

# Instructor's Manual

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## Fundamentals of Management

SEVENTH EDITION

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Australia • Brazil • Japan • Korea • Mexico • Singapore • Spain • United Kingdom • United States

## CHAPTER 1

# Understanding the Manager's Job

Part I: An Introduction to Management introduces students to the world of management and to establish a foundation for the rest of the book. Part I has two chapters. Chapter 1 is entitled “Understanding the Manager’s Job.” Chapter 2 is entitled “The Environment of Organizations and Managers.”

### CHAPTER SUMMARY

Chapter 1 provides an overview of management and the manager’s job. After a brief introduction, the chapter describes the management process, the various kinds of managers, and managerial functions and skills. Next, the art and science of management is described. The history of management is then discussed, beginning with a discussion of the role of theory and history in management. Next, the chapter introduces and discusses in detail the classical, behavioral, and quantitative perspectives on management. Integrating perspectives for managers are then described. The chapter concludes by identifying several contemporary management challenges.

### LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Define *management*, describe the kinds of managers found in organizations, identify and explain the four basic management functions, describe the fundamental management skills, and comment on management as science and as art.
2. Justify the importance of history and theory to managers and explain the evolution of management thought through the classical, behavioral, and quantitative perspectives.
3. Identify and discuss key contemporary management perspectives represented by the systems and contingency perspectives and identify the major challenges and opportunities faced by managers today.

The opening incident describes how Reed Hastings (and co-founder Marc Randolph) launched Netflix, made it into the industry leader in DVD rentals, and basically destroyed that advantage by moving aggressively to streaming video. By 2008, Hastings realized that streaming was likely to disrupt conventional DVD-based viewing. He quickly repositioned Netflix to take advantage of this change, even if it meant destroying all that the company had built in the DVD business. The case also details Hastings’ missteps in underestimating customer needs when he tried to break up Netflix into two separate businesses.

**Management Update:** Netflix rebounded from the Qwikster misstep to post strong revenue and profit gains for fiscal 2011. Its market capitalization was \$3.5 billion in late August 2012.

### LECTURE OUTLINE

- I. An Introduction to Management  
Many different definitions of management exist. *Management* is a set of activities (including planning and decision making, organizing, leading, and controlling) directed at an organization’s resources (human, financial, physical, and information) with the aim of achieving organizational goals in an efficient and effective manner.

**Teaching Tip:** Note the similarities and differences among the kinds of resources used by profit-seeking and not-for-profit organizations. For example, both an airline and a university may buy food in bulk, but they have different revenue sources to pay for that food.

**Group Exercise:** A good icebreaking exercise for the first day of class is to have students form into small groups, select two or three different kinds of organizations, and identify examples of the different kinds of resources they use.

*Efficient* means using resources wisely and in a cost-effective way. *Effective* means making the right decisions and successfully implementing them.

#### A. Kinds of Managers

##### 1. Managers at different levels of the organization

- a) *Top managers* are the small group of executives who control the organization by setting its goals, overall strategy, and operating policies. Top managers also represent the organization to the external environment. Job titles for top managers include CEO, president, and vice president.

**Management Update:** While CEO salaries have risen over the years, they have been affected by the economic downturn. The average salary for S&P 500 company CEOs was \$11.4 million in 2009, a 11% cut over 2008. The decline was starker in 2012, where the average salary was \$9.6 million.

- b) *Middle managers* are the largest group of managers in most companies. These managers hold positions such as plant manager, operations manager, and division head. They primarily take the goals and strategies designed by top managers and put them into effect. They supervise lower-level managers.
  - c) *First-line managers* supervise and coordinate the activities of operating employees. They often have job titles such as foreman, supervisor, and office manager. The majority of their work is direct supervision of their subordinates.
- ##### 2. Areas of management
- a) Marketing managers work in areas related to the marketing function of the organization. They help to find ways to get consumers and clients to buy the organization's products.

**Discussion Starter:** Point out for students that their major will play a large role in determining the area of management they enter after graduation (assuming that they go to work for a large organization). For example, a marketing major's first job is likely to be a first-line management position in the marketing function, whereas a finance major will more likely start out as a first-line financial manager.

- b) Financial managers deal primarily with an organization's financial resources and are involved in such activities as accounting, cash management, and investments.
- c) Operations managers are concerned with creating and managing the systems that create an organization's products and services. They achieve their goals through production control, inventory control, quality control, and plant site selection and layout.
- d) Human resource managers are responsible for hiring and developing employees. They are concerned with the flow of employees into the organization, through the organization, and out of the organization.
- e) General managers are generalists who have some basic familiarity with all functional areas of management rather than specialized training in any one area.
- f) Specialized types of managers include those who work in public relations, R&D, internal consulting, and international business.

**Discussion Starter:** Ask students to identify additional examples of managers, with an emphasis on as many different kinds of organizations and management positions as possible. The wide variety of answers that is likely to emerge can be used to stress the diversity that exists in managerial work.

#### B. Basic Management Functions

The management process, as noted earlier, involves the four basic functions of planning and decision making, organizing, leading, and controlling.

**Extra Example:** Richard Parsons, the former CEO of Time Warner, can be used to illustrate the basic management functions. He planned how the firm will increase the value of its stock. He fostered an organization design that helped to better integrate the firm's many business units. He had a reputation for being well-liked, thanks to his deprecating sense of humor. He continually monitored the firm's progress toward its goals.

1. Planning and decision making determine courses of action. *Planning* means setting an organization's goals and deciding how best to achieve them. *Decision making*, a part of the planning process, involves selecting a course of action from a set of alternatives.
2. *Organizing* is grouping activities and resources.

**Management Update:** The most significant trend in organizing today is the elimination of management layers to create organizations that are leaner and flatter.

3. *Leading* is the set of processes used to get people to work together to further the interests of the organization.
4. *Controlling* is monitoring the progress of the organization as it works toward its goals to ensure that it is effectively and efficiently achieving these goals.

#### C. Fundamental Management Skills

**Management Update:** In recent years, there has been a renewed interest in the concept of managerial skills. There are useful self-assessment skills exercises found at the end of each chapter in this book.

1. *Technical skills* are necessary to accomplish or understand tasks relevant to the organization.

**Extra Example:** When Louis Gerstner was appointed as CEO of IBM, some critics argued that he knew nothing about computers. However, he silenced his critics by immersing himself in the study of new technology and soon became a knowledgeable expert.

2. *Interpersonal skills* rely on the ability to communicate with, understand, and motivate individuals and groups.
3. *Conceptual skills* include the ability to think in abstract terms and the mental capacity to understand the "big picture" or the overall workings of the organization and its environment.
4. *Diagnostic skills* consist of the ability to recognize the symptoms of a problem and then determine an action plan to fix it.
5. *Communication skills* are abilities to effectively convey ideas and information to others and effectively receive ideas and information from others.

**Extra Example:** Bill Ford, the former CEO and chairman of Ford Motors, is known for his ability to effectively convey a vision of the firm's future to both workers and investors.

6. *Decision-making skills* include the ability to correctly recognize and define problems and opportunities and to then select an appropriate course of action to solve problems and capitalize on opportunities.
7. *Time-management skills* are abilities such as prioritizing work, working efficiently, and delegating appropriately.

**Extra Example:** One of the criticisms of Martha Stewart, head of Living Omnimedia, is that she has a hard time delegating tasks to her subordinates and becomes personally involved in too many decisions. Stewart, however, responds that her attention to detail is an important factor in her success.

D. The Science and the Art of Management

1. Management is partly a science, because some aspects of management are objective and can be approached with rationality and logic.

**Discussion Starter:** The science of management might be analogous to the activities of developing computer hardware or playing a violin. There are specific right and wrong ways of doing things, and mistakes are easily noted.

2. Management is partly an art, because some aspects of management are subjective and are based on intuition and experience.

**Discussion Starter:** The art of management might be analogous to the activities of writing computer software or conducting the orchestra. More intuition and “feel” are needed to complete these activities, and mistakes may be harder to pinpoint.

II. The Evolution of Management

A. The Importance of History and Theory

**Teaching Tip:** Many students seem to react negatively to the concept of a “theory.” Ask for student opinions about the reasons for the popularity or lack of popularity of a particularly high-profile politician (such as the president) or other public figure (such as a sports figure or movie star). Then point out that their explanation is a theory. Go on to stress the point that theories are simply frameworks of thought and that most people hold a number of different theories.

1. Why theory? Theory provides a simple conceptual framework for organizing knowledge and providing a blueprint to help organizations achieve their goals.

**Management Update:** Andrew Grove continued to espouse his theory of organizations at Intel until his retirement. He gave the theory credit for Intel’s continued success in the semiconductor business.

2. Why history? Contributions from past industrialists have molded the American culture, and managers can benefit from an awareness of these contributions.

**Interesting Quote:** “Business history lets us look at what we did right and, more important, it can help us be right the next time.” (Alfred Chandler, Harvard Business School professor, *Audacity*, Fall 1992, p. 15.)

**Discussion Starter:** Ask students if they have read any books about history that may help them be better managers.

B. The Historical Context of Management

While the practice of management can be traced back thousands of years, it was not given serious attention until the 1800s, when large organizations emerged.

**Global Connection:** Many Japanese executives today give some of the credit for their success to a book written in 1645. The book, entitled *A Book of Five Rings*, was written by a samurai warrior. The book describes numerous ideas and concepts for successful competition that can be generalized to management.

**Discussion Starter:** Ask students to think about social, economic, and political forces today that may shape the way business will be conducted in the future. How can managers better anticipate these changes?

C. The Classical Management Perspective

The *classical management perspective* includes two approaches: scientific management and administrative management.

1. *Scientific management* focuses on ways to improve the performance of individual workers.
  - a) Frederick W. Taylor saw workers *soldiering*, or deliberately working beneath their potential, and designed a four-step method to overcome this problem. It began with breaking the job into pieces. The second step was to select the most qualified employees and train them. Supervisors monitored the employees to be sure they were following the prescribed methods. Finally, they continued in this fashion, but used only employees who were getting the work done.

**Discussion Starter:** Ask students if they have ever observed soldiering. Ask them if they have ever been “guilty” of such behavior themselves.

**Extra Example:** Frederick Taylor applied many of the concepts of scientific management to his favorite sports, lawn tennis and croquet.

- b) The Gilbreths, a husband-and-wife team, also helped to find more efficient ways for workers to produce output.

**Discussion Starter:** Ask students to discuss or debate the merits of time-and-motion studies and other efficiency techniques.

**Extra Example:** Another area in which Frank and Lillian Gilbreth made substantial contributions was in assisting the handicapped. In particular, they helped develop vocational training methods for assisting disabled veterans.

**Extra Example:** Other businesses today that rely heavily on scientific management concepts include poultry processing plants and recycling centers that sort glass, plastics, and papers into different categories.

2. *Administrative management* focuses on managing the total organization.
  - a) Henri Fayol was the first to identify the four management functions—planning, organizing, leading, and controlling—and he developed guidelines for managers to follow. These guidelines form fourteen principles for effective management.

**Discussion Starter:** Ask students to discuss the relevance of each of Fayol's principles to modern management.

- b) Lyndall Urwick is best known for integrating scientific management with administrative management.
  - c) Max Weber outlined the concept of bureaucracy based on a rational set of guidelines for structuring organizations in the most efficient manner. His work is the foundation of contemporary organization theory.

**Global Connection:** Note the influence of foreign scholars. For example, Fayol was French, Urwick was British, and Weber was German.

3. Assessment of the classical perspective
  - a) Contributions of the classical perspective are that it laid the foundation for management theory; it identified key processes, functions, and skills that are still important today; and it made management a valid subject of scientific inquiry.
  - b) Limitations include that it is not well suited for complex or dynamic organizations, it provided universal procedures that are not appropriate in all settings, and it viewed employees as tools rather than resources.
- D. The Behavioral Management Perspective  
The *behavioral management perspective* placed more emphasis on individual attitudes and behaviors and on group and behavioral processes. Hugo Munsterberg and Mary Parker Follett were early contributors to this perspective.

**Global Connection:** Again, note the international influence on management, as evidenced by Hugo Munsterberg, a German psychologist.

#### 1. The Hawthorne studies

**Discussion Starter:** Ask students if they have ever been in a group that deliberately limited its productivity or output.

- a) The Hawthorne studies, performed by Elton Mayo, showed that when illumination was increased, productivity increased. However, productivity also increased in a control group, where the lighting did not change. The increase in productivity was attributed to the fact that the workers were having extra attention paid to them, maybe for the first time.
- b) Other studies found that employees will not work as fast as they can when being paid piecework wages. Instead, they will perform to the level informally set by the group in order to be accepted by the group. These two studies, and others, led Mayo to the conclusion that individual and social processes played a major role in shaping employee attitudes and behavior at work.

**Discussion Starter:** Recent evidence suggests that important details about the Hawthorne studies were not reported properly. For example, all the workers in the illumination study were paid extra for participating. What, if any, implications might be drawn from this?

#### 2. The human relations movement

The *human relations movement*, which stemmed from the Hawthorne studies, is based on the idea that a manager's concern for workers will lead to increased satisfaction and improved performance. The movement includes the need theories of motivation, such as Maslow's hierarchy of needs and McGregor's *Theory X* and *Theory Y*.

**Teaching Tip:** Use Table 1.1 from the text to summarize the assumptions of Theory X and Theory Y.

3. Contemporary behavioral science in management  
The emergence of organizational behavior occurred because of the too-simplistic descriptions of work behavior by the human relationists. *Organizational behavior* takes a holistic view of behavior, including individual, group, and organization processes.
4. Assessment of the behavioral perspective
  - a) Contributions include that it gave insights into interpersonal processes, focused managerial attention on these processes, and challenged the view of employees as tools and not resources.

- b) Limitations include that prediction is difficult due to the complexity of human behavior, managers may be reluctant to adopt some of the behavioral concepts, and contributions may not be communicated to practicing managers in an understandable form.
- E. The Quantitative Management Perspective  
The *quantitative management perspective* focuses on decision making, economic effectiveness, mathematical models, and the use of computers in organizations. The two branches of the quantitative perspective are management science and operations management.

**Extra Example:** Many business programs today have separate courses in management science and/or operations management. If your school has either or both courses, identify its number and title for your students and briefly review their topical coverage (i.e., their course description).

1. Management science  
*Management science* focuses specifically on the development of mathematical models. These models help organizations to try out various activities with the use of a computer. Modeling can help managers locate the best way to do things and save money and time.
2. Operations management  
*Operations management* is an applied form of management science that helps organizations develop techniques to produce their products and services more efficiently.

**Extra Example:** General Motors uses elaborate management science and operations management models to determine the optimum number and types of cars to make during a given period of time, what options to put on them, and so forth.

3. Assessment of the quantitative perspective
    - a) Contributions include that it developed sophisticated quantitative techniques that improve decision making, and it increased awareness of complex organizational processes.
    - b) Limitations are that it cannot fully explain or predict behavior, that mathematical sophistication may come at the expense of other important skills, and that the models may require unrealistic or unfounded assumptions.
- III. Contemporary Management Thought
- A. The Systems Perspective
1. A *system* is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements: inputs (material or human resources), transformation processes (technological and managerial processes), outputs (products or services), and feedback (reactions from the environment).

**Group Exercise:** Break students up into small groups. Have them select an organization and diagram its inputs, transformation processes, outputs, and feedback mechanisms.

2. *Open systems* are systems that interact with their environment. *Closed systems* do not interact with their environment.
3. *Subsystems* are systems within a broader system. *Synergy* refers to units that are more successful working together than working alone. *Entropy* is the process that leads to decline.

**Teaching Tip:** Note the subtle but important distinction between entropy and poor management.



## B. The Contingency Perspective

Appropriate managerial behavior depends on the elements of the situation. *Universal perspectives* try to identify the “one best way” to manage organizations. The *contingency perspective* argues that universal theories cannot be applied to organizations because each is unique.

**Group Exercise:** Form small groups of students. Have them identify a problem or opportunity facing a business or other organization. Then have them identify elements and ideas from the classical, behavioral, and quantitative perspectives that might be relevant. In addition, ask them to discuss how systems and contingency perspectives might affect the situation.

## C. Contemporary Management Challenges and Opportunities

1. Books written for the popular press, including executive biographies and profiles of successful companies, are having an important impact on the theory and practice of management today.
2. Management challenges include the following:
  - a) Globalization is another significant challenge as managers must reach out across cultural and national boundaries.
  - b) There is renewed importance placed on ethics, social responsibility, and corporate governance.
  - c) Quality also poses an important challenge, as a basis for competition, improving customer satisfaction, lowering costs, and increasing productivity.
  - d) The shift toward a service economy continues to be important, challenging managers who may be more familiar with manufacturing sectors.
  - e) Managers must contend with the changing nature of the workforce
  - f) An erratic economy makes planning difficult.
  - g) The management of diversity presents managerial challenges.
  - h) Privacy and employee rights are growing in importance, as is the technologically driven ability to work away from the office.
  - i) The role of the Internet in business is a complex area.

## END-OF-CHAPTER

### Questions for Review

1. What are the three basic levels of management that can be identified in most organizations? What are the basic areas in which managers work?

Top managers manage the overall organization. They create the organization's goals, overall strategy, and operating policies. Middle managers are primarily responsible for implementing the policies and plans developed by top managers and for supervising and coordinating the activities of lower-level managers. First-line managers supervise and coordinate the activities of operating employees.

Managers may work in various areas within an organization. Common areas include marketing, financial, operations, human resources, and administrative.

2. What are the four basic functions that make up the management process? How are they related to one another?

Planning and decision making, leading, organizing, and controlling are the four basic management functions. Each is related to and must occur simultaneously with the others. Planning and decision making are perhaps the most intertwined with the three other functions. For example, managers

must plan and make decisions about how to lead, organize, and control. Another example of an important interrelationship is how managers must balance the need for control against the need for autonomy that makes leadership easier.

3. Identify several of the important skills that help managers succeed. Give an example of each.

Managerial skills include technical, interpersonal, conceptual, diagnostic, communication, decision making, and time management. Technical skills are specialized skills related to a specific area or a specialized industry. An example is an oil and gas exploration project leader who holds an engineering degree.

Interpersonal skills are the ability to understand and motivate others. An example is a manager who knows how to give rewards that will motivate workers.

Conceptual skills consist of abstract and logical thinking that will aid the manager as an innovator and an integrator. An example is an architect who is able to see what a house will look like from just studying a blueprint.

Diagnostic skills are the ability to observe the current situation and understand the cause-and-effect relationships that are leading to success or failure. An example is a manager who recognizes that productivity is dropping in an area and is able to investigate and isolate the problem.

Communication skills are the ability to give and receive information. An example is a manager who has the skills needed to plan and run an effective business meeting.

Decision-making skills are the capacity to choose the correct course of action, based on information. An example is a manager who introduces a new product just at the time when customers are demanding that product.

Time-management skills are the ability to prioritize appropriately and to use time resources effectively. An example is a manager who spends more time on critical tasks, such as training workers, and less time on routine tasks, such as reading routine reports.

4. Briefly describe the principles of scientific management and administrative management. What assumptions do these perspectives make about workers?

The principles of scientific management and administrative management are founded upon concerns about efficiency. Scientific management looks at the performance of individual workers and attempts to improve productivity through measures such as incentive pay systems, optimal task design, specialized training, and careful selection of the most productive workers.

Administrative management looks at the performance of the organization as a whole and attempts to improve overall organizational efficiency by utilizing bureaucracy, effective planning, top-down coordination and control, and so on.

Both scientific management theory and administrative management theory assume that workers do not like to work, accept responsibility, or change their behavior; that they are motivated only by money; and that they prefer to be told exactly what to do.

5. Describe the systems perspective. Why is a business organization considered to be an open system?

The systems perspective describes an organization as a set of elements that function together as a whole. The theory looks at the linkages between elements and at the functioning of the system, from inputs to transformation processes to outputs and feedback. Systems theory also investigates the interaction of the system with its environment. A business organization has a lot of interactions with its environment, including the labor force, customers, regulators, and local

communities. Thus a business organization is considered to be an open system because it interacts with its environment.

## Questions for Analysis

1. Recall a recent group project or task in which you have participated. Explain how members of the group displayed each of the managerial skills.

Clearly, answers will vary. Students should have no trouble thinking of a situation. They should then describe how technical, interpersonal, conceptual, diagnostic, communication, decision-making, or time-management skills were used in that situation.

2. The text notes that management is both a science and an art. Recall an interaction you have had with a superior (manager, teacher, group leader). In that interaction, how did the superior use science? If he or she did not use science, what could have been done to use science? In that interaction, how did the superior use art? If he or she did not use art, what could have been done to use art?

Students' answers will vary, depending on the situation they describe. Examples of the use of science would include mention of rational, systematic, objective decision making or the use of quantitative models and scientific approaches to problem solving. Examples of the use of art would include mention of intuition, experience, instinct or personal insights. Other examples would include the use of communication or interpersonal skills.

3. Watch a movie that involves an organization of some type. *Harry Potter*, *Avatar*, *The Avengers*, and *Up in the Air* would all be good choices. Identify as many management activities and skills as you can.

Depending on the movie selected, answers will vary. Students who choose a *Harry Potter* movie, for example, will find examples of leading and planning as well as a variety of roles and skills.

4. Young, innovative, or high-tech firms often adopt the strategy of ignoring history or attempting to do something radically new. In what ways will this strategy help them? In what ways will this strategy hinder them?

Innovations that are truly radical are the only ones that have the potential to break through tradition and create something that has a chance of great success. Also, if the new firm is able to innovate in a way that is valued by consumers, they will attain an advantage over their rivals that may endure for a long time—a sustainable competitive advantage. On the other hand, willfully ignoring history increases the chances of repeating an error—for example, of trying a strategy or creating a product that has already been shown to be a failure or dead end. Also, by ignoring history, firms reject strategies and techniques that are known to work, and so they risk terrible failure.

5. Can a manager use tools and techniques from several different perspectives at the same time? For example, can a manager use both classical and behavioral perspectives? Give an example of a time when a manager did this and explain how it enabled him or her to be effective.

Managers can and do use multiple tools and techniques at the same time. This is often necessary to effectively cope with complex, varied situations and persons. Students will give different examples, but here is one possibility. “When I worked at a fast food restaurant, the manager had problems with one employee. This employee made mistakes, arrived at work late, and had a poor attitude. First, the manager tried to use a behavioral approach, where the manager reasoned with the employee and asked the other employees to use peer pressure to change the problem employee's behavior. Next, the manager tried to use needs theories of motivation by threatening to cut the employee's pay if the employee continued to create difficulties. Finally, the manager

used scientific management to assign that employee to tasks where politeness, accuracy, and timeliness were less important, such as cleaning the restrooms and taking out the trash.”

## Building Effective Time-Management Skills Exercise

**Teaching Tip:** Each chapter concludes with three skill-building exercises. These are designed for both groups and individuals. Some are best done during class, while others are intended to be begun or completed outside of class.

a. Purpose

This exercise allows students to assess their current time-management skills and to understand ways to improve in this area.

b. Format

This exercise must be done individually, outside of class. It will take about 20 minutes to complete. The results may be discussed in class.

c. Exercise Task

1. Visit the web site of Franklin Covey, at [www.franklincovey.com](http://www.franklincovey.com). Click on the tab marked “Effectiveness Zone,” then select “assessment center.” Take the Urgency Analysis Profile. This short online survey will require you to answer several questions and take about 10 minutes.
2. Look at your profile. Explore the information available there, including the assessment of your current use of time and the suggestions for how you can improve your time management.  
Covey’s site shows students that they spend time on tasks of four different types: critical but not urgent, urgent but not critical, critical and urgent, and neither urgent nor critical. Covey recommends that students spend the most time on tasks that are both critical and urgent, and that they do not neglect tasks that are critical but not urgent.
3. Think of a task that you regularly perform and that, if you were being perfectly honest, you could label *not urgent* and *not critical*. How much time do you spend on this task? What might be a more appropriate amount of time? To what tasks could you give some of the time that you spend on this *not urgent* and *not critical* task?  
Students’ opinions will vary. Covey’s characterization can be useful because it points out that too many people spend most of their time on urgent tasks, especially on urgent tasks that are not critical.
4. What is one thing that you can do today to make better use of your time? Try it, and see if your time management improves.  
Covey’s web site makes few suggestions in this regard (although his books do a very thorough job of this). Upon reflection, however, students should be able to think of ideas for better time-management on their own. Remind students that it’s not really a good use of time to try to eliminate all non-critical, non-urgent tasks. Some of these tasks, such as hanging out with friends or watching TV, can be relaxing and allow one to return to urgent and critical tasks with a fresh enthusiasm.

## Building Effective Decision-Making Skills Exercise

a. Purpose

This exercise is designed to help students develop their decision-making skills, emphasizing the importance of system interdependencies in organizations.

## b. Format

This exercise is designed so that it can be effective when done individually or in small groups. Answers could be written or presented to the class for evaluation. It should take less than a half hour.

## c. Follow-up

1. Carefully examine each of the three alternatives under consideration. In what ways might each alternative impact other parts of the organization?

The option to buy lower-grade materials will require changes in purchasing, but it will also impact workers, because they will have to work harder to make a good quality product from inferior materials. It may also have a major impact on sales, if the decline in quality is recognized by buyers. The lay-off option will create anxiety and resentment in those workers remaining in the firm, and it will probably raise overall wage expense, because the less-skilled workers will not work as efficiently as those who have better training. The option to purchase new equipment requires the most up-front investment, but has the greatest potential for cost savings later.

2. Which is the most costly option (in terms of impact in other parts of the organization, not absolute dollars)? Which is the least costly?

Both lay-offs and inferior materials will be very costly for the organization. The use of inferior materials may be the "most costly," because it could cause customers to buy competitors' products and, eventually, lead to the failure of the firm. The least costly option is the purchase of new equipment. (See reasons under item 1, above).

3. What are the primary obstacles that you might face regarding each of the three alternatives?

The option to use inferior materials may cause dissatisfaction from the workers and will certainly cause customers' dissatisfaction, if it is detected. The lay-off option will encounter resistance from workers, and the best, most experienced workers may leave the company for other employment. The purchase of new equipment will likely encounter resistance from the CEO or other financial personnel, based on the increase in up-front costs.

4. Can you think of other alternatives that might accomplish the cost-reduction goal?

Students may suggest cost-cutting ideas, such as better inventory control or improved use of information systems. They may also suggest a closer integration with suppliers or use of a less-expensive distribution channel. There are possibilities for cost savings in every functional area of the firm.

## Skills Self-Assessment Instrument

### Self-Awareness

a. Purpose

This instrument is designed to help students become more self-aware of their possession or lack of skills generally felt to be required of effective managers. The intent is that students will use the feedback from this self-assessment to focus better on the skills they need to develop to increase their chances of being an effective manager.

b. Format

Students should respond individually and privately to the items in this self-assessment.

c. Interpretation

Students' total numerical score (obtained by finding the sum of the individual scores) suggests their perceptions of their possession of the skills of effective managers—the lower the total score, the lower the level of skills. Students should be encouraged to examine their item scores for lower numbers and then to try to use their educational experiences to develop more skill in the areas identified.

## Experiential Exercise

### Johari Window

a. Purpose

This exercise has two purposes: to encourage students to analyze themselves more accurately and to start them working on small-group cohesiveness. This exercise encourages students to share data about themselves and then to assimilate and process the feedback.

b. Format

Students individually complete three lists:

Quadrant 1—things that they and others know about themselves

Quadrant 3—things that they know about themselves that others do not know

Quadrant 2—things that they did not know about themselves but that they learned from others last semester

c. Follow-up

You might want to lead a group discussion on interpersonal perception as a follow-up to this exercise. Any students who wish to share how they have moved information about themselves from, say, Quadrant 3 to Quadrant 1 should be encouraged to do so.

If you are doing a major group project throughout the course, you may want to use this exercise around the middle of the term, having each student focus on Johari Window as it relates to his or her group.

## MANAGEMENT AT WORK

### SOME KEYS TO MAKING A STEINWAY

The case details the painstaking way in which Steinway & Sons builds its pianos that have earned the company plaudits from professionals. A variety of processes – sourcing inputs, employing skilled labor – are used to build the product and extreme care is taken every step of the way. The vignette illustrates a variety of management principles at work, such as the systems view and the contingency perspective of management.

1. Explain the process by which a Steinway grand piano is constructed as a subsystem of a larger system. From what the vignette tells you, give some examples of how the production subsystem is affected by the management, financial, and marketing subsystems.

The company, Steinway & Sons is a large system that is made up of several interrelated subsystems such as operations, management, and marketing. The operations subsystem is responsible for constructing pianos. Here, skilled employees use various inputs (wood, glue, etc.) to make the product. The operations subsystem at Steinway (and in any organization) is, however, not independent of the other subsystems in the organization. For example, the employees have to be recruited, trained, and retained by the organization (the management subsystem), the inputs have to be paid for and the cashflow managed over the long period from when inputs are sourced and the piano is sold (the finance subsystem), and the operations process must work in tandem with the marketing subsystem to synchronize the demand and supply of the product.

2. Discuss the Steinway process in terms of the systems perspective of organizations summarized in Figure 1.4. Explain the role of each of the three elements highlighted by the figure – inputs from the environment, the transformation process, and outputs into the environment.

Steinway & Sons illustrates all the three essential elements of the systems perspective. The company obtains various kinds of inputs – materials (wood, glue), human inputs (skilled labor, for example), financial inputs (cash from sales of pianos) – to run the business. In turn, it uses its labor and technology to transform inputs into finished products, and finally, it sells the product in the market to complete the cycle.

3. Discuss some of the ways in which the principles of behavioral management and operations management can throw light on the Steinway process. How about the contingency perspective? In what ways does the Steinway process reflect the universal perspective and in what ways does it reflect a contingency perspective?

Behavioral management comes into play at Steinway when it comes to managing its employees. Its skilled employees – many of them with long tenures – are most likely the company's most valuable resource and they have to be managed with care, keeping their motivation, their stake in the company, and their personal growth in mind. Operations management is important because Steinway builds its product very carefully and its product is meant to both perform well and be long lasting. Steinway illustrates both the universal and the contingency perspective at work. Some things at Steinway are universal, such as building the piano. The case describes how the company "bends" wood to take the shape of the outer case. This is a practice that has remained unchanged over the years. The contingency perspective is reflected in the situation involving the loss of a worker due to an accident. The company had to change its plans, in this case to slow down its production, till a replacement could be found.

## YOU MAKE THE CALL

### What Reed Hastings Has to Say For Himself

4. You're a Netflix employee and Reed Hastings has just stopped by your desk. "I'd like to know," he says, "what you like most and least about working here." How do you think you might respond?

Student response may vary depending upon how they approach work. Some may like the work culture at Netflix that fosters innovation and unleashes their creativity. Others may prefer a more structured workplace.

5. You're a major Netflix stockholder attending the firm's annual board meeting. When you bump into Reed Hastings at a reception, he asks you, "How do you think we're doing with this company?" How would you respond?

Netflix's financial performance is mixed. On the one hand, if you were a stockholder at the very beginning (when the company did its IPO), you would have been handsomely rewarded, given that the company's market place (and hence the value of your shares) peaked in 2011. However, more recently, the company's financial performance has been poor. I would question Hastings on his move to split the company into two and its impact on the market.

6. You're the founder and owner of a small media company and Netflix has indicated an interest in buying your business. In addition to price, what other factors (if any) are important to you?

Responses may vary depending upon one's personal values. Questions such as would the employees of the acquired company be retained, and what the role of the new company would be in Netflix are relevant here.

7. You've been contacted by a marketing research company doing work for Netflix. The researcher asks if you use Netflix and if not, why? If you do use Netflix the researcher asks what you like and dislike most about it. What would you say?

This question is from the perspective of a user or a potential user of Netflix and so opinions are likely to vary considerably. Issues such as availability of content and price are relevant here.



## CHAPTER 2

# The Environments of Organizations and Managers

### CHAPTER SUMMARY

Chapter 2 is devoted to the environment and culture of organizations. It begins with a description of the organization's external and internal environments. Then the ethical and social environments are discussed. A discussion of the international environment follows. Finally, organization culture is described.

### LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Discuss the nature of an organization's environments and identify the components of its general, task, and internal environments.
2. Describe the ethical and social environment of management, including individual ethics, the concept of social responsibility, and how organizations can manage social responsibility.
3. Describe the international environment of management, including trends in international business, levels of international business activities, and the context of international business.
4. Discuss the importance and determinants of an organization's culture, as well as how organizational culture can be managed.

The opening vignette features the world market for cocoa. The world market for cocoa beans is highly volatile. Consequently, farmers in cocoa export dependent nations such as Ivory strive for any means to cut costs. One such measure is to employ child labor, who work long hours in poor conditions. The Fairtrade Labeling Organization (FLO) addresses this concern by promoting programs designed to ensure that export-dependent farmers in developing countries receive fair prices for their crops. The organization has its critics, though, who contend that the program enriches the middlemen and do not really benefit the farmers.

**Discussion Starter:** The case quotes economist Tim Harford as saying that fair-trade programs benefitting producers and not consumers (and also not the farmers). Does this make fair-trade programs less effective? Students are likely to have differing opinions on this.

## LECTURE OUTLINE

### I. The Organization's Environments

Managers must develop and maintain a deep understanding and appreciation of the environments in which they and their organization function.

The *external environment* is everything outside an organization that might affect it and contains the general environment and the task environment. The *general environment* consists of broad dimensions and forces in an organization's context, while the *task environment* is the specific organizations or groups that have a direct impact on a firm.

The *internal environment* consists of conditions and forces within the organization.

**Teaching Tip:** Stress the fact that an organization's boundaries are not always clear and precise. As a result, it may not always be clear whether a particular individual or group is part of an organization or part of its environment.

**Discussion Question:** As a follow-up, ask students whether they think alumni, campus recruiters, and bookstores are part of the organization or part of its environment.

#### A. The General Environment

The general environment of a business has three dimensions: economic, technological, and political-legal.

1. The *economic dimension* includes the overall health of the economic system in which the organization operates, which is related to inflation, interest rates, unemployment, demand, and so on.

**Extra Example:** Note how economic conditions have affected your college or university. Specific points can be made regarding state revenues, alumni contributions, government grants, and endowment earnings.

2. The *technological dimension* refers to the methods available for converting resources into products or services.

**Extra Example:** Note that Federal Express has been hurt by new technology such as facsimile machines and e-mail. For example, companies now find it more cost-efficient to fax shorter documents than to send them by express delivery. And many managers find e-mail more efficient than distributing memos and letters through printed "hard copy."

3. The *political-legal dimension* refers to government regulation of business and the relationship between business and government.

**Extra Example:** The Small Business Administration (SBA) Office of Advocacy reports that the regulatory costs for small businesses amount to roughly \$7,000 per person employed. These costs have mainly to do with regulations concerning OSHA and compliance with the Sarbanes-Oxley Act. ([www.Bizjournal.com](http://www.Bizjournal.com))

**Management Update:** While Microsoft has resolved most of its legal problems in the United States, it still faces a number of antitrust lawsuits in Europe.

## B. The Task Environment

**Group Exercise:** Divide your class into small groups and have each group develop a diagram similar to Figure 2.1 for an organization in a different task environment. Good examples include Google, IBM, ExxonMobil, and UPS.

1. *Competitors* consist of other organizations that compete for the same resources.

**Discussion Starter:** Ask students to identify the primary competitors of your college or university.

2. *Customers* are those who pay money to acquire an organization's products or services.
3. *Suppliers* include organizations that provide resources for other organizations.

**Discussion Starter:** Ask students to identify the various suppliers that your college or university might use.

4. *Regulators* have the potential to control, regulate, or influence an organization's policies and practices.
  - a) *Regulatory agencies* are created by the government to protect the public from certain business practices or to protect organizations from one another. Examples include the Environmental Protection Agency (EPA) and the Food and Drug Administration (FDA).

**Extra Example:** Point out to students the various regulatory agencies that most directly affect your college or university (e.g., state coordinating boards, etc.).

- b) *Interest groups* are groups organized by their members to attempt to influence organizations. Examples include the National Organization for Women (NOW) and Mothers Against Drunk Driving (MADD).

**Extra Example:** The American Association of Retired Persons (AARP) is an interest group for members 50 and older. It has 27 million members, making it one of the most powerful interest groups in the country. It has influenced legislation on many issues, including Social Security reform and government policy on medical research.

5. *Strategic partners* (also called *strategic allies*) occur when two or more companies work together in joint ventures.

**Extra Example:** Microsoft Corporation has formed alliances with many other organizations, including hardware manufacturers, small software development firms, TV and appliance makers, automakers, cell phone and long distance providers, Internet service providers, and universities. The firm hopes to gain access to customers, resources, and information through its joint ventures.

## C. The Internal Environment

1. *Owners* are whoever can claim property rights on an organization. In smaller businesses, the owner is likely to also be the manager. In a larger business, however, managers are more likely to be professional employees of the firm. Stockholders are the owners of publicly traded corporations.

**Teaching Tip:** Point out again the “fuzziness” that may exist regarding boundaries. For example, while this book treats owners as part of the internal environment, it could also be argued that owners are part of the external environment as well.

**Teaching Tip:** Stress to students the significance of institutional owners and investors in corporations today. Such owners and investors can exert enormous power over a corporation.

2. A *board of directors*, elected by stockholders, is required of organizations that are incorporated; however, many other firms also have them. The board of directors is responsible for corporate governance and charged with overseeing the management of the firm to ensure that it is being run in a way that best serves the stockholders' interests.

**Group Exercise:** Assign groups of students one or more corporations. Have them identify the members who serve on its board of directors.

3. *Employees* are another significant element of the internal environment. The composition of the workforce is changing, employees are asking for increased job participation and ownership, and organizations are increasingly relying on temporary workers.

**Global Connection:** Note that many Japanese firms used to offer guaranteed lifetime employment to some employees. In recent years, however, this practice has been abandoned by many firms.

4. A firm's *physical work environment*—where facilities are located and how they are furnished and arranged—is also important. The layout of an office or factory can be a strong influence on the way in which people interact with equipment and with each other.

**Extra Example:** Wal-Mart is known for having a very spartan headquarters office, in keeping with the cost-cutting philosophy of founder Sam Walton. The building contains plain metal desks and uncarpeted floors, even in executive office areas. This physical environment serves as a constant reminder to employees of the firm's culture and values.

## II. The Ethical and Social Environment of Management

**Discussion Starter:** A debate that has plagued some business programs is the extent to which colleges can teach ethics. Some experts believe that ethics can indeed be taught, while other experts believe that ethics are formed much earlier and thus cannot be taught to people as they get older. Ask students for their opinions.

### A. Individual Ethics in Organizations

*Ethics* are an individual's personal beliefs regarding right and wrong behavior. *Ethical behavior* is behavior that conforms to generally accepted social norms. *Unethical behavior* is behavior that does not conform to generally accepted social norms.

**Interesting Quote:** "Moral character is shaped by family, church, and education long before an individual joins a company to make a living." (See Kenneth R. Andrews, *Harvard Business Review*, October 1989, p. 99.)

**Discussion Starter:** Ask students if they can identify personal examples or events that shaped their ethics or the ethics of someone they know.

1. *Managerial ethics* are standards for behavior that guide individual managers in their work. Unethical behavior by management and other employees sometimes occurs because the firm has an organizational context that is conducive to such behavior. Employees who work for firms that support and encourage unethical acts, though they are in the best interests of the firm, may find themselves in a conflict-of-interest situation.

**Discussion Starter:** Ask students to provide examples in which an organization they worked for treated them or others in an ethical or an unethical fashion.

**Teaching Tip:** Note that as organizations enter a period of cutbacks and downsizing, the potential for unethical treatment of employees tends to increase.

**Extra Example:** Many recent ethical concerns focus on financial disclosure and transparency. Whereas companies that consistently met their profitability targets were considered to be the most desirable investments, today the business practices and reporting methods used to reach those targets are under heavy scrutiny. General Electric, which has long-term consistent profitability, is now under suspicion for that very consistency.

2. Effective management of ethical behavior includes the following:
  - a) Top managers should set ethical standards for the organization.
  - b) Committees can investigate possible unethical activities internally.
  - c) Employees can attend training sessions to learn to act more ethically when faced with certain situations.
  - d) A *code of ethics* is a formal written statement of the values and ethical standards that guide the firm's actions.

**Teaching Tip:** If your school has a code of ethical conduct for students, it might be interesting to discuss it here. Note, for example, the similarities and differences that might exist between a university code and a business code.

**Extra Example:** Other firms that use codes of ethics include Motorola, Coca-Cola, and Texas Instruments.

**Group Exercise:** Ask students to identify common themes and ideas that are likely to be reflected in all corporate codes of ethics.

3. A number of ethical issues are receiving widespread attention today.
  - a) A challenge for CEOs is to display ethical leadership and to establish an ethical culture for the entire organization. The Sarbanes-Oxley Act of 2002 requires CEOs to be held personally responsible for their firm's financial disclosures.
  - b) Corporate governance is another area with many ethical concerns. Boards of directors are under increased pressure to provide effective oversight.
  - c) Technology poses new ethical issues in the area of privacy.
- B. Social Responsibility in Organizations  
*Social responsibility* is the set of obligations an organization has to protect and enhance the society in which it functions.

**Extra Example:** One firm that has an exemplary record of social responsibility is Target. The firm gives \$2 million each week to local community and charitable groups.

**Global Connection:** Concerns for the environment are given low priority in some parts of the world. The clearing of the rain forests in the Amazon basin is one significant example. Another is the continued destruction of animals facing extinction in parts of Africa. The United States is the world's largest creator of the pollution that is destroying the Earth's ozone layer and is unwilling to consider international limits on the polluting gases.

1. Arguments for social responsibility:
  - a) Business creates problems and should therefore help solve them.
  - b) Corporations are citizens in our society too and should not avoid their obligations as citizens.
  - c) Businesses often have the resources to help.
  - d) Business should be a partner in society along with the government and the general population.
2. Arguments against social responsibility:
  - a) Organizations lack the expertise to understand how to assess and make decisions about worthy social programs.
  - b) Involvement in social programs gives business too much power.
  - c) There is a potential for conflict of interest.
  - d) Businesses have the responsibility to focus on making a profit for their owners.

**Discussion Starter:** Ask students to help identify other specific examples of how socially responsible behavior has had a positive impact.

### C. Managing Social Responsibility

1. Firms can adopt a number of different formal organizational stances regarding social responsibility.
  - a) *Legal compliance* is the extent to which the organization and its members comply with local, state, federal, and international laws.

**Discussion Starter:** Ask students whether they believe tobacco will ever be outlawed. Ask their thoughts on whether or not it should be banned.

**Teaching Tip:** Describe how your local community regulates business through its own zoning procedures. If relevant, describe a recent controversial zoning decision.

**Teaching Tip:** Emphasize the point that an organization's approach to social responsibility may be inconsistent and/or contradictory.

- b) *Ethical compliance* is the extent to which the firm and its members follow ethical standards of behavior.

**Teaching Tip:** Point out to students that, with the escalating diversity of viewpoints on ethical standards, organizations have increased difficulty in demonstrating ethical compliance. Every industry, from energy to bioengineering to education, is swamped with a complex and thorny set of ethical issues today.

- c) *Philanthropic giving* occurs through the awarding of funds or gifts to charities and social programs.

**Global Connection:** As noted, international businesses have become frequent contributors in different countries where they do business. For example, UPS supports national Olympic teams in dozens of different countries.

2. Informal organizational dimensions, including the culture and leadership practices of an organization, can define the social responsibility stance adopted by the organization and its members. *Whistle-blowing* occurs when an employee discloses illegal or unethical conduct by others within the organization.

**Discussion Starter:** Solicit student opinions regarding whistle-blowing. In particular, ask how many of them would, in fact, “blow the whistle” themselves if it meant the possible loss of a job.

**Extra Example:** Sherron Watkins, an Enron accounting manager, was a whistleblower for some of the firm’s unethical and illegal practices. Her actions were instrumental in uncovering the alleged extensive fraud occurring at that firm.

### III. The International Environment of Management

#### A. Trends in International Business

**Extra Example:** Based on sales revenues, six of the world’s largest ten businesses are U.S. firms. Three are European, and one is Japanese. (For details, see Fortune.com.)

**Teaching Tip:** Note the diverse set of countries represented on the list of the world’s largest firms.

1. After World War II, U.S. firms dominated most industrial and consumer markets. From the 1950s to 1970s, Europe and Japan rebuilt their factories and gained market power.
2. Today, U.S. firms dominate in some industries, including auto making and fast food, but many other industries are dominated by non-U.S. firms, including chemicals, steel, banking, and electronics.
3. To be competitive, firms must think globally. International business touches every sector of the economy and every business and every consumer in the world.

**Group Exercise:** Have students generate a list of the ten products they use most frequently. Then have them research the national origin of the companies that make them.

#### B. Levels of International Business Activity

Firms that plan to increase their international business activity must plan their expansion into foreign markets very carefully. Several alternative approaches are possible.

1. Importing and exporting is the easiest way to enter a market with a small outlay of capital. *Exporting* is making the product in the firm’s domestic marketplace and selling it in another country. *Importing* means a good, service, or capital is brought into the home country from abroad.

**Teaching Tip:** Most small businesses begin international activity by importing or exporting. A good source of information about international business opportunities for small business is the Small Business Administration’s Office of International Trade website. For more information, see the SBA website at <http://www.sba.gov/OIT/>.

**Teaching Tip:** Stress for students that the difference in exporting versus importing is point of view. When Rolex markets its watches and ships them to U.S. jewelers, Rolex is exporting, but the stores that buy the watches for sale in the United States are importing them.

2. *Licensing* is an arrangement whereby one company allows another to use its brand name, trademark, technology, patent, copyright, or other assets in exchange for a royalty based on sales. *Franchising* is a special form of licensing.

**Extra Example:** Some of the most successful international franchisers include The Athlete's Foot, Subway, and Century 21 Real Estate.

3. *Strategic alliances* occur when two or more firms jointly cooperate for mutual gain. A *joint venture* is a special type of strategic alliance in which the partners actually share ownership of a new enterprise.

**Extra Example:** One of the most successful strategic alliances is Cereal Partners Worldwide, between General Mills and Nestlé. The firms entered into the partnership to compete with Kellogg, which dominated European markets. General Mills contributes its cereal names and technology, while Nestlé adds its recognized consumer brand name and handles distribution.

4. *Direct investment* occurs when a firm headquartered in one country builds or purchases operating facilities or subsidiaries in a foreign country. *Maquiladoras* are light assembly plants built in northern Mexico close to the U.S. border. These plants receive tax breaks from the Mexican government. A large population of workers is willing to work for low wages.

**Global Connection:** The passage of the North American Free Trade Agreement has increased the importance of the maquiladoras to firms doing business in Mexico.

**Extra Example:** Disneyland Paris represents a combination of direct investment and strategic alliance. Disney contributed a portion of the park's construction costs from its own sources and oversaw construction of the park, while a French firm contributed the remainder of the investment capital. Disney shares both profits and losses with its European partner.

**Teaching Tip:** Emphasize the fact that large firms use multiple methods of managing international business. For example, Ford ships cars made in the United States to Canada (exporting), contracts with Mazda to manufacture part of the Ford Probe (licensing), jointly developed the Mercury Villager minivan with Nissan (strategic alliance), and owns several manufacturing plants in other countries (direct investment).

**Teaching Tip:** Use Table 2.1 to compare the advantages and disadvantages of the four levels of international business activity.

### C. The Context of International Business

1. The cultural environment can create challenges for managers, when the countries in which a firm is manufacturing or selling a product or service have different cultures. Religious beliefs, time and schedules, language, and nonverbal communication can all pose problems for managers in a foreign country.

**Discussion Starter:** Ask students to predict which products made in the United States are most and least likely to be successful abroad.

**Discussion Starter:** Ask students which countries in Europe and Asia they have visited. Then ask how similar or different each was from the United States.



**Discussion Starter:** Ask students to think of common business practices in the United States that might seem odd or unusual in a foreign country. If you have any international students in class, you might ask them about business practices in their home countries that would seem odd or unusual in the United States.

2. A government can impose a variety of controls on international trade to protect its country.
  - a) A *tariff* is a tax collected on goods shipped across national boundaries.
  - b) *Quotas* are limits on the number or value of goods that can be traded.
  - c) *Export restraint agreements* are agreements that convince other governments to voluntarily limit the volume or value of goods exported to a particular country.
  - d) “Buy national” legislation gives preference to domestic producers through content or price restrictions.

**Teaching Tip:** The stiff trade barriers employed by the government of Japan continue to be a point of contention between that country and the United States. U.S. firms, for example, argue that there are so many trade barriers in place in Japan that it results in unfair competition for them.

**Extra Example:** In an interesting reversal of normal procedures, the government of China has played Ford and General Motors against each other. Rather than offer inducements to get the automakers to set up shop in its borders, China is getting the companies to make offers on what they will give in return for the right to be the only U.S. auto company to be allowed to build cars in one of the world’s largest untapped markets.

3. *Economic communities* are sets of countries that have agreed to significantly reduce or eliminate trade barriers among its member nations.
  - a) *The European Union*, the Latin American Integration Association (Bolivia, Brazil, Colombia, Chile, Argentina, and other South American countries), and the Caribbean Common Market (the Bahamas, Belize, Jamaica, Antigua, Barbados, and twelve other countries) are examples.
  - b) *The North American Free Trade Agreement (NAFTA)* created an economic system between Canada, Mexico, and the United States.

**Discussion Starter:** Ask students why they think there is no Asian economic community with the strength and identity of the EU or NAFTA.

4. *GATT*, the General Agreement on Trade and Tariffs, and the *WTO*, the World Trade Organization, both play significant roles in regulating international trade.
  - a) GATT, first ratified in 1948, is an attempt to reduce trade barriers. One of its provisions, the granting of most favored nation status, specifies that a member country must extend equal treatment to all nations that sign the agreement.
  - b) The World Trade Organization was begun in 1995 as a replacement for GATT. The WTO works to promote trade, reduce trade barriers, and resolve international trade disputes.

#### IV. The Organization’s Culture

*Organization culture* is the set of values, beliefs, behaviors, customs, and attitudes that helps the members of the organization understand what it stands for, how it does things, and what it considers important.

**Extra Example:** Some experts would use the extent to which investors and other experts admire a company as an indication of its effectiveness. Each year *Fortune* conducts a survey of the most admired corporations in the world. Apple, Google, and Johnson & Johnson were near the top of the list in 2010.

**Extra Example:** Other firms with strong cultures include Disney, 3M, Coca-Cola, UPS, and IBM.

**Discussion Starter:** Ask students to discuss the culture that exists in your college or university.

- A. **The Importance of Organization Culture**  
A strong organization culture can shape the firm's overall effectiveness and long-term success and help employees to be more productive.
- B. **Determinants of Organization Culture**  
Culture develops over a long period of time. It often starts with the organization's founder; however, corporate success and shared experiences also shape culture. Stories, heroes, and symbols have a powerful effect.
- C. **Managing Organization Culture**  
In order to manage corporate culture, managers must first understand the current culture.
  - 1. If the culture is one that is in the best interest of the firm, managers can reward behavior that is consistent with the existing culture in order to enforce it.
  - 2. If the culture needs to be changed, managers must know what it is they want the culture to be and then take actions that will help to change the culture into the type management wants. One effective action is to hire outsiders, who will change the existing culture.

## END-OF-CHAPTER

### Questions for Review

1. Identify and discuss each major dimension of the general environment and the task environment.

Because the environment provides the context in which a business operates, it determines the firm's eventual success or failure. The general environment consists of three dimensions: economic, technological, and political-legal. The economic dimension includes macroeconomic trends that impact all businesses, such as inflation and unemployment. The technological dimension includes advances in computing and communications. The political-legal dimension consists of legislation, legal proceedings, and the political climate.

The task environment of an organization consists of specific dimensions of the organization's surroundings that are very likely to influence the organization. Competitors, customers, suppliers, regulators, and strategic allies comprise the task environment. Competitors are firms that are competing for resources, and customers are those that purchase the firm's products. Suppliers include any organizations or individuals that supply resources to the firm. Regulators provide oversight to the firm and include regulatory agencies and interest groups. Strategic allies are partners with the firm in joint ventures.

2. Do organizations have ethics? Why or why not?

As defined here, organizations do not have ethics—only individuals have ethics. However, the ethical norms and climate that exist within an organization can significantly affect the organization.

3. What are the arguments for and against social responsibility on the part of businesses? In your opinion, which set of arguments is more compelling?

Arguments for social responsibility include: (a) organizations create problems and should be responsible for solving them; and (b) corporations are citizens in our society, too, and should not avoid their obligations as citizens. Arguments against include: (a) businesses should simply focus on making a profit, (b) there is the potential for a conflict of interest, and (c) businesses lack the expertise to understand how to assess and make decisions about worthy social programs.

4. Describe the basic levels of international business involvement. Why might a firm use more than one level at the same time?

There are four levels of international business activity: (1) A domestic business has no international ties and buys and sells goods only in its own country. (2) An international business primarily resides in one country but purchases components from abroad or sells a substantial amount of finished products to other countries. (3) A multinational business has a worldwide marketplace from which it buys raw materials, borrows money, manufactures its products, and to which it sells its products. (4) A global business transcends national boundaries and is not committed to a single home country.

Many organizations use more than one level at the same time. This is done in order to adapt to the needs of different countries or regions, or to implement different strategies for different countries.

5. Describe various barriers to international trade.

The economic environment, the political-legal environment, and the cultural environment are three areas of challenge to international managers. Numerous specific instances of each can be identified.

## Questions for Analysis

1. Can you think of dimensions of the task environment that are not discussed in the text? Indicate their linkages to those that are discussed.

Student responses will vary, but one environmental dimension that was not discussed in the text was climate and weather. The climate and weather may have a great impact on the farming industry. A late frost in Florida may hurt the orange crop, or a drought in the Midwest may be responsible for poor grain yields. For the downhill skiing industry, sustained low temperatures and snow are prerequisites, so climate in this instance may dictate the location of the industry. Climate and weather are also important to surgeons specializing in skin cancer and orthopedic surgeons who specialize in broken limbs.

2. What is the relationship between the law and ethical behavior? Can a behavior be ethical but illegal at the same time?

The law mandates or prohibits certain behaviors, with relatively little flexibility or subjectivity. Ethics suggests desired behaviors, but is equally concerned with the intention and reasons behind a behavior as with the behavior itself. Ethics is based on standards that are flexible and subjective.

Individuals or organizations can act in what they feel is an ethical manner while also breaking the law. For example, some individuals try to block abortion clinics in an effort to stop actions that they believe are harmful. In their eyes, these actions are ethical, but to the police, who may arrest them for trespassing, the actions are illegal. In the news today are stories about pharmaceutical companies in China, Africa, and India that illegally produce patented drugs, which they feel is an ethical necessity to stop the spread of contagious diseases in countries where drugs produced in the United States are prohibitively expensive.

3. What is your opinion of whistle-blowing? If you were aware of a criminal activity in your organization but knew that reporting it would likely cost you your job, what would you do?

Answers will vary. Some will say that it is their duty to society to report criminal activities, whereas others may feel it is their duty to protect the organization and not report criminal activity. Still others will feel that their primary responsibility is to themselves or their families, which would require them to protect their jobs.

4. Which industries do you think will feel the greatest impact of international business in the future? Are there industries that will remain relatively unaffected by globalization? If so, which ones? If not, explain why not.

International industries generally involve mass-produced consumer or industrial products such as automobiles, electronics, steel, chemicals, and so forth. In contrast, industries that would experience high costs for shipping or manufacturing goods in distant locations are somewhat sheltered from the effects of globalization, as are industries where local tastes and needs are very different from global tastes. Examples would include restaurants, home builders, and plant nurseries. However, you can point out to students that consumer preferences are becoming more global, with more Americans buying imported chocolates and more Latin Americans buying Nikes, for example.

5. What is the culture of your college or university? How clear is it? What are its most positive and negative characteristics?

Students should recognize that all organizations have a culture, but they may differ in their perceptions of the existence of a culture and what that culture is. Generally, a majority will agree on a “party,” “athletics,” “research,” or “scholarly” culture. Words such as these will be used to describe the culture to outsiders. You can remind students that every culture has its positive and negative characteristics, encouraging them to think more deeply about culture’s effects.

## Building Effective Interpersonal Skills Exercise

### The International Culture Quiz

- a. Purpose

This exercise uses a fun, easy quiz to help students understand the complexities of culture in various countries.

- b. Format

This exercise can be done by individuals outside of class, but is most effective if administered in class. That way, students can answer by raising their hands, and the correct answers can be given for each item as the quiz progresses. This quiz takes about 15–20 minutes to administer, but the discussion could take much longer.

To score the quiz, give one point for a fully correct answer and one-half point for each partially correct answer. Scores will range from 0 to 12.

c. Follow-up

Most of the information used in writing these questions came from the CIA's *World Factbook 2002*, found online at <http://www.cia.gov/cia/publications/factbook/index.html>, and the website of Executive Planet, at <http://www.executiveplanet.com/index2.jsp>.

In their answers, students are limited to one or more of the top ten largest countries in the world. In order, they are China, India, the United States, Indonesia, Brazil, Pakistan, Russia, Bangladesh, Nigeria, and Japan. Here are the answers to each question.

- (1) Name the major religion practiced in each of the ten largest countries.

Islam is predominant in Indonesia, Pakistan, Bangladesh, and Nigeria. Christianity is most common in the United States, Brazil, and Russia. India is primarily Hindu, but contains a significantly large Muslim population. Buddhism prevails in Japan and China.

- (2) When greeting a business associate, in which country or countries is it proper to shake hands? to bow? to hug or kiss?

Shaking hands is the preferred business greeting in China, Indonesia, the United States, Russia, Brazil, Japan, and Nigeria. In Bangladesh and Pakistan, hand shaking is popular also, but only permitted between two males—women never touch others. Bowing is a popular way to greet business associates in Indonesia, India, and Japan. No countries use hugging or kissing as a business greeting.

- (3) In which country or countries should you avoid wearing the color purple?

Purple is the color of mourning in Brazil, and it is in bad taste to wear it, display it in your home or office, or give gifts that contain it.

- (4) In which country or countries would smiling be considered suspicious?

The Chinese admire an inexpressive and stoic demeanor, while an expressive or emotional person is regarded as weak or deceitful.

- (5) In which country or countries are laughter and smiling often used as a way of covering up feelings of embarrassment or displeasure?

The Japanese, who highly value social harmony, often choose to appear amused rather than unhappy or upset.

- (6) Which part of someone else's body should you never touch in Indonesia? in India? Which part of your own body should you never touch in China?

In Indonesia, the head should be avoided, and in India, the ear, because both are considered sacred. In China, touching one's mouth is considered to be dirty and disgusting. In addition, in India, Pakistan, and Bangladesh, one should never touch another with one's left hand, which is used for personal hygiene and is therefore considered filthy.

- (7) In which country or countries would a server or small-business person require that a tip be paid before the service is rendered?
- In Nigeria, a tip must be paid in advance in order to guarantee good service, even from shops and police. Sometimes this tip is called a “bribe” by foreigners, but to Nigerians, it is a legitimate part of doing business.
- (8) In which country or countries would it be an insult to address someone in Spanish?
- Brazilians would be insulted if addressed in Spanish, because they speak Portuguese and do not want to be considered Hispanics.
- (9) In which country or countries is whistling considered bad luck?
- Russian superstition says that whistling attracts bad luck.
- (10) In which country or countries is it important to give printed business cards to all business associates?
- The Japanese put great store in exchanging business cards and are insulted if you do not carefully read and save their cards. To indicate respect, you must receive their cards with both hands and then give a card of your own.
- (11) In which country or countries might you be asked your family size or income on a first meeting with a new business associate?
- In both China and Pakistan, very personal questions are not considered off-limits with new acquaintances. However, they don’t mind if you don’t give a direct answer.
- (12) In which country or countries should gum not be chewed at work?
- Gum chewing is considered rude in Russia and unclean in Indonesia.

Students were then asked these follow-on questions:

- (1) Was your score high or low? What does your score tell you about your cultural awareness?
- Most students will score poorly. Use this as an opportunity to discuss the cultural awareness of Americans in general and its impact on business.
- (2) What do you think you could do to improve your score? Share your ideas with the class.
- Students frequently mention such actions as travel or residence in a foreign country, making friends with someone in the United States of a foreign nationality, or reading about foreign countries. Few, however, think of formal education, so you can point out to them that language classes, such as those taught at your school, often include a component of cultural awareness. In addition, students are sometimes unaware of the existence of businesses that provide cultural training.

## Building Effective Communication Skills Exercise

a. Purpose

This exercise assigns students the difficult—but realistic—task of persuading a superior that his or her ideas may be inadequate. The task requires students to justify the need to gather more information about the customer segment of the environment.

## b. Format

This exercise is best done outside of class by individual students, and it requires about 20–30 minutes.

## c. Follow-up

- (1) With this background in mind, compose a written proposal for your boss, outlining your position. Be sure to emphasize your fundamental concern—that the marketing department needs to better understand the needs of each customer segment in order to provide products that meet those needs. Consider ways to persuade your boss to change his or her mind. (*Hint:* Telling him or her bluntly that he or she is wrong is unlikely to be effective.)

Students' answers will focus on the importance of understanding the specific needs of various groups of consumers. Students are likely to describe the importance of consumers to the firm, the necessity of obtaining accurate and specific feedback, and the likely negative consequences if consumer feedback is not obtained. The challenge for students will be to present their position in a forceful yet tactful way.

- (2) Based on what you wrote in response to Exercise Task 1 above, do you think your boss will change his or her mind? If yes, what persuaded him or her to change his or her mind? If no, what other actions could you take to attempt to have your ideas adopted by the firm?

Students' answers will vary. They will see that persuasion requires tact as well as strong logical arguments. For additional actions, students might suggest an appeal to a superior, gathering the feedback anyway without informing the boss, or simply dropping the idea. For each of these actions, ask students to consider what would happen then. For example, how would their boss respond to finding out that he had been deceived?

## Skills Self-Assessment Instrument

### Global Awareness

## a. Purpose

This self-assessment is designed to help students understand their readiness to respond to managing in a global context through assessing their knowledge of cultural differences among countries.

## b. Format

Students should respond individually to the items in this self-assessment using the scale provided.

## c. Interpretation

All of the statements are true, so a perfect score would be 40. The closer a student's score is to that, the more knowledge he or she has of cultural differences among countries and the more he or she understands the global context of organizational environments. The closer the score is to 10 (the minimum possible score), the less the student knows and the less prepared the student is for managing in a global context. Students should be encouraged to improve their knowledge for any area in which they had a low score. They should be encouraged to read Nancy Adler's *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991).

## Experiential Exercise

### Assessing Organizational Culture

**Purpose:** While organization culture is intangible, it is not difficult to observe. This activity will help to improve your skills in observing and interpreting organization culture, which can help to make you a more effective participant and leader in organizations.

**Introduction:** Clues to organization culture may be found by observing details that relate to member behavior, traditions or customs, stories, attitudes, values, communication patterns, organization structure, employee dress and appearance, and even office space arrangements. Do members address each other by first names? Are office doors left open or closed? What do members wear? How are achievements recognized? Does the workplace feel energized or laid-back? Do members smile and laugh often? Does seniority or expertise earn more respect?

**Instructions:** First, observe clues to organization behavior at your school, college, or university. To the extent possible, observe a diversity of members including students, teaching faculty, and non-teaching staff. Write down specific examples. For example, students typically wear blue jeans, while instructors usually wear suits. In the cafeteria, freshmen sit mainly with other freshmen. A professor may be referred to as “Doctor” by staff, while she may refer to staff by their first name.

It is possible that variations exist across schools within the same university. Students are likely to see a different set of norms in nonprofessional schools (where they are likely to have had classes) in comparison to those at professional schools.

Second, interpret the facts. Use your observations to describe the organization’s core values. What does it value most? How did you come to that conclusion?

Do some schools value the end results and downplay the means leading to those results? Again, it is possible to see variations across programs.

Third, with the class or in small groups, discuss your facts and interpretations. Focus especially on areas of disagreement. Where individuals disagree about the culture, try to understand why the disagreement occurs. If the facts differ, perhaps the individuals observed two different groups. For example, students majoring in business may be different than students in engineering or education. Or perhaps the organization culture tolerates or encourages lots of differences. If there is agreement on facts but interpretations differ, then perhaps the individuals making the interpretations can explore their differing perceptions.

It is also possible that traditional students in the class may have a different viewpoint as compared to nontraditional students. Older students returning to the classroom after years of work in the “real” world may have opinions about organization culture different from those of younger students.



## MANAGEMENT AT WORK

### *SHIFTING GEARS IN THE AUTO INDUSTRY*

The case features the amazing turnaround of Fiat by new CEO Sergio Marchionne and its big push into the U.S. market via its merger with Chrysler. Marchionne brought Fiat back from the financial precipice it was in and now he is attempting to do the same thing with the nearly bankrupt Chrysler.

1. According to a major economics consulting firm, Fiat's "South American operations are the jewel in the Italian company's global operations." Fiat has plants in Brazil and Argentina, and Brazil is its biggest market, well ahead of its home-country market. In 2011, with the Chrysler venture taking up more and more of the firm's attention – and as European sales suffered a steep decline – rumors began to circulate that Marchionne might move Fiat headquarters from Italy to the United States. Discuss Fiat's takeover of Chrysler as part of a strategy to transform itself from an international business into a multinational or global business.

An international business is a firm that has sizeable business in its home market and presence in one or more international markets. In contrast, a multinational or global business has significant presence in multiple markets and is not overly dependent on its home market. Fiat is obviously a big player in Italy. However, its European business is challenged and so it is attempting to transform itself into a global player. A key vehicle (pun unintended!) for this is the merger with Chrysler that open up the U.S. market for Fiat. The success of the Chrysler venture will go a long way in transforming Fiat from an European carmaker to a global player.

2. What benefits does Fiat hope to gain from its arrangement with Chrysler? What potential drawbacks does it face? Judging from your analysis of benefits and drawbacks, explain why the Fiat-Chrysler agreement might best be characterized as a strategic alliance? In what sense is it best characterized as a direct investment?

For Fiat, Chrysler is the vehicle to enter and make a big push into the U.S. (and the North American) market. In merging with Chrysler, Fiat gets immediate production and marketing resources. The downside is obviously Chrysler's precarious financial condition. The key challenge for Fiat is to turn around Chrysler before Chrysler is financially insolvent. The relationship (while officially called a merger) can be regarded as a strategic alliance because both partners have pooled their resources. It can be termed a direct investment because Fiat is essentially making a financial investment in Chrysler.

3. What challenges in the U.S. cultural environment do you expect Fiat to face as it uses its Chrysler connection to compete in the American car market? What management challenges will Marchionne face in the areas of planning and decision making, organizing and leading?

Fiat has a negative perception in the U.S. (the case quote "Fix it again, Tony" is a good example), as does Chrysler because of its financial problems. Fiat has to make cars that suit U.S. tastes. In short, it faces a cultural challenge in marketing to U.S. customers. Marchionne faces a number of management challenges in terms of resource allocation, motivating a beaten down Chrysler U.S. workforce, and working with channel partners who likely have been hard hit by Chrysler's poor performance.

## YOU MAKE THE CALL

### Is Fair Trade a Fair Trade-Off?

1. How does the environment affect fair-trade?

To help students with this answer, it may be a good idea to get students to think the entire cocoa supply chain, starting with the farmers in Africa to retailers of chocolates worldwide. Each is affected by various types of environmental changes. For example, everyone in the chain is affected by the global economic environment. In addition, farmers in Africa are affected by a changing social environment where views on child labor are changing.

2. What are the trade-offs in the fair-trade process? Do you think that fair trade promotes fair trade-offs? Why or why not?

Fair trade protects suppliers. The trade off, though, is that fair trade products cost more. This is a question that is likely to provide contrasting viewpoints among students as they look at the cost versus benefits of fair trade.

3. Do you pay attention to fair-trade products in your own purchasing behavior? For what kind of products might you be willing to pay premium prices?

Responses will vary depending on how the student views fair trade.

4. Under what circumstances might fair trade actually cause harm? To whom? At what point would fair-trade trade-offs no longer be acceptable?

If the price of fair trade products to consumer become so high that they are uncompetitive it may have an adverse effect on demand, which may, in turn, affect suppliers. Fair trade would be acceptable till such a point is reached.

## CHAPTER 3

# Planning and Strategic Management

The first basic management function is planning. Part II: Planning contains three chapters addressing the managerial functions of planning and decision making in detail. Chapter 3 introduces planning and describes strategic management. Chapter 4 provides a variety of perspectives and models for further understanding of decision making. The chapter also discusses the use of groups and teams in decision making. Entrepreneurship, which relies heavily on planning, is the subject of Chapter 5.

### CHAPTER SUMMARY

The purpose of Chapter 3 is to introduce the basic elements of the planning function of management and to build a foundation for the more detailed coverage of the material that follows in the remaining chapters of Part II. This chapter also discusses how organizations manage strategy and strategic planning. It examines the nature of strategic management, including its components and alternatives. It then describes the kinds of analyses needed for firms to formulate their strategies. Next it examines how organizations first formulate and then implement business strategies, followed by a parallel discussion at the corporate strategy level. Tactical and operational plans are then discussed.

### LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Summarize the planning process and describe organizational goals.
2. Discuss the components of strategy and the types of strategic alternatives.
3. Describe how to use SWOT analysis in formulating strategy.
4. Identify and describe various alternative approaches to business-level strategy formulation.
5. Identify and describe various alternative approaches to corporate-level strategy formulation.
6. Discuss how tactical plans are developed and implemented.
7. Describe the basic types of operational plans used by organizations.

Given that when an automobile burns a gallon of gas, it is emitting 20 pounds of carbon dioxide into the atmosphere, hybrids cars are seen as a solution to meet the Corporate Average Fuel Economy (CAFÉ) standards. Toyota leads the way with their very popular Prius. However, as the opening case points out, hybrids are a fraction of the total vehicles on the market and also Toyota sells a lot of non-hybrid cars that consume a lot of fuel. The challenge for Toyota and other auto makers is to meet the tough CAFÉ standards set for them.

**Company Update:** By February 2011, Toyota had sold 3 million hybrid vehicles around the world. In addition, it had sold its hybrid technology to rival carmakers such as Nissan.

**Discussion Starter:** Ask students if they or anybody they know owns a hybrid car. If so, ask them what motivated them to pay a premium for a hybrid?