

# Managing

“ *Management means, in the last analysis, the substitution of thought for brawn and muscle, of knowledge for folklore and tradition, and of cooperation for force.* ”

— Peter Drucker

## LEARNING OBJECTIVES

After studying Chapter 1, you will be able to:

- LO 1** Summarize the major challenges of managing in the new competitive landscape. p. 4
- LO 2** Describe the sources of competitive advantage for a company. p. 9
- LO 3** Explain how the functions of management are evolving in today’s business environment. p. 14
- LO 4** Compare how the nature of management varies at different organizational levels. p. 18
- LO 5** Define the skills you need to be an effective manager. p. 20
- LO 6** Understand the principles that will help you manage your career. p. 22

## CHAPTER OUTLINE

### Managing in the New Competitive Landscape

- Globalization
- Technological Change
- Knowledge Management
- Collaboration across “Boundaries”

### Managing for Competitive Advantage

- Innovation
- Quality
- Service
- Speed
- Cost Competitiveness
- Delivering All Five

### The Functions of Management

- Planning: Delivering Strategic Value
- Organizing: Building a Dynamic Organization
- Leading: Mobilizing People
- Controlling: Learning and Changing
- Performing All Four Management Functions

### Management Levels and Skills

- Top-Level Managers
- Middle-Level Managers
- Frontline Managers
- Working Leaders with Broad Responsibilities
- Management Skills

### You and Your Career

- Be Both a Specialist and a Generalist
- Be Self-Reliant
- Be Connected
- Actively Manage Your Relationship with Your Organization
- Survive and Thrive

# Management Close-Up



## CAN ELON MUSK KEEP TESLA MOTORS RUNNING?

A small player in the struggling global auto market, California-based start-up Tesla Motors is trying to revolutionize its industry. Headed by chief executive Elon Musk, Tesla has an ambitious vision: to mass produce electric cars that end Americans' dependence on fossil fuels and cut greenhouse gas emissions. The South African-born Musk, who holds degrees in both physics and finance, predicts that by 2030, the majority of cars made in the United States will be electric.

A bold prediction? Maybe. But Elon Musk is a skilled manager. By his thirties he had led two successful Internet companies: Zip2 (later sold to Compaq) and X.com (which morphed into what is now known as PayPal). In 2004 Musk became chairman of Tesla Motors, a start-up founded the year before by CEO Martin Eberhard. Self-professed car geeks, Musk and Eberhard saw a bright

future for electric cars. But the two often disagreed about how to move the company forward. Costs and conflicts escalated until 2007, when the board of directors ousted Eberhard.

To be effective, a manager is often compelled to create change. But bringing about change is hard, especially in a difficult business environment. As you read this chapter, think about the challenges Elon Musk faces as his company attempts to fundamentally change the way Americans think about their cars.

With Tesla at a turning point, Musk helped the company regroup, introducing its first model, the all-electric Roadster, in 2008. The two-seat sports car goes from 0 to 60 miles per hour in four seconds and hits a top speed of 135 mph. Powered solely by a lithium-ion battery, the Roadster operates without engine noise and can travel nearly 250 miles on a single charge. It

also doesn't emit any gases to the environment.

Despite its substantial \$109,000 price tag, the Tesla Roadster sold out almost immediately. Today, Tesla ships 10 of the cars each week and has a year-long waiting list.<sup>1</sup>

Tesla Motors' Elon Musk is arguably one of the most interesting leaders in business today. He combines strong creative skills with a keen ability to see the big picture—and he's been remarkably successful at building organizations. Of course, not every manager or organization succeeds. A recent story of failure that shocked many Americans involved the care provided to wounded soldiers at the Walter Reed Army Medical Center in Washington, D.C. Reporters investigating outpatient facilities of Walter Reed—which ranks among the nation's top military hospitals—discovered that in some facilities, outpatients were coping with mold, roaches, rodents, and damaged walls and doors. Many outpatients, some with serious injuries and mental impairments, complained of paperwork problems that kept them from receiving services. Testifying before Congress, General Richard A. Cody, the Army's vice chief of staff, admitted fundamental management problems:

Our counselors and case managers are overworked, and they do not receive enough training. We do not adequately communicate necessary information. Our administrative processes are needlessly cumbersome and . . . take too long. Our medical holding units are not manned to the proper level, and we do not assign leaders who can ensure a proper accountability, proper discipline and well-being, . . . and our facilities are not maintained to the standards that we know is [sic] right.<sup>2</sup>

Major General George W. Weightman, who lost his job as Walter Reed's commander as a result of the scandal, acknowledged that the organization had experienced a “failure of leadership.”<sup>3</sup>

Companies, like individuals, succeed or fail for a variety of reasons. Some of these reasons are circumstantial. Most are personal and human and include the decisions managers make and the actions they take.

In business, there is no replacement for effective management. Companies may fly high for a while, but they cannot do well for very long without good management. It's the same for individuals: *BusinessWeek's* Managers of the Year succeed by focusing on fundamentals, knowing what's important, and managing well. The aim of this book is to help you succeed in those pursuits.

## Managing in the New Competitive Landscape

### LO 1

When the economy is soaring, business seems easy. Starting an Internet company looked easy in the 1990s, and ventures related to the real estate boom looked like a sure thing during much of the past decade. But investors grew wary of dot-com startups, and the demand for new homes dropped off the table when the economy crashed in late 2008. At such times, it becomes evident that management is a challenge requiring constant adaptation to new circumstances.

What defines the competitive landscape of today's business? You will be reading about many relevant issues in the coming chapters, but we begin here by highlighting four key elements that make the current business landscape different from the past: globalization, technological change, the importance of knowledge and ideas, and collaboration across organizational “boundaries.”

### Globalization

Far more than in the past, today's enterprises are global, with offices and production facilities in countries all over the world. Corporations operate worldwide, transcending national borders. Companies that want to grow often need to tap international markets, where incomes are rising and demand is increasing. GE, which became a massive and profitable corporation by selling appliances, light bulbs, and machinery to U.S. customers, recently announced that it expected its foreign sales to equal its sales within the United States. GE's biggest foreign customers are in Europe, but sales volume in China and India is rising fast.<sup>4</sup>

Globalization also means that a company's talent can come from anywhere. As with its sales, half of GE's employees work outside the United States.<sup>5</sup> Cisco, a leader in equipment for computer networking, considers maintaining operations in India to be an essential tactic for staying competitive. Cisco serves the fast-growing Indian Internet market at a crucial time: the growth in demand is attracting low-cost competition from Chinese businesses.<sup>6</sup>

Another force that is making globalization both more possible and more inevitable is the Internet. Now that more than a billion users have come online, more and more of the new users are in developing nations such as China, India, Russia, and Brazil.<sup>7</sup> As people in developing nations increasingly turn to the power of the Web, they become a force to develop content in their own languages and suited to their own means of access, such as inexpensive laptops.



Globalization has changed the face of the workforce. Management in this new competitive landscape will need to attract and effectively manage a talent pool from all over the globe.

The global reach of the Internet pushed Mitch Free to expand his business, MFG.com, into China. MFG.com runs a Web site where manufacturers that need parts post their specifications online, and suppliers bid to provide those parts. Free, who grew up in a small town in Georgia and had barely traveled outside the United States, had never planned to be an international manager, but Chinese suppliers soon began submitting requests to participate. At the same time, manufacturers were pressing MFG.com to include Asian suppliers, which often could offer the best prices.

So Free traveled to Shanghai, China. He learned about the business culture, such as the importance of cultivating business relationships and networks. After a difficult search, he made a key hiring decision: general manager James Jin, who speaks fluent English, studied global management, and has experience in manufacturing both in the United States and China. The effort was well rewarded. Jin has helped Free navigate the fast-growing, ambitious business landscape of his native China. Sales in China accounted for more than 10 percent of MFG.com's total annual sales and are growing faster than overall sales.<sup>8</sup>

Companies can get their message to users on every continent and often are expected to provide service anytime, anywhere. This can affect how and when people work. Laura Asiala, a manager for Dow Corning, based in Midland, Michigan, supervises employees in Tokyo, Seoul, Hong Kong, Shanghai, and Brussels. To keep in touch with them, she may start working at 5:00 a.m. some days and end as late as midnight. She takes a break from 3:30 to 9:30 each day, and technology makes it possible to do some of her communicating from home.<sup>9</sup>

Successful CEOs know that the change from a local to a global marketplace is gaining momentum and is irreversible.<sup>10</sup> For example, PepsiCo's chief executive, Indra Nooyi, brings a much-needed global viewpoint to a company whose international business has been growing three times faster than sales in the United States. Nooyi, who was raised in India and educated there and in the United States, has steered the company toward more "better for you" and "good for you" snacks with acquisitions including a nut packager in Bulgaria and a hummus producer in Israel.<sup>11</sup>

Thus globalization affects small companies as well as large. Many small companies export their goods. Many domestic firms assemble their products in other countries. And companies are under pressure to improve their products in the face of intense competition from foreign manufacturers. Firms today must ask themselves, “How can we be the best in the world?”

For students, it’s not too early to think about the personal ramifications. In the words of CEO Jim Goodnight of SAS, the largest privately held software company in the world, “The best thing business schools can do to prepare their students is to encourage them to look beyond their own backyards. Globalization has opened the world for many opportunities, and schools should encourage their students to take advantage of them.”<sup>12</sup>

## Technological Change

The Internet’s impact on globalization is only one of the ways that technology is vitally important in the business world. Technology both complicates things and creates new opportunities. The challenges come from the rapid rate at which communication, transportation, information, and other technologies change.<sup>13</sup> For example, after just a couple of decades of widespread desktop use, customers switched to laptop models, which require different accessories.<sup>14</sup> Any company that serves desktop users has to rethink its customers’ wants and needs, not to mention the possibility that these customers are now working at the airport or a local Starbucks outlet, rather than in an office.

Google search sites span the Internet in more than 100 languages.

net so important to business?<sup>15</sup> It is a marketplace, a means for manufacturing goods and services, a distribution channel, an information service, and more. It drives down costs and speeds up globalization. It improves efficiency of decision making. It facilitates design of new products, from pharmaceuticals to financial services. Managers can watch and learn what other companies are doing—on the other side of the world. While these advantages create business opportunities, they also create threats as competitors sometimes capitalize on new developments more than you do.

It may be hard to imagine that just a few years ago, going online to order plane tickets, read the news, or share photos was a novelty. Some online success stories, such as Amazon, Monster, and Google, are purely Internet businesses. Other companies, including Barnes & Noble, Best Buy, and Office Depot, have incorporated online channels into an established business strategy.

The Internet’s impact is felt not only at the level of businesses as a whole but also by individual employees and managers. Just as globalization has stretched out the workdays of some people, high-tech gadgets have made it possible to stay connected to work anytime, anywhere. This ability is both a convenience and a potential source of stress. The stress comes when employees or their supervisors don’t set limits on being connected. Facilities manager Cheri Chiodo loves the convenience of her BlackBerry but finds that it sometimes replaces face-to-face communication with family members. Real estate broker Ted Helgans calls his BlackBerry a “traveling office” and a valuable tool for getting and sharing information. Helgans emphasizes that users can and should decide when to turn the devices off.<sup>17</sup> Jean Chatzkey, an editor for *Money* magazine, found that she constantly interrupted whatever she was doing to check e-mail on her Palm Treo. Realizing that the device had become more of a distraction than a

Among people who work long hours in high-stress jobs, 59% said technology lengthens rather than shortens their workday.<sup>16</sup>

Later chapters will discuss technology further, but here we highlight the rise of the Internet and its effects. Why is the Inter-

help, Chatzkey began reminding herself that the messages were not emergencies; in fact, many came from subscriptions that Chatzkey



decided she could happily live without.<sup>18</sup> Thus, using technology effectively is more than a matter of learning new skills; it also involves making judgments about when and where to apply the technology for maximum benefit.

## Knowledge Management

Companies and managers face a growing need for good, new ideas. Because companies in advanced economies have become so efficient at producing physical goods, most workers have been freed up to provide services or “abstract goods” such as software, entertainment, data, and advertising. Efficient factories with fewer workers produce the cereals and cell phones the market demands; meanwhile, more and more workers create software and invent new goods and services. These workers, whose primary contributions are ideas and problem-solving expertise, are often referred to as *knowledge workers*. Managing these workers poses some particular challenges, which we will examine throughout this book. For example, determining whether they are doing a good job can be difficult, because the manager cannot simply count or measure a knowledge worker’s output. Also, these workers often are most motivated to do their best when the work is interesting, not because of a carrot or stick dangled by the manager.<sup>19</sup>

Because the success of modern businesses so often depends on the knowledge used for innovation and the delivery of services, organizations need to manage that knowledge. **Knowledge management** is the set of practices aimed at discovering and harnessing an organization’s intellectual resources—fully utilizing the intellects of the organization’s people. Knowledge management is about finding, unlocking, sharing, and altogether capitalizing on the most precious resources of an organization: people’s expertise, skills, wisdom, and relationships. Knowledge managers find these human assets, help people collaborate and learn, help people generate new ideas, and harness those ideas into successful innovations.

In hospitals, important knowledge includes patients’ histories, doctors’ orders, billing information, dietary requirements, prescriptions administered, and much more. With lives at stake, many hospitals have embraced knowledge management. For example, at Virginia Commonwealth University (VCU) Health System, a single information system lets doctors write prescriptions, look up patient information and lab results, and consult with one another. Billing also is automated as part of VCU’s knowledge management system, making the process more efficient and connecting with patient data so that it can remind the physician of all the conditions being treated—and billed for.<sup>20</sup> Hospitals may also give patients access to the knowledge management system so that they can schedule appointments, request prescription refills, and send questions to their doctors.

## Collaboration across “Boundaries”

One of the most important processes of knowledge management is to ensure that people in different parts of the organization collaborate effectively with one another. This requires productive communications among different departments, divisions, or other subunits of the organization. For example, British Petroleum wants “T-shaped” managers who break out of the traditional corporate hierarchy to share knowledge freely



Will Wright, creator of “The Sims” video games, poses with a computer image of the game. His newest creation, “Spore,” will undoubtedly build on the success of “The Sims.”

### knowledge management

Practices aimed at discovering and harnessing an organization’s intellectual resources.

across the organization (the horizontal part of the T) while remaining fiercely committed to the bottom-line performance of their individual business units (the vertical part). This emphasis on dual responsibilities for performance and knowledge sharing also occurs at pharmaceutical giant GlaxoSmithKline, large German industrial company Siemens, and London-based steelmaker Ispat International.<sup>21</sup>

For example, Toyota keeps its product development process efficient by bringing together design engineers and manufacturing employees from the very beginning. Often, manufacturing employees can see ways to simplify a design so that it is easier to make without defects or unnecessary costs. Toyota expects its employees to listen to input from all areas of the organization, so this type of collaboration is a natural part of the organization's culture. Employees use the software to share their knowledge—best practices they have developed for design and manufacturing.<sup>22</sup> Thus, at Toyota, knowledge management supports collaboration, and vice versa.

Collaboration across “boundaries” occurs even beyond the boundaries of the organization itself. Companies today must motivate and capitalize on the ideas of people outside the organization. How can a company best use the services of its consultants, ad agencies, and suppliers? To obtain the product development software that supports collaboration between manufacturing and design, Toyota collaborated with a software developer, PTC. Toyota and PTC together identified how software could support the company's strategy of “lean product development,” and they kept meeting regularly to continue improving the software. This collaboration not only helped Toyota obtain a superior product but also helped PTC improve the value of the software it offers to its other customers.<sup>23</sup>

Collaboration with investors helped a pair of entrepreneurs launch their company in the seriously risky business of making games. When Richard Tait and Whit Alexander developed their unusual board game Cranium, they confidently ordered 20,000 units from a Chinese manufacturer before winning any orders from retailers. But retailers generally are reluctant to take a chance on new products. The solution was to collaborate with a different kind of distributor. Howard Schultz, chairman of the Starbucks coffee chain, thought the game was great, so he let Tait and Alexander place samples of Cranium in Starbucks outlets, where customers could try playing it. Customers loved it. Thanks to its track record at Starbucks, Cranium became not only the first game sold at Starbucks but also the first board game sold on Amazon.com,

which had earlier turned it down. That success enabled Cranium the company to launch a dozen more games, now sold in 30 countries.<sup>24</sup>

Customers, too, can be collaborators. Companies must realize that the need to serve the customer drives everything else. Best serving the customer can start with involving the customer more in company decisions. For example, companies like Procter & Gamble are getting customers to think creatively and talk with one another online to come up with new product and service ideas.<sup>25</sup> Tapping into the popularity of social networking Web sites like Facebook and MySpace, P&G has set up Web sites aimed at bringing its customers together. One site is a discussion group for women, where they can discuss health and other concerns. Although such sites

Innovation and collaboration are the key factors in the phenomenal success of Cranium. This board game was the fastest selling game in history when it was released in 1998, with 100,000 units sold within seven months. Creators Richard Tait, left, and Whit Alexander are shown here demonstrating their highly successful board game.





offer advertising opportunities, P&G uses them primarily as a way to learn more about consumers' attitudes.<sup>26</sup>

## Managing for Competitive Advantage

The rise of the Internet turned careers (and lives) upside down. Students dropped out of school to join Internet start-ups or start their own. Managers in big corporations quit their jobs to do the same. Investors salivated, and invested heavily. The risks were often ignored, or downplayed—sometimes tragically, as the boom went bust. Or consider an earlier industry with similar transforming power: automobiles. There have been at least 2,000 car makers, but now only three U.S. car companies are left in the United States. In recent years, even these three have struggled to stay afloat as sales declined. Despite plant closings, layoffs, and other belt-tightening, the financial status of General Motors and Chrysler remained so shaky that, with talk of bankruptcy, President Obama tried to assure the country that the U.S.-based auto industry would not “vanish.”<sup>27</sup>

What is the lesson to be learned from the failures in these important transformational industries? A key to understanding the success of a company—whether traditional, Internet-based, or a combination of both—is not how much the industry in which it operates will affect society or how much it will grow. The key is the competitive advantage held by a particular company and how well it can sustain that advantage. Good managers know that they are in a competitive struggle to survive and win.

To survive and win, you have to gain advantage over your competitors and earn a profit. You gain competitive advantage by being better than your competitors at doing valuable things for your customers. But what does this mean, specifically? To succeed, what must managers deliver? The fundamental success drivers are innovation, quality, service, speed, and cost competitiveness.

### Innovation

Google's search engine quickly became a hit, and investors bid up the stock price of the company when it went public. But now that the free search service is used around the world, what can the company do next? Competitors are working hard to take away some of Google's share of the market. Google management knows that they need to come up with the next big idea, so they require their engineers to devote one-fifth of their time to special projects of their own.<sup>28</sup>

**Innovation** is the introduction of new goods and services. Your firm must adapt to changes in consumer demands and to new competitors. Products don't sell forever; in fact, they don't sell for nearly as long as they used to, because so many competitors are introducing so many new products all the time. Your firm must innovate, or it will die. Likewise, you have to be ready with new ways to communicate with customers and deliver the products to them. When the Net allowed merchants to bypass traditional distribution channels and reach buyers directly, traditional marketers had to learn how to innovate to remain competitive.

Sometimes the most important innovation isn't the product itself but the way it is delivered. Borrowing an idea that has proved popular in Europe, Opaque-Dining in the Dark has collaborated with the Braille Institute of America to present dining events at the Hyatt West Hollywood in total darkness. Diners select gourmet meals from a menu in a lighted lounge and then are led into a dark banquet room by blind or visually impaired waiters. The attraction

LO 2



### The bottom line

#### Innovation

Because it's easy for managers to get so caught up in being busy, get distracted, and lose sight of what really drives performance, you will periodically see icons as “bottom-line” reminders of the need for innovation, quality, service, speed, and cost competitiveness.

### innovation

The introduction of new goods and services.

People entering the Dans le Noir (In the Black) restaurant in Paris where they will enjoy a dining experience in complete darkness as if they were blind. Blind waiters serve as guides. The concept is an innovative approach to fine dining, and restaurants such as this are spreading around the globe.



is that diners experience the meal in a completely new way because they are forced to concentrate on their senses of taste, smell, and touch.<sup>29</sup>

The need for innovation is driven in part by globalization. One obvious reason is that when facilities in other countries can manufacture appliances or write software code at a lower cost than facilities in the United States, U.S. facilities are operating at a disadvantage. They have to deliver something that their foreign competitors don't offer—and often that means something new. Philips, which started out making light bulbs in the Netherlands in the 1890s, later expanded into X-ray machines, record albums, and then semiconductors (microchips), which have since become a highly competitive, cost-driven business. Now Philips is moving into higher-end products such as medical equipment and LED-based lighting systems. The company has set up research as well as manufacturing operations of its own in China, because that country is becoming a key source of technical know-how, not just cheap labor.<sup>30</sup> The demand for innovation will only intensify.

Innovation is today's holy grail.<sup>31</sup> Like the other sources of competitive advantage, innovation comes from people, it must be a strategic goal, and it must be managed properly. Later chapters will show you how great companies innovate.

## Quality

When Spectrum Health, a hospital chain based in Grand Rapids, Michigan, asked patients how well they were served, patients rated staff low on helpfulness and their attitude toward visitors and said they didn't get good information about procedures or how to take care of themselves after being released to go home. Spectrum set up an advisory council of patients and family members, making visiting hours more flexible, getting patient input into who was allowed to hear medical information and make decisions about treatment, and calling discharged patients at home to make sure they understood the directions they had received. Satisfaction scores of Spectrum patients improved dramatically.<sup>32</sup>

Spectrum Health's efforts reflect a commitment to quality. In general, **quality** is the excellence of your product. The importance of quality and the standards for acceptable quality have increased dramatically in recent years. Customers now demand high-quality goods and services, and often they will accept nothing less. In the hospital industry, the government is contributing to that trend. To receive full reimbursement from Medicare, hospitals must participate in a national program of patient satisfaction surveys. Results of these surveys are posted on the Department of Health and Human Service's Medicare information Web site, [hospitalcompare.hhs.gov](http://hospitalcompare.hhs.gov), so that patients can compare the rankings of hospitals in their area when choosing services.<sup>33</sup>

Historically, quality pertained primarily to the physical goods that customers bought, and it referred to attractiveness, lack of defects, reliability, and long-term dependability. The traditional approach to quality was to check work after it was completed and then eliminate defects, using inspection and statistical data to determine whether products were up to standards. But then W. Edwards Deming, J. M. Juran, and other quality gurus convinced managers to take a more complete approach to achieving *total* quality. This includes *preventing* defects before they occur, *achieving zero defects* in manufacturing, and *designing* products for quality. The goal is to solve and eradicate from the beginning all quality-related problems and to live a philosophy of *continuous improvement* in the way the company operates.<sup>34</sup>

Quality is further provided when companies customize goods and services to the wishes of the individual consumer. Choices at Starbucks give consumers thousands of variations on the drinks they can order, whether it's half-caff or all caffeine, skim milk or soy milk, or shots of espresso and any of a variety of flavored syrups. Car buyers can go online to "build their own" Mini Cooper, down to the color of the light for the speedometer. And for a premium price, candy lovers can select M&M's

### quality

The excellence of your product (goods or services).

candies bearing the message of their own creation.<sup>35</sup> Similarly, Jones Soda Company lets visitors to its Web site order a 12-pack of soda with their photo on the bottles. They upload the photo to the myJones Web site ([www.myjones.com](http://www.myjones.com)), choose a soda flavor, and pay by credit card.<sup>36</sup>

Providing world-class quality requires a thorough understanding of what quality really is.<sup>37</sup> Quality can be measured in terms of product performance, customer service, reliability (avoidance of failure or breakdowns), conformance to standards, durability, and aesthetics. At the beginning of this section, we mentioned how hospitals are using patient surveys to measure quality and meet Medicare requirements. However, a recent study conducted by the University of Pennsylvania School of Medicine determined that a patient's risk of dying was not significantly less at hospitals that scored well on Medicare's quality measures.<sup>38</sup> But certainly, quality care is more than staying alive! Only when you move beyond broad, generic concepts such as "quality" and identify specific quality requirements can you identify problems, target needs, set performance standards more precisely, and deliver world-class value.

## Service

As noted, important quality measures often pertain to the level of service received by customers. This dimension of quality is particularly important because the service sector has come to dominate the U.S. economy. According to the federal government, the value of services produced in the United States is much more than one and a half times the value of tangible goods produced.<sup>39</sup> The Bureau of Labor Statistics projects that the fastest-growing job categories will be almost entirely services and retailing jobs, and the jobs expected to see the greatest declines are almost all in manufacturing.<sup>40</sup> Services include intangible products such as insurance, hotel accommodations, medical care, and haircuts.

In a competitive context, **service** means giving customers what they want or need, when they want it. So service is focused on continually meeting the needs of customers to establish mutually beneficial long-term relationships. Software companies, in addition to providing the actual programs, may help their customers identify requirements, set up computer systems, and perform maintenance. Best Buy adjusted its store environment so that it would be more inviting to female shoppers. The chain's loud music and emphasis on high-tech features had been aimed at young men, but the store found that women today influence 9 out of 10 consumer electronics purchases. So Best Buy lowered the volume and the lighting, and it trained staff to discuss what customers want the technology to do for them, rather than merely pointing out each item's bells and whistles. The chain is also trying to hire more female salespeople.<sup>41</sup>

An important dimension of service quality is making it easy and enjoyable for customers to experience a service or to buy and use products. The Detroit Institute of Arts recently hired Sven Gierlinger, a manager from the Ritz-Carlton hotel chain, noted for its exceptional level of service, to be its vice president of museum operations. As the art museum prepared for a grand reopening following a major renovation, Gierlinger analyzed the types of customer interactions that occur in a museum, identifying ways to make the experience more pleasant. He also worked with his staff to identify ways to customize services, such as offering tours tailored to the interests of particular groups.<sup>42</sup>

## Speed

Google constantly improves its search product at a rapid rate. In fact, its entire culture is based on rapid innovation. Sheryl Sandberg, a Google vice president, once made a mistake because she was moving too fast to plan carefully. Although the mistake cost



Every time you get a haircut at a salon, you are contributing to the employment of someone in one of the fastest growing job categories, the service sector.

### service

The speed and dependability with which an organization delivers what customers want.

the company a few million dollars, Google cofounder Larry Page responded to her explanation and apology by saying he was actually glad she had made the mistake. It showed that she appreciated the company's values. Page told Sandberg, "I want to run a company where we are moving too quickly and doing too much, not being too cautious and doing too little. If we don't have any of these mistakes, we're just not taking enough risks."<sup>43</sup>

### speed

Fast and timely execution, response, and delivery of results.

While it's unlikely that Google actually favors mistakes over money-making ideas, Page's statement expressed an appreciation that in the modern business environment, **speed**—rapid execution, response, and delivery of results—often separates the winners from the losers. How fast can you develop and get a new product to market? How quickly can you respond to customer requests? You are far better off if you are faster than the competition—and if you can respond quickly to your competitors' actions.

Speed isn't everything—you can't get sloppy in your quest to be first. But other things being equal, faster companies are more likely to be the winners, slow ones the losers. Even pre-Internet, companies were getting products to market and in the hands of customers faster than ever. Now the speed requirement has increased exponentially. Everything, it seems, is on fast-forward.

Speed is no longer just a goal of some companies; it is a strategic imperative. In the auto industry, getting faster is essential just for keeping up with the competition. A recent study found that the top assembly plant in the United States was Ford's Atlanta facility, where employees needed just 15.4 hours to assemble a vehicle. Compare that with the 1980s, when GM employees needed 40 hours to assemble a vehicle.<sup>44</sup> Another important measure of speed in the auto industry is the time the company takes to go from product concept to availability of the vehicle in the showroom. During the 1980s, that time was about 30 or 40 months. Today Toyota has cut the process to an average of 24 months; it needed just 22 months to launch its Tundra pickup.<sup>45</sup>

## Cost Competitiveness

Wal-Mart keeps driving hard to find new ways to cut billions of dollars from its already very low distribution costs. It leads the industry in efficient distribution, but competitors are copying Wal-Mart's methods, so the efficiency no longer gives it as much of an advantage.<sup>46</sup> Wal-Mart has sought to keep costs down by scheduling store employees more efficiently. It recently introduced a computerized system that schedules employees based on each store's sales, transactions, units sold, and customer traffic. The system is intended to schedule just enough workers, with full staffing only at the busiest times of day and days of the week, so it requires more flexibility from Wal-Mart's employees.<sup>47</sup>

### cost competitiveness

Keeping costs low to achieve profits and be able to offer prices that are attractive to consumers.

Wal-Mart's efforts are aimed at **cost competitiveness**, which means keeping costs low enough so that the company can realize profits and price its products (goods or services) at levels that are attractive to consumers. Needless to say, if you can offer a desirable product at a lower price, it is more likely to sell.

Start-up firms typically practice cost competitiveness out of necessity. Paul Graham's company, Y Combinator, provides seed funding to start-ups, and he observes how new companies keep their expenses down because they simply don't have much to spend. A start-up's total information technology could be just a few laptops connected to the Internet and running free Web-based software. Graham says lean times can remind managers to think about whether all their expenses are necessary: "You may as well use [a slowdown] as an excuse to clean out all the expensive crap you have lying around."<sup>48</sup>

Managing your costs and keeping them down requires being efficient: accomplishing your goals by using your resources wisely and minimizing waste. Many top executives fly on private jets, which of course is more expensive than buying a ticket on



a commercial airline. If the company can arrange to participate in a service such as NetJets, where the company buys only shares in a jet with the rights to use it, this can trim the price and make the arrangement more worthwhile.<sup>49</sup>

One manager with a reputation for meeting this challenge skillfully is Mark Hurd, chief executive of Hewlett-Packard. For Hurd, operating efficiently is the main goal of a necessary and ongoing effort to look hard at all the company's numbers and identify areas where the company can get the job done with less. For example, HP improved the efficiency of its information technology (IT) group by reducing the number of data centers from 85 to 6. Critics question whether HP under Hurd is investing enough in innovation for the future, but at least in the short term, the drive for efficiency has positioned Hewlett-Packard to handle difficult times. In the recent recession, HP forecasted a sales decline but expected its profits would actually rise. That's not so strange when you consider that even as HP reduced staffing in support departments like IT, it was increasing its sales force and helping sales people target HP's most profitable goods and services.<sup>50</sup>

One reason every company must worry about cost is that consumers can easily compare prices on the Internet from thousands of competitors. Consumers looking to buy popular items, such as cameras, printers, and plane fares, can go online to research the best models and the best deals. If you can't cut costs and offer attractive prices, you can't compete.

## Delivering All Five

Don't assume that you can settle for delivering just one of the five competitive advantages: low cost alone, or quality alone, for example. The best managers and companies deliver them all.

Virginia Mason Medical Center, like many hospitals, felt challenged in delivering low costs along with high quality and superior services. Virginia Mason has a reputation for high-quality care, but it was losing money treating certain patients. So Virginia Mason collaborated with Aetna, an insurer that pays for 10 percent of the medical center's business, and found ways to treat some of the most expensive conditions so that they became more economical to insure but were paid for at higher rates that would be profitable for Virginia Mason. The medical center has also improved quality through measures that enhance speed—in this case, cutting waiting times for patients, such as a reduction in the 4-hour wait for chemotherapy to 90 minutes.<sup>51</sup>

Trade-offs may occur among the five sources of competitive advantage, but this doesn't need to be a zero-sum game where one has to suffer at the expense of another. Avon focused on cost savings when it contracted with IBM Global Services to handle human resources tasks such as payroll and benefits management. Turning over those responsibilities to a company that specializes in performing them efficiently also frees Avon to concentrate on innovating in areas it knows best: direct selling cosmetics to new customers. Avon's CEO, Andrea Jung, launched an effort to sell cosmetics to Chinese consumers through hundreds of thousands of representatives who are licensed with the government.<sup>52</sup> Avon also has tapped into the trend toward customization by introducing the Hook Up Connector, a packaging product that allows consumers to snap together items of their choice, such as a lipstick and mascara.<sup>53</sup>

These sources of competitive advantage were behind *BusinessWeek's* choices of best and worst managers. By and large, "best" and "worst" are determined by results, as indicated by the examples in the "From the pages of *BusinessWeek*" feature.

### Don't forget:

Don't focus on one aspect of performance and neglect the others. You might be better at or more interested in one than the others, but you should strive for all five.





FROM THE PAGES OF

**BusinessWeek**

## The Best and Worst Managers of 2008

The best leaders have not only ridden out the crisis so far but also gleaned valuable, often profitable, lessons from it. The worst? Well, some helped set the economic crisis in motion; others became paragons of bad judgment in a time of trouble. Here are the leaders of 2008 with all their successes and failures.

It's not easy to measure excellence in a year like 2008. While some managers can be judged by the bottom line, others merely had the good fortune to be running a food company instead of a financial firm. Then again, with volatile commodity prices, succeeding in the food business wasn't such an easy task.

*BusinessWeek* has singled out 12 executives who did a remarkable job of navigating stormy waters. Some have posted stellar results. Others are struggling. But there are lessons to be learned from each of them.

**David Axelrod, 53**  
**Chief strategist, Obama campaign**

The Chicago consultant may have described himself as the “keeper of the message,” but he was more an architect. Credited with shaping Obama's mission of hopeful change, he drew campaign themes from the candidate's life story, recruited potent supporters, and made sure any attack on rivals was firm, but seldom angry or demeaning. The tightly run campaign had few leaks and little infighting. And like any good right-hand man, Axelrod stayed focused on the boss. “I see myself simply as helping disseminate the message of Barack Obama,” he recently told NBC's *Meet the Press*.

**Frank Blake, 59**  
**CEO, Home Depot, Atlanta**

He simplified the company and boosted morale. Too bad Blake took over as the housing market went bust.

His valued counselor? “Every year, I do a pilgrimage to go talk to Jack Welch. The first time I sat down with him, he just talked to me about the people [at Home Depot]. Not a number. Not ‘How are you going to get your gross margin rates up?’ ”

Great book: *The War Within*, on the Bush Administration, by Bob Woodward. “That's a good cautionary story. One of the first questions you have to ask as a leader is, to what extent do people feel comfortable saying what's on their minds?”

**Jamie Dimon, 52**  
**CEO, JPMorgan, New York**

Dimon largely shunned the subprime bets and exotic financial instruments that brought down rivals. As a result, JPMorgan was able to pick up the pieces of Bear Stearns when it imploded in March and later absorb collapsed mortgage lender Washington Mutual.

[http://images.businessweek.com/ss/09/01/0108\\_best\\_worst/1.htm](http://images.businessweek.com/ss/09/01/0108_best_worst/1.htm)

SOURCES: Excerpted from “The Best Managers,” *BusinessWeek*, January 19, 2009, p. 40; and “The Worst Managers,” *BusinessWeek*, January 19, 2009, p. 42.

## The Functions of Management

### management

The process of working with people and resources to accomplish organizational goals.

**LO 3**

**Management** is the process of working with people and resources to accomplish organizational goals. Good managers do those things both effectively and efficiently. To be *effective* is to achieve organizational goals. To be *efficient* is to achieve goals with minimal waste of resources, that is, to make the best possible use of money, time, materials, and people. Some managers fail on both criteria, or focus on one at the expense of another. The best managers maintain a clear focus on both effectiveness and efficiency. These definitions have been around for a long time. But as you know, business is changing radically. The real issue is how to *do* these things.<sup>54</sup>

Although the context of business and the specifics of doing business are changing, there are still plenty of timeless principles that make great managers, and great companies, great. While fresh thinking and new approaches are required now more than ever, much of what has already been learned about successful management practices remains relevant, useful, and adaptable, with fresh thinking, to the 21st-century business environment.

In the business world today, the great executives not only adapt to changing conditions but also apply—fanatically, rigorously, consistently, and with discipline—the fundamental management principles. These fundamentals include the four traditional functions of management: *planning*, *organizing*, *leading*, and *controlling*. They remain as relevant as ever, and they still provide the fundamentals that are needed in start-ups as much as in established corporations. But their form has evolved.

## Planning: Delivering Strategic Value

**Planning** is specifying the goals to be achieved and deciding in advance the appropriate actions needed to achieve those goals. Planning activities include analyzing current situations, anticipating the future, determining objectives, deciding in what types of activities the company will engage, choosing corporate and business strategies, and determining the resources needed to achieve the organization's goals. Plans set the stage for action and for major achievements.

The planning function for the new business environment, discussed in Part 2 of this book, is more dynamically described as *delivering strategic value*. **Value** is a complex concept.<sup>55</sup> Fundamentally, it describes the monetary amount associated with how well a job, task, good, or service meets users' needs. Those users might be business owners, customers, employees, society, and even nations. The better you meet those needs (in terms of quality, speed, efficiency, and so on), the more value you deliver. That value is "strategic" when it contributes to meeting the organization's goals. On a personal level, you will do well when you periodically ask yourself and your boss, "How can I add value?" Answering that question will enhance your contributions, your job performance, and your career.

Historically, planning described a top-down approach in which top executives establish business plans and tell others to implement them. Now and in the future, delivering strategic value is a continual process in which people throughout the organization use their brains and the brains of customers, suppliers, and other stakeholders to identify opportunities to create, seize, strengthen, and sustain competitive advantage. This dynamic process swirls around the objective of creating more and more value for the customer. Effectively creating value requires fully considering a new and changing set of stakeholders and issues, including the government, the natural environment, globalization, and the dynamic economy in which ideas are king and entrepreneurs are both formidable competitors and potential collaborators. You will learn about these and related topics in Chapter 4 (planning and strategic management), Chapter 5 (ethics and corporate social responsibility), Chapter 6 (international management), and Chapter 7 (entrepreneurship).

## Organizing: Building a Dynamic Organization

**Organizing** is assembling and coordinating the human, financial, physical, informational, and other resources needed to achieve goals. Organizing activities include attracting people to the organization, specifying job responsibilities, grouping jobs into work units, marshaling and allocating resources, and creating conditions so that people and things work together to achieve maximum success.

Part 3 of the book describes the organizing function as *building a dynamic organization*. Historically, organizing involved creating an organization chart by identifying business functions, establishing reporting relationships, and having a personnel department that administered plans, programs, and paperwork. Now and in the future,

### planning

The management function of systematically making decisions about the goals and activities that an individual, a group, a work unit, or the overall organization will pursue.

### value

The monetary amount associated with how well a job, task, good, or service meets users' needs.

### organizing

The management function of assembling and coordinating human, financial, physical, informational, and other resources needed to achieve goals.



Shona Brown of Google makes decisions about organizing. She says, “The company’s goal is to determine precisely the amount of management it needs—and then use a little bit less.”

### leading

The management function that involves the manager’s efforts to stimulate high performance by employees.

### controlling

The management function of monitoring performance and making needed changes.

effective managers will be using new forms of organizing and viewing their people as perhaps their most valuable resources. They will build organizations that are flexible and adaptive, particularly in response to competitive threats and customer needs. Progressive human resource practices that attract and retain the very best of a highly diverse population will be essential aspects of the successful company. You will learn about these topics in Chapter 8 (organization structure), Chapter 9 (organizational agility), Chapter 10 (human resources management), and Chapter 11 (managing the diverse workforce).

## Leading: Mobilizing People

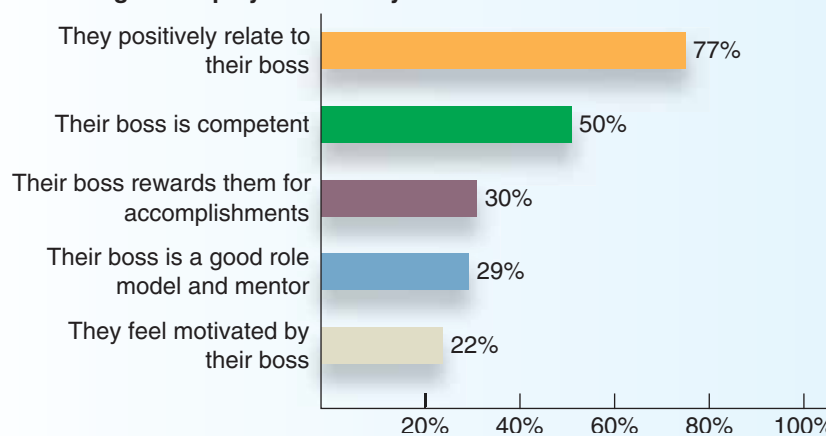
**Leading** is stimulating people to be high performers. It includes motivating and communicating with employees, individually and in groups. Leading involves close day-to-day contact with people, helping to guide and inspire them toward achieving team and organizational goals. Leading takes place in teams, departments, and divisions, as well as at the tops of large organizations.

In earlier textbooks, the leading function described how managers motivate workers to come to work and execute top management’s plans by doing their jobs. Today and in the future, managers must be good at *mobilizing people* to contribute their ideas—to use their brains in ways never needed or dreamed of in the past.

As described in Part 4, managers must rely on a very different kind of leadership (Chapter 12) that empowers and motivates people (Chapter 13). Far more than in the past, great work must be done via great teamwork (Chapter 14), both within work groups and across group boundaries. Ideally, underlying these processes will be effective interpersonal and organizational communication (Chapter 15).

In a recent nationwide survey, employees had mixed reviews of their manager’s leadership skills.<sup>56</sup> As a result, a manager who excels in leadership is especially valuable.

#### Percentage of employees who say . . .



## Controlling: Learning and Changing

Planning, organizing, and leading do not guarantee success. The fourth function, **controlling**, monitors performance and implements necessary changes. By controlling, managers make sure the organization’s resources are being used as planned and that the organization is meeting its goals for quality and safety.

Monitoring is an essential aspect of control. If you have any doubts that this function is important, consider some control breakdowns that caused serious problems. After an explosion at BP’s Texas oil refinery caused the

deaths of 15 people, investigations suggested that widespread failure to implement safety measures was behind the tragedy. In spite of a year of record profits, BP's chief executive announced plans to retire early, and his bonus was cut almost in half.<sup>57</sup> Other lapses in controlling can hurt customers. A recent outbreak of salmonella infections—which can cause fever, diarrhea, dehydration, and even death—was traced to Peter Pan and Great Value peanut butter made by ConAgra Foods in its Sylvester, Georgia, factory. Processing the peanuts generally kills salmonella and other germs, so the likely culprit was contamination of jars or equipment. ConAgra quickly announced a recall, but more than 400 people in 44 states reported being infected, and 71 of them had to be hospitalized. The recall alone was expected to cost ConAgra at least \$50 million; lawsuits, cleanup of the facility, and damage to the brands' reputation are adding to those costs.<sup>58</sup> As you can see, control failures can take many forms.

When managers implement their plans, they often find that things are not working out as planned. The controlling function makes sure that goals are met. It asks and answers the question, "Are our actual outcomes consistent with our goals?" It then makes adjustments as needed. To learn how Elon Musk applied this function to make needed adjustments at Tesla Motors, see the "Management Close-Up: Taking Action" feature.

Successful organizations, large and small, pay close attention to the controlling function. But Part 5 of the book makes it clear that today and for the future, the key managerial challenges are far more dynamic than in the past; they involve continually *learning and changing*. Controls must still be in place, as described in Chapter 16. But new technologies and other innovations (Chapter 17) make it possible to achieve controls in more effective ways and to help all the people throughout the company, and across company boundaries (including customers and suppliers), to use their brains, learn, make a variety of new contributions, and help the organization change in ways that forge a successful future (Chapter 18).

The four management functions apply to you personally, as well. You must find ways to create value, organize for your own personal effectiveness, mobilize your own

## Management Close-Up

### TAKING ACTION

Like many start-ups, Tesla Motors has hit a few potholes along the way. Fundamental differences between Elon Musk and Tesla founder Martin Eberhard led to complications that nearly halted the company's progress. Technical problems during development pushed back the launch of the company's first car, the Roadster, by more than a year. In turn, the production delays caused cash flow problems. Yet, to date Tesla has raised nearly \$150 million from investors; \$55 million of that has come from Elon Musk.

The company burned through three CEOs before Musk took the reins in 2008. By that time, the world economy had taken a serious downturn, and the United States found itself in a deepening credit crisis. Musk ordered a layoff of nearly 25 percent of the workforce, closed one office in a Detroit suburb, and opened a smaller one nearby. Tesla is also looking to its Roadster, now in full production, to enhance the revenue stream by trimming manufacturing costs.

While Musk is confident Tesla will weather the storm and characterizes the moves as needed belt-tightening, the recession couldn't have come at a worse time for the firm. Tesla was already in development mode on its next model, a four-door luxury sedan called the Model S. Now, Musk has slowed the Model S program, pushing back production until mid-2011, and shelved plans to build an assembly plant.<sup>59</sup>

- What attributes does Elon Musk exhibit that make him an effective manager?
- How can Musk maintain Tesla's momentum in spite of setbacks?

talents and skills as well as those of others, monitor performance, and constantly learn, develop, and change for the future. As you proceed through this book and this course, we encourage you to not merely do your “textbook learning” of an impersonal course subject but to think about these issues from a personal perspective as well, using the ideas for your own personal development.

### Performing All Four Management Functions

As a manager, your typical day will not be neatly divided into the four functions. You will be doing many things more or less simultaneously.<sup>60</sup> Your days will be busy and fractionated, spent dealing with interruptions, meetings, and firefighting. There will be plenty to do that you wish you could be doing but can’t seem to get to. These activities will include all four management functions.

Some managers are particularly interested in, devoted to, or skilled in one or two of the four functions but not in the others. But you should devote adequate attention and resources to *all four* functions. You can be a skilled planner and controller, but if you organize your people improperly or fail to inspire them to perform at high levels, you will not be realizing your potential as a manager. Likewise, it does no good to be the kind of manager who loves to organize and lead, but who doesn’t really understand where to go or how to determine whether you are on the right track. Good managers don’t neglect any of the four management functions. Knowing what they are, you can periodically ask yourself if you are devoting adequate attention to *all* of them.

## Management Levels and Skills

### LO 4

Organizations—particularly large organizations—have many levels. In this section, you will learn about the types of managers found at three different organizational levels: top level, middle level, and frontline.

#### top-level managers

Senior executives responsible for the overall management and effectiveness of the organization.

### Top-Level Managers

**Top-level managers** are the senior executives of an organization and are responsible for its overall management. Top-level managers, often referred to as *strategic managers*, are supposed to focus on long-term issues and emphasize the survival, growth, and overall effectiveness of the organization.

Top managers are concerned not only with the organization as a whole but also with the interaction between the organization and its external environment. This interaction often requires managers to work extensively with outside individuals and organizations.

The chief executive officer (CEO) is one type of top-level manager found in large corporations. This individual is the primary strategic manager of the firm and has authority over everyone else. Others include the chief operating officer (COO), company presidents, vice presidents, and members of the top management team. As companies are appreciating the potential of modern technology and knowledge management to help them achieve and maintain a competitive advantage, more are creating the position of chief information officer (CIO). At defense contractor Northrop Grumman, CIO Tom Shelman used to focus on managing the company’s computer systems. But in the last few years, he has become directly involved with strategy; Shelman’s job includes meeting with customers to help identify ways the company can use its technology to serve them better and help the company grow.<sup>61</sup>

In a recent poll of chief information officers, half said their responsibilities extend beyond information technology to include top-level concerns such as developing the company’s strategy.<sup>62</sup>

Traditionally, the role of top-level managers has been to set overall direction by formulating



strategy and controlling resources. But now, top managers are more commonly called on to be not only strategic architects but also true organizational leaders. As leaders, they must create and articulate a broader corporate purpose with which people can identify—and one to which people will enthusiastically commit.

## Middle-Level Managers

As the name implies, **middle-level managers** are located in the organization's hierarchy below top-level management and above the frontline managers. Sometimes called *tactical managers*, they are responsible for translating the general goals and plans developed by strategic managers into more specific objectives and activities.

Traditionally, the role of the middle manager is to be an administrative controller who bridges the gap between higher and lower levels. Middle-level managers take corporate objectives and break them down into business unit targets; put together separate business unit plans from the units below them for higher-level corporate review; and serve as linchpins of internal communication, interpreting and broadcasting top management's priorities downward and channeling and translating information from the front lines upward.

As a stereotype, the term *middle manager* connotes mediocrity: unimaginative people behaving like bureaucrats and defending the status quo. But middle managers are closer than top managers to day-to-day operations, customers, and frontline managers and employees—so they know the problems. They also have many creative ideas—often better than their bosses'. Good middle managers provide the operating skills and practical problem solving that keep the company working.<sup>63</sup>

## Frontline Managers

**Frontline managers**, or *operational managers*, are lower-level managers who supervise the operations of the organization. These managers often have titles such as *supervisor* or *sales manager*. They are directly involved with nonmanagement employees, implementing the specific plans developed with middle managers. This role is critical in the organization because operational managers are the link between management and nonmanagement personnel. Your first management position probably will fit into this category.

Traditionally, frontline managers have been directed and controlled from above, to make sure that they successfully implement operations in support of company strategy. But in leading companies, the role has expanded. Whereas the operational execution aspect of the role remains vital, in leading companies frontline managers are increasingly called on to be innovative and entrepreneurial, managing for growth and new business development.

Managers on the front line—which usually means newer, younger managers—are crucial to creating and sustaining quality, innovation, and other drivers of financial performance.<sup>64</sup> In outstanding organizations, talented frontline managers are not only *allowed* to initiate new activities but are *expected* to by their top- and middle-level managers. And they are given freedom, incentives, and support to find ways to do so.<sup>65</sup>

Table 1.1 elaborates on the changing aspects of different management levels. You will learn about each of these aspects of management throughout this course.

## Working Leaders with Broad Responsibilities

In small firms—and in those large companies that have adapted to the times—managers have strategic, tactical, and operational responsibilities. They are *complete* businesspeople; they have knowledge of all business functions, are accountable for results, and focus on serving customers both inside and outside their firms. All of this requires the ability to think strategically, translate strategies into specific objectives, coordinate resources, and do real work with lower-level people.

### middle-level managers

Managers located in the middle layers of the organizational hierarchy, reporting to top-level executives.

### frontline managers

Lower-level managers who supervise the operational activities of the organization.

**TABLE 1.1**  
Transformation of  
Management Roles and  
Activities

	Frontline Managers	Middle-Level Managers	Top-Level Managers
Changing Roles	<ul style="list-style-type: none"> <li>From operational implementers to aggressive entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>From administrative controllers to supportive coaches</li> </ul>	<ul style="list-style-type: none"> <li>From resource allocators to institutional leaders</li> </ul>
Key Activities	<ul style="list-style-type: none"> <li>Creating and pursuing new growth opportunities for the business</li> </ul>	<ul style="list-style-type: none"> <li>Developing individuals and supporting their activities</li> </ul>	<ul style="list-style-type: none"> <li>Establishing high performance standards</li> </ul>
	<ul style="list-style-type: none"> <li>Attracting and developing resources</li> </ul>	<ul style="list-style-type: none"> <li>Linking dispersed knowledge and skills across units</li> </ul>	<ul style="list-style-type: none"> <li>Institutionalizing a set of norms and values to support cooperation and trust</li> </ul>
	<ul style="list-style-type: none"> <li>Managing continuous improvement within the unit</li> </ul>	<ul style="list-style-type: none"> <li>Managing the tension between short-term purpose and long-term ambition</li> </ul>	<ul style="list-style-type: none"> <li>Creating an overarching corporate purpose and ambition</li> </ul>

SOURCE: Adapted from C. Bartlett and S. Goshal, "The Myth of the Generic Manager: New Personal Competencies for New Management Roles," *California Management Review* 40, no. 1, Fall 1977, pp. 92–116.

In short, today's best managers can do it all; they are "working leaders."<sup>66</sup> They focus on relationships with other people and on achieving results. They don't just make decisions, give orders, wait for others to produce, and then evaluate results. They get dirty, do hard work themselves, solve problems, and produce value.

What does all of this mean in practice? How do managers spend their time—what do they actually do? A classic study of top executives found that they spend their time engaging in 10 key activities or roles, falling into three categories: interpersonal, informational, and decisional.<sup>67</sup> Table 1.2 summarizes these roles. Even though the study was done decades ago, it remains highly relevant as a description of what executives do. And even though the study focused on top executives, managers at all levels engage in all these activities. As you study the table, you might ask yourself, "Which of these activities do I enjoy most (and least)? Where do I excel (and not excel)? Which would I like to improve?" Whatever your answers, you will be learning more about these activities throughout this course.

## Management Skills

Performing management functions and roles, and achieving competitive advantage, are the cornerstones of a manager's job. However, understanding this fact does not ensure success. Managers need a variety of skills to *do* these things *well*. Skills are specific abilities that result from knowledge, information, practice, and aptitude. Although managers need many individual skills, which you will learn about throughout this textbook, there are three essential categories: technical skills, interpersonal and communication skills, and conceptual and decision skills.<sup>68</sup>

### LO 5

First-timers can underestimate the challenges of the many technical, human, and conceptual competencies required.<sup>69</sup> But when the key management functions are performed by managers who have these critical management skills, the result is high performance.

<b>Interpersonal Roles</b>	<p><i>Leader:</i> Staffing, training, and motivating people</p> <p><i>Liaison:</i> Maintaining a network of outside contacts who provide information and favors</p> <p><i>Figurehead:</i> Performing symbolic duties (ceremonies and serving other social and legal demands)</p>
<b>Informational Roles</b>	<p><i>Monitor:</i> Seeking and receiving information to develop a thorough understanding of the organization and its environment; serving as the “nerve center” of communication</p> <p><i>Disseminator:</i> Transmitting information from source to source, sometimes interpreting and integrating diverse perspectives</p> <p><i>Spokesperson:</i> Speaking on behalf of the organization about plans, policies, actions, and results</p>
<b>Decisional Roles</b>	<p><i>Entrepreneur:</i> Searching for new business opportunities and initiating new projects to create change</p> <p><i>Disturbance handler:</i> Taking corrective action during crises or other conflicts</p> <p><i>Resource allocator:</i> Providing funding and other resources to units or people; includes making or approving significant organizational decisions</p> <p><i>Negotiator:</i> Engaging in negotiations with parties outside the organization as well as inside (e.g., resource exchanges)</p>

SOURCE: Adapted from H. Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973), pp. 92–93.

**TABLE 1.2**  
Managerial Roles: What Managers Do

A **technical skill** is the ability to perform a specialized task that involves a certain method or process. Most people develop a set of technical skills to complete the activities that are part of their daily work lives. The technical skills you learn in school will provide you with the opportunity to get an entry-level position; they will also help you as a manager. For example, your accounting and finance courses will develop the technical skills you need to understand and manage the financial resources of an organization.

**Conceptual and decision skills** involve the ability to identify and resolve problems for the benefit of the organization and everyone concerned. Managers use these skills when they consider the overall objectives and strategy of the firm, the interactions among different parts of the organization, and the role of the business in its external environment. As you acquire greater responsibility, you must exercise your conceptual and decision skills with increasing frequency. You will confront issues that involve all aspects of the organization and must consider a larger and more interrelated set of decision factors. Much of this book is devoted to enhancing your conceptual and decision skills, but experience also plays an important part in their development.

**Interpersonal and communication skills** influence the manager’s ability to work well with people. These skills are often called *people skills*. Managers spend the great majority of their time interacting with people,<sup>70</sup> and they must develop their abilities to lead, motivate, and communicate effectively with those around them. Your people skills often make the difference in how high you go. Management professor Michael Morris explains, “At a certain level in business, you’re living and dying on your social abilities. . . . [Knowledge of a particular field] gets you in the door, but social intelligence gets you to the top.”<sup>71</sup> Supporting this view, a survey of senior executives and managers found that more than 6 out of 10 say they base hiring and promotion decisions on a candidate’s “likability.” Almost as many (62 versus 63 percent) said they base these decisions on skills, presumably referring to technical skills.<sup>72</sup>

### technical skill

The ability to perform a specialized task involving a particular method or process.

### conceptual and decision skills

Skills pertaining to the ability to identify and resolve problems for the benefit of the organization and its members.

### interpersonal and communication skills

People skills; the ability to lead, motivate, and communicate effectively with others.

Professor Morris, quoted in the previous paragraph, has helped to teach people skills to MBA candidates at Columbia Business School. He emphasizes that it is vital for future managers to realize the importance of these skills in getting a job, keeping it, and performing well in it, especially in the 21st century, where managers tend to be supervisors of independent-minded knowledge workers. He explains, “You have to get high performance out of people in your organization who you don’t have any authority over. You need to read other people, know their motivators, know how you affect them.”<sup>73</sup>

The importance of these skills varies by managerial level. Technical skills are most important early in your career. Conceptual and decision skills become more important than technical skills as you rise higher in the company. But interpersonal skills are important throughout your career, at every level of management. Several biomedical companies in California’s Orange County collaborated to provide training because they observed that managers originally hired for their technical expertise needed to develop their people skills so that they could handle higher-level assignments successfully.<sup>74</sup>

## You and Your Career

### LO 6

At the beginning of your career, your contribution to your employer depends on your own performance; that’s all you’re responsible for. But on becoming a manager, you are responsible for a whole group. To use an orchestra analogy, instead of playing an instrument, you’re a conductor, coordinating others’ efforts.<sup>75</sup> The challenge is much greater than most first-time managers expect it to be.

Throughout your career you’ll need to lead teams effectively, as well as influence people over whom you have no authority; thus, the human skills are especially important. Businesspeople often talk about **emotional intelligence**,<sup>76</sup> or “EQ”—the skills of understanding yourself (including strengths and limitations), managing yourself (dealing with emotions, making good decisions, seeking and using feedback, exercising self-control), and dealing effectively with others (listening, showing empathy, motivating, leading, and so on).

### emotional intelligence

The skills of understanding yourself, managing yourself, and dealing effectively with others.

An example of a manager with these skills is Rita Burns, vice president of communications and marketing at Memorial Health System in Colorado Springs. Self-knowledge led Burns to pursue a career that brings together her talent at listening and her love of health care. Burns says she finds it easy to appreciate other points of view: “No matter where I am or what the situation is, I can find something to have a conversation about.” Her boss, senior vice president Ron Burnside, describes her as a talented communicator, and a colleague at the American Heart Association says Burns possesses a “collaborative spirit,” which helps her see how Memorial Health System can cooperate with the association on joint projects.<sup>77</sup>

A common complaint about leaders, especially newly promoted ones who had been outstanding individual performers, is that they lack what is perhaps the most fundamental of EQ skills: empathy. The issue is not lack of ability to change (you can), but the lack of motivation to change.<sup>78</sup> William George, former chair and CEO of Medtronic, says some people can go a long way in their careers based on sheer determination and aggressiveness, but personal development—including EQ—ultimately becomes essential.<sup>79</sup> Executives who score low on EQ are less likely to be rated as excellent on their performance reviews, and their divisions tend not to perform as well.<sup>80</sup> A vice president at an aerospace company underwent a program to improve her EQ after colleagues kept complaining that she was overly demanding and inclined to put people down. An assessment found that she lacked social awareness. The vice president eventually learned to respond after calming herself, as well as to explore colleagues’ ideas rather than demeaning them. Before long, her colleagues began to appreciate the change, and her career took a more successful path.<sup>81</sup>

What should you do to forge a successful, gratifying career? You are well advised to be both a specialist and a generalist, to be self-reliant and connected, to actively

manage your relationship with your organization, and to know what is required not only to survive but also to thrive in today's world.

## Be Both a Specialist and a Generalist

If you think your career will be as a specialist, think again. Chances are, you will not want to stay forever in strictly technical jobs with no managerial responsibilities. Accountants are promoted to accounting department heads and team leaders, sales representatives become sales managers, writers become editors, and nurses become nursing directors. As your responsibilities increase, you must deal with more people, understand more about other aspects of the organization, and make bigger and more complex decisions. Beginning to learn now about these managerial challenges may yield benefits sooner than you think.

So, it will help if you can become both a specialist and a generalist.<sup>82</sup> Seek to become a *specialist*: you should be an expert in something. This will give you specific skills that help you provide concrete, identifiable value to your firm and to customers. And over time, you should learn to be a *generalist*, knowing enough about a variety of business disciplines so that you can think strategically and work with different perspectives.

Patricia Calkins broadened her focus gradually and ambitiously from specialties in the sciences, expanding first to engineering and then to management. She started her career with AT&T's Western Electric subsidiary as a chemist; when she was considering a master's degree in chemistry, she heeded advice to develop her career opportunities by studying engineering. Once Calkins had her master's in civil and environmental engineering, the company saw her management talent and wanted to promote her, so she returned to school for another master's degree, this time in business administration. She developed her generalist skills by consulting, and from that work moved to her current—and favorite—position as vice president of environment, health, and safety at Xerox.<sup>83</sup>



There's another advantage to being both a specialist and a generalist: it can give you the opportunity to indulge in the causes or activities about which you are most passionate. For example, Josh Ruxin, a professor and founder of Access Project, a program that applies American management systems to hospitals in Rwanda, got started on his career path when he traveled to Ethiopia as a teenager. "That changed the rest of my life," Ruxin recalls. "I couldn't believe that people so desperately poor were living on the same planet as we were." So Ruxin earned a doctorate in medical history and joined a management consulting firm, where he honed his management skills. When he got the opportunity to follow a spin-off venture focusing on economic development in underdeveloped regions, he took it.

In Africa, "I realized health care there had to get fixed before these economies had a chance," says Ruxin. So he formed Access Project. Now he uses both his general and his specialized skills to help improve the health care system in Rwanda.<sup>84</sup>

Patricia Calkins, VP of Environment, Health, and Safety at Xerox, became successful by being both a specialist and a generalist. She developed her specialty skills in the sciences and in business administration, and then acquired her generalist skills as a business consultant. What steps do you need to take to become a specialist and a generalist?



## Be Self-Reliant

To be self-reliant means to take full responsibility for yourself, your actions, and your career, as Patricia Calkins did when she furthered her education and tackled consulting assignments that applied her technical knowledge to the business world. You cannot count on your boss or your company to take care of you. A useful metaphor is to think of yourself as a business, with you as president and sole employee. Table 1.3 gives some specific advice about what this means in practice.

Jordan Edelstein took ownership of his career; for him, that meant taking a leap into an industry he loved. General Mills hired him as an assistant marketing manager. He was successful, but during a business trip, as he read about Electronic Arts and its game Sims Online, Edelstein realized that this was an industry he felt passionate about. Edelstein began researching jobs in the industry. When an opening came at Electronic Arts, Edelstein prepared for extensive interviews in which he had to persuade dozens of people that his marketing expertise made up for his lack of experience with high-tech products. Evidently, Edelstein has real marketing talent: he landed what he identified as his dream job.<sup>85</sup>

To be self-reliant, find new ways to make your overall performance better. Take responsibility for change; be an innovator.<sup>86</sup> Don't just do your work and wait for orders; look for opportunities to contribute in new ways, to develop new products and processes, and to generate constructive change that strengthens the company and benefits customers and colleagues. As in Jordan Edelstein's career, success requires more than talent; you also have to be willing to work hard. The elite, world-class performers in many fields reach the top tier only after ten years or more of hard work.<sup>87</sup> The key is to engage in consistent practice, looking at the results and identifying where to improve.

It's easy to see how this works for violinists or basketball players, but what about business managers? The answer is to focus on getting better results each time you try any business task, whether it's writing a report, chairing a meeting, or interpreting a financial statement. To know whether you're getting better, make a point of asking for feedback from customers, colleagues, and bosses.

To develop your full potential, assess yourself, including your interests, aptitudes, and personal character strengths. Think about it, ask others who know you well, conduct a formal exercise in which you learn what others consider to be your "best self,"<sup>88</sup> and use the resources of recent advances in psychology to identify your signature strengths.<sup>89</sup> Consider the professional image and reputation you would like to develop,<sup>90</sup> and continue building your capabilities. Consider the suggestions found throughout this book, and your courses, as you pursue these objectives.

**TABLE 1.3**  
Keys to Career  
Management

Vicky Farrow of Sun Microsystems gave the following advice to help people assume responsibility for their own careers:
1. Think of yourself as a business.
2. Define your product: What is your area of expertise?
3. Know your target market: To whom are you going to sell this?
4. Be clear on why your customer buys from you. What is your "value proposition"—what are you offering that causes him to use you?
5. As in any business, strive for quality and customer satisfaction, even if your customer is just someone else in your organization—like your boss.
6. Know your profession or field and what's going on there.
7. Invest in your own growth and development, the way a company invests in research and development. What new products will you be able to provide?
8. Be willing to consider changing your career.

SOURCE: W. Kiechel III, "Eight Keys to Career Self-Reliance," *Fortune*, April 4, 1994, pp. 68–72. Copyright © 1994 Times, Inc. All rights reserved. Reprinted by permission.

## Be Connected

Being *connected* means having many good working relationships and interpersonal contacts and being a team player with strong interpersonal skills. For example, those who want to become partners in professional service organizations like accounting, advertising, and consulting firms strive constantly to build a network of contacts. Their “connectedness” goal is to work not only with lots of clients but also with a half dozen or more senior partners, including several from outside their home offices and some from outside their country. A study of new auditors showed that social relationships improved newcomers’ knowledge of the organization and their jobs, their social integration into the firm, and their commitment to the organization.<sup>91</sup>

**Social capital** is the goodwill stemming from your social relationships, and it can be mobilized on your behalf. It aids career success, compensation, employment, team effectiveness, successful entrepreneurship, and relationships with suppliers and other outsiders.<sup>92</sup> Today much of that social capital can be tapped online, at social networking Web sites. Besides the purely social sites like MySpace and Facebook, some of these sites are aimed at helping people tap business networks. For example, LinkedIn has more than 8 million registered users, with membership growing rapidly. Even busy executives are willing to give LinkedIn a try because it allows sharing only among people who agree to be connected; acquaintances can introduce others only with permission.<sup>93</sup>

Look at this another way: All business is a function of human relationships.<sup>94</sup> Building competitive advantage depends not only on you but on other people. Management is personal. Commercial dealings are personal. Purchase decisions, repurchase decisions, and contracts all hinge on relationships. Even the biggest business deals—takeovers—are intensely personal and emotional. Without good work relationships, you are an outsider, not an effective manager and leader.

## Actively Manage Your Relationship with Your Organization

Many of the previous comments suggest the importance of taking responsibility for your own actions and your own career. Unless you are self-employed and your own boss, one way to do this is to think about the nature of the relationship between you and your employer. Figure 1.1 shows two possible relationships—and you have some control over which relationship you will be in.

Relationship #1 is one in which you view yourself as an employee and passively expect your employer to tell you what to do and give you pay and benefits. Your employer is in charge, and you are a passive recipient of its actions. Your contributions are likely to be adequate but minimal—you won’t make the added contributions that strengthen your organization, and if all organizational members take this perspective, the organization is not likely to be strong for the long run. Personally, you may lose your job, or keep your job in a declining organization, or receive few positive benefits from working there and either quit or become cynical and unhappy in your work.

In contrast, relationship #2 is a two-way relationship in which you and your organization both benefit from one another. The mind-set is different: Instead of doing what you are told, you think about how you can contribute—and you act accordingly. To the extent that your organization values your contributions, you are likely to benefit

### social capital

Goodwill stemming from your social relationships.



This young professional is “connecting” with her former co-workers through Facebook, a popular social networking tool. Social networking is an important way to stay “connected” and build social relationships within and outside of the workplace. Increasingly, social networking takes place through the use of technology and the Internet.

**FIGURE 1.1**  
Two Relationships: Which Will You Choose?



in return by receiving full and fair rewards, support for further personal development, and a more gratifying work environment. If you think in broad terms about how you can help your company, and if others think like this as well, there is likely to be continuous improvement in the company's ability to innovate, cut costs, and deliver quality products quickly to an expanding customer base. As the company's bottom line strengthens, benefits accrue to shareholders as well as to you and other employees.

What contributions can you make? You can do your basic work. But you can, and should, go further. You can also figure out new ways to add value—by thinking of and implementing new ideas that improve processes and results. You can do this by using your technical knowledge and skills, as in developing a better information system, accounting technique, or sales technique.

You also can contribute with your conceptual and human skills and your managerial actions (see Figure 1.2). You can execute the essential management functions and deliver competitive advantage. You can deliver strategic value (Part 2 of this book). You can take actions that help build a more dynamic organization (Part 3). You can mobilize people to contribute to their fullest potential (Part 4). And you can learn and change—and help your colleagues and company learn and change—to adapt to changing realities and forge a successful future (Part 5).

### Survive and Thrive

Now—far more than ever—you will be accountable for your actions and for results. In the past, people at many companies could show up, do an OK job, get a decent



**FIGURE 1.2**  
Managerial Action Is Your Opportunity to Contribute

evaluation, and get a raise equal to the cost of living and maybe higher. Today, managers must do more, better. Eminent management scholar Peter Drucker, in considering what makes managers effective, notes that some are charismatic while some are not, and some are visionary while others are more numbers-oriented.<sup>95</sup> But successful executives do share some common practices:

- They ask “What needs to be done?” rather than “What do I want to do?”
- They write an action plan. They don’t just think, they do, based on a sound, ethical plan.
- They take responsibility for decisions. This requires checking up, revisiting, and changing if necessary.
- They focus on opportunities rather than problems. Problems have to be solved, and problem solving prevents more damage. But exploiting opportunities is what creates great results.

This creative approach can make each employee a standout in some unique way. Career adviser Rachele Canter advises identifying where you deliver superior results and thinking of that as your “brand.” For instance, an executive might develop a track record of consistently improving productivity in various organizations, and an entry-level customer service worker might become the company’s go-to employee for handling the toughest customers.<sup>96</sup>

Career success is most likely if you are flexible, creative, and ambitious. You will need to learn how to think strategically, discern and convey your business vision, make decisions, and work in teams. You will need to deliver competitive advantage and thrive on change, just as Elon Musk does at Tesla Motors, as discussed in the “Management Close-Up: Assessing Outcomes and Seizing Opportunities” feature. These and other topics, essential to your successful career, provide the focus for the following chapters.

## Management Close-Up



### ASSESSING OUTCOMES AND SEIZING OPPORTUNITIES

With Elon Musk’s cost-cutting initiatives, Tesla Motors was able to withstand its financial crunch. Musk drew on relationships he formed in the computer industry—with investors ranging from eBay’s cofounder to Google’s founders to Silicon Valley venture capitalists—to help fund Tesla. Meanwhile, the company focused on filling its backlog of orders for its Roadster sports car to generate needed cash. Musk says, “The reason we started off with a sports car is because initially any new technology’s expensive.” Sports cars, even with their hefty price tags, do not suffer sales slumps the way an average mom-and-pop car would—buyers still want the latest technology. But their smaller market limits the growth that Tesla can expect. To realize his vision of bringing electric cars to the masses, Musk needs to produce a more mainstream, less expensive model.

So Musk is now working to get his sedan project rolling. In 2009 Tesla previewed its luxury Model S sedan. Designed to travel up to 300 miles on a single charge, the Model S can seat seven passengers. Cars will be assembled in the United States, with full production of up to 20,000 units a year. Though priced at \$57,400, the Model S qualifies buyers for a \$7,500 federal tax credit through the government’s economic stimulus package. That price puts the car in the range of more mainstream buyers.

If it is successful, the Model S could catapult Tesla into industry leadership and allow the company to expand into its planned company-owned dealerships.

Musk has applied for a \$350 million loan from the U.S. Department of Energy to help produce the Model S. He also hopes to receive some funding from the government’s \$25 billion auto-industry bailout package, 10 percent of which is set aside for small business. In addition, Musk has expressed interest in taking Tesla Motors public in the next few years. Of his efforts to bring electric cars to the masses, Musk said, “In all frankness, I don’t really need the stress of building a car company. . . . If I didn’t think it was extremely important, I wouldn’t have done it . . . We need to change the world. There’s no choice.”<sup>97</sup>

- Consider Elon Musk’s background in the computer industry and the difficulty of starting a revolutionary car company. Do you think California is a good place from which to base Tesla Motors? What are some advantages and disadvantages to this strategy?
- Musk has drawn on his background in both physics and finance to get Tesla off the ground. But he has also used his managerial skills to keep the company moving ahead. Which skills has he used? Do you think Musk is more of a specialist or a generalist? Why?

## KEY TERMS

Conceptual and decision skills, p. 21	Knowledge management, p. 7	Service, p. 11
Controlling, p. 16	Leading, p. 16	Social capital, p. 25
Cost competitiveness, p. 12	Management, p. 14	Speed, p. 12
Emotional intelligence, p. 22	Middle-level managers, p. 19	Technical skill, p. 21
Frontline managers, p. 19	Organizing, p. 15	Top-level managers, p. 18
Innovation, p. 9	Planning, p. 15	Value, p. 15
Interpersonal and communication skills, p. 21	Quality, p. 10	

## SUMMARY OF LEARNING OBJECTIVES

Now that you have studied Chapter 1, you should be able to:

### LO 1 Summarize the major challenges of managing in the new competitive landscape.

Managers today must deal with dynamic forces that create greater change than ever before. Among many forces that are creating a need for managers to rethink their approaches, there have recently been four major waves of change: globalization, technological change including the development and applications of the Internet, knowledge management, and collaboration across organizational boundaries.

### LO 2 Describe the sources of competitive advantage for a company.

Because business is a competitive arena, you need to deliver value to customers in ways that are superior to what your competitors do. Competitive advantages result from innovation, quality, service, speed, and cost.

### LO 3 Explain how the functions of management are evolving in today's business environment.

Despite massive change, management retains certain foundations that will not disappear. The primary functions of management are planning, organizing, leading, and controlling. Planning is analyzing a situation, determining the goals that will be pursued, and deciding in advance the actions needed to pursue these goals. Organizing is assembling the resources needed to complete the job and coordinating employees and tasks for maximum success. Leading is motivating people and stimulating high performance. Controlling is monitoring the progress of the organization or the work unit toward goals and then taking corrective action, as necessary. In today's business environment, these functions more broadly require creating strategic value, building a dynamic organization, mobilizing people, and learning and changing.

### LO 4 Compare how the nature of management varies at different organizational levels.

Top-level, strategic managers are the senior executives responsible for the organization's overall management. Middle-level, tactical managers translate general goals and plans into more specific objectives and activities. Frontline, operational managers are lower-level managers who supervise operations. Today, managers at all levels must perform a variety of interpersonal, informational, and decisional roles. Even at the operational level, the best managers think strategically and operate like complete businesspeople.

### LO 5 Define the skills you need to be an effective manager.

To execute management functions successfully, managers need technical skills, conceptual and decision skills, and interpersonal and communication skills. A technical skill is the ability to perform a specialized task involving certain methods or processes. Conceptual and decision skills help the manager recognize complex and dynamic issues, analyze the factors that influence those issues or problems, and make appropriate decisions. Interpersonal and communication skills enable the manager to interact and work well with people. As you rise to higher organizational levels, technical skills tend to become less important and conceptual skills become more important, while human skills remain extremely important at every level.

### LO 6 Understand the principles that will help you manage your career.

You are more likely to succeed in your career if you become both a specialist and a generalist. You should be self-reliant but also connected. You should actively manage your relationship with your organization and continuously improve your skills so that you can perform in the ways demanded in the changing work environment.

## DISCUSSION QUESTIONS

1. Identify and describe a great manager. What makes him or her stand out from the crowd?
2. Have you ever seen or worked for an ineffective manager? Describe the causes and the consequences of the ineffectiveness.
3. Describe in as much detail as possible how the Internet and globalization affect your daily life.
4. Identify some examples of how different organizations collaborate "across boundaries."



5. Name a great organization. How do you think management contributes to making it great?
6. Name an ineffective organization. What can management do to improve it?
7. Give examples you have seen of firms that are outstanding and weak on each of the five pillars of competitive advantage. Why do you choose the firms you do?
8. Describe your use of the four management functions in the management of your daily life.
9. Discuss the importance of technical, conceptual, and interpersonal skills at school and in jobs you have held.
10. What are your strengths and weaknesses as you contemplate your career? How do they correlate with the skills and behaviors identified in the chapter?
11. Devise a plan for developing yourself and making yourself attractive to potential employers. How would you go about improving your managerial skills?
12. Consider the managers and companies discussed in the chapter. Have they been in the news lately, and what is the latest? If their image, performance, or fortunes have gone up or down, what has changed to affect how they have fared?
13. Who are *BusinessWeek*'s most recent "best and worst managers," and why were they selected?

## CONCLUDING CASE

### Your Job and Your Passion—You Can Pursue Both!

The 21st century offers many challenges to every one of us. As more firms go global, as more economies interconnect, and as the Web blasts away boundaries to communication, we become more informed citizens. This interconnectedness means that the organizations you work for will require you to develop both general and specialized knowledge—such as speaking multiple languages, using various software applications, or understanding details of financial transactions. You will have to develop general management skills to foster your ability to be self-reliant and thrive in a changing marketplace. And here's the exciting part: As you build both types of knowledge, you may be able to integrate your growing expertise with the causes or activities you care most about. Or, your career adventure may lead you to a new passion.

Former presidents George H. W. Bush and Bill Clinton are well known for combining their management skills—running a country—with their passion for helping people around the world. Together they have raised funds to assist disaster victims, those with HIV/AIDS, and others in need. Jake Burton turned his love of snow sports into an entire industry when he founded Burton Snowboards. Annie Withey poured her business and marketing knowledge into her two famous business ventures: Smartfood and Annie's Homegrown. Both products were the result of her passion for healthful foods made from organic ingredients.

As you enter the workforce, you may have no idea where your career path will lead. You may be asking yourself, "How will I fit in?" "Where will I live?" "How much will I earn?" "Where will my business and personal careers evolve as the world continues to change at such a fast pace?" If you are feeling nervous because you don't know the answers to these questions yet, relax. A career is a journey, not a single destination. You may have one type of career or several. It is likely you will work for several organizations, or you may run one or more businesses of your own.

As you ask yourself what you want to do and where you want to be, take a few minutes to review the chapter and its

main topics. Think about your personality, what you like and dislike, what you know and what you want to learn, what you fear and what you dream. Then try the following exercise.

#### QUESTIONS

1. Create a three-column chart in which the first column lists nonmanagement skills you have. Are you good at travel? Do you know how to build furniture? Are you a whiz at sports statistics? Are you an innovative cook? Do you play video games for hours? In the second column, list the causes or activities about which you are passionate. These may dovetail with the first list, but they might not.
2. Once you have your two columns complete, draw lines between entries that seem compatible. If you are good at building furniture, you might have also listed a concern about families who are homeless. Remember that not all entries will find a match—the idea is to begin finding some connections.
3. In the third column, generate a list of firms or organizations you know about that reflect your interests. If you are good at building furniture, you might be interested working for the Habitat for Humanity organization, or you might find yourself gravitating toward a furniture retailer like Ikea or Ethan Allen. You can do further research on organizations via the Internet or business publications.

With this chart, you have begun to create a career plan for yourself. In the next exercise, you will be assessing your management skills. Each of these activities begins to zero in on your own particular combination of general and specialized knowledge—both of which will grow and change throughout your career. Creating a plan is like talking the talk. Making the plan happen requires walking the walk. By the time you finish this course, you will be ready to take those first career steps. You may change direction once or many times, but always your path will lead forward. Good luck!

## EXPERIENTIAL EXERCISES

### 1.1 Personal Assessment of Management Skills (PAMS)

To get an overall profile of your level of skill competence, respond to the following statements using the following rating scale. Please rate your behavior as it is, not as you would like it to be. If you have not engaged in a specific activity, answer according to how you think you would behave based on your experience in similar activities. Be honest; this instrument is designed to help you tailor your learning to your specific needs.

#### RATING SCALE

- 1 Strongly disagree
- 2 Disagree
- 3 Slightly disagree
- 4 Slightly agree
- 5 Agree
- 6 Strongly agree

#### In regard to my level of self-knowledge:

- \_\_\_\_\_ 1. I seek information about my strengths and weaknesses from others as a basis for self-improvement.
- \_\_\_\_\_ 2. To improve, I am willing to be self-disclosing to others (i.e., to share my beliefs and feelings).
- \_\_\_\_\_ 3. I am aware of my preferred style in gathering information and making decisions.
- \_\_\_\_\_ 4. I understand how I cope with situations that are ambiguous and uncertain.
- \_\_\_\_\_ 5. I have a well-developed set of personal standards and principles that guide my behavior.

#### When faced with stressful or time-pressured situations:

- \_\_\_\_\_ 6. I use effective time-management methods such as keeping track of my time, making to-do lists, and prioritizing tasks.
- \_\_\_\_\_ 7. I reaffirm my priorities so that less important things don't drive out more important things.
- \_\_\_\_\_ 8. I maintain a program of regular exercise for fitness.
- \_\_\_\_\_ 9. I maintain an open, trusting relationship with someone with whom I can share my frustrations.
- \_\_\_\_\_ 10. I know and practice several temporary relaxation techniques such as deep breathing and muscle relaxation.
- \_\_\_\_\_ 11. I maintain balance in my life by pursuing a variety of interests outside work.

#### When I approach a typical, routine problem:

- \_\_\_\_\_ 12. I state clearly and explicitly what the problem is. I avoid trying to solve it until I have defined it.

- \_\_\_\_\_ 13. I generate more than one alternative solution to the problem, instead of identifying only one obvious solution.

- \_\_\_\_\_ 14. I keep steps in the problem-solving process distinct; that is, I define the problem before proposing alternative solutions, and I generate alternatives before selecting a single solution.

#### When faced with a complex or difficult problem that does not have an easy solution:

- \_\_\_\_\_ 15. I define a problem in multiple ways. I don't limit myself to just one problem definition.
- \_\_\_\_\_ 16. I unfreeze my thinking by asking lots of questions about the nature of the problem before considering ways to solve it.
- \_\_\_\_\_ 17. I think about the problem from both the left (logical) side of my brain and the right (intuitive) side of my brain.
- \_\_\_\_\_ 18. I avoid selecting a solution until I have developed many possible alternatives.
- \_\_\_\_\_ 19. I have specific techniques that I use to help develop creative and innovative solutions to problems.

#### When trying to foster more creativity and innovation among those with whom I work:

- \_\_\_\_\_ 20. I make sure there are divergent points of view represented or expressed in every complex problem-solving situation.
- \_\_\_\_\_ 21. I try to acquire information from individuals outside the problem-solving group who will be affected by the decision, mainly to determine their preferences and expectations.
- \_\_\_\_\_ 22. I provide recognition not only for those who come up with creative ideas (the idea champions) but also for those who support others' ideas (supporters) and who provide resources to implement them (orchestrators).
- \_\_\_\_\_ 23. I encourage informed rule-breaking in pursuit of creative solutions.

#### In situations where I have to provide negative feedback or offer corrective advice:

- \_\_\_\_\_ 24. I help others recognize and define their own problems when I counsel them.
- \_\_\_\_\_ 25. I am clear about when I should coach someone and when I should provide counseling instead.
- \_\_\_\_\_ 26. When I give feedback to others, I avoid referring to personal characteristics and focus on problems or solutions instead.
- \_\_\_\_\_ 27. When I try to correct someone's behavior, our relationship is strengthened.

- \_\_\_\_\_ 28. I am descriptive in giving negative feedback to others. That is, I objectively describe events, their consequences, and my feelings about them.
- \_\_\_\_\_ 29. I take responsibility for my statements and point of view, for example, "I have decided" instead of "They have decided."
- \_\_\_\_\_ 30. I identify some area of agreement in a discussion with someone who has a different point of view.
- \_\_\_\_\_ 31. I don't talk down to those who have less power or less information than I.
- \_\_\_\_\_ 32. When discussing someone's problem, I respond with a reply that indicates understanding rather than advice.

**In a situation where it is important to obtain more power:**

- \_\_\_\_\_ 33. I put forth more effort and take more initiative than expected in my work.
- \_\_\_\_\_ 34. I am continually upgrading my skills and knowledge.
- \_\_\_\_\_ 35. I support organizational ceremonial events and activities.
- \_\_\_\_\_ 36. I form a broad network of relationships with people throughout the organization at all levels.
- \_\_\_\_\_ 37. In my work I strive to generate new ideas, initiate new activities, and minimize routine tasks.
- \_\_\_\_\_ 38. I send personal notes to others when they accomplish something significant or when I pass along important information to them.
- \_\_\_\_\_ 39. I refuse to bargain with individuals who use high-pressure negotiation tactics.
- \_\_\_\_\_ 40. I avoid using threats or demands to impose my will on others.

**When another person needs to be motivated:**

- \_\_\_\_\_ 41. I determine if the person has the necessary resources and support to succeed in a task.
- \_\_\_\_\_ 42. I use a variety of rewards to reinforce exceptional performances.
- \_\_\_\_\_ 43. I design task assignments to make them interesting and challenging.
- \_\_\_\_\_ 44. I make sure the person gets timely feedback from those affected by task performance.
- \_\_\_\_\_ 45. I help the person establish performance goals that are challenging, specific, and time bound.
- \_\_\_\_\_ 46. Only as a last resort do I attempt to reassign or release a poorly performing individual.
- \_\_\_\_\_ 47. I discipline when effort is below expectations and capabilities.
- \_\_\_\_\_ 48. I make sure that people feel fairly and equitably treated.
- \_\_\_\_\_ 49. I provide immediate compliments and other forms of recognition for meaningful accomplishments.

**When I see someone doing something that needs correcting:**

- \_\_\_\_\_ 50. I avoid making personal accusations and attributing self-serving motives to the other person.
- \_\_\_\_\_ 51. I encourage two-way interaction by inviting the respondent to express his or her perspective and to ask questions.
- \_\_\_\_\_ 52. I make a specific request, detailing a more acceptable option.

**When someone complains about something I've done:**

- \_\_\_\_\_ 53. I show genuine concern and interest, even when I disagree.
- \_\_\_\_\_ 54. I seek additional information by asking questions that provide specific and descriptive information.
- \_\_\_\_\_ 55. I ask the other person to suggest more acceptable behaviors.

**When two people are in conflict and I am the mediator:**

- \_\_\_\_\_ 56. I do not take sides but remain neutral.
- \_\_\_\_\_ 57. I help the parties generate multiple alternatives.
- \_\_\_\_\_ 58. I help the parties find areas on which they agree.

**In situations where I have an opportunity to empower others:**

- \_\_\_\_\_ 59. I help people feel competent in their work by recognizing and celebrating their small successes.
- \_\_\_\_\_ 60. I provide regular feedback and needed support.
- \_\_\_\_\_ 61. I provide all the information that people need to accomplish their tasks.
- \_\_\_\_\_ 62. I highlight the important impact that a person's work will have.

**When delegating work to others:**

- \_\_\_\_\_ 63. I specify clearly the results I desire.
- \_\_\_\_\_ 64. I specify clearly the level of initiative I want others to take (e.g., wait for directions, do part of the task and then report, do the whole task and then report, etc.).
- \_\_\_\_\_ 65. I allow participation by those accepting assignments regarding when and how work will be done.
- \_\_\_\_\_ 66. I avoid upward delegation by asking people to recommend solutions, rather than merely asking for advice or answers, when a problem is encountered.
- \_\_\_\_\_ 67. I follow up and maintain accountability for delegated tasks on a regular basis.

**When I am in the role of leader in a team:**

- \_\_\_\_\_ 68. I know how to establish credibility and influence among team members.
- \_\_\_\_\_ 69. I am clear and consistent about what I want to achieve.
- \_\_\_\_\_ 70. I build a common base of agreement in the team before moving forward with task accomplishment.

- \_\_\_\_\_ 71. I articulate a clear, motivating vision of what the team can achieve along with specific short-term goals.

**When I am in the role of team member:**

- \_\_\_\_\_ 72. I know a variety of ways to facilitate task accomplishment in the team.
- \_\_\_\_\_ 73. I know a variety of ways to help build strong relationships and cohesion among team members.

**When I desire to make my team perform well, regardless of whether I am a leader or member:**

- \_\_\_\_\_ 74. I am knowledgeable about the different stages of team development experienced by most teams.
- \_\_\_\_\_ 75. I help the team avoid groupthink by making sure that sufficient diversity of opinions is expressed in the team.
- \_\_\_\_\_ 76. I diagnose and capitalize on my team's core competencies, or unique strengths.
- \_\_\_\_\_ 77. I encourage exceptionally high standards of performance and outcomes that far exceed expectations.

**When I am leading change:**

- \_\_\_\_\_ 78. I usually emphasize a higher purpose or meaning associated with the work I do.
- \_\_\_\_\_ 79. I keep track of things that go right, not just things that go wrong.
- \_\_\_\_\_ 80. I frequently give other people positive feedback.
- \_\_\_\_\_ 81. I work to close performance gaps—the difference between good performance and great performance.
- \_\_\_\_\_ 82. I express gratitude frequently and conspicuously, even for small acts.
- \_\_\_\_\_ 83. I know how to get people to commit to my vision of positive change.
- \_\_\_\_\_ 84. I know how to unlock the positive energy in other people.
- \_\_\_\_\_ 85. I express compassion toward people who are facing pain or difficulty.

SOURCE: David A. Whetten and Kim S. Cameron, *Developing Management Skills*, 6th ed. (Upper Saddle River, NJ: Pearson/Prentice Hall, 2005), pp. 23–27. Adapted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

## 1.2 Your Personal Network

1. See the figure on page 33. Working on your own, write down all of your primary contacts—individuals you know personally who can support you in attaining your professional goals. Then begin to explore their secondary connections. Make assumptions about possible secondary connections that can be made for you by contacting your primary connections. For example, through one of your teachers (primary), you might be able to obtain some names of potential employers (secondary). (10–15 min.)
2. Then meet with your partner or small group to exchange information about your primary and secondary networks and to exchange advice and information on how to best use these connections, as well as how you could be helpful to them. (about 5 min. per person; 10–30 min. total, depending on group size)
3. Add names or types of names to your list based on ideas you get by talking with others in your group. (2–5 min.)
4. Discuss with large group or class, using the following discussion questions. (10 min.)

## 1.3 Effective Managers

### OBJECTIVES

1. To better understand what behaviors contribute to effective management.
2. To conceive a ranking of critical behaviors that you personally believe reflects their importance to your success as a manager.

### INSTRUCTIONS

1. Following is a partial list of behaviors in which managers may engage. Rank these items in terms of their importance for

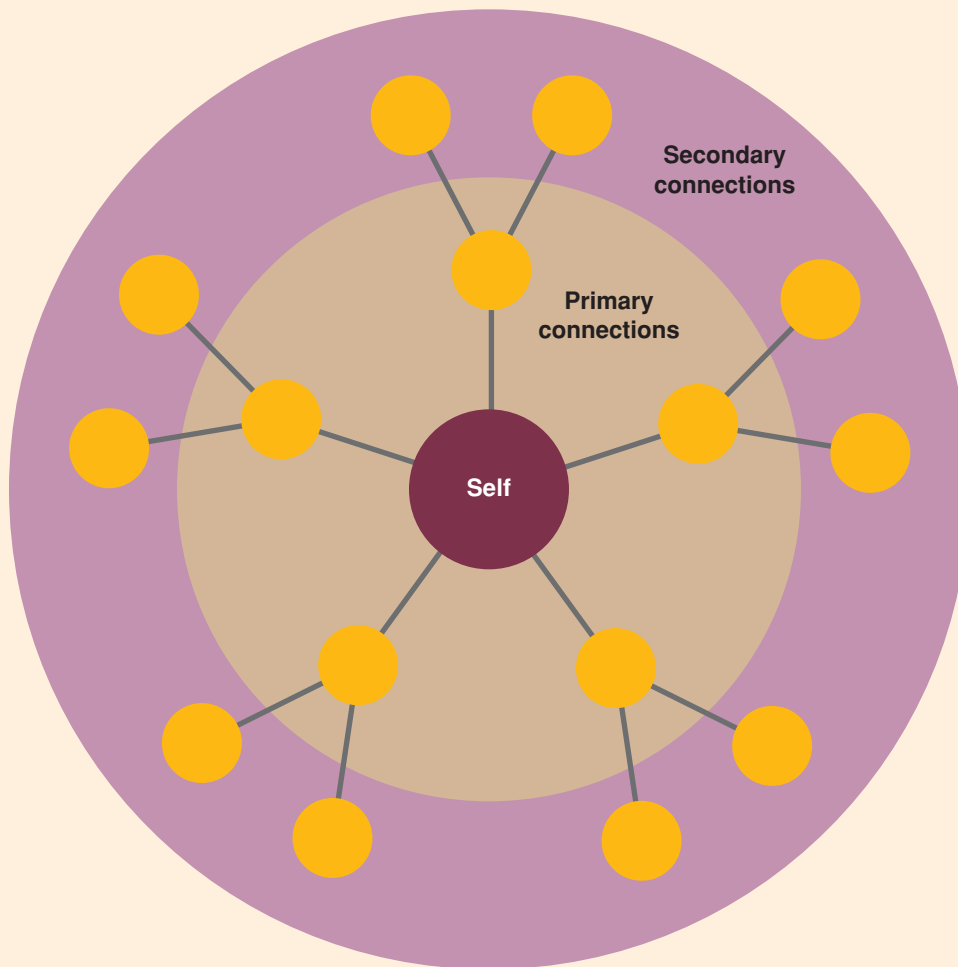
### QUESTIONS

1. What were some of the best primary sources identified by your group?
2. What were some of the best sources for secondary contacts identified by your group?
3. What are some suggestions for approaching primary contacts?
4. What are some suggestions for approaching secondary contacts, and how is contacting secondary sources different from contacting primary contacts?
5. What did you learn about yourself and others from this exercise?

SOURCE: Suzanne C. de Janasz, Karen O. Dowd, and Beth Z. Schneider, *Interpersonal Skills in Organizations* (New York: McGraw-Hill, 2002), p. 211. © 2002 The McGraw-Hill Companies.

effective performance as a manager. Put a 1 next to the item that you think is most important, 2 for the next most important, down to 10 for the least important.

2. Bring your rankings to class. Be prepared to justify your results and rationale. If you can add any behaviors to this list that might lead to success or greater management effectiveness, write them in.



## Effective Managers Worksheet

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|--|--|
| <input type="checkbox"/> Communicates and interprets policy so that it is understood by the members of the organization. | <input type="checkbox"/> Participates in community activities as opportunities arise.      |
| <input type="checkbox"/> Makes prompt and clear decisions.   | <input type="checkbox"/> Is neat in appearance.  |
| <input type="checkbox"/> Assigns subordinates to the jobs for which they are best suited.                                | <input type="checkbox"/> Is honest in all matters pertaining to company property or funds. |
| <input type="checkbox"/> Encourages associates to submit ideas and plans.  |  |
| <input type="checkbox"/> Stimulates subordinates by means of competition among employees.                                |  |
| <input type="checkbox"/> Seeks means of improving management capabilities and competence.                                |  |
| <input type="checkbox"/> Fully supports and carries out company policies.  |  |

SOURCE: Excerpted from Lawrence R. Jauch, Arthur G. Bedeian, Sally A. Coltrin, and William F. Glueck, *The Managerial Experience: Cases, Exercises, and Readings*, 5th ed. Copyright © 1989. Reprinted with permission of South-Western, a division of Thomson Learning, [www.thomson-rights.com](http://www.thomson-rights.com). Fax 800 730-2215.

## 1.4 Career Planning

### OBJECTIVES

1. To explore your career thinking.
2. To visualize your ideal job in terms as concrete as possible.
3. To summarize the state of your career planning, and to become conscious of the main questions you have about it at this point.

### INSTRUCTIONS

Read the instructions for each activity, reflect on them, and then write your response. Be as brief or extensive as you like.



## Career Planning Worksheet

1. Describe your ideal occupation in terms of responsibilities, skills, and how you would know if you were successful.

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2. Identify 10 statements you can make today about your current career planning. Identify 10 questions you need answered for career planning.

**10 statements**

**10 questions**

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SOURCE: Judith R. Gordon, *Diagnostic Approach to Organizational Behavior*. Copyright © 1983 Pearson Education, Inc. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

# APPENDIX A

## APPENDIX A

## The Evolution of Management

For thousands of years, managers have wrestled with the same issues and problems confronting executives today. Around 1100 B.C., the Chinese practiced the four management functions—planning, organizing, leading, and controlling—discussed in Chapter 1. Between 400 B.C. and 350 B.C., the Greeks recognized management as a separate art and advocated a scientific approach to work. The Romans decentralized the management of their vast empire before the birth of Christ. During medieval times, the Venetians standardized production through the use of an assembly line, building warehouses and using an inventory system to monitor the contents.<sup>1</sup>

But throughout history most managers operated strictly on a trial-and-error basis. The challenges of the industrial revolution changed that. Management emerged as a formal discipline at the turn of the century. The first university programs to offer management and business education, the Wharton School at the University of Pennsylvania and the Amos Tuck School at Dartmouth, were founded in the late 19th century. By 1914, 25 business schools existed.<sup>2</sup>

Thus, the management profession as we know it today is relatively new. This appendix explores the roots of modern management theory. Understanding the origins of management thought will help you grasp the underlying contexts of the ideas and concepts presented in the chapters ahead.

Although this appendix is titled “The Evolution of Management,” it might be more appropriately called “The Revolutions of Management,” because it documents the wide swings in management approaches over the last 100 years. Out of the great variety of ideas about how to improve management, parts of each approach have survived and been incorporated into modern perspectives on management. Thus, the legacy of past efforts, triumphs, and failures has become our guide to future management practice.

### EARLY MANAGEMENT CONCEPTS AND INFLUENCES

Communication and transportation constraints hindered the growth of earlier businesses. Therefore, improvements in management techniques did not substantially improve performance. However, the industrial revolution changed that. As companies grew and became more complex, minor improvements in management tactics produced impressive increases in production quantity and quality.<sup>3</sup>

The emergence of **economies of scale**—reductions in the average cost of a unit of production as the total volume produced increases—drove managers to strive for further growth. The opportunities for mass production created by the industrial revolution spawned intense and systematic thought about management problems and issues—particularly efficiency, production processes, and cost savings.<sup>4</sup>

Figure A.1 provides a timeline depicting the evolution of management thought through the decades. This historical perspective is divided into two major sections: classical approaches and contemporary approaches. Many of these approaches overlapped as they developed, and they often had a significant impact on one another. Some approaches were a direct reaction to the perceived deficiencies of previous approaches. Others developed as the needs and issues confronting managers changed over the years. All the approaches attempted to explain the real issues facing managers and provide them with tools to solve future problems.

Figure A.1 will reinforce your understanding of the key relationships among the approaches and place each perspective in its historical context.

The oldest company on the *Fortune* 500 list is the Bank of New York, founded in 1784 by Alexander Hamilton. The oldest industrial company is DuPont, begun in 1802 after E. I. du Pont fled persecution during the French Revolution.<sup>5</sup>

### CLASSICAL APPROACHES

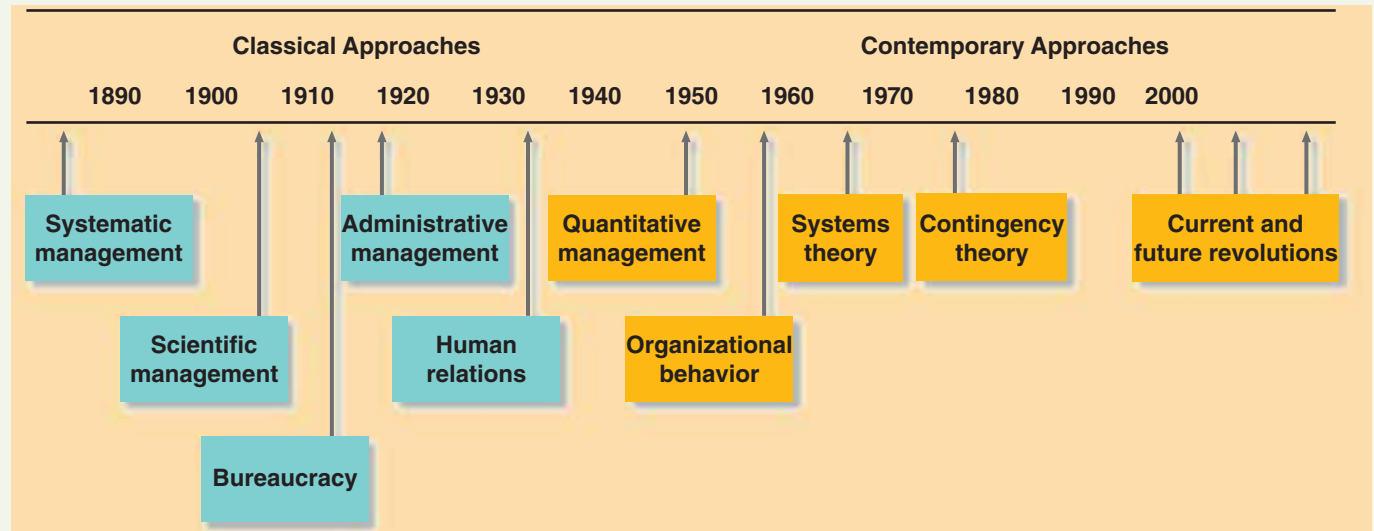
The classical period extended from the mid-19th century through the early 1950s. The major approaches that emerged during this period were systematic management, scientific management, administrative management, human relations, and bureaucracy.

**Systematic Management** During the 19th century, growth in U.S. business centered on manufacturing.<sup>6</sup> Early writers such as Adam Smith believed the management of these firms was chaotic, and their ideas helped to systematize it. Most organizational tasks were subdivided and performed by specialized labor. However, poor coordination caused frequent problems and breakdowns of the manufacturing process.

The **systematic management** approach attempted to build specific procedures and processes into operations to ensure coordination of effort. Systematic management emphasized economical

**FIGURE A.1**

The Evolution of Management Thought



operations, adequate staffing, maintenance of inventories to meet consumer demand, and organizational control. These goals were achieved through:

- Careful definition of duties and responsibilities.
- Standardized techniques for performing these duties.
- Specific means of gathering, handling, transmitting, and analyzing information.
- Cost accounting, wage, and production control systems to facilitate internal coordination and communications.

Systematic management emphasized internal operations because managers were concerned primarily with meeting the explosive growth in demand brought about by the industrial revolution. In addition, managers were free to focus on internal issues of efficiency, in part because the government did

not constrain business practices significantly. Finally, labor was poorly organized. As a result, many managers were oriented more toward things than toward people.

Systematic management did not address all the issues 19th-century managers faced, but it tried to raise managers' awareness about the most pressing concerns of their job.

**An Early Labor Contract**

The following rules, taken from the records of Cochecho Company, were typical of labor contract provisions in the 1850s.

1. The hours of work shall be from sunrise to sunset, from the 21st of March to the 20th of September inclusively; and from sunrise until eight o'clock, P.M., during the remainder of the year. One hour shall be allowed for dinner, and half an hour for breakfast during the first mentioned six months; and one hour for dinner during the other half of the year; on Saturdays, the mill shall be stopped one hour before sunset, for the purpose of cleaning the machinery.
2. Every hand coming to work a quarter of an hour after the mill has been started shall be docked a quarter of a day; and every hand absenting him or herself, without absolute necessity, shall be docked in a sum double the amount of the wages such hand shall have earned during the time of such absence. No more than one hand is allowed to leave any one of the rooms at the same time—a quarter of a day shall be deducted for every breach of this rule.
3. No smoking or spiritous liquors shall be allowed in the factory under any pretense whatsoever. It is also forbidden to carry into the factory, nuts, fruits, etc., books, or papers during the hours of work.



Production costs dropped as mass manufacturing lowered unit costs. Thus economies of scale was born, a concept that persists in the modern manufacturing era.

SOURCE: W. Sullivan, "The Industrial Revolution and the Factory Operative in Pennsylvania," *The Pennsylvania Magazine of History and Biography* 78 (1954), pp. 478-79.

**Scientific Management** Systematic management failed to lead to widespread production efficiency. This shortcoming became apparent to a young engineer named Frederick Taylor, who was hired by Midvale Steel Company in 1878. Taylor discovered that production and pay were poor, inefficiency and waste were prevalent, and most companies had tremendous unused potential. He concluded that management decisions were unsystematic and that no research to determine the best means of production existed.

In response, Taylor introduced a second approach to management, known as **scientific management**.<sup>7</sup> This approach advocated the application of scientific methods to analyze work and to determine how to complete production tasks efficiently. For example, U.S. Steel's contract with the United Steel Workers of America specified that sand shovelers should move 12.5 shovelfuls per minute; shovelers should average 15 pounds of river sand composed of 5.5 percent moisture.<sup>8</sup>

Taylor identified four principles of scientific management:

1. Management should develop a precise, scientific approach for each element of one's work to replace general guidelines.
2. Management should scientifically select, train, teach, and develop each worker so that the right person has the right job.
3. Management should cooperate with workers to ensure that jobs match plans and principles.
4. Management should ensure an appropriate division of work and responsibility between managers and workers.

To implement this approach, Taylor used techniques such as time-and-motion studies. With this technique, a task was divided into its basic movements, and different motions were timed to determine the most efficient way to complete the task.

After the "one best way" to perform the job was identified, Taylor stressed the importance of hiring and training the proper worker to do that job. Taylor advocated the standardization of tools, the use of instruction cards to help workers, and breaks to eliminate fatigue.

Another key element of Taylor's approach was the use of the differential piece-rate system. Taylor assumed workers were motivated by receiving money. Therefore, he implemented a pay system in which workers were paid additional wages when they

exceeded a standard level of output for each job. Taylor concluded that both workers and management would benefit from such an approach.

Scientific management principles were widely embraced. Other proponents, including Henry Gantt and Frank and Lillian Gilbreth, introduced many refinements and techniques for applying scientific management on the factory floor. One of the most famous examples of the application of scientific management is the factory Henry Ford built to produce the Model-T.<sup>9</sup>

### Scientific Management and the Model-T

At the turn of the century, automobiles were a luxury that only the wealthy could afford. They were assembled by craftspeople who put an entire car together at one spot on the factory floor. These workers were not specialized, and Henry Ford believed they wasted time and energy bringing the needed parts to the car. Ford took a revolutionary approach to automobile manufacturing by using scientific management principles.

After much study, machines and workers in Ford's new factory were placed in sequence so that an automobile could be assembled without interruption along a moving production line. Mechanical energy and a conveyor belt were used to take the work to the workers.

The manufacture of parts likewise was revolutionized. For example, formerly it had taken one worker 20 minutes to assemble a flywheel magneto. By splitting the job into 29 different operations, putting the product on a mechanical conveyor, and changing the height of the conveyor, Ford cut production time to 5 minutes.

By 1914 chassis assembly time had been trimmed from almost 13 hours to 1½ hours. The new methods of production required complete standardization, new machines, and an adaptable labor force. Costs dropped significantly, the Model-T became the first car accessible to the majority of Americans, and Ford dominated the industry for many years.

SOURCE: H. Kroos and C. Gilbert, *The Principles of Scientific Management* (New York: Harper & Row, 1911).



Frederick Taylor (left) and Dr. Lillian Gilbreth (right) were early experts in management efficiency.



The legacy of Taylor's scientific management approach is broad and pervasive. Most important, productivity and efficiency in manufacturing improved dramatically. The concepts of scientific methods and research were introduced to manufacturing. The piece-rate system gained wide acceptance because it more closely aligned effort and reward. Taylor also emphasized the need for cooperation between management and workers. And the concept of a management specialist gained prominence.

The first female executive to head a company on the *Fortune* 500 list was Katharine Graham of *The Washington Post* (first listed in 1972).<sup>10</sup>

Despite these gains, not everyone was convinced that scientific management was the best solution to all business problems. First, critics claimed that Taylor ignored many job-related social and psychological factors by emphasizing only money as a worker incentive. Second, production tasks were reduced to a set of routine, machinelike procedures that led to boredom, apathy, and quality control problems. Third, unions strongly opposed scientific management techniques because they believed management might abuse their power to set the standards and the piece-rates, thus exploiting workers and diminishing their importance. Finally, although scientific management resulted in intense scrutiny of the internal efficiency of organizations, it did not help managers deal with broader external issues such as competitors and government regulations, especially at the senior management level.

**Administrative Management** The **administrative management** approach emphasized the perspective of senior managers within the organization, and argued that management was a profession and could be taught.

An explicit and broad framework for administrative management emerged in 1916, when Henri Fayol, a French mining engineer and executive, published a book summarizing his management experiences. Fayol identified five functions and 14 principles of management. The five functions, which are very similar to the four functions discussed in Chapter 1, are planning, organizing, commanding, coordinating, and controlling. Table A.1 lists and defines the 14 principles. Although some critics claim Fayol treated the principles as universal truths for management, he actually wanted them applied flexibly.<sup>11</sup>

A host of other executives contributed to the administrative management literature. These writers discussed a broad spectrum of management topics, including the social responsibilities of management, the philosophy of management, clarification of business terms and concepts, and organizational principles. Chester Barnard's and Mary Parker Follet's contributions have become classic works in this area.<sup>12</sup>

Barnard, former president of New Jersey Bell Telephone Company, published his landmark book *The Functions of the Executive* in 1938. He outlined the role of the senior executive: formulating the purpose of the organization, hiring key individuals, and maintaining organizational communications.<sup>13</sup> Mary Parker Follet's 1942 book *Dynamic Organization* extended Barnard's work by emphasizing the continually changing situations that managers face.<sup>14</sup> Two of her key contributions—the notion that

**TABLE A.1**

Fayol's 14 Principles of Management

1. <i>Division of work</i> —divide work into specialized tasks and assign responsibilities to specific individuals.
2. <i>Authority</i> —delegate authority along with responsibility.
3. <i>Discipline</i> —make expectations clear and punish violations.
4. <i>Unity of command</i> —each employee should be assigned to only one supervisor.
5. <i>Unity of direction</i> —employees' efforts should be focused on achieving organizational objectives.
6. <i>Subordination of individual interest to the general interest</i> —the general interest must predominate.
7. <i>Remuneration</i> —systematically reward efforts that support the organization's direction.
8. <i>Centralization</i> —determine the relative importance of superior and subordinate roles.
9. <i>Scalar chain</i> —keep communications within the chain of command.
10. <i>Order</i> —order jobs and material so they support the organization's direction.
11. <i>Equity</i> —fair discipline and order enhance employee commitment.
12. <i>Stability and tenure of personnel</i> —promote employee loyalty and longevity.
13. <i>Initiative</i> —encourage employees to act on their own in support of the organization's direction.
14. <i>Esprit de corps</i> —promote a unity of interests between employees and management.

managers desire flexibility and the differences between motivating groups and individuals—laid the groundwork for the modern contingency approach discussed later in the chapter.

All the writings in the administrative management area emphasize management as a profession along with fields such as law and medicine. In addition, these authors offered many recommendations based on their personal experiences, which often included managing large corporations. Although these perspectives and recommendations were considered sound, critics noted that they might not work in all settings. Different types of personnel, industry conditions, and technologies may affect the appropriateness of these principles.

**1955** Ray Kroc's first McDonald's opens. Bill Gates and Steve Jobs are born.<sup>15</sup>

**Human Relations** A fourth approach to management, **human relations**, developed during the 1930s. This approach aimed at understanding how psychological and social processes interact

with the work situation to influence performance. Human relations was the first major approach to emphasize informal work relationships and worker satisfaction.

This approach owes much to other major schools of thought. For example, many of the ideas of the Gilbreths (scientific management) and Barnard and Follet (administrative management) influenced the development of human relations from 1930 to 1955. In fact, human relations emerged from a research project that began as a scientific management study.

Western Electric Company, a manufacturer of communications equipment, hired a team of Harvard researchers led by Elton Mayo and Fritz Roethlisberger. They were to investigate the influence of physical working conditions on workers' productivity and efficiency in one of the company's factories outside Chicago. This research project, known as the *Hawthorne Studies*, provided some of the most interesting and controversial results in the history of management.<sup>16</sup>

The Hawthorne Studies were a series of experiments conducted from 1924 to 1932. During the first stage of the project (the Illumination Experiments), various working conditions, particularly the lighting in the factory, were altered to determine the effects of those changes on productivity. The researchers found no systematic relationship between the factory lighting and production levels. In some cases, productivity continued to increase even when the illumination was reduced to the level of moonlight. The researchers concluded that the workers performed and reacted differently because the researchers were observing them. This reaction is known as the **Hawthorne Effect**.

This conclusion led the researchers to believe productivity may be affected more by psychological and social factors than by physical or objective influences. With this thought in mind, they initiated the other four stages of the project. During these stages, the researchers performed various work group experiments and had extensive interviews with employees. Mayo and his team eventually concluded that productivity and employee behavior were influenced by the informal work group.

Human relations proponents argued that managers should stress primarily employee welfare, motivation, and communication. They believed social needs had precedence over economic needs. Therefore, management must gain the cooperation of the group and promote job satisfaction and group norms consistent with the goals of the organization.

Another noted contributor to the field of human relations was Abraham Maslow.<sup>17</sup> In 1943, Maslow suggested that humans have five levels of needs. The most basic needs are the physical needs for food, water, and shelter; the most advanced need is for self-actualization, or personal fulfillment. Maslow argued that people try to satisfy their lower-level needs and then progress upward to the higher-level needs. Managers can facilitate this process and achieve organizational goals by removing obstacles and encouraging behaviors that satisfy people's needs and organizational goals simultaneously.

Although the human relations approach generated research into leadership, job attitudes, and group dynamics, it drew heavy criticism.<sup>18</sup> Critics believed that one result of human relations—a belief that a happy worker was a productive worker—was too simplistic. While scientific management overemphasized the economic and formal aspects of the workplace, human relations ignored the more rational side of the worker and the important characteristics of the formal organization. However, human

## A Human Relations Pioneer

In 1837, William Procter, a ruined English retailer, and James Gamble, son of a Methodist minister, formed a partnership in Cincinnati to make soap and candles. Both were known for their integrity, and soon their business was thriving.

By 1883, the business had grown substantially. When William Cooper Procter, grandson of the founder, left Princeton University to work for the firm, he wanted to learn the business from the ground up. He started working on the factory floor. "He did every menial job from shoveling rosin and soap to pouring fatty mixtures into crutchers. He brought his lunch in a paper bag . . . and sat on the floor [with the other workers] and ate with them, learning their feelings about work."

By 1884, Cooper Procter believed, from his own experience, that increasing workers' psychological commitment to the company would lead to higher productivity. His passion to increase employee commitment to the firm led him to propose a scandalous plan: share profits with workers to increase their sense of responsibility and job satisfaction. The surprise was audible on the first "Dividend Day," when workers held checks equivalent to seven weeks' pay.

Still, the plan was not complete. Workers saw the profit sharing as extra pay rather than as an incentive to improve. In addition, Cooper Procter recognized that a fundamental issue for the workers, some of whom continued to be his good friends, was the insecurity of old age. Public incorporation in 1890 gave Procter a new idea. After trying several versions, by 1903 he had discovered a way to meet all his goals for labor: a stock purchase plan. For every dollar a worker invested in P&G stock, the company would contribute four dollars' worth of stock.

Finally, Cooper Procter had resolved some key issues for labor that paid off in worker loyalty, improved productivity, and an increasing corporate reputation for caring and integrity. He went on to become CEO of the firm, and P&G today remains one of the most admired corporations in the United States.

SOURCES: O. Schisgall, *Eyes on Tomorrow* (Chicago: J. G. Ferguson, 1981); T. Welsh, "Best and Worst Corporate Reputations," *Fortune*, February 7, 1994, pp. 58–66.

relations was a significant step in the development of management thought, because it prompted managers and researchers to consider the psychological and social factors that influence performance.

**Bureaucracy** Max Weber, a German sociologist, lawyer, and social historian, showed how management itself could be more efficient and consistent in his book *The Theory of Social and Economic Organizations*.<sup>19</sup> The ideal model for management, according to Weber, is the **bureaucracy** approach.

Weber believed bureaucratic structures can eliminate the variability that results when managers in the same organization have different skills, experiences, and goals. Weber advocated that the jobs themselves be standardized so that personnel

changes would not disrupt the organization. He emphasized a structured, formal network of relationships among specialized positions in an organization. Rules and regulations standardize behavior, and authority resides in positions rather than in individuals. As a result, the organization need not rely on a particular individual, but will realize efficiency and success by following the rules in a routine and unbiased manner.

**1962** The first Wal-Mart store opens in Rogers, Arkansas.

**1964** Blue Ribbon Sports ships its first shoes. It's now called Nike.

**1969** Don and Doris Fisher open the first Gap store in San Francisco.

According to Weber, bureaucracies are especially important because they allow large organizations to perform the many routine activities necessary for their survival. Also, bureaucratic positions foster specialized skills, eliminating many subjective judgments by managers. In addition, if the rules and controls are established properly, bureaucracies should be unbiased in their treatment of people, both customers and employees.

Many organizations today are bureaucratic. Bureaucracy can be efficient and productive. However, bureaucracy is not the appropriate model for every organization. Organizations or departments that need rapid decision making and flexibility may suffer under a bureaucratic approach. Some people may not perform their best with excessive bureaucratic rules and procedures.

Other shortcomings stem from a faulty execution of bureaucratic principles rather than from the approach itself. Too much authority may be vested in too few people; the procedures may become the ends rather than the means; or managers may ignore appropriate rules and regulations. Finally, one advantage of a bureaucracy—its permanence—can also be a problem. Once a bureaucracy is established, dismantling it is very difficult.

## CONTEMPORARY APPROACHES

The contemporary approaches to management include quantitative management, organizational behavior, systems theory, and the contingency perspective. The contemporary approaches have developed at various times since World War II, and they continue to represent the cornerstones of modern management thought.

**Quantitative Management** Although Taylor introduced the use of science as a management tool early in the 20th century, most organizations did not adopt the use of quantitative techniques for management problems until the 1940s and 1950s.<sup>20</sup> During World War II, military planners began to apply mathematical techniques to defense and logistic problems. After the war, private corporations began assembling teams of quantitative experts to tackle many of the complex issues confronting large organizations. This approach, referred to as **quantitative management**, emphasizes the application of quantitative analysis to management decisions and problems.

Quantitative management helps a manager make a decision by developing formal mathematical models of the problem.

Computers facilitated the development of specific quantitative methods. These include such techniques as statistical decision theory, linear programming, queuing theory, simulation, forecasting, inventory modeling, network modeling, and break-even analysis. Organizations apply these techniques in many areas, including production, quality control, marketing, human resources, finance, distribution, planning, and research and development.

Despite the promise quantitative management holds, managers do not rely on these methods as the primary approach to decision making. Typically they use these techniques as a supplement or tool in the decision process. Many managers will use results that are consistent with their experience, intuition, and judgment, but they often reject results that contradict their beliefs. Also, managers may use the process to compare alternatives and eliminate weaker options.

Several explanations account for the limited use of quantitative management. Many managers have not been trained in using these techniques. Also, many aspects of a management decision cannot be expressed through mathematical symbols and formulas. Finally, many of the decisions managers face are nonroutine and unpredictable.

**1971** Intel introduces the first microprocessor and IBM introduces the floppy disk.

**1976** Steve Jobs and Steve Wozniak start Apple Computer in their garage.

**Organizational Behavior** During the 1950s, a transition took place in the human relations approach. Scholars began to recognize that worker productivity and organizational success are based on more than the satisfaction of economic or social needs. The revised perspective, known as **organizational behavior**, studies and identifies management activities that promote employee effectiveness through an understanding of the complex nature of individual, group, and organizational processes. Organizational behavior draws from a variety of disciplines, including psychology and sociology, to explain the behavior of people on the job.

During the 1960s, organizational behaviorists heavily influenced the field of management. Douglas McGregor's Theory X and Theory Y marked the transition from human relations.<sup>21</sup> According to McGregor, Theory X managers assume workers are lazy and irresponsible and require constant supervision and external motivation to achieve organizational goals. Theory Y managers assume employees *want* to work and can direct and control themselves. McGregor advocated a Theory Y perspective, suggesting that managers who encourage participation and allow opportunities for individual challenge and initiative would achieve superior performance.

Other major organizational behaviorists include Chris Argyris, who recommended greater autonomy and better jobs for workers,<sup>22</sup> and Rensis Likert, who stressed the value of participative management.<sup>23</sup> Through the years, organizational behavior has consistently emphasized development of the organization's human resources to achieve individual and organizational goals. Like other approaches, it has been criticized for its limited perspective, although more recent contributions have a broader and more situational viewpoint. In the past few years, many of the

primary issues addressed by organizational behavior have experienced a rebirth with a greater interest in leadership, employee involvement, and self-management.

**1980** Microsoft licenses its operating system to IBM.  
**1981** MTV launches on cable.  
**1995** Netscape goes public and kicks off the dot-com boom.

**Systems Theory** The classical approaches as a whole were criticized because they (1) ignored the relationship between the organization and its external environment, and (2) usually stressed one aspect of the organization or its employees at the expense of other considerations. In response to these criticisms, management scholars during the 1950s stepped back from the details of the organization to attempt to understand it as a whole system. These efforts were based on a general scientific approach called **systems theory**.<sup>24</sup> Organizations are open systems, dependent on inputs from the outside world, such as raw materials, human resources, and capital. They transform these inputs into outputs that (ideally) meet the market's needs for goods and services. The environment reacts to the outputs through a feedback loop; this feedback provides input for the next cycle of the system. The process repeats itself for the life of the system, and is illustrated in Figure A.2.

Systems theory also emphasizes that an organization is one system in a series of subsystems. For instance, Southwest Airlines is a subsystem of the airline industry and the flight crews are a subsystem of Southwest. Systems theory points out that each subsystem is a component of the whole and is interdependent with other subsystems.

**Contingency Perspective** Building on systems theory ideas, the **contingency perspective** refutes universal principles of management by stating that a variety of factors, both internal and external to the firm, may affect the organization's performance.<sup>25</sup> Therefore, there is no "one best way" to manage and organize, because circumstances vary.

Situational characteristics are called **contingencies**. Understanding contingencies helps a manager know which sets of circumstances dictate which management actions. You will learn

recommendations for the major contingencies throughout this text. The contingencies include

1. Circumstances in the organization's external environment.
2. The internal strengths and weaknesses of the organization.
3. The values, goals, skills, and attitudes of managers and workers in the organization.
4. The types of tasks, resources, and technologies the organization uses.

With an eye to these contingencies, a manager may categorize the situation and then choose the proper competitive strategy, organization structure, or management process for the circumstances.

Researchers continue to identify key contingency variables and their effects on management issues. As you read the topics covered in each chapter, you will notice similarities and differences among management situations and the appropriate responses. This perspective should represent a cornerstone of your own approach to management. Many of the things you will learn about throughout this course apply a contingency perspective.

**2000** AOL becomes the first pure Internet company to make the *Fortune* 500 list and merges with Time Warner the same year.  
**2001** Enron files for bankruptcy.  
**2002** United Airlines files for bankruptcy.  
**2003** AOL Time Warner posts a record \$98.7 billion loss.<sup>26</sup>

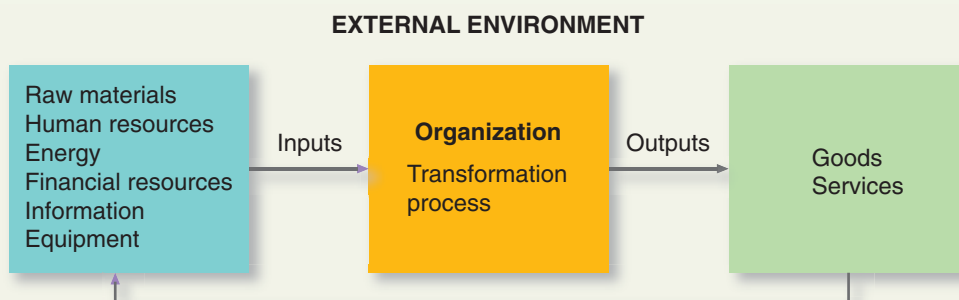
## AN EYE ON THE FUTURE

All of these historical perspectives have left legacies that affect contemporary management thought and practice. Their undercurrents continue to flow, even as the context and the specifics change.

Times do pass, and things do change. This may sound obvious, but it isn't to those managers who sit by idly while their firms fail to adapt to changing times. Business becomes global. New technologies change how we work, produce goods, and deliver services. Change continually creates both new opportunities and new demands for lowering costs and for achieving greater innovation, quality, and speed. Management knowledge and practices evolve accordingly.

**FIGURE A.2**

Open-System Perspective of an Organization





The essential facts about change are these: First, change is happening more rapidly and dramatically than at any other time in history. Second, if you don't anticipate change and adapt to it, you and your firm will not thrive in a competitive business world. The theme of change—what is happening now, what lies ahead, how it affects management, and how you can deal with it—permeates this entire book.

What are the implications of these changes for you and your career? How can you best be ready to meet the challenges? You must ask questions about the future, anticipate changes, know your responsibilities, and be prepared to meet them head-on. We hope you study the remaining chapters with these goals in mind.

## KEY TERMS

**administrative management** A classical management approach that attempted to identify major principles and functions that managers could use to achieve superior organizational performance, p. 39.

**bureaucracy** A classical management approach emphasizing a structured, formal network of relationships among specialized positions in the organization, p. 30.

**contingencies** Factors that determine the appropriateness of managerial actions, p. 42.

**contingency perspective** An approach to the study of management proposing that the managerial strategies, structures, and processes that result in high performance depend on the characteristics, or important contingencies, or the situation in which they are applied, p. 42.

**economies of scale** Reductions in the average cost of a unit of production as the total volume produces increases, p. 36.

**Hawthorne Effect** People's reactions to being observed or studied resulting in superficial rather than meaningful changes in behavior, p. 40.

**human relations** A classical management approach that attempted to understand and explain how human psychological and social processes interact with the formal aspects of the work situation to influence performance, p. 39.

**organizational behavior** A contemporary management approach that studies and identifies management activities that promote employee effectiveness by examining the complex and dynamic nature of individual, group, and organizational processes, p. 41.

**quantitative management** A contemporary management approach that emphasizes the application of quantitative analysis to managerial decisions and problems, p. 41.

**scientific management** A classical management approach that applied scientific methods to analyze and determine the "one best way" to complete production tasks, p. 38.

**systematic management** A classical management approach that attempted to build into operations the specific procedures and processes that would ensure coordination of effort to achieve established goals and plans, p. 36.

**systems theory** A theory stating that an organization is a managed system that changes inputs into outputs, p. 42.

## DISCUSSION QUESTIONS

1. How does today's business world compare with the one of 40 years ago? What is different about today, and what is not so different?
2. What is scientific management? How might today's organizations use it?
3. Table A.1 lists Fayol's 14 principles of management, first published in 1916. Are they as useful today as they were then? Why or why not? *When* are they most, and least, useful?
4. What are the advantages and disadvantages of a bureaucratic organization?
5. In what situations are quantitative management concepts and tools applicable?
6. Choose any organization and describe its system of inputs and outputs.
7. Why did the contingency perspective become such an important approach to management? Generate a list of contingencies that might affect the decisions you make in your life or as a manager.
8. For each of the management approaches discussed in the chapter, give examples you have seen. How effective or ineffective were they?
9. The appendix highlighted a few landmark events in recent business history. What additional landmarks during those decades would you include?
10. The final landmark was from 2003—what are the most important landmarks since then, and why?

## Experiential Exercises

### A.1 Approaches to Management

#### OBJECTIVES

1. To help you conceive a wide variety of management approaches.
2. To clarify the appropriateness of different management approaches in different situations.

#### INSTRUCTIONS

Your instructor will divide your class randomly into groups of four to six people each. Acting as a team, with everyone offering

ideas and one person serving as official recorder, each group will be responsible for writing a one-page memo to your present class. Subject matter of your group's memo will be "My advice for managing people today is . . ." The fun part of this exercise (and its creative element) involves writing the memo from the viewpoint of the person assigned to your group by your instructor.

Among the memo viewpoints your instructor may assign are:

- An ancient Egyptian slave master (building the great pyramids)
- Henri Fayol
- Frederick Taylor



- Mary Parker Follet
- Douglas McGregor
- A contingency management theorist
- A Japanese auto company executive
- The chief executive officer of IBM in the year 2030
- Commander of the Starship Enterprise II in the year 3001
- Others, as assigned by your instructor

Use your imagination, make sure everyone participates, and try to be true to any historical facts you've encountered. Attempt to be as specific and realistic as possible. Remember, the idea is to provide advice about managing people from another point in time (or from a particular point of view at the present time).

## A.2 The University Grading System Analysis

### OBJECTIVES

1. To learn to identify the components of a complex system.
2. To better understand organizations as systems.
3. To visualize how a change in policy affects the functioning of an organization system.

### INSTRUCTIONS

1. Assume that your university has decided to institute a pass–fail system of grading instead of the letter-grade system it presently has. Apply the systems perspective learned from this chapter to understanding this decision.

Make sure you manage your 20-minute time limit carefully. A recommended approach is to spend 2 to 3 minutes putting the exercise into proper perspective. Next, take about 10 to 12 minutes brainstorming ideas for your memo, with your recorder jotting down key ideas and phrases. Have your recorder use the remaining time to write your group's one-page memo, with constructive comments and help from the others. Pick a spokesperson to read your group's memo to the class.

SOURCE: R. Krietner and A. Kinicki, *Organization Behavior*, 3rd ed. (New York: Richard D. Irwin, 1994), pp. 30–31.

2. Answer the questions on the Grading System Analysis Worksheet individually, or in small groups, as directed by your instructor.

### DISCUSSION QUESTIONS

Share your own or your group's responses with the entire class. Then answer the following questions.

1. Did you diagram the system in the same way?
2. Did you identify the same system components?
3. Which subsystems will be affected by the change?
4. How do you explain differences in your responses?

## Grading System Analysis Worksheet

### DESCRIPTION

1. What subsystems compose the system (the university)? Diagram the system.

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2. Identify in this system: inputs, outputs, transformations.

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### DIAGNOSIS

3. Which of the subsystems will be affected by the change; that is, what changes are likely to occur throughout the system as a result of the policy change?

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SOURCE: J. Gordon, *A Diagnostic Approach to Organizational Behavior* (Englewood Cliffs, NJ: Prentice Hall, 1983), p. 38. Reprinted with permission of Prentice Hall, Inc., Englewood Cliffs, NJ.