Module 100

General Management and Organization

Section 101. Corporate Strategies

Summaries and Conclusions

Strategic management begins with an evaluation of the organization's current mission, goals, and strategy. This evaluation is followed by situation analysis (called *strengths, weaknesses, opportunities, and threats* (SWOT) *analysis*), which examines opportunities and threats in the external environment as well as strengths and weaknesses within the organization. Situation analysis leads to the formulation of explicit strategic plans, which then must be implemented.

Strategy formulation takes place at three levels: corporate, business, and functional. Corporate grand strategies include growth, stability, retrenchment, and global. One framework for accomplishing them is the Boston Consulting Group (BCG) matrix. An approach to business-level strategy is Porter's competitive forces and strategies. The Internet is having a profound impact on the competitive environment, and managers should consider this when analyzing the five competitive forces and formulating business strategies. An alternative approach to strategic thought emphasizes cooperation rather than competition. Partnership strategies include preferred supplier arrangements, strategic business partnering, joint ventures, and mergers and acquisitions. Most of today's companies choose a mix of competitive and partnership strategies. Once business strategies have been formulated, functional strategies for supporting them can be developed.

Even the most creative strategies have no value if they cannot be translated into action. Managers implement a strategy by aligning all parts of the organization to be in congruence with the new strategy. Four areas that managers focus on for strategy implementation are leadership, structural design, information and control systems, and human resources.

Coca-Cola's CEO Douglas Daft has made several strategic moves to try to get the company back on top. Although Coke continues to use primarily a globalization strategy, Daft recognizes the growing need to be more responsive to the heterogeneity of international markets. Therefore, he is gradually shifting toward a transnational strategy. Whereas the company once sought unity in its marketing and advertising strategies, for example, it is now giving bottlers both in the United States and abroad a free hand to tailor promotions to local events and activities. Daft is pushing global managers to think outside the conventional boundaries and come up with ideas for everything from new products to new ways to gather market research. New products include calcium-fortified waters, vitamin-enriched drinks, and new products for international markets such as an Asian tea and a coffee drink. Partnerships are an important part of Coke's new business-level strategy. Coke hopes to attain synergy through a 50–50 joint venture with Procter & Gamble (P&G) by marrying Coke's distribution muscle with P&G's successful juice and snack brands. A similar partnership with Nestlé will develop new coffee and tea drinks for the global market. A deal with Warner Bros. allows Coke to co-market with the film *Harry Potter and the Sorcerer's Stone* around the world. And plans are in the works to create an "incubator" project that will provide office space and seed money to start-ups with innovative ideas that could benefit the giant corporation. The partnership approach is new for Coke, which has long been seen as an insular company bent on doing it all. According to Marketing Director Stephen C. Jones, Daft realizes that "there are too many changes now for us to have all the answers."[1]

Section 105. Management and Organization

Summaries and Conclusions

Nature of Management

High performance requires the efficient and effective use of organizational resources through the four management functions of planning, organizing, leading, and controlling. To perform the four functions, managers need three skills—conceptual, human, and technical. Conceptual skills are more important at the top of the hierarchy; human skills are important at all levels; and technical skills are most important for first-line managers.

Two major characteristics of managerial work are that (1) managerial activities involve variety, fragmentation, and brevity; and (2) managers perform a great deal of work at an unrelenting pace. Managers are expected to perform activities associated with ten roles: the informational roles of monitor, disseminator, and spokesperson; the interpersonal roles of figurehead, leader, and liaison; and the decisional roles of entrepreneur, disturbance handler, resource allocator, and negotiator.

These management characteristics apply to small businesses, entrepreneurial start-ups, and not-for-profit organizations just as they do to large corporations. In addition, they are being applied in a new workplace and a rapidly changing world. In the new workplace, work is free-flowing and flexible to encourage speed and adaptation, and empowered employees are expected to seize opportunities and solve problems. The workplace is organized around networks rather than vertical hierarchies, and work is often virtual. These changing characteristics have resulted from forces such as advances in technology and e-business, globalization, increased diversity, and a growing emphasis on change and speed over stability and efficiency. Managers need new skills and competencies in this new environment. Leadership is dispersed and empowering. Customer relationships are critical, and most work is done by teams that work directly with customers. In the new workplace, managers focus on building relationships with customers, partners, and suppliers. In addition, they strive to build learning capability throughout the organization. An emerging need is for leadership during crises and unexpected events. Managers in crisis situations should stay calm, be visible, put people before business, tell the truth, and know when to get back to business.

An excellent example of a leader during a crisis is Kenneth Chenault who is the chairman and CEO of American Express Company. Even though he was stuck in Salt Lake City during the Sept. 11, 2001 terrorists crisis in New York, Chenault took control, gathering information, talking with managers back at headquarters hourly, and taking steps to ensure the safety of employees. "He was there, and he was in the middle of it," said one manager. From the moment the crisis began, Chenault remained calm, steady, and focused, dealing with personal losses, refusing to complain about his company's problems, listening to employees and sharing their grief, taking care of customers, doing favors for other companies, and getting the company back to business as quickly as possible. Every decision he made was guided by concern for employees and customer service. After ordering the evacuation, he directed the call center to track down each and every employee. Then he turned to customers, helping 560,000 stranded American Express cardholders get home, waiving delinquent fees on late payments, and increasing credit limits if customers needed it.

When he returned to New York, Chenault gathered his employees together at the Paramount Theater, where he expressed his own despair, anger, and sadness and gave employees a chance to do the same. At the end, he told them, "I represent the best company and the best people in the world. In fact, you are my strength, and I love you." Thus began the long healing process, during which Chenault continued to be a highly visible leader. In his visits to the various temporary offices, he exchanged hugs and handshakes, tears and laughter. When President Bush visited New York, Chenault was there, stressing the need for greater airport security, joining with New York Mayor Rudolph Giuliani and Governor George Pataki to ask for more aid, and meeting with other business leaders to support the president's plan for economic recovery. During all this time, Chenault was also studying his company's financial problems and how to help the organization survive this extremely difficult period in its history. "If you're the leader, you've got to feel you're the person where the decisions rest," he says. "This is no time for excuses."[2]

Management Theories and Perspectives

New approaches are needed to manage learning organizations and the digital workplace. An understanding of the evolution of management helps current and future managers understand where we are now and continue to progress toward better management.

The three major perspectives on management that have evolved since the late 1800s are the classical perspective, the humanistic perspective, and the management science perspective. Each perspective has several specialized subfields. Recent extensions of management perspectives include systems theory, the contingency view, and total quality management. The most recent thinking about organizations has been brought about by the shift to a new workplace. Many managers are redesigning their companies toward the learning organization, which fully engages all employees in identifying and solving problems. The learning organization is characterized by a team-based structure, empowered employees, and open information. The learning organization represents a substantial departure from the traditional management hierarchy.

The shift to a learning organization goes hand-in-hand with today's transition to a technology-driven workplace. Ideas, information, and relationships are becoming more important than production machinery and physical assets, which requires new approaches to management. E-commerce is burgeoning as more economic activity takes place over digital computer networks rather than in physical space. Two specific management tools that support the digital workplace are enterprise resource planning and knowledge management. Both require managers to think in new ways about the role of employees in the organization. Managers value employees for their ability to think, build relationships, and share knowledge, which is quite different from the scientific management perspective of a century ago.

One almost century-old organization that is thriving as a technology-driven workplace is Cementos Mexicanos (Cemex). To help the organization compete in a rapidly changing, complex environment, managers looked for both technological and management innovations. A core element of the new approach is the company's complex information technology infrastructure, which includes a global positioning satellite system and on-board computers in all delivery trucks that are continuously fed with streams of day-to-day data on customer orders, production schedules, traffic problems, weather conditions, and so forth. Even more important are changes in how managers and employees think about and do their work. All drivers and dispatchers attended weekly secondary education classes for two years. Regular training in quality, customer service, and computer skills continues, with Cemex devoting at least 8 percent of total work time to employee training and development. Strict and demanding work rules have been abolished so that workers have more discretion and responsibility for identifying and solving problems.

As a result, Cemex trucks now operate as self-organizing business units, run by well-trained employees who think like businesspeople. The three-hour delivery window has been reduced to 20 minutes, and managers believe a goal of 10 minutes is within reach. According to Francisco Perez, operations manager at Cemex in Guadalajara, "They used to think of themselves as drivers. But anyone can deliver concrete. Now our people know that they're delivering a service that the competition cannot deliver." Cemex has transformed the industry by combining extensive networking technology with a new management approach that taps into the mindpower of everyone in the company. People at Cemex are constantly learning—on the job, in training classes, and through visits to other organizations. As a result, the company has a startling capacity to anticipate customer needs, solve problems, and innovate quickly.[3]

Section 110. Planning and Organizing

Summaries and Conclusions

Planning

Organizational planning involves defining goals and developing a plan with which to achieve them. An organization exists for a single, overriding purpose known as its mission—the basis for strategic goals and plans. Goals within the organization are defined in a hierarchical fashion, beginning with strategic goals followed by tactical and operational goals. Plans are defined similarly, with strategic, tactical, and operational plans used to achieve the goals. Other goal concepts include characteristics of effective goals and goal-setting behavior.

Several types of plans include strategic, tactical, operational, single-use, standing, and contingency plans, as well as management by objectives. A special type of contingency planning is crisis-management planning, which involves the stages of prevention, preparation, and containment. The Europa Hotel provides an example of crisis-management planning. The Europa, like most major hotels, has long had clear procedures for evacuation and dealing with disasters, and the hotel has a good record of getting people out fast. Amazingly, no one has ever been killed by a bomb at the Europa. Because the Europa has had so much experience dealing with crises, managers and employees have become ever alert to even the smallest signals that something is amiss, so they have been able to take quick action and prevent even greater damage or loss of life. The Europa is highly skilled at handling the containment stage of crisis. After one bomb ripped a huge hole in the side of the hotel and injured 13 people, everyone was back to work as usual by lunchtime. Hotel manager John Toner uses every crisis as a way to learn more, be better prepared, and make the company better and stronger. He believes the tendency to immediately look for ways to cut costs and lay people off following a crisis is dangerous. "I don't look for cost savings. I don't look at the bottom line—it'll look after itself," he says. Instead, Toner focuses on taking care of employees and guests and finding ways to make the business better. Because of that attention, hotel staff and guests have remained resolutely loyal to the Europa.[4]

In the past, planning was almost always done entirely by top managers, by consultants, or by central planning departments. In the new workplace, planning is decentralized and people throughout the organization are involved in establishing dynamic plans that can meet fast-changing needs from the environment. Some guidelines for planning in the new workplace include starting with a powerful mission, setting stretch goals, creating a culture that encourages learning, designing new roles for planning staff, and using temporary task forces that may include outside stakeholders. In the new workplace, employees on the front lines may constantly be adapting plans to meet new needs. However, top managers are still responsible for providing a guiding mission and a solid framework for planning and goal setting.

Organizing

Fundamental characteristics of organization structure include work specialization, chain of command, authority and responsibility, span of management, and centralization and decentralization. These dimensions of organization represent the vertical hierarchy and indicate how authority and responsibility are distributed along the hierarchy.

The other major concept is departmentalization, which describes how organization employees are grouped. Three traditional approaches are functional, divisional, and matrix; contemporary approaches are team and network structures. The most recent trend in organizing is the virtual approach. The functional approach groups employees by common skills and tasks. The opposite structure is divisional, which groups people by organizational output such that each division has a mix of functional skills and tasks. The matrix structure uses two chains of command simultaneously, and some employees have two bosses. The two chains of command in a domestic organization typically are functional and product division, and, for international firms, the two chains of command typically are product and geographic regions. The team approach uses permanent teams and cross-functional teams to achieve better coordination and employee commitment than is possible with a pure functional structure. The network approach means that a firm concentrates on what it does best and subcontracts other functions to separate organizations that are connected to the headquarters electronically. The virtual approach brings together a group of specialists to complete a specific project, and the group disbands when objectives are met. Each organization form has advantages and disadvantages and can be used by managers to meet the needs of the competitive situation. In addition, managers adjust elements of the vertical structure, such as the degree of centralization or decentralization, to meet changing needs.

At ConAgra Foods, a new CEO found that the highly decentralized divisional structure was causing problems. Although he is keeping a divisional structure, Bruce Rohde is revising it to increase the focus on the customer. His broad plan, named Operation Overdrive, calls for closing inefficient distribution centers and plants and reorganizing the dozens of separate units and product groups into three main divisions: food service (restaurants); retail (grocery stores); and agricultural products. By focusing the new structure on customers rather than product groups, Rohde hopes to get everyone working together to provide better service. Rohde has also centralized decision-making. Managers of the separate companies will no longer have full authority to run their companies as they see fit. They now have specific goals directed from the top that include sharing customers, knowledge, and products across company lines. Rohde is requiring, for example, that ConAgra's companies buy materials from each other rather than outside suppliers. If managers find this is not cost effective, they are required to explain why directly to the top. In addition, Rohde has centralized computing and accounting systems rather than having the many separate companies using their own systems. He believes this stronger centralized control is needed to help the company through its current crisis. So far, ConAgra's restructuring seems to be having positive effects. The stock has bounced back from a five-year low and the company has been reporting higher sales and earnings since Rohde began the reorganization.[5]

Section 120. Directing and Leading

Summaries and Conclusions

Leadership Traits

The early research on leadership focused on personal traits such as intelligence, energy, and appearance. Later, research attention shifted to leadership behaviors that are appropriate to the organizational situation. Behavioral approaches dominated the early work in this area; consideration and initiating structure were suggested as behaviors that lead work groups toward high performance. The Ohio State University and the University of Michigan studies and the leadership grid are in this category. The Ohio State study identified two major behaviors, called *consideration* and *initiating structures.* The University of Michigan study focused on employee-centered leaders and job-centered leaders. The leadership grid (Blake and Mouton grid) is a two-dimensional (people and production) construct that builds on the work of the Ohio State and Michigan studies. Each axis on the grid is a 9-point scale, with 1 meaning "low concern" and 9 meaning "high concern." Team management (9,9) is the most effective style and is recommended for managers because organization members work together to accomplish tasks. Country club management (1,9) occurs when primary emphasis is given to people rather than to work outputs. Authority-compliance management (9,1) occurs when efficiency in operations is the dominant orientation. Middle-of-the-road management (5,5) reflects a moderate amount of concern for both people and production. Impoverished management (1,1) means the absence of a management philosophy, where managers exert little effort toward interpersonal relationships or work accomplishment.

Management and leadership reflect two different sets of qualities and skills that frequently overlap within a single individual. Leader qualities include vision, creativity, inspiration, innovation, initiate the ability to change, and personal power. Manager qualities include persistence, analytical skills, problem-solving abilities, authoritativeness, and position power. Personal power includes expert power and referent power. Position power includes legitimate power, reward power, and coercive power. Leadership traits involve six categories of personal characteristics: (1) physical characteristics such as energy and physical stamina; (2) intelligence and ability characteristics such as knowledge, judgment, and decisiveness; (3) personality characteristics such as honesty and integrity, enthusiasm, and self-confidence; (4) social characteristics such as cooperativeness, tact, diplomacy, and interpersonal skills; (5) work-related characteristics such as achievement drive and the desire to excel; and (6) social characteristics such as education and mobility.

Leadership Concepts

Contingency approaches include Fiedler's theory, Hersey and Blanchard's situational theory, the path-goal model, and the substitutes-for-leadership concept. The Fiedler approach matches the leader's style with the situation most favorable to his or her success. By diagnosing leadership style and the organizational situation, the correct fit can be arranged. The leadership situation can be analyzed in terms of three elements: the quality of leader-member relationships, task structure, and position power. The Hersey and Blanchard situational theory links the leader's behavioral style with the task readiness of subordinates. The path-goal theory specifies that the leader's responsibility is to increase subordinate's motivation by clarifying the behaviors necessary for task accomplishment and rewards. The substitutes-for-leadership concept suggests that situational variables can be so powerful that they actually substitute for or neutralize the need for leadership.

Leadership concepts have evolved from the transactional approach to charismatic and transformational leadership behaviors. Charismatic and visionary leadership is the ability to articulate a vision and motivate followers to make it a reality. Transformational leadership extends charismatic qualities to guide and foster dramatic organizational change.

Four significant leadership concepts for the new workplace are Level 5 leadership, women's ways of leading, virtual leadership, and servant leadership. Level 5 leaders are characterized by personal humility combined with ambition to build a great organization that will continue to thrive beyond the leader's direct influence. Women's approach to leadership may be particularly suited to today's workplace because it emphasizes relationships and helping others develop to their highest potential. However, men as well as women can develop the characteristics associated with women's style of leadership, called *interactive leadership.* Managers in today's workplace also need to learn how to lead employees who may be working in a virtual environment and have little or no face-to-face contact with the leader. They may become servant leaders who facilitate the growth, goals, and development of others to liberate their best qualities in pursuing the organization's mission. In all of these new ways of leading, managers rely more on personal power than on position power.

As an example, Michael Abrashoff, the commander of the U.S. Navy destroyer U.S.S. Benfold, wanted to create an organization where people were so engaged and enthused about their work that they would willingly give their best. To do so meant casting aside the long Navy tradition of relying on formal position power and authority. To unleash the creativity and know-how of everyone, Abrashoff led with vision and values instead of command and control. Rather than issuing orders from the top, he started listening to ideas from below. Even though he admits that listening does not come easily to him, he made a commitment to treat every encounter with every person on the ship as the most important thing in the world at that particular moment. He also made an effort to get to know each and every sailor as an individual. When the Benfold's sailors saw that Abrashoff was sincere, they responded with energy, enthusiasm, and commitment. Good ideas that came from the bottom up were implemented immediately, and many of them have now become standard throughout the U.S. Navy. Abrashoff also began delegating responsibility so that people could learn and grow. "If all you do is give orders, then all you get are order takers," he said. Abrashoff wanted to develop strong leaders at all levels and to help people understand that they were the ones who made the ship successful. Under Abrashoff's leadership, the Benfold set all-time records for performance and retention. However, neither Abrashoff nor the crew are worried about what will happen when the captain moves on. "This crew . . . [knows] what results they get when they play an active role," Abrashoff says. "And they now have the courage to raise their hands and get heard. That's almost irreversible."[6] Abrashoff illustrates characteristics of both interactive and servant leadership, as well as the potential to become a Level 5 leader.

Section 130. Controlling and Measuring

Summaries and Conclusions

Organizational Control

Organizational control is the systematic process through which managers regulate organizational activities to meet planned goals and standards of performance. The focus of the control system may include feedforward control to prevent problems, concurrent control to monitor ongoing activities, and feedback control to evaluate past performance. Well-designed control systems include four key steps: establish standards, measure performance, compare performance to standards, and make corrections as necessary.

Budgeting is one of the most commonly used forms of managerial control. Managers might use expense budgets, revenue budgets, cash budgets, and capital budgets, for example. Other financial controls include use of the balance sheet and income statement, and financial analysis of these documents.

Organizational Measurement

The philosophy of controlling has shifted to reflect changes in leadership methods. Traditional bureaucratic controls emphasize establishing rules and procedures, then monitoring employee behavior to make sure the rules and procedures have been followed. With decentralized control, employees assume responsibility for monitoring their own performance.

Besides monitoring financial results, organizations control the quality of their goods and services. They might do this by adopting total quality management (TQM) techniques such as quality circles, benchmarking, six sigma, reduced cycle time, and continuous improvement.

Recent trends in control include the use of international quality standards (ISO 9000), economic value-added (EVA) and market value-added (MVA) systems, and activity-based costing. Other important aspects of control in the new workplace are open-book management and use of the balanced scorecard.

The story of Samaritan Medical Center demonstrates the importance of control. A new top management team was facing a crisis because costs had been spiraling out of control, and Samaritan had lost money for fourteen of the past fifteen years. One of the first decisions the new team made was to monitor Samaritan's productivity with an eye toward lowering staff costs while maintaining quality of care. They first evaluated what data they needed and then established ideal standards, such as the most efficient and desirable number of employee hours per day per patient or per procedure.

Top managers implemented a type of activity-based costing to be sure all costs were accounted for and assigned where they belonged so they could get an accurate picture of what was going on. Because of the nature of hospital work, where people provide many different services in many different departments, costs are often overlooked or misplaced in traditional accounting procedures. Samaritan then fed the data into a basic accounting spreadsheet and compared it to industry benchmarks and to the data of other similar-sized operations. With these data analyzed, managers were able to establish high-performance yet attainable standards that would give department heads solid reference points for allocating staff and budgeting financial resources. Each department's progress was tracked on a graph that compared results to benchmarks, so people could note their success over the course of the year. Managers were able to take corrective action as needed by reassigning staff, revising patient-flow procedures, or, in some cases, revising targets if a department consistently overreached its goals. The financial turnaround that resulted from the improved control process was stunning. Within only a few months, Samaritan had reduced personnel for a savings of $2.5 million, without a decrease in service. A couple of years later, the organization was posting solid year-end profits. In addition, enhanced control and a revitalized bottom line led to a fresh spirit of teamwork and organizational vitality at Samaritan.[7]

Section 140. Motivating and Communicating

Summaries and Conclusions

Motivation

The content theories of motivation focus on the nature of underlying employee needs. Maslow's hierarchy of needs, Alderfer's ERG theory, Herzberg's two-factor theory, and McClelland's acquired needs theory all suggest that people are motivated to meet a range of needs.

Maslow's hierarchy of needs theory proposes that humans are motivated by multiple needs and that these needs exist in a hierarchical order: (1) physiological needs (lower), (2) safety needs, (3) belonging needs, (4) esteem needs, (5) self-actualization needs (higher). Alderfer's ERG theory proposes three categories of needs: existence, relatedness, and growth. Herzberg's two-factor theory proposes two factors: hygiene factors (areas of dissatisfaction) and motivators (areas of satisfaction). Hygiene factors involve the presence or absence of job dissatisfiers, including working conditions, pay and security, company policies, supervisors, and interpersonal relationships. Motivating factors influence job satisfaction based on fulfillment of high-level needs such as achievement, recognition, responsibility, work itself, and opportunity for personal growth. McClelland's acquired needs theory proposes that certain types of needs are acquired during the individual's lifetime. These needs include need for achievement, need for affiliation, and need for power.

Process theories examine how people go about selecting rewards with which to meet needs. Equity theory asserts that people compare their contributions and outcomes with others' and are motivated to maintain a feeling of equity. Expectancy theory suggests that people calculate the probability of achieving certain outcomes. Managers can increase motivation by treating employees fairly and by clarifying employee paths toward meeting their needs. Still another motivational approach is reinforcement theory, which says that employees learn to behave in certain ways based on the availability of reinforcements. Reinforcement tools include positive reinforcement, avoidance learning, punishment, and extinction.

The application of motivational ideas is illustrated in job design and other motivational programs. Job design approaches include job simplification, job rotation, job enlargement, job enrichment, and the job characteristics model. Managers can change the structure of work to meet employees' high-level needs. The recent trend toward empowerment motivates by giving employees more information and authority to make decisions in their work while connecting compensation to results. Empowerment is the delegation of power or authority to subordinates in an organization. Managers create the environment that determines employee motivation. One way to measure the factors that determine whether people are engaged and motivated at work is the Q12, a list of twelve questions about the day-to-day realities of a person's job. Other motivational programs include pay for performance, gain sharing, employee stock ownership plans (ESOPs), lump-sum bonuses, pay for knowledge, flexible work schedules, and team-based compensation.

A highly successful application of motivational ideas occurred for factory workers at Sandstrom Products. As an example, Leo Henkelman was an alienated mill operator considering quitting. When top management empowered workers by implementing open-book management, Henkelman was given the opportunity to take on more responsibility, learn new skills, and make improvements. He learned his own strengths and limitations in the process. While serving as a temporary plant manager, he found that delegation was not his strength—*doing* was. When a technician job opened up in the lab, he applied. Although he lacked the educational background normally required, the lab director gave him a chance. Now, using his experience, Henkelman guides the manufacturing process from beginning to end, working with customers to develop new products and refine old ones. As his skills and responsibilities have increased, so has his pay, thanks to a proficiency pay system that bases his pay on his skills and accomplishments and a gain-sharing plan that allows him to share in the company's profits. By trusting and empowering workers, Sandstrom has given them a reason to care about the company and the knowledge and power to make personal contributions to organizational performance. Results were staggering, as Sandstrom rebounded from a loss of $100,000 to earnings of almost $800,000 two years later.[8]

Communication

Communication takes up 80 percent of a manager's time. Communication is a process of encoding an idea into a message, which is sent through a channel and decoded by a receiver. Communication among people can be affected by communication channels, nonverbal communication, and listening skills. Important aspects of management communication include persuasion and influence. Managers use communication to sell people on the vision for the organization and to influence them to behave in such a way as to accomplish the vision. To influence others, managers connect with people on an emotional level by using symbols, metaphors, and stories to communicate their messages.

At the organizational level, managers are concerned with managing formal communications in a downward, upward, and horizontal direction. Informal communications also are important, especially management by wandering around and the grapevine. Moreover, research shows that communication structures in teams and departments should reflect the underlying tasks. Open communication, dialogue, and feedback and learning are important communication mechanisms in the new workplace.

Finally, several barriers to communication were described. These barriers can be overcome by active listening, selecting appropriate channels, engaging in management by walking around (MBWA), encouraging dialogue, developing a climate of trust, using formal channels, designing the correct structure to fit communication needs, and using feedback for learning.

At Childress Buick/Kia Company, Rusty Childress used a variety of tools to harness employee brainpower and break down communication barriers. Customers as well as employees were frustrated and dissatisfied, and Rusty knew the company needed to open the lines of communication fast to remain competitive in the volatile car dealership business. A new employee manual emphasizing the importance of active listening skills, together with a seven-week orientation program, refocused organizational efforts on service through communication. Upward as well as downward communications were strengthened with regular meetings such as "Donuts and Dialogue," town-hall-style get-togethers for all employees, and "Take 5" meetings between a manager and five employees to brainstorm about problems or opportunities. Committees were set up to encourage cross-functional communication and understanding. In addition, a monthly newsletter, employee mailboxes, a computer-based "Suggestion Connection," a telephone hot line, and a weekly e-mail update were implemented to keep information flowing across departmental lines to assure better and faster customer service. Today, information flows throughout the company in all directions, and an employee-run team is charged with continuous improvement in internal communications. Childress's customer service indexes are regularly above 95 percent for overall customer satisfaction, and employee turnover is among the lowest in the industry. The company boasts a wall full of "Best in Class" awards from General Motors, and Childress regularly hosts visitors from other organizations that use the dealership as a benchmark for customer service.[9]

Section 150. Problem Solving and Decision Making

Summaries and Conclusions

The study of decision making is important because it describes how managers make successful strategic and operational decisions. Managers must confront many types of decisions, including programmed and nonprogrammed, and these decisions differ according to the amount of risk, uncertainty, and ambiguity in the environment.

Three decision-making approaches are the classical model, the administrative model, and the political model. The classical model explains how managers should make decisions so as to maximize economic efficiency. The administrative model describes how managers actually make nonprogrammed, uncertain decisions with skills that include intuition. The political model relates to making nonprogrammed decisions when conditions are uncertain, information is limited and ambiguous, and there is conflict among managers about what goals to pursue or what course of action to take. Managers have to engage in discussion and coalition building to reach agreement for decisions.

Decision making should involve six basic steps: problem recognition, diagnosis of causes, development of alternatives, choice of an alternative, implementation of the alternative, and feedback and evaluation. Problem recognition at Encyclopaedia Britannica, Inc., was easy: the venerable old company was about to go under. In diagnosing the causes, new owners determined that a major factor was an ossified management culture dominated by book salesmen, leading to years of squabbling over new product development and thus hindering the move into electronic media. One of the first decisions Jacob Safra (an owner of the company) made was to bring in a new management team. The team then considered various alternatives for reviving the faltering company. The first decisions were to rush out a revamped, lower-cost CD-ROM package, targeted particularly to schools, and to launch the Britannica.com Web site, which allows users to call up encyclopedia entries online, as well as get a list of links to other Web sites related to the topic. Top executives also decided to create a separate digital media division to focus on new product development for the digital world. Managers in this new division quickly focused on the wireless Web as the route to the future. After evaluating alternatives for how to establish Britannica as the wireless Web's brand-name information source, they decided not to go it alone, but to create alliances with wireless carriers and license Britannica's content to other Web sites. Impressed with Britannica's content, companies have so far been glad to establish partnerships. These decisions have helped the company cross the bridge to the digital era, but so far the wireless Web has not proven to be much of a money-maker. Managers are in the process of evaluation to determine what new decisions need to be made.

Another factor affecting decision making is the manager's personal decision style. The four major decision styles are directive, analytical, conceptual, and behavioral. Managers can use the Vroom-Jago model to determine when a decision calls for group participation. Involving others in decision making contributes to individual and organizational learning, which is critical in today's fast-paced environment. In the new workplace, decisions often have to be made quickly and with limited information. To improve the effectiveness of decision making in fast-moving organizations, managers use the following guidelines: learn, do not punish; know when to bail; practice the five whys; build collective intuition; and engage in constructive conflict.

Section 160. Business Policy and Ethics

Summaries and Conclusions

Business Policy

Business policy, along with budgets, is a part of strategy execution and implementation in that the policy supports the strategy. Business policies can be established either at high level (for example, ethical behavior and pollution control) or low level (for example, employee compensation and training). Similar to business strategy, business policy can be both proactive and reactive. Business strategy precedes business policy, while business ethics succeeds business policy.

Business Ethics

Ethics is the study of what is right or good for human beings. *Business ethics* is the study of what is right and good in a business setting.

ETHICAL THEORIES

- *Ethical fundamentalism* posits that individuals look to a central authority or set of rules to guide them in ethical decision making.
- *Ethical relativism* asserts that actions must be judged by what individuals subjectively feel is right or wrong for themselves.
- *Situational ethics* contends that one must judge a person's actions by first putting oneself in the actor's situation.
- *Utilitarianism* teaches that moral actions are those that produce the greatest net pleasure compared with net pain.
  - *Act utilitarianism* assesses each separate act according to whether it maximizes pleasure over pain.
  - *Rule utilitarianism* supports rules that on balance produce the greatest pleasure for society.
  - *Cost-benefit analysis* quantifies the benefits and costs of alternatives.
- *Deontology* holds that actions must be judged by their motives and means as well as their results.

- *Social ethics theories* focus on a person's obligations to other members in society and on the individual's rights and obligations within society.
  - *Social egalitarians* believe that society should provide all its members with equal amounts of goods and services regardless of their relative contributions.
  - *Distributive justice* stresses equality of opportunity rather than results.
  - *Libertarians* stress market outcomes as the basis for distributing society's rewards.
- *Other Theories*
  - *Intuitionism* asserts that a rational person possesses inherent power to assess the correctness of actions.
  - *Good person* theory holds that individuals should seek out and emulate good role models.

ETHICAL STANDARDS IN BUSINESS Kohlberg's stages of moral development comprise a widely accepted model for choosing an ethical system. Because a corporation is a statutorily created entity, it is not clear whether it should be held morally responsible.

ETHICAL RESPONSIBILITIES OF BUSINESS Governmental regulation of business has been necessary because all the conditions for perfect competition have not been satisfied and free competition cannot by itself achieve other societal objectives. Because vast amounts of wealth and power have become concentrated in a small number of corporations, the need has arisen for these corporations to be controlled by a small group of corporate officers.

Arguments Against Social Responsibility

- *Profitability* Because corporations are artificial entities established for profit-making activities, their only social obligation should be to return as much money as possible to shareholders.
- *Unfairness* Whenever corporations engage in social activities, such as supporting the arts or education, they divert funds rightfully belonging to shareholders and/or employees to unrelated third parties.
- *Accountability* A corporation is subject to less public accountability than public bodies are.
- *Expertise* Although a corporation may have a high level of expertise in selling its goods and services, there is absolutely no guarantee that any promotion of social activities will be carried on with the same degree of competence.

Arguments in Favor of Social Responsibility

- *The social contract* Because society allows for the creation of corporations and gives them special rights, including a grant of limited liability, corporations owe a responsibility to society.
- *Less government regulation* By taking a more proactive role in addressing society's problems, corporations create a climate of trust and respect that has the effect of reducing government regulation.
- *Long-run profits* Corporate involvement in social causes creates goodwill, which simply makes good business sense.

Ethical Decisions

Ethics and social responsibility are hot topics for today's managers. The ethical domain of behavior pertains to values of right and wrong. Ethical decisions and behavior are typically guided by a value system. Four value-based approaches that serve as criteria for ethical decision making are utilitarian, individualism, moral rights, and justice. For an individual manager, the ability to make correct ethical choices will depend on both individual and organizational characteristics. An important individual characteristic is level of moral development. Corporate culture is an organizational characteristic that influences ethical behavior.

Corporate social responsibility concerns a company's values in relation to society. How can organizations be good corporate citizens? The model for evaluating social performance uses four criteria: economic, legal, ethical, and discretionary. Evaluating corporate social behavior often requires assessing its impact on organizational stakeholders. One issue of growing concern is environmental responsibility. Organizations may take a legal, market, stakeholder, or activist approach to addressing environmental concerns.

Ethical organizations are supported by three pillars: ethical individuals, ethical leadership, and organizational structures and systems, including codes of ethics, ethics committees, chief ethics officers, training programs, and mechanisms to protect whistle-blowers. Companies that are ethical and socially responsible perform as well as—and often better than—those that are not socially responsible. However, changes in the workplace are raising new ethical issues for managers and organizations, such as ethical use of technology for monitoring employees, trust among business partners, and the privacy of individuals on the Internet.

Returning to our management challenge, there are no easy right-or-wrong answers to drug companies' dilemma. Protecting intellectual property rights (drug patents) is a legitimate right of organizations, and drug companies would argue that it is also a responsibility to their employees and shareholders, as well as customers. Managers who take a utilitarian approach to ethics, for example, might argue that protecting their patents ultimately provides the most good for the most people, since patents are the foundation of research and development of new drugs. However, those who take a justice approach might argue that this decision does not take into account the concept of justice toward the unfortunate victims of AIDS in poor countries. In response to bad publicity and public outcry over the South Africa dispute, companies are taking some action, going beyond purely economic and legal responsibilities to take ethical issues into consideration. One response to social demands is to reduce the prices of AIDS drugs to Africa and other developing areas of the world. Merck, for example, says it will make no profit from the AIDS drugs it sells in developing countries. Officials with Doctors Without Borders welcomed the announcement, but warned that it might still leave drugs out of the reach of many poor AIDS sufferers in the developing world.[10] Most activists would like to see drug companies take an additional step toward *discretionary responsibility* by ensuring that anyone who needs HIV and AIDS medicines has access to them.

Section 165. Business and Government

Summaries and Conclusions

Government rules, regulations, and tax policy play a key role in shaping competitive forces. By understanding the rationale for government involvement in the market economy, a better appreciation of the part played by business is gained.

- From an economic efficiency standpoint, a given mode of regulation or government control is desirable to the extent that benefits exceed costs. In terms of efficiency, the question is whether market competition by itself is adequate or if government regulation is desirable. Equity, or fairness, criteria must also be carefully weighed when social considerations bear on the regulatory decision-making process.
- Market failure is the failure of market institutions to sustain socially desirable activities or to eliminate undesirable ones. Failure by market structure occurs in markets with too few buyers and sellers for effective competition. Failure by incentive occurs when some important benefits or costs of production and consumption are not reflected in industry prices. Differences between private and social costs or benefits are called *externalities.* For example, air pollution is a type of negative externality.
- Competitive markets are also attractive because they are consistent with basic democratic principles. Preservation of consumer choice or consumer sovereignty is an important feature of competitive markets. A second social purpose of regulatory intervention is to limit concentration of economic and political power.
- Property rights give firms the prerogative to limit use by others of specific land, plant and equipment, and other assets. The establishment and maintenance of private property rights are essential to the workings of a competitive market. With patents, government grants an exclusive property right to produce, use, or sell an invention or innovation for a limited period (twenty years in the United States for utility and plant patents). These valuable grants of legal monopoly power are intended to stimulate research and development. The tort system includes a body of law designed to provide a mechanism for victims of accidents and injury to receive just compensation for their loss. These laws create an incentive for firms and other parties to act responsibly in commerce.
- Government also responds to positive externalities by providing subsidies to private business firms. Subsidy policy can be direct or indirect, like government construction and highway maintenance grants that benefit the trucking industry. Tradable emissions permits are a new and controversial form of government subsidy that give firms the property right to pollute and to sell that right to others if they wish. Whereas subsidy policy gives firms positive incentives for desirable performance, tax policy contains penalties, or negative subsidies, designed to limit undesirable performance. Tax policy includes both regular tax payments and fines or penalties that may be assessed intermittently.
- Operating controls are regulations or standards that limit undesirable behavior by compelling certain actions while prohibiting others. The question of who pays for such regulation is seldom answered by simply referring to the point of tax collection, or point of tax incidence. The economic cost of regulation, or the tax burden, is often passed on to customers or suppliers.