

# > part I:

Chapter 1 ...Introduction to Organizational Behavior

Introduction



# [chapter.1]

## Introduction to Organizational Behavior



### >learning objectives

After reading this chapter, you should be able to

- Define organizational behavior and give three reasons for studying this subject.
- Discuss the potential benefits and challenges of an increasingly diverse workforce.
- Identify two ways that employers attempt to increase workforce flexibility.
- Explain why values have gained importance in organizations.
- Define corporate social responsibility and argue for or against its application in organizations.
- Identify the five anchors on which organizational behavior is based.
- Diagram an organization from an open systems view.
- Define intellectual capital and describe the knowledge management process.

*Google has leveraged the power of organizational behavior to attract talented employees who want to make a difference in the Internet world.*

Friends were puzzled when Rob Pike decided in 2002 to leave his 20-year career at the prestigious Bell Labs in New Jersey to join a Web search start-up in California with a name that sounded like baby talk. The respected computer scientist's move had nothing to do with money. "I took a huge pay cut to come here," says Pike about his decision to join Google. "The reason is, it's an exciting place to work."

Google, the company behind the ubiquitous search engine, has a freewheeling, geeky culture that attracts Rob Pike and other creative thinkers who want to make a difference in the Internet world. Employees are expected to devote a quarter of their time on new ideas of their choosing, and to get those ideas into practice as quickly as possible. "Here, you can have an idea on Monday and have it on the Web site by the end of the week," says Pike, citing Google Maps and Gmail as examples of the company's rapid innovation.

Google's culture has clashed to some extent with its meteoric global growth to 3,000 employees in just six years. In response, the company's chaotic style has been reined in with a more stable structure

around teams assigned to projects and functions. "It has scaled [up] pretty well," says Google CEO Eric Schmidt. Meanwhile, Google's unofficial ethical philosophy—Don't be evil—is the guideline by which it refuses to favor paid advertisers in its search results (unlike some other search engines) or to allow Web sites that speak against anyone.

Along with its culture and ethics, Google attracts talent with the Googleplex, the company's campuslike headquarters where high-density team clusters, playful décor, and a legendary cafeteria make everyone feel as though they haven't yet left school. Meetings even start a few minutes after the hour, same as class schedules in a lot of colleges. "That (campus) model is familiar to our programmers," explains Schmidt. "We know it's a very productive environment."

Google chief financial officer George Reyes sums up the main reason for the company's phenomenal success. "We want Google to be the very best place to work for the very best computer scientists in the world," says Reyes. "Google is truly a learning organization."<sup>1</sup>

Google has become a powerhouse on the Internet, but its real power comes from applying organizational behavior theories and practices. More than ever, organizations are relying on organizational behavior knowledge to remain competitive. For example, Google has an engaged workforce through exciting work opportunities, supportive team dynamics, and a "cool" workplace. It attracts talented people through its strong culture, ethical values, and an environment that supports creativity and a learning organization.

This book is about people working in organizations. Its main objective is to help you understand behavior in organizations and to work more effectively in organizational settings. While organizational behavior knowledge is often presented for "managers," this book takes a broader and more realistic view that organizational behavior ideas are relevant and useful to anyone who works in and around organizations. In this chapter, we introduce you to the field of organizational behavior, outline the main reasons you should know more about it, highlight some of the trends influencing the study of organizational behavior, describe the anchors supporting the study of organizations, and introduce the concept that organizations are knowledge and learning systems.

## >The Field of Organizational Behavior

**Organizational behavior (OB)** is the study of what people think, feel, and do in and around organizations. OB researchers systematically study individual, team, and organizational-level characteristics that influence behavior within work settings. By saying that organizational behavior is a field of study, we mean that OB experts have been accumulating a distinct knowledge about behavior within organizations—a knowledge base that is the foundation of this book.

### **organizational behavior (OB)**

The study of what people think, feel, and do in and around organizations.

**organizations**

Groups of people who work interdependently toward some purpose.

OB emerged as a distinct field around the 1940s, although people have been studying organizations for centuries.<sup>2</sup> **Organizations** are groups of people who work interdependently toward some purpose.<sup>3</sup> Organizations are not buildings or other physical structures. Rather, they consist of people who interact with each other to achieve a set of goals. Employees have structured patterns of interaction, meaning that they expect each other to complete certain tasks in a coordinated way—in an *organized* way. Organizations also have a collective sense of purpose, whether it's producing oil or creating the fastest Internet search engine. “A company is one of humanity’s most amazing inventions,” says Steven Jobs, CEO of Apple Computer and Pixar Animation Studios. “It’s totally abstract. Sure, you have to build something with bricks and mortar to put the people in, but basically a company is this abstract construct we’ve invented, and it’s incredibly powerful.”<sup>4</sup>

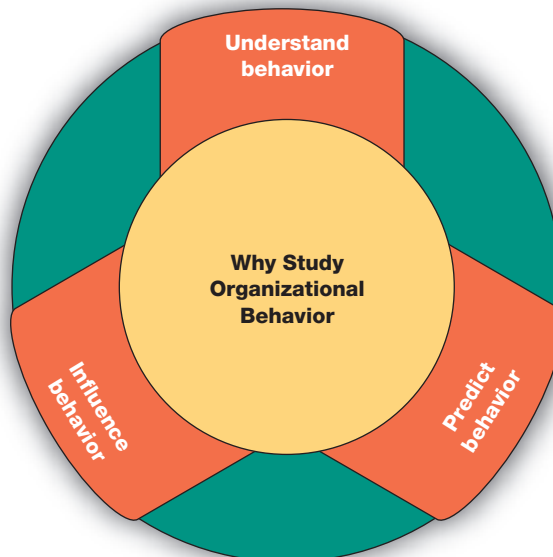
## Why Study Organizational Behavior?

Unlike accounting, marketing, or most other fields of business, organizational behavior does not have a clearly-defined career path, yet this topic is identified as very important among people who have worked in organizations for a few years. The reason for this priority is that to apply marketing, accounting, and other technical knowledge, you need to understand, predict, and influence behavior (both our own and that of others) in organizational settings (see Exhibit 1.1).

Each one of us has an inherent need to understand and predict the world in which we live. Since much of our time is spent working in or around organizations, OB theories are particularly helpful in satisfying this innate drive to make sense of the workplace. OB theories also give you the opportunity to question and rebuild your personal mental models that have developed through observation and experience. Most of us also need to influence people in organizations, so OB concepts play an important role in performing your job and working more effectively with others. This practical side of organizational behavior is a critical feature of the best OB theories.<sup>5</sup>

Along with helping you as an individual, organizational behavior knowledge is important for the organization’s financial health. According to one estimate, firms that apply performance-based rewards, employee communication, work/life balance, and other OB

### [Exhibit 1.1] Reasons for Studying Organizational Behavior



practices have three times the level of financial success as companies where these practices are absent. Another study concluded that companies that earn “the best place to work” awards have significantly higher financial and long-term stock market performance. Essentially, these firms leverage the power of OB practices, which translate into more favorable employee attitudes, decisions, and performance.<sup>6</sup>

## Organizational Behavior Is for Everyone

This book takes the view that organizational behavior knowledge is for everyone—not just managers. We all need to understand organizational behavior and to master the practices that influence organizational events. That’s why you won’t find very much emphasis in this book on “management.” Yes, organizations will continue to have managers, but their roles have changed. More important, the rest of us are now expected to manage ourselves, particularly as companies remove layers of management and delegate more responsibilities. In other words, everyone is a manager.

## >Organizational Behavior Trends

There has never been a better time to learn about organizational behavior. The pace of change is accelerating, and most of the transformation is occurring in the workplace. Let’s take a brief tour through five trends in the workplace: globalization, the changing workforce, evolving employment relationships, virtual work, and workplace values and ethics.

### Globalization

Google didn’t exist a decade ago, yet today it is one of the best-known names on the Internet around the planet. The Mountain View, California, company offers Web search services in more than 100 languages, and over half of its search engine queries come from outside the United States. One-third of Google’s revenue is from other countries, and it is already facing sensitive issues in France, China,



In the late 1980s, 95 percent of Whirlpool’s revenue and most of its manufacturing occurred in the United States. Yet executives at the Benton Harbor, Michigan company knew from excursions to other countries that globalization would soon transform the industry. “We came to the conclusion that the industry would become a global one and that someone had to shape it,” recalls David Whitwam, Whirlpool’s recently retired CEO. Today, Whirlpool is the global leader in the appliance industry, with microwave ovens engineered in Sweden and assembled in China, refrigerators made in Brazil for European consumers, top-loading washers made in Ohio, and front-loading washers made in Germany (shown in photo). This journey toward globalization has required tremendous organizational change. “We need a diverse workforce with diverse leadership,” says Whitwam, as well as “strong regional leadership that lives in the culture.” Whitwam also believes a global company requires broad-based involvement and an organizational structure that encourages the flow of knowledge.<sup>7</sup>

and other countries that want to censor certain search results. So far, Google has not outsourced work to contractors in low-wage countries, but it has opened its own research centers in India and Japan.<sup>8</sup>

### globalization

Economic, social, and cultural connectivity (and interdependence) with people in other parts of the world.

Google's growth is a rich example of the globalization of business over the past few decades. **Globalization** refers to economic, social, and cultural connectivity with people in other parts of the world. Google and other organizations globalize when they actively participate in other countries and cultures. While businesses have traded goods across borders for centuries, the degree of globalization today is unprecedented because information technology and transportation systems allow a much more intense level of connectivity and interdependence around the planet.<sup>9</sup>

Globalization offers numerous benefits to organizations in terms of larger markets, lower costs, and greater access to knowledge and innovation. At the same time, there is considerable debate about whether globalization benefits developing nations, and whether it is primarily responsible for increasing work intensification, as well as reducing job security and work/life balance in developed countries.<sup>10</sup> Recognizing that globalization is already a reality, OB researchers are examining how leadership, influence, conflict, and other OB topics vary across cultures.

## The Changing Workforce

Walk into the offices of Verizon Communications around the United States and you can quickly see that the communications service giant reflects the communities it serves. Minorities make up 30 percent of Verizon's 200,000 workforce and 18 percent of top management positions. Women represent 43 percent of its workforce and 32 percent of top management. Verizon's inclusive culture has won awards from numerous organizations representing Hispanic, African American, gay/lesbian, people with disabilities, and other groups.<sup>11</sup>

Verizon is a model employer and a striking reflection of the increasing diversity of people living in the United States. Workforce diversity takes many forms, but three of the most prominent are race/ethnicity, gender, and generation (age/work experience).

- *Racial/ethnic diversity.* People with nonwhite or Hispanic origin represent one-third of the American population, and this is projected to increase substantially over the next few decades. The Hispanic population recently replaced African Americans as the second-largest ethnic group. Within the next 50 years, one in four Americans will be Hispanic, 14 percent will be African American, and 8 percent will be Asian American.<sup>12</sup>
- *Women in the workforce.* Women now account for nearly half of the paid workforce in the United States, more than double the participation rate a few decades ago. Gender-based shifts continue to occur within many occupations. For example, the percentage of women enrolled in medical schools has jumped from 9 percent in 1970 to almost 50 percent today.<sup>13</sup>
- *Generational diversity.* A less visible but equally powerful form of diversity is occurring among generational cohorts in the workplace.<sup>14</sup> *Baby boomers*—people born between 1946 and 1964—seem to expect and desire more job security and are more intent on improving their economic and social status. In contrast, *Generation X* employees—those born between 1965 and 1979—expect less job security and are motivated more by workplace flexibility, the opportunity to learn (particularly new technology), and working in an egalitarian and “fun” organization. Meanwhile, some observers suggest that *Generation Y* employees (those born after 1979) are noticeably self-confident, optimistic, adept at multitasking, and more independent than even Gen X co-workers. These statements certainly don't apply to everyone in each cohort, but they do reflect the fact that different generations have different values and expectations.

Diversity offers both direct and indirect benefits to organizations.<sup>15</sup> Directly, a workforce that parallels the characteristics of customers is more likely to understand customer needs. For example, many Vietnamese customers insisted that Southern California Gas Co. field staff remove their steel-toed work boots when entering the customer's home, yet doing so would violate safety regulations. Some of the gas company's Vietnamese employees found a solution; customers would be satisfied if employees wore paper booties over the boots.<sup>16</sup>

Indirectly, companies that support an inclusive workplace potentially increase the pool of talented applicants and reduce employee turnover. A diverse workforce can also improve decision making and team performance on complex tasks. At the same time, workforce diversity presents new challenges, such as conflict, miscommunication, and discrimination in organizations and society.<sup>17</sup> We will explore these diversity issues more closely under various topics throughout this book, such as stereotyping, team dynamics, and conflict management.

## Evolving Employment Relationships

Globalization and the changing workforce are two of the forces causing an evolution in employment relationships. Employers today demand more workforce flexibility to remain competitive in the global marketplace, so most have shifted toward a model of **employability**, in which employees are expected to manage their own careers by anticipating future organizational needs and developing new competencies that match those needs. "It's a good idea to stay current with what's out there and take personal responsibility for our own employability," says Rich Hartnett, global staffing director at aerospace manufacturer Boeing.<sup>18</sup>

Companies have also increased workforce flexibility through greater use of **contingent work**, which includes any job without an explicit or implicit contract for long-term employment, or one in which the minimum hours of work can vary in a nonsystematic way. More than 15 percent of the U.S. workforce is employed in some sort of contingent work arrangement, such as temporary or seasonal employees, freelance contractors (sometimes called *free agents*), and temporary staffing agency workers.<sup>19</sup> Contingent work creates a variety of organizational behavior issues related to organizational commitment, feelings of inequity, and organization structure.<sup>20</sup>

## Adapting to Emerging Workforce Expectations

While employers are demanding more workforce flexibility, employees are demanding, and receiving, more changes in the workplace to meet their evolving employment expectations. Two decades ago, for example, **work/life balance**—minimizing conflict between work and nonwork demands—was considered a luxury that must be earned through hard work. Today, it is a "must-have" condition in the employment relationship, particularly among Gen X and Gen Y employees. In fact, surveys in several countries consistently report that work/life balance is one of the most important indicators of career success among young employees.<sup>21</sup>

Companies are also adjusting to emerging workforce expectations of a more egalitarian workplace by reducing hierarchy and replacing command-and-control management with facilitating and teacher-oriented leaders. Younger employees tend to view the workplace as a community where they spend a large part of their lives (even with work/life balance), so many companies are accommodating these expectations for more social fulfillment and fun. Google, described at the beginning of this chapter, is a case in point. The company's "Googleplex" headquarters is a campus oasis where, in addition to working, employees play sports, enjoy gourmet meals, and watch first-run movies. Some staff even tried to make headquarters their home, until management advised everyone that residency was against fire regulations.

### employability

An employment relationship in which people are expected to continuously develop their skills to remain employed.

### contingent work

Any job in which the individual does not have an explicit or implicit contract for long-term employment, or one in which the minimum hours of work can vary in a nonsystematic way.

### work/life balance

The minimization of conflict between work and nonwork demands

## Virtual Work

Up to a point, Karen Dunn Kelley follows a familiar routine as a mother and busy executive. She puts her school-aged children on the bus, feeds breakfast to her 19-month-old before handing him off to a nanny, and then heads off to the office. But Kelley's daily commute is different from most; it's just a short walk from her house to the office over her garage. Furthermore, Kelley is an executive with Houston-based AIM Management Group, yet the home office where she oversees 40 staff and US\$75 billion in assets is located in Pittsburgh.<sup>22</sup> Karen Dunn Kelley's daily routine is an example of **virtual work**, whereby employees use information technology to perform their jobs away from the traditional physical workplace. Kelly's virtual work, called *teleworking* or *telecommuting*, involves working at home rather than commuting to the office, whereas other employees are connected to the office while on the road or at clients' offices. Nearly 20 percent of Americans work at home at least one day each month.<sup>23</sup>

Virtual work influences many aspects of organizational behavior. For instance, studies indicate that telecommuting potentially reduces employee stress, increases productivity and job satisfaction, and makes employees feel more empowered. At the same time, unless they regularly visit the office, some virtual workers suffer from loneliness and lack of recognition. Ironically, virtual workers also suffer from work/family stress if they lack sufficient space and resources for a home office.<sup>24</sup>

## Virtual Teams

Another variation of virtual work occurs in **virtual teams**—cross-functional groups that operate across space, time, and organizational boundaries with members who communicate mainly through information technology.<sup>25</sup> Virtual teams exist when some members telework, but also when team members are located on company premises at different sites around the country or world. Teams have varying degrees of virtualness, depending on how often and how many team members interact face-to-face or at a distance. There is currently a flurry of research activity studying the types of work best suited to virtual teams and the conditions that facilitate and hinder their effectiveness, as we will discover later in this book.

## Workplace Values and Ethics

Search through most annual reports and you'll soon discover that corporate leaders view values as the *sine qua non* of organizational excellence. For example, as described in the opening story to this chapter, Google places paramount importance on "Don't be evil." **Values** represent stable, long-lasting beliefs about what is important in a variety of situations that guide our decisions and actions. They are evaluative standards that help define what is right or wrong, or good or bad, in the world. Values dictate our priorities, our preferences, and our desires. They influence our motivation and decisions.<sup>26</sup> Although leaders refer to the core values of their companies, values really exist only within individuals, which we call *personal values*. However, groups of people might hold the same or similar values, so we tend to ascribe these *shared values* to the team, department, organization, profession, or entire society.

## Importance of Values in the Workplace

Values have been studied in organizational behavior for a long time, but they have only recently become a popular topic in corporate boardrooms. One reason is that as today's workforce rejects "command-and-control" supervision, leaders are turning to values as a more satisfactory approach to keeping employees' decisions and actions aligned with corporate goals.<sup>27</sup> A second reason is that globalization has raised our awareness of and sensitivity to

### virtual work

Employee perform work away from the traditional physical workplace using information technology

### virtual teams

Cross-functional teams that operate across space, time, and organizational boundaries with members who communicate mainly through information technologies.

### values

Stable, long-lasting beliefs about what is important in a variety of situations

cultural differences in values and beliefs. This creates an increasing challenge to identify a set of core values acceptable to employees around the world.

The third reason why values have gained prominence is that organizations are under increasing pressure to engage in ethical practices and corporate social responsibility. **Ethics** refers to the study of moral principles or values that determine whether actions are right or wrong and outcomes are good or bad. We rely on our ethical values to determine “the right thing to do.” Ethical behavior is driven by our values. Unfortunately, a lot of people give executives low grades on their ethics report cards these days, so ethics and values will continue to be an important topic in OB teaching.<sup>28</sup>

### ethics

The study of moral principles or values that determine whether actions are right or wrong and outcomes are good or bad.

## Corporate Social Responsibility

More than 30 years ago, economist Milton Friedman pronounced that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.” Friedman is a respected scholar, but this argument was not one of his more popular—or accurate—statements. Today, any business that follows Friedman’s advice will face considerable trouble. Several studies have reported that employees increasingly want to work for ethical organizations whose decisions benefit the wider community, not just shareholders and employees. Many corporate leaders also expect their business partners to serve this wider constituency. In other words, the public expects organizations to engage in **corporate social responsibility**.<sup>29</sup>

### corporate social responsibility (CSR)

An organization’s moral obligation towards its stakeholders.



The senior management team at the Department of Economic Development (DED) in the Emirate of Dubai recently devoted several months to identifying the agency’s core values: accountability, teamwork, and continuous improvement. Each of these three values is anchored with specific behavior descriptions to ensure that employees and other stakeholders understand their meaning. DED also organized a series of workshops (shown in photo) in which employees participated in a “Values Mystery” exercise to help them recognize values-consistent behaviors. To develop a values-based organization, DED will also use these three values to evaluate employee performance, assess employee competencies, and identify management potential.<sup>30</sup>

Courtesy of Tom’s of Maine

**stakeholders**

Shareholders, customers, suppliers, governments, and any other groups with a vested interest in the organization.

Corporate social responsibility (CSR) refers to an organization's moral obligation toward all of its **stakeholders**. Stakeholders are the shareholders, customers, suppliers, governments, and any other groups with a vested interest in the organization.<sup>31</sup> As part of corporate social responsibility, many companies have adopted the *triple bottom line* philosophy. This means that they try to support or “earn positive returns” in the economic, social, and environmental spheres of sustainability. Firms that adopt the triple bottom line aim to survive and be profitable in the marketplace (economic), but they also intend to maintain or improve conditions for society (social) as well as the physical environment.<sup>32</sup>

## >The Five Anchors of Organizational Behavior

Globalization, the changing workforce, evolving employment relationships, virtual work, and workplace values and ethics are just a few of the trends that we will explore in this textbook. To understand these and other topics, the field of organizational behavior relies on a set of basic conceptual anchors that guide our thinking about organizations and how to study them (see Exhibit 1.2). Let's look at each of these five beliefs that anchor the study of organizational behavior.

### The Multidisciplinary Anchor

Organizational behavior is anchored around the idea that the field should freely borrow knowledge from other disciplines, not just from its own isolated research base. For instance, psychological research has aided our understanding of individual and interpersonal behavior. Sociologists have contributed to our knowledge of team dynamics, organizational socialization, organizational power, and other aspects of the social system. OB knowledge has also benefited from knowledge in emerging fields such as communications, marketing, and information systems. Some OB experts have recently argued that the field suffers from a “trade deficit”—importing far more knowledge from other disciplines than

**[Exhibit 1.2]** Five Conceptual Anchors of Organizational Behavior



it is exporting to other disciplines. While this is a possible concern, organizational behavior has thrived through its diversity of knowledge from other fields.<sup>33</sup>

## The Systematic Research Anchor

This anchor states that OB research should rely on the scientific method and related standards of systematic research to advance knowledge in this field. The **scientific method** involves forming research questions, systematically collecting data, and testing hypotheses against those data. This approach relies mainly on quantitative data (numeric information) and statistical procedures to test hypotheses. The idea behind the scientific method is to minimize personal biases and distortions about organizational events. Recently, OB knowledge has also developed through systematic qualitative research methods, such as open-ended interviews and observation of workplace behavior.

### scientific method

A set of principles and procedures that help researchers to systematically understand previously unexplained events and conditions.

## The Contingency Anchor

People and their work environments are complex, and the field of organizational behavior recognizes this by advocating another important anchor, called the **contingency approach**. This anchor states that a particular action may have different consequences in different situations. In other words, no single solution is best in all circumstances.<sup>34</sup> Of course, it would be so much simpler if we could rely on “one best way” theories, in which a particular concept or practice has the same results in every situation. OB experts do search for simpler theories, but they also remain skeptical about “surefire” recommendations; an exception is somewhere around the corner. Thus, when faced with a particular problem or opportunity, we need to understand and diagnose the situation and select the strategy most appropriate *under those conditions*.<sup>35</sup>

### contingency approach

The idea that a particular action may have different consequences in different situations.

## The Multiple Levels of Analysis Anchor

This textbook divides organizational behavior topics into three levels of analysis: individual, team, and organization. The individual level includes the characteristics and behaviors of employees as well as the thought processes that are attributed to them, such as motivation, perceptions, personalities, attitudes, and values. The team level of analysis looks at the way people interact. This includes team dynamics, communication, power, influence, conflict, and leadership. The organizational level looks at how people structure their working relationships and on how organizations interact with their environments.

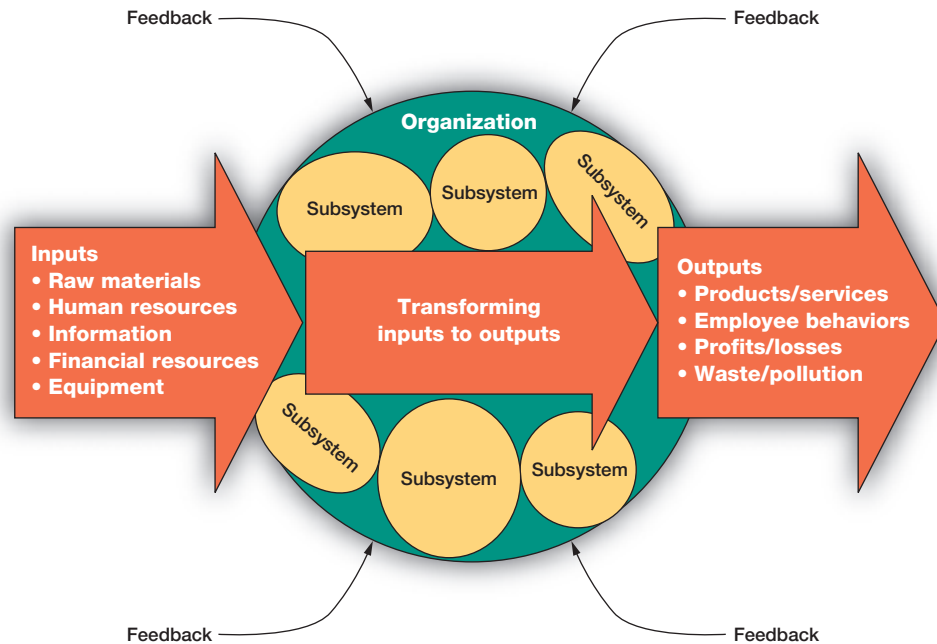
Although an OB topic is typically pegged into one level of analysis, it usually relates to multiple levels.<sup>36</sup> For instance, communication is located in this book as a team (interpersonal) process, but we also recognize that it includes individual and organizational processes. Therefore, you should try to think about each OB topic at the individual, team, and organizational levels, not just at one of these levels.

## The Open Systems Anchor

The final anchor is that OB experts view organizations as **open systems**. By open systems, we mean that companies take their sustenance from the environment and, in turn, affect that environment through their output. From this perspective, organizations are viewed as living organisms whose survival and success depend on how well employees sense environmental changes and alter their patterns of behavior to fit those emerging conditions.<sup>37</sup> In contrast, a closed system has all the resources needed to survive without dependence on the external environment. Organizations are never completely closed systems, but monopolies

### open systems

Organizations that take their sustenance from the environment and, in turn, affect that environment through their output.

**[Exhibit 1.3]** Open Systems View of Organizations

come close because they operate in very stable environments and can ignore stakeholders for a fairly long time without adverse consequences.

As Exhibit 1.3 illustrates, organizations acquire resources from the external environment, including raw materials, employees, financial resources, information, and equipment. Inside the organization are numerous subsystems, such as processes (communication and reward systems), task activities (production, marketing), and social dynamics (informal groups, power dynamics). With the aid of technology (such as equipment, work methods, and information), these subsystems transform inputs into various outputs. Subsystems tend to become more complex as organizations grow, which creates more challenges and potential problems as subsystems need to coordinate with each other in the process of transforming inputs to outputs.

All organizations produce outputs. Some outputs (e.g., products and services) may be valued by the external environment, whereas other outputs (e.g., employee layoffs, pollution) have adverse effects. The organization receives feedback from the external environment regarding the value of its outputs and the availability of future inputs. This process is cyclical and, ideally, self-sustaining, so that the organization may continue to survive and prosper.

As open systems, successful organizations monitor their environments and have the capacity to change their outputs and transformational processes in order to maintain a close fit with the evolving external conditions.<sup>38</sup> Monitoring the environment involves paying attention to stakeholder needs and expectations, because they influence the firm's access to inputs and ability to discharge outputs. Some stakeholders are more important than others, and the relative importance of each stakeholder group fluctuates with other environmental changes. For instance, accounting firms have recently given much more attention to government and professional accounting bodies as professional auditors have come under increasing criticism and scrutiny.

The open systems anchor is an important way of viewing organizations. However, it has traditionally focused on physical resources that enter the organization and are processed into physical goods (outputs). This was representative of the industrial economy but not of the "new economy," where the most valued input is knowledge.

# <Knowledge Management

In the opening story to this chapter, Google chief financial officer George Reyes said that his company “is truly a learning organization.” Reyes’s statement doesn’t just refer to the fact that Google is an open system; it also emphasizes that Google is effective as an open system through employees and systems that support **knowledge management**. Knowledge management is any structured activity that improves an organization’s capacity to acquire, share, and use knowledge in ways that improve its survival and success.<sup>39</sup>

For instance, Google is a learning organization—it actively applies knowledge management—because it seeks out knowledgeable people (such as Rob Pike), maintains an internal environment (the Googleplex) that supports knowledge sharing and creativity, and encourages employees to quickly transform that knowledge into valuable services, such as Google’s search engine, Gmail, Google News, and Google Translate. Even after services have been created, the organization learns from feedback about how the public makes use of those services.

The stock of knowledge that resides in an organization is called its **intellectual capital**, which is the sum of everything that an organization knows that gives it competitive advantage—including its human capital, structural capital, and relationship capital.<sup>40</sup>

- *Human capital*. This is the knowledge that employees possess and generate, including their skills, experience, and creativity.
- *Structural capital*. This is the knowledge captured and retained in an organization’s systems and structures. It is the knowledge that remains after all the human capital has gone home.
- *Relationship capital*. This is the value derived from an organization’s relationships with customers, suppliers, and other external stakeholders who provide added value for the organization. For example, this includes customer loyalty as well as mutual trust between the organization and its suppliers.

## knowledge management

Any structured activity that improves an organization’s capacity to acquire, share, and use knowledge in ways that improve its survival and success.

## intellectual capital

The sum of an organization’s human capital, structural capital, and relationship capital.

## Knowledge Management Processes

To maintain a valuable *stock* of knowledge (intellectual capital), organizations depend on their capacity to acquire, share, and use knowledge more effectively. This process is often called **organizational learning** because companies must continuously learn about their various environments in order to survive and succeed through adaptation.<sup>41</sup> The “capacity” to acquire, share, and use knowledge means that companies have established systems, structures, and organizational values that support the knowledge management process.

- *Knowledge acquisition*. This includes the process of extracting information and ideas from its environment as well as through insight. One of the fastest and most powerful ways to acquire knowledge is by hiring individuals or acquiring entire companies. Knowledge also enters the organization when employees learn from external sources, such as discovering new resources from suppliers or becoming aware of new trends from clients. A third knowledge acquisition strategy is through experimentation. Companies receive knowledge through insight as a result of research and other creative processes.<sup>42</sup>
- *Knowledge sharing*. This process refers to how well knowledge is distributed throughout the organization to those who would benefit from that knowledge. Computer intranets are often marketed as complete “knowledge management” systems. While somewhat useful in cataloging where knowledge is located, these electronic storage systems can be expensive to maintain; they also overlook the fact

## organizational learning

The knowledge management process in which organizations acquire, share, and use knowledge to succeed.

that a lot of knowledge is difficult to document.<sup>43</sup> Thus, any technological solution needs to be supplemented by giving employees more opportunities for informal online or face-to-face interaction.

- *Knowledge use.* Acquiring and sharing knowledge are wasted exercises unless knowledge is effectively put to use. To do this, employees must realize that the knowledge is available and that they have enough freedom to apply it. This requires a culture that supports learning and change.

## Organizational Memory

### organizational memory

The storage and preservation of intellectual capital.

Intellectual capital can be lost as quickly as it is acquired.<sup>44</sup> Corporate leaders need to recognize that they are the keepers of an **organizational memory**. This unusual metaphor refers to the storage and preservation of intellectual capital. It includes information that employees possess as well as knowledge embedded in the organization's systems and structures. It includes documents, objects, and anything else that provides meaningful information about how the organization should operate.

How do organizations retain intellectual capital? One way is by keeping good employees. As we noted earlier in this chapter, progressive companies are adapting their employment practices to become more compatible with emerging workforce expectations, including work/life balance, egalitarian hierarchy, and a workspace that generates more fun. A second organizational memory strategy is to systematically transfer knowledge before employees leave. This occurs when new recruits apprentice with skilled employees, thereby acquiring knowledge that is not documented. A third strategy is to transfer knowledge into structural capital. This includes bringing out hidden knowledge, organizing it, and putting it in a form that can be available to others.

## >The Journey Begins

This chapter gives you some background about the field of organizational behavior. But it's only the beginning of our journey. Throughout this book, we will challenge you to learn new ways of thinking about how people work in and around organizations. We begin this process in Chapter 2 by presenting a basic model of individual behavior, then introducing



A few years ago, Evercare (formerly Helmac) decided to move its headquarters and manufacturing from Flint, Michigan, to Georgia. The move nearly killed the manufacturer of Lint Pic-up products because none of Evercare's production employees wanted to leave Flint. So when the company's executives arrived in Georgia to set up production, they struggled to rebuild the company's manufacturing and distribution systems from scratch. "Nothing was documented," recalls manufacturing vice president John Moore, shown here with vice president of distribution Barbara Tomaszewski. "All of the knowledge, all of the practices were built in people's heads." The good news was that the rebuilt company seems stronger because employees did not learn some of the past practices that didn't work.<sup>45</sup>

over the next five chapters various stable and mercurial characteristics of individuals that relate to elements of the individual behavior model. Next, this book moves to the team level of analysis. We examine a model of team effectiveness, communication, power and influence, conflict management, and leadership. Finally, we shift our focus to the organizational level of analysis, where the topics of organizational structure, organizational culture, and organizational change are examined in detail.

## >chapter summary

Organizational behavior is the study of what people think, feel, and do in and around organizations. Organizations are groups of people who work interdependently toward some purpose. OB concepts help us to predict and understand organizational events, adopt more accurate theories of reality, and influence organizational events. This field of knowledge also improves the organization's financial health.

There are several trends in organizational behavior, including globalization, the changing workforce, evolving employment relationships, virtual work, and workplace values and ethics.

Organizational behavior scholars rely on five anchors to understand and study organizations: OB knowledge should be multidisciplinary; it should be based on systematic research; organizational events usually have contingencies; organizational behavior can be viewed from three levels of analysis (individual, team, and organization); and organizations are open systems.

The open systems anchor suggests that organizations acquire resources from the environment, transform them through technology, and return outputs to the environment. The external environment consists of the natural and social conditions outside the organization.

Knowledge management is any structured activity that improves an organization's capacity to acquire, share, and use knowledge in ways that improve its survival and success. Intellectual capital is knowledge that resides in an organization, including its human capital, structural capital, and relationship capital. Organizations acquire knowledge through hiring, individual learning, and experimentation. Knowledge sharing occurs through various forms of communication, ranging from computer intranets to informal face-to-face gatherings. Knowledge use occurs when employees realize that the knowledge is available and that they have enough freedom to apply it. Organizational memory refers to the storage and preservation of intellectual capital.

## >keyterms

contingency approach 11	organizational learning 13
contingent work 7	organizational memory 14
corporate social responsibility (CSR) 9	organizations 4
employability 7	scientific method 11
ethics 9	stakeholders 10
globalization 6	values 9
intellectual capital 13	virtual work 8
knowledge management 13	virtual teams 9
open systems 11	work/life balance 7
organizational behavior (OB) 3	

## >critical.thinking.questions

1. A friend suggests that organizational behavior courses are useful only to people who will enter management careers. Discuss the accuracy of your friend's statement.
2. Look through the list of chapters in this textbook and discuss how globalization could influence each organizational behavior topic.
3. Corporate social responsibility is one of the hottest issues in corporate boardrooms these days, partly because it is becoming increasingly important to employees and other stakeholders. In your opinion, why have stakeholders given CSR more attention recently? Does abiding by CSR standards potentially cause companies to have conflicting objectives with some stakeholders in some situations?
4. "Organizational theories should follow the contingency approach." Comment on the accuracy of this statement.
5. A number of years ago, employees of the water distribution department of a major city were put into teams and encouraged to find ways to improve efficiency. The teams boldly crossed departmental boundaries and areas of management discretion in search of problems. Employees working in other parts of the city began to complain about these intrusions. Furthermore, when some team ideas were implemented, the city managers discovered that a dollar saved in the water distribution unit may have cost the organization two dollars in higher costs elsewhere. Use the open systems anchor to explain what happened here.
6. After hearing a seminar on knowledge management, a mining company executive argues that this perspective ignores the fact that mining companies could not rely on knowledge alone to stay in business. They also need physical capital (such as digging and ore-processing equipment) and land (where the minerals are located). In fact, these two may be more important than what employees carry around in their heads. Discuss the merits of the mining executive's comments.
7. At a recent seminar on information technology, you heard a consultant say that more than 30 percent of U.S. companies use software to manage documents and exchange information, whereas firms in Europe are just beginning to adopt this technology. Based on this, the consultant concluded that "knowledge management in Europe is at its beginning stages." In other words, few firms in Europe practice knowledge management. Comment on this consultant's statement.
8. BusNews Corp. is the leading stock market and business news service. Over the past two years, BusNews has experienced increased competition from other news providers. These competitors have brought in Internet and other emerging computer technologies to link customers with information more quickly. There is little knowledge within BusNews about how to use these computer technologies. Based on the knowledge acquisition processes for knowledge management, explain how BusNews might gain the intellectual capital necessary to become more competitive in this respect.

## >casestudy:skillbuilder1.1

### Ancol Corp.

Paul Sims was delighted when Ancol Corp. offered him the job of manager at its Lexington, Kentucky, plant. Sims was happy enough managing a small metal stamping plant with another company, but the invitation to apply to the plant manager job at one of the leading metal fabrication companies was irresistible. Although the Lexington plant was the smallest of Ancol's 15 operations, the plant manager position was a valuable first step in a promising career.

One of Sims's first observations at Ancol's Lexington plant was that relations between employees and management were strained. Taking a page from a recent executive seminar that he attended on building trust in the workplace, Sims ordered the removal of all time clocks from the plant. Instead, the plant would assume that

employees had put in their full shift. This symbolic gesture, he believed, would establish a new level of credibility and strengthen relations between management and employees at the site.

Initially, the 250 production employees at the Lexington plant appreciated their new freedom. They felt respected and saw this gesture as a sign of positive change from the new plant manager. Two months later, however, problems started to appear. A few people began showing up late, leaving early, or taking extended lunch breaks. Although this represented only about 5 percent of the employees, others found the situation unfair. Moreover, the increased absenteeism levels were beginning to have a noticeable effect on plant productivity. The problem had to be managed.

Sims asked supervisors to observe and record when the employees came or went and to discuss attendance problems with those abusing their privileges. But the supervisors had no previous experience with keeping attendance, and many lacked the necessary interpersonal skills to discuss the matter with subordinates. Employees resented the reprimands, so relations with supervisors deteriorated. The additional responsibility of keeping track of attendance also made it difficult for supervisors to complete their other responsibilities. After just a few months, Ancol found it necessary to add another supervisor position and reduce the number of employees assigned to each supervisor.

But the problems did not end there. Without time clocks, the payroll department could not deduct pay for the amount of time that employees were late. Instead, a letter of reprimand was placed in the employee's personnel file. However, this required yet more time and additional skills from the supervisors. Employees did not want these letters to become a permanent record, so they filed grievances with their labor union. The number of grievances doubled over six months, which required even more time for both union officials and supervisors to handle these disputes.

Nine months after removing the time clocks, Paul Sims met with union officials, who agreed that it would be better to put the time clocks back in. Employee-management relations had deteriorated below the level when Sims had

started. Supervisors were overworked. Productivity had dropped due to poorer attendance records and increased administrative workloads.

A couple of months after the time clocks were put back in place, Sims attended an operations meeting at Ancol's headquarters in Cincinnati. During lunch, Sims described the time clock incident to Liam Jackson, Ancol's plant manager in Portland, Oregon. Jackson looked surprised, then chuckled. He explained that the previous manager at his plant had done something like that with similar consequences six or seven years ago. The manager had left some time ago, but Jackson heard about the earlier time clock incident from a supervisor during his retirement party two months ago. "I guess it's not quite like lightning striking the same place twice," said Sims to Jackson. "But it sure feels like it."

### Discussion Questions

1. Use the open systems model to explain what happened when Ancol removed the time clocks.
2. What changes should occur to minimize the likelihood of these problems in the future?

Source: © Copyright 2000 Steven L. McShane. This case is based on actual events, but names and some facts have been changed to provide a fuller case discussion.

## >teamexercise:skillbuilder1.2

### Human Checkers

**Purpose** This exercise is designed to help students understand the importance and application of organizational behavior concepts.

**Materials** None, but the instructor has more information about the team's task.

#### Instructions

- *Step 1.* Form teams with six students. If possible, each team should have a private location where team members can plan and practice the required task without being observed or heard by other teams.
- *Step 2.* All teams will receive special instructions in class about the team's assigned task. All teams have the same task and will have the same amount of time to plan and practice the task. At the end of this planning and practice, each team will be timed while completing the task in class. The team that completes the task in the least time wins.
- *Step 3.* No special materials are required or allowed for this exercise. Although the task is not described here,

students should learn the following rules for planning and implementing the task:

*Rule 1: You cannot use any written form of communication or any props to assist in the planning or implementation of this task.*

*Rule 2: You may speak to other students in your team at any time during the planning and implementation of this task.*

*Rule 3: When performing the task, you must move only in the direction of your assigned destination. In other words, you can only move forward, not backward.*

*Rule 4: When performing the task, you can move forward to the next space, but only if it is vacant (see Exhibit 1).*

*Rule 5: When performing the task, you can move forward two spaces, if that space is vacant. In other words, you can move around a student who is one space in front of you to the next space if that space is vacant (see Exhibit 2).*

Exhibit 1



Exhibit 2



- *Step 4:* When all teams have completed their task, the class will discuss the implications of this exercise for organizational behavior.

### Discussion Questions

1. Identify organizational behavior concepts that the team applied to complete this task.
2. What personal theories of people and work teams were applied to complete this task?
3. What organizational behavior problems occurred and what actions were (or should have been) taken to solve them?

## >webexercise:skillbuilder1.3

### Diagnosing Organizational Stakeholders

**Purpose** This exercise is designed to help you understand how stakeholders influence organizations as part of the open systems anchor.

**Materials** Students need to select a company and, prior to class, retrieve and analyze publicly available information over the past year or two about that company. This may include annual reports, which are usually found on the Web sites of publicly traded companies. Where possible, students should also scan full-text newspaper and magazine databases for articles published over the previous year about the company.

**Instructions** The instructor may have students work alone or in groups for this activity. Students will select a company and will investigate the relevance and influence of various stakeholder groups on the organization. Stakeholders will be identified from annual reports, newspaper articles, Web-

site statements, and other available sources. Stakeholders should be ranked in terms of their perceived importance to the organization.

Students should be prepared to present or discuss their organization's rank ordering of stakeholders, including evidence for this rank ordering.

### Discussion Questions

1. What are the main reasons certain stakeholders are more important than others for this organization?
2. Based on your knowledge of the organization's environment, is this rank order of stakeholders in the organization's best interest, or should specific other stakeholders be given higher priority?
3. What societal groups, if any, are not mentioned as stakeholders by the organization? Does this lack of reference to these unmentioned groups make sense?

## >teamactivity/self-assessment.skillbuilder1.4

### Does It All Make Sense?

**Purpose** This exercise is designed to help you understand how organizational behavior knowledge can help you to understand life in organizations.

**Instructions** (*Note:* This activity may be done as a self-assessment or as a team activity.) Read each of the statements below and circle whether each statement is true or false, in your opinion. The class will consider the answers to each question and discuss the implications for studying organizational behavior.

Due to the nature of this activity, the instructor will provide information about the most appropriate answer. The scoring key is not found in Appendix B.

1. True False A happy worker is a productive worker.
2. True False Decision makers tend to continue supporting a course of action even though information suggests that the decision is ineffective.
3. True False Organizations are more effective when they prevent conflict among employees.
4. True False It is better to negotiate alone than as a team.
5. True False Companies are more effective when they have a strong corporate culture.
6. True False Employees perform better without stress.
7. True False Effective organizational change always begins by pinpointing the source of its current problems.

8. True False Female leaders involve employees in decisions to a greater degree than do male leaders.
9. True False People in Japan value group harmony and duty to the group (high collectivism) more than do Americans (low collectivism).
10. True False The best decisions are made without emotion.
11. True False If employees feel they are paid unfairly, then nothing other than changing their pay will reduce their feelings of injustice.

## >self-assessment.skillbuilder1.5

### Telework Disposition Assessment

As companies experiment with telecommuting (also called *teleworking*), they are learning that some employees seem to adapt better than others to this new employment relationship. This self-assessment measures personal characteristics that seem to relate to telecommuting and therefore provides a rough indication of how well you would adapt to this employment relationship. The

instrument asks you to indicate the degree to which you agree or disagree with each of the statements provided. You need to be honest with yourself for a reasonable estimate of your telework disposition. Please keep in mind that this scale only considers your personal characteristics. Other factors, such as organizational, family, and technological systems support, must also be taken into account.

