy, and it is hoping to repeat its success in the music player business. By contrast, Apple's strategy has been to deliver new, exciting, and different computer and digital products, such as the iPod, to its customers—a strategy known as *differentiation*. The mini iPod was developed for people on the go, for example; it is as small as a (thick) credit card, has unique, easy-to-use controls, and comes in a variety of bright contemporary colors.<sup>14</sup>

**strategy** A cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals.

Planning is a difficult activity because normally what goals an organization should pursue and how best to pursue them—which strategies to adopt—is not immediately clear. Managers take risks when they commit organizational resources to pursue a particular strategy. Either success or failure is a possible outcome of the planning process. Dell succeeded spectacularly, but many other PC makers either went out of business (such as Packard Bell and Digital) or lost huge sums of money (like IBM and AT&T) trying to compete in this industry. In Chapter 8 we focus on the planning process and on the strategies organizations can select to respond to opportunities or threats in an industry. The story of Patricia Russo's rise to power at Lucent illustrates well how important planning and strategy making are to a manager's career success.



## Manager as a Person

### New CEOs Bring Change at Avon and Lucent

Two global companies that have required a radical overhaul of their strategies in recent years are Avon, the well-known door-to-door selling cosmetics giant, and Lucent Technologies, the telecommunications company. In 2000, after several years of declining sales, Avon recognized the need for change and appointed Andrea Jung as its CEO, the first woman CEO in its history. Jung faced a tough task in trying to transform this tradition-laden company.<sup>15</sup> She began by searching for a new vision for the company.

Avon's main problem she decided was reaching beyond the typical 30-to-55-year-old woman who had always been its main customer. She decided to target the important 16-to-24-year-old segment and attract and build brand loyalty among young customers who will become its main customer base of the future. In 2003, a new Avon division called *Mark* began to distribute a new line of hip cosmetics designed specifically to meet the needs of this younger market segment. To meet the sales challenge of direct distribution to customers through a personal selling approach, Jung also decided to recruit a new generation of sales reps from the younger demographic groups. She hoped that with peers to serve their needs, its selling parties can be geared to the needs of this younger age group and its sales reps can be trained to respond to their unique needs.

The potential of this market is enormous for the 17 million women in this segment have a total purchasing power of almost \$100 billion a year, and spend 20 percent of their income on beauty products. In 2001, Jung began to enthusiastically communicate her vision for Avon to 13,000 sales representatives who gathered in Las Vegas to preview Avon's new product lines, take in some shows, and listen to the new CEO. Jung let the sales representatives know that Avon's future success depended on their efforts and that they were at the heart of Avon.

Today, Avon has four million reps located around the world, and it plans to increase the number of its U.S. sales reps from 500,000 to 750,000 in the next few years.<sup>16</sup> In 2004 it reported record global profits on booming worldwide sales of its growing range of makeup, soaps, haircare, jewelry, and other products.

As Lucent's performance continued to plunge, because of shrinking sales due to the telecommunications bust in the early 2000s, it decided to bring back Patricia Russo (a former Lucent executive who had left to become the COO of Kodak) as its CEO. Russo faced a daunting task given that Lucent



Patricia Russo's industry knowledge and vision helped her establish a strategy that put Lucent's balance sheet back in the black.

of the way Jung and Russo changed the way their companies were organized. To quickly take advantage of the opportunities offered by the Internet and emerging information technology, both executives created a new organizing plan that focused on the need to develop and sell new products. At first, Avon's army of sales reps had viewed the Internet as a way of bypassing them and costing them their commissions. However, Jung worked hard to show reps that their company cared about them, and that customers who bought over the Internet would very likely prove to be good prospects for their personal selling approach once they had bought and tried Avon's products. Jung's predictions proved correct, Internet sales increased, not decreased, their commissions and its sales reps now actively embrace the new possibilities the Internet has opened up for their personal selling approach. In Lucent's case, utilizing the Internet meant streamlining services to customers such as large corporations and the federal government. In this way, Lucent could continuously monitor the performance of its customer's networks to prevent breakdowns in their operations.

Jung's flair and drive for making the most of Avon's resources is communicated clearly to reps in her leadership style. This is based on using her personality and charisma to convince sales reps that if they continue to work toward achieving her vision of making Avon the number one shopping place for women around the globe, the possibilities for them are endless. Russo, on her part noted that her return to Lucent was because "This was the only job I considered leaving for. It is in an industry I know, with customers and people I know." Her leadership approach is based on clearly communicating to her managers that her priorities are to improve relationships with customers and other companies to find new ways to create products and services they will value. For both CEOs, planning and organizing are vital functions that they insist must be continuously worked on by managers at all levels of the company.

lost over \$16 billion in 2001.<sup>17</sup> How should she best position Lucent's different businesses to meet the needs of its global customers while continuing to find ways to reduce costs? Russo's answer was to refocus the company's activities on three main business areas: (1) enhancing telecommunications services, involving network design, management, and maintenance, to take advantage of the experience of Lucent's highly skilled engineers; (2) developing partnerships with other high-tech companies to jointly market their products; (3) boosting Lucent's ties with the federal government and offering a streamlined service to all areas of government from taxes to defense.<sup>18</sup> By 2004, the success of Russo's efforts was seen as Lucent finally broke even and returned to profit.<sup>19</sup>

Achieving such dramatic turnarounds at these companies was also the result of

## Organizing

**organizing** Structuring working relationships in a way that allows organizational members to work together to achieve organizational goals; one of the four principal functions of management.

**organizational structure** A formal system of task and reporting relationships that coordinates and motivates organizational members so that they work together to achieve organizational goals.

**Organizing** is a process that managers use to establish a structure of working relationships that allow organizational members to interact and cooperate to achieve organizational goals. Organizing involves grouping people into departments according to the kinds of job-specific tasks they perform. In organizing, managers also lay out the lines of authority and responsibility between different individuals and groups, and they decide how best to coordinate organizational resources, particularly human resources.

The outcome of organizing is the creation of an **organizational structure**, a formal system of task and reporting relationships that coordinates and motivates members so that they work together to achieve organizational goals. Organizational structure determines how an organization's resources can be best used to create goods and services. As Dell Computer grew, for example, Michael Dell faced the issue of how to structure the organization. Early on he was hiring 100 new employees a week and deciding how to design his managerial hierarchy to best motivate and coordinate managers' activities. As his organization grew, he and his managers created progressively more complex kinds of organizational structures to help it achieve its goals. We examine the organizing process in detail in Chapters 9 through 11.

## Leading

**leading** Articulating a clear vision and energizing and enabling organizational members so that they understand the part they play in achieving organizational goals; one of the four principal functions of management.

In **leading** managers not only articulate a clear vision for organizational members to follow but also energize and enable organizational members so that they understand the part they play in achieving organizational goals. Leadership depends on the use of power, influence, vision, persuasion, and communication skills to coordinate the behaviors of individuals and groups so that their activities and efforts are in harmony and to encourage employees to perform at a high level. The outcome of leadership is a high level of motivation and commitment among organizational members. Employees at Dell Computer, for example, responded well to Michael Dell's hands-on leadership style, which has resulted in a hardworking, committed workforce. Managers at Apple now appreciate Steve Jobs's new leadership style, a style based on his willingness to delegate authority and his ability to help managers resolve differences that could easily lead to bitter disputes and power struggles. We discuss the issues involved in managing and leading individuals and groups in Chapters 13 through 16.

## Controlling

**controlling** Evaluating how well an organization is achieving its goals and taking action to maintain or improve performance; one of the four principal functions of management.

In **controlling**, managers evaluate how well an organization is achieving its goals and take action to maintain or improve performance. For example, managers monitor the performance of individuals, departments, and the organization as a whole to see whether they are meeting desired performance standards. Michael Dell learned early in his career how important this is; it took Steve Jobs longer. If standards are not being met, managers take action to improve performance.

The outcome of the control process is the ability to measure performance accurately and regulate organizational efficiency and effectiveness. To exercise control, managers must decide which goals to measure—perhaps goals pertaining to productivity, quality, or responsiveness to customers—and then they must design information and control systems that will provide the data they

need to assess performance. The controlling function also allows managers to evaluate how well they themselves are performing the other three functions of management—planning, organizing, and leading—and to take corrective action.

Michael Dell had difficulty establishing effective control systems because his company was growing so rapidly and he lacked experienced managers. In 1988 Dell's costs soared because no controls were in place to monitor inventory, which had built up rapidly. In 1993 financial problems arose because of ill-advised foreign currency transactions. In 1994 Dell's new line of laptop computers crashed because poor quality control resulted in defective products, some of which caught fire. To solve these and other control problems, Dell hired experienced managers to put the right control systems in place. As a result, by 1998 Dell was able to make computers for about 10 percent less than its competitors, creating a major source of competitive advantage. By 2001 Dell had become so efficient it was driving its competitors out of the market because it had realized a 15 to 20 percent cost advantage over them.<sup>20</sup> By 2003 it was the biggest PC maker in the world. Controlling, like the other managerial functions, is an ongoing, fluid, always changing process that demands constant attention and action. We cover the most important aspects of the control function in Chapters 9, 11, 17, 18, and 19.

The four managerial functions—planning, organizing, leading, and controlling—are essential to a manager's job. At all levels in a managerial hierarchy, and across all departments in an organization, effective management means making decisions and managing these four activities successfully.

## Types of Managers

To perform efficiently and effectively, organizations employ three types of managers—first-line managers, middle managers, and top managers—arranged in a hierarchy (see Figure 1.3, page 14). Typically, first-line managers report to middle managers, and middle managers report to top managers. Managers at each level have different but related responsibilities for utilizing organizational resources to increase efficiency and effectiveness. These three types of managers are grouped into departments (or *functions*) according to their specific job responsibilities. A **department**, such as manufacturing, accounting, or engineering, is a group of people who work together and possess similar skills or use the same kind of knowledge, tools, or techniques to perform their jobs. Within each department are all three levels of management. Next, we examine the reasons why organizations use a hierarchy of managers and group them into departments. We then examine some recent changes taking place in managerial hierarchies.

**department** A group of people who work together and possess similar skills or use the same knowledge, tools, or techniques to perform their jobs.

## Levels of Management

As just discussed, organizations normally have three levels of management: first-line managers, middle managers, and top managers.

**first-line manager** A manager who is responsible for the daily supervision of nonmanagerial employees.

**FIRST-LINE MANAGERS** At the base of the managerial hierarchy are **first-line managers**, often called *supervisors*. They are responsible for the daily supervision of the nonmanagerial employees who perform many of the specific activities necessary to produce goods and services. First-line managers work in all departments or functions of an organization.

**Figure 1.3**  
**Types of Managers**



Examples of first-line managers include the supervisor of a work team in the manufacturing department of a car plant, the head nurse in the obstetrics department of a hospital, and the chief mechanic overseeing a crew of mechanics in the service function of a new-car dealership. At Dell Computer, first-line managers include the supervisors responsible for controlling the quality of Dell computers or the level of customer service provided by Dell's telephone salespeople. When Michael Dell started his company, he personally controlled the computer assembly process and thus performed as a first-line manager or supervisor.

**middle manager** A manager who supervises first-line managers and is responsible for finding the best way to use resources to achieve organizational goals.

**MIDDLE MANAGERS** Supervising the first-line managers are **middle managers**, responsible for finding the best way to organize human and other resources to achieve organizational goals. To increase efficiency, middle managers find ways to help first-line managers and nonmanagerial employees better utilize resources to reduce manufacturing costs or improve customer service. To increase effectiveness, middle managers evaluate whether the goals that the organization is pursuing are appropriate and suggest to top managers ways in which goals should be changed. Very often, the suggestions that middle managers make to top managers can dramatically increase organizational performance. A major part of the middle manager's job is developing and fine-tuning skills and know-how, such as manufacturing or marketing expertise, that allow the organization to be efficient and effective. Middle managers make thousands of specific decisions about the production of goods and services: Which first-line supervisors should be chosen for this particular project? Where can we find the highest-quality resources? How should employees be organized to allow them to make the best use of resources?

Behind a first-class sales force look for the middle managers responsible for training, motivating, and rewarding the salespeople. Behind a committed staff of high school teachers look for the principal who energizes them to find ways to obtain the resources they need to do outstanding and innovative jobs in the classroom.

**TOP MANAGERS** In contrast to middle managers, **top managers** are responsible for the performance of *all* departments.<sup>21</sup> They have *cross-departmental*

**top manager** A manager who establishes organizational goals, decides how departments should interact, and monitors the performance of middle managers.

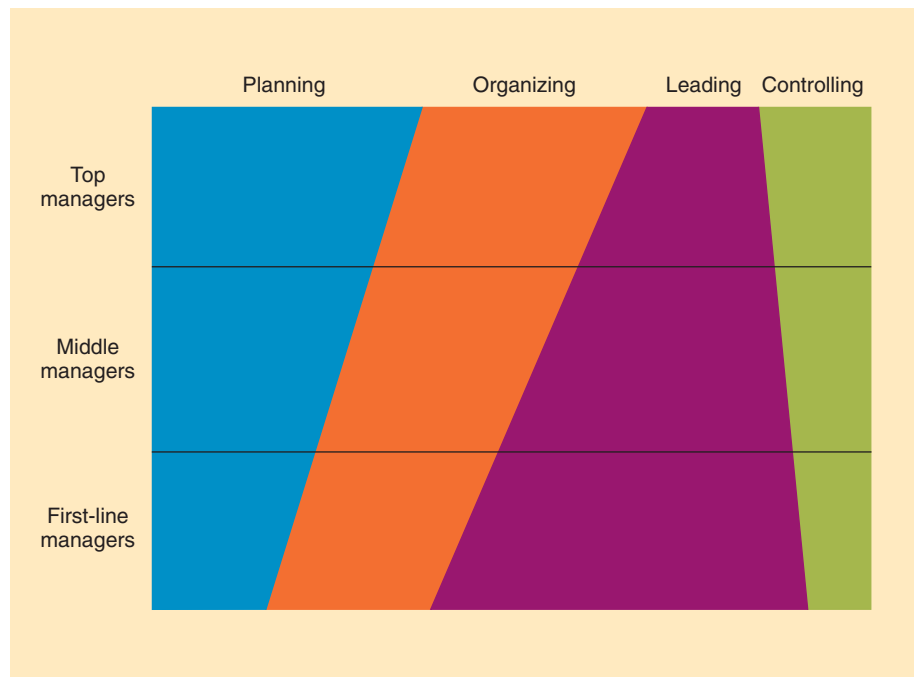
**top-management team** A group composed of the CEO, the COO, and the heads of the most important departments.

*responsibility*. Top managers establish organizational goals, such as which goods and services the company should produce; they decide how the different departments should interact; and they monitor how well middle managers in each department utilize resources to achieve goals.<sup>22</sup> Top managers are ultimately responsible for the success or failure of an organization, and their performance (like that of Steve Jobs and Patricia Russo) is continually scrutinized by people inside and outside the organization, such as other employees and investors.<sup>23</sup>

The *chief executive officer (CEO)* is a company's most senior and important manager, the one to whom all other top managers report. Today, the term *chief operating officer (COO)* is often used to refer to the top manager who is being groomed to take over as CEO when the current CEO retires or leaves the company. Together, the CEO and COO are responsible for developing good working relationships among the top managers of various departments (manufacturing and marketing, for example); usually top managers have the title "vice president." A central concern of the CEO is the creation of a smoothly functioning **top-management team**, a group composed of the CEO, the COO, and the department heads most responsible for helping achieve organizational goals.<sup>24</sup>

The relative importance of planning, organizing, leading, and controlling—the four managerial functions—to any particular manager depends on the manager's position in the managerial hierarchy.<sup>25</sup> The amount of time that managers spend planning and organizing resources to maintain and improve organizational performance increases as they ascend the hierarchy (see Figure 1.4).<sup>26</sup> Top managers devote most of their time to planning and organizing, the functions so crucial to determining an organization's long-term performance. The lower that managers' positions are in the hierarchy, the more time the managers spend leading and controlling first-line managers or nonmanagerial employees.

**Figure 1.4**  
**Relative Amount of Time That Managers Spend on the Four Managerial Functions**



## Areas of Managers

Because so much of a manager's responsibility is to acquire and develop critical resources, managers are typically members of specific departments.<sup>27</sup> Managers inside a department possess job-specific skills and are known as, for example, marketing managers or manufacturing managers. As Figure 1.3 indicates, first-line, middle, and top managers, who differ from one another by virtue of their job-specific responsibilities, are found in each of an organization's major departments. Inside each department, the managerial hierarchy also emerges.

At Dell Computer, for example, Michael Dell hired experts to take charge of the marketing, sales, and manufacturing departments and to develop work procedures to help first-line managers control the company's explosive sales growth. The head of manufacturing quickly found that he had no time to supervise computer assembly, so he recruited manufacturing middle managers from other companies to assume this responsibility.

## Recent Changes in Managerial Hierarchies

The tasks and responsibilities of managers at different levels have been changing dramatically in recent years. Two major factors that have led to these changes are global competition and advances in new information technology (IT) and in e-commerce. Stiff competition for resources from organizations both at home and abroad has put increased pressure on all managers to improve efficiency, effectiveness, and organizational performance. Increasingly, top managers are encouraging lower-level managers to look beyond the goals of their own departments and take a cross-departmental view to find new opportunities to improve organizational performance, as Michael Dell and Steve Jobs have done. New information technologies give managers at all levels access to more and better information and improve their ability to plan, organize, lead, and control; this has also revolutionized the way the managerial hierarchy works.<sup>28</sup>

**RESTRUCTURING AND OUTSOURCING** To take advantage of IT and e-commerce and their ability to reduce operating costs, CEOs and top-management teams have been restructuring organizations and outsourcing specific organizational activities to reduce the number of employees on the payroll.

**Restructuring** involves the use of information technology to downsize an organization or shrink its operations by eliminating the jobs of large numbers of top, middle, or first-line managers and nonmanagerial employees. For example, IT allows fewer employees to perform a given task because it increases each person's ability to process information and make decisions more quickly and accurately. U.S. companies are spending over \$50 billion a year on advanced IT that improves efficiency and effectiveness. We discuss IT's many dramatic effects on management in Chapter 18.

Restructuring, however, can produce some powerful negative outcomes. IT can reduce the morale of the remaining employees, who are worried about their own job security. And top managers of many downsized organizations are realizing that they downsized too far, because employees complain they are overworked and because more customers complain about poor-quality service.<sup>29</sup>

### restructuring

Downsizing an organization by eliminating the jobs of large numbers of top, middle, and first-line managers and nonmanagerial employees.

**outsourcing**

Contracting with another company, usually abroad, to have it perform an activity the organization previously performed itself.

**Outsourcing** involves contracting with another company, usually in a low-cost country abroad, to have it perform an activity the organization previously performed itself, such as manufacturing or marketing. Outsourcing promotes efficiency by reducing costs and by allowing an organization to make better use of its remaining resources. The need to respond to low-cost global competition has speeded outsourcing dramatically in the 2000s. Three million U.S. jobs in the manufacturing sector have been lost since 2000 as companies moved their operations to countries such as China, Taiwan, and Malaysia. Tens of thousands of high-paying jobs in IT have moved to countries like India and Russia, where programmers work for one-third the salary of those in the United States.

Large for-profit organizations today typically employ 10 to 20 percent fewer employees than they did 10 years ago because of restructuring and outsourcing. General Motors, IBM, AT&T, HP, Dell, and Du Pont are among the thousands of organizations that have streamlined their operations to increase efficiency and effectiveness. The argument is that the managers and employees who have lost their jobs will find employment in new and growing U.S. organizations where their skills and experience will be better utilized. For example, the millions of manufacturing jobs that have been lost overseas will soon be replaced by higher-paying U.S. jobs in the service sector that are made possible because of the growth in global trade.

**empowerment** The expansion of employees' knowledge, tasks, and responsibilities.

**self-managed team**

A group of employees who supervises their own activities and monitor the quality of the goods and services they provide.

**EMPOWERMENT AND SELF-MANAGED TEAMS** Another major change in management has taken place at the level of first-line managers, who typically supervise the employees engaged in producing goods and services. By taking advantage of advanced IT, many companies have taken two steps to reduce costs and improve quality. One is the **empowerment** of their workforces by using powerful new software programs to expand employees' knowledge, tasks, and responsibilities. The other is the creation of **self-managed teams**—groups of employees given responsibility for supervising their own activities and for monitoring the quality of the goods and services they provide.<sup>30</sup>

Employees of 24/7 Customer in Bangalore provide phone support for United States and United Kingdom clients and must work through the night. It is estimated that up to 1.6 million U.S. jobs will shift offshore by 2010, however, the U.S. Bureau of Labor Statistics expects 22 million new jobs will be created by other industries.



Such teams input the results of their activities into computers, and through IT middle managers have immediate access to what is happening. As a result of IT, members of self-managed teams assume many of the responsibilities and duties previously performed by first-line managers.<sup>31</sup> What is the role of the first-line manager in this new IT work context? First-line managers act as coaches or mentors whose job is not to tell employees what to do but to provide advice and guidance and help teams find new ways to perform their tasks more efficiently.<sup>32</sup> Empire's use of IT to change the tasks and responsibilities of its sales force illustrates many important ways in which IT can affect the management process.



## Information Technology Byte

### Empire Insurance Uses CRM to Boost Sales

In 2001, Empire, the largest health insurance provider in New York, sold its health insurance policies through 1,800 sales agents who were responsible for collecting all the customer-specific information needed to determine the price of each customer's insurance policy. Once they had the necessary information, the agents phoned Empire's quotes department, where first-line managers drew up and approved price quotes. These quotes were then relayed to the agents, who in turn relayed them to the customers, who then often modified their requests to lower the cost of the insurance policy. For each modified request, the agent then had to phone the supervisor at Empire again to get a revised price quote. This often happened several times over, with the result that it frequently took over 20 days to close a sale and another 10 days for the customer to get his or her insurance card.

Recognizing that these delays were losing the company sales, Empire's managers decided to examine how a new type of software called *customer relationship management (CRM)* could help improve the sales process. CRM software creates a Web-based IT platform that monitors and controls each of the specific activities involved in selling and delivering products to customers, such as salespeople's selling activities, product pricing, and after-sales service. CRM software works to integrate all the activities necessary for salespeople in the field to make important decisions and make them quickly.<sup>33</sup>

To see if CRM would help improve performance, Empire's managers analyzed all the specific activities involved in their company's sales process. After doing so, they decided to implement a Web-based CRM system that would empower each agent to calculate the insurance quote and offer the customer a binding legal contract. Using the new software, agents themselves now enter all relevant customer data online, and Empire's CRM system generates the quote in a few seconds. Sitting face-to-face with a customer, an agent can continually modify a policy



CRM software improves sales performance by giving salespeople the tools they need to complete customer transactions on the spot.

until its price suits the customer. The sales process that took over 20 days before can now be completed in a few hours using CRM, and customers receive their insurance cards in two to three days.

By promoting the flow of information within the sales function, CRM systems eliminate many problems, such as getting approval for a customer quote and offering a price discount. The role of the first-level manager in the new system is to watch how the now empowered sales agents close sales in order to detect ways to help all agents improve closings.<sup>34</sup> Having access to all salespeople's activities, managers, for example, can detect whether a certain selling approach works better than another, determine how much price discount should be offered, and identify changing customer needs so that they can better tailor the product to meet those needs. In essence, Empire's new CRM system not only empowers sales agents but also helps to pinpoint specific ways to improve best sales practices that can be shared across the entire sales force.

John Deere, the well-known manufacturer of tractors, also took steps to empower its employees to raise performance. Deere's managers realized that the employees who assemble its vehicles, with their detailed knowledge about how Deere products work, could become persuasive salespeople. So groups of these employees are now given training in sales techniques and sent to visit Deere customers to explain to them how to operate and service the organization's new products. While speaking with customers, these newly empowered "salespeople" are able to collect information that helps Deere develop new products that appeal to customers. The new sales jobs are temporary. Employees go on assignment but then return to the production line, where they use their new knowledge to find ways to improve efficiency and quality.

Its moves to empower employees have been so successful that Deere negotiated a new agreement with its workers designed to promote empowerment. The agreement specifies that pay increases will be based on workers' learning new skills and completing college courses in areas such as computer programming that will help the company increase efficiency and quality. And the satisfaction that workers feel as they use their new skills and develop new capabilities will increase their commitment to the company and thus help it succeed.

## IT and Managerial Roles and Skills

As the example of Empire suggests, IT is having many important effects on the way managers perform their four functions. IT is also having major effects on the way managers perform their roles and on the skills they develop to perform those roles effectively. A **managerial role** is a set of specific tasks that a manager is expected to perform because of the position he or she holds in an organization.

One well-known model of managerial roles was developed by Henry Mintzberg, who detailed 10 specific roles that effective managers undertake. Although Mintzberg's roles overlap with Fayol's model, they are useful because they focus on what managers do in a typical hour, day, or week in an organization as they go about the actual job of managing.<sup>35</sup> Below, we discuss these roles and the skills managers need to develop to perform effectively in a time when advanced IT and e-commerce are changing the way managers behave.

**managerial role** The set of specific tasks that a manager is expected to perform because of the position he or she holds in an organization.

## Managerial Roles Identified by Mintzberg

Henry Mintzberg reduced to 10 roles the thousands of specific tasks that managers need to perform as they plan, organize, lead, and control organizational resources.<sup>36</sup> Managers assume each of these roles to influence the behavior of individuals and groups inside and outside the organization. People inside the organization include other managers and employees. People outside the organization include shareholders, customers, suppliers, the local community in which an organization is located, and any local or government agency that has an interest in the organization and what it does.<sup>37</sup> Mintzberg grouped the 10 roles into three broad categories: *decisional*, *informational*, and *interpersonal*, which are described in Table 1.1. Managers often perform many of these roles from minute to minute while engaged in the more general functions of planning, organizing, leading, and controlling. IT is changing how they do so.

**DECISIONAL ROLES** Decisional roles are closely associated with the methods managers use to plan strategy and utilize resources. IT helps a manager in the role of *entrepreneur* by providing more and better information to use in deciding which projects or programs to initiate and in investing resources to increase organizational performance. As a *disturbance handler*, a manager can get realtime information through IT to manage the unexpected event or crisis that threatens the organization and to implement solutions quickly. As a *resource allocator*, a manager using human resource software systems from companies such as Oracle and SAP has easy access to the detailed information needed to decide how best to use people and other resources to increase organizational performance. While engaged in that role, the manager must also be a *negotiator*, reaching agreements with other managers or groups claiming the first right to resources or with the organization and outside groups such as suppliers or customers. The emergence of electronic markets and business-to-business (B2B) networks that link organizations to thousands of suppliers is but one example of the many ways IT helps managers perform the negotiator role.

**INFORMATIONAL ROLES** Informational roles are closely associated with the tasks necessary to obtain and transmit information and so have obviously been dramatically impacted by IT. Acting as a *disseminator*, a manager can use IT to quickly and effectively transmit information to employees to influence their work attitudes and behavior. Wal-Mart, for example, has nationwide videoconferencing linking top managers to each individual store and uses the Internet to provide up-to-date training programs to its employees. IT also provides managers with much greater ability to act as a *spokesperson* and promote the organization so that people inside and outside the organization respond positively to it.

**INTERPERSONAL ROLES** Managers assume interpersonal roles to provide direction and supervision for both employees and the organization as a whole. IT can make managers much more visible throughout the organization. As a *figurehead*, the person who symbolizes an organization or a department, a CEO can use the Internet to inform employees and other interested parties, such as shareholders, about what the organization's mission is and what it is

**Table 1.1**  
**Managerial Roles Identified by Mintzberg**

Type of Role	Specific Role	Examples of Role Activities
DECISIONAL	<b>Entrepreneur</b>	Commit organizational resources to develop innovative goods and services; decide to expand internationally to obtain new customers for the organization's products.
	<b>Disturbance Handler</b>	Move quickly to take corrective action to deal with unexpected problems facing the organization from the external environment, such as a crisis like an oil spill, or from the internal environment, such as producing faulty goods or services.
	<b>Resource Allocator</b>	Allocate organizational resources among different functions and departments of the organization; set budgets and salaries of middle and first-level managers.
	<b>Negotiator</b>	Work with suppliers, distributors, and labor unions to reach agreements about the quality and price of input, technical, and human resources; work with other organizations to establish agreements to pool resources to work on joint projects.
INTERPERSONAL	<b>Figurehead</b>	Outline future organizational goals to employees at company meetings; open a new corporate headquarters building; state the organization's ethical guidelines and the principles of behavior employees are to follow in their dealings with customers and suppliers.
	<b>Leader</b>	Provide an example for employees to follow; give direct commands and orders to subordinates; make decisions concerning the use of human and technical resources; mobilize employee support for specific organizational goals.
	<b>Liaison</b>	Coordinate the work of managers in different departments; establish alliances between different organizations to share resources to produce new goods and services.
INFORMATIONAL	<b>Monitor</b>	Evaluate the performance of managers in different functions and take corrective action to improve their performance; watch for changes occurring in the external and internal environments that may affect the organization in the future.
	<b>Disseminator</b>	Inform employees about changes taking place in the external and internal environments that will affect them and the organization; communicate to employees the organization's vision and purpose.
	<b>Spokesperson</b>	Launch a national advertising campaign to promote new goods and services; give a speech to inform the local community about the organization's future intentions.

seeking to achieve. At all levels managers can use email and the Internet to act as figureheads and role models who establish appropriate ways to behave in the organization. For example, anybody in Microsoft is allowed to directly email CEO Bill Gates if he or she thinks it necessary. For similar reasons IT allows managers to perform better as *leaders* because they have more and better-quality information available for training, counseling, and mentoring subordinates to

Ken Chenault, pictured here, is the President and CEO of American Express Company. Promoted in 1997, he climbed the ranks from their Travel Related Services Company, thanks to his “even temper and unrelenting drive.” Respected by colleagues for his personality, most will say they can’t remember him losing his temper or raising his voice. His open door policy for subordinates allows him to mentor AmEx managers and encourages all to enter and “speak their minds.”



help them reach their full potential. Finally, as a *liaison*, a manager can use IT to improve his or her ability to link and coordinate the activities of people and groups both inside and outside the organization.

Terri Patsos Stanley, the manager of a small short-term rental business, has used IT to help her better perform many of these roles. Patsos Stanley pioneered the concept of providing business travelers with high-quality apartments as an alternative to staying in more expensive and often less convenient hotels in the Boston area. Her company, Boston Short-Term Rentals, grew rapidly because of her drive to keep costs down and customers happy. To achieve these goals, Patsos Stanley had to learn all the different managerial roles.<sup>38</sup>

As the president of a rapidly growing company, Patsos Stanley is continually required to make decisions. In the role of *entrepreneur*, she searched for opportunities to increase revenues by increasing the number of apartments that she manages. One solution she adopted was to use the Internet and develop a strong presence on the World Wide Web to attract customers. As a *disturbance handler*, she deals with unexpected problems such as plumbing breakdowns in the middle of the night; therefore, all staff members are connected by electronic paging and personal messaging devices to speed response to customer problems. As a *resource allocator*, she decides how much money to spend to refurbish and upgrade the apartments to maintain their luxury appeal. She maintains close contact with the apartment owners through the Internet—she sends digital images of the apartments over the Web, for example. As a *negotiator*, she contracts with other organizations such as cleaning or painting services to obtain the most economical services her business requires—once again, the information available through the Internet makes this more efficient.

With more than 200 apartments to oversee, Boston Short-Term Rentals’ information management is a vital activity, and Patsos Stanley’s role as *monitor* is important. The sophisticated computer system she developed allows her to evaluate the performance of her business by occupancy rates, customer com-

plaints, and other indicators of the quality of her service. The system facilitates her ability to respond quickly to problems as they arise. In her ongoing role as *disseminator*, she uses IT to update her staff with information about changes in visitor arrivals and departures, but as a *spokesperson* she is always on the phone to persuade visitors who may be somewhat hesitant about staying in an apartment that they know nothing about as opposed to staying with a hotel chain that has a well-recognized name.

In fact, Patsos Stanley learned the importance of an extremely hands-on approach to managing her company. She and her employees personally greet the new arrivals and perform the activities that porters, the concierge, and front-desk staff do in the typical hotel. In interpersonal terms, Patsos Stanley is the *figurehead* who provides the personal touch her guests expect; she is the person they can contact if problems arise. With her small staff of carpenters, electricians, interior decorators, and maintenance workers, she acts as a *leader*, energizing them to provide the quick service that guests expect. She is also a *liaison*, able to link her guests to organizations that provide services they may need, such as dry cleaning, catering, or hairdressing.

Patsos Stanley enjoys the variety of her work and relishes the pleasure of meeting the senior managers, actors, and overseas visitors who stay in the apartments.<sup>39</sup> The owner/manager of any small business such as Boston Short-Term Rentals continually performs all these managerial roles.

## Being a Manager

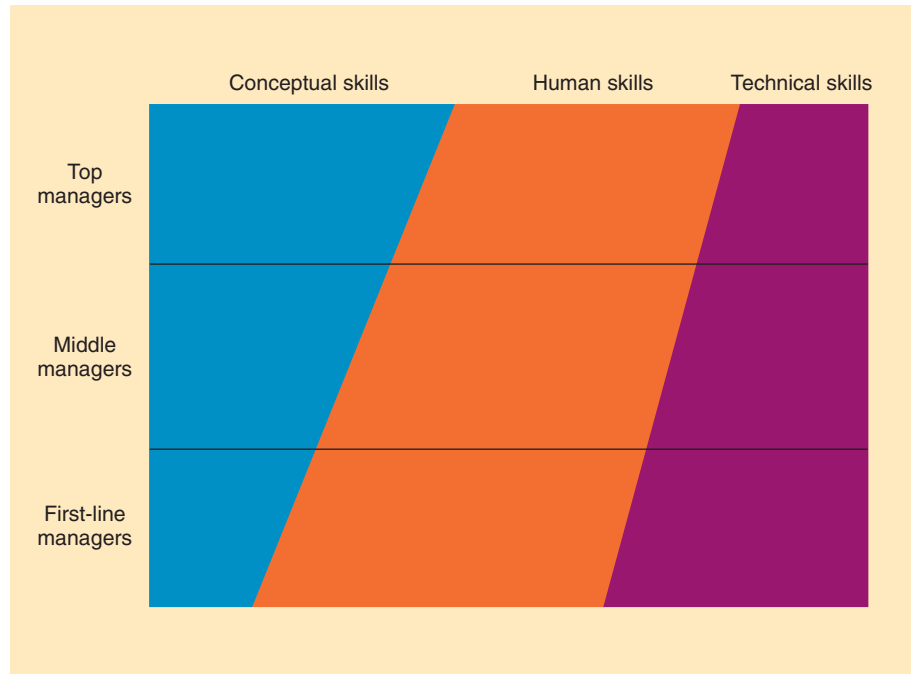
Our discussion of managerial roles may seem to suggest that a manager's job is highly orchestrated and that management is a logical, orderly process in which managers rationally calculate the best way to use resources to achieve organizational goals. In reality, being a manager often involves acting emotionally and relying on gut feelings. Quick, immediate reactions to situations, rather than deliberate thought and reflection, are an important aspect of managerial action.<sup>40</sup> Often, managers are overloaded with responsibilities, do not have time to spend on analyzing every nuance of a situation, and therefore make decisions in uncertain conditions without being sure which outcomes will be best.<sup>41</sup> Moreover, for top managers in particular, the current situation is constantly changing, and a decision that seems right today may prove to be wrong tomorrow.

The range of problems that managers face is enormous (*high variety*). Managers frequently must deal with many problems simultaneously (*fragmentation*), often must make snap decisions (*brevity*), and many times must rely on experience gained throughout their careers to do their jobs to the best of their abilities.<sup>42</sup> It is no small wonder that many managers claim that they are performing their jobs well if they are right just half of the time, and it is understandable why many experienced managers accept failure by their subordinates as a normal part of the learning experience. Managers and their subordinates learn both from their successes and from their failures.

## Managerial Skills

Both education and experience enable managers to recognize and develop the personal skills they need to put organizational resources to their best use. Michael Dell realized from the start that he lacked sufficient experience and technical expertise in marketing, finance, and planning to guide his company

**Figure 1.5**  
**Conceptual, Human, and Technical Skills Needed by Three Levels of Management**



alone. Thus, he recruited experienced managers from other information technology companies, such as IBM and HP, to help him build his company. Research has shown that education and experience help managers acquire three principal types of skills: *conceptual*, *human*, and *technical*.<sup>43</sup> As you might expect, the level of these skills that managers need depends on their level in the managerial hierarchy. Typically planning and organizing require higher levels of conceptual skills, while leading and controlling require more human and technical skills (see Figure 1.5).

#### conceptual skills

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

**CONCEPTUAL SKILLS** **Conceptual skills** are demonstrated in the ability to analyze and diagnose a situation and to distinguish between cause and effect. Top managers require the best conceptual skills because their primary responsibilities are planning and organizing.<sup>44</sup> By all accounts, Steve Jobs was reappointed as CEO of Apple because of his ability to identify new opportunities and mobilize managers and other resources to take advantage of those opportunities.

Formal education and training are very important in helping managers develop conceptual skills. Business training at the undergraduate and graduate (MBA) levels provides many of the conceptual tools (theories and techniques in marketing, finance, and other areas) that managers need to perform their roles effectively. The study of management helps develop the skills that allow managers to understand the big picture confronting an organization. The ability to focus on the big picture lets managers see beyond the situation immediately at hand and consider choices while keeping in mind the organization's long-term goals.

Today, continuing management education and training, including training in advanced IT, are an integral step in building managerial skills because new theories and techniques are constantly being developed to improve organizational effectiveness, such as B2B networks. A quick scan through a magazine such as

*BusinessWeek* or *Fortune* reveals a host of seminars on topics such as advanced marketing, finance, leadership, and human resources management that are offered to managers at many levels in the organization, from the most senior corporate executives to middle managers. Microsoft, IBM, Motorola, and many other organizations designate a portion of each manager's personal budget to be used at the manager's discretion to attend management development programs.

In addition, organizations may wish to develop a particular manager's abilities in a specific skill area—perhaps to learn an advanced component of departmental skills, such as international bond trading, or to learn the skills necessary to implement a new IT system. The organization thus pays for managers to attend specialized programs to develop these skills. Indeed, one signal that a manager is performing well is an organization's willingness to invest in that manager's skill development. Similarly, many nonmanagerial employees who are performing at a high level (because they have studied management) are often sent to intensive management training programs to develop their management skills and to prepare them for promotion to first-level management positions.

**human skills** The ability to understand, alter, lead, and control the behavior of other individuals and groups.

**HUMAN SKILLS** **Human skills** include the ability to understand, alter, lead, and control the behavior of other individuals and groups. The ability to communicate, to coordinate, and to motivate people, and to mold individuals into a cohesive team, distinguishes effective from ineffective managers. By all accounts, Steve Jobs, Michael Dell, Patricia Russo, and Terri Patsos Stanley all possess a high level of these human skills.

Like conceptual skills, human skills can be learned through education and training, as well as be developed through experience.<sup>45</sup> Organizations increasingly utilize advanced programs in leadership skills and team leadership as they seek to capitalize on the advantages of self-managed teams.<sup>46</sup> To manage personal interactions effectively, each person in an organization needs to learn how to empathize with other people—to understand their viewpoints and the problems they face. One way to help managers understand their personal strengths and weaknesses is to have their superiors, peers, and subordinates provide feedback about their performance in the roles identified by Mintzberg. Thorough and direct feedback allows managers to develop their human skills.

**technical skills** The job-specific knowledge and techniques required to perform an organizational role.

**TECHNICAL SKILLS** **Technical skills** are the job-specific knowledge and techniques required to perform an organizational role. Examples include a manager's specific manufacturing, accounting, marketing, and, increasingly, IT skills. Managers need a range of technical skills to be effective. The array of technical skills managers need depends on their positions in their organizations. The manager of a restaurant, for example, may need 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 aesthetic skills to keep the restaurant looking attractive for customers.

Effective managers need all three kinds of skills—conceptual, human, and technical. The absence of even one managerial skill can lead to failure. One of the biggest problems that people who start small businesses confront is their lack of appropriate conceptual and human skills. Someone who has the technical skills to start a new business does not necessarily know how to manage the venture successfully. Similarly, one of the biggest problems that scientists or engineers who switch careers from research to management confront is their

lack of effective human skills. Management skills, roles, and functions are closely related, and wise managers or prospective managers are constantly in search of the latest educational contributions to help them develop the conceptual, human, and technical skills they need to function in today's changing and increasingly competitive global environment.

**competencies** The specific set of skills, abilities, and experiences that allows one manager to perform at a higher level than another manager in a particular setting.

Today, the term **competencies** is often used to refer to the specific set of skills, abilities, and experiences that gives one manager the ability to perform at a higher level than another manager in a particular organizational setting. Developing such competencies through education and training has become a major priority for both aspiring managers and the organizations they work for. As we discussed earlier, many people are enrolling in advanced management courses, but many companies, such as General Electric (GE) and IBM have established their own colleges to train and develop their employees and managers at all levels. Every year, for example, GE puts thousands of its employees through management programs designed to identify the employees who the company believes have superior competencies and whom it can develop to become its future top managers. In many organizations promotion is closely tied to a manager's ability to acquire the competencies that a particular company believes are important.<sup>47</sup> At 3M, for example, the ability to successfully lead a new product development team is viewed as a vital requirement for promotion; at IBM the ability to attract and retain clients is viewed as a vital competency its consultants must possess. We discuss specific kinds of managerial competencies in most of the chapters of this book.

## Challenges For Management in a Global Environment

Because the world has been changing more rapidly than ever before, managers and other employees throughout an organization must perform at higher and higher levels.<sup>48</sup> In the last 20 years, competition between organizations competing domestically (in the same country) and globally (in countries abroad) has increased dramatically. The rise of **global organizations**, organizations that operate and compete in more than one country, has put severe pressure on many organizations to improve their

performance and to identify better ways to use their resources. The successes of the German chemical companies Schering and Hoechst, Italian furniture manufacturer Natuzzi, Korean electronics companies Samsung and LG, Brazilian plane maker Embraer, and Europe's Airbus Industries are putting pressure on organizations in other countries to raise their level of performance to compete successfully with these global companies.

**global organizations** Organizations that operate and compete in more than one country.

Even in the not-for-profit sector, global competition is spurring change. Schools, universities, police forces, and government agencies are reexamining their operations because of looking at the way things are done in other countries. For example, many curriculum and teaching changes in the United States have resulted from the study of methods that Japanese and European school systems use. Similarly, European and Asian hospital systems have learned much from the U.S. system—which may be the most effective, though not the most efficient, in the world.

Today, managers who make no attempt to learn and adapt to changes in the global environment find themselves reacting rather than innovating, and their

organizations often become uncompetitive and fail.<sup>49</sup> Four major challenges stand out for managers in today's world: building a competitive advantage, maintaining ethical standards, managing a diverse workforce, and utilizing new information systems and technologies.

## Building Competitive Advantage

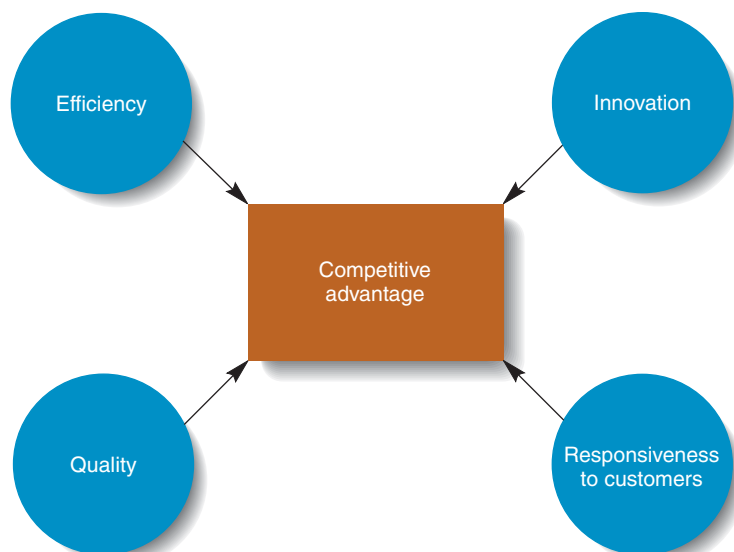
What are the most important lessons for managers and organizations to learn if they are to reach and remain at the top of the competitive environment of business? The answer relates to the use of organizational resources to build a competitive advantage. **Competitive advantage** is the ability of one organization to outperform other organizations because it produces desired goods or services more efficiently and effectively than its competitors. The four building blocks of competitive advantage are superior *efficiency*; *quality*; *speed*, *flexibility*, and *innovation*; and *responsiveness to customers* (see Figure 1.6).

**competitive advantage** The ability of one organization to outperform other organizations because it produces desired goods or services more efficiently and effectively than they do.

**INCREASING EFFICIENCY** Organizations increase their efficiency when they reduce the quantity of resources (such as people and raw materials) they use to produce goods or services. In today's competitive environment, organizations constantly are seeking new ways to use their resources to improve efficiency. Many organizations are training their workforces in the new skills and techniques needed to operate heavily computerized assembly plants. Similarly, cross-training gives employees the range of skills they need to perform many different tasks, and organizing employees in new ways, such as in self-managed teams, allows them to make good use of their skills. These are important steps in the effort to improve productivity. Japanese and German companies invest far more in training employees than do American or Italian companies.

Managers must improve efficiency if their organizations are to compete successfully with companies operating in Mexico, Malaysia, and other countries where employees are paid comparatively low wages. New methods must be

**Figure 1.6**  
**Building Blocks of Competitive Advantage**



devised either to increase efficiency or to gain some other competitive advantage—higher-quality goods, for example—if outsourcing and the loss of jobs to low-cost countries are to be prevented.

**INCREASING QUALITY** The challenge from global organizations such as Korean electronics manufacturers, Mexican agricultural producers, and European marketing and financial firms also has increased pressure on companies to improve the skills and abilities of their workforces in order to improve the quality of their goods and services. One major thrust to improving quality has been to introduce the quality-enhancing techniques known as *total quality management (TQM)*. Employees involved in TQM are often organized into quality control teams and are responsible for continually finding new and better ways to perform their jobs; they also must monitor and evaluate the quality of the goods they produce. TQM is based on a significant new philosophy of managing behavior in organizations; we thoroughly discuss this approach and ways of managing TQM successfully in Chapter 9.

**INCREASING SPEED, FLEXIBILITY, AND INNOVATION** Today, companies can win or lose the competitive race depending on their speed—how fast they can bring new products to market—or their flexibility—how easily they can change or alter the way they perform their activities to respond to the actions of their competitors. Companies that have speed and flexibility are agile competitors: Their managers have superior planning and organizing abilities; they can think ahead, decide what to do, and then speedily mobilize their resources to respond to a changing environment. We examine how managers can build speed and flexibility in their organizations in later chapters. Steve Jobs’s goal is to make Apple an agile company that can react to the continuous changes taking place in computing and digital entertainment so that it can build a competitive advantage.

Innovation, the process of creating new or improved goods and services that customers want or developing better ways to produce or provide goods and services, poses a special challenge. Managers must create an organizational setting in which people are encouraged to be innovative. Typically, innovation takes place in small groups or teams; management decentralizes control of work activities to team members and creates an organizational culture that rewards risk taking. Understanding and managing innovation and creating a work setting that encourages risk taking are among the most difficult managerial tasks. Innovation is discussed in depth in Chapter 19.

**INCREASING RESPONSIVENESS TO CUSTOMERS** Organizations compete for customers with their products and services, so training employees to be responsive to customers’ needs is vital for all organizations, but particularly for service organizations. Retail stores, banks, and hospitals, for example, depend entirely on their employees to perform behaviors that result in high-quality service at a reasonable cost.<sup>50</sup> As many countries (the United States, Canada, and Great Britain are just a few) move toward a more service-based economy (in part because of the loss of manufacturing jobs to China, Malaysia, and other countries with low labor costs), managing behavior in service organizations is becoming increasingly important. Many organizations are empowering their customer service employees and giving them the authority to take the lead in providing high-quality customer service. As noted previously, the empowering of nonmanagerial employees changes the role of first-line managers and often leads to the more efficient use of organizational resources.

Achieving a competitive advantage requires that managers use all their skills and expertise to develop resources and improve efficiency, quality, innovation, and responsiveness to customers. We revisit this theme often as we examine the ways managers plan strategies, organize resources and activities, and lead and control people and groups to effectively use human and other resources to achieve organizational goals.

## Maintaining Ethical and Socially Responsible Standards

While mobilizing organizational resources, managers at all levels are under considerable pressure to increase the level at which their organizations perform.<sup>51</sup> For example, top managers receive pressure from shareholders to increase the performance of the entire organization to boost the stock price, improve profits, or raise dividends. In turn, top managers may then pressure middle managers to find new ways to use organizational resources to increase efficiency or quality and thus attract new customers and earn more revenues.

Pressure to increase performance can be healthy for an organization because it causes managers to question the way the organization is working and it encourages them to find new and better ways to plan, organize, lead, and control. However, too much pressure to perform can be harmful.<sup>52</sup> It may induce managers to behave unethically in dealings with individuals and groups both inside and outside the organization.<sup>53</sup> For example, a purchasing manager for a large retail chain might buy inferior clothing as a cost-cutting measure; or to secure a large foreign contract, a sales manager in a large defense company might offer bribes to foreign officials. In 2004, the four top executives of Lucent's Korean division were fired after it was revealed they used bribery to obtain lucrative contracts for Lucent in that country.<sup>54</sup> The issue of social responsibility concerns the obligations that a company should have toward people and groups such as customers or the communities in which they operate. An example of companies that act in a socially irresponsible and unethical way is described in the following "Ethics in Action."



### Ethics in Action

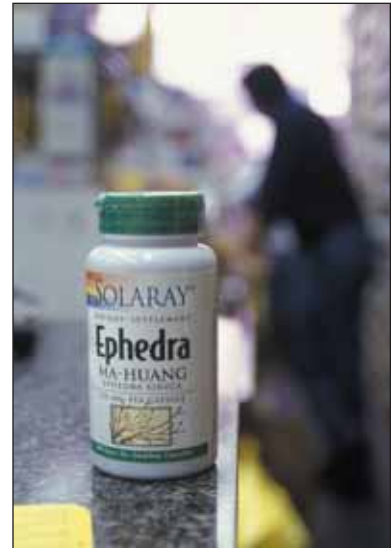
## Diet Supplement Makers and the FDA

On April 12, 2004, it became illegal to make or sell the dietary supplement ephedra in the United States.<sup>55</sup> The Food and Drug Administration (FDA) had finally obtained information from users and from makers of ephedra pills, such as Yellow Jackets and Black Beauties, that revealed over 16,000 adverse-report events experienced by users of the drug. At least 36 deaths were directly related to the use of the drug, including the death of Baltimore Oriole pitcher Steven Bechler in 2003.

Ephedra has been widely available for a decade; why did it take the FDA so long to ban the use of the drug? Diet supplement makers, unlike major pharmaceutical companies, have been shielded by a 1994 law. The law does not require that the makers of dietary supplements report adverse incidents to the FDA, but it obligates the FDA to prove unreasonable public health risks.

To protect their businesses, ephedra makers like Metabolife and NVE Pharmaceuticals did not reveal complaints about their products—from thousands of customers—until forced to do so by lawsuits brought by people harmed by the drug. In 2003 Metabolife finally 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>56</sup> Robert Occhifinto, a twice-convicted felon and the owner of NVE, with annual revenues of \$80 million from sales of ephedra-based supplements, faces at least 30 product liability lawsuits.<sup>57</sup>

In their attempts to protect the \$18 billion-a-year dietary supplement business, makers of dangerous drugs like ephedra continue to behave in unethical and socially irresponsible ways. In particular, they have begun to use other chemical compounds that have ephedralike effects in new varieties of pills. In 2004, the FDA issued warnings on eight types of chemical compounds about which it is receiving many reports of adverse reactions and advised consumers not to use supplements containing these compounds.<sup>58</sup> In view of the fact that dietary supplement makers are making no attempts to ensure the safety of their products, the push is on for Congress to pass regulations that will subject these companies to the same kind of scrutiny and reporting requirements as those governing pharmaceutical companies.



After being widely available for a decade, on April 12, 2004 it became illegal to make or sell Ephedra. Why did it take the FDA so long to ban the use of this dangerous drug?

## Managing a Diverse Workforce

Another challenge for managers is to recognize the need to treat human resources in a fair and equitable manner. Today, the age, gender, race, ethnicity, religion, sexual preference, and socioeconomic makeup of the workforce present new challenges for managers. Managers must establish employment procedures and practices that are legal, are fair, and do not discriminate against any organizational members.<sup>59</sup>

In the past, white male employees dominated the ranks of management. Today increasing numbers of organizations are realizing that to motivate effectively and take advantage of the talents of a diverse workforce, they must make promotion opportunities available to all employees, including women and minorities.<sup>60</sup> Managers must also recognize the performance-enhancing possibilities of a diverse workforce, such as the ability to take advantage of the skills and experiences of different kinds of people.<sup>61</sup> The following “Focus on Diversity” feature looks at how one company took advantage of diversity to enhance its competitive advantage.



## Focus on Diversity

# How Diversity Can Promote Competitive Advantage

With assets of over \$40 billion in 2004, Union Bank of California, based in San Francisco, is among the 30 largest banks in the United States.<sup>62</sup> It has enjoyed great success and growth throughout the last decade, in large part because of the approach it has developed to diversity—an approach that reflects the needs of its employees, customers, and environment. Indeed, from 1999 to 2004 the company has been listed among *Fortune* magazine’s 50 best companies for minorities to work for, and its diversity practices have become a model for many other companies seeking to emulate its success.<sup>63</sup>

Union Bank operates in one of the most diverse states in the nation, California, where more than half the population is Asian, Black, Hispanic, or gay. Recognizing this fact, the bank always had a policy of hiring and recruiting diverse employees. However, not until 1996 did the bank realize that the diversity of its employees created a competitive advantage. In that year, George Ramirez, a vice president at Union Bank, suggested that the bank create a marketing group to develop a plan for attracting customers who were Hispanic, like himself. So successful was this venture that a group of African-American employees created a marketing group to develop a campaign aimed at attracting new African-American customers, and later Asian-American and gay and lesbian employees did the same. After these groups’ considerable success in recruiting new customers, it was clear to Union Bank’s managers that they should use employee diversity as a way of improving customer service. For example, when customers walk into a bank branch in a predominantly Latino neighborhood, they are now greeted by substantial numbers of Latino employees.<sup>64</sup>

The bank, like many other organizations, also discovered that diversity can lead to competitive advantage because diverse employees approach the same issue—for example, how to attract customers—in very different

ways. The bank found that creating diverse teams of employees helped improve the quality of decision making inside the organization.<sup>65</sup> Furthermore, the bank’s reputation of being a good place for minorities to work attracted highly skilled and motivated minority job candidates. As its former CEO Takahiro Moriguchi said when accepting a national diversity award for the 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>66</sup>



Union Bank’s customer service representatives, such as the employee pictured here, are well known for building relationships with their diverse customer groups to improve the level of customer service. The diverse nature of Union Bank’s employees reflects the diverse customer groups the bank serves.

Managers who value their diverse employees not only invest in developing these employees' skills and capabilities but also link rewards to their performance. They are the managers who best succeed in promoting performance over the long run.<sup>67</sup> Today, more and more organizations are realizing that people are their most important resource and that developing and protecting human resources is an important challenge for management in a competitive global environment. We discuss the many issues surrounding the management of a diverse workforce in Chapter 5.

## Utilizing IT and E-Commerce

As has already been discussed, another important challenge for managers is the efficient utilization of new information technology and e-commerce.<sup>68</sup> New technologies such as computer-controlled manufacturing and information systems that link and enable employees in new ways are continually being developed. In a setting that uses self-managed teams, for example, sophisticated computer information systems link the activities of team members so that each member knows what the others are doing. This coordination helps to improve quality and increase the pace of innovation. Microsoft, Hitachi, IBM, and other companies make extensive use of information systems such as email, the Internet, and videoconferencing, accessible by means of PCs, to build a competitive advantage. The importance of IT is discussed in detail in Chapters 16 and 18, and throughout the text you will find icons that alert you to examples of how IT is changing the way companies operate.

## Summary and Review

**WHAT IS MANAGEMENT?** A manager is a person responsible for supervising the use of an organization's resources to meet its goals. An organization is a collection of people who work together and coordinate their actions to achieve a wide variety of goals. Management is the process of using organizational resources to achieve organizational goals effectively and efficiently through planning, organizing, leading, and controlling. An efficient organization makes the most productive use of its resources. An effective organization pursues appropriate goals and achieves these goals by using its resources to create the goods or services that customers want.

**MANAGERIAL FUNCTIONS** The four principal managerial functions are planning, organizing, leading, and controlling. Managers at all levels of the organization and in all departments perform these functions. Effective management means managing these activities successfully.

**TYPES OF MANAGERS** Organizations typically have three levels of management. First-line managers are responsible for the day-to-day supervision of nonmanagerial employees. Middle managers are responsible for developing and utilizing organizational resources efficiently and effectively. Top managers have cross-departmental responsibility. The top manager's job is to establish appropriate goals for the entire organization and to verify that department managers are utilizing resources to achieve those goals. To increase efficiency and

effectiveness, some organizations have altered their managerial hierarchies by restructuring, empowering their workforces, utilizing self-managed teams, and utilizing new information technology.

**IT AND MANAGERIAL ROLES AND SKILLS** According to Mintzberg, managers play 10 different roles: figurehead, leader, liaison, monitor, disseminator, spokesperson, entrepreneur, disturbance handler, resource allocator, and negotiator. Three types of skills help managers perform these roles effectively: conceptual, human, and technical skills. IT is changing both the way managers perform their roles and the skills they need to perform these roles because it provides richer and more meaningful information.

**CHALLENGES FOR MANAGEMENT IN A GLOBAL ENVIRONMENT** Today's competitive global environment presents many interesting challenges to managers. One of the main challenges is building a competitive advantage by increasing efficiency; quality; speed, flexibility, and innovation; and customer responsiveness. Others are behaving ethically toward people inside and outside the organization; managing a diverse workforce; and utilizing new information systems and technologies.



# Management in Action

## Topics for Discussion and Action

### Discussion

1. Describe the difference between efficiency and effectiveness, and identify real organizations that you think are, or are not, efficient and effective.
2. In what ways can managers at each of the three levels of management contribute to organizational efficiency and effectiveness?
3. Identify an organization that you believe is high-performing and one that you believe is low-performing. Give 10 reasons why you think the performance levels of the two organizations differ so much.

4. What are the building blocks of competitive advantage? Why is obtaining a competitive advantage important to managers?
5. In what ways do you think managers' jobs have changed the most over the last 10 years? Why have these changes occurred?

### Action

6. Choose an organization such as a school or a bank; visit it; then list the different organizational resources it uses.
7. Visit an organization, and talk to first-line, middle, and top managers about their

respective management roles in the organization and what they do to help the organization be efficient and effective.

8. Ask a middle or top manager, perhaps someone you already know, to give examples of how he or she performs the managerial functions of planning, organizing, leading, and controlling. How much time does he or she spend in performing each function?
9. Like Mintzberg, try to find a cooperative manager who will allow you to follow him or her around for a day. List the roles the manager plays, and indicate how much time he or she spends performing them.



## Building Management Skills

### Thinking About Managers and Management

**Think of an organization that has provided you with work experience and of the manager to whom you reported (or talk to someone who has had extensive work experience); then answer these questions.**

1. Think of your direct supervisor. Of what department is he or she a member, and at what level of management is this person?
2. How do you characterize your supervisor's approach to management? For example, which particular management functions and roles does this person perform most often? What kinds of management skills does this manager have?
3. Do you think the functions, roles, and skills of your supervisor are appropriate for the particular job he or she performs? How could this manager improve his or her task performance? How can IT affect this?
4. How did your supervisor's approach to management affect your attitudes and behavior? For example, how well did you perform as a subordinate, and how motivated were you?
5. Think of the organization and its resources. Do its managers utilize organizational resources effectively? Which resources contribute most to the organization's performance?
6. Describe the way the organization treats its human resources. How does this treatment affect the attitudes and behaviors of the workforce?

7. If you could give your manager one piece of advice or change one management practice in the organization, what would it be?

8. How attuned are the managers in the organization to the need to increase efficiency, quality, innovation, or responsiveness to customers? How well do you

think the organization performs its prime goals of providing the goods or services that customers want or need the most?

## Managing Ethically

**T**hink about an example of unethical behavior that you observed in the past. The incident could be something you experienced as an employee or a customer or something you observed informally.

1. Either by yourself or in a group, give three reasons why you think the behavior was unethical. For example, what rules or norms were broken? Who benefited or was harmed by what took place? What was

the outcome for the people involved?

2. What steps might you take to prevent such unethical behavior and encourage people to behave in an ethical way?



## Small Group Breakout Exercise

### Opening a New Restaurant

**Form groups of three or four people, and appoint one group member as the spokesperson who will communicate your findings to the entire class when called on by the instructor. Then discuss the following scenario.**

**Y**ou and your partners have decided to open a large, full-service restaurant in your local community; it will be open from 7 A.M. to 10 P.M. to serve breakfast, lunch, and dinner. Each of you is investing \$50,000 in the venture, and together you have secured a bank loan for \$300,000 more to begin operations. You and your partners have little experience in managing a restaurant beyond serving meals or eating in restaurants, and you now face the task of deciding how you will manage the restaurant and what your respective roles will be.

1. Decide what each partner's managerial role in the restaurant will be. For example, who will be responsible for the necessary departments and specific activities? Describe your managerial hierarchy.

2. Which building blocks of competitive advantage do you need to establish to help your restaurant succeed? What criteria will you use to evaluate how successfully you are managing the restaurant?

3. Discuss the most important decisions that must be made about (a) planning, (b) organizing, (c) leading, and (d) controlling, to allow you and your partners to utilize organizational resources effectively and build a competitive advantage.

4. For each managerial function, list the issue that will contribute the most to your restaurant's success.



## Exploring the World Wide Web

**G**o to the General Electric (GE) Web site at [www.ge.com](http://www.ge.com), click on "Our Company," then "company information," and then "Jeffrey Immelt," GE's CEO. You will see a list of recent articles that discuss

his management style, click on the *Financial Times* article, for example, titled "Man of the Year 2003."

Search this article, or others, for information that describes Immelt's

approach to planning, organizing, leading, and controlling GE. What is his approach to managing? What effects has this approach had on GE's performance?





# Be The Manager

## Problems at Achieva

You have just been called in to help managers at Achieva, a fast-growing Internet software company that specializes in B2B network software. Your job is to help Achieva solve some management problems that have arisen because of its rapid growth.

Customer demand to license Achieva's software has boomed so much in just two years that more than 50 new software programmers have been added to help develop a new range of software products. Achieva's growth has

been so swift that the company still operates informally, its organizational structure is loose and flexible, and programmers are encouraged to find solutions to problems as they go along. Although this structure worked well in the past, you have been told that problems are arising.

There have been increasing complaints from employees that good performance is not being recognized in the organization and that they do not feel equitably treated. Moreover, there have been complaints about getting managers

to listen to their new ideas and to act on them. A bad atmosphere is developing in the company, and recently several talented employees have left. Your job is to help Achieva's managers solve these problems quickly and keep the company on the fast track.

## Questions

1. What kinds of organizing and controlling problems is Achieva suffering from?
2. What kinds of management changes need to be made to solve them?



# Additional Activities on the Build Your Management Skills DVD

- **Test Your Knowledge:** Managerial Functions
- **Self-Assessment:** Career Planning Based on Brain Dominance and Thinking Styles Inventory
- **Manager's Hot Seat:** Project Management: Steering the Committee

## BusinessWeek

# Case in the News

## The Hard Work in Leadership

James McNerney, Jr., has been running big outfits for a dozen years now, at General Electric (GE) and, since January 1, 2001, as chairman and chief executive of 3M. Success at these giants means more than drafting smart business plans, of course. It means getting tens of thousands of people to do what you want. But as the financial numbers at GE and 3M show, McNerney can do it.

His secret? Part of it is simply personality and upbringing: His father, Walter, instilled in him a

sense of modesty and a drive to always do better, as well as passing along his own sharp intellect. Part of it is practice: McNerney has been a leader since his days at New Trier High School in Winnetka, Illinois, as president of the Tri-Ship boys club in 1966–67 and pitcher on the varsity baseball team. Another part of it is the tutelage he received during his 18 years at GE, working for now-retired Chairman and CEO Jack Welch.

Recently, McNerney sat down in his 14th-floor suite at 3M headquarters in St. Paul, Minnesota, with *BusinessWeek* Senior Correspondent Michael Arndt. The first

outsider ever to become CEO at 3M, McNerney is notoriously press shy. Yet, when it comes to management, he's voluble, talking at length on everything from motivation and corporate culture to the uses of statistical gauges like Six Sigma in personnel screening and his own style as a boss. Edited excerpts of their conversation follow:

**Q: I was here two years ago, when you were still pretty new, so I'd like to start by asking you how you think you've done since then.**

**A:** The best measurement of progress is the engagement of the

organization, the enthusiasm of the organization: Are we more one team focused on similar things, pulling together? And I feel pretty good about that.

The initiatives I talked about two years ago are exactly the same ones we have today. I believe in boring consistency of meaningful themes. Don't change the message. That's important when you're leading a big organization. Otherwise, people are waiting for the *initiative du jour*. The challenge for us is to keep refreshing them and making them meaningful.

**Q: How do you achieve that team spirit?**

**A:** My experience is that if people are convinced they're growing as they pursue company goals, that's when you get ignition. I'll use Six Sigma as an example. People are learning new ways to approach business problems, new ways to lead other people. They're achieving results that are better than what they had achieved before, so they feel they are becoming better managers.

I think when everybody does that, we become a better company. When people's growth lines up with corporate growth, that's when you get the motivation, the enthusiasm, the alignment that every CEO hopes for. The trick is to find these things.

**Q: A lot of CEOs have these goals, but how do you actually get this accomplished?**

**A:** It comes down to personal engagement. I spend a lot of time out with our people. Let me give you an example of this: leadership development. We need to get the middle of this company moving and growing and aspiring to be tomorrow's leaders. It's easy to make the

speech about leadership and then disappear into a backroom grading everybody.

That's one approach. Another is what we try to do. We spent a year debating what leadership is. I made speeches on the subject and solicited input from everybody. So when we hammered it out, it was the company's leadership goals we were aspiring to—not the CEO's, not some consultant's, not what we read in a book last week. So now the organization is quite happy to be measured and to aspire to these things because they created them.

Now we could have done this Day One, but I learned over the years that to short-circuit that process is very risky for a guy running an organization. Most CEOs—and I don't want to preach here—are smart enough to figure out where to go with a company. The hard work is engaging everyone in doing it. That's the hard work in leadership.

**Q: Looking at your typical workday, how do you spend your time? Is most of it spent on managing people? Or thinking up grand strategies? Or scrutinizing the company's numbers?**

**A:** Designing business strategy is probably what I spend the least amount of time on. I rely on our business leadership to do a lot of that. I spend more time on people issues broadly defined: Who's in what job? How do we accelerate this career? What programs do we have in place to train people? How do we make people fit better? How do we pay them? How do you differentiate pay?

I also spend a lot of time on communication, broadly defined. I probably do 30 major events a year

with 100 people or more, where I spend time debating things and pushing my ideas, telling them what I'm thinking that day and soliciting feedback. What is it we're doing? And why?

I want a lot of feedback on how to run this company. The trick for me is to create an environment where I get honest feedback. That's the hard part. The natural tendency for people is to say, Jim, what a great idea!

**Q: Do you think you've got to the stage where you're getting honest feedback?**

**A:** In some cases, but not always. It's hard for people to have self-confidence and say they disagree. 3M was a pretty hierarchical place with not a lot of free-form discussion. I think we've made a lot of progress there. But these changes don't happen overnight.

**Q: You've been here since 2001. What surprised you in being difficult?**

**A:** I think the whole issue of leadership development. I think we've made enormous progress, but I'm still impressed with how much farther we have to go. I wouldn't characterize it as a disappointment. I would say that where I'm going to be in two years, I wished I was there now.

3M is a business with a big brand and a big global stance and can be a bigger company. We have to keep growing big leaders. We've accelerated some careers. But we also have highly valued people who have been in jobs a while. You can't just throw people out. There's the balance between the young and energized and the experienced and effective. We're constantly wrestling with that.

**Q: Let me ask you the corollary question: Are there things that you had expected to be real challenges when you came to 3M that turned out to be a snap?**

**A:** The big surprise for me was how open 3M-ers were to change. I thought there would be more resistance to a new way of doing things, a new language, a new CEO. But I found a company who thought they weren't achieving all they could, and they were willing to team up with somebody to do more. That was a surprise.

**Q: What skills and attributes that you developed at GE transferred easily here?**

**A:** I think the thing that helped me the most was, at GE you run so many different businesses. I was

changing jobs every two or three years, and each one of those businesses had very different cultures and different geographies and different values. So coming here and trying to force this alliance was something I had done three or four times before.

**Q: It seems to me from what I'm hearing that you do a lot by encouraging people.**

**A:** It's the balance between setting expectations and encouraging. I think the harder you push people, the more you have to encourage them.

Some people feel you either have a demanding, command-and-control management style or you have a nurturing, encouraging management style. I believe you have to have both. If you're only demand-

ing, without encouraging, eventually that runs out of gas. And if you're only encouraging without setting high expectations, you're not getting as much out of people. It's not either/or. You can't have one without the other.

## Questions

1. What is James McNerney's approach to managing?
2. What kind of skills and abilities does McNerney possess that led him to become 3M's CEO?

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## BusinessWeek

## Case in the News

### Can A U.S.-Style Boss Rev Up Siemens?

It's safe to say Klaus Kleinfeld didn't have much trouble adjusting to life in America after Siemens made him chief operating officer of its U.S. unit in 2001. Kleinfeld soon won invitations to join the boards of a dozen prestigious organizations including the Metropolitan Opera and Alcoa Inc. He ran two New York marathons and frequented the city's jazz clubs. Under Kleinfeld, who was promoted to CEO of Siemens' U.S. unit in 2002, the company played a big role in building Houston's Reliant Stadium, scene in 2004 of that most American of events, the Super Bowl.

Now, Kleinfeld, 46, is set to become the latest German manager to parlay U.S. experience and attitude into a top job at a German corporate icon. On July 7, 2004, Siemens announced that, effective in January, Kleinfeld will succeed Heinrich von Pierer as CEO of the \$89 billion Munich conglomerate, which makes everything from light bulbs and power plants to trains and mobile phones. The question is whether the energetic Kleinfeld will fare better than some other German bosses who tried to import U.S.-style management techniques, with their emphasis on speed and profit. "Kleinfeld stands for the modern approach in German industry, of trying to cope with globalization and move out of the old, well-trodden

path," says Jens van Scherpenberg, head of the Americas Research Unit at the German Institute for International & Security Affairs, a Berlin think tank.

### The Right Stuff?

The CEO-designate has already begun to make changes. His fingerprints were on Siemens' decision, also announced on July 7, 2004, to merge the mobile phone division with the land-line telecom unit. In the United States, Kleinfeld managed to get Siemens' disparate fiefdoms to cooperate more on marketing. One result was the contract to provide everything from telecom equipment to computer networks for Houston's \$750 million Reliant Park convention and sporting complex.

In fact, Kleinfeld probably won the top job because he showed he could get Siemens divisions to work together to win big orders. The company has struggled for years to prove that synergies among branches justify the inherent unwieldiness of a far-flung conglomerate. He also got Siemens' legions of proud engineers to see things more from their customers' point of view. After a \$553 million loss in 2001, Siemens reported an \$810 million profit for its U.S. units in 2002 and a \$561 million profit in 2003, after which Kleinfeld returned to Germany. "He was instrumental in getting it working," says Gerhard Schulmeyer, Kleinfeld's predecessor as CEO of Siemens in the U.S.

Back home, Kleinfeld will have to spend a lot of time smoothing out relations with politicians and unions. In the United States, where Siemens had sales of \$16.6 billion in 2003, the company cut

staff by 15,000 to 65,000, by selling or closing unprofitable units, but also by shifting work to lower-wage countries such as India. Von Pierer has reduced the German workforce by more than 50,000, to 167,000, since becoming CEO in 1992.

But by imposing cuts gradually, the diplomatic von Pierer managed to avoid serious confrontation with Germany's powerful labor unions and their allies in Parliament. That is becoming more difficult. Labor leaders are sore that they were forced recently to give in to demands that workers at a mobile phone factory put in extra hours without extra pay: Siemens threatened to shift the work to Hungary. "Siemens has damaged its image with that kind of action," says Wolfgang Müller, a worker on the supervisory board.

Kleinfeld will have to do a lot of creative thinking. But people who have worked with him say he's good at that. "He was exceptionally

exact but not narrow-minded; on the contrary, very independent and creative," says Peter Fassheber, a retired professor at Georg-August University in Göttingen who supervised Kleinfeld's research in the early 1980s. Kleinfeld focused on the intersection of psychology and economics. If Kleinfeld can reconcile human nature with economic reality at Siemens, he might just succeed.

## Questions

1. How would you describe Klaus Kleinfeld's approach to managing?
2. What skills and abilities helped him rise to become Siemens' CEO?

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