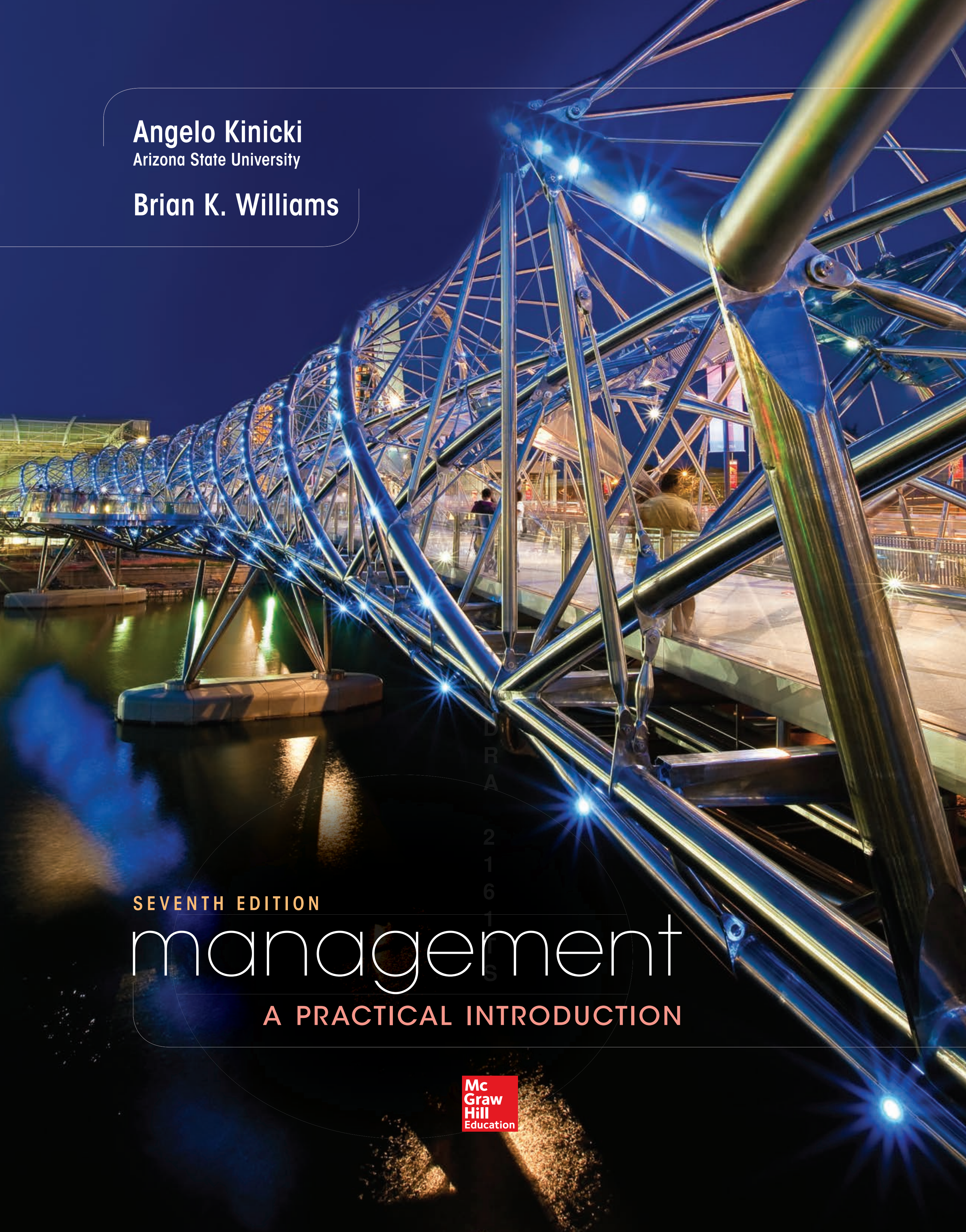

Angelo Kinicki
Arizona State University

Brian K. Williams

SEVENTH EDITION

management

A PRACTICAL INTRODUCTION

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A PRACTICAL INTRODUCTION

1

The Exceptional Manager

What You Do, How You Do It

Major Questions You Should Be Able to Answer

1.1 Management: What It Is, What Its Benefits Are
Major Question: What are the rewards of being an exceptional manager?

1.2 What Managers Do: The Four Principal Functions
Major Question: What would I actually *do*—that is, what would be my four principal functions—as a manager?

1.3 Seven Challenges to Being an Exceptional Manager
Major Question: Challenges can make one feel alive. What are seven challenges I could look forward to as a manager?

1.4 Pyramid Power: Levels & Areas of Management
Major Question: What are the levels and areas of management I need to know to move up, down, and sideways?

1.5 The Skills Exceptional Managers Need
Major Question: To be a terrific manager, what skills should I cultivate?

1.6 Roles Managers Must Play Successfully
Major Question: To be an exceptional manager, what roles must I play successfully?

1.7 The Link between Entrepreneurship & Management
Major Question: Do I have what it takes to be an entrepreneur?

the manager's toolbox

A One-Minute Guide to Success in This Class

Got one minute to read this section? It could mean the difference between getting an A instead of a B. Or a B instead of a C.

It is our desire *to make this book as practical as possible for you.* One place we do this is in the Manager's Toolbox, like this one, which appears at the beginning of every chapter and which offers practical advice appropriate to the subject matter you are about to explore. Here we show you how to be a success in this course.

Four Rules for Success

The following four rules will help you be successful in this (or any other) course.

- **Rule 1:** Attend every class. No cutting (skipping) allowed.
- **Rule 2:** Don't postpone studying, then cram the night before a test.
- **Rule 3:** Read or review lectures and readings more than once.
- **Rule 4:** Learn how to use this book.

How to Use This Book Most Effectively

When reading this book, follow the steps below:

- Get an overview of the chapter by reading over the first page, which contains the section headings and Major Questions.
- Read "Forecast: What's Ahead in This Chapter."
- Look at the Major Question at the beginning of each section before you read it.
- Read the "The Big Picture," which summarizes the section.
- Read the section itself (which is usually only 2–6 pages), *trying silently to answer the Major Question.* This is important!
- After reading all sections, use the Key Terms, Key Points, and Understanding the Chapter questions at the end of the chapter to see how well you know the concepts. Reread any material you're unsure about.

If you follow these steps consistently, you'll probably absorb the material well enough that you won't have to cram before an exam; you'll need only to lightly review it before the test.

For Discussion Do you sometimes (often?) postpone keeping up with coursework, then pull an "all-nighter" of studying to catch up before an exam? What do you think happens to people in business who do this?

forecast What's Ahead in This Chapter

We describe the rewards, benefits, and privileges managers might expect. We also describe the four principal functions of management—planning, organizing, leading, and controlling. We discuss the seven challenges to managers in today's world. We consider levels and areas of management. We describe the three roles managers must play. We describe the three skills required of a manager and the three roles managers play. Finally, we consider the contributions of entrepreneurship.

1.1 Management: What It Is, What Its Benefits Are

MAJOR QUESTION

What are the rewards of being an exceptional manager?

THE BIG PICTURE

Management is defined as the pursuit of organizational goals efficiently and effectively. Organizations, or people who work together to achieve a specific purpose, value managers because of the multiplier effect: Good managers have an influence on the organization far beyond the results that can be achieved by one person acting alone. Managers are well paid, with the chief executive officers (CEOs) and presidents of even small and midsize businesses earning good salaries and many benefits.

When Mary Barra was named chief executive officer of Detroit-based General Motors in December 2013, she became the first female CEO of an American or any other global automaker. She also became only the 22nd woman at the helm of a Fortune 500 company, one of those 500 largest U.S. companies that appear on the prestigious annual list compiled by *Fortune* magazine. (Other big-time female CEOs: IBM's Virginia "Ginni" Rometty, Yahoo!'s Marissa Mayer, Hewlett-Packard's Meg Whitman, Xerox's Ursula Burns, PepsiCo's Indra Nooyi.)

What kind of a person is Barra (pronounced *Bahr*-ra), a 30-year GM veteran? "She has a soft-spoken manner that belies her intensity on the job," says one report.[1] "She's the real deal, very down to earth," says another.[2] "Her open, relaxed manner has marked a clear contrast with the far more uptight style of many of the middle-aged men around her in General Motors' management," says a third.[3] Are these qualities—which a lot of people have—enough to propel one to the top of a great organization?

The Rise of the Die Maker's Daughter

The daughter of a die maker with a 39-year career in GM's Pontiac division, Barra grew up in suburban Detroit, joined GM at age 18 on the factory floor as an intern, graduated from General Motors Institute (now Kettering University) with a degree in electrical engineering, and then became a plant engineer at Pontiac. Spotting her talent, GM gave her a scholarship to Stanford University, where she earned a graduate degree in business. She then began moving up the GM ladder, first as the executive assistant to the CEO, then as the company's head of human resources—formerly often as high as female executives ever got, in autos or many other industries. In 2011, her big break came when she was promoted to lead GM's $15 billion vehicle-development operations, a high-profile role that became the steppingstone to CEO.

The driving force. One quality that stands out about General Motors CEO Mary Barra is her obvious enthusiasm for cars. She is said to be given to talking excitedly about whatever car she is currently driving and what it demonstrates about GM's product line. Do you think passion about one's work is a necessary quality for managerial success?

Key to Career Growth: "Doing Things I've Never Done Before"

Did it help that, as one writer put it, Barra "had motor oil running through her veins for most of her life"?[4] No doubt it did. But there is another key to career growth—the ability to take risks. As IBM's Ginni Rometty, another female CEO, has said about herself, she has grown the most in her career because "I learned to always take on things I've never done before."[5] She has found that "you have to be very confident, even though you're so self-critical inside about what it is you may or may not know. . . . And that, to me, leads to taking risks."[6]

Of course both men as well as women have to deal with uncertainty. But the ability to take risks—to embrace change and to keep going forward despite fears and internal criticism—is important to any manager's survival, regardless of gender. As Rometty says, "growth and comfort do not coexist."

The Art of Management Defined

Is being an exceptional manager a gift, like a musician having perfect pitch? Not exactly. But in good part it may be an art.[7] Fortunately, it is one that is teachable.

Management, said one pioneer of management ideas, is "the art of getting things done through people."[8]

Getting things done. Through people. Thus, managers are task oriented, achievement oriented, and people oriented. And they operate within an **organization—a group of people who work together to achieve some specific purpose.**

More formally, **management is defined as (1) the pursuit of organizational goals efficiently and effectively by (2) integrating the work of people through (3) planning, organizing, leading, and controlling the organization's resources.**

Note the words *efficiently* and *effectively,* which basically mean "doing things right."

- ***Efficiency—the means.*** Efficiency is the means of attaining the organization's goals. **To be efficient means to use resources—people, money, raw materials, and the like—wisely and cost-effectively.**
- ***Effectiveness—the ends.*** Effectiveness regards the organization's ends, the goals. **To be effective means to achieve results, to make the right decisions and to successfully carry them out so that they achieve the organization's goals.**

Good managers are concerned with trying to achieve both qualities. Often, however, organizations will erroneously strive for efficiency without being effective.

EXAMPLE

Efficiency versus Effectiveness: "Don't Tell Me You're Sorry, Just Fix the Problem!"

What do airline passengers complain about most? Cancellations, delays, and failed flight connections. Reservations, ticketing problems, and long telephone wait times. Boarding, baggage, and refund hassles.

How do the airlines handle such complaints? They say they're sorry.

Having representatives routinely say "I'm sorry" for service difficulties may be *efficient* for the airlines—even when the apologies are accompanied by gift cards, credits, and loyalty points—since it's a lot cheaper than, say, adding more reservation agents, flight crews, baggage handlers, and, of course, airplanes.[9] But it's not *effective* if it leaves us, the customers, fuming and less inclined to continue doing business.

Bad customer service hurts. One survey found that 51% of U.S. consumers in 2013 were so fed up with poor service that they ditched consumer goods retailers, cable and satellite providers, banks, and phone companies.[10] Numerous airline customers no doubt also said "I'll never use *you* again!"

Effective? Is this irate customer dealing with a company customer-support system that is more efficient than effective?

Efficiency: Saving Company Dollars. Still, a lot of airlines favor efficiency over effectiveness in their customer service—in large part because there are some big events they can't control, such as bad weather. In the winter of 2014, relentless snow and ice storms led to the highest number of flight cancellations in 25 years—5.5% of the 1.37 million flights between December 1 and mid-January. In addition, new government rules went into effect prohibiting airlines from keeping passengers on the tarmac for three hours or more, so airlines cancelled blocks of flights rather than risk fines of up to $27,500 per passenger ($4.1 million for a planeload of 150 flyers). The government also implemented a new rule increasing the amount of rest pilots need, making it harder for the companies to operate an irregular schedule, as might follow stormy weather. Finally, "airlines have been cutting unprofitable flights and packing more passengers into planes," reports the Associated Press. "That's been great for their bottom line but has created a nightmare for passengers."[11]

Effectiveness: Retaining Customers & Their Dollars. Apologizing doesn't work when it's a canned response or half-hearted or insincere. "Customers know talk is cheap," says an apology critic.[12] Much better is the method employed by Southwest Airlines, which answered one flyer's complaint about an unpleasant flight by quickly and personally saying it was "truly sorry," addressing each issue he'd brought up, and giving him a credit equal to the value of his one-way fare. "Southwest admitted that there were mistakes, didn't make excuses, and offered sincere and profound apologies," the mollified passenger said.[13]

YOUR CALL

The average telephone wait time to reach a human agent at Southwest Airlines, according to Get2Human.com (*http://get2human.com/get2human_list.asp*), was only two minutes, and agent communications—often difficult when agents, such as those in overseas call centers, have severe accents—rated a smiley face (meaning "good").[14] Spirit Air, on the other hand, took 48 minutes and racked up five red flags ("very bad") for agent communications. Get2Human.com (or GetHuman.com) is a website that aims to convince enterprises, whether airlines or other kinds, that "providing high quality customer service and having satisfied customers costs much less than providing low quality customer service and having unsatisfied customers"—in other words, being more effective, not just efficient. Get2Human also publishes the unpublicized codes for reaching a company's human operators and cut-through-automation tips. What recent unpleasant customer experience would you want to post on this website?

Why Organizations Value Managers: The Multiplier Effect

Some great achievements of history, such as scientific discoveries or works of art, were accomplished by individuals working quietly by themselves. But so much more has been achieved by people who were able to leverage their talents and abilities by being managers. For instance, of the top 10 great architectural wonders of the world named by the American Institute of Architects, none was built by just one person. All were triumphs of management, although some reflected the vision of an individual. (The wonders are the Great Wall of China, the Great Pyramid, Machu Picchu, the Acropolis, the Coliseum, the Taj Mahal, the Eiffel Tower, the Brooklyn Bridge, the Empire State Building, and Frank Lloyd Wright's Falling Water house in Pennsylvania.)

Good managers create value. The reason is that in being a manager you have a *multiplier effect:* Your influence on the organization is multiplied far beyond the results that can be achieved by just one person acting alone. Thus, while a solo operator such as a salesperson might accomplish many things and incidentally make a very good living, his or her boss could accomplish a great deal more—and could well earn two to seven times the income. And the manager will undoubtedly have a lot more influence.

Exceptional managers are in high demand. "The scarcest, most valuable resource in business is no longer financial capital," says a *Fortune* article. "It's talent. If you doubt that, just watch how hard companies are battling for the best people. . . . Talent of every type is in short supply, but the greatest shortage of all is skilled, effective managers."[15] Even in dismal economic times—maybe *especially* in such times—companies reach out for top talent.

The Financial Rewards of Being an Exceptional Manager

How well compensated are managers? According to the U.S. Bureau of Labor Statistics, the median weekly wage in 2013 for American workers of all sorts was \$786, or \$40,872 a year.[16] Education pays: the median 2013 yearly income for

Best paid. The CEO of Facebook, Mark Zuckerberg, earned $2.2 billion in 2012—more than $6 million a day—making him the highest-paid manager in the United States that year. His base salary was $503,205, but most of his pay package came from exercising millions of stock options when his company went public that year. What do you think your chances are of making even $100 million in your entire lifetime?

full-time workers with at least a bachelor's degree was $63,388, compared to $33,696 for high-school graduates.[17]

The business press frequently reports on the astronomical earnings of top chief executive officers (which jumped a median 8.47% in 2012). The top earner in 2012 was Facebook co-founder Mark Zuckerberg, whose total compensation topped $2.27 billion.[18] However, this kind of huge payday isn't common. Median compensation for top-ranked CEOs in North America in 2012, based on a survey of 2,259 CEOs, was $9.8 million.[19] The more usual median wage for CEOs that year was $168,140 and for general and operations managers $95,440, according to the Bureau of Labor Statistics.[20]

Managers farther down in the organization usually don't make this much, of course; nevertheless, they do fairly well compared with most workers. At the lower rungs, managers may make between $35,000 and $60,000 a year; in the middle levels, between $45,000 and $120,000. (For examples of managerial salaries, go to *www.bls.gov/ooh/management/home.htm*.)[21] There are also all kinds of fringe benefits and status rewards that go with being a manager, ranging from health insurance to stock options to large offices. And the higher you ascend in the management hierarchy, the more privileges may come your way: personal parking space, better furniture, lunch in the executive dining room, on up to—for those on the top rung of big companies—company car and driver, corporate jet, and even executive sabbaticals (months of paid time off to pursue alternative projects).

What Are the Rewards of Studying & Practicing Management?

Are you studying management but have no plans to be a manager? Or are you trying to learn techniques and concepts that will help you be an exceptional management practitioner? Either way there are considerable rewards.

The Rewards of Studying Management Students sign up for an introductory management course for all kinds of reasons. Many, of course, are planning business careers, but others are taking it to fulfill a requirement or an elective. Some students are in technical or nonprofit fields—computer science, education, health, and the like—and never expect to have to supervise people.

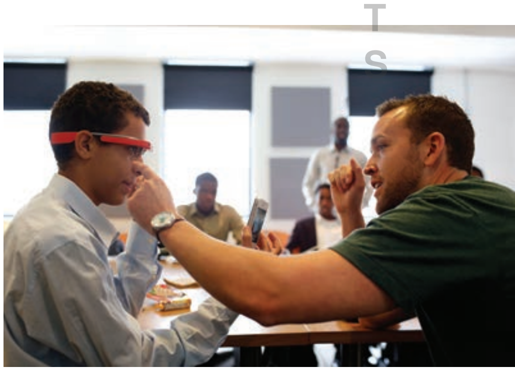
Here are just a few of the payoffs of studying management as a discipline:

- **You will understand how to deal with organizations from the outside.** Since we all are in constant interaction with all kinds of organizations, it helps to understand how they work and how the people in them make decisions. Such knowledge may give you some defensive skills that you can use in dealing with organizations from the outside, as a customer or investor, for example.
- **You will understand how to relate to your supervisors.** Since most of us work in organizations and most of us have bosses, studying management will enable you to understand the pressures managers deal with and how they will best respond to you.
- **You will understand how to interact with coworkers.** The kinds of management policies in place can affect how your coworkers behave. Studying management can give you the understanding of teams and teamwork, cultural differences, conflict and stress, and negotiation and communication skills that will help you get along with fellow employees.
- **You will understand how to manage yourself in the workplace.** Management courses in general, and this book in particular, give you the opportunity to realize insights about yourself—your personality, emotions, values, perceptions, needs, and goals. We help you build your skills in areas such as self-management, listening, handling change, managing stress, avoiding groupthink, and coping with organizational politics.

The Rewards of Practicing Management

Many young people not only want to make money but make a difference.[22] Becoming a management practitioner offers many rewards apart from money and status, as follows:

- **You and your employees can experience a sense of accomplishment.** Every successful goal accomplished provides you not only with personal satisfaction but also with the satisfaction of all those employees you directed who helped you accomplish it.
- **You can stretch your abilities and magnify your range.** Every promotion up the hierarchy of an organization stretches your abilities, challenges your talents and skills, and magnifies the range of your accomplishments.
- **You can build a catalog of successful products or services.** Every product or service you provide—the personal Eiffel Tower or Empire State Building you build, as it were—becomes a monument to your accomplishments. Indeed, studying management may well help you in running your own business.
- **You can become a mentor and help others.** According to one survey, 84% of workers who had a **mentor—an experienced person who provided guidance to someone new to the work world**—said the mentor helped them advance their careers.[23] By the very fact of being a manager, you are in a unique position to be a mentor to others. ●



Mentoring. Matthew Wardenaar (right), whose California company produces Tagged, an app that helps users meet new people, gives Mohammed Abdulla assistance (with Google Glass) during a session of the Hidden Genius Project, a mentoring organization that gives underrepresented minorities guidance in moving into technology and science careers.[24] Is helping others one of your life goals?

1.2 What Managers Do: The Four Principal Functions

MAJOR QUESTION

What would I actually *do*—that is, what would be my four principal functions—as a manager?

THE BIG PICTURE

Management has four functions: *planning, organizing, leading,* and *controlling.*

What do you as a manager do to “get things done”—that is, achieve the stated goals of the organization you work for? You perform what is known as the **management process**, **also called the four management functions: planning, organizing, leading, and controlling.** (The abbreviation “POLC” may help you to remember them.)

As the diagram below illustrates, all these functions affect one another, are ongoing, and are performed simultaneously. *(See Figure 1.1.)*

FIGURE 1.1
The Management Process
What you as a manager do to “get things done”—to achieve the stated goals of your organization.

Although the process of management can be quite complex, these four functions represent its essential principles. Indeed, as a glance at our text’s table of contents shows, they form four of the part divisions of the book. Let’s consider what the four functions are, using the management (or “administration,” as it is called in nonprofit organizations) of your college to illustrate them.

Planning: Discussed in Part 3 of This Book

Planning is defined as setting goals and deciding how to achieve them. Your college was established for the purpose of educating students, and its present managers, or administrators, now must decide the best way to accomplish this. Which of several possible degree programs should be offered? Should the college be a residential or a commuter campus? What sort of students should be recruited and admitted? What kind of faculty should be hired? What kind of buildings and equipment are needed?

Organizing: Discussed in Part 4 of This Book

Organizing is defined as arranging tasks, people, and other resources to accomplish the work. College administrators must determine the tasks to be done, by whom, and what the reporting hierarchy is to be. Should the institution be organized into schools with departments, with department chairpersons reporting to deans who in return report to vice presidents? Should the college hire more full-time instructors than part-time instructors? Should English professors teach just English literature or also composition, developmental English, and "first-year experience" courses?

Leading: Discussed in Part 5 of This Book

Leading is defined as motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals. At your college, leadership begins, of course, with the president (who would be the chief executive officer, or CEO, in a for-profit organization). He or she is the one who must inspire faculty, staff, students, alumni, wealthy donors, and residents of the surrounding community to help realize the college's goals. As you might imagine, these groups often have different needs and wants, so an essential part of leadership is resolving conflicts.

Controlling: Discussed in Part 6 of This Book

Controlling is defined as monitoring performance, comparing it with goals, and taking corrective action as needed. Is the college discovering that fewer students are majoring in nursing than they did five years previously? Is the fault with a change in the job market? with the quality of instruction? with the kinds of courses offered? Are the Nursing Department's student recruitment efforts not going well? Should the department's budget be reduced? Under the management function of controlling, college administrators must deal with these kinds of matters. ●

Leading. Called "one of the most powerful people in human history" by one writer, Larry Page, 40, is the co-founder (with Sergey Brin) and CEO of Google Inc., the Mountain View, California, global technology company, which generated nearly $18 billion in profits in 2013. "He has an expansive belief in the possible," says the writer, and "has demonstrated a willingness to spend . . . cash on wildly ambitious and expensive projects," such as self-driving cars and a new gadget category under Google Glass.[25] Can you see yourself in this kind of leadership role?

1.3 Seven Challenges to Being an Exceptional Manager

MAJOR QUESTION Challenges can make one feel alive. What are seven challenges I could look forward to as a manager?

THE BIG PICTURE

Seven challenges face any manager: You need to manage for competitive advantage—to stay ahead of rivals. You need to manage for diversity in race, ethnicity, gender, and so on, because the future won't resemble the past. You need to manage for the effects of globalization and of information technology. You always need to manage to maintain ethical standards. You need to manage for sustainability—to practice sound environmental policies. Finally, you need to manage for the achievement of your own happiness and life goals.

Would you agree that the ideal state that many people seek is an emotional zone somewhere between boredom and anxiety? That's the view of psychologist Mihaly Csikszentmihalyi (pronounced Me-*high* Chick-sent-me-*high*-ee) of Claremont Graduate University.[26] Boredom, he says, may arise because skills and challenges are mismatched: you are exercising your high level of skill in a job with a low level of challenge, such as licking envelopes. Anxiety arises when one has low levels of skill but a high level of challenge, such as (for many people) suddenly being called upon to give a rousing speech to strangers.

As a manager, could you achieve a balance between these two states—boredom and anxiety, or action and serenity? Certainly managers have enough challenges to keep their lives more than mildly interesting. Let's see what they are.

Challenge #1: Managing for Competitive Advantage—Staying Ahead of Rivals

Competitive advantage is the ability of an organization to produce goods or services more effectively than competitors do, thereby outperforming them. This means an organization must stay ahead in four areas: (1) being responsive to customers, (2) innovation, (3) quality, and (4) efficiency.

EXAMPLE

The Struggle for Competitive Advantage: App-Based Ride-Share Services Leave the Taxi Industry Reeling

Ever had trouble getting a cab (if you've had occasion to need one)? It could get even harder if ride-sharing services continue to be successful.

Just as technology has allowed the lodging-sharing service Airbnb to take business from hotels, so smartphones and apps have enabled on-demand "transportation network companies" (TNCs) such as Uber, Lyft, and Sidecar to challenge the traditional taxi cab industry. In cities from London to New York to San Francisco to Shanghai, Uber, for instance, lets riders hail drivers in their personal cars by using the UberX app on their mobile device and rent a car and driver on demand and by the minute.

How Ridesharing Works. Once you've signed up with the service and given your credit card information (no cash changes hands), you can then call for a car anytime you want by activating the app, which will show the name and picture of the responding driver, make of car, and approximate arrival time, monitoring its progress through your mobile's display. The charge to you is based on Uber's *surge pricing* model (algorithm): when demand is great, the price goes up—sometimes as much as eight times the normal rate.[27]

Recruiting Drivers. Drivers for ride-share companies must provide their own personal vehicle and carry personal insurance, and they are expected to turn over 5% to 15% of their fares to the company. (Some companies offer car-purchasing or car-leasing options for drivers who don't own vehicles.) Because transportation network companies don't require a long-term commitment, there is high turnover—some drivers take the wheel for only a few weeks before stopping. This has led to a recruiting war in which ride services have posted online and billboard ads enticing drivers with promises of setting their own schedules and making up to $40 an hour.[28] As might be expected, the rush to hire has had a devastating effect on the ranks of regular cab drivers.

Trouble for Taxis. "Every cab company I know of is having a huge problem filling shifts," said the owner of San Francisco–based DeSoto Cab Co., who estimated up to a third of the city's taxi-driving shifts were going unfilled. The cab companies' competitive disadvantage was further aggravated by government requirements that taxis had to be wheelchair accessible and their drivers background-checked, requirements so far not applying to the ride-sharing firms.[29] The lack of accommodation in ride services for disabled passengers has been especially worrisome for those dependent on such services.[30]

Competitive advantage? Lyft ride-share drivers display distinctive pink mustaches on their cars. Customers wanting rides contact them through an app on their smartphones. Do you think traditional taxi-cab companies will still exist 10 years from now?

YOUR CALL

Which sector, taxis or ride services, do you think will have the ultimate competitive advantage? To make this judgment, you need to be aware that, in California at least, the state has required the app-ride companies to submit plans on how they will meet the needs of disabled riders—especially the wheelchair-accessibility or ramp requirement. In addition, some ride-share drivers have become nervous about insurance regulations, since a personal insurance policy won't cover you while you're using your car for passengers and the $1 million excess liability policies that the ride services have don't cover damage to the driver's car. Finally, in a case in which a young girl was killed by an Uber driver in San Francisco, her parents are suing the ride service for wrongful death on the grounds that the app violates distracted-driving laws because drivers have to constantly watch their phones to look for possible passengers.[31] So, which sector do you think will prevail?

1. Being Responsive to Customers The first law of business is: *Take care of the customer.* Without customers—buyers, clients, consumers, shoppers, users, patrons, guests, investors, or whatever they're called—sooner or later there will be no organization. Nonprofit organizations are well advised to be responsive to their "customers," too, whether they're called citizens, members, students, patients, voters, rate-payers, or whatever, since they are the justification for the organizations' existence.

2. Innovation **Finding ways to deliver new or better goods or services is called innovation.** No organization, for-profit or nonprofit, can allow itself to become complacent—especially when rivals are coming up with creative ideas. "Innovate or die" is an important adage for any manager.

We discuss innovation in Chapter 10.

3. Quality If your organization is the only one of its kind, customers may put up with products or services that are less than stellar (as they have with some airlines that have a near monopoly on flights out of certain cities), but only because they have no choice. But if another organization comes along and offers a better-quality travel experience, TV program, cut of meat, computer software, or whatever, you may find your company falling behind. Making improvements in quality has become an important management idea in recent times, as we shall discuss.

4. Efficiency A generation ago, organizations rewarded employees for their length of service. Today, however, the emphasis is on efficiency: Companies strive to produce goods or services as quickly as possible using as few employees (and raw materials) as possible. Although a strategy that downgrades the value of employees might ultimately backfire—resulting in the loss of essential experience and skills and even customers—an organization that is overstaffed may not be able to compete with leaner, meaner rivals. This is the reason why, for instance, today many companies rely so much on temp (temporary) workers.[32]

Challenge #2: Managing for Diversity—The Future Won't Resemble the Past

Today nearly one in six American workers is foreign-born, the highest proportion since the 1920s.[33] But greater changes are yet to come. By mid-century, the mix of American racial or ethnic groups will change considerably, with the United States becoming half (54%) racial or ethnic minority. Non-Hispanic whites are projected to decrease from 63% of the population in 2011 to 47% in 2050. African Americans will increase from 12%–13%, Asians from 5%–9%, and Hispanics (who may be of any race) from 17%–29%.[34] In addition, in the coming years there will be a different mix of women, immigrants, and older people in the general population, as well as in the workforce. For instance, in 2030, nearly one in five U.S. residents is expected to be 65 and older. This age group is projected to increase to 88.5 million in 2050, more than doubling the number in 2013 (41.4 million).[35]

Some scholars think that diversity and variety in staffing produce organizational strength, as we consider elsewhere.[36] Clearly, however, the challenge to the manager of the near future is to maximize the contributions of employees diverse in gender, age, race, ethnicity, and sexual orientation. We discuss this matter in more detail in Chapter 11.

Challenge #3: Managing for Globalization—The Expanding Management Universe

When you ask some Russians "How are you?" the response may not be a simple "Fine" but rather the complete truth as to how they really feel—"a blunt pronouncement of dissatisfaction punctuated by, say, the details of any recent digestive troubles," as one American world traveler explained it.[37] And when you meet Cambodians or Burmese and are asked "Have you eaten yet?" you should not mistake this as an invitation to lunch—all it means is just "Hello."[38]

Cross-border burger business. American businesspeople operating overseas often face unique problems. The manager of this Johnny Rockets hamburger store, which opened in Lagos, Nigeria, in 2012, found that to achieve an authentic, U.S. style taste he needed to fly in the toppings—onions, mushrooms, and iceberg lettuce—which meant that he had to start prices at $14 for a single-patty burger.

The point is this: verbal expressions and gestures don't have the same meaning to everyone throughout the world. Not understanding such differences can affect how well organizations manage globally.

American firms have been going out into the world in a major way, even as the world has been coming to us—leading to what *New York Times* columnist Thomas Friedman has called, in *The World Is Flat,* a phenomenon in which globalization has leveled (made "flat") the competitive playing fields between industrial and emerging-market countries.[39] Managing for globalization will be a complex, ongoing challenge, as we discuss at length in Chapter 4.[40]

Challenge #4: Managing for Information Technology—Dealing with the "New Normal"

The challenge of managing for information technology, not to mention other technologies affecting your business, will require your unflagging attention. Most important is the **Internet**, **the global network of independently operating but interconnected computers, linking hundreds of thousands of smaller networks around the world.**

By 2017, consumers worldwide are projected to spend $2.3 trillion online, a rise of 14.8% over the year before.[41] This kind of **e-commerce**, **or electronic commerce—the buying and selling of goods or services over computer networks**—has reshaped entire industries and revamped the very notion of what a company is. More important than e-commerce, information technology has led to the growth of **e-business**, **using the Internet to facilitate *every* aspect of running a business.** Because the Internet so dramatically lowers the cost of communication, it can radically alter any activity that depends heavily on the flow of information. The result is that disruption has become the "new normal."[42] Some of the implications of information technology that we will discuss throughout the book are as follows:

- **Far-ranging electronic management: e-communication all the time.** Using mobile devices such as smartphones and tablets, 21st-century managers will need to become masters of electronic communication, able to create powerful messages to create, motivate, and lead teams of specialists all over the world. Their means for doing so will range from **e-mail**, **electronic-mail messages and documents transmitted over a computer network;** to **texting**, **quick text messages exchanged among smartphones;** and **social media**, **Internet-based and mobile technologies such as Facebook and Twitter for generating interactive dialogue with others on a network.** Getting the right balance is important, because many messages may be useful, but many are not. Employees can lose valuable time and productivity when dealing with excessive and unimportant e-mail and text messages, leading to increased conflict and stress.[43]
- **More and more data: challenges to decision making.** Every day, a typical American office worker puts out about 5,000 megabytes of data, whether from e-mail, word processing, downloaded movies, or other items generated by computers.[44] The Internet, then, not only speeds everything up, it also, through **cloud computing**—**the storing of software and data on gigantic collections of computers located away from a company's principal site** (out there somewhere, "in the cloud")—and huge, interconnected **databases**—**computerized collections of interrelated files**—can assemble astonishing quantities of information and make them available to us instantaneously. This has led to the phenomenon known as **Big Data**, **stores of data so vast that conventional database management systems cannot handle them,** and so very sophisticated analysis software and supercomputers are required. The challenge: How do we deal with this massive amount of data to make useful decisions without violating people's right to privacy?

- **The rise of artificial intelligence: more automation in the workforce.** "Software and automation—think self-driving cars, robotic factories, and artificially intelligent reservationists," writes Thomas Friedman, "are not only replacing blue-collar jobs at a faster rate, but now also white-collar skills."[45] **Artificial intelligence (AI) is the discipline concerned with creating computer systems that simulate human reasoning and sensation,** as represented by robots, natural language processing, pattern recognition, and similar technologies. The job losses caused by automation among autoworkers, film processors, travel agents, and the like will probably extend to other fields as robot surgeons, driverless cars, drones (pilotless aircraft), and molecule-sized nanobots (used in medicine) come into use.[46] What will be the implications of these events for you as a manager for staffing and training employees and for your own professional development?[47]
- **Organizational changes: shifts in structure, jobs, goals, and knowledge management.** With computers and telecommunications technology, organizations and teams become "virtual"; they are no longer as bound by time zones and locations. Employees, for instance, may **telecommute, or work from home or remote locations using a variety of information technologies.** Meetings may be conducted via **videoconferencing, using video and audio links along with computers to let people in different locations see, hear, and talk with one another.** In addition, **collaborative computing, using state-of-the-art computer software and hardware, will help people work better together.** Goal setting and feedback will be conducted via web-based software programs such as eWorkbench, which enables managers to create and track employee goals. Such managers will also rely on **project management software, programs for planning and scheduling the people, costs, and resources to complete a project on time.** All such forms of interaction will require managers and employees to be more flexible, and there will be an increased emphasis on **knowledge management—the implementing of systems and practices to increase the sharing of knowledge and information throughout an organization.**

Challenge #5: Managing for Ethical Standards

With the pressure to meet sales, production, and other targets, managers can find themselves confronting ethical dilemmas. What do you do when, as a manager for a cruise line, say, you learn that an important safety measure will have to be skipped if a 4,200-passenger cruise ship is to sail on time?[48] As a sales manager, how much should you allow your sales reps to criticize the competition? How much leeway do you have in giving gifts to prospective clients in a foreign country to try to land a contract? In an era of climate change, with changing temperatures and rising sea levels, what is your responsibility to "act green"—avoid company policies that are damaging to the environment?

Ethical behavior is not just a nicety; it is a very important part of doing business. This was certainly made clear in December 2008, when financier Bernard Madoff confessed that his investments were all "one big lie"—not investments at all, but rather a $50 billion scheme (*Ponzi scheme*), using cash from newer investors to pay off older ones. A few months later, this perpetrator of the world's biggest fraud, then age 71, was sentenced to 150 years in prison. Madoff joined a long list of famous business scoundrels of the early 21st century: Tyco International CEO Dennis Kozlowski (now on parole after serving prison time for grand larceny, securities fraud, and tax evasion), WorldCom head Bernard Ebbers (doing 25 years for fraud), Adelphia CEO John Rigas (15 years for conspiracy and bank fraud), former Enron chief Jeffrey Skilling (24 years for similar white-collar crimes), Galleon Group hedge fund head Raj Rajaratnam and Goldman Sachs director Rajat Gupta (11 years each for insider trading).

Dread Pirate. Ross Ulbricht, a former Eagle Scout and holder of a master's degree in materials science, was alleged by federal prosecutors to be a drug kingpin and attempted murderer named Dread Pirate Roberts. He was scheduled to go on trial in late 2014 as the founder of Silk Road, an online site for selling narcotics. He pled not guilty to drug trafficking, computer hacking, money laundering, and running a continuing criminal conspiracy.

Of course, business crime is not perpetrated just by respectable-looking people wearing suits. Hippie entrepreneur Ross Ulbricht, 29, was arrested in late 2013 for allegedly being the founder of Silk Road, described as an "online illegal-goods bazaar that had been dubbed the eBay of vice," from which he purportedly made nearly half a billion dollars in under three years by selling drugs.[49]

We consider ethics in Chapter 3 and elsewhere in the book.

PRACTICAL ACTION

Preparing Yourself to Behave Right When You're Tempted to Cheat

There are all kinds of things that influence people to cheat. They may cheat more in the afternoon than in the morning. (Perhaps because mental fatigue sets in as the day wears on.)[50] They may cheat more when technology makes it easy. (Access to copy/paste tools was associated with a higher rate of cheating.)[51] They may even cheat because it makes them feel good. (Really! Cheaters in one study reported more positive feelings than subjects who acted honestly.)[52]

Of course, just because somehow you feel okay about cheating doesn't mean it's right, or, from a hard-headed business point of view, even effective—either for you or for the organization you work for.[53] Did you know, for instance, that you can be fired for lying on a job application or resume?

Learning to Be Ethical. Concerned about transgressions in the managerial world, some of the top U.S. researchers in business ethics in January 2014 introduced a new website, EthicalSystems.org (*www.ethicalsystems.org*). One of its purposes is to examine the problem that, as *The New York Times* describes it, "how we think we're going to act when faced with a moral decision and how we really do act are often vastly different."[54] Originally business ethics grew out of philosophy and was concerned with the right thing to do. Now research is directed toward the underlying reasons people act the way they do, to develop a more psychologically realistic approach and learn what tools will nudge people toward right behavior.

Doing Right versus Being Liked. When people predict how they're going to act in a given situation, "the 'should' self dominates—we should be fair, we should be generous, we should assert our values," says business ethics professor Ann E. Tenbrunsel. "But when the time for action comes, the 'want' self dominates—I don't want to look like a fool, I don't want to be punished."[55] Thus, you may see some wrong occur (such as an act of cheating) and actually mean to do something about it, but can't quite figure how—and then the moment passes and you let it go and tell yourself that what you did was okay.

YOUR CALL

How can you learn to be ethical? First, you need to be aware of when you are apt not to speak up about a matter of wrongdoing—as when it might alienate your friends ("No one will speak to me after this"), when it might cause others to disrespect you ("I'm going to look like an idiot"), or when an authority figure is present ("This will get me fired"). Once you become aware of such thoughts, you need to try to override them, letting the discomfort you're experiencing signal you that you need to be courageous and take action, not just lapse into inaction. Can you tell yourself how you should—and must—behave the next time you're tempted to cheat or see someone cheating?

Challenge #6: Managing for Sustainability—The Business of Green

An apparently changing climate, bringing increased damage from hurricanes, floods, and fires throughout the United States and the world, has brought the issue of "being green" to increased prominence. Former U.S. Vice President Al Gore's documentary film *An Inconvenient Truth,* along with his book by the same name, further popularized the concepts of global climate change and the idea of sustainability as a business model.[56]

Our economic system has brought prosperity, but it has also led to unsustainable business practices because it has assumed that natural resources are limitless, which they are not. **Sustainability is defined as economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs.**[57] In the United States, the U.S. Chamber of Commerce, which is supposed to represent the views of business, has been resistant to climate change legislation.[58] However, several companies—Levi Strauss, Apple, Tiffany, Exelon, Pacific Gas & Electric, PNM Resources, and Mohawk Fine Papers—have resigned from the Chamber in protest. Perhaps, then, business can begin to take the lead. After years of being slow to address climate change, major corporations—including industrial giants that make products ranging from electricity to chemicals to bulldozers—have begun to call for limits on global warming emissions.

Challenge #7: Managing for Happiness & Meaningfulness

Which would you rather have, a happy life or a meaningful life?

One study found that "Happiness was linked to being a taker rather than a giver, whereas meaningfulness went with being a giver rather than a taker," as a study author put it.[59] Happiness is getting what you want, of having your desires fulfilled. Meaningfulness—which may not always make you happy—is achieving a valued sense of one's self and one's purpose within the larger context of life and community. Research clearly shows that a sense of meaningfulness in your life is associated with better health, work and life satisfaction, and performance.[60]

Many people find being a manager doesn't make them happy.[61] They may complain that they have to go to too many meetings, that they can't do enough for their employees, that they are caught in the middle between bosses and subordinates. They may feel, at a time when Dilbert cartoons have created such an unflattering portrayal of managers, that they lack respect. They may decide that, despite the greater income, money doesn't buy happiness.

On the other hand, being a manager can be one of the greatest avenues to a meaningful life, particularly if you are working within a supportive or interesting organizational culture. (We discuss company culture, or style, in Chapter 8.) As Oakland, California, productivity-improvement expert Odette Pollar has stated, being a manager is "an opportunity to counsel, motivate, advise, guide, empower, and influence large groups of people. These important skills can be used in business as well as in personal and volunteer activities." And, we might add, in nonprofit organizations as well. "If you truly like people," she goes on, "and enjoy mentoring and helping others to grow and thrive, management is a great job."[62]

How Strong Is Your Motivation to Be a Manager? The First Self-Assessment

As we stated at the beginning of this chapter, it is our desire to make this book *as practical as possible* for you. As an important means of advancing this goal, from time to time we present **self-assessments**—two or more to a chapter—which allow you to gauge how you feel about the material you are reading and how you can make use of it. The way this works is you go to the self-assessment website at *connect.mheducation.com* complete the assessment, then answer the self-assessment questions in the book. Here is the first one. ●

SELF-ASSESSMENT 1.1 connect

How Strong Is My Motivation to Be a Manager?

How motivated are you to manage others? Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. Does this instrument accurately assess your potential as a manager? Explain.
2. Which of the seven dimensions do you think is likely the best predictor of managerial success? Which is the least? Explain.
3. The instrument emphasizes competition with others in a win–lose mentality. Describe the pros and cons of this approach to management.

1.4 MAJOR QUESTION

Pyramid Power: Levels & Areas of Management

What are the levels and areas of management I need to know to move up, down, and sideways?

THE BIG PICTURE

Within an organization, there are four levels of managers: *top, middle,* and *first-line managers* and also *team leaders*. Managers may also be *general managers,* or they may be *functional managers,* responsible for just one organizational activity, such as Research & Development, Marketing, Finance, Production, or Human Resources. Managers may work for for-profit, nonprofit, or mutual-benefit organizations.

The workplace of the future may resemble a symphony orchestra, famed management theorist Peter Drucker said.[63] Employees, especially so-called knowledge workers—those who have a great deal of technical skills—can be compared to concert musicians. Their managers can be seen as conductors.

In Drucker's analogy, musicians are used for some pieces of music—that is, work projects—and not others, and they are divided into different sections (teams) based on their instruments. The conductor's role is not to play each instrument better than the musicians but to lead them all through the most effective performance of a particular work.

This model differs from the traditional pyramid-like organizational model, where one leader sits at the top, with layers of managers beneath, each of whom must report to and justify his or her work to the manager above (what's called *accountability,* as we discuss in Chapter 8). We therefore need to take a look at the traditional arrangement first.

The Traditional Management Pyramid: Levels & Areas

A new Silicon Valley technology start-up company staffed by young people in sandals and shorts may be so small and so loosely organized that only one or two members may be said to be a manager. General Motors or the U.S. Army, in contrast, has thousands of managers doing thousands of different things. Is there a picture we can draw that applies to all the different kinds of organizations and describes them in ways that make sense? Yes: by levels and by areas, as the pyramid on the next page shows. *(See Figure 1.2.)*

Four Levels of Management

Not everyone who works in an organization is a manager, of course, but those who are may be classified into four levels—top, middle, and first-line managers and team leaders.

Top Managers: Determining Overall Direction Their offices may be equipped with expensive leather chairs and have lofty views. Or, as with one Internet company, they may have plastic lawn chairs in the CEO's office and beat-up furniture in the lobby. Whatever their decor, an organization's top managers tend to have titles such as "chief executive officer (CEO)," "chief operating officer (COO)," "president," and "senior vice president."

Some may be the stars in their fields, the men and women whose pictures appear on the covers of business magazines, people such as Facebook founder Mark Zuckerberg or Yahoo! CEO Marissa Mayer, who appeared on *Fortune*. As we've seen, the median salary is $168,140 a year for CEOs and presidents of small and midsize companies and can range up to the millions for top executives in large companies.

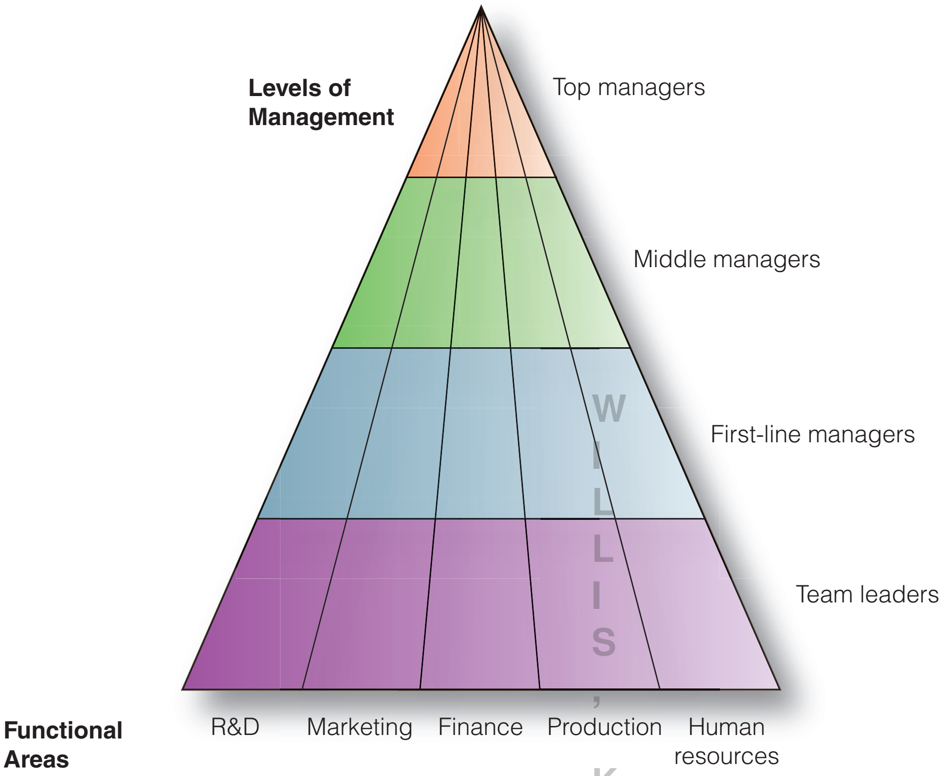


FIGURE 1.2

The levels and areas of management

Top managers make long-term decisions, middle managers implement those decisions, and first-line managers make short-term decisions. Team leaders facilitate team activities toward achieving a goal.

Top managers make long-term decisions about the overall direction of the organization and establish the objectives, policies, and strategies for it. They need to pay a lot of attention to the environment outside the organization, being alert for long-run opportunities and problems and devising strategies for dealing with them. Thus, executives at this level must be future oriented, dealing with uncertain, highly competitive conditions.

These people stand at the summit of the management pyramid. But the nature of a pyramid is that the farther you climb, the less space remains at the top. Thus, most pyramid climbers never get to the apex. However, that doesn't mean that you shouldn't try. Indeed, you might end up atop a much smaller pyramid of some other organization than the one you started out in—and happier with the result.

Middle Managers: Implementing Policies & Plans

Middle managers implement the policies and plans of the top managers above them and supervise and coordinate the activities of the first-line managers below them. Titles might include "plant manager," "district manager," and "regional manager" among others. In the nonprofit world, middle managers may have titles such as "clinic director," "dean of student services," and the like. Their salaries may range from under $45,000 up to $120,000 a year.

Middle managers are critical for organizational success because they implement the strategic plans created by CEOs and top managers. (Strategic planning is discussed in Chapter 6.) In other words, these managers have the type of **"high touch"** ***jobs*****—dealing with people rather than computer screens or voice-response systems—**that can directly affect employees, customers, and suppliers.[64]

First-Line Managers: Directing Daily Tasks

The job titles at the bottom of the managerial pyramid tend to be on the order of "department head," "foreman" or "forewoman," or "supervisor"—clerical supervisor, production supervisor, research supervisor, and so on. Indeed, *supervisor* is the name often given to first-line managers as a whole. Their salaries may run from $35,000 to $65,000 a year.

Following the plans of middle and top managers, **first-line managers make short-term operating decisions, directing the daily tasks of nonmanagerial personnel,** who

One kind of top manager. India-born Satya Nadella, who joined Microsoft in 1992, became CEO of the technology company in early 2014. He will likely receive $18 million in compensation in 2015. Nadella will have his hands full, as shareholders have grumbled for years about Microsoft's strategy and direction. Do you see yourself joining a company and staying with it for life, as Nadella has (after an earlier job at Sun Microsystems), or is that even possible anymore?

Top manager of another sort. In 1999, at age 24, Tony Hsieh (pronounced *Shay*), sold advertising network LinkExchange, the company he co-founded, to Microsoft for $265 million and then joined Zappos.com, the Nevada online shoe and clothing retailer, as an investor and advisor. Later he became CEO and helped grow Zappos to $1 billion in sales. He is also author of the book *Delivering Happiness.* Do you think a top manager is always an adventurous type?

are, of course, all those people who work directly at their jobs but don't oversee the work of others.

No doubt the job of first-line manager will be the place where you would start your managerial career. This can be a valuable experience because it will be the training and testing ground for your management ideas.

Team Leaders: Facilitating Team Activities

Not all companies have *teams*—small groups of people with complementary skills who are committed to a common purpose—but teams and teamwork are largely the standard way of operating in today's organizations. (Teams are thoroughly discussed in Chapter 13.)

Members of a team generally report to a first-line manager, who has the authority to hire and fire, controls resources, and is responsible for the team's performance. But one of the members of the team may be charged with being the **team leader, a manager who is responsible for facilitating team activities toward achieving key results.** Team leaders may not have authority over other team members, but they are expected to provide guidance, instruction, and direction to the others; to coordinate team efforts; to resolve conflicts; to represent the team to the first-level manager; and to make decisions in the absence of consensus.

Areas of Management: Functional Managers versus General Managers

We can represent the levels of management by slicing the organizational pyramid horizontally. We can also slice the pyramid vertically to represent the organization's departments or functional areas, as we did in Figure 1.2.

In a for-profit technology company, these might be *Research & Development, Marketing, Finance, Production,* and *Human Resources.* In a nonprofit college, these might be *Faculty, Student Support Staff, Finance, Maintenance,* and *Administration.* Whatever the names of the departments, the organization is run by two types of managers—functional and general. (These are line managers, with authority to direct employees. Staff managers mainly assist line managers.)

Functional Managers: Responsible for One Activity

If your title is Vice President of Production, Director of Finance, or Administrator for Human Resources, you are a functional manager. **A functional manager is responsible for just one organizational activity.** Google is particularly noteworthy for its unusual functional management job titles, such as Fitness Program Manager, Green Team Lead, and Vice President of Search Products & User Experience, which was Marissa Mayer's former title before she left to head Yahoo!. (Yahoo! has its own unusual functional titles, such as VP of Talent Acquisition, VP Consumer Platforms, and VP of Research for Europe & LatAm.)

General Managers: Responsible for Several Activities

If you are working in a small organization of, say, 100 people and your title is Executive Vice President, you are probably a general manager over several departments, such as Production and Finance and Human Resources. **A general manager is responsible for several organizational activities.** At the top of the pyramid, general managers are those who seem to be the subject of news stories in magazines such as *Bloomberg Businessweek, Fortune, Forbes,* and *Inc.* Examples are big-company CEOs Denise Morrison of Campbell Soup and Jeff Bezos of Amazon.com, and also small-company CEOs such as Gayle Martz, who heads New York–based Sherpa's Pet Trading Co., which sells travel carriers for dogs and cats. But not all general managers are in for-profit organizations.

Saundra Pelletier is chief executive of WomanCare Global, a San Diego, California, nonprofit provider of health care products for women and girls. (Simultaneously, she is also CEO of Evofem Inc., a for-profit biotechnology company.) As the founding CEO, Pelletier secured start-up funding from major foundations and investors and worked to reach women globally in over 100 countries, particularly focusing on underserved parts of Africa and Asia. Previously she worked for pharmaceutical giant G.D. Searle and other companies as a top manager.[65]

Nonprofit general manager. A general manager is responsible for several organizational activities. As CEO of WomanCare Global, Saundra Pelletier developed the organization's initial business plan and secured funding, as well as made several product acquisitions. She leads a team with private sector, global public health, and pharmaceutical experience to serve women in need worldwide. Do you think managerial skills are different for nonprofit and for-profit organizations?

Managers for Three Types of Organizations: For-Profit, Nonprofit, Mutual-Benefit

There are three types of organizations classified according to the three purposes for which they are formed—*for-profit, nonprofit,* and *mutual-benefit.*[66]

1. For-Profit Organizations: For Making Money For-profit, or business, organizations are formed to make money, or profits, by offering products or services. When most people think of "management," they think of business organizations, ranging from Allstate to Zynga, from Amway to Zagat.

2. Nonprofit Organizations: For Offering Services Managers in nonprofit organizations are often known as "administrators." Nonprofit organizations may be either in the public sector, such as the University of California, or in the private sector, such as Stanford University. Either way, their purpose is to offer services to some clients, not to make a profit. Examples of such organizations are hospitals, colleges, and social-welfare agencies (the Salvation Army, the Red Cross).

One particular type of nonprofit organization is called the *commonweal organization.* Unlike nonprofit service organizations, which offer services to *some* clients, commonweal organizations offer services to *all* clients within their jurisdictions. Examples are the military services, the U.S. Postal Service, and your local fire and police departments.

3. Mutual-Benefit Organizations: For Aiding Members Mutual-benefit organizations are voluntary collections of members—political parties, farm cooperatives, labor unions, trade associations, and clubs—whose purpose is to advance members' interests.

Different Organizations, Different Management?

If you become a manager, would you be doing the same types of things regardless of the type of organization? Generally you would be; that is, you would be performing the four management functions—planning, organizing, leading, and controlling—that we described in Section 1.2.

The single biggest difference, however, is that in a for-profit organization, the measure of its success is how much profit (or loss) it generates. In the other two types of organizations, although income and expenditures are very important concerns, the measure of success is usually the effectiveness of the services delivered—how many students were graduated, if you're a college administrator, or how many crimes were prevented or solved, if you're a police chief. ●

1.5 MAJOR QUESTION

The Skills Exceptional Managers Need

To be a terrific manager, what skills should I cultivate?

THE BIG PICTURE

Good managers need to work on developing three principal skills. The first is *technical,* the ability to perform a specific job. The second is *conceptual,* the ability to think analytically. The third is *human,* the ability to interact well with people.

Lower- and middle-level managers are a varied lot, but what do top managers have in common? A supportive spouse or partner, suggests one study.[67] Regardless of gender, reaching the top demands a person's all-out commitment to work and career, and someone needs to be there to help with children and laundry. Thus, in 2011, 27 of 29 current or former Fortune 500 female CEOs were married (but only 18 had children), and their husbands were apparently willing to defer their ambitions to their wives'—just as so many spouses of men have.

General Motors CEO Mary Barra, who is married and is the mother of two teenage children, has been assisted in her rise by her husband, Tony Barra, a technology consultant. Although female managers with supportive partners are becoming more common, society is still struggling with what it means for men and women to be peers and whether one's career should come first or both should be developed simultaneously.

Whether or not they have support at home, aspiring managers also need to have other kinds of the "right stuff." In the mid-1970s, researcher **Robert Katz** found that through education and experience managers acquire three principal skills—*technical, conceptual,* and *human.*[68]

1. Technical Skills—The Ability to Perform a Specific Job

Mary Barra has a bachelor's degree in electrical engineering and a master's in business administration and a well-rounded resume that includes important experience as executive assistant to the CEO, being head of midsize car engineering, managing GM's Detroit-Hamtramck plant, and leading the company's human resources division. Then in 2011 she was made head of GM's huge worldwide product development, where she "brought order to chaos," according to one account, "mostly by flattening its bureaucracy . . . , reducing the number of expensive, global vehicle platforms, and bringing new models to market faster and at lower cost."[69] Said by her predecessor to be "one of the most gifted executives" he had met in his career, she displays an engineer's enthusiasm for cars, a quality not found among other car-company CEOs promoted from finance operations.[70] Indeed, says one account, "Ms. Barra can often be found on the company's test track putting vehicles through their paces at high speeds."[71]

Technical skills consist of the job-specific knowledge needed to perform well in a specialized field. Having the requisite technical skills seems to be most important at the lower levels of management—that is, among employees in their first professional job and first-line managers.

2. Conceptual Skills—The Ability to Think Analytically

Conceptual skills are more important as you move up the management ladder. Said a GM executive about Barra, "When you put her in a position that's completely new to her, she does an amazing job of getting grounded, understanding what's important and what's not, and executing very well."[72] Or, as Barra said about her management approach, "Problems don't go away when you ignore them—they get bigger. In my experience, it is much better to get the right people together, to make a plan, and to address every challenge head on."[73] At every stop along the way in rising through GM, Barra analyzed the situation and simplified things. For example, in her product-development job, she streamlined designs by using the same parts in many different models. She also assigned engineers to work in car dealerships to learn more about what customers want in their vehicles.[74]

Conceptual skills **consist of the ability to think analytically, to visualize an organization as a whole and understand how the parts work together.** Conceptual skills are particularly important for top managers, who must deal with problems that are ambiguous but that could have far-reaching consequences.

General Motors headquarters. The Renaissance Center in Detroit is headquarters for most of GM's enterprises, including CEO Mary Barra's office. Barra seems to have the three skills—technical, conceptual, and human—necessary to be a terrific manager for such a complex organization. Which skill do you think you need to work on the most? (Human skills are the most difficult to master.)

3. Human Skills—"Soft Skills," the Ability to Interact Well with People

This may well be the most difficult set of skills to master. **Human skills** **consist of the ability to work well in cooperation with other people to get things done—**especially with people in teams, an important part of today's organizations (as we discuss in Chapter 13). Often these are thought of as "soft skills." **Soft skills—the ability to motivate, to inspire trust, to communicate with others**—are necessary for managers of all levels. But because of the range of people, tasks, and problems in an organization, developing your human-interacting skills may turn out to be an ongoing, lifelong effort.[75]

During her more than three decades at GM, Barra has demonstrated exceptionally strong soft skills. She has "an ability with people," says her previous boss, that is critical to GM's team-first approach.[76] "She is known inside GM as a consensus builder who calls her staff together on a moment's notice to brainstorm on pressing issues," says another report.[77] "She's fiercely intelligent yet humble and approachable," says a third account. "She's collaborative but is often the person who takes charge. And she's not afraid to make changes."[78]

The Most Valued Traits in Managers

Clearly, Barra embodies the qualities sought in star managers, especially top managers. "The style for running a company is different from what it used to be," says a top executive recruiter of CEOs. "Companies don't want dictators, kings, or emperors."[79] Instead of someone who gives orders, they want executives who ask probing questions and force the people beneath them to think and find the right answers.

Among the chief skills companies seek in top managers are the following:

- The ability to motivate and engage others.
- The ability to communicate.
- Work experience outside the United States.
- High energy levels to meet the demands of global travel and a 24/7 world.[80]

Let's see how you can begin to acquire these and other qualities for success. ●

1.6 MAJOR QUESTION

Roles Managers Must Play Successfully

To be an exceptional manager, what roles must I play successfully?

THE BIG PICTURE

Managers tend to work long hours at an intense pace; their work is characterized by fragmentation, brevity, and variety; and they rely more on verbal than on written communication. According to management scholar Henry Mintzberg, managers play three roles—*interpersonal, informational,* and *decisional.* Interpersonal roles include figurehead, leader, and liaison activities. Informational roles are monitor, disseminator, and spokesperson. Decisional roles are entrepreneur, disturbance handler, resource allocator, and negotiator.

Clearly, being a successful manager requires playing several different roles and exercising several different skills. What are they?

The Manager's Roles: Mintzberg's Useful Findings

Maybe, you think, it might be interesting to follow some managers around to see what it is, in fact, they actually do. That's exactly what management scholar **Henry Mintzberg** did when, in the late 1960s, he shadowed five chief executives for a week and recorded their working lives.[81] And what he found is valuable to know, since it applies not only to top managers but also to managers on all levels.

Consider this portrait of a manager's workweek: "There was no break in the pace of activity during office hours," reported Mintzberg about his subjects. "The mail (average of 36 pieces per day), telephone calls (average of five per day), and meetings (average of eight) accounted for almost every minute from the moment these executives entered their offices in the morning until they departed in the evening."[82]

Only five phone calls per day? And, of course, this was back in an era before e-mail, texting, and Twitter, which nowadays can shower some executives with 100, even 300, messages a day. Indeed, says Ed Reilly, who heads the American Management Association, all the e-mail, cellphone calls, text messaging, and so on can lead people to end up "concentrating on the urgent rather than the important."[83]

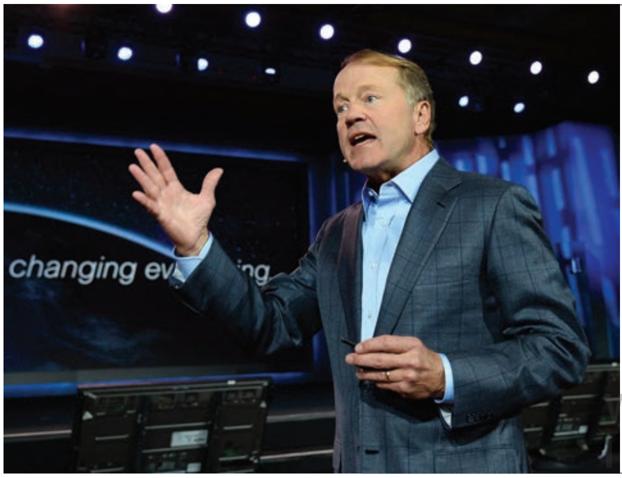
Multitasking. Multiple activities are characteristic of a manager—which is why so many managers use their smartphones to keep track of their schedules. Do you use a mobile electronic device for this purpose?

Obviously, the top manager's life is extraordinarily busy. Here are three of Mintzberg's findings, important for any prospective manager:

1. A Manager Relies More on Verbal than on Written Communication Writing letters, memos, and reports takes time. Most managers in Mintzberg's research tended to get and transmit information through telephone conversations and meetings. No doubt this is still true, although the technologies of e-mail, texting, and Twitter now make it possible to communicate almost as rapidly in writing as with the spoken word.

2. A Manager Works Long Hours at an Intense Pace "A true break seldom occurred," wrote Mintzberg about his subjects. "Coffee was taken during meetings, and lunchtime was almost always devoted to formal or informal meetings."

Long hours at work are standard, he found, with 50 hours being typical and up to 90 hours not unheard of. A 1999 survey by John P. Kotter of the Harvard Business School found that the general managers he studied worked just under 60 hours per week.[84] Four decades following the Mintzberg research, another study found that many professionals worked a whopping 72 hours a week, including weekend work.[85] Prior to the



A Mintzberg manager. John T. Chambers, CEO of network gear maker Cisco Systems, relies more on verbal than on written communication, works long hours, and experiences an "interrupt-driven day." Interestingly, Chambers is successful despite having had lifelong dyslexia, the common language-related learning disability. He compensates by leaving 40 or 50 voice mails a day, studies summaries in briefing binders, and tapes videos for employees. What kind of personal adversity have you had to overcome?

2007–2009 Great Recession, researchers at Purdue and McGill universities found that more companies were allowing managers to reduce their working hours and spend more time with their families yet still advance their high-powered careers.[86] However, during economic hard times, top managers may be more apt to see subordinates' work–life flexibility as a luxury they can no longer afford.

3. A Manager's Work Is Characterized by Fragmentation, Brevity, & Variety

Only about a tenth of the managerial activities observed by Mintzberg took more than an hour; about half were completed in under 9 minutes. Phone calls averaged 6 minutes, informal meetings 10 minutes, and desk-work sessions 15 minutes. "When free time appeared," wrote Mintzberg, "ever-present subordinates quickly usurped it."

No wonder the executive's work time has been characterized as "the interrupt-driven day" and that many managers—such as GM's Mary Barra—are often in their offices by 6 a.m., so that they will have a quiet period in which to work undisturbed. No wonder that finding balance between work and family lives—"work–life balance," as we consider in Chapter 12—is an ongoing concern.[87] No wonder, in fact, that the division between work and nonwork hours is considered almost obsolete in newer industries such as information technology, where people seem to use their smartphones 24/7 to stay linked to their jobs.[88]

It is clear from Mintzberg's work that *time and task management* are major challenges for every manager. The Practical Action box below, "Executive Functioning: How Good Are You at Focusing Your Thoughts, Controlling Your Impulses, & Avoiding Distractions?" examines this challenge further. The box "Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career" at the end of this chapter also offers some important suggestions.

PRACTICAL ACTION

Executive Functioning: How Good Are You at Focusing Your Thoughts, Controlling Your Impulses, & Avoiding Distractions?

Managers are executives, of course, and good managers have what psychologists call good "executive functioning." This is a psychological term, rather than a workplace one, and it involves the ability to manage oneself and one's resources in order to achieve a goal. Specifically, this means the ability to focus your thoughts, control your impulses, and avoid distractions.[89]

Gen Z. The 20 million people born from 1990 to the present, known as Generation Z, or the Net Generation, were "practically born with a smartphone in their hand," in one description.[90] Indeed, one study found that 92% of college undergraduates are cellphone or tablet users.[91] How good is their executive functioning? The typical college student plays with his or her digital device an average of 11 times a day while in class, and more than 80% admit that their use of smartphones, tablets, and laptops can interfere with their learning. More than a fourth say their grades suffer.[92] In addition, students do a lot of multitasking—as in checking out Facebook and listening to music while reading this textbook. You may think you're simultaneously doing three separate tasks, but you're really not. "It's like playing tennis with three balls," says one expert.[93]

The Finite Brain. "Life," says Winifred Gallagher, author of *Rapt,* "is the sum of what you focus on."[94] Another writer says, "You can drive yourself crazy trying to multitask and answer every e-mail message instantly. Or you can recognize your brain's finite capacity for processing information."[95] To be successful not only in school but in the workplace—especially as a manager—you need to learn to *direct your attention.* This is known as *focus* or *mindfulness,* as we explore further later in the book.[96]

YOUR CALL

Do you procrastinate about getting your work done? Most people do—and in fact the problem has worsened over the years: Today about 26% of Americans think of themselves as chronic procrastinators, up from 5% in 1978, and 80%–95% of college students procrastinate on a regular basis The major reason: too many tempting diversions, especially electronic ones.[97] Is this a problem for you? What can you do to improve your "executive functioning"?

Three Types of Managerial Roles: Interpersonal, Informational, & Decisional

From his observations and other research, Mintzberg concluded that managers play three broad types of roles or "organized sets of behavior": *interpersonal, informational,* and *decisional.*

1. Interpersonal Roles—Figurehead, Leader, and Liaison In their **interpersonal roles**, managers interact with people inside and outside their work units. The three interpersonal roles include *figurehead, leader,* and *liaison activities.*

2. Informational Roles—Monitor, Disseminator, and Spokesperson The most important part of a manager's job, Mintzberg believed, is information handling, because accurate information is vital for making intelligent decisions. In their three **informational roles**—as monitor, disseminator, and spokesperson—managers receive and communicate information with other people inside and outside the organization. Mary Barra, for example, wrote an e-mail in early 2014 to all GM employees to discuss how the company was responding to a recall of 1.6 million vehicles. She already had been actively communicating with government officials and a host of senior executives regarding the matter. She noted in her e-mail that "recalls of this size and scope usually take time to play out. Various other parties will naturally be involved, and GM will cooperate fully. You can expect additional developments in the near term."[98]

3. Decisional Roles—Entrepreneur, Disturbance Handler, Resource Allocator, and Negotiator In their **decisional roles**, managers use information to make decisions to solve problems or take advantage of opportunities. The four decision-making roles are entrepreneur, disturbance handler, resource allocator, and negotiator.

These roles are summarized on the next page. *(See Table 1.1.)*

TABLE 1.1 **Three Types of Managerial Roles: Interpersonal, Informational, and Decisional**

BROAD MANAGERIAL ROLES	TYPES OF ROLES	DESCRIPTION
Interpersonal	Figurehead role	In your *figurehead role,* you show visitors around your company, attend employee birthday parties, and present ethical guidelines to your subordinates. In other words, you perform symbolic tasks that represent your organization.
	Leadership role	In your role of *leader,* you are responsible for the actions of your subordinates, as their successes and failures reflect on you. Your leadership is expressed in your decisions about training, motivating, and disciplining people.
	Liaison role	In your *liaison* role, you must act like a politician, working with other people outside your work unit and organization to develop alliances that will help you achieve your organization's goals.
Informational	Monitor role	As a *monitor,* you should be constantly alert for useful information, whether gathered from newspaper stories about the competition or gathered from snippets of conversation with subordinates you meet in the hallway.
	Disseminator role	Workers complain they never know what's going on? That probably means their supervisor failed in the role of *disseminator.* Managers need to constantly disseminate important information to employees, as via e-mail and meetings.
	Spokesperson role	You are expected, of course, to be a diplomat, to put the best face on the activities of your work unit or organization to people outside it. This is the informational role of *spokesperson.*
Decisional	Entrepreneur role	A good manager is expected to be an *entrepreneur,* to initiate and encourage change and innovation.
	Disturbance handler role	Unforeseen problems—from product defects to international currency crises—require you be a *disturbance handler,* fixing problems.
	Resource allocator role	Because you'll never have enough time, money, and so on, you'll need to be a resource *allocator,* setting priorities about use of resources.
	Negotiator role	To be a manager is to be a continual *negotiator,* working with others inside and outside the organization to accomplish your goals.

Did anyone say a manager's job is easy? Certainly it's not for people who want to sit on the sidelines of life. Above all else, managers are *doers.* ●

1.7 MAJOR QUESTION

The Link between Entrepreneurship & Management

Do I have what it takes to be an entrepreneur?

THE BIG PICTURE

Entrepreneurship, a necessary attribute of business, means taking risks to create a new enterprise. It is expressed through two kinds of innovators, the *entrepreneur* and the *intrapreneur.*

Most of the popular get-rich stories you hear these days are about technology start-ups, such as Facebook, Yelp, Foursquare, or Uber, a **start-up being defined as a newly created company designed to grow fast.**[99] But there are all kinds of new endeavors constantly being launched, not all of which are about technology and not all of which are intended to quickly become big.

Starting Up a Start-up: From Hats to Hamburgers

Big Truck Brands, founded in Truckee, California, in 2010, makes custom-designed trucker hats for Olympic skier Julia Mancuso and actor Zach Efron, as well as average consumers.[100] Brooklyn-based MOD Restoration, launched by a rabbi's daughter, Hanny Lerner, handles furniture reupholstering for clients like Barclays Center and Long Island Hospital; it currently has about 10 employees.[101] Walker & Company, headed by Tristan Walker, aims to revolutionize the skin-care and beauty-products industry for African Americans.[102]

While so far these businesses have remained small, others have experienced rapid growth. Numi, founded in 1999 by brother and sister Ahmed and Reem Rahim in their 750-square-foot Oakland, California, apartment, is now a fair-trade tea empire with annual sales of over $20 million in nearly 40 countries.[103] Denver chain Smashburger, founded in 2007, which features a $6 truffle, mushroom, and swiss burger, among other specialties, is up to 235 stores in 30 states and aiming for 765 more in the next five years.[104]

EXAMPLE

A Hot Start-Up Cleans Up: Homejoy Transforms an Old Business

As has been often demonstrated in recent years, an old work sector can be transformed by the application of new technology and new management ideas. An example is house cleaning, which until recently was fundamentally unchanged since the 1960s.

"Everyone Deserves a Happy Home." "My brother Aaron and I started working together in 2009," says South Carolina native Adora Cheung, who had moved to the San Francisco Bay Area. "We were both engineers coding [computer programming], and we wanted a place that was clean in order to be more efficient. We tried to find someone online to clean."[105]

They discovered there were basically two choices—get highly qualified cleaning help from an agency, which might cost them $40–$60 an hour (but workers earned only minimum wage), or get someone from Craigslist, which cost much less, "but you don't know who the heck is going to show up at your door."

To find out how they might make the business more efficient and learn the needs of the cleaners themselves, Adora

Entrepreneurs. Former South Carolinians Adora and Aaron Cheung founded their house-cleaning company, Homejoy, in the San Francisco Bay Area in 2012. Most people, even young people, prefer the security of a job with a paycheck to the risks of starting a business. Which life would you prefer?

took a job at a cleaning company. Later, in July 2012, the two launched their own company, Homejoy, under the slogan "Everyone deserves a happy home."

The Homejoy Differences. Several things make Homejoy, which is headquartered in San Francisco with operations in 30 North American markets, different from traditional cleaning services.

First, having determined what their true costs are, the Cheungs are able to charge customers only $20 an hour—whether it's for once a year, once a month, or twice a week—with the worker keeping $12–$15 an hour, the rest going to Homejoy.

Second, to ensure a professional cleaning experience and keep customers happy, Homejoy "certifies" all their cleaners by running numerous background and reference checks, and all house cleanings are bonded and insured and frequently checked for quality. The company offers a complimentary re-clean if customers aren't satisfied.

Third, to keep cleaners happy, Homejoy allows them to select their own hours and the geographical areas where they want to work. The cleaners, who are independent contractors rather than employees, are found through contacts with city agencies, such as the Chicago mayor's office, and nonprofits, such as the Urban League—a novel form of recruitment.

Finally, the Cheungs used their expertise in information technology to set up a website that allows customers to book, cancel, and reschedule cleanings through their computers or smartphones.[106]

Not Just for the Money. Homejoy has its competitors, of course, among them Jack Rabbit, Handybook, Merrymaids.com, and Care.com. But having raised $40 million in funding by investors, the Cheungs clearly think they're on the way to making a tidy return. However, they have also established their own nonprofit foundation, the Homejoy Foundation, to provide support to build, create, or maintain a happy home environment. The foundation currently focuses on improving the living environments of veterans and military families by donating cleaning services and a slice of its profits.

"I think there's a point where start-ups get to a certain size and level of recognition which gives them a platform to do something for a greater good," says Adora Cheung. "We believe it's our social responsibility to give back."[107]

YOUR CALL

It would be nice as a start-up business owner to get to the point where you would be worth several times what your salaried counterparts are worth and able to be a magnanimous donor to good causes. But do you think you have the stomach for the risks involved in establishing and growing a start-up? What are some risks associated with owning your own business?[108]

Entrepreneurship Defined: Taking Risks in Pursuit of Opportunity

Homejoy in its early days represents one of the many small outfits in the United States that are one of the primary drivers of the nation's economy. Indeed, according to the Bureau of Labor Statistics, small companies, defined as having between 1 and 250 employees, created 46.7% of all new jobs in 2013.[109] (Note, however: Because many small firms fail, "new businesses are important to job creation primarily because they get founded," says entrepreneurial studies professor Scott Shane, "not because most of them tend to grow.")[110]

Most small businesses originate with people like the Cheungs. They are the entrepreneurs, the people with the idea, the risk takers. The most successful entrepreneurs become wealthy and make the covers of business magazines: Oprah Winfrey (Harpo Productions), Fred Smith (Federal Express), Larry Page and Sergey Brin (Google). Failed entrepreneurs may benefit from the experience to live to fight another day—as did Henry Ford, twice bankrupt before achieving success with Ford Motor Co.

What Entrepreneurship Is

Entrepreneurship is the process of taking risks to try to create a new enterprise. There are two types of entrepreneurship:

- An **entrepreneur is someone who sees a new opportunity for a product or service and launches a business to try to realize it.** Most entrepreneurs run small businesses with fewer than 100 employees.
- An **intrapreneur is someone who works inside an existing organization who sees an opportunity for a product or service and mobilizes the organization's resources to try to realize it.** This person might be a researcher or a scientist but could also be a manager who sees an opportunity to create a new venture that could be profitable.

EXAMPLE

Example of an Intrapreneur: Intel's Anthropologist Genevieve Bell Explores Possible Innovations for Automakers

If being an intrapreneur sounds more attractive than being a manager, consider this: Managers are vital to supporting the intrapreneur's efforts. Microsoft in-house researchers, for instance, have brought forth many truly cutting-edge ideas, often beating out Apple and Google. The problem, says one analysis, is that such intrapreneurs were "not getting the buy-in from management to turn their discoveries into products," a difficulty that its new CEO, Satya Nadella, has been urged to address.[111]

Backing In-House Risk Taking. Richard Branson, CEO of the Virgin Group, who says his 200 companies (including music and airline businesses) were built on the efforts of "a steady stream of intrapreneurs who looked for and developed opportunities," understands the importance of management support. In his view, CEO should stand for "chief enabling officer," to nurture in-house experimentation.[112]

Intel's Dr. Bell. Intel Corporation, most famously known for its computer chips but now anxious to go in other directions, certainly appreciates the infusion of new ideas. Indeed, it has hired anthropologist Genevieve Bell as its "director of user experience research" at Intel Labs, where she heads some 100 social scientists and designers who explore how people use technology in their homes and in public. "The team's findings help inform the company's product development process," says one report, "and are also often shared with the laptop makers, automakers, and other companies that embed Intel processors in their goods."[113]

For example, to find out how people shift back and forth between the built-in technologies in their cars and the personal mobile devices they carry, Bell and a fellow anthropologist have traveled around the world examining, photographing, and describing the contents of people's cars. They learned that, despite the fact that automakers have installed voice-command systems and other technology in their vehicles for the purpose of reducing distracted driving, drivers in traffic—especially when bored—often picked up their handheld personal devices anyway. This has led Intel to join with Jaguar Land Rover to find ways for consumers to better synchronize their personal devices with their cars.

YOUR CALL

Do you think most companies truly support intrapreneurship? Why would they not?

Multiple entrepreneur. South African–born Elon Musk, declared No. 1 on *Fortune*'s 2013 list of Top People in Business, was a co-founder of PayPal, which provides payment processing for online vendors. He went on to shake up the auto business with Tesla Motors, which builds electric cars; developed SpaceX, a space launch vehicle company; and began retooling the energy sector with SolarCity, a residential solar energy provider. He is said to be worth $7.7 billion. What is your passion that you might turn into a business?

How Do Entrepreneurs & Managers Differ? While the entrepreneur is not necessarily an inventor, he or she "always searches for change, responds to it, and exploits it as an opportunity," Peter Drucker pointed out.[114] Most people are not suited to be entrepreneurs. Let's consider the differences between entrepreneurs and managers.

Being an entrepreneur is what it takes to *start* a business; being a manager is what it takes to *grow or maintain* a business. As an entrepreneur/intrapreneur, you initiate new goods or services; as a manager you coordinate the resources to produce the goods or services—including, as we mentioned, the efforts of the intrapreneurs. Do you think it takes different skills to excel at being a good entrepreneur or manager?

Some of the examples of success we have previously mentioned—Fred Smith (FedEx) and Larry Page (Google)—are actually *both* entrepreneurs and effective managers. Other people, however, find they like the start-up part but hate the management part. For example, Stephen Wozniak, entrepreneurial co-founder with Steve Jobs of Apple Computer, abandoned the computer industry completely and went back to college. Jobs, by contrast, went on to launch another business, Pixar, which among other things became the animation factory that made the movies *Toy Story* and *Finding Nemo.*

Entrepreneurial companies have been called "gazelles" for the two attributes that make the African antelope successful: *speed and agility.* "Gazelles have mastered the art of the quick," says Alan Webber, founding editor of *Fast Company* magazine. "They have internal approaches and fast decision-making approaches that let them move with maximum agility in a fast-changing business environment."[115]

Is this the kind of smart, innovative world you'd like to be a part of? Most people prefer the security of a job and a paycheck. Entrepreneurs do seem to have psychological characteristics that are different from managers, as follows:[116]

- **Characteristic of both—high need for achievement.** Both entrepreneurs and managers have a high need for achievement. However, entrepreneurs certainly seem to be motivated to pursue moderately difficult goals through their own efforts in order to realize their ideas and, they hope, financial rewards. Managers, by contrast, are more motivated by promotions and organizational rewards of power and perks.
- **Also characteristic of both—belief in personal control of destiny.** If you believe "I am the captain of my fate, the master of my soul," you have what is known as **internal locus of control, the belief that you control your own destiny,** that external forces will have little influence. (*External locus of control* means the reverse—you believe you don't control your destiny, that external forces do.) Both entrepreneurs and managers like to think they have personal control over their lives.
- **Characteristic of both, but especially of entrepreneurs—high energy level and action orientation.** Rising to the top in an organization probably requires that a manager put in long hours. For entrepreneurs, however, creating a new enterprise may require an extraordinary investment of time and energy. In addition, while some managers may feel a sense of urgency, entrepreneurs are especially apt to be impatient and to want to get things done as quickly as possible, making them particularly action oriented.
- **Characteristic of both, but especially of entrepreneurs—high tolerance for ambiguity.** Every manager needs to be able to make decisions based on ambiguous—that is, unclear or incomplete—information. However, entrepreneurs must have more tolerance for ambiguity because they are trying to do things they haven't done before.
- **More characteristic of entrepreneurs than managers—self-confidence and tolerance for risk.** Managers must believe in themselves and be willing to make decisions; however, this statement applies even more to entrepreneurs. Precisely because they are willing to take risks in the pursuit of new opportunities—indeed, even risk personal financial failure—entrepreneurs need the confidence to act decisively.

IBM CEO Virginia "Ginni" Rometty. The Chicago-area native began her career during the early 1980s, when women began entering corporate America in droves. As the leader of "Big Blue," as IBM is called, Rometty placed No. 1 on *Fortune*'s 2013 list of The 50 Most Powerful Women in the United States. Currently she is pushing IBM resources into commercializing Watson, the supercomputer famed for winning on *Jeopardy,* whose ability to learn, Rometty believes, represents new sales opportunities. Are entrepreneurs and managers really two different breeds?

Of course, not all entrepreneurs have this kind of faith in themselves. So-called *necessity* entrepreneurs are people such as laid-off corporate workers, discharged military people, immigrants, and divorced homemakers who suddenly must earn a living and are simply trying to replace lost income and are hoping a job comes along. In the United States, these make up about a quarter of entrepreneurs. However, three-quarters are so-called *opportunity* entrepreneurs—those who start their own business out of a burning desire rather than because they lost a job.[117]

So where do you stand? Do you think you would like to be an entrepreneur? The following self-assessment was created to provide you with feedback about your entrepreneurial orientation. ●

SELF-ASSESSMENT 1.2 connect

To What Extent Do You Possess an Entrepreneurial Spirit?

How motivated are you to be an entrepreneur, to start your own company? Do you have the aptitudes and attitudes possessed by entrepreneurs? This self-assessment allows you to compare your motivations, aptitudes, and attitudes with those found in a sample of entrepreneurs from a variety of industries.[118] Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. To what extent are your motives, aptitudes, and attitudes similar to entrepreneurs? Explain.
2. Based on your results, where do you have the biggest gaps with entrepreneurs in terms of the individual motives, aptitudes, and attitudes?
3. What do these gaps suggest about your entrepreneurial spirit? Discuss.
4. Do these results encourage or discourage you from thinking about starting your own business? Explain.

TAKING SOMETHING PRACTICAL AWAY

Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career

Professionals and managers all have to deal with this central problem: how not to surrender their lives to their jobs. The place to start, however, is in college. If you can learn to manage time while you're still a student, you'll find it will pay off not only in higher grades and more free time but also in more efficient information-handling skills that will serve you well as a manager later on.[119]

Using Your "Prime Study Time"

Each of us has a different energy cycle.[120] The trick is to use it effectively. That way, your hours of best performance will coincide with your heaviest academic demands. For example, if your energy level is high during the mornings, you should plan to do your studying then.

To capitalize on your prime study time, you take the following steps: (1) Make a study schedule for the entire term, and indicate the times each day during which you plan to study. (2) Find some good places to study—places where you can avoid distractions. (3) Avoid time wasters, but give yourself frequent rewards for studying, such as a TV show, a favorite piece of music, or a conversation with a friend.

Improving Your Memory Ability

Memorizing is, of course, one of the principal requirements for succeeding in college. And it's a great help for success in life afterward.

Here are some tips on learning to concentrate:[121]

Choose What to Focus On

"People don't realize that attention is a finite resource, like money," one expert says. "Do you want to invest your cognitive cash on endless Twittering or Net surfing or couch potatoing [watching TV]?" She adds, "Where did the idea come from that anyone who wants to contact you can do so at any time? You need to take charge of what you pay attention to instead of responding to the latest stimuli."[122] For example, to block out noise, you can wear earplugs while reading, to create your own "stimulus shelter."

Devote the First 1½ Hours of Your Day to Your Most Important Task

Studying a hard subject? Make it your first task of the day, and concentrate on it for 90 minutes. After that, your brain will probably need a rest, and you can answer text messages, e-mail, and so on. But until that first break, don't do anything else, because it can take the brain 20 minutes to refocus.

Space Your Studying, Rather Than Cramming

Cramming—making a frantic, last-minute attempt to memorize massive amounts of material—is probably the least effective means of absorbing information. Research shows that it's best to space out your studying of a subject over successive days. A series of study sessions over several days is preferable to trying to do it all during the same number of hours on one day. It is *repetition* that helps move information into your long-term memory bank.

Review Information Repeatedly—Even "Overlearn It"

By repeatedly reviewing information—what is known as "rehearsing"—you can improve both your retention and your understanding of it. Overlearning is continuing to review material even after you appear to have absorbed it.

Use Memorizing Tricks

There are several ways to organize information so that you can retain it better. For example, you can make drawings or diagrams (as of the parts of a computer system). Some methods of establishing associations between items you want to remember are given in the exhibit. *(See Exhibit 1.1.)*

EXHIBIT 1.1 **Some Memorizing Tricks**

- **Mental and physical imagery:** Use your visual and other senses to construct a personal image of what you want to remember. Indeed, it helps to make the image humorous, action-filled, sexual, bizarre, or outrageous in order to establish a personal connection. Example: To remember the name of the 21st president of the United States, Chester Arthur, you might visualize an author writing the number "21" on a wooden chest. This mental image helps you associate chest (Chester), author (Arthur), and 21 (21st president).
- **Acronyms and acrostics:** An acronym is a word created from the first letters of items in a list. For instance, Roy G. Biv helps you remember the colors of the rainbow in order: red, orange, yellow, green, blue, indigo, violet. An acrostic is a phrase or sentence created from the first letters of items in a list. For example, *Every Good Boy Does Fine* helps you remember that the order of musical notes on the staff is E-G-B-D-F.
- **Location:** Location memory occurs when you associate a concept with a place or imaginary place. For example, you could learn the parts of a computer system by imagining a walk across campus. Each building you pass could be associated with a part of the computer system.
- **Word games:** Jingles and rhymes are devices frequently used by advertisers to get people to remember their products. You may recall the spelling rule "*I* before *E* except after *C* or when sounded like *A* as in *neighbor* or *weigh*." You can also use narrative methods, such as making up a story.

How to Improve Your Reading Ability: The SQ3R Method

SQ3R stands for "survey, question, read, recite, and review."[123] The strategy behind it is to break down a reading assignment into small segments and master each before moving on. The five steps of the SQ3R method are as follows:

1. *Survey the chapter before you read it:* Get an overview of the chapter or other reading assignment before you begin reading it. If you have a sense of what the material is about before you begin reading it, you can predict where it is going. In this text, we offer on the first page of every chapter a list of the main heads and accompanying key questions. At the end of each chapter we offer a Key Points, which explains what the chapter's terms and concepts mean and why they are important.
2. *Question the segment in the chapter before you read it:* This step is easy to do, and the point, again, is to get you involved in the material. After surveying the entire chapter, go to the first segment—section, subsection, or even paragraph, depending on the level of difficulty and density of information. Look at the topic heading of that segment. In your mind, restate that heading as a question. In this book, we have done this by following each main section head with a Major Question. As an example, for the first section of this chapter (Management: What It Is, What Its Benefits Are), our restatement question is, "What are the rewards of being an exceptional manager?"

   After you have formulated the question, go to steps 3 and 4 (read and recite). Then proceed to the next segment and again restate the heading there as a question.
3. *Read the segment about which you asked the question:* Now read the segment you asked the question about. Read with purpose, to answer the question you formulated. Underline or color-mark sentences that you think are important, if they help you answer the question.

Read this portion of the text more than once, if necessary, until you can answer the question. In addition, determine whether the segment covers any other significant questions, and formulate answers to these, too. After you have read the segment, proceed to step 4. (Perhaps you can see where this is all leading. If you read in terms of questions and answers, you will be better prepared when you see exam questions about the material later.)

4. *Recite the main points of the segment:* Recite means "say aloud." Thus, you should speak out loud (or softly) the answer to the principal question or questions about the segment and any other main points.
5. *Review the entire chapter by repeating questions:* After you have read the chapter, go back through it and review the main points. Then, without looking at the book, test your memory by repeating the questions.

Clearly the SQ3R method takes longer than simply reading with a rapidly moving color marker or underlining pencil. However, the technique is far more effective because it requires *your involvement and understanding.* This is the key to all effective learning.

Learning from Lectures

Does attending lectures really make a difference? Research shows that students with grades of B or above were more apt to have better class attendance than students with grades of C or below.[124] Some tips for getting the most out of lectures are the following.

Take Effective Notes by Listening Actively

Research shows that good test performance is related to good note taking.[125] And good note taking requires that you listen actively—that is, participate in the lecture process. Here are some ways to take good lecture notes:

- *Read ahead and anticipate the lecturer:* Try to anticipate what the instructor is going to say, based on your previous reading. Having background knowledge makes learning more efficient.
- *Listen for signal words:* Instructors use key phrases such as "The most important point is . . . ," "There are four reasons for . . . ," "The chief reason . . . ," "Of special importance . . . ," "Consequently . . ." When you hear such signal phrases, mark your notes with a ! or *.
- *Take notes in your own words:* Instead of just being a stenographer, try to restate the lecturer's thoughts in your own words, which will make you pay attention more.
- *Ask questions:* By asking questions during the lecture, you necessarily participate in it and increase your understanding.

Review Your Notes Regularly

Make it a point to review your notes regularly—perhaps on the afternoon after the lecture, or once or twice a week. We cannot emphasize enough the importance of this kind of reviewing.

Key Terms Used in This Chapter

artificial intelligence (AI) 15
Big Data 14
cloud computing 14
collaborative computing 15
competitive advantage 11
conceptual skills 23
controlling 10
databases 14
decisional roles 26
e-business 14
e-commerce 14
e-mail 14
effective 5
efficient 5
entrepreneur 29
entrepreneurship 29
first-line managers 19
four management functions 9
functional managers 20
general managers 20
"high-touch" jobs 19
human skills 23
informational roles 26
innovation 12
internal locus of control 31
Internet 14
interpersonal roles 26
intrapreneur 29
knowledge management 15
leading 10
management 5
management process 9
mentor 8
middle managers 19
organization 5
organizing 10
planning 9
project management software 15
social media 14
soft skills 23
start-up 28
sustainability 16
team leaders 20
technical skills 22
telecommute 15
texting 14
top managers 19
videoconferencing 15

Key Points

1.1 Management: What It Is, What Its Benefits Are

- Management is defined as the pursuit of organizational goals *efficiently*, meaning to use resources wisely and cost-effectively, and *effectively* by integrating the work of people through planning, organizing, leading, and controlling the organization's resources.

1.2 What Managers Do: The Four Principal Functions

- The management process, or four management functions, are represented by the abbreviation *POLC.*
- *Planning* is setting goals and deciding how to achieve them.
- *Organizing* is arranging tasks, people, and other resources to accomplish the work.
- *Leading* is motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals.
- *Controlling* is monitoring performance, comparing it with goals, and taking corrective action as needed.

1.3 Seven Challenges to Being an Exceptional Manager

- Managing for competitive advantage, which means an organization must stay ahead in four areas—being responsive to customers, innovating new products or services offering better quality, being more efficient.
- Managing for diversity among different genders, ages, races, and ethnicities.
- Managing for globalization, the expanding universe.
- Managing for computers and telecommunications—information technology.
- Managing for right and wrong, or ethical standards.
- Managing for sustainability.
- Managing for your own happiness and meaningful life goals.

1.4 Pyramid Power: Levels & Areas of Management

- Within an organization, there are managers at four levels.
- *Top managers* make long-term decisions about the overall direction of the organization and establish the objectives, policies, and strategies for it.
- *Middle managers* implement the policies and plans of their superiors and supervise and coordinate the activities of the managers below them.
- *First-line managers* make short-term operating decisions, directing the daily tasks of nonmanagerial personnel.

- *Team leaders* are managers who are responsible for facilitating team activities toward achieving key results.
- There are three types of organizations—for-profit, nonprofit, and mutual benefit.
- *For-profit* organizations are formed to make money by offering products or services.
- *Nonprofit* organizations offer services to some, but not to make a profit.
- *Mutual-benefit* organizations are voluntary collections of members created to advance members' interests.

1.5 The Skills Exceptional Managers Need

- The three skills that exceptional managers cultivate are technical, conceptual, and human.
- *Technical* skills consist of job-specific knowledge needed to perform well in a specialized field.
- *Conceptual* skills consist of the ability to think analytically, to visualize an organization as a whole, and to understand how the parts work together.
- *Human* skills consist of the ability to work well in cooperation with other people in order to get things done.

1.6 Roles Managers Must Play Successfully

- The Mintzberg study shows that, first, a manager relies more on verbal than on written communication; second, managers work long hours at an intense pace; and, third, a manager's work is characterized by fragmentation, brevity, and variety.
- Mintzberg concluded that managers play three broad roles: (1) *interpersonal*—figurehead, leader, and liaison; (2) *informational*—monitor, disseminator, and spokesperson; and (3) *decisional*—entrepreneur, disturbance handler, resource allocator, and negotiator.

1.7 The Link between Entrepreneurship & Management

- Entrepreneurship, a necessary attribute of business, is the process of taking risks to create a new enterprise.
- Two types are the entrepreneur and the intrapreneur.
- The *entrepreneur* sees a new opportunity for a product or service and launches a business to realize it.
- The *intrapreneur* works inside an existing organization and sees an opportunity for a product or service and mobilizes the organization's resources to realize it.
- Entrepreneurs start businesses; managers grow or maintain them. Both (but especially entrepreneurs) have a high need for achievement, high energy level and action orientation, and tolerance for ambiguity. Entrepreneurs are more self-confident and have higher tolerance for risk.

Understanding the Chapter: What Do I Know?

1. What is the difference between being efficient and being effective?
2. What is the formal, three-part definition of management?
3. How would I define the four functions of management?
4. What are the seven challenges of being a manager, and which is the one I will probably most have to worry about during my lifetime?
5. What are the differences among the four levels of managers in the organizational pyramid?
6. How would I distinguish among the three types of organizations?
7. What are the three skills that exceptional managers need to cultivate, and which one do I probably have to work on most?
8. Mintzberg's study in the 1960s came up with three important findings about a manager's routine. What are they, and are they probably still the same today?
9. Mintzberg also found that managers play three important roles. What are they, and what examples can I think of them?
10. Which would I rather be—a manager or an entrepreneur/intrapreneur, and why?

Target CEO Works to Regain Consumer Trust after the Company Was Hacked

Minneapolis—Executives settled around a square table inside a Target Corp. conference room here earlier this month and munched on store-brand snacks as they chewed over something far less appetizing.

Opinion surveys commissioned by the company found that the massive cybertheft that waylaid Target late [in 2013] had knocked confidence and trust in the 51-year-old retailer to an all-time low. . . .

Target was having trouble shaking the fallout from a key decision by Chief Executive Gregg Steinhafel that made the crisis appear even worse than it already was.

The initial evidence had indicated that credit and debit card numbers of about 40 million Target customers had been stolen. But the retailer had learned later that the hackers gained access to partial names and physical or e-mail addresses for as many as 70 million people—a breach that some top executives counseled against disclosing because it was unclear what kind of fraud danger it posed.

Nevertheless, Mr. Steinhafel insisted on making the bigger number public, sparking news reports that as many as 110 million Target customers had been affected.

At the meeting, Chief Marketing Officer Jeffrey Jones groused about the huge number. The public "keeps hearing that equals one-third of all Americans," he said. "That's hammering us."

Mr. Steinhafel says he has no regrets about the aggressive disclosure and other costly decisions in the wake of the crisis. "Target won't be defined by the breach, but how we handle the breach," he says. . . .

The executives acknowledge the crisis has damaged the retailer's bull's-eye brand, while analysts estimate it may cost Target billions of dollars. During the holiday-shopping season, Target's sales and store traffic plummeted. Call-center volume overwhelmed employees. Executives testified before congressional panels, and the company is facing federal and state investigations into how the cybercrime occurred from its store registers and computer network. . . .

Over the two months since the crisis erupted, Mr. Steinhafel, 59 years old, has lurched from one difficult decision to another.

At one point, he proposed in a meeting that Target would provide free credit monitoring and identity-theft insurance for one year to all its customers. Scott Kennedy, a senior executive, asked: "You're saying we will give this to any customer who's ever been in a store, but we aren't checking?"

Mr. Steinhafel nodded.

"Then we're offering this to all Americans," Mr. Kennedy replied.

Target went ahead with that plan.

The breach could wind up costing Target, which notched $73 billion in sales in 2012, a few billion dollars, people familiar with the matter say. . . .

New chip technology to replace magnetic strips on credit cards could cost about $100 million, one executive told Congress. Card-monitoring services for customers could cost tens of millions, according to one executive. Hundreds of millions of marketing dollars could be diverted to repairing the brand. In addition, costs are mounting for reissuing cards, staffing call centers, forensic and data-security units, and lawyers for public inquiries and private lawsuits. . . .

The CEO, who likes to say "retail is detail," is known internally for paying surprise visits to Target stores—there are about 1,800 in the U.S. that drew about 32 million customers a week before the crisis. Store managers say they warn each other to be alert for a man snooping around the aisles, frequently snacking from a box of animal crackers. . . .

Recently, Mr. Steinhafel says, he stopped a manager who was reading e-mail on her cellphone as she passed through Target's downtown Minneapolis headquarters. "Please be in the present," he recalls telling her. . . .

From November 27, the day before Thanksgiving, through December 18, Target executives say, shoppers' payment-card data was captured through "malware" installed in Target's computer network. The hackers had entered the network through a vendor. . . .

The breach got wide publicity. Shoppers clogged Target phone lines and stores. Some sent tweets and e-mails that they would never again shop at Target. On the last weekend before Christmas, the big crowds at Target stores had dwindled.

On December 20, Mr. Jones, the chief marketing officer, urged Mr. Steinhafel to appear in a video on Target's website. The CEO was reluctant. He didn't have a script and was exhausted.

With a camera rolling, Target's public-relations chief, Dustee Jenkins, asked him questions. Mr. Steinhafel, clad in Target's trademark red shirt and khakis store attire, thanked customers for their trust, provided tips to monitor their accounts, and promised zero liability to shoppers for any fraudulent charges.

Mr. Steinhafel began holding twice-daily "status meetings" in a 32nd floor conference room. . . .

Early this month, prompted by the Target data breach, Congress held hearings on cyberattacks. As Mr. Mulligan, the CFO, made his appearances, Mr. Steinhafel and his executive team watched from the company's "situation room."

A Secret Service official testified that the data breach was "highly technical and sophisticated," prompting Mr. Steinhafel to remark: "That shows it's not just our operation. It would be hard for any retailer to withstand this."

At a daily status meeting early this month, Mr. Steinhafel pushed to accelerate to early next year the timeline for Target to replace magnetic strips on its payment cards with a new chip technology widely used in Europe and Canada that is less vulnerable to fraud.

FOR DISCUSSION

1. From a management perspective, do you think Target made any major mistakes? Explain.
2. Which of the four principal managerial functions were exhibited by CEO Greg Steinhafel?
3. Which of the seven managerial challenges discussed in this chapter is Target facing? How are they handling these challenges?
4. What is your evaluation of Steinhafel's ability to effectively execute the three key managerial roles—interpersonal, informational, and decisional? Explain.
5. If you were a consultant to Target, what advice would you give to senior management about handling a crisis like this? Discuss.

Source: Excerpted from Monica Langley, "Inside Target, CEO Struggles to Regain Shoppers' Trust," The Wall Street Journal, *February 19, 2014, pp A1, A10.*

Legal/Ethical Challenge

To Delay or Not to Delay?

You have been hired by a vice president of a national company to create an employee attitude survey, to administer it to all employees, and to interpret the results. You have known this vice president for more than 10 years and have worked for her on several occasions. She trusts and likes you, and you trust and like her. You have completed your work and now are ready to present the findings and your interpretations to the vice president's management team. The vice president has told you that she wants your honest interpretation of the results, because she is planning to make changes based on the results. Based on this discussion, your report clearly identifies several strengths and weaknesses that need to be addressed. For example, employees feel that they are working too hard and that management does not care about providing good customer service. At the meeting you will be presenting the results and your interpretations to a group of 15 managers. You also have known most of these managers for at least 5 years.

You arrive for the presentation armed with slides, handouts, and specific recommendations. Your slides are loaded on the computer, and most of the participants have arrived. They are drinking coffee and telling you how enthused they are about hearing your presentation. You also are excited to share your insights. Ten minutes before the presentation is set to begin, however, the vice president takes you out of the meeting room and says she wants to talk with you about your presentation. The two of you go to another office, and she closes the door. She then tells you that her boss's boss decided to come to the presentation unannounced. She thinks that he is coming to the presentation to look solely for negative information in your report. He does not like the vice president and wants to replace her with one of his friends. If you present your results as planned, it will provide this individual with the information he needs to create serious problems for the vice president. Knowing this, the vice president asks you to find some way to postpone your presentation. You have 10 minutes to decide what to do.

SOLVING THE CHALLENGE

What would you do?

1. Deliver the presentation as planned.
2. Give the presentation but skip over the negative results.
3. Go back to the meeting room and announce that your spouse has had an accident at home and you must leave immediately. You tell the group that you just received this message and that you will contact the vice president to schedule a new meeting.
4. Invent other options. Discuss.

3

The Manager's Changing Work Environment & Ethical Responsibilities

Doing the Right Thing

Major Questions You Should Be Able to Answer

3.1 The Triple Bottom Line: People, Planet, & Profit

Major Question: Is profit the only important goal of a business? What are others?

3.2 The Community of Stakeholders Inside the Organization

Major Question: Stockholders are only one group of stakeholders. Who are the stakeholders important to me inside the organization?

3.3 The Community of Stakeholders Outside the Organization

Major Question: Who are stakeholders important to me outside the organization?

3.4 The Ethical Responsibilities Required of You as a Manager

Major Question: What does the successful manager need to know about ethics and values?

3.5 The Social Responsibilities Required of You as a Manager

Major Question: Is being socially responsible really necessary?

3.6 Corporate Governance

Major Question: How can I trust a company is doing the right thing?

the manager's toolbox

How Do People Excuse Lying & Cheating?

"Students don't just say 'OK I cheated in school, but now I'm in the workplace and it ends here,'" says an Arizona professor of legal and ethical studies. "They are forming bad habits that carry over into the market."[1]

The "Holier-Than-Thou" Effect & Motivated Blindness

Have you ever cheated—had unauthorized help on tests? Or plagiarized—misrepresented others' work as your own? If it's wrong, why do it?

The psychological mechanisms operating here are:

- **The "holier-than-thou" effect.** "People tend to be overly optimistic about their own abilities and fortunes—to overestimate their standing in class, their discipline, their sincerity," suggests science writer Benedict Carey. "But this self-inflating bias may be even stronger when it comes to moral judgment."[2]
- **Motivated blindness.** This is the tendency to overlook information that works against our best interest. "People who have a vested self-interest, even the most honest among us, have difficulty being objective," says one report. "Worse yet, they fail to recognize their lack of objectivity."[3] Motivated blindness enables us to behave unethically while maintaining a positive self-image.[4]

Because of this psychology, cheating and plagiarism have become alarming problems in education, from high school to graduate school.[5] Most students rationalize their behavior by saying "I don't usually do this, but I really have to do it." They would rather cheat, that is, than show their families they got an F.[6]

The Dynamics behind Cheating

Habitual cheating, Carey suggests, "begins with small infractions—illegally downloading a few songs, skimming small amounts from the register, lies of omission on taxes—and grows by increments." As success is rewarded, these "small infractions" can burgeon into an ongoing deliberate strategy of deception or fraud.

How do people rationalize cheating? The justifications are mainly personal and emotional:

- **Cheating provides useful shortcuts.** We constantly make choices "between short- and long-term gains," suggests Carey, "between the more virtuous choice and the less virtuous one." The brain naturally seeks useful shortcuts and so may view low-level cheating as productive.
- **Cheating arises out of resentment.** People often justify lying and cheating because they have resentments about a rule or a boss.[7]
- **Cheating seeks to redress perceived unfairness.** The urge to cheat may arise from a deep sense of unfairness, such as your sense that other people had special advantages.
- **Cheating is to avoid feeling like a chump.** Many people cheat to avoid feeling like a chump—to "not being smart" and "finishing out of the money."

For Discussion How would *you* justify cheating and plagiarism? Is it simply required behavior in order to get through college? ("I'm not going to be a chump.") What do you say to the fact that, as the research shows, students who cheat and thus don't actually do the assigned work are more likely to fail anyway?[8] Do you think you can stop the lying and deception once you're out in the work world?

forecast What's Ahead in This Chapter

The triple bottom line of People, Planet, and Profit represents new standards of success for businesses. This helps define the new world in which managers must operate and their responsibilities, including the community of stakeholders, both internal and external, they must deal with. The chapter also considers a manager's ethical and social responsibilities, as well as the importance of corporate governance.

3.1 The Triple Bottom Line: People, Planet, & Profit

MAJOR QUESTION

Is profit the only important goal of a business? What are others?

THE BIG PICTURE

Many businesses, small and large, are beginning to subscribe to a new standard of success—the triple bottom line, representing People, Planet, and Profit. This outlook has found favor with many young adults (millennials) who are more concerned with finding meaning than material success.

"Profit is a tool," says Judy Wicks, who founded the White Dog Café in Philadelphia 30 years ago. "The major purpose of business is to serve."[9]

In traditional business accounting, the "bottom line" of a revenue-and-expenses statement is the organization's profit (or loss). But in Wicks's view, making money should be only one goal of business. The others are to foster social and environmental consciousness—the two other elements of what's known as the "triple bottom line." **The triple bottom line—representing People, Planet, and Profit (the 3 Ps)—measures an organization's social, environmental, and financial performance.** In this view of corporate performance, an organization has a responsibility to its employees and to the wider community (People), is committed to sustainable (green) environmental practices (Planet), and includes the costs of pollution, worker displacement, and other factors in its financial calculations (Profit). Success in these areas can be measured through **a social audit, a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.**

The White Dog Café, for instance, is known for such social and environmental activities as buying wind-powered electricity, organic produce, and humanely raised meat and poultry, as well as sharing ideas with competitors and opening up its premises for educational forums and speakers. But the triple bottom line isn't just to be practiced by small businesses. As a co-author of *Everybody's Business: The Unlikely Story of How Big Business Can Fix the World* observes, "big businesses can . . . be really powerful, positive engines for social change."[10]

The Millennials' Search for Meaning

The notion of the triple bottom line has particular appeal to many of those in the "millennial" generation, which includes the two parts dubbed Generation Y, born 1977–1989, and Generation Z, born 1990–2000. (The definition of birth years varies.)[11] In Chapter 1, we mentioned that one of the great challenges for a manager is in trying to achieve personal success, whether in striving for a happy life or a meaningful life—or, if possible, both.

"Millennials," write two scholars who have done research in this area, "appear to be more interested in living lives defined by meaning than by what some would call happiness. They report being less focused on financial success than they are on making a difference."[12] In support of this view, one study found that the principal factor young adults ages 21–31 wanted in a successful career was a sense of meaning.[13] Another study found that millennials who came of age during the 2007–2009 Great Recession reported more concern for others and less interest in material goods.[14]

In this chapter, we discuss two factors in achieving a meaningful life:

- Understanding the environment in which a manager operates—the community of stakeholders inside and outside the organization.
- The ethical and social responsibilities of being a manager.

3.2 The Community of Stakeholders Inside the Organization

MAJOR QUESTION

Stockholders are only one group of stakeholders. Who are stakeholders important to me inside the organization?

THE BIG PICTURE

Managers operate in two organizational environments—internal and external—both made up of stakeholders, the people whose interests are affected by the organization. The first, or internal, environment consists of employees, owners, and the board of directors.

In September 2010, a buried Pacific Gas & Electric natural-gas pipeline in the San Francisco–area suburb of San Bruno blew up in a spectacular pillar of fire, killing eight people and destroying 38 homes. "The gas-fed flames burned for more than 90 minutes while PG&E scrambled to find a way to shut off the line," reported the *San Francisco Chronicle.*[15] How did this come about?

To Whom Should a Company Be Responsible?

It turned out that PG&E had relied on gas-leak surveys to determine whether transmission pipelines were safe, but the company's incentive system awarded bonuses to supervisors whose crews found fewer leaks and kept repair costs down.[16] Indeed, the company's own internal audit found the incentives actually *encouraged* crews to produce inaccurate surveys.

An independent audit found that over an 11-year period PG&E collected $430 million more from its gas operations than the government had authorized—and it "chose to use the surplus revenues for general corporate purposes" rather than for improved safety.[17] In fact, in the three years prior to the explosion, the company spent $56 million a year on an incentive plan—stock awards, performance shares, and deferred compensation—for its executives and directors, including millions to the CEO. Despite this sleazy history—which will require the utility to spend $10 billion to test and replace gas lines

San Bruno explosion. This 2010 gas explosion and fire in San Bruno, California, which killed eight people, was linked to utility PG&E's low priority given to pipeline safety and high priority to its "focus on financial performance." What group should a company be most responsible to—stockholders, managers, customers, the public?

and cost a proposed $2.45 billion in penalties—it was unclear, the *Chronicle* said in 2012, "whether PG&E broke any criminal statutes governing its behavior, unless there was fraud."[18] Two years later, however, the utility was indicted on 12 criminal counts, for repeatedly violating the federal Pipeline Safety Act.[19]

Consider: Is a company principally responsible only to its stockholders and executives? Or are other groups equal in significance? Further, is it sufficient that a company simply be legal, as PG&E believes it was?[20] Or, isn't it equally important that it be ethical as well?

Internal & External Stakeholders

Perhaps we need a broader term than "stockholders" to indicate all those with a stake in an organization. That term, appropriately, is **stakeholders—the people whose interests are affected by an organization's activities.**

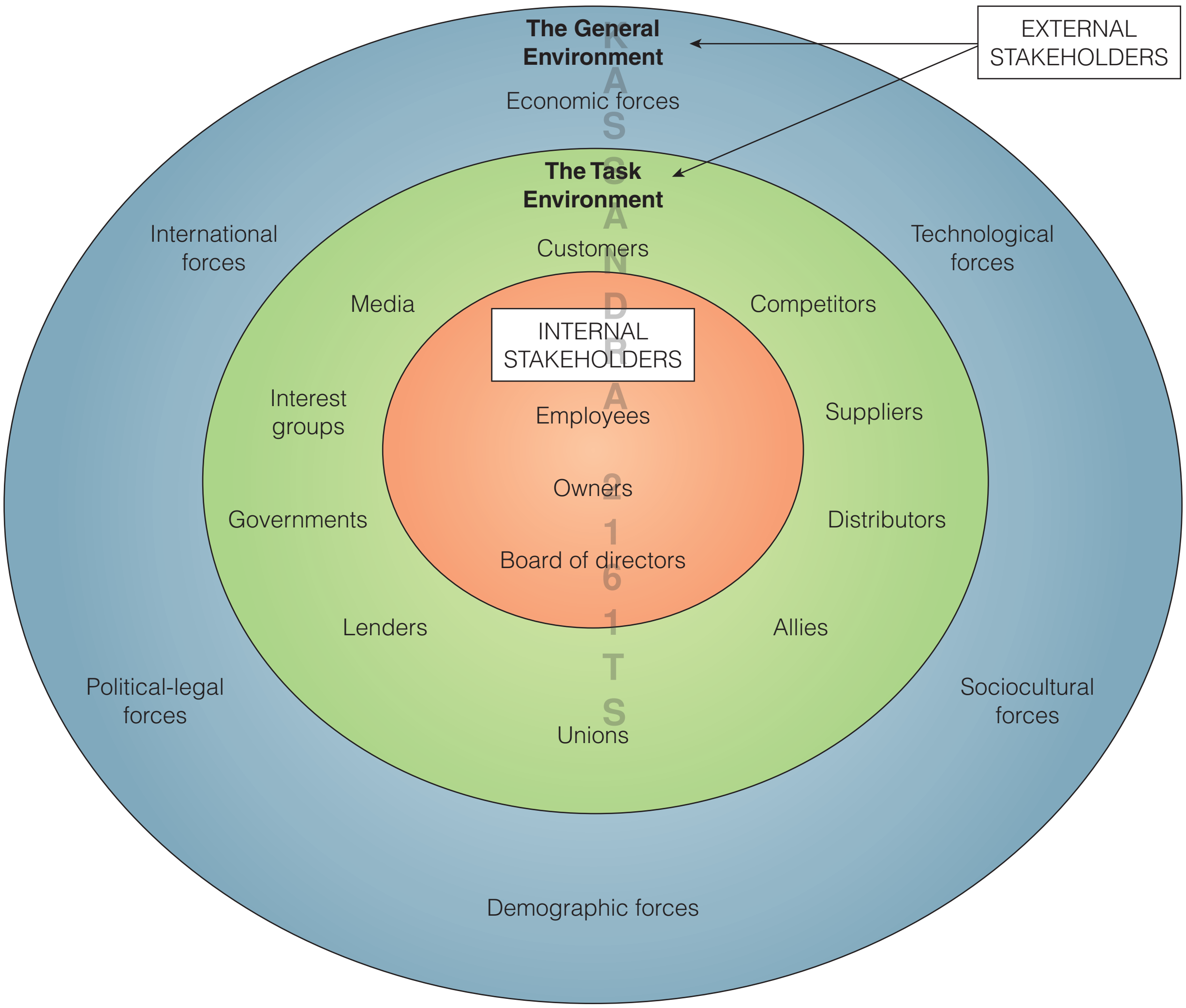
Managers operate in two organizational environments, both made up of various stakeholders. *(See Figure 3.1.)* As we describe in the rest of this section, the two environments are these:

- Internal stakeholders
- External stakeholders

FIGURE 3.1 **The Organization's Environment**

The two main groups are internal and external stakeholders

Source: From Diverse Teams at Work *by Lee Gardenswartz. Reprinted with permission of the Society for Human Resource Management (www.shrm.org), Alexandria, VA. Copyright © 2003, Society for Human Resource Management.*



Internal Stakeholders

Whether small or large, the organization to which you belong has people in it who have an important stake in how it performs. These **internal stakeholders consist of employees, owners, and the board of directors, if any.** Let us consider each in turn.

Employees

As a manager, could you run your part of the organization if you and your employees were constantly in conflict? Labor history, of course, is full of accounts of just that. But such conflict may lower the performance of the organization, thereby hurting everyone's stake. In many of today's forward-looking organizations, employees are considered "the talent"—the most important resource.

"My chief assets drive out the gate every day," says Jim Goodnight, CEO of North Carolina–based SAS. "My job is to make sure they come back."[21] SAS is the world's largest privately held software business and was ranked No. 2 (behind Google) on *Fortune*'s 2014 list of "100 Best Companies to Work For." (It ranked 1, 1, 3, and 2, respectively, in the years 2010–2013.) Even during the Great Recession, when there were six unemployed workers for every available U.S. job opening, SAS continued to treat employees exceptionally well, resulting in a turnover rate of only 2% in 2009, compared with a software industry average of 22%.

Owners

The **owners of an organization consist of all those who can claim it as their legal property,** such as Walmart's stockholders. In the for-profit world, if you're running a one-person graphic design firm, the owner is just you—you're what is known as a sole proprietorship. If you're in an Internet start-up with your brother-in-law, you're both owners—you're a partnership. If you're a member of a family running a car dealership, you're all owners—you're investors in a privately owned company. If you work for a company that is more than half owned by its employees (such as W. L. Gore & Associates, maker of Gore-Tex fabric and No. 22 on *Fortune*'s 2014 "Best Companies to Work For" list, or Lakeland, Florida, Publix Super Markets, No. 75), you are one of the joint owners—you're part of an Employee Stock Ownership Plan (ESOP).[22] And if you've bought a few shares of stock in a company whose shares are listed for sale on the New York Stock Exchange, such as General Motors, you're one of thousands of owners—you're a stockholder. In all these examples, of course, the stated goal of the owners is to make a profit.

Employee ownership. Employees of New Belgium Brewing, maker of Fat Tire ale, raised $500,000 for nonprofits through the bicycling carnival Tour de Fat. The Fort Collins, Colorado, brewer is 100% employee owned, through a device known as an Employee Stock Ownership Plan, in which employees buy company stock in order to become owners. Although the idea was conceived over 50 years ago, there are only about 10,000 ESOPs today out of hundreds of thousands of businesses. Why do you suppose more companies aren't owned by their employees?

Board of Directors

Who hires the chief executive of a for-profit or nonprofit organization? In a corporation, it is the *board of directors,* whose members are elected by the stockholders to see that the company is being run according to their interests. In nonprofit organizations, such as universities or hospitals, the board may be called the *board of trustees* or *board of regents.* Board members are very important in setting the organization's overall strategic goals and in approving the major decisions and salaries of top management.

Not all firms have a board of directors. A lawyer, for instance, may operate as a sole proprietor, making all her own decisions. A large corporation might have eight or so members on its board of directors. Some of these directors (inside directors) may be top executives of the firm. The rest (outside directors) are elected from outside the firm. ●

3.3 The Community of Stakeholders Outside the Organization

MAJOR QUESTION

Who are stakeholders important to me outside the organization?

THE BIG PICTURE

The external environment of stakeholders consists of the task environment and the general environment. The task environment consists of customers, competitors, suppliers, distributors, strategic allies, employee associations, local communities, financial institutions, government regulators, special-interest groups, and the mass media. The general environment consists of economic, technological, sociocultural, demographic, political-legal, and international forces.

In the preceding section we described the environment inside the organization. Here let's consider the environment outside it, which consists of **external stakeholders—people or groups in the organization's external environment that are affected by it.** This environment consists of:

- The task environment.
- The general environment.

The Task Environment

The **task environment consists of 11 groups that present you with daily tasks to handle: customers, competitors, suppliers, distributors, strategic allies, employee organizations, local communities, financial institutions, government regulators, special-interest groups, and mass media.**

1. Customers

The first law of business (and even nonprofits), we've said, is *take care of the customer.* **Customers are those who pay to use an organization's goods or services.** Many customers value service over price, and are generally frustrated by poor customer relations at telecommunications companies, airlines, and social media sites. "In defense of these industries," says one observer, "no one notices them when things go well, but people get outraged when they lose service or get stuck for hours at an airport."[23] On the other hand, he adds, "these industries often don't have to worry about making customers happy" because they have few competitors.

EXAMPLE

Taking Care of Customers: Amazon's Jeff Bezos Obsesses about "the Customer Experience"

Since launching Amazon in 1995, founder and CEO Jeff Bezos has been "obsessed," in his words, with what he calls "the customer experience." Customers "care about having the lowest prices, having vast selection, so they have choice, and getting the products . . . fast," Bezos has said. "And the reason I'm so obsessed with these drivers of the customer experience is that I believe that the success we have had over the past . . . years has been driven exclusively by that customer experience."[24]

"Simple Is Not Easy." Amazon has led the "Hall of Fame" of one online national survey of customer satisfaction four years in a row. The reason? "Amazon has always been very good at being simple, and simple is not easy," says a consultant.[25] The company's user-friendly website, low prices, one-click shopping, free-shipping options, no-hassle returns policy, "and even the sense of community it fosters," says one reporter, "has welcomed some 180 million happy buyers into the fold. Combined, those contented clickers buy an average of 9.6 million items a day."[26]

Detractors. Not every stakeholder finds Amazon so congenial. States have objected to its hardball policies on avoiding taxes on Internet sales. Suppliers grumble about being squeezed. Walk-in retailers have worried as shoppers have deserted them en masse for Amazon e-commerce. Book publishers and sellers have seethed over loss of readers to online order systems and Kindle e-books. And Amazon's own employees have complained about severe workplace rules in the company's 115 distribution centers.[27] For most customers, however, none of this other stuff matters, and Amazon's famed customer service helped the company grow to $74.5 billion in revenues in 2013.

YOUR CALL

Does it matter to you how harshly a company treats other stakeholders so long as it handles its customer relations well? To what extent are Amazon's policies consistent with the triple bottom line?

2. Competitors Is there any line of work you could enter in which there would *not* be **competitors—people or organizations that compete for customers or resources,** such as talented employees or raw materials? Every organization has to be actively aware of its competitors. Owners of florist shops and delicatessens must be aware that customers can buy the same products at Safeway or Kroger.

3. Suppliers A **supplier is a person or an organization that provides supplies—that is, raw materials, services, equipment, labor, or energy—to other organizations.** Suppliers in turn have their own suppliers: The printer of this book buys the paper on which it is printed from a paper merchant, who in turn is supplied by several paper mills, which in turn are supplied wood for wood pulp by logging companies with forests in the United States or Canada.

4. Distributors A **distributor is a person or an organization that helps another organization sell its goods and services to customers.** Publishers of magazines, for instance, don't sell directly to newsstands; rather, they go through a distributor, or wholesaler. Tickets to Maroon Five, Phish, or other artists' performances might be sold to you directly by the concert hall, but they are also sold through such distributors as TicketMaster, LiveNation, and StubHub.

Distributors can be quite important because in some industries (such as movie theaters and magazines) there is not a lot of competition, and the distributor has a lot of power over the ultimate price of the product. However, the popularity of the Internet has allowed manufacturers of cell phones, for example, to cut out the "middleman"—the distributor—and to sell to customers directly.

5. Strategic Allies Companies, and even nonprofit organizations, frequently link up with other organizations (even competing ones) in order to realize strategic advantages. The term **strategic allies describes the relationship of two organizations who join forces to achieve advantages neither can perform as well alone.**

With their worldwide reservation systems and slick marketing, big companies—Hilton, Hyatt, Marriott, Starwood, and so on—dominate the high-end business-center hotels. But in many cities, there are still independents—such as The Rittenhouse in Philadelphia, The Hay-Adams in Washington, DC, and The Adolphus in Dallas—that compete with the chains by promoting their prestigious locations, grand architecture, rich history, and personalized service. In recent years, however, some high-end independents have become affiliated with chains as strategic allies because chains can buy supplies for less and they have more far-reaching sales channels. The 105-year-old U.S. Grant in downtown San Diego, for example, became part of Starwood's Luxury Collection to get better worldwide exposure.

6. Employee Organizations: Unions & Associations As a rule of thumb, labor unions (such as the United Auto Workers or the Teamsters Union) tend to represent hourly workers; professional associations (such as the National Education Association or the Newspaper Guild) tend to represent salaried workers. Nevertheless, during a labor dispute, salary-earning teachers in the American Federation of Teachers might well picket in sympathy with the wage-earning janitors in the Service Employees International Union.

In recent years, the percentage of the labor force represented by unions has steadily declined (from 35% in the 1950s to 11.3% in 2013).[28] Indeed, more than five times as many union members are now public-sector workers compared to private-sector workers, whose unionizing has sharply fallen off, mainly because of recession-related job losses in manufacturing and construction. The composition of the membership has also changed, with 45% of the unionized workforce now female and 38% of union members holding a four-year college degree or more.[29]

7. Local Communities As more educated Gen Yers (ages 18–34) say they want to live in cities, more companies are following them by relocating their headquarters out of suburbia—as has Motorola Mobility, for instance, moving from small town Libertyville, Illinois, to downtown Chicago.[30] Is this a problem? Local communities are obviously important stakeholders, as becomes evident not only when a big organization arrives but also when it leaves, sending government officials scrambling to find new industry to replace it. Schools and municipal governments rely on the organization for their tax base. Families and merchants depend on its employee payroll for their livelihoods. In addition, everyone from the United Way to the Little League may rely on it for some financial support.

If a community gives a company tax breaks in return for the promise of new jobs and the firm fails to deliver, does the community have the right to institute **clawbacks—rescinding the tax breaks when firms don't deliver promised jobs**? But what is a town to do if a company goes bankrupt, as did Hoku Materials, manufacturer of materials for solar panels, after the struggling town of Pocatello, Idaho, gave it numerous concessions?[31]

EXAMPLE

Local Communities as Stakeholders: Are Financial Incentives to Business Really Necessary?

In 2013, only two movies with production budgets higher than $100 million were filmed in Los Angeles. The reason: "successful efforts by a host of states to use tax incentives to poach [movie] production business from California," says one report.[32] The states included Georgia, Louisiana, Nevada, New Mexico, New York, Oregon, and Texas, all seeking the supposed economic benefits film companies bring, such as purchasing supplies from local businesses.[33]

Public Incentives to Private Business. Film productions aren't the only beneficiaries of such government incentives, which may come in the form of cash grants and loans, sales tax breaks, income tax credits and exemptions, free services, and property tax abatements. In San Francisco, tech companies Twitter, Microsoft, Zendesk, Zoosk, and Spotify have sought tax breaks for locating in seedy areas in need of revival.[34] In Arizona, the town of Mesa "offered tax breaks, built power lines, fast-tracked building permits, and got the state to declare a vacant 1.3 million-square-foot plant a foreign trade zone," says one account, to lure Apple Inc. to build a factory employing 700 people.[35] In Connecticut, the government gave sports network ESPN, with headquarters located in Bristol, $260 million in tax breaks and credits over 12 years—just to preclude the highly unlikely possibility the multibillion-dollar conglomerate might want to move elsewhere.[36]

Community stakeholder. Sports network ESPN in Bristol, Connecticut, is located on 123 acres, employs about 4,000 workers, takes in more than $6 billion a year in subscriber fees, and has received millions in government tax incentives. No longer a start-up but a billion-dollar conglomerate, should the company continue to receive state tax subsidies to induce it to stay in Bristol? Or should that money be given to struggling entrepreneurs or provide teacher raises?

"Help Us Help You." Such government inducements are extraordinarily commonplace—but often to the financial detriment of the local community. "A portrait arises," *The New York Times* wrote, "of mayors and governors who are desperate to create jobs, outmatched by multinational corporations, and short on tools to fact-check what companies tell them. Many of the officials said they feared that companies would move jobs overseas if they did not get subsidies in the United States."[37] Although most incentive funds are directed toward manufacturing, followed by agriculture, the oil, gas, and mining sectors are in third place, the film business fourth, and technology companies not far behind.

YOUR CALL

How would you advise local public officials to handle the whole matter of tax incentives for business—especially if they are across the negotiating table from a conglomerate like Royal Dutch Shell or heavy-equipment maker Caterpillar? What obligations should a community expect of the companies located there?

8. Financial Institutions Want to launch a small company? Although normally reluctant to make loans to start-ups, financial institutions—banks, savings and loans, and credit unions—may do so if you have a good credit history or can secure the loan with property such as a house. During the Great Recession, even good customers found loans hard to get. There then emerged a new kind of financing called **crowdfunding, or *crowdsourcing,* raising money for a project or venture by obtaining many small amounts of money from many people ("the crowd"),** as we discuss further in Chapter 10.

Established companies also often need loans to tide them over when revenues are down or to finance expansion, but they rely for assistance on lenders such as commercial banks, investment banks, and insurance companies.

9. Government Regulators The preceding groups are external stakeholders in your organization since they are clearly affected by its activities. But why would **government regulators—regulatory agencies that establish ground rules under which organizations may operate—**be considered stakeholders?

We are talking here about an alphabet soup of agencies, boards, and commissions that have the legal authority to prescribe or proscribe the conditions under which you may conduct business. To these may be added local and state regulators on the one hand and foreign governments and international agencies (such as the World Trade Organization, which oversees international trade and standardization efforts) on the other.

Such government regulators can be said to be stakeholders because not only do they affect the activities of your organization, they are in turn affected by it. The Federal Aviation Agency (FAA), for example, specifies how far planes must stay apart to prevent midair collisions. But when the airlines want to add more flights on certain routes, the FAA may have to add more flight controllers and radar equipment, since those are the agency's responsibility.

10. Special-Interest Groups In recent times, efforts to ban horse-drawn carriages that serve tourists wanting to take in urban sights have spread across the country, from Salt Lake City to Atlanta. In New York City, the 1,200 operators of horse-drawn carriage rides were being pressured by opponents who insisted the horses weren't equipped to handle city noise and traffic, as well as intense summer heat. Spurred by some highly publicized deaths and injuries to horses, many of the complaints came from animal-rights groups, such as People for the Ethical Treatment of Animals (PETA). In New York, however, two-thirds of city voters said they didn't want the bans. Some visitors also said they liked "the clip-clop of the horse's feet."[38]

Special-interest groups are groups whose members try to influence specific issues, some of which may affect your organization. Examples are PETA, Mothers Against Drunk Driving, the National Organization for

Special interests. Fast-food workers demonstrate to demand a $15-an-hour guaranteed wage and the right to union representation.

Women, and the National Rifle Association. Special-interest groups may try to exert political influence, as in contributing funds to lawmakers' election campaigns or in launching letter-writing efforts to officials. Or they may organize picketing and *boycotts*—holding back their patronage—of certain companies. In 2013, some Americans began a boycott of Stolichnaya vodka to protest what they saw as state-sponsored homophobia in Russia—until they learned the vodka was made not in Russia but in Latvia.[39]

11. Mass Media No manager can afford to ignore the power of the mass media—print, radio, TV, and the Internet—to rapidly and widely disseminate news both bad and good. Thus, most companies, universities, hospitals, and even government agencies have a public-relations person or department to communicate effectively with the press. In addition, top-level executives often receive special instruction on how to best deal with the media.

EXAMPLE

Managing the Media: What's the Best Practice for Handling Product Recalls?

Every now and then, a company has to issue a product recall for defective products, but recently there has been almost a "recall sprawl."

Lululemon Athletica was forced to recall some top-selling yoga pants after it found them to be too see-through.[40] Children's car seat makers Graco and Evenflo recalled 4.2 million and 1.4 million child restraints, respectively, because of buckle problems.[41] GlaxcoSmithKline recalled an over-the-counter weight-loss drug after customer complaints about missing labels and possible tampering with seals.[42] The biggest news, however, has been in automobiles—most recently those made by General Motors.

GM's Cobalt Recall. In 2004 (five years before the company's bankruptcy and government takeover), General Motors received the first reports of engines suddenly shutting down in Chevrolet Cobalts, owing to a defective ignition switch, a condition that ultimately led to 13 fatal crashes. It was not until December 2013, however, when Mary Barra (introduced in Chapter 1) was about to become GM chief, that top management was alerted to the problem, proving the adage that the larger an organization gets, the less likely bad news will travel smoothly up the hierarchy.[43] Although government regulators had been alerted in 2007, they did not open an investigation.[44] Barra herself said she had known nothing about the matter prior to becoming CEO.

Barra Steps Up. In 2014, amid a firestorm of consumer criticism, GM issued recalls, for Cobalts and other vehicles, covering 6.3 million cars and trucks.[45] In a move intended to reassure the public that GM had become more trustworthy and less bureaucratic and arrogant since it emerged from bankruptcy, Barra also testified before a congressional committee, but "her measured, carefully worded responses only seemed to inflame senators," says one report.[46]

On the other hand, Barra has met with families of people killed in Cobalt accidents, something old GM managers would not have done. She also ordered an internal investigation to find out why GM failed to fix a safety defect for more than a decade.[47]

The Gold Standard. What is a company supposed to do when it has a public relations disaster? The gold standard in brand crisis management is the path followed by health products company Johnson & Johnson in 1982, after several consumers died from taking tainted Tylenol pills. J&J responded in a way that has become the preferred strategy taught in business schools, according to one account: "Communicate clearly with the public about a crisis, cooperate with government officials, swiftly begin its own investigation of a problem, and, if necessary, quickly institute a product recall."[48] A big part of the strategy is communicating honestly and frequently through the media.

YOUR CALL

For GM, "Mary Barra seems to fully embody the position of the CEO who is sorry," says business ethics professor Amy Sepinwall. "She recognizes that she has to pass on the [corporation's] deepest regrets, and I think she's been pretty convincing on that score."[49] Do you agree? What else should she have done?

The General Environment

Beyond the task environment is the **general environment, or macroenvironment, which includes six forces: economic, technological, sociocultural, demographic, political-legal, and international.**

You may be able to control some forces in the task environment, but you can't control those in the general environment. Nevertheless, they can profoundly affect your organization's task environment without your knowing it, springing nasty surprises on you. Clearly, then, as a manager you need to keep your eye on the far horizon because these forces of the general environment can affect long-term plans and decisions.

1. Economic Forces

Economic forces consist of the general economic conditions and trends—unemployment, inflation, interest rates, economic growth—that may affect an organization's performance. These are forces in your nation and region and even the world over which you and your organization probably have no control, as happened in the Great Recession and its aftermath.

Are banks' interest rates going up in the United States? Then it will cost you more to borrow money to open new stores or build new plants. Is your region's unemployment rate rising? Then maybe you'll have more job applicants to hire from, yet you'll also have fewer customers with money to spend. (A record 46 million Americans are presently considered poor; the poverty rate has fallen only to 15% from 19% in two generations.)[50] Are natural resources getting scarce in an important area of supply? Then your company will need to pay more for them or switch to alternative sources.

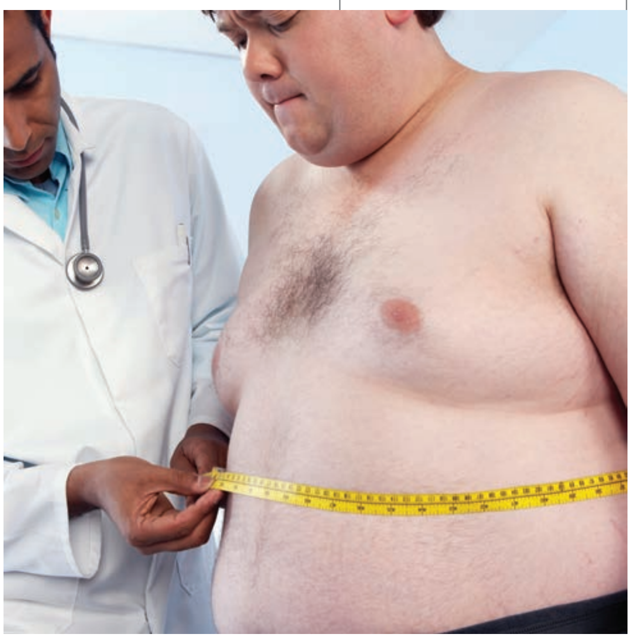
One indicator that managers often pay attention to is productivity growth. Rising productivity leads to rising profits, lower inflation, and higher stock prices. In recent times, companies have been using information technology to cut costs, resulting in productivity growing at an annual rate of 2.7% from 2001 to 2007, slumping to 1.2% in the recession year 2008, then roaring back to 3.9% in 2010 and 2.8% in 2011, and slipping to 1.8% in 2012 and 2013.[51] Aided by technology, U.S. manufacturing has actually surged 40.4% since 2001, although manufacturing jobs have declined.[52]

2. Technological Forces

Technological forces are new developments in methods for transforming resources into goods or services. For example, think what the United States would have been like if the elevator, air-conditioning, the combustion engine, and the airplane had not been invented. No doubt changes in computer and communications technology—especially the influence of the Internet—will continue to be powerful technological forces during your managerial career. But other technological currents may affect you as well.

For example, biotechnology may well turn health and medicine upside down in the coming decades. Researchers can already clone animals, and some reports say they are close to doing the same with humans.

Sociocultural forces. The U.S. obesity rate is one of those sociocultural forces capable of altering entire industries. Which ones do you think would be most affected?



3. Sociocultural Forces

Americans are driving less, more households are without vehicles, and young people are evincing a lack of interest in cars—causing deep worry in the auto industry.[53] Long an American rite of passage, the act of getting a driver's license at age 16 is no longer as popular as it was and is on the wane among the digital generation. In other words, Facebook, Twitter, and other social media are altering long-standing sociocultural patterns.

Sociocultural forces are influences and trends originating in a country's, a society's, or a culture's human relationships and values that may affect an organization. Seismic changes are occurring in Americans' views about sociocultural issues, recent polls show: 86% in approval of interracial marriage in 2011 (versus 48% in 1991), 55% in favor of same-sex marriage in 2013 (versus 27% in 1996), 52% supporting legalization of marijuana in 2013 (versus 12% in 1969), and so on.[54]

Entire industries have been rocked when the culture underwent a lifestyle change, most notably changes in approaches to health. Diet sodas, for instance, have gone through a nearly decade-long decline, causing major concerns for Coca-Cola and PepsiCo, because more Americans worry that artificial sweeteners are unhealthy, despite numerous studies that find them safe.[55] Some killer diseases, such as measles, whooping cough, and meningitis, are creeping back because of an anti-vaccine movement based on philosophical and religious exemptions.[56] Recently, with more attention focused on the epidemic of obesity, there has been some turnaround, with Americans consuming fewer calories and cutting back on fast food, cholesterol, and fat.[57]

4. Demographic Forces

Demographics derives from the ancient Greek word for "people"—*demos*—and deals with statistics relating to human populations. Age, gender, race, sexual orientation, occupation, income, family size, and the like are known as demographic characteristics when they are used to express measurements of certain groups. **Demographic forces are influences on an organization arising from changes in the characteristics of a population, such as age, gender, or ethnic origin.**

Among recent changes: marriage rates are down, more couples are marrying later, black-white and same-sex marriages are increasing, one-person households are growing, the decline in fertility rates is leveling off, divorce rates are down, secularism (being nonreligious) is up, more households are multigenerational, and the percentage of people living in rural areas is the lowest ever.[58] By 2050, it's predicted, the U.S. population will soar to 401 million (from about 317 million today), and minorities are expected to exceed 50% of the population by around 2043.[59]

5. Political-Legal Forces

Political-legal forces are changes in the way politics shape laws and laws shape the opportunities for and threats to an organization. In the United States, whatever political view tends to be dominant at the moment may be reflected in how the government handles antitrust issues, in which one company tends to monopolize a particular industry. Should Comcast and Time Warner Cable, for instance, be allowed to merge and have a dominant share of the pay-TV market?

As for legal forces, some countries have more fully developed legal systems than others. And some countries have more lawyers per capita. (The United States reportedly has more lawyers per person in its population than any of 29 countries studied except Greece.)[60] American companies may be more willing to use the legal system to advance their interests, as in suing competitors to gain competitive advantage. But they must also watch that others don't do the same to them.

6. International Forces

International forces are changes in the economic, political, legal, and technological global system that may affect an organization.

This category represents a huge grab bag of influences. How does the economic integration of the European Union create threats and opportunities for American companies? U.S. companies that do significant business in Europe are subject to regulation by the European Union. For instance, in a three-year antitrust case, several companies in Europe were able to get Google to change the way it displays its search results, after they complained that, as one consumer rights advocacy group stated, Google could "stack its search results as suits itself."[61] We consider global concerns in Chapter 4.

How well Americans can handle international forces depends a lot on their training. Unfortunately, only 18% of Americans report speaking a language other than English, whereas 53% of Europeans, for example, can converse in a second language.[62] One writer suggests U.S. companies should hire more key managers whose native language isn't English because "research shows that we behave more rationally when we think in another language"—that is, it reduces biases in decision making.[63]

3.4 The Ethical Responsibilities Required of You as a Manager

MAJOR QUESTION

What does the successful manager need to know about ethics and values?

THE BIG PICTURE

Managers need to be aware of what constitutes ethics, values, the four approaches to ethical dilemmas, and how organizations can promote ethics.

Would you take supplies from the office supply closet on leaving a job? (Twenty-six percent of workers said they would, 74% said they wouldn't, in one survey.)[64] That may be an easy decision. But how would you handle a choice between paying a client money under the table in order to land a big contract, for example, and losing your job? That's a much harder matter.

In business, choosing between *economic performance* and *social performance* is what most ethical conflicts are about.[65] This is known as an **ethical dilemma, a situation in which you have to decide whether to pursue a course of action that may benefit you or your organization but that is unethical or even illegal.**

Defining Ethics & Values

Seventy-three percent of American employees working full time say they have observed ethical misconduct at work, and 36% have been "distracted" by it.[66] Most of us assume we know what "ethics" and "values" mean, but do we? Let's consider them.

Ethics

Ethics are the standards of right and wrong that influence behavior. These standards may vary among countries and among cultures. **Ethical behavior is behavior that is accepted as "right" as opposed to "wrong" according to those standards.**

What are the differences among a tip, a gratuity, a gift, a donation, a commission, a consulting fee, a kickback, a bribe? Regardless of the amount of money involved, each one may be intended to reward the recipient for providing you with better service, either anticipated or performed.

Sunshine on gifts. Some doctors say that medicine changes so rapidly that they rely on drug companies and fellow M.D.'s to keep them up to date, as through presentations at medical society dinners financed by pharmaceutical companies. However, the Physician Payments Sunshine Act now requires that pharmaceutical companies report meals, travel expenses, grants, lecture fees, drug samples, and other gifts to physicians. Do you think such disclosures are necessary?

For years, pharmaceutical companies have provided doctors with small gifts—pads with logos, tickets to sports events, free drug samples—to promote their drugs. However, in recent years, points out one editorial, "those trinkets have evolved into big money for doctors to speak to other doctors about new drugs," as in presentations at dinner lectures.[67] What if the drug makers' strategy, as some critics accuse, is to use such methods even to expand the whole concept of high blood pressure or attention deficit disorder so as to increase the pool of people taking medications?[68] Because of such concerns, a Sunshine Act provision was written into the Affordable Care Act, requiring drug companies to report payments to individual doctors.[69]

Values

Ethical dilemmas often take place because of an organization's **value system, the pattern of values within an organization. Values are the relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior,** such as the belief that "Fairness means hiring according to ability, not family background." Values and value systems are the underpinnings for ethics and ethical behavior.

Organizations may have two important value systems that can conflict: (1) the value system stressing financial performance versus (2) the value system stressing cohesion and solidarity in employee relationships.[70]

Four Approaches to Deciding Ethical Dilemmas

How do alternative values guide people's decisions about ethical behavior? Here are four approaches, which may be taken as guidelines:

1. The Utilitarian Approach: For the Greatest Good

Ethical behavior in the **utilitarian approach is guided by what will result in the greatest good for the greatest number of people.** Managers often take the utilitarian approach, using financial performance—such as efficiency and profit—as the best definition of what constitutes "the greatest good for the greatest number."[71]

Thus, a utilitarian "cost-benefit" analysis might show that in the short run the firing of thousands of employees may improve a company's bottom line and provide immediate benefits for the stockholders. The drawback of this approach, however, is that it may result in damage to workforce morale and the loss of employees with experience and skills—actions not so readily measurable in dollars.

2. The Individual Approach: For Your Greatest Self-Interest Long Term, Which Will Help Others

Ethical behavior in the **individual approach is guided by what will result in the individual's best *long-term* interests, which ultimately are in everyone's self-interest.** The assumption here is that you will act ethically in the short run to avoid others harming you in the long run.

The flaw here, however, is that one person's short-term self-gain may *not,* in fact, be good for everyone in the long term. After all, the manager of an agribusiness that puts chemical fertilizers on the crops every year will always benefit, but the fishing industries downstream could ultimately suffer if chemical runoff reduces the number of fish. Indeed, this is one reason why Puget Sound Chinook, or king salmon, are now threatened with extinction in the Pacific Northwest.[72]

3. The Moral-Rights Approach: Respecting Fundamental Rights Shared by Everyone

Ethical behavior in the **moral-rights approach is guided by respect for the fundamental rights of human beings,** such as those expressed in the U.S. Constitution's Bill of Rights. We would all tend to agree that denying people the right to life, liberty, privacy, health and safety, and due process is unethical. Thus, most of us would have no difficulty condemning the situation of immigrants illegally brought into the United States and then effectively enslaved—as when made to work 7 days a week as maids.

The difficulty, however, is when rights are in conflict, such as employer and employee rights. Should employees on the job have a guarantee of privacy? Actually, it is legal for employers to listen to business phone calls and monitor all nonspoken personal communications.[73]

4. The Justice Approach: Respecting Impartial Standards of Fairness Ethical behavior in the **justice approach** **is guided by respect for impartial standards of fairness and equity.** One consideration here is whether an organization's policies—such as those governing promotions or sexual harassment cases—are administered impartially and fairly regardless of gender, age, sexual orientation, and the like.

Fairness can often be a hot issue. For instance, many employees are loudly resentful when a corporation's CEO is paid a salary and bonuses worth hundreds of times more than what they receive—even when the company performs poorly—and when fired is then given a "golden parachute," or extravagant package of separation pay and benefits.

White-Collar Crime, SarbOx, & Ethical Training

At the beginning of the 21st century, U.S. business erupted in an array of scandals represented in such names as Enron, WorldCom, Tyco, and Adelphia, and their chief executives—Jeffrey Skilling, Bernard Ebbers, Dennis Kozlowski, and John Rigas—went to prison on various fraud convictions. Executives' deceits generated a great deal of public outrage, as a result of which Congress passed the Sarbanes–Oxley Act, as we'll describe. Did that stop the raft of business scandals? Not quite.

Next to hit the headlines were cases of **insider trading, the illegal trading of a company's stock by people using confidential company information.** In 2004, Sam Waksal, CEO of ImClone, a biotechnology company, sold his shares of stock when he learned—before the news was made public—that the U.S. government was blocking ImClone's new cancer drug. For this act of insider trading, he ultimately was sentenced to 87 months in prison and fined $3 million. (This was the case that affected lifestyle guru Martha Stewart, who also went to prison.) In 2011, billionaire hedge-fund manager Raj Rajaratnam was sentenced to 11 years in prison for trading on tips from persons at companies who slipped him advance word on inside information.[74] In 2014, Mathew Martoma, a former portfolio manager at SAC Capital Advisors, went on trial for insider trading for using confidential information about an experimental Alzheimer's drug.[75] There were even cases in which two San Francisco Bay Area men were accused by federal authorities of doing insider trading because they traded stocks using confidential information gleaned from listening to their wives' phone conversations.[76]

Ponzi schemer. Phony financier R. Allen Stanford on the day of his sentencing to 110 years in prison without parole for masterminding a $7 billion Ponzi scheme involving fraudulent high-interest certificates of deposit at his Caribbean bank. A federal prosecutor said Allen was "utterly without remorse" and "treated all his victims as roadkill." The 28,000 Stanford victims received less than one penny on the dollar in attempting to recover their investments.

Also there was the shocking news of financier Bernard Madoff, who confessed to a $50 billion **Ponzi scheme, using cash from newer investors to pay off older ones.**[77] He was sentenced to 150 years in prison.[78] Another convicted of creating a Ponzi scheme was Texas financier R. Allen Stanford, who built a flashy offshore $7 billion financial empire; he was sentenced to 110 years in prison in 2012.[79]

The Sarbanes–Oxley Reform Act The **Sarbanes–Oxley Act of 2002, often shortened to *SarbOx,* or *SOX,* established requirements for proper financial record keeping for public companies and penalties of as much as 25 years in prison for noncompliance.**[80] Administered by the Securities and Exchange Commission, SarbOx requires a company's chief executive officer and chief financial officer to personally certify the organization's financial reports, prohibits them from taking personal loans or lines of credit, and makes them reimburse the organization for bonuses and stock options when required by restatement of corporate profits. It also requires the company to have established procedures and guidelines for audit committees.[81]

How Do People Learn Ethics? Kohlberg's Theories American business history is permeated with occasional malfeasance, from railroad tycoons trying to corner the gold market (the 1872 Crédit Mobilier scandal) to 25-year-old bank customer service representatives swindling elderly customers out of their finances. Legislation such as SarbOx can't head off all such behavior. No wonder that now many colleges and universities have required more education in ethics.

"Schools bear some responsibility for the behavior of executives," says Fred J. Evans, dean of the College of Business and Economics at California State University at Northridge. "If you're making systematic errors in the [business] world, you have to go back to the schools and ask, 'What are you teaching?'"[82] The good news is that high school students are lying, cheating, and stealing less than they did a decade earlier.[83] In addition, more graduate business schools are changing their curriculums to teach ethics.[84] The bad news, however, is that a 2006 survey of 50,000 undergraduates found that 26% of business majors admitted to serious cheating on exams, and 54% admitted to cheating on written assignments.[85] Another survey of 5,331graduate students at 32 universities found that 56% of the graduate business students and 47% of nonbusiness graduate students admitted to cheating one or more times during the preceding year.[86]

Of course, most students' levels of moral development are established by personalities and upbringing long before they get to college, with some being more advanced than others. One psychologist, **Laurence Kohlberg,** has proposed three levels of personal moral development—preconventional, conventional, and postconventional.[87]

- **Level 1, preconventional—follows rules.** People who have achieved this level tend to follow rules and to obey authority to avoid unpleasant consequences. Managers of the Level 1 sort tend to be autocratic or coercive, expecting employees to be obedient for obedience's sake.
- **Level 2, conventional—follows expectations of others.** People whose moral development has reached this level are conformist but not slavish, generally adhering to the expectations of others in their lives. Level 2 managers lead by encouragement and cooperation and are more group and team oriented. Most managers are at this level.
- **Level 3, postconventional—guided by internal values.** The farthest along in moral development, Level 3 managers are independent souls who follow their own values and standards, focusing on the needs of their employees and trying to lead by empowering those working for them. Only about a fifth of American managers are said to reach this level.

What level of development do you think you've reached?

How Organizations Can Promote Ethics

Ethics needs to be an everyday affair, not a one-time thing. This is why many large U.S. companies now have a *chief ethics officer,* whose job is to make ethical conduct a priority issue.

There are several ways an organization may promote high ethical standards on the job, as follows.[88]

1. Creating a Strong Ethical Climate An **ethical climate represents employees' perceptions about the extent to which work environments support ethical behavior.** It is important for managers to foster ethical climates because they significantly affect the frequency of ethical behavior. Managers can promote ethical climates through the policies, procedures, and practices that are used on a daily basis.

2. Screening Prospective Employees Companies try to screen out dishonest, irresponsible employees by checking applicants' resumes and references. Some firms, for example, run employee applications through E-Verify, a federal program that allows employers to check for illegal immigrants. Some also use personality tests and integrity testing to identify potentially dishonest people.

3. Instituting Ethics Codes & Training Programs A **code of ethics consists of a formal written set of ethical standards guiding an organization's actions.** Most codes offer guidance on how to treat customers, suppliers, competitors, and other stakeholders. The purpose is to clearly state top management's expectations for all employees. As you might expect, most codes prohibit bribes, kickbacks, misappropriation of corporate assets, conflicts of interest, and "cooking the books"—making false accounting statements and other records. Other areas frequently covered in ethics codes are political contributions, workforce diversity, and confidentiality of corporate information.

In addition, according to a Society for Human Resource Management Weekly Survey, 32% of human resources professionals indicated that their organizations offered ethics training.[89] The approaches vary, but one way is to use a case approach to present employees with ethical dilemmas. By clarifying expectations, this kind of training may reduce unethical behavior.[90]

4. Rewarding Ethical Behavior: Protecting Whistle-Blowers It's not enough to simply punish bad behavior; managers must also reward good ethical behavior, as in encouraging (or at least not discouraging) whistle-blowers.

A **whistle-blower is an employee, or even an outside consultant, who reports organizational misconduct to the public,** such as health and safety matters, waste, corruption, or overcharging of customers.[91] For instance, the law that created the Occupational Safety and Health Administration allows workers to report unsafe conditions, such as "exposure to toxic chemicals; the use of dangerous machines, which can crush fingers; the use of contaminated needles, which expose workers to the AIDS virus; and the strain of repetitive hand motion, whether at a computer keyboard or in a meatpacking plant."[92] In some cases, whistle-blowers may receive a reward; the IRS, for instance, is authorized to pay tipsters rewards as high as 30% in cases involving large amounts of money.[93]

True whistle-blowing involves acts that are against the law. However, the principal kinds of misconduct reported in one study—misuse of company time, abusive behavior, and lying to employees—aren't necessarily illegal, although they may create an offensive work environment, the leading reason people leave their jobs.[94] Retaliation against whistle-blowers is also on the rise, ranging from giving them the cold shoulder to passing them over for promotion.

In exposing unethical behavior, then, it's important to be clear why you're doing it (trying to help the company or just get someone in trouble), not report something for the wrong reason (discuss your concerns with someone who has similar values), and follow proper channels (like addressing the supervisor of the supposed culprit). Don't try to report externally (lashing out on Facebook, for instance) without speaking to those who might resolve the problem.[95]

Have you ever thought about blowing the whistle on something you thought was unethical or illegal? Yes or no, your decision was guided in part by your own moral standards or ethical identity. We created the following self-assessment to aid your awareness about your propensity to expose unethical or illegal acts. ●

SELF-ASSESSMENT 3.1

Assessing Your Ethical Ideology

This survey is designed to assess your ethical ideology. Go to **connect.mheducation.com** and take Self-Assessment 3.1. When you're done, answer the following questions:

1. Where do you stand in terms of idealism and relativism? Are you surprised by the results?
2. Based on your two lowest-scored items for idealism and relativism, what beliefs are getting in the way of increasing your ethical ideology?
3. How might a low ethical ideology impact your career? How about a high ethical ideology?

3.5 The Social Responsibilities Required of You as a Manager

MAJOR QUESTION

Is being socially responsible really necessary?

THE BIG PICTURE

Managers need to be aware of the viewpoints supporting and opposing social responsibility and whether being and doing good pays off financially for the organization.

The slow economic recovery from the Great Recession has had a powerful impact on today's college freshmen, with 86.3% in 2013 declaring that getting "a better job" is the top reason for going to college, the principal goal of freshmen for the past five years. (The second most cited reason, at 81.6%, was "to learn more about things that interest me," which held the top spot for the first half of the past decade.)[96] But is money the be-all and end-all in business? This is the concern behind the triple bottom line discussed earlier (p. 72).

If ethical responsibility is about being a good individual citizen, social responsibility is about being a good organizational citizen. More formally, **social responsibility is a manager's duty to take actions that will benefit the interests of society as well as of the organization.** When generalized beyond the individual to the organization, social responsibility is called **corporate social responsibility (CSR), the notion that corporations are expected to go above and beyond following the law and making a profit.**

Corporate Social Responsibility: The Top of the Pyramid

According to University of Georgia business scholar **Archie B. Carroll,** corporate social responsibility rests at the top of a pyramid of a corporation's obligations, right up there with economic, legal, and ethical obligations. Some people might hold that a company's first and only duty is to make a profit. However, Carroll suggests the responsibilities of an organization in the global economy should take the following priorities, with profit being the most fundamental (base of the pyramid) and corporate citizenship at the top:[97]

- *Be a good global corporate citizen,* as defined by the host country's expectations.
- *Be ethical in its practices,* taking host-country and global standards into consideration.
- *Obey the law* of host countries as well as international law.
- *Make a profit* consistent with expectations for international business.

These priorities are illustrated in the pyramid opposite. *(See Figure 3.2.)*

Is Social Responsibility Worthwhile? Opposing & Supporting Viewpoints

In the old days of cutthroat capitalism, social responsibility was hardly thought of. A company's most important goal was to make money pretty much any way it could, and the consequences be damned. Today for-profit enterprises generally make a point of "putting something back" into society as well as taking something out.

FIGURE 3.2 **Carroll's global corporate social responsibility pyramid**

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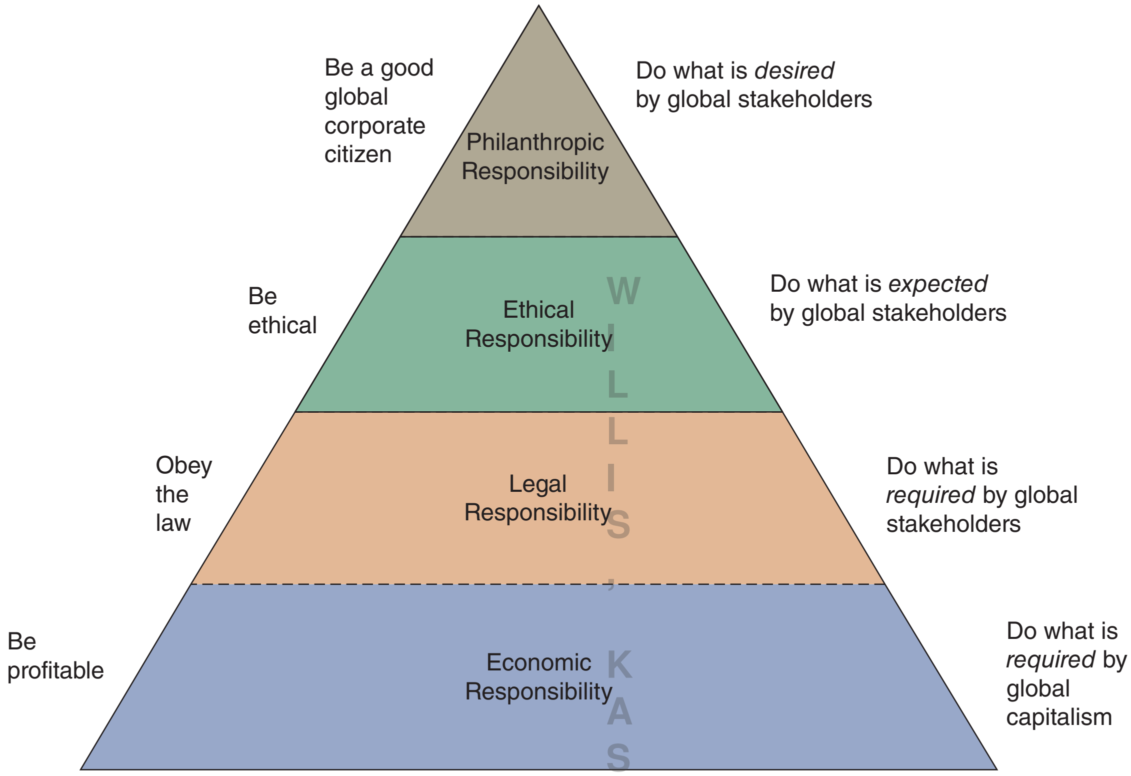

Not everyone, however, agrees with these new priorities. Let's consider the two viewpoints.

Against Social Responsibility "Few trends could so thoroughly undermine the very foundations of our free society," argued the late free-market economist Milton Friedman, "as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible."[98]

Friedman represents the view that, as he said, "The social responsibility of business is to make profits." That is, unless a company focuses on maximizing profits, it will become distracted and fail to provide goods and services, benefit the stockholders, create jobs, and expand economic growth—the real social justification for the firm's existence.

This view would presumably support the efforts of companies to set up headquarters in name only in offshore Caribbean tax havens (while keeping their actual headquarters in the United States) in order to minimize their tax burden.

For Social Responsibility "A large corporation these days not only may engage in social responsibility," said famed economist Paul Samuelson, who passed away in 2009, "it had damned well better to try to do so."[99] That is, a company must be concerned for society's welfare as well as for corporate profits.

Beyond the fact of ethical obligation, the rationale for this view is that since businesses create problems (environmental pollution, for example), they should help solve them. Moreover, they often have the resources to solve problems in ways that the nonprofit sector does not. Finally, being socially responsible gives businesses a favorable public image that can help head off government regulation.

EXAMPLE

Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works

There are all kinds of ways by which corporate social responsibility is expressed. Salesforce.com, a San Francisco business software company, supports all the following four.[100]

Operating with Integrity. Salesforce.com has adopted Business Conduct Principles and a Code of Conduct that, among other things, support ethical business practices, anticorruption, antidiscrimination, and rejection of forced or involuntary labor.

"1/1/1" Charitable Giving. When founder and CEO Marc Benioff set up Salesforce.com in 1999, he also created a foundation with a powerful but simple vision: donate 1% of Salesforce.com resources, 1% of employees' time, and 1% of the firm's technology to improving communities around the world.

Journey toward Sustainability. Although Salesforce.com does no manufacturing or mineral extraction, it still strives to reduce carbon emissions in the operation of its data centers and office buildings, as well as in employee travel.

Fostering Employee Success. At Salesforce.com, says the company, "our goal is to deliver a dreamjob experience for our employees. We are intense, passionate people on a mission to change the way the world works."

YOUR CALL

Do you believe corporate social responsibility really has benefits? Can you think of any highly profitable and legal businesses that *do not* practice any kind of social responsibility?

One Type of Social Responsibility: Climate Change, Sustainability, & Natural Capital

Nearly everyone is aware of the growing threat of climate change and global warming, which the vast majority (75%) of Americans agree is real, serious, and man-made.[101] (Scientists say global warming is "unequivocal" and that it is extremely likely that humans are the primary contributors to it."[102]) **Climate change refers to major changes in temperature, precipitation, wind patterns, and similar matters occurring over several decades. Global warming, one aspect of climate change, refers to the rise in global average temperature near the Earth's surface, caused mostly by increasing concentrations in the atmosphere of greenhouse gases, such as carbon emissions from fossil fuels.**[103] *Sustainability,* as we said in Chapter 1, is economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

The Benefits of Being Green

"Coca-Cola has always been more focused on its economic bottom line than on global warming," writes reporter Coral Davenport. But "as global droughts dried up the water needed to produce its soda," its profits took some serious hits. Now the company "has embraced the idea of climate change as an economically disruptive force," she writes, and is focused on water-conservation technologies, along with other sustainability measures.[104]

Today going green has entered the business mainstream, where sustainability programs are producing not only environmental benefits but also cost savings, revenue growth, and competitive advantages.[105] Car maker Subaru of Indiana Automotive, for example, has proved that adopting environmentally friendly processes does not add to the cost of doing business but actually makes it more efficient (reducing water use by 50%, electricity by 14%, and so on).[106] Dow Chemical, collaborating with the Nature Conservancy, an environmental group, is exploring coastal marsh and dune restoration (and paying nearby homeowners to replace lawns with native plants) to shield its Freeport, Texas, chemical complex from storm surges coming off the Gulf of Mexico.[107]

The Value of Earth's Resources: Natural Capital Indeed, Planet (of the triple bottom line People, Planet, and Profit) is now identified by the name *natural capital* (or *natural capital accounting*), which many scholars think should figure seriously in economic decision making. **Natural capital is the value of natural resources, such as topsoil, air, water, and genetic diversity, which humans depend on.** "We're driving natural capital to its lowest levels ever in human history," says Stanford University ecologist Gretchen Daily.[108]

According to this view, we are approaching the planet's limitations, with human activity threatening to exceed the earth's capacity to generate resources and absorb wastes. For example, the mountain of electrical waste disposed of annually worldwide—cell phones, laptops, appliances, anything with a battery or a cord—is forecast to grow by a third by 2017.[109] One United Nations report suggests climate change poses a risk to world food supplies, with output dropping perhaps 2% each decade, as rising temperatures make it harder for crops to thrive.[110] The report also warns that waiting to cut carbon emissions could even outstrip technology's ability to preserve the planet.[111] Alarming predictions indeed.

Green power. Many electricity users can run their homes on renewable energy simply by asking their local utility.

Another Type of Social Responsibility: Philanthropy, "Not Dying Rich"

"He who dies rich dies thus disgraced," 19th-century steel magnate Andrew Carnegie is supposed to have said, after he turned his interests from making money to **philanthropy, making charitable donations to benefit humankind.** Carnegie became well known as a supporter of free libraries.

When Bill Gates of Microsoft, the richest person in the world for 15 of the last 20 years (present net worth: $72 billion), stepped down from day-to-day oversight of Microsoft, the company he co-founded, he turned his attention to the Bill and Melinda Gates Foundation, through which he and his wife have pledged to spend billions on health, education, and overcoming poverty.[112] The Gateses have been joined by other billionaires—Facebook founder Mark Zuckerberg and his wife (the most generous American philanthropists in 2013), oil and gas financier T. Boone Pickens, Berkshire Hathaway chairman Warren Buffett, and others—in taking the Giving Pledge, a commitment to dedicate a majority of their wealth to philanthropy.[113]

Not only do wealthy individuals and companies practice philanthropy, so even do ordinary individuals. Mona Purdy, an Illinois hairdresser, noticed while vacationing in Guatemala that many children coated their feet with tar in order to be able to run in a local race. So she went home and established the nonprofit Share Your Soles, which collects shoes and sends them around the world. "I always thought I was too busy to help others," she says. "Then I started this and found myself wondering where I'd been all my life."[114]

How Does Being Good Pay Off?

From a hardheaded manager's point of view, does ethical behavior and high social responsibility pay off financially? Here's what some of the research shows.[115]

Effect on Customers According to one survey, 88% of the respondents said they were more apt to buy from companies that are socially responsible than from companies that are not.[116] Another survey of 2,037 adults found that 72% would prefer to purchase products and services from a company with ethical business practices and higher prices compared with 18% who would prefer to purchase from a company with questionable business practices and lower prices.[117]

Effect on Employees' Work Effort Workers are more efficient, loyal, and creative when they feel a sense of purpose—when their work has meaning, says Daniel H. Pink.[118] When employers make profits their primary focus, employees develop negative feelings toward the organization. "They tend to perceive the CEO as autocratic and focused on the short term," says one report, "and they report being less willing to sacrifice for the company."[119] When employees observe the CEO balancing the concerns of customers, employees, and the community, plus being watchful of environmental effects, they report being more willing to exert extra effort—and corporate results improve![120]

Effect on Job Applicants & Employee Retention Ethics can also affect the quality of people who apply to work in an organization, as can a firm's record on social and environmental issues.[121] One online survey of 1,020 people indicated that 83% rated a company's record of business ethics as "very important" when deciding whether to accept a job offer; only 2% rated it as "unimportant."[122] A National Business Ethics Survey found that 79% of employees said their firms' concern for ethics was a key reason they remained.[123]

Effect on Sales Growth The announcement of a company's conviction for illegal activity has been shown to diminish sales growth for several years.[124] One survey found that 80% of people said they decide to buy a firm's goods or services partly on their perception of its ethics.[125]

Effect on Company Efficiency One study found that 71% of employees who saw honesty applied rarely or never in their organization had seen misconduct in the past year, compared with 52% who saw honesty applied only occasionally and 25% who saw it frequently.[126]

Effect on Company Revenue Unethical behavior in the form of employee fraud costs U.S. organizations around $652 billion a year, according to the Association of Certified Fraud Examiners.[127] Employee fraud, which is twice as common as consumer fraud (such as credit card fraud and identity theft), costs employers about 20% of every dollar earned.[128]

Effect on Stock Price One survey found that 74% of people polled said their perception of a firm's honesty directly affected their decision about whether to buy its stock.[129] Other research found that, following fraud or financial restatement (redoing an earlier public financial statement), companies on average lose more than a quarter of their stock value but can nurse the stock price back to health by stepping up charitable giving along with other actions.[130]

Effect on Profits Studies suggest that profitability is enhanced by a reputation for honesty and corporate citizenship.[131]

Ethical behavior and social responsibility are more than just admirable ways of operating. They give an organization a clear competitive advantage. Where do you stand on these issues? We created the following self-assessment to measure your attitudes toward corporate social responsibility. Taking it will enhance your understanding about your views on social responsibility. ●

SELF-ASSESSMENT 3.2

Assessing Your Attitudes toward Corporate Responsibility

Go to **connect.mheducation.com** and take Self-Assessment 3.2. It assesses your attitudes toward corporate social responsibility. Then answer the following questions:

1. Where do you stand on corporate social responsibility?
2. What life events have influenced your attitudes toward corporate social responsibility? Discuss.
3. Based on the three lowest-rated items in the survey, how might you foster a more positive attitude toward social responsibility? Explain.

3.6 Corporate Governance

MAJOR QUESTION

How can I trust a company is doing the right thing?

THE BIG PICTURE

Corporate governance is the system of governing a company so that the interests of corporate owners and other stakeholders are protected. Company directors should be clearly separated in their authority from the CEO by insisting on strong financial reporting systems and more accountability.

Where, you might ask, were the company boards of directors in recent years when the CEOs of firms such as Enron, WorldCom, Tyco, and Adelphia were doing the things that got them convicted for fraud? Aren't directors supposed to protect the stockholders and other stakeholders by keeping an eye on senior management? Indeed, after the Enron and other scandals, there was a resumed interest in what is known as **corporate governance, the system of governing a company so that the interests of corporate owners and other stakeholders are protected.**

The Need for Independent Directors

Perhaps the biggest complaint concerns the independence of the directors. As we mentioned earlier in the chapter, inside directors may be members of the firm, but outside directors are supposed to be elected from outside the firm. However, in some companies, the outside directors have been handpicked by the CEO—because they are friends, because they have a business relationship with the firm, or because they supposedly "know the industry." In such instances, how tough do you think the board of directors is going to be on its CEO when he or she asks for leeway to pursue certain policies?

Now, more attention is being paid to strengthening corporate governance so that directors are clearly separated in their authority from the CEO. While, of course, directors are not supposed to get involved with day-to-day management issues, they are now feeling more pressure from stockholders and others to have stronger financial reporting systems and more accountability.[132]

EXAMPLE

Corporate Governance: Chesapeake Energy's CEO Gets Some Unusual Breaks from His Board of Directors

In 2008, CEO Aubrey K. McClendon topped the list of highest-paid chief executives for companies in the Standard & Poor's 500-stock index. His firm, Oklahoma City–based Chesapeake Energy, which he co-founded at age 23, was the second-largest producer of natural gas after ExxonMobil, and his personal fortune was estimated by *Forbes* as exceeding $1.2 billion. One interviewer described him as "without doubt the most admired—and feared—man" in the U.S. petroleum and natural gas industry but "also the most reckless, . . . with an off-the-charts risk tolerance."[133]

A Little Help from the Company. Because aggressive financing practices combined with plunging oil and gas prices in 2008 lowered the value of Chesapeake stock by 80%, McClendon was forced to sell nearly all of his own shares. Strapped for cash, he turned to his handpicked board of directors, which gave him a $100 million pay package plus $75 million over five years to invest for a 2.5% stake in every well the company drilled.

In addition, the company agreed to buy McClendon's personal collection of historical maps of the American Southwest (which decorated the company's headquarters) for $12.1 million.[134] The $12.1 million, the firm pointed out, was McClendon's cost of acquiring the collection over the preceding six years—an appraisal, it noted, that came from "the dealer who had assisted Mr. McClendon in acquiring this collection."[135]

Shareholders Sue. Besides the above-mentioned perks, the Chesapeake board also voted to give McClendon $600,000 for the private use of the corporate jets, nearly $600,000 for accounting services, and $131,000 for "personal engineering support"—and it agreed to pay $4.6 million to sponsor the NBA's Oklahoma City Thunder, the pro basketball team that is one-fifth owned by McClendon.[136] But when outsiders and stockholders found out about the maps, the story took on a life of its own, prompting several shareholder lawsuits.

Big shareholder groups sued Chesapeake for what they considered an irresponsibly generous 2008 compensation package to McClendon and demanded that the company overhaul its compensation practices. In the resulting settlement, McClendon agreed to buy back the 19th-century maps for $12.1 million plus pay a 2.28% interest for the repurchase. In addition, Chesapeake agreed to some corporate governance reforms: installation of a "more transparent" management pay plan, electing board members by majority vote, and discontinuance of the practice of allowing senior management, such as McClendon, use of their company stock as collateral to buy more company stock, a major cause of the firm's financial strains.[137]

The map collector. Aubrey McClendon, chief of natural gas producer Chesapeake Energy, was the highest-paid of CEOs in 2008. But when plunging gas prices reduced the value of company shares by 80%, he was forced to sell off an antique map collection for $12.1 million. The appraiser: the expert who assembled the collection in the first place. The buyer: Chesapeake Energy. Does this pass the smell test?

Unfinished Business. McLendon resigned from Chesapeake Energy in 2013, citing "philosophical differences" with a reconstituted board, after burning through $19.4 billion in 2011 and $21.6 billion in 2012. (His successor cut those cash outlays in half.) Among the unfinished business McClendon left behind are lawsuits over hundreds of millions of dollars in personal loans made to him by company lenders, a Securities and Exchange Commission investigation into Chesapeake, and a Justice Department investigation into possible violations of antitrust law for collusion with another company over buying some Michigan acreage.[138]

YOUR CALL

If McClendon had stayed on as Chesapeake Energy's CEO, what kinds of corporate reforms would you, as a shareholder, have insisted on so that you could trust what the company told you?

The Need for Trust

In the end, suggests Fordham professor Robert Hurley, "We do not have a crisis of ethics in business today. We have a crisis of trust."[139] Customers or employees may well think that certain people or companies are ethical—that is, moral, honest, and fair—but that does not mean they should trust them. Trust, says Hurley, "comes from delivering every day on what you promise—as a manager, an employee, and a company. It involves constant teamwork, communication, and collaboration."

Trust comes from asking how likely the people you're dealing with are to serve your interests, how much they have demonstrated concern for others, how well they delivered on their promises, how much they try to keep their word—and how effectively they communicate these skills.

Would you agree?

Key Terms Used in This Chapter

clawbacks 78
climate change 89
code of ethics 87
competitors 77
corporate governance 93
corporate social responsibility (CSR) 88
crowdfunding 72
customers 76
demographic forces 82
distributor 77
economic forces 81
ethical behavior 83
ethical climate 86
ethical dilemma 83
ethics 83
external stakeholders 76
general environment 80
global warning 89
government regulators 79
individual approach 84
insider trading 85
internal stakeholders 75
international forces 82
justice approach 85
macroenvironment 80
moral-rights approach 84
natural capital 90
owners 75
philanthropy 91
political-legal forces 82
Ponzi scheme 85
Sarbanes–Oxley Act of 2002 85
social audit 72
social responsibility 88
sociocultural forces 81
special-interest groups 79
stakeholders 74
strategic allies 77
supplier 77
task environment 76
technological forces 81
triple bottom line 72
utilitarian approach 84
value system 84
values 84
whistle-blower 87

Key Points

3.1 The Triple Bottom Line: People, Planet, & Profit

- Many businesses subscribe to a new standard of success—the triple bottom line, representing People, Planet, and Profit. It measures an organization's social, environmental, and financial performance.
- Success in these areas can be measured through a social audit, a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.
- The triple bottom line has particular appeal to many young adults (millennials) who are less concerned with finding financial success than with making a difference and achieving a meaningful life.

3.2 The Community of Stakeholders Inside the Organization

- Managers operate in two organizational environments—internal and external—both made up of stakeholders, the people whose interests are affected by the organization's activities.
- The first, or internal, environment includes employees, owners, and the board of directors.

3.3 The Community of Stakeholders Outside the Organization

- The external environment of stakeholders consists of the task environment and the general environment.
- The task environment consists of 11 groups that present the manager with daily tasks to deal with. (1) Customers pay to use an organization's goods and services. (2) Competitors compete for customers or resources. (3) Suppliers provide supplies—raw materials, services, equipment, labor, or energy—to other organizations. (4) Distributors help another organization sell its goods and services to customers. (5) Strategic allies join forces to achieve advantages neither organization can perform as well alone. (6) Employee organizations are labor unions and employee associations.
- (7) Local communities are residents, companies, governments, and nonprofit entities that depend on the organization's taxes, payroll, and charitable contributions. (8) Financial institutions are commercial banks, investment banks, and insurance companies that deal with the organization. (9) Government regulators are regulatory agencies that establish the ground rules under which the organization operates. (10) Special-interest groups are groups whose members try to influence specific issues that may affect the organization. (11) The mass media are print, radio, TV, and Internet sources that affect the organization's public relations.
- The general environment includes six forces. (1) Economic forces consist of general economic conditions and trends—unemployment, inflation, interest rates, economic growth—that

may affect an organization's performance. (2) Technological forces are new developments in methods for transforming resources into goods and services. (3) Sociocultural forces are influences and trends originating in a country, society, or culture's human relationships and values that may affect an organization. (4) Demographic forces are influences on an organization arising from changes in the characteristics of a population, such as age, gender, and ethnic origin. (5) Political-legal forces are changes in the way politics shapes laws and laws shape the opportunities for and threats to an organization. (6) International forces are changes in the economic, political, legal, and technological global system that may affect an organization.

3.4 The Ethical Responsibilities Required of You as a Manager

- Ethics are the standards of right and wrong that influence behavior. Ethical behavior is behavior that is accepted as "right" as opposed to "wrong" according to those standards.
- Ethical dilemmas often take place because of an organization's value system. Values are the relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior.
- There are four approaches to deciding ethical dilemmas. (1) Utilitarian—ethical behavior is guided by what will result in the greatest good for the greatest number of people. (2) Individual—ethical behavior is guided by what will result in the individual's best long-term interests, which ultimately is in everyone's self-interest. (3) Moral-rights—ethical behavior is guided by respect for the fundamental rights of human beings, such as those expressed in the U.S. Constitution's Bill of Rights. (4) Justice—ethical behavior is guided by respect for the impartial standards of fairness and equity.
- Public outrage over white-collar crime (Enron, Tyco) led to the creation of the Sarbanes–Oxley Act of 2002 (SarbOx), which established requirements for proper financial record keeping for public companies and penalties for noncompliance.
- Laurence Kohlberg proposed three levels of personal moral development: (1) preconventional level of moral development—people tend to follow rules and to obey authority; (2) conventional level—people are conformist, generally adhering to the expectations of others; and (3) postconventional level—people are guided by internal values.
- There are three ways an organization may foster high ethical standards. (1) Top managers must support a strong ethical climate. (2) The organization may have a code of ethics, which consists of a formal written set of ethical standards. (3) An organization must reward ethical behavior, as in not discouraging whistle-blowers, employees who report organizational misconduct to the public.

3.5 The Social Responsibilities Required of You as a Manager

- Social responsibility is a manager's duty to take actions that will benefit the interests of society as well as of the organization.
- The idea of social responsibility has opposing and supporting viewpoints. The opposing viewpoint is that the social responsibility of business is to make profits. The supporting viewpoint is that since business creates some problems (such as pollution) it should help solve them.
- One scholar, Archie Carroll, suggests the responsibilities of an organization in the global economy should have the following priorities: (1) Be a good global corporate citizen; (2) be ethical in its practices; (3) obey the law; and (4) make a profit.
- One type of social responsibility is sustainability, "going green," or meeting humanity's needs without harming future generations. A major threat is climate change, which refers to major changes in temperature, precipitation, wind patterns, and similar matters over several decades. Global warming, one aspect of climate change, refers to the rise in global average temperature near the Earth's surface, caused mostly by increasing concentrations in the atmosphere of greenhouse gases, such as carbon emissions from fossil fuels.
- The component of the triple bottom line called Planet is now identified by the name *natural capital,* which is the value of natural resources, such as topsoil, air, water, and genetic diversity, which many scholars think should figure seriously in economic decision making.
- Another type of social responsibility is philanthropy, making charitable donations to benefit humankind.
- Positive ethical behavior and social responsibility can pay off in the form of customer goodwill, more efficient and loyal employees, better quality of job applicants and retained employees, enhanced sales growth, less employee misconduct and fraud, better stock price, and enhanced profits.

3.6 Corporate Governance

- Corporate governance is the system of governing a company so that the interests of corporate owners and other stakeholders are protected.
- One way to further corporate governance is to be sure directors are clearly separated in their authority from the CEO by insisting on stronger financial reporting systems and more accountability.

Understanding the Chapter: What Do I Know?

1. How would you explain the difference between internal and external stakeholders?
2. Among external stakeholders, what's the difference between the task environment and the general environment?
3. Of the 11 groups in the task environment, which five do you consider most important and why?
4. Of the six groups in the general environment, which one do you think has the least importance, and why?
5. Distinguish among the four approaches to deciding ethical dilemmas.
6. What's the difference between insider trading and a Ponzi scheme?
7. How would you summarize Kohlberg's levels of personal moral development?
8. What are four ways that organizations can promote ethics?
9. Describe the levels in Carroll's corporate social responsibility pyramid. Where does trying to achieve sustainability fit in?
10. How would you explain the concept of corporate governance?

Management in Action

UPS Actively Pursues Sustainability

Kurt Kuehn is the Chief Financial Officer at UPS and a 2013 winner of the C. K. Prahalad Award for Global Sustainability Leadership.

As a CFO who advocates sustainability, I've noticed that many of my peers take a lukewarm view of the idea, perhaps because they simply don't see how sustainability can produce returns for a business. I can relate: I too am always looking for ways to allocate resources effectively and create value. . . .

As a founding member of UPS's sustainability steering committee, I have wrestled with the challenge, and I've developed a point of view—one that emphasizes the power of organizational momentum and embraces "enlightened self-interest." My approach is rooted in two beliefs: that companies have a responsibility to contribute to society and the environment, and that every investment a company makes should return value to the business.

These beliefs don't have to be at odds. . . . In fact, the programs with greatest impact not only align with companies' strategies but move in tandem with their activities. . . . UPS has established a five-step approach toward sustainability in order to balance the needs of various constituents. They are considered below.

1. **Assess your strengths**. What does your company have to offer that could make a big difference? Find out by assessing your core competencies, infrastructures, and relationships as part of your sustainability strategizing. You will probably discover strengths that charitable partners often lack, such as:
   - Capital
   - Specialized knowledge and experience
   - Relationships
   - Processes
   - Physical assets
   - Business acumen
2. **Choose your spots**. Finding the right space for your efforts in sustainability has to begin with narrowing down the field somehow. You might take cues from either external stakeholders or internal managers. Stakeholders include customers, shareholders, and suppliers that increasingly prefer to do business with companies they see as responsible—but also activists, who may be a risk. Managers know the company's capabilities, cost structure, and objectives well, and can see the strategic fit of one proposed initiative versus another.

We think both these perspectives are important, and we combine them in what's called a materiality matrix . . . one axis indicates how relevant our external stakeholders believe certain issues are to being a good corporate citizen; the other indicates which ones senior executives consider strategic and important to the company's future success. . . .

One priority that UPS was able to identify through this method is safety training for drivers in certain emerging economies. Stakeholders were concerned that the rapid expansion of the middle class in Vietnam, Cambodia, South Africa, and elsewhere has created new traffic nightmares—not only more commercial vehicles on the road but also a huge influx of first-time drivers. They perceived UPS as an expert in road and workplace safety because of its systems and performance. Meanwhile, company managers recognized that these countries are strategically important to UPS as new growth markets. Thus a program that involved working with nonprofits and humanitarian relief agencies to deliver our proven safety training programs wouldn't encounter resistance from either inside or outside stakeholders. Even public officials have endorsed it.

Environmental projects, too, are a strategic fit. We know that our vehicles and planes produce emissions and that we have an obligation to invest in a cleaner planet.

3. **Find momentum**. A materiality matrix narrows the field of possibilities, but it rarely points to a specific initiative. For example, it might indicate that a given company would do well to join the fight against AIDS or help preserve pristine forests or improve air quality, but within any of those areas numerous organizations are working in various places on different parts of the solution.

   Having a bias toward adding to momentum makes the next step easier. It leads you to focus on where energy is already in motion and where your company's additional efforts could make a big difference. Ideally, your existing operations and initiatives will dovetail with societal or environmental needs for which others are already driving change.

   Sometimes the momentum a company needs to recognize comes from governmental priorities. Indeed, failing to respond to them may imperil its license to operate. . . .

4. **Build productive partnerships.** Most companies just sign up existing projects on the assumption that they and the NGO [nongovernmental organization] will figure out some way to shoehorn in the company's strengths. . . .

   To ensure a productive collaboration from the outset, it helps to clearly articulate that the business's hope is to apply its strengths and add to its momentum. Then the partners can proceed to understand each other's strengths, weaknesses, and shared values and to compare perspectives about the impact they want to achieve. Next they should draft a strategic plan; define goals and objectives; establish a timetable, metrics, and milestones; and agree on the resources required and what will define success. Both sides need clear rules of engagement and an open dialogue to adjust to each other, or to know when it's time to part ways. . . .

5. **Convene other sources of strength**. Large businesses all participate in networks of organizations, in their extended supply chains and across their industries. They have the power to convene other players and combine their strengths. If they do so for a good sustainability cause, they can add even more to its momentum.

   UPS has enjoyed success with multicompany projects, particularly those relating to humanitarian logistics and disaster relief. Most notably, we've joined with our competitors TNT and Agility to support the UN's World Food Programme during disasters. . . .

   UPS has also joined forces with some customers on disaster relief projects, ensuring that their donated products are received on time around the world. The effort is particularly productive when we can combine multiple customer-donation shipments, reducing transportation costs for all by sharing trucks and planes or using employee volunteers to pack emergency supplies. . . .

What We Are Choosing Not to Do

Following the principle of adding to momentum, UPS has moved its philanthropic giving over the past decade toward expertise and in-kind donations and has aligned it with the corporate mission to enable global commerce through logistics. Our more strategic approach to sustainability has led to many of the projects we've taken on recently. But the test of a good strategy is not just whether it has you doing good things; it must also allow you to decide what *not* to do. Aiming for "maximum efficiency, minimum effort," we've been able to see more clearly that some projects and ideas aren't for us.

More generally, UPS makes fewer one-off contributions. When all the components of a sustainability program are guided by a materiality matrix analysis and a plan to find and increase momentum, connections tend to form among them, creating a cumulative effect. . . .

Momentum's Extra Benefits

When you approach sustainability from a position of your strengths, the line between the two realms of value creation—helping to make the business profitable and helping to keep the planet well—begins to blur. As I've noted, business competencies can reveal social possibilities. At the same time, sustainability work can inspire business improvements.

This can happen in very small ways—and small ways add up.

FOR DISCUSSION

1. How does UPS's approach toward sustainability impact the triple bottom line? Be specific.
2. Which internal and external stakeholders are positively and negatively affected by UPS's approach to sustainability?
3. Which of the six general environmental forces influenced Mr. Kuehn's approach toward sustainability? Discuss.
4. To what extent is UPS's approach toward sustainability consistent with the four approaches to deciding ethical dilemmas?
5. Evaluate UPS's approach toward sustainability against Carroll's model of social responsibility shown in Figure 3.2.
6. How does UPS's approach toward sustainability "pay off"? Discuss.

Source: Extracted from Kurt Kuehn and Lynette McIntire, "Sustainability a CFO Can Love," Harvard Business Review, *April 2014, pp. 66–74.*

Is It Fair to Have Different Standards for Paying Bills versus Collecting Bills?

Mondelez International, a snack and food company formerly owned by Kraft Foods, is using different time frames to pay and collect money. In 2013, the company decided to extend the time it takes to pay bills from suppliers. The company sent a letter to all of its key suppliers indicating that it would wait 120 days before paying a bill.

Why would a company extend its payment schedule? Quite simply, the company uses the money for investments and thereby increases profits. This practice, however, can hurt small businesses, which are a big driver of new job creation in the U.S. Bill Dunkelberg, chief economist for the National Federation of Independent Businesses, said "It's mean" to extend payment periods because "a small company is often vulnerable because one large customer may make up the bulk of its sales, leaving it with no choice but to accept the demands of the giant company, effectively financing the customer for 120 days." It's hard for a small company to pay its bills when it has to wait 120 days to collect for its goods and services.

According to an article in *Fortune,* Mondelez International has a different standard for collecting from companies that owe it money. "The company tailors its terms so that customers are penalized if they don't pay for confections within 15 days of receipt and for snacks within 25 days."

Experts contend that this practice takes a toll on the supply chain, particularly for small businesses. This happens because suppliers will in turn start to pay their bills more slowly. Defenders conclude that it's "all just part of a free-market system that will naturally set its own parameters on billing."

SOLVING THE CHALLENGE

Assume that you are a high-level manager at Mondelez International and that you can affect the corporate policy of paying bills. What would you suggest that the company do in regard to paying and collecting money?

1. Nothing. This is a free market decision and shareholders are the company's most important constituent: This policy maximizes the value to shareholders.
2. Change the policy so that the company uses a consistent "time standard" in paying and collecting money. This approach will also create good will among suppliers.
3. It's okay to have different "time standards" for paying and collecting money, but 120 days seems too long. I would use the industry average for both paying and collecting money.
4. Invent other options. Discuss.

Source: Excerpted from B. Quick, "A Snack Maker's Unsavory Business Practices," Fortune, *September 2, 2013, p. 54.*