Learning Objectives

After reading this chapter you should be able to:

- Define organizational behavior and explain how and why it determines the effectiveness of an organization.
- Appreciate why the study of organizational behavior improves a person’s ability to understand and respond to events that take place in a work setting.
- Differentiate between the three levels at which organizational behavior is examined.
- Appreciate the way changes in an organization’s external environment continually create challenges for organizational behavior.
- Describe the four main kinds of forces in the environment that pose the most opportunities and problems for organizations today.
In 1994, Jeffrey Bezos, a computer science and electrical engineering graduate from Princeton University, was growing weary of working for a Wall Street investment bank. His computer science background led him to see an entrepreneurial opportunity in the fact that Internet usage was growing at an accelerating pace. Bezos decided that the online book-selling market offered an opportunity for him to take advantage of his technical skills in the growing virtual marketplace.

Determined to make a break, he packed up his belongings and drove to the West Coast, deciding while on route that Seattle, Washington—a new Mecca for high-tech software developers, and the hometown of Starbucks's coffee shops—would be an ideal place to begin his venture.

Bezos's plan was to develop an online bookstore that would be customer friendly, easy to navigate, and offer the broadest possible selection of books at low prices.

Bezos realized that, compared to a real “bricks and mortar” bookstore, an online bookstore could offer customers any book in print; his task was to provide online customers with an easy way to search for and learn about any book in print.

Working with a handful of employees and operating from his garage in Seattle, Bezos launched his venture online in July 1995 with $7 million in borrowed capital. Within weeks he was forced to relocate to new, larger premises and hire additional employees, as book sales soared. The problem facing him now was how to best motivate and coordinate his employees to best meet his new company's goals. His solution was to organize employees into small groups and teams based upon the work tasks they needed to perform in order to satisfy his customers.

First, Bezos created the information technology (IT) team to continue to develop and improve the proprietary software that he had initially developed. Then he formed the operations group to handle the day-to-day implementation of these systems and to manage the interface between the customer and the organization. Third, he created the materials management/logistics group to devise the most cost-efficient ways to obtain books from book publishers and distributors and then to ship them quickly to customers. As Amazon.com grew, these groups have helped it to expand into providing many other kinds of products for its customers such as CDs, electronics, and gifts. By 2006, Amazon.com had 24 different storefronts, with operations in eight countries, and it sold its products to customers around the globe.

To ensure that Amazon.com strived to meet its goals of providing books quickly with excellent customer service, Bezos paid attention to the way he motivated and controlled his employees. Realizing that providing good customer service is the most vital link between customers and a company, he decentralized authority and empowered employees to search for ways to better meet customer needs. Also, from the beginning, Bezos
socialized his employees into his company by encouraging them to adopt his values of excellent customer service; he also established strong norms about how employees’ first task is to satisfy customers. All Amazon.com employees are carefully selected and recruited; they are then socialized by the members of their work groups so that they quickly learn how to provide excellent customer service. Also, to ensure his employees are motivated to provide excellent service, Bezos gives all employees stock in the company—today employees own over 10% of Amazon.com’s stock.

Finally, as a leader, Bezos is a hands-on manager who works closely with employees to find innovative, cost-saving solutions to problems. Moreover, Bezos acts as a figurehead, and he behaves in a way that personifies Amazon’s desire to increase the well-being of employees and customers. Indeed, he spends a great deal of his time flying around the world to publicize his company and its activities and he has succeeded because Amazon.com is one of the most well-recognized of any dot.com company. At Amazon.com, Jeff Bezos behaves in ways that help to improve employees’ work attitudes and increase their performance, which improves the well-being of employees, customers, and his company.

Overview

Jeff Bezos has found a way to create a set of organizational behaviors that leads to a cooperative, win-win situation for the company and its employees. Amazon.com’s employees work hard, are happy working for their company, and are less inclined to leave their jobs than employees in many other kinds of retail companies. This favorable work situation has been created because Amazon.com:

- Strives to increase employees’ skills and knowledge and encourages them to take responsibility and to work in ways that lead to fast, helpful customer service.
- Provides employees with rewards to encourage high performance and makes sure that employees’ contributions are recognized.
- Creates a work setting in which employees develop a longer-term commitment to their organization and are willing to cooperate and work hard to further their company’s goals.

As Amazon.com’s approach suggests, creating a favorable work situation in which people at all levels want to behave in ways that result in customers’ receiving a high-quality product does not happen by chance. It is the result of careful planning and a solid understanding and appreciation of how people behave in organizations and what kinds of things cause them to behave the way they do. The best way to gain such an understanding of people at work, and the forces that shape their work behavior, is to study organizational behavior—the subject of this book.

In this chapter, we first define organizational behavior and discuss how a working knowledge of organizational behavior is essential for any person in today’s complex, global world. We then examine how changes taking place outside an organization in the global, social, technological, and work or employment environments are changing the way people work together and cooperate inside an organization. The way rapid changes in an organization’s environment have posed challenges for the behavior of all the people who work inside organizations is our focus. By the end of this chapter, you will understand the central role that organizational behavior plays in determining how effective an organization and all the men and women who are part of it are in achieving their goals.
What is Organizational Behavior?

To begin our study of organizational behavior, we could just say that it is the study of behavior in organizations and the study of the behavior of organizations, but such a definition reveals nothing about what this study involves or examines. To reach a more useful and meaningful definition, let’s first look at what an organization is. An organization is a collection of people who work together and coordinate their actions to achieve a wide variety of goals. The goals are what individuals are trying to accomplish by being members of an organization (earning a lot of money, helping promote a worthy cause, achieving certain levels of personal power and prestige, enjoying a satisfying work experience, etc.). The goals are also what the organization as a whole is trying to accomplish (providing innovative goods and services that customers want; getting candidates elected; raising money for medical research; making a profit to reward stockholders, managers, and employees; being socially responsible and protecting the natural environment; etc.). An effective organization is one that achieves its goals.

Police forces, for example, are formed to achieve the goals of providing security for law-abiding citizens and providing police officers with a secure, rewarding career while they perform their valuable services. Paramount Pictures was formed to achieve the goal of providing people with entertainment while making a profit, and in the process, actors, directors, writers, and musicians receive well-paid and interesting work.

Organizations exist to provide goods and services that people want, and the amount and quality of these goods and services are products of the behaviors and performance of an organization’s employees—of its managers, of highly skilled employees in sales or research and development, and of the employees who actually produce or provide the goods and services. Today, most people make their living by working in or for some kind of company or organization. People such as a company’s owners or managers—or company employees who desire to become future owners or managers—all benefit from studying organizational behavior. Indeed, people who seek to help or volunteer their time to work in nonprofit or charitable organizations also must learn the principles of organizational behavior. Like most employees today, volunteers attend training courses that help them understand the many kinds of issues and challenges that arise when people work together and cooperate in a company or organization to benefit others, such as when they seek to aid ill, distressed, or homeless people.

The Nature of Organizational Behavior

Organizational behavior (OB) is the study of the many factors that have an impact on how people and groups act, think, feel, and respond to work and organizations, and how organizations respond to their environments. Understanding how people behave in an organization is important because most people work for an organization at some point in their lives and are affected—both positively and negatively—by their experiences in it. An understanding of OB can help people to enhance the positive, while reducing the negative, effects of working in organizations.

Most of us think we have a basic, intuitive, commonsense understanding of human behavior in organizations because we are all human and have been exposed to different work experiences. Often, however, our intuition and common sense are wrong, and we do not really understand why people act and react the way they do. For example, many people assume that happy employees are productive employees—that is, that high job satisfaction causes high job performance—or that punishing someone who performs consistently at a low level is a good way to increase performance or that it is best to keep pay levels secret. As we will see in later chapters, all these beliefs are either false or are true only under very specific conditions, and applying these principles can have negative consequences for employees and organizations.

The study of OB provides guidelines that help people at work to understand and appreciate the many forces that affect behavior in organizations. It allows employees at all levels in an organization to make correct decisions about how to behave and work with
other people in order to achieve organizational goals. OB replaces intuition and gut feeling with a well-researched body of theories and systematic guidelines for managing behavior in organizations. The study of OB provides a set of tools—concepts and theories—that helps people to understand, analyze, and describe what goes on in organizations and why. OB helps people understand, for example, why they and others are motivated to join an organization; why they feel good or bad about their jobs or about being part of the organization; why some people do a good job and others don’t; why some people stay with the same organization for thirty years and others seem to be constantly dissatisfied and change jobs every two years. In essence, OB concepts and theories allow people to correctly understand, describe, and analyze how the characteristics of individuals, groups, work situations, and the organization itself affect how members feel about and act within their organization (see Exhibit 1.1).

**Levels of OB**

In practice, there are three main levels at which OB is examined: the individual, the group, and the organization as a whole. A full understanding of OB is impossible without a thorough examination of the factors that affect behavior at each level (see Exhibit 1.2).

Much of the research in OB has focused on the way in which the characteristics of individuals (such as personality, feeling, and motivation) affect how well people do their
jobs, whether they like what they do, whether they get along with the people they work with, and so on. In Chapters 2 through 9 we examine individual characteristics that are critical for understanding and managing behavior in organizations: personality and ability; attitudes, values, and moods; perception and attribution; learning; motivation; and stress and work-life linkages. (see Exhibit 1.3).

The effects of group or team characteristics and processes (such as communication and decision making) on OB also need to be understood. A **group** is two or more people who interact to achieve their goals. A **team** is a group in which members work together intensively and develop team-specific routines to achieve a common group goal. A **virtual team** is a group whose members work together intensively via electronic means using a common IT platform, and who may never actually meet. The number of members in a group, the type and diversity of team members, the tasks they perform, and the attractiveness of a group to its members all influence not just the behavior of the group as a whole but also the behaviors of individuals within the group. For example, a team can influence its members’ decisions on how diligently they should do their jobs or how often they are absent from work, as happens at Amazon.com. Chapters 10 through 15 examine the ways in which groups affect their individual members and the processes involved in group interactions such as leadership, communication, and decision making.

Many studies have found that characteristics of the organization as a whole (such as its culture and the design of an organization’s structure) have important effects on the behavior of individuals and groups. The values and beliefs in an organization’s culture influence how people, groups, and managers interact with each other and with people (such as customers or suppliers) outside the organization. Organizational culture also shapes and controls the attitudes and behavior of people and groups within an organization and thus influences their desire to work toward achieving organizational goals. An organization’s structure controls how people and groups cooperate and interact to achieve organizational goals. The principal task of organizational structure is to encourage people to work hard and coordinate their efforts to ensure high levels of organizational performance. Chapters 16 through 18 examine the ways organizational structure and culture affect performance, and they also examine how factors such as the changing global environment, technology, and ethics impact work attitudes and behavior.
OB and Management

The ability to use the tools of OB to understand behavior in organizations is one reason for studying this topic. A second reason is to learn how to use and apply these concepts, theories, and techniques to improve, enhance, or change behavior so that employees, groups, and the whole organization can all better achieve their goals. For example, a salesperson working in Neiman Marcus in Houston has the individual goal, set by his supervisor, of selling $5,000 worth of men’s clothing per week. In addition, he and the other members of the men’s clothing department have the group goals of keeping the department looking neat and attractive and of never keeping customers waiting. The store as a whole (along with all the other stores in the nationwide Neiman Marcus chain) has the goals of being profitable by selling customers unique, high-quality clothes and accessories and providing excellent service. If all these different goals are met, employees receive a large yearly pay bonus and Neiman Marcus makes a profit.

A knowledge of OB can help Neiman Marcus employees earn their bonuses. For example, OB research has found that organizations whose employees have been taught how to work as a team, and to take pains to be helpful, courteous, and agreeable to each other and to customers will be more effective than those organizations whose employees do not behave in this way. At Neiman Marcus, employees know what kinds of behaviors result in satisfied customers. They know that if they work hard to be courteous and agreeable to each other and to customers they will sell more clothes and so they (a) will achieve their personal sales goal, (b) their department’s goal of never keeping customers waiting, and (c) the organization’s goals of being profitable and providing excellent service.

A working knowledge of OB is important to employees at all levels in the organization because it helps them to appreciate the work situation and how they should behave to achieve their own goals (such as promotion or higher income). But knowledge of OB is particularly important to managers, people who direct and supervise the activities of one or more employees. For example, Sam Palmisano, chief executive officer (CEO) of IBM, and Anne Mulcahy, CEO of Xerox, have ultimate responsibility for all the hundreds of thousands of employees who work for these companies. The sales managers of IBM’s or Xerox’s southern region, who control hundreds of salespeople, are also managers, as are the managers (or supervisors) in charge of these companies’ technical service centers who supervise small teams of service technicians.

Managers at all levels confront the problem of understanding the behavior of their subordinates and responding appropriately. Palmisano and Mulcahy have to manage...
their companies’ top-management teams, high-ranking executives who jointly plan the company’s competitive strategy so that it can achieve its goals. The sales managers have to manage their sales forces so that they sell the mix of IT hardware, software, and services that best meets customers’ information-processing needs. The service managers have to manage IT technicians so that they respond promptly and courteously to customers’ appeals for help and quickly solve their problems. (And IBM and Xerox, like Amazon.com, both make providing customers high-quality customer service a principal goal.)

Each of these managers faces the common challenge of finding ways to help the organization achieve its goals. A manager who understands how individual, group, and organizational characteristics affect and shape work attitudes and behavior can begin to experiment to see whether changing one or more of these characteristics might increase the effectiveness of the organization—and the individuals and groups it consists of. Organizational effectiveness is the ability of an organization to achieve its goals. The study of OB helps managers meet the challenge of improving organizational effectiveness by providing them with a set of tools.

- A manager can work to raise an employee’s self-esteem or beliefs about his or her ability to accomplish a certain task in order to increase the employee’s productivity or job satisfaction.
- A manager can change the reward system to change employees’ beliefs about the extent to which their rewards depend on their performance.
- A manager can change the design of a person’s job or the rules and procedures for doing the job to reduce costs, make the task more enjoyable, or make the task easier to perform.

Recall from the chapter-opening case that Amazon.com’s goal is to attract customers by providing them with high-quality, affordable books, CDs, and other products. To achieve this goal Amazon.com’s founder created a work setting in which employees were taught what kinds of OBs result in economical, customer-friendly online operations. Amazon.com succeeded because it chose a way to motivate and reward employees that encourages them to work hard and well and behave in a way that benefits everyone. A key challenge for all organizations, and one that we address throughout this book, is how to encourage organizational members to work effectively for their own benefit, the benefit of their work groups, and the benefit of their organization.

Managerial Functions

The four principal functions or duties of management are the processes of planning, organizing, leading, and controlling an organization’s human, financial, material, and other resources to increase its effectiveness. And, as our previous examples showed, managers who are knowledgeable about OB are in a good position to improve their ability to perform these functions (see Exhibit 1.4).

Planning. In planning, managers establish their organization’s strategy—that is, they decide how best to allocate and use resources to achieve organizational goals. At Southwest Airlines, for example, CEO Gary Kelly and President Coleen Barrett’s strategy is based on the goal of providing customers with low-priced air travel. To accomplish this goal, Southwest uses its resources efficiently. For example, Southwest uses only one kind of plane, the Boeing 737, to keep down operating, training, and maintenance costs; employees cooperate and share jobs when necessary to keep down costs; and the company’s website is state of the art and one of the easiest to use in the industry.

Planning is a complex and difficult task because a lot of uncertainty normally surrounds the decisions managers need to make. Because of this uncertainty, managers face risks when deciding what actions to take. A knowledge of OB can help improve the
EXHIBIT 1.4
Four Functions of Management

- **Planning**
  - Decide on organizational goals and allocate and use resources to achieve those goals.

- **Organizing**
  - Establish the rules and reporting relationships that allow people to achieve organizational goals.

- **Controlling**
  - Evaluate how well the organization is achieving its goals and take action to maintain and improve performance or take corrective action.

- **Leading**
  - Encourage and coordinate individuals and groups so that they work toward organizational goals.

**ORGANIZING**
Establishing a structure of relationships that dictates how members of an organization work together to achieve organizational goals.

**LEADING**
Encouraging and coordinating individuals and groups so that all organizational members are working to achieve organizational goals.

**SELF-MANAGED TEAMS**
Groups of employees who are given the authority and responsibility to manage many different aspects of their own organizational behavior.

quality of decision making, increase the chances of success, and lessen the risks inherent in planning and decision making. First, the study of OB reveals how decisions get made in organizations and how politics and conflict affect the planning process. Second, the way in which group decision making affects planning, and the biases that can influence decisions, are revealed. Third, the theories and concepts of OB show how the composition of an organization’s top-management team can affect the planning process. The study of OB, then, can improve a manager’s planning abilities and increase organizational performance.

**Organizing.** In organizing, managers establish a structure of relationships that dictates how members of an organization work together to achieve organizational goals. Organizing involves grouping workers into groups, teams, or departments according to the kinds of tasks they perform. At Southwest and IBM, for example, service technicians are grouped into a service-operation department, and salespeople are grouped into the sales department.

OB offers many guidelines on how to organize employees (the organization’s human resources) to make the best use of their skills and capabilities. In later chapters we discuss various methods of grouping workers to enhance communication and coordination while avoiding conflict or politics. At Southwest Airlines, for example, although employees are members of particular departments (pilots, flight attendants, baggage handlers), they are expected to perform one another’s nontechnical jobs when needed.

**Leading.** In leading, managers encourage workers to do a good job (work hard, produce high-quality products) and coordinate individuals and groups so that all organizational members are working to achieve organizational goals. The study of different leadership methods and of how to match leadership styles to the characteristics of the organization and all its components is a major concern of OB. Today, the way managers lead employees is changing because millions of employees work in self-managed teams—groups of employees who are given both the authority and responsibility to manage many different aspects of their own OB. These groups, for example, are often responsible for interviewing job applicants and for selecting new team members. Team members then train new recruits as well as help each other improve their own levels of job skills and knowledge. They also work together to develop new work methods and procedures that can increase their effectiveness.

The managers who used to actively supervise the team now play a different role—that of coaches or mentors. Their new role is to provide advice or support as needed and to champion the team and help it to obtain additional resources that will allow it to perform at
a higher level and earn greater rewards as well. The way in which a small company called Dick’s Drive-In Restaurant chose and followed this approach to managing OB illustrates many of these issues as the following OB Today suggests.

**OB Today**

**Dick’s Restaurants Understands Its Employees**

Dick’s Drive-In Restaurants is a five-store, family-owned hamburger chain based in Seattle, Washington. Founded in 1954, its owners have pursued an innovative approach to retaining hard-working employees in the fast-food industry—an industry known for its high level of employee turnover rates. From the beginning, Dick’s decided to pay its employees well above the industry average and offer them many benefits, too. Dick’s pays its 110 part-time employees $8.75 an hour. It also covers 100 percent of the cost of its employees’ health insurance and provides employees who have worked at Dick’s for six months up to $10,000 toward the cost of their four-year college tuition! Dick’s even pays its employees their regular wage if they perform four hours of voluntary work each month in the local community.

Dick’s competitors, on the other hand—national hamburger chains like Wendy’s and McDonald’s—pay their part-time employees at the minimum wage of $5.85 an hour and offer them no health insurance and few other benefits—certainly nothing that can compare to Dick’s. When asked why Dick’s adopts this approach, Jim Spady, its vice-president, answered, “We’ve been around since 1954 and one thing we’ve always believed is that there is nothing more important than finding and training and keeping the best people you possibly can.”

Dick’s managers understand how to lead and motivate restaurant crews to obtain a high level of employee retention.

Dick’s approach to OB begins when it recruits new hires straight from high school. Its managers emphasize that they are looking for hard work and long-term commitment from employees. They stress further that in return Dick’s will help and support employees by providing them with above-average pay, health-care insurance, and tuition money while they work their way through school. Dick’s expects its employees to perform to the best of their abilities to get its burgers, and its customers, out the door as fast as they can. Employees are expected to be able to perform any of the tasks involved in the Burger restaurant such as taking orders, cooking the food, and cleaning up the premises. When performing their work, Dick’s employees don’t wait to be asked to do something; they know what to do to provide customers with the freshest burger Seattle has to offer.
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Although Dick’s does not expect its employees to remain with the company after they have graduated, it does, however, want them to stay with the company until they do. And here lies the reason why Dick’s can afford to reward its employees with such generous salaries and benefits compared to its competitors. Employee turnover at large national burger chains is frequently more than 100 percent a year, meaning a typical burger restaurant has to replace all its employees at least once a year. As a result, large chains have to recruit and train new employees continually, which is very expensive and greatly increases the costs of operating a restaurant. High employee turnover also makes it difficult for managers to develop close working relationships with employees and find ways to encourage them to perform at a high level.

Dick’s approach to OB leads to high performance and low turnover, which both keep operating costs low. Furthermore, Dick’s managers have discovered that if employees stay for at least six months, its lower operating costs more than compensate for the extra pay and benefits employees receive. Dick’s approach has therefore created a win-win situation for the company and its employees. If a person has to work their way through college then Dick’s seems to be a good place to do it.

CONTROLLING
Monitoring and evaluating individual, group, and organizational performance to see whether organizational goals are being achieved.

Controlling. Finally, in controlling, managers monitor and evaluate individual, group, and organizational performance to see whether organizational goals are being achieved. If goals are being met, managers can take action to maintain and improve performance; if goals are not being met, managers must take corrective action. The controlling function also allows managers to evaluate how well they are performing their planning, organizing, and leading functions.

Once again, the theories and concepts of OB allow managers to understand and accurately diagnose work situations in order to pinpoint where corrective action may be needed. Suppose the members of a group are not working effectively together. The problem might be due to personality conflicts between individual members of the group, to the faulty leadership approach of a supervisor, or to poor job design. OB provides tools managers can use to diagnose which of these possible explanations is the source of the problem, and it enables managers to make an informed decision about how to correct the problem. Control at all levels of the organization is impossible if managers do not possess the necessary organizational-behavior tools.

Managerial Roles
Managers perform their four functions by assuming specific roles in organizations. A role is a set of behaviors or tasks a person is expected to perform because of the position he or she holds in a group or organization. One researcher, Henry Mintzberg, has identified ten roles that manager’s play as they manage the behavior of people inside and outside the organization (such as customers or suppliers). (See Exhibit 1.5.)

Managerial Skills
Just as the study of OB provides tools that managers can use to increase their abilities to perform their functions and roles, it can also help managers improve their skills in managing OB. A skill is an ability to act in a way that allows a person to perform well in his or her role. Managers need three principal kinds of skill in order to perform their organizational functions and roles effectively: conceptual, human, and technical skills.

Conceptual skills allow a manager to analyze and diagnose a situation and to distinguish between cause and effect. Planning and organizing require a high level of conceptual skill, as do the decisional roles previously discussed. The study of OB provides managers with many of the conceptual tools they need to analyze organizational settings and to identify and diagnose the dynamics of individual and group behavior in these settings.
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EXHIBIT 1.5

Types of Managerial Roles

<table>
<thead>
<tr>
<th>Type of Role</th>
<th>Examples of Role Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figurehead</td>
<td>Give speech to workforce about future organizational goals and objectives; open a new corporate headquarters building; state the organization’s ethical guidelines and principles of behavior that employees are to follow in their dealings with customers and suppliers.</td>
</tr>
<tr>
<td>Leader</td>
<td>Give direct commands and orders to subordinates; make decisions concerning the use of human and financial organizational resources; mobilize employee commitment to organizational goals.</td>
</tr>
<tr>
<td>Liaison</td>
<td>Coordinate the work of managers in different departments or even in different parts of the world; establish alliances between different organizations to share resources to produce new products.</td>
</tr>
<tr>
<td>Monitor</td>
<td>Evaluate the performance of different managers and departments and take corrective action to improve their performance; watch for changes occurring in the industry or in society that may affect the organization.</td>
</tr>
<tr>
<td>Disseminator</td>
<td>Inform organizational members about changes taking place both inside and outside the organization that will affect them and the organization; communicate to employees the organization’s cultural and ethical values.</td>
</tr>
<tr>
<td>Spokesperson</td>
<td>Launch a new organizational advertising campaign to promote a new product; give a speech to inform the general public about the organization’s future goals.</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>Commit organizational resources to a new project to develop new products; decide to expand the organization globally in order to obtain new customers.</td>
</tr>
<tr>
<td>Disturbance handler</td>
<td>Move quickly to mobilize organizational resources to deal with external problems facing the organization, such as environmental crisis, or internal problems facing the organization, such as strikes.</td>
</tr>
<tr>
<td>Resource allocator</td>
<td>Allocate organizational resources between different departments and divisions of the organization; set budgets and salaries of managers and employees.</td>
</tr>
<tr>
<td>Negotiator</td>
<td>Work with suppliers, distributors, labor unions, or employees in conflict to solve disputes or to reach a long-term contract or agreement; work with other organizations to establish an agreement to share resources.</td>
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**Human skills** enable a manager to understand, work with, lead, and control the behaviors of other people and groups. The study of how managers can influence behavior is a principal focus of OB, and the ability to learn and acquire the skills that are needed to coordinate and motivate people is a principal difference between effective and ineffective managers.

**Technical skills** are the job-specific knowledge and techniques that a manager requires to perform an organizational role—for example, in manufacturing, accounting, or marketing. The specific technical skills a manager needs depend on the organization the manager is in and on his or her position in the organization. The manager of a restaurant, for example, needs cooking skills to fill in for an absent cook, accounting and bookkeeping skills to keep track of receipts and costs and to administer the payroll, and artistic skills to keep the restaurant looking attractive for customers.

Effective managers need all three kinds of skills—conceptual, human, and technical. The lack of one or more of these skills can lead to a manager’s downfall. One of the biggest problems that entrepreneurs who found their own businesses confront—a problem that is often responsible for their failure—is lack of appropriate conceptual and human skills. Similarly, one of the biggest problems that scientists, engineers, and others who switch...
careers and go from research into management confront is their lack of effective human skills. Management functions, roles, and skills are intimately related, and in the long run the ability to understand and manage behavior in organizations is indispensable to any actual or prospective manager.

Challenges For OB

In the last few decades, the challenges facing organizations to effectively utilize and develop the skills, knowledge, and “human capital” of their employees have been increasing. As we noted earlier, among these challenges, those stemming from changing pressures or forces in the social and cultural, global, technological, and work environments stand out. To appreciate the way changes in the environment affect behavior in organizations, it is useful to model an organization from an open-systems perspective. In an open system, an organization takes in resources from its external environment and converts or transforms them into goods and services that are sent back to that environment, where they are bought by customers (see Exhibit 1.6).

The activities of most organizations can be modeled using the open-systems view. At the input stage, companies such as Ford, General Electric, Ralph Lauren, Amazon.com, and Dick’s Restaurants acquire resources such as raw materials, component parts, skilled employees, robots, and computer-controlled manufacturing equipment. The challenge is to create a set of OBs and procedures that allow employees to identify and purchase high-quality resources at a favorable price. An organizational procedure is a rule or routine an employee follows to perform some task in the most effective way.

Once the organization has gathered the necessary resources, conversion begins. At the conversion stage, the organization’s workforce, using appropriate skills, tools, techniques, machinery, and equipment, transforms the inputs into outputs of finished goods and services, such as cars, appliances, clothing, and hamburgers. The challenge is to develop the set of OBs and procedures that results in high-quality goods and services produced at the lowest possible cost.

At the output stage, the organization releases finished goods and services to its external environment where customers purchase and use them to satisfy their needs. The challenge is to develop the set of OBs and procedures that attract customers to a company’s products and who come to believe in the value of a company’s goods and services and thus become loyal customers. The money the organization obtains from the sales of its outputs
to customers allows the organization to acquire more resources so that the cycle can begin again.

The system just described is said to be open because the organization draws from and interacts with the external environment to secure resources, and then disposes of its outputs by selling its products to customers. Only by continually altering and improving its OBs and procedures to respond to changing environmental forces can an organization adapt and prosper over time. Organizations that fail to recognize the many changing forces in the environment lose their ability to acquire resources, to sell their products, and so they often disintegrate and disappear over time.

In the next sections, we introduce the four major OB challenges coming from a changing environment that the people who work in companies and organizations face today. We then examine these challenges in more depth throughout the rest of the book to reveal the many dramatic ways in which OB and procedures are changing today so organizations can adapt and prosper.

**Challenge 1: The Changing Social and Cultural Environment**

Forces in the social and cultural environment are those that are due to changes in the way people live and work—changes in values, attitudes, and beliefs brought about by changes in a nation’s culture and the characteristics of its people. **National culture** is the set of values or beliefs that a society considers important and the norms of behavior that are approved or sanctioned in that society. Over time, the culture of a nation changes, and this affects the values and beliefs of its members. In the United States, for example, beliefs about the roles and rights of women, minorities, gays, and the disabled, as well as feelings about love, sex, marriage, war, and work, have all changed in each passing decade.

Organizations must be responsive to the changes that take place in a society, for these affect all aspects of their operations. Change affects their hiring and promotion practices, for one, as well as the forms of OBs and procedures that are seen as appropriate in the work setting. For example, in the last ten years the number of women and minorities assuming managerial positions in the work force has increased by over 25 percent. As we discuss in detail in later chapters, organizations have had to make enormous strides to prevent their employees from discriminating against others because of factors such as age, gender, or ethnicity, and to work to prevent sexual harassment. Two major challenges of importance to OB today are those that derive from a breakdown in ethical values and from the increasing diversity of the workforce.

**Developing Organizational Ethics and Well-Being**

Recently, huge ethical scandals have plagued hundreds of U.S. companies like Worldcom, Tyco, Adelphia, Enron, and Arthur Andersen, whose top managers put personal gain ahead of their responsibility toward their employees, customers, and investors. Many of these companies’ stock prices have collapsed, and ordinary Americans have seen the value of their pension plans and investments plunge in value as a result. In light of these scandals, the effect of ethics—an important component of a nation’s social and cultural values—on the behavior of organizations and their members has taken center stage.9

An organization’s **ethics** are the values, beliefs, and moral rules that its managers and employees should use to analyze or interpret a situation and then decide what is the “right” or appropriate way to behave.10 An **ethical dilemma** is the quandary managers experience when they have to decide if they should act in a way that might benefit other people or groups, and that is the “right” thing to do, even though doing so might go against their own and their organization’s interests. An ethical dilemma may also arise when a manager has to decide between two different courses of action, knowing that whichever course he or she chooses will inevitably result in harm to one person or group even while it may benefit another. The ethical dilemma here is to decide which course of action is the “lesser of two evils.”
Managers and employees know they are confronting an ethical dilemma when their moral scruples come into play and cause them to hesitate, debate, and reflect upon the “rightness” or “goodness” of a course of action. The ethical problem is to decide how a particular OB will help or harm people or groups—both inside and outside the organization—who will be affected by it. Ethical OB is important because it can enhance or reduce the well-being—that is, the happiness, health, and prosperity—of a nation and its citizens in several ways.

First, ethics help managers establish the goals that their organizations should pursue and the way in which people inside organizations should behave to achieve them. For example, one goal of an organization is to make a profit so that it can pay the managers, employees, suppliers, shareholders, and others who have contributed their skills and resources to the company. Ethics specify what actions an organization should take to make a profit. Should an organization be allowed to harm its competitors by stealing away their skilled employees or by preventing them from obtaining access to vital inputs? Should an organization be allowed to produce inferior goods that may endanger the safety of customers? Should an organization be allowed to take away the jobs of U.S. employees and transfer them overseas to employees in countries where wages are $5 per day? What limits should be put on organizations’ and their managers’ attempts to make a profit? And who should determine those limits?

The devastating effect of a lack of organizational ethics is illustrated by the behavior of the company Metabolife International that made and sold the drug Ephedra, which used to be a widely used supplement taken for weight loss or body-building purposes. Although fears about this drug’s side effects had been around for years, Metabolife resisted attempts by the Food and Drug Administration (FDA) to obtain a list of customer reports about the effects they had experienced from using its pills. After being threatened with a criminal investigation, Metabolife released over 16,000 customer reports about its Ephedra products that listed nearly 2,000 adverse reactions including 3 deaths, 20 heart attacks, 24 strokes, and 40 seizures. Metabolife did not have to reveal this negative information about the side effects of its product because no laws existed to force supplement makers to do so, although pharmaceutical companies are governed by laws that require them to reveal side effects. Its actions might have been legal but they were unethical, and those who had suffered adverse reactions from using its pills began to sue the company and win large settlements.

In addition to defining right and wrong behavior for employees, ethics also define an organization’s social responsibility, or its obligations and duty toward people or groups outside the organization that are directly affected by its actions. Organizations and their managers must establish an ethical code that describes acceptable behaviors and they must create a system of rewards and punishments to enforce this ethical code.

The ultimate goal of the firm is to make a profit. Suppose you were on the board of directors for Metabolife International. Would you have advised the company to warn consumers about the adverse effect of the company’s diet pills if it weren’t required by law?
Different organizations have different views about social responsibility. To some organizations, being socially responsible means performing any action as long as it is legal. Other organizations do more than the law requires and work to advance the well-being of their employees, customers, and society in general. Target, UPS, and Ben & Jerry’s, for example, each contribute a significant percentage of their profits to support charities and community needs and expect their employees to be socially active and responsible. Starbucks and Green Mountain Coffee Roasters seek out coffee-growing farmers and cooperatives that do not use herbicides and pesticides on their crops, that control soil erosion, and that treat their employees fairly and with respect in terms of safety and benefits. Starbucks also signs contracts with small coffee growers abroad to ensure they receive a fair price for their coffee crop, even if world prices for coffee plunge—they want their growers to remain honest and loyal.

Not all organizations are willing or able to undertake such programs, but all organizations need codes of conduct that spell out fair and equitable behavior if they want to avoid doing harm to people and other organizations. Developing a code of ethics helps organizations protect their reputations and maintain the goodwill of their customers and employees. Today, many companies are strengthening their codes of ethics and making employees at all levels sign off that they understand them and will follow them, just as the Sarbanes-Oxley Act forces the CEO and chief financial officer (CFO) to sign a company’s financial reports, indicating they are true and accurate. Companies that have been found to act illegally are today often forced to agree to supervision from an outside ethics monitor, put in place to evaluate its managers’ current decision making—as has happened to MCI and KPMG.

It will also happen at Boeing, which has experienced major ethical problems in recent years. In 2006, for example, Boeing agreed to pay $615 million to end a three-year Justice Department investigation into reported defense-contracting scandals. The deal would allow Boeing to avoid criminal charges or any admission of wrongdoing. Boeing has been under investigation for improperly acquiring proprietary competitive information about rival Lockheed Martin’s bidding intention for government rocket-launching contracts in order to win the auction. The government stripped Boeing of about $1 billion worth of rocket launches for its improper use of the Lockheed documents. Additionally, Boeing illegally recruited senior Air Force Procurement Officer Darleen Druyun while she still had authority over billions of dollars in other Boeing contracts. Druyun reportedly also championed Boeing’s efforts to bypass normal procurement procedures in offering to provide refueling tankers to the Air Force through a controversial $20 billion leasing program. Druyun served nine months in prison in 2005 for violating federal conflict-of-interest laws. Michael Sears, formerly CFO at Boeing, was fired in 2003 and spent four months in federal prison for illegally recruiting her. The scandals also led to the resignation of Boeing Chairman Phil Condit. All this despite the fact that the Boeing supposedly had a strong code of ethics!

The challenge is to create an organization whose members resist the temptation to behave in illegal and unethical ways that promote their own interests at the expense of the organization or promote the organization’s interests at the expense of people and groups outside the organization. Employees and managers have to recognize that their behavior has important effects not only on other people and groups inside and outside the organization but also on the organization itself. The well-being of organizations and the well-being of the society of which they are a part are closely linked and are the responsibility of everyone. (How to create an ethical organization is an issue that we take up throughout the text.) With this in mind, take a look at the ethical exercise in “A Question of Ethics,” which is found in OB in Action, a collection of experiential exercises located at the end of every chapter of this book. For an example of the way the issue of social responsibility permeates global issues, and how we are all instrumental in determining well-being around the world, consider the issue of rose growing discussed in Ethics in Action.

Dealing With a Diverse Workforce
A second social and cultural challenge is to understand how the diversity of a workforce affects OB. Diversity results from differences in age, gender, race, ethnicity, religion, sexual orientation, socioeconomic background, and capabilities or disabilities. If an
Ethics in Action

Everything is Not Coming Up Roses

Every year on Valentine’s Day tens of millions of roses are delivered to sweethearts and loved ones in the United States, and anyone who has bought roses knows that their price has been falling steadily. One of the main reasons for this is that rose growing is now concentrated in poorer countries in Central and South America. Rose growing has been a boon to poor countries where the extra income women earn can mean the difference between starvation or not for their families. Ecuador, for example, is the fourth biggest rose grower in the world, and the industry employs over 50,000 women who tend, pick, and package roses for above its national minimum wage. Most of these women are employed by Rosas del Ecuador, the company that controls the rose business in that country.

The hidden side of the global rose-growing business is that poorer countries tend to have lax or unenforced health and safety laws, something that lowers rose-growing costs in these countries. And, critics argue, many rose-growing companies and countries are not considering the well-being of their workers. For example, although the CEO of Rosas de Ecuador, Erwin Pazmino, denies workers are subjected to unsafe conditions, almost 60% of his workers have reported blurred vision, nausea, headaches, asthma, and other symptoms of pesticide poisoning. Workers labor in hot, poorly ventilated greenhouses in which roses have been sprayed with pesticides and herbicides. Safety equipment such as masks and ventilators is scarce and the long hours women work adds to chemical overexposure. If workers complain, they may be fired and blacklisted, which makes it hard for them to find other jobs. So, to protect their families’ well-being, workers rarely complain and so their health remains at risk.

Clearly, rose buyers worldwide need to be aware of these working conditions when deciding to buy roses, just as buyers of inexpensive clothing and footwear became concerned in the last few decades when they found out about the sweatshop conditions in which garment and shoe workers labored. Companies like Nike and Wal-Mart have made major efforts to stop sweatshop practices, and they now employ hundreds of inspectors who police the factories overseas that make the products they sell. In a similar way, the main buyers and distributors of flowers for the U.S. market also are beginning to consider the well-being of the workers who grow them.
organization or group is composed of people who are all of the same gender, ethnicity, age, religion, and so on, the attitudes and behavior of its members are likely to be very similar. Members are likely to share the same attitudes or values and will tend to respond to work situations (projects, conflicts, new tasks) in similar ways. By contrast, if the members of a group differ in age, ethnicity, and other characteristics, their attitudes, behavior, and responses are likely to differ as well.

In the last twenty years, the demographic makeup of employees entering the work force and advancing to higher-level positions in organizations has been changing rapidly. Partly because of affirmative action and equal-opportunity-employment legislation, the number of minority employees entering and being promoted to higher-level positions has increased. By 2005, African-American and Hispanic employees made up over 22 percent of the work force, while the percentage of white males decreased from 51 percent to 46 percent. At the same time, the number of women entering the work force has also been increasing dramatically and they are ascending to higher and higher positions in management. Finally, because of increased globalization, the diversity of the U.S. population is increasing rapidly due to the large numbers of people born in other nations who immigrate to the United States to live and work.

The increasing diversity of the work force presents three challenges for organizations and their managers: a fairness and justice challenge, a decision-making and performance challenge, and a flexibility challenge (see Exhibit 1.7).

**Fairness and Justice Challenge.** Jobs in organizations are a scarce resource, and obtaining jobs and being promoted to a higher-level job is a competitive process. Managers are challenged to allocate jobs, promotions, and rewards in a fair and equitable manner. As diversity increases, achieving fairness can be difficult, at least in the short run, because many organizations have traditionally appointed white-male employees to higher organizational positions. Also, seniority plays a role and many minorities are recent hires. Rectifying this imbalance by actively recruiting and promoting increasing numbers of women and minorities can lead to difficult equity issues because this attempt to fix the traditional imbalance reduces the prospects for white-male employees. An increase in diversity can thus strain an organization’s ability to satisfy the aspirations of its work force, creating a problem that, in turn, directly affects the work force’s well-being and performance. Organizations must learn to manage diversity in a way that increases

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EXHIBIT 1.7

The Challenge Posed by Diverse Workplace

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the well-being of all employees, but deciding how to achieve this goal can pose difficult ethical problems for managers.\textsuperscript{31}

**Decision-Making and Performance Challenge.** Another important challenge posed by a diverse workforce is how to take advantage of differences in the attitudes and perspectives of people of different ages, genders, or races, in order to improve decision making and raise organizational performance.\textsuperscript{32} Many organizations have found that tapping into diversity, and taking advantage of the potential of diverse employees, leads to new and improved OBs and procedures.\textsuperscript{33} Union Bank of California (UBC) is one example of a company that has enjoyed huge success because of the way it has developed an approach to diversity that reflects the needs of its employees, customers, and its environment.\textsuperscript{34}

With assets of over $35 billion, UBC, based in San Francisco, is the third largest commercial bank in California and among the 25 largest banks in the United States.\textsuperscript{35} California is one of the most diverse states in the nation and over half the population is Asian, Black, Hispanic, and/or gay. Recognizing this fact, the bank always had a policy of seeking to hire and recruit diverse employees. However, UBC also woke up to the fact that it could use the diversity of its employees to build its customer base. The process started when George Ramirez, a UBC vice president, suggested that the bank should create a marketing group to develop a plan to attract customers who were Hispanic like himself. So successful was this venture that a group of African-American employees decided that they should create a marketing group to develop a marketing campaign to attract new African-American customers. It was soon clear to UBC that it should use the diversity of its employees as a way of improving customer service so that, for example, if a customer walks into a bank branch in a predominately Latino neighborhood, they will be greeted by a substantial numbers of Latino employees.\textsuperscript{36}

The bank, like many other organizations, also discovered that as its reputation as a good place for minorities to work increased, it began to attract highly skilled and motivated minority job candidates so that it helped itself. As Takahiro Moriguchi, its former CEO, said in accepting a diversity award for the company, “By searching for talent from among the disabled, both genders, veterans, all ethnic groups, and all nationalities, we gain access to a pool of ideas, energy, and creativity as wide and varied as the human race itself. I expect diversity will become even more important as the world gradually becomes a truly global marketplace.”\textsuperscript{37}

**Flexibility Challenge.** A third diversity challenge is to be sensitive to the needs of different kinds of employees and to try to develop flexible employment approaches that increase employee well-being. Examples of some of these approaches include the following:

- New benefits packages customized to the needs of different groups of employees, such as single employees with no children and families, gays in long-term committed relationships, and employees caring for aged parents
- Flexible employment conditions (such as flextime) that give employees input into the length and scheduling of their workweek
- Arrangements that allow for job sharing so that two or more employees can share the same job (to take care of children or aged parents, for example)
- Designing jobs and the buildings that house organizations to be sensitive to the special needs of handicapped employees (and customers)
- Creating management programs designed to provide constructive feedback to employees about their personal styles of dealing with minority employees\textsuperscript{38}
- Establishing mentoring relationships to support minority employees\textsuperscript{39}
- Establishing informal networks among minority employees to provide social support\textsuperscript{40}

Managing diversity is an ongoing activity that has many important implications for organizations. We discuss diversity in depth in Chapter 4.
**Challenge 2: The Evolving Global Environment**

The challenge of responding to social and cultural forces increases as organizations expand their operations globally and set up international operations in countries throughout the world. **Global organizations**, like GM, Toyota, Amazon.com, Nokia, PepsiCo, and Sony, are companies that produce or sell their products in countries and regions throughout the world. Each country has a different national culture, and so when they expand their operations abroad global organizations they encounter much greater differences in social and cultural values, beliefs, and attitudes. They therefore face the increased challenge of dealing with ethical and diversity-related issues across countries and national boundaries.

Two important challenges facing global organizations are to appreciate the differences that exist between countries and then to benefit from this new global knowledge to improve OBs and procedures.

**Understanding Global Differences**

Companies must learn about many different kinds of factors when they operate globally. Evidence shows that people in different countries have different values, beliefs, and attitudes—not only about their work and organizations. It has been argued, for example, that Americans have an individualistic orientation toward work and Japanese people have a collectivist orientation. These different orientations to work reflect cultural differences, which affect people’s behavior in groups and their commitment and loyalty to an organization.

OB becomes especially complex at a global level because the attitudes, aspirations, and values of the work force differ by country. For example, most U.S. employees are astonished to learn that in Europe the average employee receives from four to six weeks paid vacation a year. In the United States, a comparable employee receives only one or two weeks. Similarly, in some countries, promotion by seniority is the norm, but in others, level of performance is the main determinant of promotion and reward. Understanding the differences between national cultures is important in any attempt to manage behavior in a global organization.

Second, problems of coordinating the activities of an organization to match its environment become much more complex as an organization’s activities expand across the globe. Decision making, for example, must be coordinated between managers at home and those in countries abroad who are likely to have different views about what goals an organization should pursue. One of the most significant functions of global managers is the way they organize the company and decide how to allocate decision-making authority and responsibility between managers at home and abroad.

Third, in many cases global organizations locate in a particular country abroad because this allows them to operate more effectively, but in doing so this also has major affects on their home operations. Today, for example, the need to reduce the costs of making and selling goods to stay competitive with companies from around the world has pushed many U.S. companies to make most of their products abroad. They contract with manufacturers in countries where labor costs are low to make their products, which are then shipped back to the U.S. for sale. In the last decade, for example, over 10 million jobs have been lost in the U.S. garment-making industry. Companies like Levi Strauss, which made all their clothing in the U.S. twenty years ago, now contract with foreign manufactures and virtually all their clothing is made abroad. The way IKEA has successfully met all these challenges using its global approach to OB is instructive for global companies, as the following Global View suggests.

**Global Learning**

Although the changing global environment has been a major threat to U.S. organizations and workers, it also offers them many opportunities to improve the ways they operate. By fostering **global learning**—the process of acquiring and learning the skills, knowledge,
IKEA’s Worldwide Approach to OB

IKEA is the largest furniture chain in the world, and in 2006 the Swedish company operated over 231 stores in 33 countries. In 2005 IKEA sales were almost $15 billion, over 20% of the global furniture market, but to its managers and employees this is just the tip of the iceberg. They believe IKEA is poised for massive growth throughout the world in the coming decade because it can provide what the average customer wants: well-designed contemporary furniture at an affordable price. IKEA’s ability to provide customers with affordable furniture is very much the result of its approach to OB, that is, to the way it treats its employees and operates its global store empire. In a nutshell, IKEA’s OB approach revolves around simplicity, attention to detail, cost-consciousness, and responsiveness in every aspect of its actions and behavior.

The origins of IKEA’s successful approach derive from the personal values and beliefs of its founder Ingvar Kamprad, concerning how organizations should treat their employees and customers. Kamprad, who is now in his 70s, was born in Smaland, a poor Swedish province whose citizens are well known for being entrepreneurial, frugal, and hard working. Kamprad definitely absorbed these values, for when he entered the furniture business he made them the core of his approach to OB. He teaches store managers and employees his values; his beliefs about the need to operate in a no-frills, cost-conscious way; and, that they are all in business “together,” by which he means that every person in his company plays an essential role and has an obligation to everyone else.

What does Kamprad’s frugal, cost-conscious approach mean in practice? All IKEA’s members fly coach class on business, stay in inexpensive hotels, and work to keep traveling expenses to a minimum. It also means that IKEA stores operate on the simplest set of rules and procedures possible and that employees are expected to work together to solve problems on an ongoing basis to get the job done. Many famous stories exist about how the frugal Kamprad also always flies coach class, and about how, when he takes a coke can from the mini-bar in a hotel room, he replaces it with one bought in a store—and all this despite the fact that he is a multi-billionaire ranked in the top twenty on the Forbes list of the world’s richest people!

IKEA’s employees see what his approach to OB means as soon as they are recruited to work in one of its stores. Starting at the bottom of the ladder, they are quickly trained to perform all the various jobs involved in operating the stores. They also learn the
importance IKEA attaches to them learning to take the initiative and responsibility for solving problems and for focusing on the customer. Employees are rotated between departments and sometimes stores, and rapid promotion is possible for those who demonstrate the enthusiasm and togetherness that signifies they have bought into IKEA’s approach. Most of IKEA’s managers rose from its ranks and, to make sure top executives are constantly in touch with stores, IKEA holds “breaking the bureaucracy weeks” when they are required to work in stores and warehouses for a week each year. Everyone wears informal clothes to work at IKEA, Kamprad has always worn an open-neck shirt, and there are no marks of status such as executive dining rooms or private parking places.

All employees believe that if they buy into IKEA’s work values and behave in ways that will keep its operations simple and streamlined, and if they focus on being one step ahead of potential problems, that they will share in its success. Promotion, training, above-average pay, a generous store-bonus system, and also the personal well-being that comes from working in a place where people are valued by their coworkers are some of the rewards that Kamprad pioneered to build and strengthen IKEA’s global OB approach.

Whenever IKEA enters a new country, or opens a new store in a new city, it sends its most experienced store managers to establish its global OB approach in its new stores. When IKEA first entered the U.S., the attitude of U.S. employees puzzled its managers. Despite their obvious drive to succeed and good education, employees seemed reluctant to take the initiative and assume responsibility. IKEA’s managers discovered that their U.S. employees were afraid mistakes would result in the loss of their jobs, so they strived to teach employees the “IKEA way” and its approach to OB has prevailed. The U.S. has become its second-best market and it plans to open many more U.S. stores over the next decade.

and OBs and procedures that have helped companies abroad become major global competitors—U.S. companies have also prospered. For example, U.S. companies have been able to gain access to many kinds of valuable resources present in companies abroad. Ford and GM have bought the design skills of Italian companies like Ferrari and Lamborghini, electronic components from Japanese companies like NEC and Matsushita (well known for their quality), and machine tools and manufacturing equipment from German companies like Daimler-Chrysler and BASF (well known for their excellent engineering skills). Through global learning, companies also learn how to better serve the needs of their customers and of course they can attract more customers for their goods and services. For example, the potential size of the U.S. market for hamburgers is 265 million people, but there are 3 billion potential burger-eaters in Asia alone. Thus it is not surprising that McDonald’s has expanded globally, opening restaurants throughout Asia and the rest of the world in order to take advantage of the huge global appetite for hamburgers, french fries, and milk shakes.

To respond to the global challenge, more and more companies are rotating their employees and moving them to their overseas operations so they can learn firsthand the problems and opportunities that arise when working in countries overseas. Expatriate managers are those who live and work for companies in countries abroad. There are many ways they can help their companies develop improved OBs and procedures. First, expatriate managers can learn about the sources of low-cost inputs and the best places to assemble their products throughout the world. Second, expatriate managers in functions such as research and development, manufacturing, and sales can take advantage of their presence in a foreign country to learn the skills and techniques those companies in that country use. They can apply this knowledge to improve the performance not only of their operations abroad but also of their domestic or home operations. Many companies also use global virtual teams to increase global learning.

After World War II, for example, many of Toyota’s manufacturing managers visited the U.S. car plants of GM and Ford to learn how these companies assembled cars. Those Japanese managers took that manufacturing knowledge back to Japan, where they
improved on the American techniques and developed the lean manufacturing technology that gave Toyota and other Japanese automakers their competitive advantage over U.S. companies in the 1980s. Recognizing the lead Japanese companies had gained in quality manufacturing techniques, GM, Ford, Xerox, Motorola, and many other U.S. companies sent their managers to Japan in the 1980s and 1990s to learn about the new techniques. These U.S. companies then incorporated the Japanese techniques into their manufacturing operations, often improving on them in the process, so that in the 2000s companies like GM and Ford have substantially narrowed the efficiency gap. In this way, global learning continually takes place as global organizations compete with one another worldwide for customers. Organizational effectiveness increases because all global companies are forced to learn about recent advances in technology and adopt the best OBs and procedures if they are to survive and prosper.

Global Crisis Management

Today, global learning is also important to tackle another challenging issue, global crisis management. Extensive global learning allows for more effective responses to the increasing number of crises or disasters that are occurring from natural or man-made causes or because of international terrorism and geopolitical conflicts. Crises that arise because of natural causes include the wave of hurricanes, tsunamis, earthquakes, famines, and diseases that have devastated so many countries in the 2000s—hardly any country has been left untouched by their effects. Man-made crises, such as those that are the result of global warming, pollution, and the destruction of the natural habitat or environment, also seem to be increasing. For example, pollution has become an increasingly important problem for companies and countries to deal with. Companies in heavy industries such as coal and steel have polluted millions of acres of land around major cities in Eastern Europe and Asia, and huge cleanups are necessary. Disasters such as the Chernobyl nuclear power plant meltdown released over 1540 times as much radiation into the air as occurred at Hiroshima, and over 50,000 people have died from this while hundreds of thousands more have been affected. The need to avoid crises of this kind is of paramount importance.

Man-made crises, such as global warming due to emissions of carbon dioxide and other gases, may have made the effects of natural disasters more serious. For example, increasing global temperatures and acid rain may have increased the intensity of hurricanes, led to unusually strong rains and lengthy droughts, and caused the destruction of coral reefs, forests, and the natural habitat in many parts of the world. The shrinking polar icecaps are expected to raise the sea level by a few, but vital, inches.

Finally, increasing geopolitical tensions that are the result of the speed of the process of globalization itself have upset the global balance of power as different countries or world regions try to protect their own economic and political interests. Rising oil prices, for example, have strengthened the bargaining power of major oil-supplying countries, which has led the United States to adopt global political strategies, including its war on terrorism, to secure the supply of oil that is vital to protect the national interest. In a similar way, countries in Europe have been forming contracts and allying with Russia to obtain its supply of natural gas as Japan and China have been negotiating with Iran and Saudi Arabia.

OB has an important role to play in helping people and organizations respond to such crises, for it provides lessons as to how to manage and organize the resources needed to respond to a crisis. As we discuss in later chapters, crisis management involves important decisions such as (1) creating teams to facilitate rapid decision making and communication, (2) establishing the organizational chain of command and reporting relationships necessary to mobilize a fast response, (3) recruiting and selecting the right people to lead and work in such teams, and (4) developing bargaining and negotiating strategies to manage the conflicts that arise whenever people and groups have different interests and objectives. How well managers make these decisions determines how quickly an effective response to a crisis can be implemented, and sometimes can prevent or reduce the severity of the crisis itself.
One kind of technology that is posing a major challenge for organizations today is information technology (IT). Just decades ago, science-fiction writers like Robert Heinlein and Isaac Asimov imagined devices such as wrist-held videophones, virtual reality machines, and speech-programmed, hand-held computers. Today, companies like Palm, HP, Nokia, Sony, and Microsoft are offering these devices to their customers. Even science-fiction writers did not imagine the development of the World Wide Web (WWW), a global store of information that contains the products of most kinds of human knowledge such as writing, music, and art. Such knowledge can be accessed and enjoyed by anyone connected to the global network of interlinked computers that is the Internet. We live in a different world than just a mere decade ago; advances in IT have changed the way people think and the very nature of OB. To understand how IT has changed OB and the way companies operate it is necessary to understand the concept of information.

Suppose you add up the value of the coins in your pocket and find you have $1.36 in change. You have been manipulating basic data, the numerical value of each individual coin, to obtain information, the total value of your change. You did so because you needed to know, for example, if you have enough change to buy a coke and a candy bar. Information is a set of data, facts, numbers, and words that has been organized in such a way that they provide their users with knowledge. Knowledge is what a person perceives, recognizes, identifies, or discovers from analyzing data and information. Over time, the result of acquiring more and better information and knowledge is learning. In an organization, the issue is to use and develop IT that allows employees to acquire more and better information that increases an organization’s ability to respond to its environment.

Information technology (IT) is the many different kinds of computer and communications hardware and software, and the skills of their designers, programmers, managers, and technicians. IT is used to acquire, define, input, arrange, organize, manipulate, store, and transmit facts, data, and information to create knowledge and promote organizational learning. Organizational learning occurs when its members can manage information and knowledge to achieve a better fit between the organization and its environment. In the following, we examine the effect IT has on two important kinds of OB. First, those behaviors that increase effectiveness by helping an organization improve the quality of its products and lower their cost. Second, those behaviors that increase effectiveness by promoting creativity and organizational learning and innovation.

IT and Organizational Effectiveness

The Internet and the growth of intranets—a network of information technology linkages inside an organization that connects all its members—dramatically changed OB and procedures. With information more accurate, plentiful, and freely available, IT allows for the easy exchange of know-how and facilitates problem solving. And as computers increasingly take over routine work tasks, employees have more time to engage in constructive, work-expanding kinds of activities such as finding better ways of performing a task or providing customers better service.

As an example of how IT can improve organizational effectiveness consider what happened at the textile fibers division of Dupont, the giant chemical company. To reduce costs, Dupont offered early retirement incentives to reduce its workforce, and over half its middle managers decided to take the early retirement package. At first, the division’s top managers panicked, wondering how work could get done if everyone left at the same time. But the division had recently installed an e-mail system and a corporate intranet that supplied its remaining employees with most of the information they needed to perform their tasks. Employees began to use it heavily, and learned to make their own decisions and over time the intranet actually speeded communication and decision making.

IT has allowed organizations to become much more responsive to the needs of their customers. Organizations like retail stores, banks, and hospitals depend entirely on their employees performing behaviors that result in high-quality service at reasonable cost. And, as the United States has moved to a service-based economy (in part because of the loss from...
manufacturing jobs going abroad), advances in IT have made many kinds of service organizations more effective. Developing IT has also opened new opportunities for entrepreneurs to found small dot.com’s to better satisfy customers as the following OB Today suggests.59

Finally, inside companies, integrating and connecting an organization’s employees around the world through electronic means such as video teleconferencing, e-mail, and intranets, is becoming increasingly important. Because the success of a global company depends on communication between employees in its various business operations both at home and abroad, the importance of real-time communication through the use of personal digital assistants such as smartphones (like the popular Blackberry, tablet PCS, and laptops) and by video teleconferencing has grown. For example, teleconferencing allows

**OB Today**

**Entrepreneurs Found “Relationship” Dot.com’s**

The speed at which IT is changing the way people interact is nowhere more apparent than in the way “dot.com” businesses come and go. The early success of industry leaders such as Amazon.com and Yahoo! led entrepreneurs to start up thousands of new kinds of virtual companies in the search-engine, retailing, and service businesses. Most of these collapsed and went bankrupt during the dot.com crisis of the early 2000s. Only those dot.coms like Amazon.com that enjoyed brand-name recognition and loyal customers were able to hang on. Of course bricks and mortar companies such as Barnes & Noble and J.C. Penny that had established virtual storefronts had the resources to withstand this crisis, but online grocers like Webvan, that had invested billions of dollars in building a food-distribution network, had totally underestimated the costs involved in delivering food to customers and thus went bankrupt.

By the mid-2000s, entrepreneurs began to take advantage of the growth in broadband internet service to start sophisticated kinds of relationship-building websites to better meet customer needs. These websites aim to satisfy people’s needs to talk, share, collaborate, and swap stories and images; the goal is to satisfy social facilitation—not just person-specific—needs. These websites have proved to be wildly successful. Some of the most notable of these newcomers are myspace.com, the website hosting and social-group facilitator; YouTube.com, the video hosting provider; Flickr, the picture sharing and swapping website; and Rottentomatoes.com, an interactive movie-review site.60 For example, myspace.com, founded by Chris DeWolfe and Tom Anderson, which employs only 919 people, provides its users with the facility to post their personal bios, pictures, links, and so on.61 Within a few years it had over 60 million users! Similarly, YouTube has 30 million visitors a day who watch videos and post over 50,000 new videos as well. All these sites took advantage of the fact that their users supply the content, whether it be personal pages, pictures, or videos. All these dot.coms do is provide the web servers to host this content and then charge companies to place adds on their site where they will be seen by their millions of users. The key to the phenomenal success of these companies is that they provide their users with IT that allows them to meet, view, talk to one another, and collaborate and learn as they share their experiences, knowledge, and beliefs.
managers in different countries to meet face-to-face through broadband hookups. It reduces communication problems, allows decisions to be made quickly, and facilitates learning when managers in domestic and overseas divisions meet to confront important issues and to solve mutual problems. For example, Hitachi uses an online teleconferencing system to coordinate its twenty-eight R&D laboratories worldwide, and Ford uses one to coordinate the activities of its worldwide car-design activities.

**IT, Creativity, and Organizational Learning**

Today, using new IT to help people, groups, and organizations to be creative and enhance organizational innovation and learning is a major challenge. Creativity is the generation of novel and useful ideas. One of its outcomes is innovation, an organization’s ability to make new or improved goods and services or improvements in the way they are produced. The United States is home to some of the most innovative companies in the world, and innovation is the direct result or outcome of the level of creativity in an organization.

IT plays a major role in fostering creativity and innovation because it changes OBs and procedures. Innovation is an activity that requires constant updating of knowledge and a constant search for new ideas and technological developments that can be used to improve a product over time. Typically, innovation takes place in small groups or teams and IT can be used to create virtual teams that can enhance creativity and cooperation between employees. Developing an IT system that allows scientists and engineers from all parts of a company to cooperate by way of bulletin boards, chatrooms, or teleconferencing is also a way to use IT to speed creativity and innovation. One good example of a company using IT to promote creativity and innovation is IBM.

IBM’s thousands of consultants are experts in particular industries such as the automotive, financial services, or retail industries. They have a deep understanding of the particular problems facing companies in those industries and how to solve them. Palmisano asked IBM’s consultants to work closely with its software engineers to find ways to incorporate their knowledge into advanced software that can be implanted into a customer’s IT system. IBM has developed 17 industry “expert systems,” which are industry-specific, problem-solving software organizations that researchers and scientists can use to improve their abilities to innovate new products. One of these expert systems was developed in the pharmaceutical industry. Using IBM’s new software, a company can use IBM’s expert system to simulate and model the potential success of its new drugs under development. Currently only 5 to 10 percent of new drugs make it to the market; IBM’s new software will increase scientists’ ability to develop innovative new drugs, for they will now know better where to focus their time and effort.

As this example suggests, there are many, many ways in which IT can be used at all levels in the organization, between departments, and between its global divisions to enhance learning, speed decision making, and promote creativity and innovation. Throughout this book, you will find many more examples of the importance of facilitating learning and creativity in OB today.

**Challenge 4: Shifting Work and Employment Relationships**

In the last few decades, the relationship between an organization and its members has been changing because of increasing globalization and the emergence of new information technologies. The effects of these changes on OB have taken many forms, and important developments include a shortening employment relationship because of downsizing, the growth in the number of contingent or temporary employees, and outsourcing.

In the past it was quite common for many people to spend their whole careers at a large company like IBM, Microsoft, or Ford, often moving up the organizational hierarchy over time to higher seniority and better-paying jobs. Throughout the 1990s, most companies have been pressured by global competition to find ways to reduce operating costs and the result has been that tens of millions of employees have found themselves laid off by their companies and forced to search for new jobs.
Downsizing is the process by which organizations lay off managers and workers to reduce costs. The size and scope of these downsizing efforts have been enormous. It is estimated that, in the last few decades, Fortune 500 companies have downsized so much that they now employ about 15–20 percent fewer employees than they used to. The drive to reduce costs is often a response to increasing competitive pressures in the global environment. While companies often realize considerable cost savings by downsizing, the remaining employees in downsized organizations often work under stress, both because they fear they might be the next employees to be let go and because they are forced to do the work that was previously performed by the lost employees—work that oftentimes they cannot cope with.

The increasing tendency of companies to layoff hard-working, loyal employees when the need arises seems to be changing the employment relationship between employees and the companies they work for. Today, employees realize that to keep their jobs and to advance to better ones they need to invest more in themselves and make sure that they keep their job skills and knowledge up to date. The also need to search for new job opportunities. Some experts argue that people starting their careers today can expect to make at least six to eight job and organizational changes over the course of their working lives—some because of their own personal choice but also some because of layoffs.

Other important trends that go hand in hand with downsizing are the increasing use of empowered self-managed teams, contingent or temporary workers, and outsourcing. Empowerment is the process of giving employees throughout an organization the authority to make important decisions and to be responsible for their outcomes. Self-managed teams are work groups who have been empowered and given the responsibility for leading themselves and ensuring that they accomplish their goals.

As organizations have downsized, there has also been an increasing trend for companies to employ contingent workers to keep costs down. Contingent workers are people who are employed for temporary periods by an organization and who receive no benefits such as health insurance or pensions. Contingent workers may work by the day, week, or month performing some functional task, or they may contract with the organization for some fee to perform a specific service to the organization. Thus, for example, an organization may employ ten temporary accountants to “do the books” when it is time or it may contract with a software programmer to write some specialized software for a fixed fee.

The advantages an organization obtains from contingent workers are that they cost less to employ since they receive no benefits and they can be let go easily when their services are no longer needed. It has been estimated that 20 percent of the U.S workforce today consists of part-time employees who work by the day, week, month, or even year for their former employ-
Part-time employees pose a new OB challenge because they cannot be motivated by the prospect of rewards such as job security, promotion, or a career within an organization.

Finally, also as a way to reduce costs, organizations are also engaging in an increasing amount of outsourcing. **Outsourcing** is moving a specific type of work activity, process, job, or function that was performed inside an organization to outside, where it is carried out by another person or company. At the individual level, for example, companies may outsource particular kinds of jobs such as bookkeeping, computer support, and website design to **freelancers**—independent specialists who contract with an organization to perform specific tasks. They often work from their homes and are connected to an organization by computer, phone, fax, and express package delivery. Freelancers are similar to contingent workers except that they do not physically work inside a company.

Sometimes an organization outsources a whole value-creation activity such as manufacturing, marketing, or the management of its IT to a specialist company that can perform it at a lower cost than the organization itself. In this case, an organization stops performing the value-creation itself. For example, a company may hire a specialist IT company to manage its computer network or a national distributor to deliver its products to stores or a specialist in customer service to manage its customer call center. Dell, for example, employs 10,000 people in India to manage requests from customers around the world for help with purchasing or operating their computers. It announced in 2006 that it would be adding 5,000 more. The huge wave of outsourcing by U.S. companies has resulted in the loss of hundreds of thousands of call-center jobs at home. Millions more jobs have been lost as companies have outsourced their manufacturing operations to companies in countries like Mexico, China, and Malaysia.

While outsourcing has helped to change the nature of the employment relationship in the United States, it is also having dramatic effects abroad. Today, many of the countries that gained the jobs lost by U.S. workers are experiencing the same problem themselves as other countries use their still lower labor costs to compete for manufacturing contracts. Take the example of Mauritius, a tiny island off the coast of South-East Africa famous for its white sand beaches. In the 1980s to alleviate its enormous poverty, Mauritius created a low-tax export zone to encourage foreign clothing companies to locate there and employ its citizens who at that time worked for 10 cents an hour or less. For many years this worked well for the island, the income of its people climbed steeply, and it became one of the most prosperous countries in Africa. More and more companies such as Gap and The Limited had their clothing made in Mauritius, and by 2000 it exported over $1 billion of low-cost clothing to the United States.

After 2000, however, the picture was not so rosy on Mauritius because its labor costs had increased and countries like India and China, whose billions of people still are paid some of the lowest wages in the world, now had the lowest costs. The result was that U.S. clothing companies shifted their business to India and China and unemployment increased.
dramatically in Mauritius, which has learned the hard way that global competition is a fierce process. And, unlike the United States, whose vibrant economy creates new jobs, its people are struggling to cope with the new reality of a low-cost global economy.

Downsizing, empowered self-managed teams, the employment of part-time contingent workers, and outsourcing are ways in which organizations are changing OBs and procedures to battle effectively against domestic and global competitors. Several OB researchers believe that organizations in the future will increasingly become composed of a "core" of organizational employees who are highly trained and rewarded by an organization and a "periphery" of part-time employees or freelancers who are employed when needed but will never become true "organizational employees." The challenge facing people today is to continually improve their skills and knowledge and build their human capital so that they can secure well-paying and satisfying employment either inside or outside an organization.

Summary

OB is a developing field of study. Changes in the environment constantly challenge organizations and their owners’, managers’, and employees’ abilities to adapt and change work behaviors and procedures to increase the effectiveness with which they operate. In this chapter, we made the following major points:

1. Organizations exist to provide goods and services that people want, and the amount and quality of these goods and services are products of the behaviors and performance of an organization’s employees.

2. OB is the study of the many factors that have an impact on how people and groups act, think, feel, and respond to work and organizations and how organizations respond to their environments. OB provides a set of tools—theories and concepts—to understand, analyze, describe, and manage attitudes and behavior in organizations.

3. The study of OB can improve and change individual, group, and OB to attain individual, group, and organizational goals.

4. OB can be analyzed at three levels: the individual, the group, and the organization as a whole. A full understanding is impossible without an examination of the factors that affect behavior at each level.

5. A significant task for an organization’s managers and employees is to use the tools of OB to increase organizational effectiveness—that is, an organization’s ability to achieve its goals.

6. The activities of most organizations can be modeled as an open system in which an organization takes in resources from its external environment and converts or transforms them into goods and services that are sent back to that environment, where customers buy them.

7. Changing pressures or forces in the social and cultural, global, technological, and employment or work environment pose many challenges for OB, and organizations must respond effectively to these challenges if they are to survive and prosper.

8. Two major challenges of importance to OB today from the social and cultural environment are those that derive from a breakdown in ethical values, social responsibility, and from the increasing diversity of the workforce.

9. Three important challenges facing organizations from the global environment are to appreciate the differences that exist between countries; to benefit from this new global knowledge to improve OBs and procedures; and to use global learning to find better ways to respond to global crises.

10. Changes in the technological environment, and particularly advances in information technology (IT), are also having important effects on OB and procedures. IT has improved effectiveness by helping an organization improve the quality of its products, lower their costs, and by promoting creativity and organizational learning and innovation.

11. Many changes have also been taking place in the employment or work environment, and important developments that have affected OB include a shortening employment relationship because of downsizing, the growth in the number of contingent or temporary employees, and global outsourcing.
Exercises in Understanding and Managing OB

Questions for Discussion and Review

1. Why is a working knowledge of OB important to organizations and their employees?
2. Why is it important to analyze the behavior of individuals, groups, and the organization as a whole in order to understand OB in work settings?
3. What is an open system and why is it important for an organization to be open to its environment?
4. Select a restaurant, supermarket, church, or some other familiar organization, and think about which kinds of OBs and procedures are the most important determinant of its effectiveness.
5. What are organizational ethics, and why is ethics such an important issue facing organizations today?
6. Why is diversity an important challenge facing organizations today?
7. What special challenges does managing behavior on a global scale pose for organizations?
8. In what ways does IT change OBs and procedures?
9. Why has the employment relationship been shortening?

OB: Increasing Self-Awareness

Behavior in Organizations

Think of an organization—a place of employment, a club, a sports team, a musical group, an academic society—that provided you with a significant work experience, and answer the following questions.

1. What are your attitudes and feelings toward the organization? Why do you think you have these attitudes and feelings?
2. Indicate, on a scale from one to ten (with one being not at all and ten being extremely), how hard you worked for this organization or how intensively you participated in the organization’s activities. Explain the reasons for your level of participation.
3. How did the organization communicate its performance expectations to you, and how did the organization monitor your performance to evaluate whether you met those expectations? Did you receive more rewards when you performed at a higher level? What happened when your performance was not as high as it should have been?
4. How concerned was your organization with your well-being? How was this concern reflected? Do you think this level of concern was appropriate? Why or why not?
5. Think of your direct supervisor or leader. How did this person’s leadership style affect your attitudes and behaviors?
6. How did the attitudes and behaviors of your coworkers affect yours, particularly your level of performance?
7. Given your answers to these questions, how would you change OBs and procedures to make this organization more effective?
Small Group Breakout Exercise

Identifying an Open System
Form groups of three or four people and appoint one member as the spokesperson who will communicate your conclusions to the rest of the class.

1. Think of an organization you are all familiar with, such as a local restaurant, store, or bank. Once you have chosen an organization, model it from an open-systems perspective. For example, identify its input, conversion, and output processes.
2. Identify the specific forces in the environment that have the greatest opportunity to help or hurt this organization’s ability to obtain resources and dispose of its goods or services.
3. Using the three views of effectiveness discussed in the chapter, discuss which specific measures are most useful to managers in evaluating this organization’s effectiveness.

A Question of Ethics

Ethical versus Unethical Behavior
What factors determine whether behavior in organizations is ethical or unethical? Divide up into small groups, and each person think of some unethical behaviors or incidents that you have observed in organizations. The incidents could be something you experienced as an employee, a customer, or a client, or something you observed informally.

Discuss these incidents with other group members. Then, identify three important criteria to use to determine whether a particular action or behavior is ethical. These criteria need to differentiate between ethical and unethical OB. Be ready to describe the incidents of unethical behavior and criteria with the rest of the class.

Topic for Debate

Now that you understand the nature of OB and management, and the kinds of issues they address, debate the following topic:

Team A. The best way to increase organizational effectiveness is to clearly specify each employee’s job responsibilities and then to closely supervise his or her work behavior.

Team B. The best way to increase organizational effectiveness is to put employees in teams and allow them to work out their own job responsibilities and supervise each other.

Experiential Exercise

Ethical Issues in Globalization
There are many laws governing the way companies in the United States should act to protect their employees and to treat them in a fair and equitable manner. However, many countries abroad do not have similar laws and treat employees in ways that would be seen as unacceptable and unethical in the United States.

Either individually or in small groups, think about the following issues and answer the questions they raise.

1. In Pakistan and India it is common for children as young as eight years old to weave the hand-made carpets and rugs that are exported to Western countries. Many of these children work for a pittance and are losing their eyesight because of the close attention they have to devote to their tasks, often for twelve hours a
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day. Do you think these children should be employed in such occupations? Do you think it is ethical to buy these rugs?
2. Millions of U.S. workers in manufacturing industries have lost their jobs because companies have moved their operations to low-cost countries overseas. There, many women and children work long hours every day for low wages, performing the jobs that used to be done by workers in the United States. Do you think it is ethical for multinationals to operate just on the basis of where they can obtain low-cost resources? Do you think laws should be passed to prevent global companies from relocating abroad to protect the relatively high-paying jobs of U.S. workers?

New York Times Cases in the News

For the Avon Lady, A World Beyond Ringing Doorbell’s

LUZ STELLA BONGIOVI has a job that many people would envy. After 12 years in the same business, she supervises more than 100 employees and logs about 50 hours a week, coming into work at 10 a.m. and often working at home. She has been sent on junkets to Hawaii, Las Vegas and Puerto Rico. Her earnings total nearly $170,000 a year.

Her job title: Avon lady. The folks at Avon, however, would call her a sales representative, the updated term for the 468,000 people in the company’s work force generating more than 95 percent of sales revenue. But to the public, “Avon lady” has stuck, ever since the company’s sales representatives began ringing doorbells in 1886.

Ms. Bongiovi is an example of how to succeed the old-fashioned way: she started small, worked hard and took advantage of her natural business sense to build a living slowly by selling Avon to her extended network of family, friends and acquaintances. But now, Avon is trying to force itself to step into the future—and bring the sales reps with it, trying to force itself to step into the Internet, said Thomas Kelly, Avon’s senior vice president this month to encourage more sales model into a 21st-century version.

In fact, Avon will announce a new initiative this month to encourage more business to move to the Internet, said Thomas Kelly, Avon’s senior vice president for direct selling in the United States. “We really are guns blazing with our excitement about the Internet,” he said. “We’re moving from just ordering online to supporting their efforts to sell online.”

The company is teaching its sales reps to file customer orders online; before, reps would phone in their orders. Now, more than 80 percent use the Internet to do business. Avon is also encouraging its sales reps to set up individual pages on the company’s Web site for customers to make online purchases. For instance, by typing in their ZIP code, customer will be directed to their sales rep’s page.

But Avon is still holding on to the fundamental part of its business model—a sales force that is paid only by commissions, without salaries, health care or benefits. Signing up is simple: a potential rep pays a $10 fee, fills out a form and receives a starter kit. Then it’s up to the newly minted representative to go out and garner sales. That person is also responsible for day-to-day operating expenses and promotions.

Ms. Bongiovi pays for print advertising from her own budget. For example, if a rep wants business cards printed with her name, she pays for them herself. Asked to define the employment status of sales reps, an Avon spokeswomen responded, “Self-employed.”

On a recent morning, Ms. Bongiovi was sitting behind a desk in her office in Bushwick, which doubles as a retail space with a storefront on Myrtle Avenue, where she sells Avon products and performs occasional walk-in makeovers. Avon began for her as it had for many women—a side job for stay-at-home mothers who want to earn a little extra money. (The reps are predominantly female.) Ms. Bongiovi grew up in Colombia. Her father owned a supermarket, and she often watched him working in the store and fantasized about her own future.

“I used to dream, ‘Oh, I want to have a business when I grow up,’” she said.

Marriage and three children intervened, but one day she signed up for Avon on an whim, getting her first order mostly from family and friends in her neighborhood.

“My first order was $500, and I thought, ‘Hmm, this is good,’” said Ms. Bongiovi, who wore a neatly cut blazer, violet-framed eyeglasses and gleaming red nail polish.

Soon, she began recruiting other people to become sales representatives in her “downline,” Avon’s term for sales reps’ own staff members whom they personally recruit and supervise.

Ms. Bongiovi’s sales pitch to potential reps reflects her own life story. When she first started selling Avon, she had children at home and no income of her own. Now she owns a six-unit apartment building in Brooklyn and is going through a divorce, divide up assets and income.

When talking to potential reps, she said, “I tell them: ‘What about if your husband leaves you? What if you don’t have a husband anymore?’ I like to help them, I like to give them support. I teach them how to earn money with Avon.”
It is a pitch that falls on welcome ears to Mr. Kelly, the Avon executive. It may be partly a company pitch with a feminist slant, but fundamentally, he said, the business will always be about serving the needs of women.

“Initially, what drove us to this place is that women would like a significantly greater earning opportunity,” he said.

But the ability to earn money through Avon may be getting more difficult as the one-on-one sales model goes out of style. How many women today would buy cosmetics from a door-to-door seller? And in an era when many women buy makeup at superstores like Sephora or buy online, how does the Avon sales rep stand a chance?

Mary Lou Quinlan, the chief executive of Just Ask a Woman, a marketing company in New York, said she thought that many women were too busy to sit down and talk to sales representatives.

Still, “it’s amazing how women will make the time for face-to-face, woman-to-woman events when they want to,” she said. “You do tend to buy more when you’re buying face to face with someone.”

Mr. Kelly said that the individual sales representative was a retro image that Avon was not willing to let go of.

“I really feel an obligation, like we’re a public institution,” he said.

Besides making itself more tech-proficient, Avon has also tried to shed its dusty image by taking on the college market. In 2003, the company introduced Mark, a cosmetics line aimed at teenagers and women in their 20’s.

The plan was twofold: to introduce Avon to younger women who considered the brand grandmother territory; and, after these women were established customers, encouraging them to become sales reps themselves.

Gyda Arder, 26, an actress who lives in Manhattan, is one such woman. She became aware of Avon through a television commercial for Mark. While visiting avon.com, and buying more than $150 in Mark merchandise, she noticed an online ad on the site that offered 40 percent off a purchase, if you signed up to be an Avon sales representative. Ms. Arber signed up.

“Living in Manhattan, you don’t run into a lot of Avon ladies,” she said. But after she began pitching products to her friends and colleagues in local theater, she found herself with a part-time job.

“Initially, what drove us to this place is that women would like a significantly greater earning opportunity,” he said.

“Outsourcers Struggling to Keep Workers in the Field”


Not long ago, Sierra Atlantic, an outsourcing company specializing in writing business software, did something unusual.

It invited employees at its Hyderabad unit to bring their spouses to work. There, counselors offered sessions on better relationship, being better parents and work-home balance.

Sierra Atlantic’s “Bring Your Spouse to Work” and “Bring Your Parents to Work” programs are among the new benefits and strategies outsourcing firms in India are using to hold on to workers in an increasingly competitive market for skilled English speakers.

Annual raises of 10 percent or more are now the norm in India’s $17.2-billion-a-year outsourcing industry. It supplies workers who write software code, answer customer service calls, do...
legal and equity research and engineering design, among other jobs, for overseas corporate customers.

But despite rising pay, outsourcing firms face annual attrition rates of 15 to 30 percent in their Indian labor force, compared with 10 percent in outsourcing companies in Eastern Europe and 7.5 to 15 percent in China, according to industry experts.

Labor shortages and turnover problems are affecting India's other high-growth industries like financial services, retail and airlines, but nowhere is it as pronounced as in outsourcing.

Employee churn in now one of the biggest challenges for the Indian outsourcing industry, said Nandan M. Nilekani, chief executive of Infosys Technologies, one of India's largest outsourcing companies. "Talent acquisition, transformation and management are critical anchors for the growth of the industry," said Mr. Nilekani, whose company added 8,026 employees in the quarter ended in September. Infosys has 46,196 employees.

Competition has become more intense as demand rises faster than the supply of trained workers. Even with pay increasing, Indian engineers are paid a quarter of what their American counterparts earn, which feeds the outsourcing boom.

According to Nasscom, the outsourcing industry trade group in India, the country produces three million college graduates every year, and 350,000 of them are engineers. "It is great raw material, but only 30 percent of this pool is ready to plunge straight in and deliver," said Kiran Karnik, president of Nasscom. Improving the quality of that pool, Mr. Karnik said, is on the industry's "A-list of challenges."

The problem of churn is even more acute for outsourcing companies offering lower-skilled back-office work like call center services. Once trained, those workers tend to hop from job to job. Some outsourcing companies in that field are reporting a complete turnover of employees in the span of a year. "Employees could leave because the chicken curry at the place next door is better or the girlfriend has moved to another company," said Saurav Adhikari, vice president for corporate strategy at HCL Technologies, based in New Delhi, another large outsourcing firm. While growth in outsourcing will continue in the near future, said Frances Karamouzis, research director at Gartner, the attrition problem "will be looked upon as the early signs of the limits and boundaries around the India model."

Even for companies that are successful in attracting new workers, attrition is a challenge. Patni Computers, another leading outsourcing company, based in Mumbai, for example, has grown from 6,000 employees two years ago to nearly double that number now. "We especially feel the pain when employees in critical projects and positions decide to leave," said Milind Jadhav, senior vice president for human relations at Patni.

Smaller operations feel the squeeze particularly severely. In Hyderabad, bigger outsourcing businesses like the Indian unit of the Oracle Corporation have an advantage in attracting employees. So Sierra, with nearly 1,000 workers worldwide and headquarters in Fremont, Calif., has had to try more innovative programs to attract and retain workers.

Sierra Atlantic has adopted retention strategies like permitting crucial employees to change jobs across departments within the company. The company also offers top performers bonuses and flexibility in work arrangements. As a result, it says it has cut attrition to 16 percent this year from 22 percent last year, company executives said.

Other companies, too, are embracing novel approaches. The Calcutta office of Acclaris, which has headquarters in Tampa, Fla., has a "chief fun officer" whose job is to arrange employee parties and come up with ideas to liven up the workday. One recent event was a rossogolla-eating competition (rossogollas are a local dessert made from milk). At HCL Technologies, which is based in New Delhi and has 26,000 employees, Shiv Nadar, the chief executive, said the company followed an employee-first philosophy. A few months ago, the new president, Vineet Nayar, flew to HCL offices across India to shake hands with 10,000 of the company's employees. To celebrate reaching a revenue milestone recently, the company had a party for more than 900 employees in the New Delhi suburbs at a nightclub that advertised having the country's biggest dance floor.

At top outsourcing companies like Infosys, benefit packages and retention approaches have become more sophisticated. Infosys, which was the first Indian company to start an employee stock option plan, now offers variable compensation packages as well as what it says are cutting-edge training programs.

Questions for Discussion

1. Why are Indian outsourcing companies having a difficult time recruiting and retaining employees?
2. What are some of the ways in which they have used OB to reduce employee turnover?
3. What are some possible implications for the way U.S. companies will organize their outsourcing activities in the future?
Appendix 1

A Short History of OB

The systematic study of OB began in the closing decades of the nineteenth century, after the industrial revolution had swept through Europe and America. In the new economic climate, managers of all types of organizations—political, educational, and economic—were increasingly turning their focus toward finding better ways to satisfy customers’ needs. Many major economic, technical, and cultural changes were taking place at this time. With the introduction of steam power and the development of sophisticated machinery and equipment, the industrial revolution changed the way goods were produced, particularly in the weaving and clothing industries. Small workshops run by skilled employees who produced hand-manufactured products (a system called crafts production) were being replaced by large factories in which sophisticated machines controlled by hundreds or even thousands of unskilled or semiskilled employees made products. For example, raw cotton and wool that, in the past, families or whole villages working together had spun into yarn was now shipped to factories where employees operated machines that spun and wove large quantities of yarn into cloth.

Owners and managers of the new factories found themselves unprepared for the challenges accompanying the change from small-scale crafts production to large-scale mechanized manufacturing. Moreover, many of the managers and supervisors in these workshops and factories were engineers who had only a technical orientation. They were unprepared for the social problems that occur when people work together in large groups (as in a factory or shop system). Managers began to search for new techniques to manage their organizations’ resources, and soon they began to focus on ways to increase the efficiency of the employee-task mix. They found help from Frederick W. Taylor.

F. W. Taylor and Scientific Management

Frederick W. Taylor (1856–1915) is best known for defining the techniques of scientific management, the systematic study of relationships between people and tasks for the purpose of redesigning the work process to increase efficiency. Taylor was a manufacturing manager who eventually became a consultant and taught other managers how to apply his scientific-management techniques. Taylor believed that if the amount of time and effort that each employee expends to produce a unit of output (a finished good or service) can be reduced by increasing specialization and the division of labor, the production process will become more efficient. Taylor believed the way to create the most efficient division of labor could best be determined using scientific-management techniques, rather than intuitive or informal rule-of-thumb knowledge. Based on his experiments and observations as a manufacturing manager in a variety of settings, he developed four principles to increase efficiency in the workplace:

- **Principle 1:** Study the way employees perform their tasks, gather all the informal job knowledge that employees possess, and experiment with ways of improving how tasks are performed.

  To discover the most efficient method of performing specific tasks, Taylor studied in great detail and measured the ways different employees went about performing their tasks. One of the main tools he used was a time and motion study, which involves the careful timing and recording of the actions taken to perform a particular task. Once Taylor understood the existing method of performing a task, he then experimented to increase specialization; he tried different methods of dividing up and coordinating the various tasks necessary to produce a finished product. Usually this meant simplifying jobs and having each employee perform fewer, more routine tasks, as at the pin factory or on Ford’s car-assembly line. Taylor also sought to find ways to improve each employee’s ability to perform a particular task—for example, by reducing the number of motions employees made to complete the task, by changing the layout of the work area or the type of tool employees used, or by experimenting with tools of different sizes.

- **Principle 2:** Codify the new methods of performing tasks into written rules and standard operating procedures.

  Once the best method of performing a particular task was determined, Taylor specified that it should be recorded so that the procedures could be taught to all employees performing the same task. These rules could be used to further standardize and simplify jobs—essentially, to make jobs even more routine. In this way efficiency could be increased throughout an organization.

- **Principle 3:** Carefully select employees so that they possess skills and abilities that match the needs of the
task, and train them to perform the task according to the established rules and procedures.

To increase specialization, Taylor believed employees had to understand the tasks that were required and be thoroughly trained in order to perform the task at the required level. Employees who could not be trained to this level were to be transferred to a job where they were able to reach the minimum required level of proficiency.71

- Principle 4: Establish a fair or acceptable level of performance for a task, and then develop a pay system that provides a reward for performance above the acceptable level.

To encourage employees to perform at a high level of efficiency, and to provide them with an incentive to reveal the most efficient techniques for performing a task, Taylor advocated that employees benefit from any gains in performance. They should be paid a bonus and receive some percentage of the performance gains achieved through the more efficient work process.

By 1910, Taylor’s system of scientific management had become nationally known and in many instances faithfully and fully practiced.72 However, managers in many organizations chose to implement the new principles of scientific management selectively. This decision ultimately resulted in problems. For example, some managers using scientific management obtained increases in performance, but rather than sharing performance gains with employees through bonuses as Taylor had advocated, they simply increased the amount of work that each employee was expected to do. Many employees experiencing the reorganized work system found that, as their performance increased, managers required them to do more work for the same pay. Employees also learned that increases in performance often meant fewer jobs and a greater threat of layoffs, because fewer employees were needed. In addition, the specialized, simplified jobs were often very monotonous and repetitive, and many employees became dissatisfied with their jobs.

From a performance perspective, the combination of the two management practices—(1) achieving the right mix of employee-task specialization and (2) linking people and tasks by the speed of the production line—resulted in the huge savings in cost and huge increases in output that occur in large, organized work settings. For example, in 1908, managers at the Franklin Motor Company using scientific-management principles redesigned the work process, and the output of cars increased from 100 cars a month to 45 cars a day; employees’ wages, however, increased by only 90 percent.73

Taylor’s work has had an enduring effect on the management of production systems. Managers in every organization, whether it produces goods or services, now carefully analyze the basic tasks that employees must perform and try to create a work environment that will allow their organizations to operate most efficiently. We discuss this important issue in Chapters 6 and 7.

The Work of Mary Parker Follett

Much of Mary Parker Follett’s (1868–1933) writing about management, and the way managers should behave toward employees, was a response to her concern that Taylor was ignoring the human side of the organization.74 She pointed out that management often overlooks the multitude of ways in which employees can contribute to the organization when managers allow them to participate and exercise initiative in their everyday work lives.75 Taylor, for example, never proposed that managers should involve employees in analyzing their jobs to identify better ways to perform tasks, or even ask employees how they felt about their jobs. Instead, he used time and motion experts to analyze employees’ jobs for them. Follett, in contrast, argued that because employees know the most about their jobs, they should be involved in job analysis and managers should allow them to participate in the work-development process.

Follett proposed that “Authority should go with knowledge . . . whether it is up the line or down.” In other words, if employees have the relevant knowledge, then employees, rather than managers, should be in control of the work process itself, and managers should behave as coaches and facilitators—not as monitors and supervisors. In making this statement, Follett anticipated the current interest in self-managed teams and empowerment. She also recognized the importance of having managers in different departments communicate directly with each other to speed decision making. She advocated what she called “cross-functioning”: members of different departments working together in cross-departmental teams to accomplish projects—an approach that is increasingly utilized today.76 She proposed that knowledge and expertise, and not managers’ formal authority deriving from their position in the hierarchy, should decide who would lead at any particular moment. She believed, as do many OB researchers today, that power is fluid and should flow to the person who can best help the organization achieve its goals. Follett took a horizontal view of power and authority, rather than viewing the vertical chain of command as being most essential to effective management. Thus, Follett’s approach was very radical for its time.

The Hawthorne Studies and Human Relations

Probably because of its radical nature, Follett’s work went unappreciated by managers and researchers until quite recently. Most continued to follow in the footsteps of...
Taylor and, to increase efficiency, they studied ways to improve various characteristics of the work setting, such as job specialization or the kinds of tools employees used. One series of studies was conducted from 1924 to 1932 at the Hawthorne Works of the Western Electric Company. This research, now known as the Hawthorne studies, was initiated as an attempt to investigate how characteristics of the work setting—specifically the level of lighting or illumination—affect employee fatigue and performance. The researchers conducted an experiment in which they systematically measured employee productivity at various levels of illumination.

The experiment produced some unexpected results. The researchers found that regardless of whether they raised or lowered the level of illumination, productivity increased. In fact, productivity began to fall only when the level of illumination dropped to the level of moonlight, a level at which presumably employees could no longer see well enough to do their work efficiently.

As you can imagine, the researchers found these results very puzzling. They invited a noted Harvard psychologist, Elton Mayo, to help them. Mayo proposed another series of experiments to solve the mystery. These experiments, known as the relay assembly test experiments, were designed to investigate the effects of other aspects of the work context on job performance, such as the effect of the number and length of rest periods and hours of work on fatigue and monotony. The goal was to raise productivity.

During a two-year study of a small group of female employees, the researchers again observed that productivity increased over time, but the increases could not be solely attributed to the effects of changes in the work setting. Gradually, the researchers discovered that, to some degree, the results they were obtaining were influenced by the fact that the researchers themselves had become part of the experiment. In other words, the presence of the researchers was affecting the results because the employees enjoyed receiving attention and being the subject of study and were willing to cooperate with the researchers to produce the results they believed the researchers desired.

Subsequently, it was found that many other factors also influence employee behavior, and it was not clear what was actually influencing Hawthorne employees’ behavior. However, this particular effect—which became known as the Hawthorne effect—seemed to suggest that the attitude of employees toward their managers affects the level of employees’ performance. In particular, the significant finding was that a manager’s behavior or leadership approach can affect performance. This finding led many researchers to turn their attention to managerial behavior and leadership. If supervisors could be trained to behave in ways that would elicit cooperative behavior from their subordinates, then productivity could be increased. From this view emerged the human relations movement, which advocates that supervisors be behaviorally trained to manage subordinates in ways that elicit their cooperation and increase their productivity.

The importance of behavioral or human relations training became even clearer to its supporters after another series of experiments—the bank wiring room experiments. In a study of employees making telephone-switching equipment, researchers Elton Mayo and F. J. Roethlisberger discovered that the employees, as a group, had deliberately adopted a norm of output restriction to protect their jobs. Other group members subjected employees who violated this informal production norm to sanctions. Those who violated group-performance norms and performed above the norm were called “ratebusters”; those who performed below the norm were called “chisellers.”

The experimenters concluded that both types of employees threatened the group as a whole. Ratebusters threaten group members because they reveal to managers how fast the work can be done. Chisellers are looked down on because they are not doing their share of the work. Work-group members discipline both ratebusters and chisellers in order to create a pace of work that the employees (not the managers) think is fair. Thus, the work group's influence over output can be as great as the supervisors’ influence. Since the work group can influence the behavior of its members, some management theorists argue that supervisors should be trained to behave in ways that gain the goodwill and cooperation of employees so that supervisors, not employees, control the level of work-group performance.

One of the main implications of the Hawthorne studies was that the behavior of managers and employees in the work setting is as important in explaining the level of performance as the technical aspects of the task. Managers must understand the workings of the informal organization, the system of behavioral rules and norms that emerge in a group, when they try to manage or change behavior in organizations. Many studies have found that, as time passes, groups often develop elaborate procedures and norms that bond members together, allowing unified action either to cooperate with management in order to raise performance or to restrict output and thwart the attainment of organizational goals. The Hawthorne studies demonstrated the importance of understanding how the feelings, thoughts, and behaviors of work-group members and managers affect performance. It was becoming increasingly clear to researchers that understanding behavior in organizations is a complex process that is critical to increasing performance. Indeed, the increasing interest in the area of management known as OB, the study of the factors that have an impact on how individuals and groups respond to and act in organizations, dates from these early studies.
CHAPTER 1 • INTRODUCTION TO ORGANIZATIONAL BEHAVIOR

Theory X and Theory Y

Several studies after the Second World War revealed how assumptions about employees’ attitudes and behavior affect managers’ behavior. Perhaps the most influential approach was developed by Douglas McGregor. He proposed that two different sets of assumptions about work attitudes and behaviors dominate the way managers think and affect how they behave in organizations. McGregor named these two contrasting sets of assumptions Theory X and Theory Y.1

Theory X

According to the assumptions of Theory X, the average employee is lazy, dislikes work, and will try to do as little as possible. Moreover, employees have little ambition and wish to avoid responsibility. Thus, the manager’s task is to counteract employees’ natural tendencies to avoid work. To keep employees’ performance at a high level, the manager must supervise them closely and control their behavior by means of “the carrot and stick”—rewards and punishments.

Managers who accept the assumptions of Theory X design and shape the work setting to maximize their control over employees’ behaviors and minimize the employees’ control over the pace of work. These managers believe that employees must be made to do what is necessary for the success of the organization, and they focus on developing rules, SOPs, and a well-defined system of rewards and punishments to control behavior. They see little point in giving employees autonomy to solve their own problems because they think that the workforce neither expects nor desires cooperation. Theory X managers see their role as to closely monitor employees to ensure that they contribute to the production process and do not threaten product quality. Henry Ford, who closely supervised and managed his workforce, fits McGregor’s description of a manager who holds Theory X assumptions.

Theory Y

In contrast, Theory Y assumes that employees are not inherently lazy, do not naturally dislike work, and, if given the opportunity, will do what is good for the organization. According to Theory Y, the characteristics of the work setting determine whether employees consider work to be a source of satisfaction or punishment; and managers do not need to closely control employees’ behavior in order to make them perform at a high level, because employees will exercise self-control when they are committed to organizational goals. The implication of Theory Y, according to McGregor, is that “the limits of collaboration in the organizational setting are not limits of human nature but of management’s ingenuity in discovering how to realize the potential represented by its human resources.”2 It is the manager’s task to create a work setting that encourages commitment to organizational goals and provides opportunities for employees to be imaginative and to exercise initiative and self-direction.

When managers design the organizational setting to reflect the assumptions about attitudes and behavior suggested by Theory Y, the characteristics of the organization are quite different from those of an organizational setting based on Theory X. Managers who believe that employees are motivated to help the organization reach its goals can decentralize authority and give more control over the job to employees, both as individuals and in groups. In this setting, individuals and groups are still accountable for their activities, but the manager’s role is not to control employees but to provide support and advice, to make sure they have the resources they need to perform their jobs, and to evaluate them on their ability to help the organization meet its goals.