# PART ONE – INTRODUCTION TO ORGANIZATIONAL BEHAVIOR

# Chapter One – An Overview of Organizational Behavior

## Overview

Managers strive to make their organizations as effective and successful as possible. To do this they rely on assets such as financial reserves and earnings, technology and equipment, raw materials, information, and operating systems and processes. At the center of everything are the employees who work for the organization. It is usually their talent, effort, skill, and ability that differentiates effective from less effective organizations. It is critical, then, that managers understand how the behaviors of their employees impact organizational effectiveness. In general, managers work to enhance employee performance behaviors, commitment and engagement, and citizenship behaviors and to minimize various dysfunctional behaviors. A number of environmental, individual, group and team, leadership, and organizational characteristics can make the manager’s work easier or more difficult depending on how well they understand organizational behavior. This model will be more fully developed in Chapter 1 and will serve as a roadmap for your study of organizational behavior throughout this book.

Regardless of their size, scope, or location, all organizations have at least one thing in common—they are comprised of people. It is these people who make decisions about the strategic direction of a firm, it is they who acquire the resources the firm uses to create new products, and it is they who sell those products. No matter how effectivea manager might be, all organizational successes—and failures—are the result of the behaviors of many people. Indeed, no manager can succeed without the assistance of others.

This book is about those people. It is also about the organization itself and the managers who operate it. Together, the study of organizations and the study of the people who work in them constitute the field of organizational behavior. Our starting point in exploring this field begins with a more detailed discussion of it

The primary purpose of this chapter is to introduce the field of organizational behavior. The chapter begins by defining organizational behavior as the study of human behavior in organizational settings, the interface between human behavior and the organization, and the organization itself. The four functions that make up the manager’s job—planning, organizing, leading, and controlling—are discussed. Then the chapter explores the various skills—technical, interpersonal, conceptual, and diagnostic—managers must apply in organizations. The chapter then discusses human resource management. The strategic context of organization behavior is discussed, including maintaining a competitive advantage, sources of competitive advantage and types of business strategies. The next section provides some historical context on organizational behavior, looking at scientific management, Hawthorne effect and the human relations movement.The chapter continues by defining a system and systems perspective, the situational perspective, and interactionalism. The chapter continues by examining the outcomes—individual, group and team, and organization—that are important for organizational effectiveness, including the scientific method and meta-analysis. The chapter concludes with a preview of the remaining text.

## Learning Outcomes

After studying this chapter, students should be able to:

1. Define organizational behavior and describe how it impacts both personal and organizational success.
2. Identify the basic management functions and essential skills that comprise the management process and relate them to organizational behavior.
3. Describe the strategic context of organizational behavior and describe the relationships between strategy and organizational behavior.
4. Identify and describe contextual perspectives on organizational behavior.
5. Describe the role of organizational behavior in managing for effectiveness and discuss the role of research in organizational behavior.
6. Summarize the framework around which this book is organized.

## Real World Challenge: Managing Growth at Google

**Summary:** Google’s popular search engine was created in 1998 with the goal of making the world’s information available to everyone. Google’s explosive growth needed to be closely monitored,and that its employees needed to continue feeling like an important part of the team. Thefounders wanted to make Google an engaging place to work and set out to design theorganization and its culture in a way that would appeal to its current and future employees.

**Real World Challenge:** What advice would you give them about the role of its people in its future success and how to set up the company to maximize employee innovation, trust, and loyalty?

**Real World Response:**Between 1998 and 2015 Google’s rapid growth presentedtremendous challenges in integrating new employeeswhile motivating them to be innovative, productive,and loyal to the fast growing company. The founders’ believedthat people thrive in and are loyal to their jobs whenthey feel fully supported and authentically valued. This understanding led to the development of a cultureanchored by trust, transparency, and inclusion.

Google is now known for offering its employees awide variety of perks. Google regularly surveysemployees about their managers, using the informationto publicly recognize the best ones and givethe worst managers intensive coaching and supportthat helps 75 percent of them improve within threemonths. Google also hires smart, ambitious peoplewho share the company’s goals and vision and maintainsan open culture in which employees feel comfortablesharing opinions and ideas. Google’s proactive efforts to be anengaging and inspiring place for its employees hasboth helped the company succeed and made it a stapleon various “most desired employer” lists, includingbeing named the #1 Best Place to Work honor fromGlassdoor in 2015.

## Chapter Outline

**I. WHAT IS ORGANIZATIONAL BEHAVIOR?**

**A. The Meaning of Organizational Behavior**

***Organizational behavior(OB)***is the study of human behavior in organizational settings, the interface between human behavior and the organization, and the organization itself.

All three are ultimately necessary for a comprehensive understanding of organizational behavior.

OB helps explain and predict how people and groups interpret events, react, and behave in organizations and describes the role of organizational systems, structures, and process in shaping behavior. Figure 1.1 illustrates this view of organizational behavior.

**B. How Organizational Behavior Impacts Personal Success**

The core of OB is being effective at work.Since most people reading this book are either present or future managers we take a managerial perspective of the field.Using yourknowledge of OB can help you to succeed faster in any organization or career.

The study of organizational behavior can greatly clarify thefactors that affect how managers manage. Hence, the field attempts to describethe complex human context of organizations and to define the opportunities,problems, challenges, and issues associated with that realm.

**C. How Organizational Behavior Impacts Organizational Success**

Organizations as a whole also benefit from OB.

By appropriately applying OB knowledge about individuals,groups, and the effect of organizational structure on worker behavior, theconditions can be created that make organizations most effective.

OB also helps companies perform well.

In addition to financialperformance and job satisfaction, OB also influences absenteeism and turnover.Reducing absenteeism and turnover can be worth millions of dollars to organizationsthrough increased productivity and customer service and decreased staffingcosts.

One central value of organizational behavior is that it isolates importantaspects of the manager’s job and offers specific perspectives on the human sideof management: people as organizations, people as resources, and people aspeople.

**Case Study: The J.M. Smucker Company**

**Summary:** From its founding in 1897, the J.M. Smucker Company recognizes that acting ethically is a key element of its success. The manufacturer wants to ensure that its fruit spreads, frostings, juices, and beverages remain American staples, and that its daily operations are guided by honesty, respect, trust, responsibility, and fairness.

1. Why would ethics be important to a company like Smucker? How can its focus on ethics improve its business performance?

Acting ethically is a key element of the company’s success. The benefits to the company include cultivating teamwork and productivity, supporting employee growth, avoiding criminal acts of omission, and promoting a strong public image. Ethical employee behavior determines short-term organizational performance and long-term organizational success. If employees do not consistently behave ethically, long-term sustainability is unlikely.

**2. Appearing on “best places to work” lists can increase an employer’s popularity, even among lower-qualified applicants. The increased volume of applicants can be costly and time-consuming. What do you feel are the benefits and drawbacks to being on this type of list? Do you feel that it is generally beneficial to be publicly recognized as a good employer? Why or why not?**

The benefits include employee pride in working for an organization known for its high ethical standards. The drawback includes the additional cost of human resources personnel to screen applications and interview potential employees. It is beneficial to be publicly recognized as a good employer because it sets the overall ethical tone of the company. Employees understand that unethical behavior is not tolerated.

**3. Does Smucker’s culture appeal to you as a potential employee? Why or why not?**

The culture is appealing because the company is dedicated to higher ethical ideals that better society as a whole such as environmental and social sustainability. Smucker’s promotes initiatives and programs that support and enhance the quality of life.

**II. THE MANAGERIAL CONTEXT OF ORGANIZATIONAL BEHAVIOR**

The managerial context of OB can be viewed from the perspective of basic management functions, critical management skills, and overall human resource management.

**A. Basic Management Functions and Organizational Behavior**

In characterizing managerial work, most experts find it useful to conceptualize the activities performed by managers as reflecting one or more of four basic functions.

1. ***Planning***is the process of determining an organization’s desired future position and the best means of getting there.
2. ***Organizing***is the process of designing jobs, grouping jobs into units, and establishing patterns of authority between jobs and units.
3. ***Leading***is the process of getting the organization’s members to work together toward the organization’s goals.
4. ***Controlling***is the process of monitoring and correcting the actions of the organization and its members to keep them directed toward their goals.

**B. Critical Management Skills and Organizational Behavior**

In general, most successful managers have a strong combination of technical, interpersonal, conceptual, and diagnostic skills.

***Technical skills*** are the skills necessary to accomplish specific tasks within the organization.

***Interpersonal skills*** are the ability to effectively communicate with, understand, and motivate individuals and groups.

***Conceptual skills*** are the ability to think in the abstract.

***Diagnostic skills*** are the ability to understand cause-and-effect relationships and to recognize the optimal solutions to problems.

**C. Organizational Behavior and Human Resource Management**

***Human resource management (HRM)*** is the set of organizational activities directed at attracting, developing, and maintaining an effective workforce.

More precisely, HR managersselect new employees, develop rewards and incentives to motivate andretain employees, and create programs for training and developing employees.

**III. THE STRATEGIC CONTEXT OF ORGANIZATIONAL BEHAVIOR**

***Competitive advantage*** is anything that gives a firm an edge over rivals in attracting customers and defending itself against competition.

**A. Sources of Competitive Advantage**

There are many sources of competitive advantageincluding having the best-made or cheapest product, providing the bestcustomer service, being more convenient to buy from, having shorter productdevelopment times, and having a well-known brand name.

Because itis an organization’s people who are responsible for gaining and keepingany competitive advantage, effective management is critical to businesssuccess.

To have a competitive advantage a companymust ultimately be able to give customers superior value for their money (acombination of quality, service, and acceptable price)—either a better productthat is worth a premium price or a good product at a lower price can be asource of competitive advantage.

Table 1.1 lists some possible sources ofcompetitive advantage. You should note that an organization’s talent is thekey to securing each of these.

**B. Types of Business Strategies**

A company may create value based on price, technologicalleadership, customer service, or some combinationof these and other factors.

Business strategy involves the issue of how to compete, but alsoencompasses:

The strategies of different functional areas in the firm.

How changing industry conditions such as deregulation,product market maturity, and changing customerdemographics will be addressed.

How the firm as a whole will address the range of strategicissues and choices it faces.

Business strategies are partially planned, and partiallyreactive to changing circumstances.Companies may also pursue more than one strategyat a particular time.

Three primary business strategies are:

1. Cost leadership

2. Differentiation

3. Specialization

**1. *Cost Leadership Strategy*** strives to be the lowest-cost producer for a particular level of product quality.Walmart is a good example of a firm that uses a cost leadership strategy.

***Operational excellence*** maximizes the efficiency of the manufacturing or product development process to minimize costs. Dell computers, Federal Express, and Walmart are good examples of companies whose competitive advantage is based on operational excellence.

**2. *Differentiation Strategy*** develops a product or service that has unique characteristics valued by customers.

Firms can differentiate along various dimensions, including image (Coca-Cola), product durability (Wrangler clothing), quality (Lexus), safety (Volvo), and usability (Apple Computer).

***Product innovation*** is developing new products or services.

This strategy is common in technology and pharmaceutical companies. Johnson & Johnson, Nike, and 3M are good examples.

**3. *Specialization Strategy***focuses on a narrow market segment or niche and pursues either a differentiation or cost leadership strategy within that market segment.

This strategy can be successful if it results in either lower costs than competitors serving the same niche, or an ability to offer customers something other competitors do not, such as Chuck E. Cheese, Dunkin’ Donuts, and Starbucks.

***Customer intimacy*** is delivering unique and customizable products or services to meet customers’ needs and increase customer loyalty.

Consulting, retail, and banking organizations often adopt this approach.

**4. *Growth Strategy*** occurs when companies expand organically or through acquisitions.

Chipotle Mexican Grill is a growth-oriented chain and regularly opens new stores requiring additional management, employees, and even product distribution staff.

**C. Connecting Business Strategy to Organizational Behavior**

There are a number of significant linkages that connect business strategy andOB.

For instance, a firm that relies on a cost leadership strategy will usually needto keep all of its expenses as low as possible. Therefore, this strategy might dictaterelying on low-wage employees and trying to automate as many jobs as possible.These actions, in turn, clearly relate to employee motivation and the design ofwork.

Likewise, a company using a differentiation strategy might want to emphasizeexemplary customer service. As a result, it needs employees who are motivatedto provide high levels of service, leaders who can help develop a customerservice culture, and a reward structure tied to customer service.

A specializationstrategy often requires employees with specializedskills and abilities.

Effective managers understandwhat needs to be done to execute a company’s business strategy, then theyplan, organize, direct, and control the activities of employees to get it done. Itis important to note that managers do not accomplish organizational objectivesby themselves—they get work done through others. Flexibly applyingOB principles will help you to do that most effectively.

**IV. CONTEXTUAL PERSPECTIVES ON ORGANIZATIONAL BEHAVIOR**

**A. Where Does Organizational Behavior Come From?**

Formal study of OB began in the 1890s, following the industrial relationsmovement spawned by Adam Smith’s introduction of the division oflabor. In the 1890s, Frank and Lillian Gilbreth and Frederick Winslow Tayloridentified the positive effects of precise instructions, goal setting, and rewardson motivation. Their ideas became known as *scientific management*,and are often considered the beginning of the formal study of OB.

***Scientific management*** is based on the belief that productivity is maximized when organizations are rationalized with precise sets of instructions based on time-and-motion studies.

The four principles of Taylor’s scientificmanagement are:

1. Replace rule-of-thumb work methods with methods based on scientifically studying the tasks using time-and-motion studies.

2. Scientifically select, train, and develop all workers rather than leavingthem to passively train themselves.

3. Managers provide detailed instructions and supervision to workers toensure that they are following the scientifically developed methods.

4. Divide work nearly equally between workers and managers. Managersshould apply scientific management principles to planning the work, andworkers should actually perform the tasks.

Although scientific management improved productivity, it also increasedthe monotony of work.

After World War I, attention shifted to understanding the role of human factorsand psychology in organizations. This interest was spawned by the discoveryof the *Hawthorne effect* in the 1920s and 1930s.

The ***Hawthorne effect*** occurs when people improve some aspect of their behavior or performance simply because they are being assessed.

Rather than viewing workers as interchangeable parts inmechanical organizations as the scientific management movement had done,the ***human relations movement***viewed organizations as cooperative systemsand treated workers’ orientations, values, and feelings as important parts oforganizational dynamics and performance.

**B. Organizations as Open Systems**

A ***system*** is an interrelated set of elements that function as a whole. The framework for systems study consists of inputs, transformation, outputs, and feedback.

An organizational system receives four kinds of input from its environment: material, human, financial, and informational. These inputs are combined and transformed and then returned to the environment in the form of products or services, profits or losses, employee behaviors, and additional information.

Finally, the system receives feedback from the environment regarding these outputs.

The systems perspective is valuable to managers for a variety of reasons.

First, it underscores the importance of an organization’s environment. The systems perspective alsohelps managers conceptualize the flow and interaction of various elements ofthe organization itself as they work together to transform inputs into outputs.

**C. Situational Perspectives on Organizational Behavior**

Another useful viewpoint for understanding behavior in organizations comes

from the ***situational perspective***which suggest that in most organizations, situations and outcomes are influenced by other variables**.**

Because of the complexities of human behavior and organizational settings, universal conclusions are impossible. In organizations, most situations and outcomes are contingent; that is, the precise relationship between any two variables is likely to be situational and dependent on other variables.

There are distinct differences between universal and situational perspectives.

**D. Interactionalism: People and Situations**

***Interactionalism***suggests that individuals and situations interact continuously to determine individuals’ behavior. This view attempts to explain how people select, interpret, and change various situations.

**V. MANAGING FOR EFFECTIVENESS**

Essentially,managers and leaders generally try to direct the behaviors of people intheir organizations in ways that promote organizational effectiveness.

**A. Enhancing Individual and Team Performance Behaviors**

Several individual behaviors result from a person’s participation in an organization.

One important behavior is productivity. A person’s productivity is a relatively narrow indicator of his or her efficiency and is measured in terms of the products or services created per unit of input.

Performance, another important individual-level outcome variable, is asomewhat broader concept and is made up of all work-related behaviors.

Another set of outcomes exists at the group and team level. Some of theseoutcomes parallel the individual-level outcomes just discussed.

Individuals,not groups, have attitudes. But groups or teams can also have unique outcomesthat individuals do not share.

Managersneed to assess both common and unique outcomes when considering theindividual and group levels.

**B. Enhancing Employee Commitment and Engagement**

Levels of job satisfaction or dissatisfaction, organizationalcommitment, and employee engagement all play an important role inorganizational behavior.

Extensive research conducted on job satisfaction hasindicated that personal factors.Contrary to what many managers believe, however, high levels ofjob satisfaction do not necessarily lead to higher levels of performance.

A person with a high level of commitment is likely to see herself as a truemember of the organization. In contrast, a person with less organizational commitmentis more likely to see himself as an outsider

**C. Promoting Organizational Citizenship Behaviors**

***Organizational citizenship***is the behavior of individuals that makes a positiveoverall contribution to the organization.

The determinant of organizational citizenship behaviors is likely to be acomplex mosaic of individual, social, and organizational variables.Although the study of organizational citizenship is still inits infancy, preliminary research suggests that it may play a powerful role inorganizational effectiveness.

**D. Minimizing Dysfunctional Behaviors**

Some work-related behaviors are dysfunctional in nature.

***Dysfunctional behaviors***are those that detract from, rather than contribute to, organizationalperformance.

Two other important individual-level behaviors areabsenteeism and turnover. Absenteeism is a measure of attendance. Turnoveroccurs when a person leaves the organization.

Other forms of dysfunctional behavior may be even more costly for an organization.

Theft and sabotage result in direct financial costs for an organization.Sexual and racial harassment also cost an organization, both indirectly and directly.

So, too, can politicized behavior, intentionally misleading others in the organization,spreading malicious rumors, and similar activities.

Incivility and rudenesscan result in conflict and damage to morale and the organization’s culture.

Bullying and workplace violence are also growing concernsin many organizations.

**E. Driving Strategic Execution**

Finally, another set of outcome variables exists at the organizationlevel. These outcomes usually relate to strategicexecution—how well managers and their employees understandand carry out the actions needed to achieve strategicgoals.

As before, some of these outcomes parallel those at theindividual and group levels, but others are unique.

Themanager must look at the full array of outcomes and attempt to balance themin an optimal fashion. The manager’s ability to do this is a major determinantof the organization’s success and how well it implements its business strategy.

**F. How Do We Know What We Know?**

Another important part of being an effective manager is understanding thequality of the information you use to make decisions. Not all information isaccurate!

Accordingly, it is important for you to understand the processes thathave been used to establish our knowledge about OB, and why we know whatwe know.

**1. Intuition**

Decades of research have both reinforced some of the things many people intuitively believe and identified common misunderstandings or misperceptions about OB.

The authors encourage you to read this book with an open mind, and to not assumethat you know all there is to know about a topic before you have studied it. Their goal is to help you be as effective as possible in organizations, and to help youcreate successful organizations.

**2. The Scientific Method**

Rather than relying on experience or intuition, or just assuming that ideas arecorrect because they seem to make sense, the ***scientific method***relies on systematicstudies that identify and replicate a result using a variety of methods,samples, and settings. Sir Francis Bacon developed the scientific method inthe 1600s.

The scientific method begins with***theory***, which is a collection of verbaland symbolic assertions that specify how and why two or more variables arerelated, and the conditions under which they should and should not relate.

The second step in the scientific method is the development of ***hypotheses***,or written predictions specifying expected relationships between certain variables.

Hypothesis testing can be done using a variety of research methods andstatistical analyses. For our purposes, assume we collect data on our predictor,or ***independent variable***, and our criterion, or ***dependentvariable*.**

Setting a specific, difficult, achievablegoal is the independent variable, and the number of products assembled isour dependent variable.

We can then analyze the ***correlation*,** abbreviated r, between thetwo variables to test our hypothesis. The correlation reflects the strength ofthe statistical relationship between two variables.

The correlation ranges from −1 to +1, and can be positive or negative. Acorrelation of 0 means that there is no statistical relationship.A negative correlation is not necessarily bad. It may simply mean that to maximize assemblers’ performance,the manager should set *lower* goals.

In reality, we never see perfect +1.0 or −1.0 correlationswhen it comes to people’s behavior—people are just too complicated.

A statistical technique called ***meta-analysis***is used to combine the results ofmany different research studies done in a variety of organizations and for a varietyof jobs.

The goal of meta-analysis is to estimate the true relationship betweenvarious constructs and to determine whether the results can be generalized to allsituations or if the relationship works differently in different situations.

**3. Global Replication**

Assuming that everyone in the world shares the same values,norms, and expectations about work is incorrect. National boundaries no longerlimit many organizations, and many U.S. companies employ people fromaround the world.

**Global Issues Feature: Managing Across Cultures**

**Summary:**Effective management requires flexibility and an appreciation that expectations and values differ. The U.S. workforce is expected to become more diverse. The more comfortable students are in tailoring motivation and leadership efforts to the people they lead, the more effective they will be as managers. Although good pay and interesting work appear to be universally motivating, people from different cultures have different traditions, are motivated by different things, and communicate in different ways. Motivating employees in a multinational organization is challenging, particularly if managers adopt a “one-size-fits-all” strategy. Cultural differences also influence the effectiveness of different leadership behaviors.Managers supervising employees from different cultures must recognize these differences and adapt their behaviors and relationships accordingly.

**VI. THE FRAMWORK OF THE BOOK**

Figure 1.7 presents the framework around which our book is organized.

## Summary and Application

Organizational behavior is the study of human behavior in organizationalsettings, the interface between human behavior and the organization, andthe organization itself. The study of OB is important because organizationshave a powerful influence on our lives and it directly relates to managementin organizations.

A manager’s job can be characterized in terms of four functions. Thesebasic managerial functions are planning, organizing, leading, and controlling.Planning is the process of determining the organizations’ desiredfuture position and deciding how best to get there. Organizing is the processof designing jobs, grouping jobs into manageable units, and establishingpatterns of authority among jobs and groups of jobs. Leading is theprocess of motivating members of the organization to work together towardthe organization’s goals. Controlling is the process of monitoring and correctingthe actions of the organization and its people to keep them headedtoward their goals.

Why is it that some people rise in organizations despite being onlyaverage accountants, marketers, researchers, and so on? Often the answeris that those people know how to interact effectively with other people.Effective interaction with people is critical for advancement in organizations,and often for effective job performance. Being able to understandwhat people think and feel, knowing how to persuade and motivate others,and knowing how to resolve conflicts and forge cooperation are among themost important skills of successful leaders.This book can help you better understand yourself, understand organizations,understand the role of organizational behavior in your personal careersuccess, and improve your OB skills.

## DISCUSSION QUESTIONS

**1. What do you think are the most important things a manager does? Is how a manager does these things also important? Why or why not?**

The ability to understand what people think and feel, knowing how to persuade and motivate others, and knowing how to resolve conflicts and forge cooperation are among the most important skills of successful managers. How a manager does these things is important because “people skills” are often what make the difference between an average and an excellent performer in almost any job.

**2.** **Some people have suggested that understanding human behavior at work is the single most important requirement for managerial success. Do you agree or disagree with this statement? Why?**

To some degree, students’ responses may depend on their major field of study, especially if it is not management. However, students should recognize that the behavior of people in organizations affects everyone’s lives in numerous ways every day. The extent to which we are able to get things done at work or to register for classes every semester reflects the behavior of people in organizations. After all, people are the organization, people are resources that organizations use, and, most importantly, people are individuals interacting in increasingly complex ways.

**3. The chapter identifies four basic managerial functions. Based on your ownexperiences and observations, provide an example of each function.**

Answers will vary. Students may be more aware of the control function than any other in the jobs they have held!

**4. Why will learning about OB help you to get a better job and a better career, and be a better manager?**

OB provides a foundation for the effective management of people in organizations. Because it explains how organizations work from individual motivation to team dynamics to organizational structure, knowing about OB is essential to being effective at all organizational levels.Also, learning about yourself and constantly developing your skills are important to succeeding in any career.

**5. Some people believe that individuals working in an organization have basic human rights to satisfaction with their work and to the opportunity to grow and develop. How would you defend this position? How would you argue against it?**

In defense of this position, it may be argued that organizations have a responsibility to society to provide an environment that enables individuals to grow and develop. In other words, because individuals expend extensive time and energy in organizations, it is the individual’s right to work in a safe, clean, and satisfying environment. From the opposing viewpoint, it may be argued that organizations are required only to reward employees financially for the time and effort they spend on the job. Further, because employees are not “forced” to work for a particular organization, they have the freedom to leave the organization if they are not satisfied. In addition, because employees are paid for their services, organizations are not required to address other employee concerns.

**6. Think of something that you believe leads to employee productivity based on intuition that may not prove to be true if tested systematically. Now apply the scientific method and describe how you might test your theory.**

Paying for increased production seems intuitively to lead to increased productivity. In fact, workers who produced more than their peers were considered “rate busters” and shunned by their coworkers. *Theory*: Workers are motivated by money. *Hypothesis*: paying a worker more money increased output. The independent variable is the money, and the dependent variable is the worker’s productivity. For the data phase, a group of workers is offered additional pay to increase output during a one-hour work period. Data analysis shows that the correlation between the two variables is negative. This means that paying more money does not increase output. Peer pressure not to work too hard was a stronger motivator than additional pay.

## GROUP EXERCISE – Managing a Successful Restaurant

**Learning Objective:** Applying concepts learned in this chapter such as employee engagement, organizational citizenship, dysfunctional behaviors and managing for effectiveness.

**Task:** Form groups of 3 – 5 students.

Imagine that you are all managers in a local restaurant. There are many restaurants intown, making it a competitive business. You recognize that providing high quality,friendly service and having actively engaged employees is going to make thedifference between your restaurant’s success and failure.

Your management team decides to first address organizational citizenship andemployee engagement as drivers of high quality customer service.

First, think independently about whatyour restaurant can do to enhance the engagement and citizenship behaviors ofyour employees. Then share your ideas with the group and identify your top threesuggestions for the restaurant. Be ready to share your ideas with the class.

Your management team next decides that it will be important to minimizedysfunctional employee behaviors if the restaurant is to succeed. First, think independently about what your restaurant can do to minimize the occurrence of these destructivebehaviors. Then share your ideas with the group and identify your topthree suggestions for the restaurant. Be ready to share them with the class.

## VIDEO EXERCISES

**Managing at Camp Bow Wow**

**Summary:**Sue Ryan left the corporate world to open her own business, Camp Bow Wow, to enjoy—and pass on—the better managerial practices that she’d encountered in her career. Her strategy for managing her business is to mentor and develop other managers to help her.

**1. How does Sue Ryan perform the three basic managerial roles—interpersonal, informational, and decision making—in her role at Camp Bow Wow?**

In the interpersonal category, Sue assumes the leader role and encourages workers to increase productivity. In the informational category, Sue assumes the disseminator role by outlining customer service policies to employees. In the decision-making category, Sue assumes the role of resource allocator as she allocates budget requests.

**2. How do Candace Stathis and Sue Ryan apply the four critical managerial skills—technical, interpersonal, conceptual, and diagnostic—in their roles at the company? Which of these skills do you think is most important skill for a manager at Camp Bow Wow and why?**

Ryan and Stahis need technical skills associated with operations such as handling the dogs. They need interpersonal skills for the customer service function and conceptual skills to see “the big picture” of Camp Bow Wow Boulder. Diagnostic skills help them recognize the optimal solutions to problems. The video shows that Sue excels in leadership skills while Candace excels in the interpersonal skills required for good customer care. The most important skill is interpersonal to effectively and efficiently deal with the dog owners.

**3. How do Ryan and Stathis balance the three levels of business outcomes—individual, group and team, and organizational? How would each manager rank the importance of the three outcomes? Why are their rankings likely to be the same or different?**

Sue Ryan would rank organizational outcomes first because she is a manager who realizes the effect of good customer service on business performance. She would rank group and team outcomes next because productivity depends on having her employees care for the dogs effectively. She would rank individual outcomes last because she is not caring for the dogs herself, rather managing the care. Candace Stathis would rank group and team outcomes first because she interacts with other employees to assure quality care for the dogs. She would rank individual outcomes next because handles customers who are “are way harder to train” than dogs. She would rank organizational outcomes last because she is a middle manager, not a top manager.

**Now What?**

Imagine being a new manager at Happy Time Toys, a company that designs and manufactures novelty toys. While attending a group meeting with your boss and two coworkers, your boss asks for ways of better using the organization’s talent to create a competitive advantage. *What do yousay or do?* Go to this chapter’s “Now What?” video, watch the challenge video, and choose the best response. Be sure to also view the outcomes of the two responses you didn’t choose.

**OB Concepts Applied:** themanagerial functions of planning, organizing, directing, and controlling; the role of OB in managing effectively.

**Discussion Questions**

**1. Which aspects of management and organizational behavior discussed in this chapter are illustrated in these videos? Explain your answer.**

Organizational behavior explains how people interpret events and behave in organizations and describes how organizations shape behavior. OB explains how organizations work. OB can improve a firm’s performance by positively influencing bottom line results.

Happy Time Toys correctly assumed that people work best when they’re rewarded properly. However, the “Employee of the Month” program did not motivate everyone to work harder (incorrect response #2) because different employees are motivated by different rewards, especially in a culturally diverse workforce. In the video, one employee put the Employee of the Month certificate in the recycle bin, and one group said that they’d feel more appreciated with a day off or a raise.

OB explains that workers are more motivated when they believe their organization is open, concerned, and willing to listen. As the Human relations movement showed, humane, employee-centered management recognizes employees’ needs.

Organizational culture is a system of shared values, norms, and assumptions that guide members’ attitudes and behaviors in an organization. To create a strong culture, leaders clearly communicate the firm’s expectations to employees. When Happy Time Toysfocused on a strong culture that supported creativity and set clear performance goals linked to the company’s business strategy, company performance improved dramatically. Creativity in toy development, high quality, and competitive prices re-energized the company (correct response).

The video also illustrated the managerial functions of planning, organizing, directing and controlling as Happy Time Toys aligned its talent strategy with its business strategy.

**2. How could a company’s talent strategy undermine its ability to create a competitive advantage?**

A competitive advantage offers quality, service, and an acceptable price, and an organization’s talent is the key to securing each of these. The effective management of people is key to the creation of a competitive advantage because productivity comes from challenged, empowered, excited, rewarded people.

When Happy Time Toystied its talent strategy a low-cost business strategy (incorrect response #1), its ability to create a competitive advantage was undermined. Why? The philosophy of reducing wages and headcount to save money and keep prices low resulted in increased customer complaints, high turnover, higher absenteeism, reduced production levels, lack of employeeengagement and job satisfaction. These elements make a company *less* competitive in the marketplace.

**3. How else might you answer the question of how Happy Time Toys can create a competitive advantage through its talent?**

Another approach for Happy Time Toys could be a specialization strategy which focuses on a narrow market segment or niche. The company could develop a competitive advantage based on customer intimacy─ delivering unique and customized products and increasing customer loyalty. Creating customer loyalty requires employees to combine knowledge about their customers with a quick response to a customer’s need. Talent is the most critical element in building a customer-oriented company. Hiring active learners with good customer relations skills and emotional resilience under pressure complements a customer intimacy competitive advantage.

**PART ONE – INTRODUCTION TO ORGANIZATIONAL BEHAVIOR**

**Chapter Two – The Changing Environment of Organizations**

**Overview**

The environment of all organizations is changing at an unprecedented rate.People work in different ways and places than in the past, the workplace isincreasingly diverse, ethical challenges are a constant issue, and globalizationis commonplace.

Understanding and addressing theenvironment of a business has traditionally been the purview of top managers.But the effects of today’s changing environment permeate the entire organization.Hence, to truly understand the behavior of people in organizational settings,it is also necessary to understand the changing environment of business.

This chapter is intended to provide the framework for such understanding.Specifically, as illustrated in Figure 2.1, we introduce and examine five of the central environmental forces for change faced by today’s organizations: diversity,globalization, technology, ethics and corporate governance, and newemployment relationships. An understanding of these forces will then set thestage for our in-depth discussion of contemporary organizational behavior.

**Learning Outcomes**

After studying this chapter, students should be able to:

1. Describe the nature of diversity in organizations.

2. Describe the different types of diversity and barriers to inclusion that exist in the workplace.

3. Discuss the emergence of globalization and cross-cultural differences and similarities.

4. Discuss the changing nature of technology and its impact on business.

5. Describe emerging perspectives on ethics and corporate governance.

6. discuss the key issues in new employment relationships.

**Real World Challenge: Global Diversity at Coca-Cola**

**Summary:**With over 130,000 global employees, over 65,000 of them in the U.S., beveragegiant The Coca-Cola Company is a global business that operates in a multicultural worldboth in the workplace and in the marketplace. The company recognizes that its ability tothrive in a multicultural world is both critical to its financial performance and consistent withits values.Accordingly, diversity is recognized by Coca-Cola as an important componentof their vision for the company in 2020. The Coca-Cola Company understands that although it has been recognized as a diversityleader there is always more it can do.

**Real World Challenge:**Imagine that the company’s leaders ask you for advice on how to build a diverse and inclusive workforce that allows it to leverage the potential of its diverse employees to enhance the company’s performance. After reading this chapter, what would you tell them?

**Real World Response:**Senior executives including theChairman and CEO are involved with many nonprofitsinvolving underrepresented groups, and corporategoals are linked to individuals’ diversitymetrics including being a cross-cultural mentor andthe recruitment, promotion, engagement, and retentionof diverse employees. The company also offersa variety of diversity education programs that haveevolved from minimizing conflict to strengthening thecompany’s ability to amplify, respect, value, andleverage employee differences to influence sustainablebusiness outcomes. Rather than just focusingon diversity numbers, The Coca-Cola Companyfocuses on fostering an inclusive culture usingsocial psychology research on unconscious biasand change management techniques.

**Chapter Outline**

**I. DIVERSITY AND BUSINESS**

*Diversity*refers to the variety of observable and unobservable similarities and differences among people.

Some differences, such as gender, race, and age, are often the first diversity characteristics to come to mind. But diversity is much more than demographics and can reflect combinations of characteristics rather than a single attribute. Each individual also has a variety of characteristics, and combinations of them can result in diversity.

**II. TYPES OF DIVERSITY AND BARRIERS TO INCLUSION**

**A. Types of Diversity**

*Surface-level diversity*refers to observable differences in people, including race, age,ethnicity, physical abilities, physical characteristics, and gender.

*Deep-level diversity*refers to individual differences that cannot be seen directly, including goals, values, personalities, decision-making styles, knowledge, skills, abilities, and attitudes.

Three other types of within-group diversity reflect different types of deep-level diversity.

***Separation diversity*** refers to differences in position or opinion among group members reflecting disagreement or opposition – dissimilarity in an attitude or value, for example, especially with regard to group goals or processes.

***Variety diversity*** refers to differences in a certain type or category, including group members’ expertise, knowledge, or functional background.

***Disparity diversity*** refers to differences in the concentration of valuable social assets or resources – dissimilarity in rank, pay, decision-making authority, or status, for example.

Table 2.1 summarizes these five types of diversity.

**B. Trends in Diversity**

Some short-termdemographic trends are strong enough to suggest that the changing demographicmix in the workforce will continue to increase the importance ofunderstanding and leveraging diversity.

The CensusBureau projects that by 2020 the U.S. workforce will consist of 62.3 percentWhite non-Hispanics, 18.6 percent Hispanics, 12 percent Blacks, and 5.7 percentAsians.

Longer-term U.S. demographic projections further highlight theincreasingly diverse character of the United States:

* The population is projected to become older.
* By 2050, the total population is forecasted to increase 49%.
* Non-Hispanic Whites are expected to decrease from 69.4% to 50.1% of the total population by 2050.
* People of Hispanic origin is projected to increase 188% by 2050.
* The Black population is projected to increase by 71% by 2050.
* The Asian population is forecasted to grow 213% by 2050.

In 2014, only 23 of the Fortune 500 CEOs were minorities, and White people held 87% of total seats on corporate boards of directors.

Many countries and regions face talent shortages at all levels, and thosegaps are expected to worsen. Talent shortages are forecast to rise globally.

**C. Generational Differences**

Age-based diversity is a major issue facing many organizations today. Figure 2.2 provides a clear indicator of why this is true.

The U.S.Bureau of Labor Statistics projects a dramatic increase in workers age sixty-fiveand older during the next decade, while the percentage of younger workersis expected to decrease.

Most experts characterize today’s workforce as comprising four generations.According to date of birth, they are: seniors (1922–1943); baby boomers(1943–1963); Generation X (1964–1980); and Generation Y, also referred to asthe Millennial Generation (1980–2000).

The U.S. workforce is aging at the same time Generation Y, the largestgeneration since the baby boomers, is entering the workforce. This increasesthe importance of understanding the role of age in organizations, and how tomanage generational differences at work.

The influence of age in trainingenvironments has been extensively studied. Age was negatively associatedwith learning scores in an open learning program for managerial skills.Older trainees demonstrated lower motivation, reduced learning, and lesspost-training confidence in comparison to younger trainees. This suggeststhat age has a negative relationship with learning, and that part of its influencemay be due to motivation.

Increasing conscientiousness and knowledge counteract some of the negativeeffects of aging that result from reductions in information processingspeed and motivation to learn.

Some organizations are using reverse mentoring to bridge generationaldifferences and transfer the technology skills younger workers bring to theworkplace to more senior employees.

**D. Diversity Issues for Managers**

Why should we care about diversity? Asmanagers, diversity awareness will enable us to hire, retain, and engage the besttalent, which will help to maximize the organization’s performance. Diversity alsofosters greater creativity and innovation.

**1. The Business Case for Diversity**

One reason that organizationsshould promote diversity is performance.Recent research has foundthat firm performance increaseswhen employees have more positiveattitudes toward diversity.

Diversitycontributes to a firm’s competitiveadvantage when it enables allemployees to contribute their full talentsand motivation to the company.

Diversity management is also important for legal reasons. The Civil Rights Act of 1991 allows monetary damages in cases of intentionalemployment discrimination. Obeying the law and promoting diversity is consistentwith hiring the people best suited for the job and organization.

**2. Barriers to Inclusion**

Given both the performance benefits and legal imperatives of diversity, then,what prevents companies from becoming inclusive and making the most oftheir diversity? A report of the U.S. Equal Employment Opportunity Commissionidentified several common diversity barriers that exist in many organizations. These barriers, summarized in Table 2.2, stem from a variety ofdecision-making and psychological factors as well as from employee unawareness.

Understanding and proactively addressing the barriers can minimizetheir impact and enhance inclusion.

**a. The “Like Me” Bias**

Consciously or unconsciously, we tend to associatewith others whom we perceive to be like ourselves. This bias is part ofhuman nature.

**b. Stereotypes**

A stereotype is a belief about an individual or a group based onthe idea that everyone in that particular group will behave the same way. Stereotypesare harmful because they result in judgments about an individualbased solely on his or her being part of a particular group, regardless ofhis or her unique identity. Stereotypes are often negative and erroneous,and thus adversely affect the targeted individuals.

**c. Prejudice**

Evenif an organization has a strong commitment to inclusion, it is possiblethat the beliefs and actions of individual employees or managers areinconsistentwith the organization’s policies and values.

**d. Perceived Threat of Loss**

As voluntary efforts are made by companies topromote inclusion, members of groups who traditionally have been thepredominant employees of a particular workforce or occupation may growanxious or angry. If they perceive a direct threat to their own career opportunities,they may feel that they need to protect their own prospects byimpeding the prospects of others.

**e. Ethnocentrism**

Ethnocentrism reflects the belief that one’s own language,native country, and cultural rules and norms are superior to all others.Ethnocentrism often has less to do with prejudice and more to do withinexperience or ignorance about other people and environments.

**f. Unequal Access to Organizational Networks**

All organizations have formaland informal networks. These organizational networks influence knowledgesharing, resource accessibility, and work opportunities. Women andminorities are often excluded from informal organizational networks,which can be important to job performance, mentoring opportunities, andbeing seen as a candidate for promotion.

**3. Managing Diversity**

The mostimportant element in effectively leveraging the positive potential of diversity istop management support for diversity and for diversity initiatives.

An inclusive environmentis created when all employees’ cultural awareness and empathy are enhancedthrough diversity training and all employees are given equal access to mentorsand other influential company employees.

Creating fair company policies andpractices that give all employees equal access to performance feedback, trainingand development, and advancement opportunities is also critical.

Diversity initiatives are more successfulwhen the company is able to keep employees thinking about diversity issues,even when they do not feel a direct, negative impact.

Training and mentoring can also help. Diversity training and diversity education need tocommunicate that bias is a part of being human. It is not realistic to claim or topursue an “I’m totally unbiased” stance with regard to diversity.

**CASE STUDY: Diversity at Wegmans**

**Summary:**East coast grocer Wegmans views diversity as more than just a legal or moral obligation or business necessity – to them it is a business opportunity. The company strives to attract and retain a workforce that reflects different backgrounds, experiences, and viewpoints and mirrors the communities in which it operates. Wegmans believes that to be a great place to shop, they must first be a great place to work. Wegmans emphasizes diversity in hiring to refresh stores with new ideas. Corporate values including respect, caring, empowerment, and high standards have helped the company repeatedly appear on *Fortune’s* list of the 100 Best Companies to Work For.

1. In what ways can diverse employees contribute to Wegmans’ business performance?

Research finds that firm performance increases when employees have positive attitudes toward diversity. Diversity contributes to a firm’s competitive advantage when it enables all employees to contribute their full talents and motivation to the company. Diverse groups can use their diverse backgrounds to develop a more comprehensive view of a problem and broader list of possible solutions. The broader social network of diverse employees also gives workgroups and organizations access to a wider variety of information and expertise. Further, diversity can be a source of creativity and innovation that can create a competitive advantage.

2. What types of diversity do you think Wegmans should focus on? Why?

Wegmans should focus on deep-level diversity which is individual differences that cannot be seen directly, including goals, values, personalities, decision-making styles, knowledge, skills, abilities, and attitudes. These “invisible” characteristics in others take more time to learn about, but can have stronger effects on group and organizational performance than surface-level characteristics.

3. What are the downsides, if any, of building a diverse workforce?

As employees, the better we are able to work with all types of people, the more effective we will be in our jobs. As mangers, diversity awareness will enable us to hire, retain, and engage the best talent, which will help to maximize the organization’s performance. Diversity also fosters greater creativity and innovation. A strong business case can be made for diversity. Diversity management is also important for legal reasons. Laws prohibit employment discrimination based on race, color, religion, sex, or national origin. Other laws offer protections to additional groups, including employees with disabilities and workers over the age of forty. Obeying the law and promoting diversity is consistent with hiring the people best suited for the job and organization. There seem to be no downsides to building diversity into the workforce.

**III. GLOBALIZAITON AND BUSINESS**

Another environmental factor that affects OB is ***globalization*** or the internationalization of business activities and the shift toward an integrated global economy. From a business standpoint the widespread effects of globalizationare relatively new, at least in the United States.

**A. Trends in Globalization**

In 2014, the volume of international trade in currentdollars was about 50 times greater than the amount in 1960.

Four major factors account for much of the growth in international trade.

First, communication and transportation have improved dramatically overthe past several decades. It is simply easier toconduct international business today than was the case just a few years ago.

Second, businesses have expanded internationally to increase their markets.

Third, more and more firms are moving into international markets to controlcosts, especially to reduce labor costs.

Finally, many organizations have becomeinternational in response to competition. If an organization starts gainingstrength in international markets, its competitors often must follow suit toavoid falling too far behind in sales and profitability.

**B. Cultural Competence**

One of the worst, yet easiest, mistakes people can make is to assume thatother people are just like them. People from different cultures see and dothings in different ways. ***Cultural competence***is the ability to interact effectivelywith people of different cultures.

There arefour components of cultural competence:

1. Awareness of our own cultural worldview, and of our reactions to people who are different.

2. Our attitude toward cultural differences.

3. Knowledge of different worldviews and cultural practices.

4. Cross-cultural skills.

**C. Cross-Cultural Differences and Similarities**

We now turn our attention to differences and similarities in behavioracross cultures.

**1. General Observations**

Cultural and nationalboundaries do not necessarily coincide. Given this basic assumption, one major review of the literature on international management reached five basic conclusions.

First, behavior in organizationalsettings does indeed vary across cultures.

Second, culture itself is one major cause of this variation. ***Culture***is theset of shared values, often taken for granted, that help people in a group, organization,or society understand which actions are considered acceptable andwhich are deemed unacceptable.

Third, although the causes and consequences of behavior withinorganizationalsettings remain quite diverse across cultures, organizations andthe ways they are structured appear to be growing increasingly similar.

Fourth, the same individual behaves differently in different cultural settings.

Finally, cultural diversity can be an important source of synergy in enhancingorganizational effectiveness.

**Global Issues: Cultural Etiquette Quiz**

**Summary:** The text offers 12 questions or statements about business cultures and students are asked to answer the quiz questions to get an idea of how aware they are of the business cultures of other areas of the world. Answers provided at the bottom of the quiz.

**2. Specific Cultural Issues**

Geert Hofstede, a Dutch researcher, studied workers and managers in 60 countriesand found that specific attitudes and behaviors differed significantly becauseof the values and beliefs that characterized those countries. Table 2.3 shows howHofstede’s categories help us summarize differences for several countries.

The two primary dimensions that Hofstede found are the individualism/collectivism continuum and power distance. ***Individualism*** exists to theextent that people in a culture define themselves primarily as individualsrather than as part of one or more groups or organizations.

***Collectivism***, on the other hand, is characterized bytight social frameworks in which people tend to base their identities on thegroup or organization to which they belong.

***Power distance***, which might also be called ***orientation to authority***, isthe extent to which people accept as normal an unequal distribution of power.

Hofstede also identified other dimensions of culture. ***Uncertainty avoidance***,which might also be called ***preference for stability***, is the extentto which people feel threatened by unknown situations and prefer to be inclear and unambiguous situations.

***Masculinity***, which might be more accuratelycalled ***assertiveness or materialism***, is the extent to which the dominantvalues in a society emphasize aggressiveness and the acquisition of moneyand other possessions as opposed to concern for people, relationships amongpeople, and overall quality of life.

Hofstede’s framework has recently been expanded to include long-termversus short-term orientation. ***Long-term values***include focusing on thefuture, working on projects that have a distant payoff, persistence, and thrift.***Short-term values***are more oriented toward the past and the present andinclude respect for traditions and social obligations.

Theimportant issue to remember is that people from diverse culturesvalue things differently from each other and that people need to take these differencesinto account as they work.

**D. Global Perspective**

A ***global perspective***is distinguished by a willingness to be open to and learnfrom the alternative systems and meanings of other people and cultures, and acapacity to avoid assuming that people everywhere are the same.

Given globalization trends and the multicultural nature of theU.S. workforce, managers increasingly need a global perspective and a supportiveset of skills and knowledge to be most effective.

**IV. TECHNOLOGY AND BUSINESS**

***Technology*** refers to the methods used to create products,including both physical goods and intangible services.

Three specific areas of technology worth noting here are: (1) the shift toward aservice-based economy, (2) the growing use of technology for competitiveadvantage, and (3) mushrooming change in information technology

**A. Manufacturing and Service Technologies**

***Manufacturing***is a form of business that combines and transforms resourcesinto tangible outcomes that are then sold to others.

Manufacturing was once the dominant technology in the United States.During the 1970s, manufacturing entered a long period of decline, primarilybecause of foreign competition. Over the lastdecade or so U.S. manufacturing has regained a competitive positionin many different industries.

During the decline of the manufacturing sector, a tremendous growth in theservice sector kept the overall U.S. economy from declining at the same rate.

A ***service organization***is one that transforms resources into an intangibleoutputand creates time or place utility for its customers.Moreover, employment inservice occupations is expected to grow 20.9 percent between 2012 and 2022.

Managers have come to see that many of the tools, techniques, and methodsthat are used in a factory are also useful to a service firm. At the same time,though, service-based firms must hire and train employees based on a differentskill set than is required by most manufacturers.

**B. Technology and Competition**

Technology is the basis of competition for some firms, especially those whosegoals include being the technology leaders in their industries. But because of the rapid pace of new developments, keeping a leadershipposition based on technology is becoming increasingly challenging.

Businesses have increasingly found that they can be more competitive ifthey can systematically decrease cycle times (the time thatit takes a firm to accomplish some recurring activity or function from beginningto end).

Twenty years ago,it took a carmaker about five years from the decision to launch a new productuntil it was available in dealer showrooms. Now most companies cancomplete the cycle in less than two years. The speedier process allows themto more quickly respond to changing economic conditions, consumer preferences,and new competitor products while recouping their product-developmentcosts faster.

**C. Information Technology**

Most people are very familiar with the swift advances in information technology. Breakthroughs ininformation technology have resulted in leaner organizations, more flexibleoperations, increased collaboration among employees, more flexible work sites,and improved management processes and systems.

On the other hand, theyhave also resulted in less personal communication, less “down time” for managersand employees, and an increased sense of urgency vis-à-vis decisionmaking and communication—changes that have not necessarily always beenbeneficial.

**V. ETHICS AND CORPORATE GOVERNANCE**

***Ethics***and related issues have also engendered renewed interest in recentyears. One special aspect of business ethics, corporategovernance, has also taken on increased importance. Ethics alsoincreasingly relate to information technology.

**A. Framing Ethical Issues**

Figure 2.3 illustrates how many ethical situations can be framed. Specifically,most ethical dilemmas faced by managers relate to how the organizationtreats its employees, how employees treat the organization, and how employeesand organizations treat other economic agents.

**1. How an Organization Treats Its Employees**

This area includes policies such as hiring and firing, wages andworking conditions, and employee privacy and respect.

Wages and working conditions, although tightlyregulated, are also areas for potential controversy.The same goes for employee benefits, especiallyif an organization takes action that affects thecompensation packages—and welfare—of an entireworkforce or segment of it.

Finally, most observerswould also agree that an organization is obligated to protect the privacy of itsemployees.

**2. How Employees Treat the Organization**

Numerous ethical issues also stem from howemployees treat the organization, especially inregard to conflicts of interest, secrecy and confidentiality,and honesty.

A conflict of interest occurswhen a decision potentially benefits the individualto the possible detriment of the organization.

Divulging company secrets is also clearlyunethical.

A third area of concern is honesty in general.Relativelycommon problems in this area include such activities as using a businesstelephone to make personal calls, stealing supplies,and padding expense accounts.

In recent years, new issues regarding such behaviors as personal Internetuse at work have also become more pervasive. Another disturbing trend isthat more workers are calling in sick simply to get extra time off.

Although most employees are basically honest, organizations must neverthelessbe vigilant to avoid problems resulting from such behaviors.

**3. How Employees and the Organization Treat Other Economic Agents**

Managerial ethics also come into play in the relationship between the firmand its employees with other economic agents. As shown in Figure 2.3,the primary agents of interest include customers, competitors, stockholders,suppliers, dealers, and unions.

The interactions between the organization andthese agents that may be subject to ethical ambiguity include advertising andpromotions, financial disclosures, ordering and purchasing, shipping and solicitations,bargaining and negotiation, and other business relationships.

Another area of concern in recent years involves financial reporting by somee-commerce firms. In at least a few cases, somefirms have substantially overstated their earnings projections to entice moreinvestment.

Additional complexities faced by many firms today include the variations inethical business practices in different countries. In some countries, bribes andside payments are a normal and customary part of doing business. However,U.S. laws forbid these practices, even if a firm’s rivals from other countries are paying them.

**B. Ethical Issues in Corporate Governance**

A related area of emerging concern relates to ethical issues in ***corporate governance***—the oversight of a public corporation by its board of directors.

The board of a public corporation is expected to ensure that the business isbeing properly managed and that the decisions made by its senior managementare in the best interests of shareholders and other stakeholders. But infar too many cases the recent ethical scandals alluded to previously have actuallystarted with a breakdown in the corporate governance structure.

Boards of directors are also increasingly being criticized even when theyare not directly implicated in wrongdoing. The biggest complaint here oftenrelates to board independence.

**C. Ethical Issues and Information Technology**

Another set of issues that have emerged in recent times involves informationtechnology. Among the specific questions in this area are individual rights toprivacy and the potential abuse of information technology by companies.

One-way management can address these concerns is by posting a privacypolicy on its website. The policy should explain exactly what data the companycollects and who gets to see the data. It should also allow people a choice abouthaving their information shared with others and indicate how people can optout of data collection.

In addition, companies can offer web surfers the opportunity to review andcorrect information that has been collected, especially medical and financialdata.

Despite the technical difficulties, government agencies are already working onInternet privacy guidelines; this means, in turn, that companies will also needinternal guidelines, training, and leadership to ensure compliance.

**D. Social Responsibility**

A related business challenge relevant to OB is adopting a broader stakeholderperspective and looking beyond shareholder value or the short-term stockprice. In general, this view is called social responsibility. Definitions of corporate***social responsibility***often include businesses living and workingtogether for the common good and valuing human dignity. An important partof this is how employers treat their employees.

Is it really the responsibility of businesses tobe good citizens? Doing so can help a firm attractthe best talent, and customers are increasinglyfavoring companies that do the right thing.

Although most agree with their importancein principle, some people still believe that managersshould focus solely on stockholders’ interests. Othersargue that because business is an influential elementof society, it has an obligation to solve problems ofpublic concern, that it is in the enlightened self-interestof organizations to be socially responsible.

To have lasting effects, social responsibility efforts should be integratedinto the culture of the organization.

Corporate sustainability initiatives can be top-down, with someone in aposition of authority dictating to managers and employees what to do. Corporatesustainability efforts can also be grassroots, with employees identifyingprojects and taking the initiative to organize their own activities.

The International Organization for Standardization (ISO) has created avariety of standards that help organizations gain international acceptance of their practices and outcomes. In addition to environmentally related standardssuch as sustainability and carbon emissions, the ISO publishes managementstandards including those for leadership, customer focus, involvement ofpeople, and continual improvement.

**VI. NEW EMPLOYMENT RELATIONSHIPS**

A final significant area of environmental change that is particularly relevantfor businesses today involves what we call new employment relationships.

Two particularly important areas todayinvolve the management of knowledge workers and the outsourcing of jobsto other businesses, especially when those businesses are in other countries.

Managing temporary and contingency workers and tiered workforcesis also becoming increasingly complex. The nature of psychological contractsis also changing.

**A. The Management of Knowledge Workers**

Traditionally, employees added value to organizations because of what theydid or because of their experience. However, during today’s “information age,”many employees add value simply because of what they know. These employeesare often referred to as ***knowledge workers*.**

As the importance of information-driven jobs grows, the need for knowledgeworkers will grow as well. However, these employees require extensiveand highly specialized training, and not everyone is willing to make thehuman capital investments necessary to move into these jobs.

Compensation and related policies for knowledge workers must also bespecially tailored.

**B. Outsourcing and Offshoring**

***Outsourcing***is the practice of hiring other firms to do work previously performedby the organization itself; when this work is moved overseas, it is often called offshoring.

It is an increasingly popular strategy becauseit helps firms focus on their core activities and avoid getting sidetracked by secondaryactivities. Firms today oftenoutsource numerous activities, including payroll, employee training, facilitymaintenance, and research and development.

Up to a point, at least, outsourcing makes good business sense in areasthat are highly unrelated to a firm’s core business activities. However, whathas attracted considerably more attention in recent years is the growing trendtoward outsourcing abroad in order to lower labor costs; this practice is oftencalled ***offshoring***.

**C. Temp and Contingency Workers**

Another trend that has impacted employment relationships in businessinvolves the use of contingent or temporary workers.

A ***contingent worker***is a person who works for an organization on something other than apermanent or full-time basis. Categories of contingent workers include independentcontractors, on-call workers, temporary employees (usually hiredthrough outside agencies), and contract and leased employees. Another categoryis part-time workers.

Managing contingent workers is not always straightforward, however,especially from a behavioral perspective. Expecting too much from such workers,for example, is a mistake that managers should avoid.

Managers must understand that they need to develop a strategy for integratingcontingent workers according to some sound logic and then follow thatstrategy consistently over time.

**D. Tiered Workforce**

Yet another emerging issue in new employment relationships is what we callthe tiered workforce. A ***tiered workforce***exists when one group of an organization’sworkforce has a contractual arrangement with the organization objectivelydifferent from that of another group performing the same jobs.

These and similar arrangements, of course, may pose new challenges in thefuture. For instance, recently hired workers may come to feel resentmenttowards their more senior colleagues who are getting paid more for the samework. Likewise, as the job market improves and workers have more options,firms may face higher turnover among their newer lower-paid employees.

**E. The Changing Nature of Psychological Contracts**

A final element of the business environment that both affects and is affectedby employment relationships such as those discussed above is the***psychological contract***.

A psychological contract is a person’s overall set of expectationsregarding what he or she will contribute to the organization and whatthe organization will provide in return.

Figure 2.4 illustrates the essential nature of a psychological contract. Theindividual makes a variety of *contributions* to the organization—such thingsas effort, skills, ability, time, and loyalty.

In return for these contributions, the organization provides *inducements*to the individual. Some inducements, such as pay and career opportunities,are tangible rewards. Others, such as job security and status, are more intangible.

If either party sees an inequity inthe contract, that party may initiate a change. The employee might ask for apay raise or promotion, put forth less effort, or look for a better job elsewhere.The organization can also initiate change by training the worker to improvehis skills, by transferring him to another job, or by firing him.

All organizations face the basic challenge of managing psychological contracts.

They want value from their employees, and they need to give employeesthe right inducements.

Recent trends in downsizing and cutbacks have complicated the process ofmanaging psychological contracts, especially during the recession of 2008–2010.

Increased globalization of business also complicates the management ofpsychological contracts.

A related problem faced by international businesses isthe management of psychological contractsfor expatriate managers. In some ways, thisprocess is more like a formal contract than areother employment relationships.

**Summary and Application**

Diversity is much more than demographics and can reflect combinations ofcharacteristics in addition to a single attribute. There are many typesof diversity, including surface-level and deep-level diversity.

Diversity affects individual and organizational outcomes through processesincluding social integration, differences in status and power, task conflict,relationship conflict, inclusion, and information processing. Barriers toinclusion include the “like me” bias, stereotypes, prejudice, perceptions of lossby persons who feel threatened by diversity initiatives, ethnocentrism, andunequal access to organizational networks. Organizations promote diversitythrough top management commitment, staffing, training, and mentoring.

Because societal culture influences the diverse values, customs,language, and expectations we bring with us to work, it is important tounderstand its effects on our own as well as on other people’s behaviors. Societalcultures can differ on a variety of characteristics, including collectivism,power distance, future orientation, and gender egalitarianism as well as determinewhat employees consider desirable leadership characteristics.

Globalization is playing a major role in the environment of many firmstoday. The volume of international trade has grown significantly and continuesto grow at a very rapid pace. There are numerous cross-culturaldifferences and similarities that affect behavior within organizations.

Technological change has become a major driver for other forms of organizational change. It also has widespreadeffects on the behaviors of people inside an organization.

Although ethics has long been relevant to businesses and managers, one special aspect of businessethics, corporate governance, has also taken on increased importance.Ethics also increasingly relate to information technology.

A final significant area of organizational change facing organizations todayinvolves new employment relationships. How well these employees are managed isseen as a major factor in determining which firms will succeed. Outsourcing isthe practice of hiring other firms to do the work previously performed by theorganization itself. Contingent and temporary workers and the creation of a tieredworkforce also pose special challenges.

**DISCUSSION QUESTIONS**

**1. Which do you think is more important to team performance, surface-level or deep-level diversity? Why?**

Surface-level diversityrefers to observable differences in people, including race, age, ethnicity, physical abilities, physical characteristics, and gender. Deep-level diversity is more important to team performance because it includes goals, values, decision-making styles, knowledge, skills, abilities, and attitudes. These dimensions directly affect team performance.

**2. How can diversity create a competitive advantage for a firm?**

Diversity can enhance a firm’s competitive advantage because it enables all employees to contribute their full talents and motivation to the company. Effectively managing diversity brings out the best in employees, allowing them to contribute maximally to the firm’s performance. Diversity can improve decision making, enhance creativity, and enable a company to better relate and respond to its customers.

**3. If a subordinate came to you and said that they felt the company’s new diversity hiring initiative was unfair and would compromise their well-deserved opportunities for advancement, how would you respond?**

I would say that the company makes sure that highly qualified job candidates are diverse. Then, I would point out that the company focuses on being a meritocracy, promotes awareness of how different groups communicate, and ensures that the assessment and promotion process does not misinterpret those styles. Finally, I would add that the company ensures that the promotion process proactively identifies diverse candidates to prevent inadvertently overlooking them.

**4. What can leaders do to be effective when team members are from different cultures and have different expectations about how the leaders should behave?**

Leaders can develop cultural awareness. This requires honestly examining their prejudices and biases, actively developing cross-cultural skills, learning from role models, and having a positive attitude about cultural issues. The key to cross-cultural success is awareness. A leader must be aware of how culture influences his or her interpretations of others, his or her behavior, and how people from other cultures see the leader.

**5. Identify at least three ways in which the globalization of business affects businesses in your community?**

Students probably will recognize that international business affects almost every aspect of business in every community. Within the work sphere, it influences product design, distribution, market segmentation, promotion, and pricing. At a higher level, it influences corporate objectives, policies, and strategies. Like it or not, every business is in the international marketplace.

**6. What roles do changing technologies play in your daily activities?**

Communication is faster, easier, and a wide range of options is available. Privacy may be encroached upon with greater ease than ever; unit costs of communication are lower. Entertainment is also more varied in terms for format and accessibility, increasing a person’s options. It may be more of a challenge to keep pace with the rapid changes in technology in the consumer products field as well as work-related technology, and the problem and pace of obsolescence are accelerating.

**7. Do you think that concerns regarding ethics will become more or less important in business? Why?**

Concerns about ethics will likely remain fresh in the minds of current managers and business students, perhaps fading in future generations, especially if other issues, such as a shrinking workforce or global catastrophes, emerge. As long as business schools and organizations themselves make an effort to remind the young about ethical issues they will remain important, if not central, to managerial thinking.

**8. What are your personal opinions about international outsourcing in the garment industry? Do you think that lower prices are worth sending U.S. jobs to other countries? Explain your answer.**

If one has never lost one’s job due to international outsourcing the opinion might be very positive—it can reduce labor costs, make the organization more efficient and competitive, and help develop economies that are below par. There are downsides, of course, particularly revolving around the short-term effects on individual American workers and the communities in which they live from a sudden loss of jobs. Longer-term, downsizing can force individuals and organizations alike to learn new skills, streamline their operations, and … change for the better!

**GROUP EXERCISE – What Does Culture Mean to You?**

**Learning Objective:** Explain how societal culture affects how people interpret others and how others interpret them.

**Summary:** This exercise is done as a class, and the instructor plays the role of class secretary. First working alone, students think about what “societal culture” means. For 5 minutes, they think about their own culture. They define a word and then write down the cultural dimensions to describe it. After 5 minutes, students share their ideas, which the instructor records. Students identify categories for placing the ideas. They then answer the following questions as a class.

**Task:**

**1. How might multiculturalism create a competitive advantage for an organization?**

**2. What categories are the most important to teams working in organizations?**

**3. What categories are the least important to teams working in organizations?**

**4. What does your list suggest that mangers wanting to promote a multicultural workplace might do?**

**VIDEO EXERCISE**

**Ethical Decision Making at Black Diamond Equipment**

**Summary:** Black Diamond Equipment specializes in climbing and skiing equipment. Theglobal company looks for employees who share the company’s attitude, values,and passion toward outdoor sports and ethical values. Black Diamond alsopromotes fair labor practices, sustainability, and low environmental impact.

**Task:** As a class, watch “Black Diamond Equipment” and then individuallyconsider the following questions. After you have come up with your ownideas, form groups of four to five people and discuss your insights. Be sureto nominate someone to serve as a spokesperson to share your ideas withthe class.

**1. How does Black Diamond integrate social responsibility into its culture?**

The founders of Black Diamond began a culture of respect for people and the earth early in the process of beginning the business. Social responsibility is fully integrated into Black Diamond’s business priorities, relevant to achieving business objectives, inclusive of both internal and external stakeholder needs, and consistent with the firm’s cultural values and brand identity. Black Diamond respects its employees and has a passion for outdoor extreme sports. The company attracts employees who have the same values.

**2. How does the global nature of the company and its markets influence how it thinks about employee diversity?**

Black Diamond naturally has to take a global view of its market in order to have a viable market size. Selling to customers in one country would not be enough, Black Diamond needs that conglomerate market. In order to be a truly global company and not just a company that sells globally, the management team is a collection of individuals from different countries. This group is integrated into decision making and product development. This keeps the needs of various cultures at the focus of developing products. Black Diamond would lose these global perspectives if they had a management team comprised of individuals from one country.

**3. How would you describe Black Diamond’s ethics in terms of how it treats its employees at the company’s factory partners in Vietnam, China, and Bangladesh? Do you think that it is appropriate for firms like Black Diamond to scrutinize its partner factories like this? Why or why not?**

Black Diamond holds high ethical standards for the treatment of its employees in the company’s factory partners. Black Diamond runs a certification program for these factories who must pass certain basic needs such as a ventilated and well-lit factory. The company also offers English language programs, extra money for education, and more importantly, human respect. Student’s answers may vary on if they feel scrutiny is important. I feel scrutiny is important and it must be a continuous process, not a one-time inspection. The responsibility for how the company treats employees rests ultimately with top management. Control measures such as the certification process is one way for owners to know their partners share their values.

**Now What?**

Imagine trying to write a project status report for Happy Time Toys with three other team members when an older team member tries to take the project over, believing that you’re too inexperienced to do a good job. *What do you say or do?* Go to this chapter’s “Now What?” video, watch the challenge video, and choose a response. Be sure to also view the outcomes of the two responses you didn’t choose.

**OB Concepts Applied:** surface-level diversity; relational demography; managing age in the workplace; effects of age differences that violate social status norms; diversity as a source of competitive advantage; relationship conflict; inclusion; information processing; social categorization theory; stereotypes; culture of inclusion

**Discussion Questions**

**1. What type(s) of barriers to inclusion exist for this group?**

Relational demography refers to a group member’s similarities to and differences from other group members. Bill is older and more experienced than Allison and Alex and perceives himself to be different from them. This awareness leads to a haughty attitude. “I know a lot more than you do, and I’ve written many of these—You kids can get back to your regular work.” In fact, Bill feels like a token because he is in the numerical minority in a group based on the characteristic of age.

The group is experiencing task conflict which refers to conflict over issues, such as deadlines and work processes. Educational diversity is associated with greater task conflict (incorrect response #1). Bill feels that his experience gives him superior skills in writing reports. “I’ve written many of these—I’ll have no problem getting it done.” Alex and Allison feel more qualified to write the report and try to exclude Bill. “We came out of the best universities and have more current knowledge than you do.”

Other sources of conflict include both surface-level diversity, visible differences in people, including age and deep-level diversity, invisible differences such as knowledge. Bill is much older than Alex and Allison, but they have greater expertise in marketing and sales.

**2. How can diversity be leveraged as a source of competitive advantage for this group?**

Diversity can be a source of competitive advantage because group members can use their diverse backgrounds to develop a more comprehensive view of a problem, create a broader list of possible solutions, and offer a wider variety of information and expertise.

Alex suggests thatthe group divides up the report based on each member’s area of expertise. Allison drafts the sales section, Alex drafts the marketing and financials sections, and Bill handles competitor analysis. Research shows that innovative companies intentionally use heterogeneous teams to solve problems.

**3. If you were the CEO of Happy Time Toys, how would you create a culture of inclusion to help your company realize the benefits of not only age-related diversity but all types of diversity?**

If diverse employees are excluded from decision making or are marginalized (incorrect response #2), their potential contributions are not realized. Alex says to Bill, “You do have more experience than we do writing this report. It probably will be better if you write it.” However, Bill didn’t have a good mastery of the marketing plan and couldn’t finish the report on time. As a result, all three group members received disappointing performance evaluations because the report was supposed to be a team effort.

Inclusion refers to the sense of being safe, valued, and engaged in a group regardless of differences from other group members. To create a culture of inclusion, Happy Time Toys should highlight the strengths of each employee through increased involvement. Alex could further develop marketing and financial expertise through seminars, continuing education and challenging assignments.

It is essential that the company avoid barriers to inclusion such as stereotyping others based on age. Bill thought Alex and Allison were “kids” who didn’t know anything. Alex and Allison thought Bill’s knowledge was dated because they perceived him as an old person. Stereotypes are both negative and erroneous─ as new graduates from the best universities, Alex and Allison knew more than Bill about marketing, finance, and sales, but Bill knew more about writing the report. Happy Time Toys should also avoid the barrier to inclusion called “a perceived threat of loss.” Since Bill has been the predominant employee for years, he feels angry if he perceives that younger employees pose a direct threat to his career opportunities. He wanted to do write the report himself because he felt the need to protect his career by impeding the careers of Alex and Allison (incorrect response #1). Ultimately, the three employees collaborated on the report and achieved inclusiveness.