PART ONE

Introduction

CHAPTER ONE

Managing Effective Organizations

Learning Objectives

After completing Chapter 1, you should be able to

Define
The term *organizational behavior*.

Explain
Why organizations need to manage in an effective manner.

Identify
Why managing workplace behavior in the United States is likely to be different from managing workplace behavior in another country, such as Germany.

Compare
The goal, systems, and stakeholder approaches to effectiveness.

Describe
The type of environmental forces that make it necessary for organizations to initiate changes.

Global Account Managers: Multiple Skills Are Needed

Attracting, retaining, and managing customers in a global marketplace are daunting tasks for even the most astute managers. It is difficult for a company to establish and maintain relationships with customers in their own neighborhood, state, region, or country. In terms of difficulty, the task is multiplied when customers are spread around the world.

As globalization matures and grows, there are more opportunities to find and nurture customers. However, some of the traditional jobs, structures, and systems have to be modified. The notion of a global account manager was not a part of organizational infrastructures a decade ago. However, today the global account manager is center stage and growing in stature.

The global account manager (GAM) in some cases is in charge of a single customer and all of its global needs. The customer's needs, schedules, and interests are the top priority of the GAM. Some believe that it takes more than a decade to develop a responsive, effective, and profitable global account management system.

Studies of DHL, Siemens, SAP, Marriott International, Microsoft, IBM, and others provide some suggestions of how an effective GAM system evolves. Three stages emerge in effective GAM systems: beginner, springload, and embedded.

Beginners identify global accounts, assign managers, and change their structures in terms of communications, decision making, and problem solving to help the GAM succeed. In the *springload* stage, the GAM works with customers to develop new products and find ways to make the customer more competitive. In the *embedded* stage, the entire organization has developed a cooperative culture and global orientation. Serving the needs of the global customer is the top priority of the GAM.

Microsoft started using GAM around 2000. Today, they focus on multimillion-dollar, global customers that rely heavily on information technology. Although size of the customer's revenue is important, Microsoft wants to attract leaders in their industry—customers who are willing to openly share information for the development of new products and processes. Other firms develop their own set of criteria for establishing the GAM program.

Sources: Adapted from "New Company of the Year," *Financial Times*, February 16, 2008, p. 11; Christoph Senn and Axel Thoma, "Global Business: Worldly Wise," *Wall Street Journal Online,* March 3, 2007; and Karen R. Polenske, *The Economic Geography of Innovation* (Cambridge, UK: Cambridge University Press, 2006).

Years ago, change was slow, markets were concentrated in a handful of countries, and stability was the rule rather than the exception. Back then, organizational approaches emphasized top-down hierarchy, rules and regulations, and authority rested in the hands of authoritative executives. Ford Motors, Nestlé, General Electric, and IBM—organizational

giants that dominated their respective markets—used a rigid hierarchy system from top management to operating-level employees to accomplish their goals. During the past 30 years, many factors in the environment (such as government regulations, information technology, global competitors, union influence, and customer demands and needs) changed, and as a result, organizations needed to make dramatic adjustments in how they managed their operations. Unfortunately, in the 21st century some organizations have failed to change or adapt to their more turbulent environments. This inability to change with the times has decreased their organizational effectiveness.

The opening vignette on global account managers illustrates how multiple skills are needed to grow operations globally. Adapting to change and flexibility are the requirements for managing effectively in a globally connected marketplace.

This book is about organizations and how they operate effectively in a world that is rapidly changing.[1] We will focus our attention throughout this book on people working within organizations or interacting with them from outside. People working together or contributing individually within organizations, large and small, have built pyramids, city-states, spacecraft, running shoes, automobiles, and entire industries. Each of us spends much of our life working for or conducting transactions with organizations—restaurants, universities, doctors' offices, USAA Financial Services, Amazon.com, Southwest Airlines, United Parcel Service, Target, and the Internal Revenue Service are just a few examples.

People and how they work individually and together are the focus of this book. The story of Aaron Feuerstein in the OB at Work feature on the next page clearly shows that putting people first can have dramatic positive effects for an organization and community.

Another characteristic of the book is that it is globally oriented. That people work in organizations, produce goods and services, and contribute to a society is not a phenomenon found only in the United States.[2] Americans are no smarter than Germans, nor are they better workers than Brazilians. The fact that the United States became such a productive nation is largely the result of the application of sound management practices and techniques. Americans planned efficiently, organized systematically, and led workers effectively. Also, Americans came up with new techniques, new methods, and new styles of management that fit well with the time, the workforce, and the mission. In the past 60 years, productivity improvement has been a major priority for most organizations.

As we move further into the 21st century, managers around the world must recapture the feel, the passion, and the desire for being effective, for producing high-quality products, and for providing outstanding services. Unfortunately, the importance of managing human resources hasn't always taken center stage. It is our strong belief that managing people effectively in organizations is the most essential ingredient for achieving organizational success, retaining a comfortable standard of living, remaining one of the world's economic leaders, and improving the quality of life for all citizens.[3]

Whether we're talking about a pizza parlor in Chicago, a glass manufacturing plant in Monterrey, Mexico, or a cooperative produce shop in Vilnius, Lithuania, management within an organizational setting is important. The clerk in the Lithuanian produce shop wants to earn a fair day's pay for his work, the company president in Mexico has to purchase the best equipment to compete internationally, and the pizza parlor owner must motivate people to show up on time for work. These individuals' work behaviors occur within organizations. To better understand these behaviors, we believe that we must formally study people, processes, and structure in relation to organizations.

organizations
Entities that enable society to pursue accomplishments that can't be achieved by individuals acting alone.

An **organization** is a coordinated unit consisting of at least two people who function to achieve a common goal or set of goals. This is what this book is about—organizations, large and small, domestic and global, successful and unsuccessful. Looking inside the organization at the people, processes, and structures will help enlighten the observer and will also reveal the inner workings of organizations that have been a main contributor to the standards of living enjoyed by people around the world.

OB AT WORK Putting People First

On December 11, 1995, a devastating fire swept through a mill complex in the heart of Lawrence, Massachusetts. Malden Mills, one of the few remaining textile firms operating in New England, owned the factory. The destruction threatened the 1,400 jobs at the mill. Another 1,600 jobs at plants in the community that did business with Malden Mills were also threatened. However, on the morning after the fire, the owner of Malden Mills, Aaron Feuerstein, promised his employees that their jobs were secure. He decided that Malden Mills would rebuild the ruined plant and would continue to provide full paychecks and medical benefits through the holiday season.

The fire and its aftermath generated a lot of national attention. Feuerstein's actions were praised, and he was regarded as a sensitive, caring leader. A few months later, a welder at the plant praised Feuerstein, ". . . with what he's doing with Malden Mills, it's an honor to work in this place."

Feuerstein's philosophy of putting people first is reflected in his statement that

> I have a responsibility to the worker, both blue-collar and white-collar. I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a deathblow to the cities of Lawrence and Matheren. Maybe on paper our company is worth less to Wall Street, but I can tell you it's worth more. We're doing fine.

Putting people first was something that Feuerstein did with ease. In a region of the United States that had witnessed downsizing, reengineering, and outsourcing, Feuerstein's behavior was embraced, applauded, and held in high regard. Feuerstein had faith in his workers and showed how important they were to him.

Since the fire, Malden Mills has fallen on hard times. Economic conditions in Lawrence have deteriorated for the factories in the region. Unfortunately, the years after the fire were filled with debt and bankruptcy. Feuerstein was asked if he would do the same thing again. He said, "Yes, it was the right thing to do."

A memory that citizens will not forget, though, is how managers at Malden treated their employees after an unfortunate fire. This memory continues to be a part of the history of the region even though the factories continue to close down.

Sources: Adapted from In Brief, *Wall Street Journal*, February 21, 2007, eastern edition, p. B.4; www.aish.com, accessed on April 2, 2007; Davis Bushnell, "Maneuvering for Control of Stronger Malden Mills," *Boston Globe,* February 5, 2004, p. D1; "Malden Mills," *Industry Standard,* July 24, 2001, p. 6; www.reputation-mgmt.com/malden.htm; and Richard K. Lester, *The Productivity Edge* (New York: Norton, 1998), pp. 213–14.

As the opening vignette illustrates, the expectations of consumers are changing. Organizations must be prepared to deal with consumer needs for social responsibility, good citizenship, and responsible management and leadership. The array of stakeholders applying pressure suggests that managing organizational behavior can be challenging and rewarding for managers.

Studying Organizational Behavior

organizational behavior (OB)
The field of study that draws on theory, methods, and principles from various disciplines to learn about *individuals'* perceptions, values, learning capacities, and actions while working in *groups* and within the *organization* and to analyze the external environment's effect on the organization and its human resources, missions, objectives, and strategies.

Why does Ric Nunzio always seem to hire older employees for his pizza parlor? Why is Selena Rodriguez the best decision maker in selecting what piece of equipment to purchase for her glass manufacturing plant? Why does Val Kupolus always complain that he's not paid enough to sell produce at the Vilnius produce stand? Such questions are studied, analyzed, and debated in the field called **organizational behavior (OB)**. The formal study of organizational behavior began between 1948 and 1952. This still-emerging field attempts to help managers understand people better so that productivity improvements, customer satisfaction, and a better competitive position can be achieved through better management practices.

The behavioral sciences—especially psychology, sociology, political science, and cultural anthropology—have provided the basic framework and principles for the field of organizational behavior. Each behavioral science discipline provides a slightly different focus, analytical framework, and theme for helping managers answer questions about themselves, nonmanagers, and environmental forces (e.g., competition, legal requirements, and social/political changes).

The multidisciplinary definition of organizational behavior illustrates a number of points. First, OB indicates that *behaviors* of people operate at individual, group, and organizational levels. This approach suggests that when studying OB we must identify clearly the level of analysis being used—individual, group, organizational, or all three. Second, OB is *multidisciplinary;* it uses principles, models, theories, and methods from other disciplines. The study of OB isn't a discipline or a generally accepted science with an established theoretical foundation. It's a field that only now is beginning to grow and develop in stature and impact. Third, there's a distinctly *humanistic orientation* within organizational behavior. People and their attitudes, perceptions, learning capacities, feelings, and goals are important to the organization. Fourth, the field of OB is *performance oriented*. Why is performance low or high? How can performance be improved? Can training enhance on-the-job performance? These are important issues facing managers. Fifth, the *external environment* is seen as having significant effect on organizational behavior. Sixth, because the field of OB relies heavily on recognized disciplines, the *scientific method* is important in studying variables and relationships. As the scientific method has been applied to research on organizational behavior, a set of principles and guidelines on what constitutes good research has emerged.[4] Finally, the field has a distinctive *applications orientation;* it concerns providing useful answers to questions that arise in the context of managing operations.

Organizational Behavior Follows Principles of Human Behavior

The effectiveness of any organization is influenced greatly by human behavior. People are a resource common to all organizations. The pizza parlor, the glass manufacturing plant, and the produce stand employ human assets and interact with people such as customers, suppliers, and job candidates.

One important principle of psychology is that each person is different. Each has unique perceptions, personality, and life experiences. People have different ethnic backgrounds; different capabilities for learning and for handling responsibility; and different attitudes, beliefs, and aspiration levels. We've moved from an era in which large portions of the workforce were middle-aged men who spoke only English to an era of diversity. Today's workforce doesn't look, think, or act like the workforce of the past.[5] To be effective, managers of organizations must view each employee or member as a unique embodiment of all these behavioral and cultural factors.

Organizations Are Social Systems

The relationships among individuals and groups in organizations create expectations for individuals' behavior. These expectations result in certain roles that must be performed. Some people must perform leadership roles, whereas others must participate in the roles of followers. Middle managers, because they have both superiors and subordinates, must perform both roles. Organizations have systems of authority, status, and power, and people in organizations have varying needs from each system. Groups in organizations also have a powerful impact on individual behavior and on organizational performance.

Multiple Factors Shape Organizational Behavior

contingency approach
Approach to management that believes there's no one best way to manage in every situation and managers must find different ways that fit different situations.

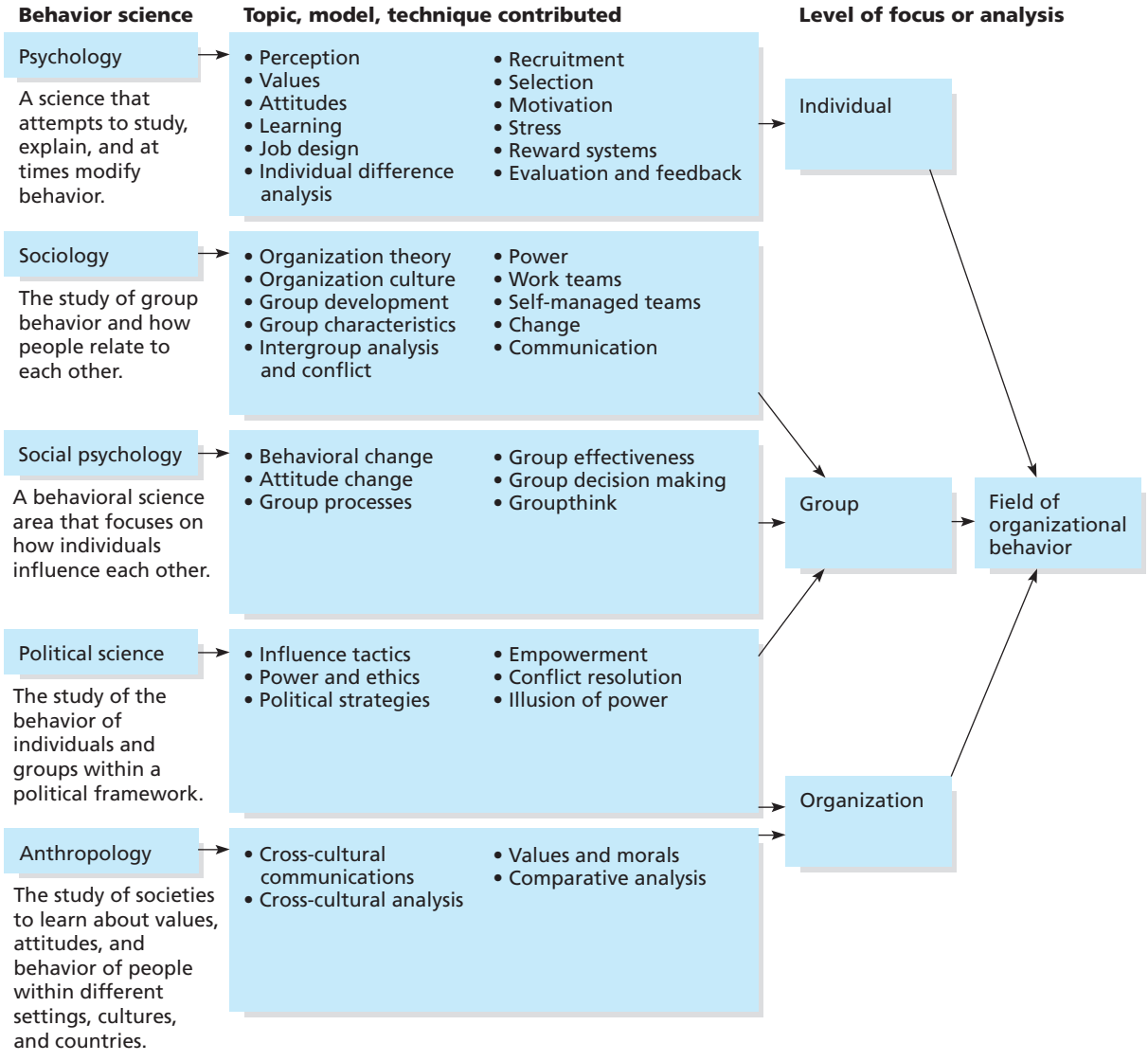
A person's behavior in any situation involves the interaction of that individual's personal characteristics and the characteristics of the situation. Thus, identifying all of the factors is time-consuming and difficult; frequently, the task is impossible.

To help us identify the important managerial factors in organizational behavior, we use the **contingency** (or *situational*) **approach**. The basic idea of the contingency approach is that there's not one best way to manage; a method that's very effective in one

situation may not work at all in others. The contingency approach has grown in popularity because research has shown that given certain characteristics of a job and certain characteristics of the people doing the job, some management practices work better than others. Thus, the Mexican glass manufacturing plant's manager of operations faced with a poorly performing group doesn't assume that a particular approach will work. In applying the contingency approach, he diagnoses the characteristics of the individuals and groups involved in the organizational structure, and his own leadership style, before deciding on a solution.

Organizational behavior has evolved into an applied set of behavioral science concepts, models, and techniques. The predominant contributors to OB—psychology, social psychology, sociology, political science, and anthropology—have contributed to our understanding and use of OB in organizational settings. Figure 1.1 presents an illustration of some of the major contributions of the behavioral sciences to the study and application of OB.

FIGURE 1.1 Contributions to the Study and Application of OB



To help you learn how to manage individuals and groups as resources of organizations, this book focuses on *the behavior of individuals and groups, organizational structure and job design, and processes.* Developing the model presented in this book required the use of several assumptions. These assumptions are explained briefly in the following paragraphs, which precede the model.[6]

Structure and Processes Affect Organizational Behavior and the Emergent Culture

structure
Blueprint that indicates how people and jobs are grouped together in an organization. Structure is illustrated by an organization chart.

processes
Activities that breathe life into organization structure. Common processes are communication, decision making, socialization, and career development.

An organization's **structure** is the formal pattern of how its people and jobs are grouped. Structure often is illustrated by an organization chart. **Processes** are activities that give life to the organization chart. Communication, decision making, and organization development are examples of processes in organizations. Sometimes, understanding process problems such as breakdowns in communication and decision making will result in a more accurate understanding of organizational behavior than will simply examining structural arrangements.

The pattern of basic assumptions used by individuals and groups to deal with the organization and its environment is called its *culture*. In straightforward terms, the organization's culture is its personality, atmosphere, or "feel." The culture of an organization defines appropriate behavior and bonds; it motivates individuals; and it governs the way a company processes information, internal relations, and values. It functions at all levels from the subconscious to the visible. A firm's culture has been likened to one of those inkblots in which we see what we want to see.[7] A firm's culture results in shared thoughts, feelings, and talk about the organization.[8] Nike employees share norms about the dress code, business practices, and promotion systems. Wal-Mart associates share emotions about working for the chain and coming to work on time with a positive attitude. It's the sharing that bonds employees together and creates a feeling of togetherness.[9]

Cultures of organizations can be positive or negative. An organization's culture is positive if it helps improve productivity. A negative culture can hinder behavior, disrupt group effectiveness, and hamper the impact of a well-designed organization.

Effective managers know what to look for in terms of structure, process, and culture and how to understand what they find. Therefore, managers must develop diagnostic skills; they must be trained to identify conditions symptomatic of a problem requiring further attention. Problem indicators include declining profits, declining quantity or quality of work, increases in absenteeism or tardiness, and negative employee attitudes. Each of these problems is an issue of organizational behavior.

The Blending of the Art and Science of Organizational Behavior

There is no set of universal prescriptions that can predict every behavior, team outcome, or organizational phenomenon. People are typically unique and unpredictable in some aspects of their behavior. In physics there are laws, formulas, and mathematical procedures that apply to a wide range of situations. The speed of a vehicle traveling down a hill can be calculated, and the answer applies to similar hills, cars, and conditions.

Organizational behavior is not as stable or predictable as physics. OB is different because it deals with human beings in work settings. The body of OB knowledge is being expanded by researchers as they study and report on individual, group, and organizational behavior. The art of organizational behavior application is beginning to blend with empirically-based research.

Managers carry out roles that can be successfully accomplished if they skillfully apply the best available knowledge to the situation at hand. These views of the work of management suggest that art and science can be blended to solve problems. Therefore, effectively

OB AND YOUR CAREER

Research and Managers: Perfect Together!

Many managers make decisions based on intuition and "gut feel." Some of these same managers avoid or undervalue suggestions and tips that originate from empirical studies conducted by researchers from such entities as business schools and/or consulting practices. Although we see the value of intuition, we also feel that science can help managers make better decisions at the workplace. Examples of research findings include:

1. Goal setting is an effective way to improve employee performance.
2. Structured interviews (i.e., ask the same job-related questions of each candidate, use benchmark scoring, etc.) have been found to be more valid than unstructured job interviews.
3. Intelligence is a good predictor of job performance.

What's the bottom line? New and experienced managers alike can be more successful if they take the time to learn and apply some of the key research findings from the management and organizational behavior literatures. Such articles can be found with a few keyword searches using a university library business database or a search engine like Google Scholar. One tip is to look for recent summary articles that review the management and organizational behavior research over the past 10 years or so. Get ahead by being informed!

Sources: John Humphreys, Jennifer Oyler, Mildred Pryor, and Stephanie Haden, "Lost in Translation: From B-School to Business," *The Journal of Business Strategy*, 31, no. 2, (2010): 13–17; Robert J. Grossman, "Close the Gap Between Research and Practice," *HRMagazine*, November 2009, pp. 31–36; Sara L. Rynes, Tamara L. Giluk, and Kenneth G. Brown, "The Very Separate Worlds of Academic and Practitioner Periodicals in Human Resource Management: Implications for Evidence-Based Management," *Academy of Management Journal* 50, no. 5 (2007), pp. 987–1008.

managing in any situation or organization requires the deft touch of an artist and excellent execution of specific and proven behaviors. As the OB and Your Career above suggests, managers who ignore science or art are not likely to be effective or respected.[10]

To be and remain effective, managers must apply knowledge. The application and execution of knowledge can be designated as *competencies*. Included in these important competencies are intellectual capability, a systems orientation, interpersonal skills, flexibility, and self-motivation.

A Model for Managing Organizations: Behavior, Structure, and Processes

The Organization's Environment

Within a society, many factors influence an organization, and management must be responsive to them. Every organization must respond to the needs of its customers or clients, to legal and political constraints, and to economic and technological changes. Environmental forces interact with organization factors.

Economic and market circumstances and technological innovations make up an organization's environment, as do federal, state, and local legislation and political, social, and cultural conditions external to the organization. Together, these components of an environment influence how an organization operates and also how it is structured.

Managers increasingly work in an unpredictable economic environment. It is now important for managers to respond quickly to changing economic conditions in other countries. Also, the dramatic and unexpected consequences of technological innovations require astute management attention and action. For example, since the transistor was invented in 1947, digital technology has been evolving faster and computing devices are getting smaller, cheaper, and more powerful. These devices, combined with databases, multimedia interfaces, and software, are affecting every profession, company, and business practice.

Increased government regulations have affected management's actions in production and employment practices. Foreign trade tariffs, occupational safety and health guidelines, and equal employment opportunities influence the way a firm conducts business.

Behavior within Organizations

The Individual

Individual performance is the foundation of organizational performance. Understanding individual behavior is therefore critical for effective management, as illustrated in the following account:

> Ted has been a field representative for a major drug manufacturer since he graduated from college seven years ago. He makes daily calls on physicians, hospital, clinics, and pharmacies. Ted's sales of his firm's major drugs have increased, and he has won three national sales awards given by the organization. Yesterday, Ted was promoted to sales manager for a seven-state region. He'll no longer be selling but instead will be managing 15 other representatives. His sales team includes men and women, Caucasians, Hispanics, Blacks, and Asians. Ted accepted the promotion because he believes he knows how to motivate and lead salespeople. He comments, "I know the personality of the salesperson. They are special people. I know their values and attitudes and what it takes to motivate them. I know I can motivate a sales force."

In his job, Ted will be trying to maximize the individual performances of 15 sales representatives. In doing so, he will be dealing with several facets of individual behavior.

Individual Characteristics Because organizational performance depends on individual performance, managers such as Ted must have more than a passing knowledge of the determinants of individual performance. Psychology and social psychology contribute relevant knowledge about the relationships among attitudes, perceptions, personality, values, and individual performance. Learning to manage cultural diversity, such as that found among Ted's 15 sales representatives, has become increasingly important in recent years. Managers can't ignore the need to acquire and act on knowledge of the individual characteristics of both their subordinates and themselves.

Individual Motivation Motivation and ability to work interact to determine performance. Motivation theory attempts to explain and predict how individuals' behavior is aroused, sustained, and stopped. Unlike Ted Johnson, not all managers and behavioral scientists agree on what is the best theory of motivation. In fact, the complexity of motivation may make an all-encompassing theory of how it occurs impossible. But managers must still try to understand it. They must be concerned with motivation because they must be concerned with performance.

Rewards and Appraisal One of the most powerful influences on individual performance is an organization's reward system. Management can use rewards to increase current employees' performance. It can also use rewards to attract skilled employees to the organization.

Performance appraisals, paychecks, raises, and bonuses are important aspects of the reward system, but they aren't the only aspects. Ted makes this point clear in the preceding account when he states, "I know what it takes to motivate them." Performance of the work itself can provide employees with rewards, particularly if job performance leads to a sense of personal responsibility, autonomy, and meaningfulness. These intrinsic rewards are also supplemented with extrinsic rewards, or what an organization, a manager, or a group can provide a person in terms of monetary and nonmonetary factors.

Groups and Interpersonal Influence

Group behavior and interpersonal influence are also powerful forces affecting organizational performance, as the following account shows:

> During her two and one-half years as a teller in a small-town bank in Fort Smith, Arkansas, Kelly developed close friendships with her co-workers. These friendships existed outside the job as well. Two months ago Kelly was promoted to branch manager. She was excited about the new challenge. She began the job with a great deal of optimism and believed her friends would be genuinely happy for her and supportive of her efforts. But since she became branch manager, things haven't been quite the same. Kelly can't spend nearly as much time with her friends because she's often away from the branch attending management meetings at the main office. Kelly senses that some of her friends have been acting a little differently toward her lately.
>
> Recently Kelly said, "I didn't know that being a part of the management team could make that much difference. Frankly, I never really thought about it. I guess I was naïve. I'm getting a totally different perspective on the business and have to deal with problems I never knew about."

Kelly's promotion has made her a member of more than one group. In addition to being part of her old group of friends at the branch, she's also a member of the management team. She's finding out that group behavior and expectations have a strong impact on individual behavior and interpersonal influence.

Group Behavior Groups form because of managerial action and because of individual efforts. Managers create work groups to carry out assigned jobs and tasks. Such groups, created by managerial decisions, are termed *formal groups.* The group that Kelly manages at her branch is a group of this kind.

Groups also form as a consequence of employees' actions. Such groups, termed *informal groups,* develop around common interests and friendships. Kelly's bowling group is an informal group. Although not a part of the organization, groups of this kind can affect organizational and individual performance. The effect can be positive or negative, depending on the group members' intentions. If the group at Kelly's branch decided informally to slow the work pace, this norm would exert pressure on individuals who wanted to remain a part of the group. Effective managers recognize the consequences of individuals' needs for affiliation.

Intergroup Behavior and Conflict As groups function and interact with other groups, each develops a unique set of characteristics, including structure, cohesiveness, roles, norms, and processes. The group in essence creates its own culture. As a result, groups may cooperate or compete with other groups, and intergroup competition can lead to conflict. If the management of Kelly's bank instituted an incentive program with cash bonuses to the branch bringing in the most new customers, this might lead to competition and conflict among the branches. Although conflict among groups can have beneficial results for an organization, too much or the wrong kinds of intergroup conflict can have negative results. Thus, managing intergroup conflict is an important aspect of managing organizational behavior.

Power and Politics Power is the ability to get someone to do something you want done or to make things happen in the way you want them to happen. Many people in our society are uncomfortable with the concept of power. Some are deeply offended by it. This is because the essence of power is control over others. To many Americans and a growing number of people around the world, this is an offensive thought.

But power does exist in organizations. Managers derive power from both organizational and individual sources. Kelly has power by virtue of her position in the formal hierarchy of the bank. She controls performance evaluations and salary increases. However, she may

OB AT WORK Raising the Bar on Managerial Ethics

In the wake of corporate and financial scandals, and a persistent recession that has devastated the U.S. job market, corporate leaders and managers have received their share of the blame. This is partly due to the perception that many leaders placed greed and short-term profits well before the needs of their key stakeholders (e.g., employees, customers, and the communities in which they operate). There seems to be a shift in public sentiment over the past few years in that businesses should focus on more than just making a profit. This shift has led to an increase in negative press about the lack of professionalism in the management profession. Caught in this negative fallout are MBA programs that have been criticized for not doing enough to create managers and leaders who take a more humanistic and ethical approach to leading and managing organizations. Students who graduate with MBAs have been criticized for not maintaining strong ethical standards when they reach positions of power in companies.

To address these negative perceptions and critics, in June 2009, a team of Harvard Business School (HBS) graduating MBA students led by Max Anderson and Peter Escher developed an "MBA Oath." The following is an excerpt from the oath:

> As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can build alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term.

Anderson and Escher's original goal was to collect 100 signatures (or 10 percent) from members of the HBS graduating class but instead collected more than 500 signatures (over 50 percent). Supported by Harvard's dean, the MBA Oath (also referred to as a "Hippocratic oath for managers") concept is spreading to several other business schools throughout the United States and internationally.

Will MBA oaths help change the "greed is good" thinking that has been part of many managers' thinking for many decades? It is too early to tell. The oath seems to underscore the idea that "maximizing shareholder value" may contribute to managerial decision-making that leads to short-term opportunism but damages the long-term prospects, health, and profitability of the organizations. This opportunism seems to be giving way to a more humanistic approach to running enterprises. Perhaps, managers and leaders will reject the "greed is good" mantra and instead support a more ethical and integrity-driven approach to management.

Sources: http://blogs.hbr.org/cs/2009/06/why_we_created_the_mba_oath.html (accessed on June 26, 2010); Michael A. Pirson and Paul R. Lawrence, "Humanism in Business – Towards a Paradigm Shift?" *Journal of Business*, 93, no. 4 (2010), pp. 553–565; "Forswearing Greed: A Hippocratic Oath for Managers," *The Economist*, June 6, 2009, p. 66; Michael Lewis, "Michael Lewis on Wall Street Oath-Taking," *Businessweek*, June 14, 2010, p. 1; Philip Delves, "A Worthy Attempt at Swearing to a Higher Standard," *Financial Times*, April 22, 2010, p. 12.

also have power because her co-workers respect and admire her abilities and expertise. Managers must become comfortable with the concept of power as a reality in organizations and managerial roles.

Leadership Leaders exist within all organizations. They may be found in formal groups, like Kelly's management team at the bank, or in informal groups. They may be managers or nonmanagers. The importance of effective leadership for obtaining individual, group, and organizational performance is so critical that there has been much effort to determine the causes of such leadership. Some people believe that effective leadership depends on traits and certain behaviors, separately and in combination; other people believe that one leadership style is effective in all situations; still others believe that each situation requires a special leadership style.

Quality and leadership concepts have been found to be inseparable. Without effective leadership practices, instilling concern about customer-focused quality is difficult, if not impossible. The OB at Work feature above discusses how some future business leaders are broadening their personal definitions of effectiveness and success.

The Structure and Design of Organizations

To achieve organizational effectiveness, managers must clearly understand the organizational structure. Viewing an organization chart on a piece of paper or frame on a wall, we

see only a configuration of positions, job duties, and lines of authority among the parts of an organization. However, organizational structure can be far more complex, as the following account shows:

> Dan was appointed vice president of quality at a small manufacturing shop in Orange, New Jersey. He spent about three months studying the organization that produces generator parts sold throughout the United States, Canada, Mexico, Poland, Hungary, and Russia. Dan wants to instill more of a teamwork concept and an interest in quality improvement. This would be quite a change from the present rigid departmental structure that now exists in the company. His unit leaders are Hispanic, Italian, German, and Vietnamese. They each have voiced opinions that management discriminates against them and isn't ethnically aware. Dan wants to correct this perception and wants each unit leader to be a part of his team. He must change perceptions, redesign the organization, develop a team spirit, and produce high-quality products in an increasingly competitive market.

An organization's structure is the formal pattern of activities and interrelationships among the various subunits of the organization. This book discusses two important aspects of organizational structure: job design and organizational design.

Job Design

Job design refers to the process by which managers specify the contents, methods, and relationships of jobs to satisfy both organizational and individual requirements. Dan must define the content and duties of the unit leader's position and the relationship of the position to each member of his team.

Organizational Design

Organizational design refers to the overall organizational structure. Dan plans to change the philosophy and orientation of the teams. This effort will create a new *structure* of tasks, authority, and interpersonal relationships that he believes will channel the behavior of individuals and groups toward improved quality performance.

The Process of Organizations

Certain behavioral processes give life to an organizational structure. When these processes don't function well, unfortunate problems arise, as this account shows:

> Once Sandra completed her MBA, she was more positive than ever that marketing would be her life's work. Because of her excellent academic record, she received several outstanding job offers. She accepted an offer from one of the nation's largest consulting firms, believing that this job would allow her to gain experience in several areas of marketing and to engage in a variety of exciting work. Her last day on campus, she told her favorite professor, "This has got to be one of the happiest days of my life, getting such a great career opportunity."
>
> Recently, while visiting the college placement office, the professor was surprised to hear that Sandra had told the placement director that she was looking for another job. Since she'd been with the consulting company less than a year, the professor was somewhat surprised. He called Sandra to find out why she wanted to change jobs. She told him, "I guess you can say my first experience with the real world was a 'reality shock.' All day long, I sit and talk on the phone, asking questions and checking off the answers. In graduate school, I was trained to be a manager, but here I'm doing what any high school graduate can do. I talked to my boss, and he said that all employees have to pay their dues. Well, why didn't they tell me this while they were recruiting me? A little bit of accurate communication would have gone along way."

This book discusses two behavioral processes that contribute to effective organizational performance: communication and decision making.

Communication

Organizational survival is related to management's ability to receive, transmit, and act on information. The communication process links the organization to its environment as well as to its parts. Information flows to and from the organization and within the organization. Information integrates the activities within the organization. Sandra's problem arose because the information that flowed *from* the organization was different from the information that flowed *within* the organization.

Decision Making

The quality of decision making in an organization depends on selecting proper goals and identifying means for achieving them. With good integration of *behavior* and *structural* factors, management can increase the probability that high-quality decisions are made. Sandra's experience illustrates inconsistent decision making by different organizational units (human resources and marketing) in hiring new employees. Organizations rely on individual decisions as well as group decisions. Effective management requires knowledge about both types of decisions.

Because managerial decisions affect people's lives and well-being, ethics play a major role.[11] Was Sandra provided with realistic and truthful information about the job? If not, was there a breach of ethics on the part of the recruiter? Managers have power by virtue of their positions, so the potential for unethical decision making is present. With all the newspaper and TV accounts of scandals around the world in business, government, medicine, politics, and the law, there's evidence that ethics in terms of decision making need serious attention.

Ethics suggest that when faced with a problem, situation, or opportunity requiring a choice among several alternatives, managers must evaluate their decision on what course to follow as good or bad, right or wrong, ethical or unethical.[12] Conflicts between an individual manager's personal moral philosophy and values and the culture and value of an organization regularly arise and make decision making a difficult endeavor.

Managerial decision making is permeated by ethical issues. Managers have power and authority; when these factors exist, there is potential for wrong and right, good and evil. Among the indications that managerial decisions are linked to ethics are that managers:[13]

- Make decisions that affect the lives, careers, and well-being of people.
- Make decisions involving the allocation of limited resources.
- Design, implement, and evaluate rules, policies, programs, and procedures.
- Display to others their moral and personal values when they make decisions.

Examples of managerial decision making and their link to ethics and values will become obvious throughout this book. Skilled managers consider ethics to be an important factor to consider when making choices that affect individuals, groups, and organizations.[14] A challenge that managers face is creating a work environment that is ethical, value centered, and performance driven. Some managers unfortunately have concluded that they must make trade-offs. We suggest that being concerned with ethics, telling the truth, and adopting a style that displays integrity in every decision can become the rule, the style—an integral part of managing people.

Managers and others who have interests in whether organizations perform effectively can focus on one or all of three perspectives. The most basic level, *individual effectiveness,* emphasizes the task performance of specific employees or members of the organization.

Perspectives on Effectiveness

Managers routinely assess individual effectiveness through performance evaluation processes to determine who should receive salary increases, promotions, and other rewards available in the organization.

Individuals seldom work alone, in isolation from others in the organization. Usually employees work in groups, necessitating yet another perspective on effectiveness: *group effectiveness*. In some instances, group effectiveness is simply the sum of the contributions of all its members. For example, a group of chemists working alone on unrelated projects would be effective to the extent that each individual scientist is effective. In other instances, group effectiveness is more than the sum of individual contributions (e.g., an assembly line that produces a product or service that combines the contributions of each individual working on the line). The term *synergy* refers to instances when the sum of individual contributions exceeds the simple summation of them.

The third perspective is *organizational effectiveness*. Organizations consist of individuals and groups; therefore, organizational effectiveness consists of individual and group effectiveness. But organizational effectiveness is more than the sum of individual and group effectiveness. Through synergistic effects, organizations obtain higher levels of effectiveness than the sum of their parts. In fact, the rationale for organizations as a means for doing society's work is that they can do more work than is possible through individual effort.[15]

Figure 1.2 reveals the relationships among three perspectives on effectiveness. The connecting arrows imply that group effectiveness depends on individual effectiveness, while organizational effectiveness depends on individual and group effectiveness. The exact relationships among the three perspectives vary depending on such factors as the type of organization, the work it does, and the technology used in doing that work. Figure 1.3 recognizes the three perspectives' synergistic effects. Thus, group effectiveness is larger than the sum of individuals' effectiveness because of the synergies realized through joint efforts.

Management's job is to identify the *causes* of organizational, group, and individual effectiveness. The distinction between causes of effectiveness and indicators of effectiveness can be difficult for both managers and researchers.[16] The term *effectiveness* derives from the term *effect,* and we use the term in the context of cause-and-effect relationships. As Figure 1.3 shows, each level of effectiveness can be considered a variable caused by other variables. For example, a person's motivation, ability, skill, knowledge, attitude, and stress level cause him or her to be effective. There are, of course, many other factors that cause an individual to be effective. The variables in Figure 1.3 are only a sample for illustrative purposes.

Management and organizational behavior literature has reported various theories and research on causes of effectiveness at each of the three levels of analysis. For example, causes of individual effectiveness include ability, skill, knowledge, attitude, motivation, and stress. These individual differences account for differences in effectiveness in individual

FIGURE 1.2
Three Perspectives on Effectiveness

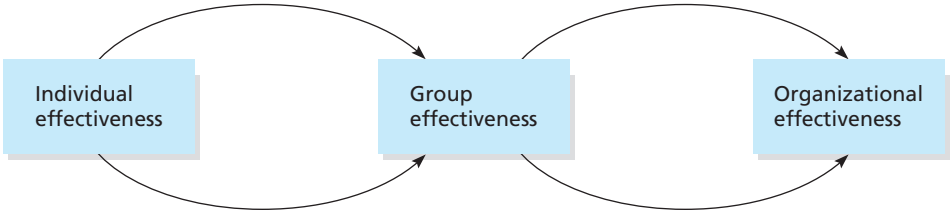
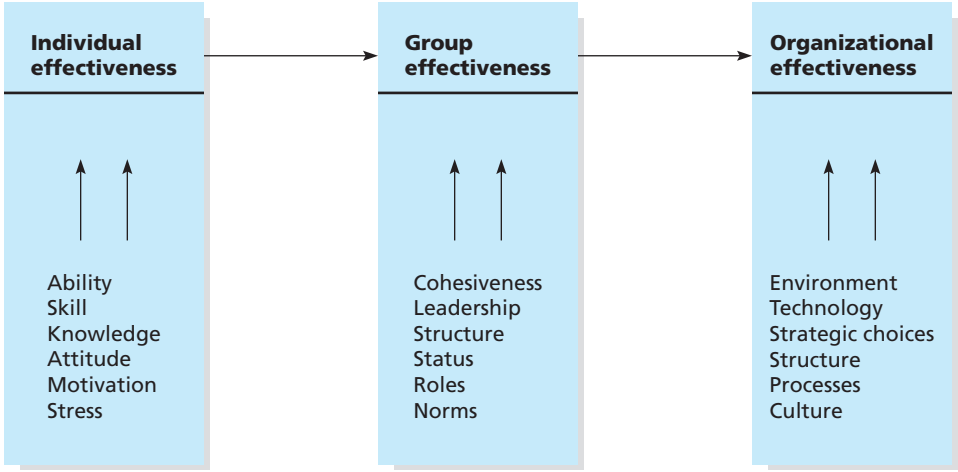


FIGURE 1.3
Causes of Effectiveness



performance. Some of the more usual causes of differences in group and organizational effectiveness are also noted in Figure 1.3.[17] These and other potential causes of effectiveness are discussed at length in subsequent chapters. But the reality of organizational life is that there are few unambiguous cause-and-effect relationships. In most instances, evaluation judgments must take into account multiple causes and circumstances.[18]

How then can managers increase and maintain individual, group, and organizational effectiveness? The following section addresses this question by describing the nature of managerial work.

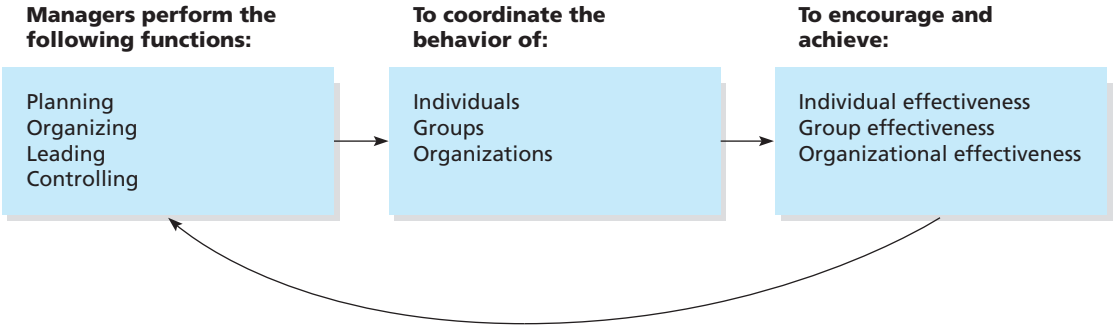
The Nature of Managerial Work

Many individual writers (far too many to survey completely) have contributed theories describing what managers do or prescribing what they should do.[19] Here we'll rely on the idea of a group of writers who constitute the Classical School of Management.[20] We refer to these writers as *classical* because they were the first to describe managerial work. Writers of the Classical School proposed that managerial work consists of distinct yet interrelated *functions,* which taken together constitute the *managerial process*. The view that management should be defined, described, and analyzed in terms of what managers (functions and processes) do has prevailed to this day, but with considerable modification as management functions and processes change in response to changing times and circumstances.

Henry Mintzberg's influential study identified three primary and overlapping managerial roles: interpersonal role, decisional role, and informational role.[21] Each role has several related activities that distinguish it from the others. Interpersonal role activities clearly involve the manager with other people both inside and outside the organization. Decisional role activities involve the manager in making decisions about operational matters, resource allocation, and negotiations with the organization's constituencies. The informational role involves the manager as a receiver and sender of information to a variety of individuals and institutions.

The concept of management developed here is based on the assumption that the necessity for managing arises whenever work is specialized and undertaken by two or more persons. Under such circumstances, the specialized work must be *coordinated,* creating the necessity for managerial work. The nature of managerial work is, then, to coordinate the work of *individuals, groups,* and *organizations* by performing four management functions: *planning,*

FIGURE 1.4 How Managers Achieve Effectiveness



organizing, leading, and *controlling.* Figure 1.4 depicts management's contribution to effectiveness.

The list of management functions can be increased to include other functions, but these four can be defined with sufficient precision to differentiate them and, at the same time, to include others that management writers have proposed. For example, some managers and organizations include functions such as decision making, staffing, coordinating, implementing, and executing. Remember, management and organizational behavior aren't exact sciences with uniform language and definitions. The various definitions of *management* reflect the specific expectations of the people who practice management in specific organizations.[22]

Although the list we propose might be arbitrary, managers at all levels of the organization generally perform these functions. The relative importance of one function vis-à-vis another function differs depending on where the manager is in the organization and what problems and issues the manager faces. But the ability to discern the relative importance of planning, organizing, leading, and controlling may distinguish effective managers from ineffective managers.[23]

The work of a manager is captured in some degree in the next OB at Work feature. It suggests that hectic, frantic, and somewhat chaotic times are what managers know quite a bit about. The manager's day is filled with challenges and with searching for ways to improve the effectiveness of employees.

Planning Effective Performance

The planning function includes defining the ends to be achieved and determining *appropriate means to achieve the defined ends.* The necessity of this function follows from the nature of organizations as purposive (end-seeking) entities. Planning activities can be complex or simple, implicit or explicit, impersonal or personal. For example, a sales manager forecasting demand for the firm's major product may rely on complex econometric models or casual conversations with salespeople in the field.

Planning involves specifying not only where the organization is going but also how it's to get there. In specific terms, alternatives must be analyzed and evaluated in terms of criteria that follow from the mission goals. Thus, managers by their own decisions can affect how they and their organizations will be evaluated. They determine what ends are legitimate and, therefore, what criteria are relevant.[24] And once appropriate means are determined, the next managerial function—organizing—must be undertaken.

Organizing Effective Performance

The organizing function includes all managerial activities that translate required planned activities into a structure of tasks and authority. In a practical sense, the organizing function

OB AT WORK Another Day as a Manager

Hunter (a substituted name) manages a small office that includes an office manager, a business development officer, a researcher analyst, an information technology specialist, and a student intern. The business produces content for books, training programs (traditional and e-learning), and consulting services. The consulting services are provided by individual experts, who serve on the consulting board of the company.

Hunter's typical day is long, 8:00 a.m. to 7:00 p.m. More than 70 percent of his time is spent on the phone, on the computer, or in meetings. He is involved in at least 300 activities a day (e.g., reading and responding to 75 e-mails, talking to 15 different people on the phone, listening to issues or problems brought up by his office colleagues). Variety and interruptions are the norm.

There is little time for Hunter to read reports, white papers, books, or advertising materials placed in his inbox or sent to his e-mail. Reading up on and studying the competition or thinking about the market is a critical activity. Hunter can squeeze in quiet time for such analysis only by coming into the office an hour early. By evening, he is tired after a hectic, frenetic day. Sitting down to read and think when he is tired hasn't been productive.

Hunter relies on social interaction and prefers talking when carrying out his management roles. He is accountable to the owners and the board members of the firm. They want a steady stream of written reports that are not Hunter's favorite work chore. He appreciates the need for written reports, but the 300 daily activities don't leave much time to write, read, and revise reports.

Hunter is so immersed in his daily activities that he loses track of time and commitments. He relies on the office manager to keep him pointed in the right direction and to attend scheduled meetings.

Planning, organizing, leading, and controlling are functions that Hunter knows must be performed. He feels guilty about not systematically fulfilling these functions. He also complains to his office colleagues about not interacting enough with customers, the owners, and other managers. His family and friends indicate that Hunter is just not as available as he once was when he didn't have the responsibility to make his firm a success.

This brief description of a typical manager of a small organization suggests that Mintzberg's classic study years ago still is an accurate portrayal of managers. The interpersonal, decisional, and informational roles performed by managers are hectic, frantic, and challenging. Finding ways to more systematically manage and cope with these role responsibilities is the path of improved effectiveness.

involves (1) designing the responsibility and authority of each individual job and (2) determining which of these jobs will be grouped in specific departments. For example, managers of an engineering firm must determine what each engineer should do and what group each engineer will be assigned to. The organizing function's outcome is the organization structure.

The organization structure consists of many different individuals and groups performing different activities. These different activities must be integrated into a coordinated whole.[25] It's management's responsibility to devise integrating methods and processes. If the differences among jobs and departments aren't too great, then the simple exercise of authority is sufficient to integrate the differences. For example, a small yogurt shop's manager can easily integrate order takers' work by issuing directives. But the manager of a multiproduct, multidivisional organization must rely on more complex cross-functional teams, product and customer services managers, and electronic communication.[26]

Leading Effective Performance

The leading function involves the manager in close day-to-day contact with individuals and groups. Thus, the leading function is uniquely personal and interpersonal. Although planning and organizing provide guidelines and directives in the form of plans, job descriptions, organization charts, and policies, it's people who do the work. And people are variable entities. They have unique needs, ambitions, personalities, and attitudes. Each person perceives the workplace and his or her job uniquely. Managers must take into account

these unique perceptions and behaviors and somehow direct them toward common purposes. One thoughtful and sensitive observer of leadership behavior has encouraged managers to become more knowledgeable about human psychology as a means to more effective performance.[27]

Leading involves day-to-day interactions between managers and their subordinates. In these interactions, the full panorama of human behavior is evident. Individuals work, play, communicate, compete, accept and reject others, join groups, leave groups, receive rewards, and cope with stress. Of all the management functions, leading is the most human oriented. It's not surprising that the overwhelming bulk of organizational behavior theory and research relates to this function. And while much of the literature and conventional wisdom affirms the importance of leadership, we must recognize that there's evidence suggesting that leadership's importance is overrated.[28]

Leaders in executive positions represent the organization to its external constituencies. In this role, effective executive leaders use words and symbols to express the organization's abstract ideals and what it stands for. The organization's mission statement provides a starting point for performing this leadership role. But without the ability to use powerful language and metaphors, the executive leader will fail even if she has effective interpersonal skills.[29]

Controlling Effective Performance

The controlling function includes activities that managers undertake to ensure that actual outcomes are consistent with planned outcomes. Managers undertake control to determine *whether* intended results are achieved and if they aren't, *why* not. The conclusions managers reach because of their controlling activities are that the planning function was (and is) faulty or that the organizing function was (and is) faulty, or both. Controlling is, then, the completion of a logical sequence. The activities that constitute controlling include employee selection and placement, materials inspection, performance evaluation, financial statement analysis, and other well-recognized managerial techniques.

The controlling function involves explicit consideration of effectiveness at all three levels: individual, group, and organizational. Performance evaluation involves comparisons of actual personnel performance against standards of performance. Managers judge as effective those employees who meet performance standards. Likewise, when supervisors focus on organizational groups such as production, sales, and engineering departments, they make judgments about whether these units have performed as expected (whether they've been effective). And at the highest level of performance, top managers judge the effectiveness of organizations.

At every level, managers of organizations have the primary responsibility for attaining effective performance. We've seen that they can meet this responsibility by practicing with skill the four functions of management to identify the cause of effectiveness—accentuate the positive ones and eliminate the negative ones. But we must now think about the concept of effectiveness per se. What is it? How can we know it when we see it?

Three Ways to Think about Effectiveness

Thus far, we've assumed a definition of *effectiveness*. But effectiveness means different things to different people, whether in a theoretical or practical sense. Differences in its meaning reflect one's adherence to the goal approach, the systems theory approach, or the stakeholder approach.[30] Managers must be able to use each of these approaches to effectiveness when appropriate.

Goal Approach to Effectiveness

goal approach to effectiveness
Perspective on effectiveness that emphasizes the central role of goal achievement as a criterion for assessing effectiveness.

The **goal approach** to defining and evaluating effectiveness is the oldest and most widely used evaluation approach.[31] According to this approach, an organization exists to accomplish goals. An early and influential practitioner and writer in management and organizational behavior stated, "What we mean by effectiveness . . . is the accomplishment of recognized objectives of cooperative effort. The degree of accomplishment indicates the degree of effectiveness."[32] The idea that organizations, as well as individuals and groups, should be evaluated in terms of goal accomplishment has widespread commonsense and practical appeal. The goal approach reflects purposefulness, rationality, and achievement—the fundamental tenets of contemporary Western societies.

Many management practices are based on the goal approach. One widely used practice is management by objectives. According to this practice, managers specify in advance the goals that they expect their subordinates to accomplish and then evaluate periodically the degree to which they accomplish them. The actual specifics of management by objectives vary from case to case. In some cases, the manager and subordinate(s) discuss the objectives and attempt to reach mutual agreement. In other instances, the manager simply assigns the goals. Management by objectives can be useful whenever there's a strong relationship between job behavior and a measurable outcome, the objective.

The goal approach, for all its appeal and apparent simplicity, has problems.[33] A few recognized difficulties include the following:

1. *Some goals are hard to measure*. Goal achievement isn't readily measurable for organizations that don't produce tangible outputs. For example, a public college's goal is to provide a good education at a fair price. The question is: How would we know whether the college reaches that goal? What's a good education? What's a fair price?
2. *Conflicting goals weaken their impact*. Organizations attempt to achieve more than one goal, but achieving one goal often precludes or diminishes their ability to achieve other goals. A firm states that its goal is to maximize profit and to provide absolutely safe working conditions. These two goals are in conflict because one is achieved at the expense of the other.
3. *Official goals are often not followed*. The very existence of a common set of "official" goals to which all members are committed is questionable. Various researchers have noted the difficulty of obtaining consensus among managers as to their organization's specific goals.[34]

A narrow view of effectiveness defines it as "the financial viability of an organization."[35] A financially viable organization can pay its bills as they're due; the more effective organization will have funds in reserve. This view's proponents state that even though it's narrow, it is still useful because it overcomes the limitations of the wider idea of the goal approach. For example, measuring financial viability is relatively easy compared with measuring management's "real" goals. Return on assets and return on equity are straightforward and readily available measures of firms' financial viability. Nonbusiness organizations have similar measures. Educational institutions can measure financial viability as revenue per student; government agencies can measure it as revenue per employee.[36] The idea that organizational effectiveness can be defined and measured simply has considerable appeal.

The goal approach exerts a powerful influence on the development of management and organizational behavior theory and practice. It's easy to say that managers should achieve the organization's goals. It's much more difficult to know how to do this. The alternative to the goal approach is the systems theory approach. Through systems theory, the concept of effectiveness can be defined in broader terms that enable managers to understand the causes of individual, group, and organizational effectiveness.

Systems Theory Approach to Effectiveness

system
A grouping of elements that individually establish relationships with each other and that interact with their environment both as individuals and as a collective.

The term *system* is used in everyday conversations. A variety of meanings and interpretations are used to describe accounting systems, inventory control systems, a car's ignition system, an ecological system, and the U.S. tax system. Each system consists of elements or characteristics that interact. Thus, a **system** is a grouping of elements that individually establish relationships with each other and that interact with their environment both as individuals and as a collective.[37] Systems theorists propose that systems can be categorized three ways: (1) conceptual systems (a language), (2) concrete systems (machines), and (3) abstract systems (culture of an organization).

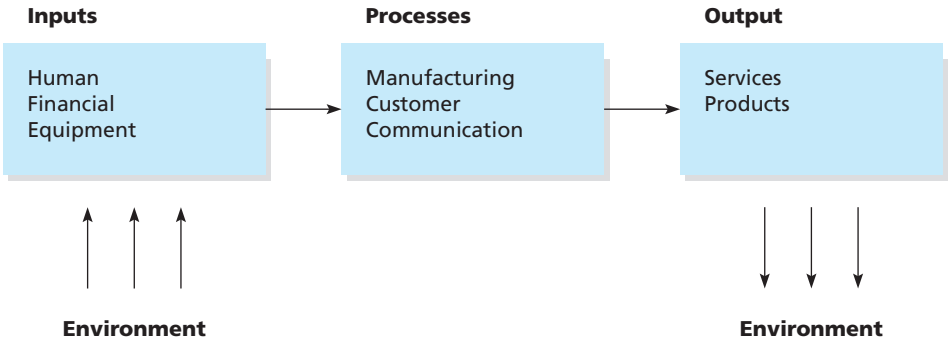
Managers in organizations use the notion of a system to view their internal and external world and how the parts relate and interact with each other. By viewing the individuals, groups, structure, and processes of organizations in terms of a system, managers are able to identify common and uncommon themes that help explain the behavior and effectiveness of people. Identification of themes or patterns is important because it helps explain how effective an individual, group, or entire organization is in terms of goals.[38]

Systems theory enables us to describe organizations' internal and external behavior. Internally we can see how and why people inside organizations perform their individual and group tasks. Externally we can assess organizations' transactions with other organizations and institutions. All organizations acquire resources from the larger environments of which they're part and, in turn, provide the goods and services demanded by the larger environment. Managers must deal simultaneously with the internal and external aspects of organizational behavior. This essentially complex process can be simplified, for analytical purposes, by employing the basic concepts of systems theory.

In the context of systems theory, the organization is one element of a number of elements interacting interdependently. The flow of inputs and outputs is the basic starting point in describing the organization. In the simplest terms, the organization takes resources (inputs) from the larger system (environment), processes these resources, and returns them in changed form (output). Figure 1.5 displays the fundamental elements of the organization as a system.

Systems theory also stresses the organization's connection to the larger system of which it is a part. Every organization is part of an industry (a larger system), a society (a yet larger system), and, increasingly, a global economy (perhaps the largest system of all). All these systems make demands on their parts, and they include more than simple demands for products of acceptable quality and quantity. Organizations must also satisfy the demands that their actions contribute to viable environments by promoting clean air and water, internal national stability by rebuilding U.S. cities, and global political stability by investing in the economies of developing countries. Thus, the organization can't simply produce a product or service to satisfy its customers; it must also produce actions and behaviors to satisfy other important components of the larger environment, the larger systems.

FIGURE 1.5
The Basic Elements of a System



Systems Theory and Feedback

The concept of the organization as a system that's related to a larger system introduces the importance of feedback. As noted already, the organization depends on the environment not only for its inputs but also for the acceptance of its outputs. Thus, the organization must develop means for adjusting to environmental demands. The means for adjustment are information channels that enable the organization to recognize these demands. For example, in business organizations, market research is an important feedback mechanism.

In simplest terms, *feedback* refers to information that reflects the outcomes of an act or a series of acts by an individual, group, or organization. Throughout this text, we'll see how important feedback is for reinforcing learning and developing personality, group behavior, and leadership. Systems theory emphasizes the importance of responding to the content of the feedback information.

Examples of the Input–Output Cycle

The firm has two major categories of inputs: human and natural resources. Human inputs consist of the people who work in the firm: operating, staff, and managerial personnel. They contribute their time and energy to the organization in exchange for wages and other rewards, tangible and intangible. Natural resources consist of the nonhuman inputs to be processed or to be used in combination with the human element to provide other resources. A steel mill uses people and blast furnaces (along with other tools and machinery) to process iron ore into steel and steel products. An auto manufacturer takes steel, rubber, plastics, and fabrics and (in combination with people, tools, and equipment) makes cars. A firm survives as long as its output is purchased in the market in quantities at prices that enable it to replenish its depleted stock of inputs.

A university uses its resources to teach students, to perform research, and to provide technical information to society. A university's survival depends on its ability to attract students' tuition and taxpayers' dollars in sufficient amounts to pay the salaries of its faculty and staff and the other costs of resources. If a university's output is rejected by the larger environment so that students enroll elsewhere and the government uses tax dollars to support other public endeavors or if a university is guilty of expending too many resources in relation to its output, it will cease to exist. Like a business, a university must provide the right output at the right price if it's to survive.[39]

As a final example we'll describe a hospital in term of systems theory. A hospital's inputs are its professional and administrative staff, equipment, supplies, and patients. Patients are processed by applying medical knowledge and treatment. To the extent that its patients are restored to the level of health consistent with the severity of their disease or injury, the hospital is effective.

Systems theory emphasizes two important considerations: (1) the ultimate survival of organization depends on its ability to adapt to the demands of its environment; and (2) in meeting these demands, the total cycle of input–process–output must be the focus of managerial attention. Therefore, criteria of effectiveness must reflect both considerations and we must define *effectiveness* accordingly. The systems approach accounts for the fact that resources have to be devoted to activities that have little to do with achieving the organization's goal.[40] In other words, adapting to the environment and maintaining the input–process–output flow require that resources be allocated to activities that are only indirectly related to the organizations' primary goal.

Stakeholder Approach to Effectiveness

The application of systems theory concepts to the discussion of organizational effectiveness identifies the importance of the external environment. Systems theory also identifies

stakeholder approach to effectiveness
Perspective that emphasizes the relative importance of different groups' and individuals' interests in an organization.

the importance of achieving a balance among the various parts of the system of which an organization is but one part. In practical and concrete terms, the **stakeholder approach** means achieving balance among the various parts of the system by satisfying the interests of the organization's constituency (all those individuals and groups of individuals who have a stake in the organization).[41] But the goal approach emphasizes that organizations are chartered to accomplish goals.

Individuals and groups of individuals having stakes in an organization include its employees (nonmanagers and managers), customers, stockholders, directors, suppliers, creditors, officials at all levels of government, managers of competitive and cooperative organizations, and the general public. Each of these individuals and groups of individuals expects the organization to behave in ways that benefit them; these expectations may or may not be compatible with those of other individuals and groups. Given that an organization can be judged effective or ineffective depending on who's making the judgment, how can managers ever achieve effectiveness in the sense of satisfying all the claims of the organization's constituencies? The chapter's opening vignette pointed out the challenges that face managers in meeting the diverse needs of different stakeholders.

One approach would be to state that there's no way to determine the relative importance of the constituent claims and that there are as many evaluations of effectiveness as there are individuals making judgments. This relative view assumes that all claims on the organization are valid and that no basis exists for ordering their importance, so no basis exists for making an overall judgment of organizational effectiveness.[42]

How then is management to act? One answer is provided by the idea that each of the stakeholders controls resources that are valuable to the organization. At any point in time, the resources they control are more or less important and the organization is effective to the extent that it satisfies the interest of the group controlling the most important resource.[43] Thus stockholders' interests supersede employees' interests when the organization must acquire equity funds to survive. Or a government regulatory agency's interests supersede stockholders' interests when safety regulations require investment in safe working conditions. This new view can be extended to a concept of the organization as an arena in which the different groups negotiate their claims by developing coalitions capable of combining the power of each member of the coalition. Managers of the organization achieve effectiveness by identifying the most powerful coalitions and satisfying the demands of the most influential members of these coalitions.

Whether the organization is effective when satisfying the most powerful group involves value judgment. And we shouldn't lose sight of the fact that all judgments of effectiveness involve value judgment. To state that we should satisfy the most powerful group at the expense of the least powerful group is to make a personal statement of what's ultimately important. Because many different sources of value judgments exist, we shouldn't expect any final answer to the question, Is the organization effective? Nor should we expect any final answer when the focus is individual and group effectiveness. Values reflect human judgments about what's important, but those judgments shift with individuals, place, and time.

One study of the applicability of multiple-constituency theory suggests that it may in fact integrate both the system and goal approaches to effectiveness.[44] The study documents that some constituencies favor outcomes related to means (the process element in systems), while others favor outcomes related to ends (the outcome element in systems). Thus, it's possible to use the multiple-constituency theory to combine the goal and systems approaches to obtain a more appropriate approach to organizational effectiveness. But even if we can resolve the differences between the goal and systems approaches with respect to what different constituencies desire from organizational performance, we still must recognize that these desires can change with and over time.

Organizational Change and Learning

An examination of the stories of how IBM changed or how Harley-Davidson changed from companies that were losing market share and profits to become beacons for success reveals two important patterns. First, successful change is associated with a multistep process that creates power and motivation to continue. Second, the change process is driven by top-quality leaders who exert a lasting influence on the changes being made. These leaders establish direction; align people with their visions; and inspire people to overcome political, personal, and bureaucratic barriers to change.

As changes occur in workforce technology, the economy, competition, social trends, and world politics, it is inevitable that leaders will have to initiate organizational development interventions. Chapter 17 will examine alternative approaches and interventions for change. Because competition is becoming stronger each day, organizations have no choice—they must change. In all industries, a standard of continuous improvement and learning is becoming the norm around the world.

Each of you reading this book has a viewpoint, a set of assumptions, or some specific ideas about why people behave as they do. Each person attempts to explain, predict, or analyze the behavior of others. How valid and how good are these viewpoints? To help you learn how to develop valid viewpoints, this book will provide suggested frameworks and explanations about behavior of people working in organizations.

Think about the following statements and your personal beliefs:

1. Satisfied workers produce the highest quality output.
2. Women employees work harder for female managers than for male managers.
3. Enriched jobs are preferred by the vast majority of employees.
4. American managers are more stressed about their jobs than their Japanese counterparts.
5. Positively cohesive work groups are usually more productive than noncohesive work groups.
6. Women are more motivated by the amount of pay they receive than men.
7. Personality conflicts are outdated and aren't problems in most work settings.
8. Organizations with no structure are more autonomous, more productive, and more cost conscious.
9. Leaders are born.
10. Most training programs are carefully evaluated for their effectiveness.

These broad comments are subjects for debate. None of them are perfectly true or false. This reflects how difficult behavior is to understand and analyze. As you progress through the course, test your own views against what you read and discuss. Improving your ability to understand, explain, and predict behavior is the road we'll follow in the rest of the book.

Even those students with no interest or motivation to serve as managers will benefit from learning more about behavior in general and organizational behavior specifically. Working for others, starting your own organization, or doing business with organizations (e.g., the Internal Revenue Service, the public utility company, the school in your community) will require an awareness and understanding of the behavior of people. Through a better awareness and understanding, the transactions each of us has in society can be more positive and beneficial than if we remained uneducated about behavior.

Managerial Work and the Behavior, Structure, and Processes of Organizations

The concept of managerial work that we've developed so far is brought into perspective and summarized in Figure 1.6. This text's focus is the *behavior of individuals and groups in organizations*. The purpose of managers in organizations is to coordinate behavior so

FIGURE 1.6
Relationships among the Management Functions and Individual, Group, and Organizational Effectiveness

	Sources of Effectiveness		
Management Functions	**Individuals**	**Groups**	**Organizations**
Planning	Objectives	Goals	Missions
Organizing	Job designs Delegated authority	Department or unit	Integrative methods and processes
Leading	Person-centered influence	Group-centered influence	Entity-centered influence
Controlling	Individual standards of performance	Group standards of performance	Organization standards of performance

that an organization is judged effective by those who evaluate its record. Those who evaluate organizations can be concerned with any number of specific or general criteria and with output, process, or input measures.[45] To coordinate behavior and to satisfy evaluators, managers engage in activities intended to *plan, organize, lead,* and *control* behavior. Major factors in determining individual and group behavior are task and authority relationships.[46] Therefore, managers must design organizational *structures* and *processes* to facilitate communication among employees.

Thus, it would seem that the relationships among management, organizations, and effectiveness are straightforward. Effective individual, group, and organizational performance should be the result of effective planning, organizing, leading, and controlling. However, as will become obvious, organizations and people are not that simple. Managing culturally diverse people in organizations to achieve meaningful goals of individual, group, and organizational effectiveness in a rapidly changing and complex environment is challenging, rewarding, and frustrating. This book will portray the challenge, reward, and frustration in a realistic and contemporary way.

Summary of Key Points

- This book focuses on the developing field of management known as *organizational behavior.* Organizational behavior studies the behavior of individuals and groups in organizational settings. The framework within which this book's contents are presented is based on three characteristics common to *all* organizations: the *behavior* of individuals and groups, the *structure* of organizations (i.e., the design of the fixed relationships among the jobs in an organization), and the *processes* (e.g., communication and decision making) that make organizations "tick" and give them life. The model in Figure 1.1 has evolved from our concept of what all organizations are.
- A major interest is learning about the behavioral sciences that have produced theory and research concerning human behavior in organizations. However, no attempt has been made here to write a book that teaches behavioral science. The continuous theme throughout the book is the effective management of organizational behavior. Given this theme, the task is to interpret behavior science materials so that management students can comprehend the behavior, structure, and process phenomena as these are affected by managers' actions. We intend to provide readers with a basis for applying the relevant contributions of behavioral science to the management of organizations.
- An overriding consideration documented in many studies of managerial work is that the managerial process in inherently a human process—people relating to people. Recognizing this fact establishes the importance of understanding human behavior in the workplace. The behavior of individuals and groups is important for achieving effective organizational performance, but behavior of managers themselves must also be understood.

- The nature of managerial work derives from the necessity to coordinate work in organizations. By their nature, organizations exploit the benefits of specializations, but by its nature, specialization requires coordination. Managers coordinate specialized work by applying planning, organizing, leading, and controlling functions. These functions require that managers determine and influence the causes of individual, group, and organizational effectiveness.
- Two competing concepts of effectiveness derive from two competing theories of organizations. Goal theory is based on the idea that organizations are rational, purposive entities pursuing specific missions, goals, and objectives. Accordingly, how well they function (i.e., how effective they are) is reckoned in terms of how successful they are in achieving their purposes. Systems theory assumes that organizations are social entities existing as parts of larger environments and that, to survive, they function to satisfy the demands of those environments.
- The stakeholder perspective on organizational effectiveness recognizes that organizations exist to satisfy the demands of many different individuals and institutions (constituencies). Each constituency has expectations that the organization must satisfy through its performance.

Discussion and Review Questions

1. What expectations do you have about serving as a manager? What parts of the management job appeal to you, and what parts are unattractive?
2. We sometimes encounter red tape and inefficiency in a generally unresponsive and ineffective organization. One of management's goals is to achieve the opposite: an efficient and effective organization. What management skills are needed to help an organization become effective?
3. This chapter suggested that effectiveness can be viewed from the individual, group, and organizational perspectives. Is it possible for an individual manager to be effective even if her group isn't effective? Similarly, can an organization be effective even if several of its employees are not effective? Explain and give examples to support your argument.
4. What contribution does the concept *multiple constituency* make to our understanding of organizational effectiveness? In particular, does the concept make it easier or harder for a manager to know when she has accomplished effective performance for her group or organization? Explain.
5. What has occurred historically to warrant referring to the management of organizational behavior as a blending of art and science?
6. Should a manager of a small firm (say, 25 employees) be concerned about establishing an organization structure? Explain.
7. Describe how a manager who worked for 15 years in Los Angeles would apply a contingency management approach when he's transferred to a similar managerial position in the firm's Barcelona, Spain, office.
8. The study and application of OB has been described as multidisciplinary in nature. Why is it multidisciplinary? Explain.
9. If you were a training director responsible for instructing managers in the techniques of management, how would you evaluate your training program's effectiveness? Is the goal model of effectiveness useful? Is the systems model useful?
10. One writer on management theory states that management is aptly defined as "getting work done through other people." Compare this concept of management with the one proposed in this chapter.

Taking It to the Net

Traditional versus New Economy Comparison

The Internet provides a rich and endless array of data, information, and Web sites that must be carefully used. Note the emphasis on the word *carefully*. There is no universal screening or validating group, agency, or association that approves the information on the Internet. It is your responsibility to make sure that the information you review, consider for use, and incorporate in your studies, reports, or findings is accurate, reliable, honest, and cited properly.

Using the Internet and your favorite search engine (try www.google.com or www.yahoo.com), examine two different firms. Pick a traditional economy company (automobiles, oil and energy, transportation) and what some refer to as a new economy company (social networking and smart phones), and answer the following:

1. How much of each company's revenue and profit is generated outside of the United States?
2. What does the code of ethics statement for each company say?
3. What changes have the managers made to the organization's product/service mix in the past five years?
4. How effective are the firms? (Describe what basis you use to determine effectiveness.)
5. Would you want to work for either of these firms? Why? Why not?

Case for Analysis: *McDonald's Attempting to Regain Its Effectiveness?*

The McDonald brothers' first restaurant was founded in 1937 just east of Pasadena, California. It didn't serve hamburgers, had no playground, and offered no Happy Meals. The most popular menu item was the hot dog. From that humble beginning, Ray Kroc built McDonald's into a mammoth business that earns over $23.5 billion in annual revenue and employs more than 450,000 people in approximately 32,000 restaurants in 118 countries. For decades, McDonald's growth and profit margins were the envy of the world. McDonald's was considered an effective business with tremendous potential for growth domestically and internationally.

Consumer tastes constantly change, and adults began to get bored with the McDonald's menu in the 1960s. Responding to environmental pressure such as changes in consumer tastes, McDonald's introduced a new sandwich called the Big Mac. As consumers grew weary of beef, McDonald's introduced chicken McNuggets and chicken sandwiches in the early 1980s and within four years was the nation's second-largest poultry seller. In 2000, McDonald's started to accept credit cards to pay for meals. In 2009, the company added new premium items such as the Angus burger and McCafé coffees (lattes, cappuccinos, etc.) to help boost sales during the recession. This last move seems to be helping stabilize sales in the United States and increasing profits overseas. Within-stores sales of U.S. restaurants remained flat (not negative) in 2009, whereas overseas sales grew as much as 4.3 percent in Europe, Asia/Pacific, the Middle East, and Africa.

McDonald's changed as the environment demanded. It became the most recognized brand name and built thousands of Golden Arches restaurants. McDonald's wanted to provide consumers with a quality meal, served quickly, at a fair price. In the past, however, McDonald's attempts at pizza, fajitas, pasta, fried chicken, and low-fat sandwiches have all been failures.

For a company that enjoyed significant growth for five decades based on its ability to read environmental trends, the failures have been shocking. McDonald's has been unable to capitalize on its brand name or move beyond hamburgers and French fries. During a period when Americans are eating out more, McDonald's has failed to capture a growing portion of the market. Still, every single day McDonald's serves a meal to 1 of every 14 Americans. McDonald's has expanded into markets in more than 120 countries serving about 5 million customers each day. McDonald's continues to enter new markets each year. The worldwide expansion has created a problem with quality control: McDonald's is faced with the quality control problem of building an increasing number of stores without carefully checking the quality of the product they serve. In a survey for

Restaurants & Institutions magazine in which 2,800 consumers graded chains based on the taste of their food, McDonald's ranked 87 out of 91. Consumers around the world want taste and quality when selecting a restaurant.

McDonald's, like other fast-food chains, is attempting to address claims that their menu is filled with foods that contribute to obesity. Providing more nutritious menu items is still a challenge for a business that primarily is associated with hamburgers and French fries.

The organizational effectiveness of McDonald's remains a serious concern among franchisers, executives, and stockholders. How or whether McDonald's can make the necessary changes to again be the growth-oriented organization it once was is questionable.

DISCUSSION QUESTIONS

1. How can McDonald's use its powerful brand name to help improve its effectiveness?
2. Are quality and taste important to you when selecting a restaurant? Explain.
3. What environmental forces are the most different as we move through the decade of 2010 to 2020 when compared with the 1950s and 1960s?

Sources: Tess Stynes, "McDonald's Sales Rise Overseas," *Wall Street Journal*, February 10, 2010, p. B.6; Paul Ziobro, "McDonald's Gains Share In Fast Food," *Wall Street Journal*, October 28, 2009, p. B.5; McDonald's Annual Report, 2008; "McDonald's to Start Taking Credit Cards," *Business Custom Wire,* March 26, 2004, p. 1; Seth Godin, "When It Comes to Food, Music, and More, Which Do You Prefer: Ubiquity or Authenticity?" *Fast Company,* July 2001, pp. 84–85; and David Leonhardt, "McDonald's: Can It Regain Its Golden Touch?" *Businessweek,* March 9, 1998, pp. 70–77.