Essentials of
Contemporary
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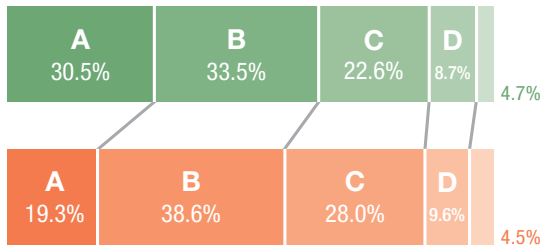
Sixth Edition

Gareth R. Jones · Jennifer M. George

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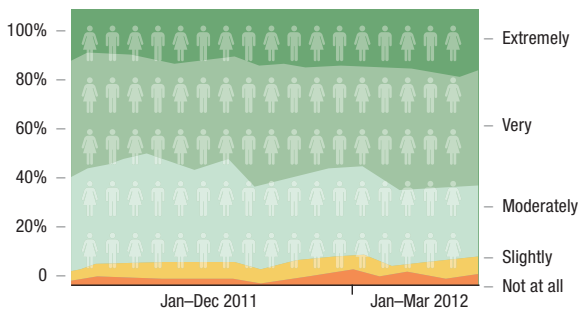more students
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Essentials of

Contemporary Management

Sixth Edition

Gareth R. Jones

Jennifer M. George
Rice University

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Education

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Preface

In this sixth edition of *Essentials of Contemporary Management,* we continue to focus on providing the most up-to-date account of the changes taking place in the world of management and management practices while maintaining our emphasis on making our text relevant and interesting to students. And we know from feedback from instructors and students that the text does engage them. Our increased focus on the challenges and opportunities facing businesses large and small and integrated timely examples bring management issues to life for students.

The number and complexity of the strategic, organizational, and human resource challenges facing managers and all employees have continued to increase throughout the 2000s. In most companies, managers at all levels are playing catch-up as they work toward meeting these challenges by implementing new and improved management techniques and practices. Today, relatively small differences in performance between companies, such as in the speed at which they bring new products or services to market or in the ways they motivate their employees to find ways to reduce costs or improve performance, can combine to give a company a significant competitive advantage. Managers and companies that utilize proven management techniques and practices in their decision making and actions increase their effectiveness over time. Companies and managers that are slower to implement new management techniques and practices find themselves at a growing competitive disadvantage that makes it even more difficult to catch up. Thus, in many industries there is a widening gap between the most successful companies whose performance reaches new heights and their weaker competitors, because their managers have made better decisions about how to use company resources in the most efficient and effective ways.

The challenges facing managers continue to mount as changes in the global environment, such as increasing global outsourcing and rising commodity prices, impact organizations large and small. Moreover, the revolution in information technology (IT) has transformed how managers make decisions across all levels of a company's hierarchy and across all its functions and global divisions. This sixth edition addresses these emerging challenges. For example, we extend our treatment of global outsourcing, examine its pros and cons, and examine the new management problems that emerge when millions of functional jobs in IT, customer service, and manufacturing are performed in countries overseas. Similarly, increasing globalization means that managers must respond to major differences in the legal rules and regulations and ethical values and norms that prevail in countries around the globe.

Other major challenges we continue to expand on in this edition include the impact of the steadily increasing diversity of the workforce on companies and how this increasing diversity makes it imperative for managers to understand how and why people differ so that they can effectively manage and reap the performance benefits of diversity. Similarly, across all functions and levels, managers and employees must continually seek ways to "work smarter" and increase performance. Using new IT to improve all aspects of an organization's operations to enhance efficiency and customer responsiveness is a vital part of this process. So too is the continuing need to innovate and improve the quality of goods and services, and the ways they are produced, to allow an organization to compete effectively. We significantly revised this edition of *Essentials of Contemporary Management* to address these challenges to managers and their organizations.

Major Content Changes

Once again, encouraged by the increasing number of instructors and students who use each new edition of our book, and based on the reactions and suggestions of both users and reviewers, we revised and updated our book in many ways. However, the organization and sequence of chapters remain the same in this

new edition. Instructors tell us that they like the way the chapters flow, and the way they build up a picture of management part by part, to provide an excellent learning experience and a comprehensive coverage of management. The way we link and integrate topics, such as our inclusion of entrepreneurship in Chapter 5, "Decision Making, Learning, Creativity, and Entrepreneurship," allows students to make connections among these important topics. As examples of the many changes we made, this new edition expands the coverage of ways to encourage high motivation, creativity, and innovation in organizations and the importance of managers' and organizations' taking steps to protect the natural environment and promote sustainability. Our three-chapter sequence on strategy, structure, and control systems to improve competitive advantage is also updated in many ways. And, in this new edition, throughout the chapters we offer increased coverage of new approaches to leadership and the design of reward systems, new uses of advanced IT at all levels in the organization and across all functions to improve job design and employee motivation, and expanded coverage of the pros and cons associated with global outsourcing.

CHAPTER-BY-CHAPTER CHANGES We made the following specific changes to this edition.

Chapter 1

- New "Management Snapshot" on Tim Cook as CEO of Apple.
- New "Manager as a Person" box on Joe Coulombe of Trader Joe's.
- New "Managing Globally" box on outsourcing and insourcing.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 2

- New "Management Snapshot" on "Kevin Plank's Determination at Under Armour."

- New "Ethics in Action" on "Protecting the Environment and Jobs at Subaru of Indiana Automotive."
- New discussion of how sometimes emotions can be triggers for change in organizations.
- New "Management Insight" on "Emotions as Triggers for Changes in Organizations."
- Updated example of IBM.
- New 2013 "*The Wall Street Journal* Case in the News."

Chapter 3

- New "Management Snapshot" on how "Whole Foods Market Practices What It Preaches."
- Updated section on age.
- Updated and revised section on gender.
- Updated and revised section on race and ethnicity.
- New "Ethics in Action" on how "Disabled Employees Make Valuable Contributions."
- Updated and revised section on socioeconomic background.
- Updated and revised section on sexual orientation.
- Updated "Focus on Diversity" box on "Preventing Discrimination Based on Sexual Orientation."
- Updated discussion of women's earnings in comparison to men's earnings.
- Updated sexual harassment section.
- New 2013 "*The Wall Street Journal* Case in the News."

Chapter 4

- New "Management Snapshot" on Nokia and managing the global environment.
- New "Managing Globally" box on Microsoft and Nokia.
- New "Manager as a Person" box on Kazuo Hirai as CEO of Sony.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 5

- Updated "Management Snapshot" on "Decision Making and Learning at Garage Tek."
- Updated examples.
- New "Manager as a Person" on "Curbing Overconfidence."
- New discussion of the position of chief sustainability officer.
- New "Ethics in Action" box on "Helping to Ensure Decisions Contribute to Sustainability."
- New 2013 "*Fast Company* Case in the News."

Chapter 6

- New "Management Insight" box on Krispy Kreme.
- New "Management Insight" box on VF Corp and Timberland.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 7

- New "Management Snapshot" on Avon.
- New "Management Insight" box on Dick's Drive-In Restaurants.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 8

- New "Management Snapshot" on Alan Mulally and Ford.
- New "Management Insight" box on eBay.
- New "Manager as a Person" box on UPS and Walmart.
- New "Management Insight" box on Google.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 9

- New "Management Snapshot" on "High Motivation at Enterprise Rent-A-Car."
- New "Managing Globally" box on "Seeking Intrinsic Motivation in Far Flung Places."

- New "Management Insight" on how "Training Spurs Learning at Stella & Dot."
- New discussion of how managers can recognize top performers when they are unable to use merit pay due to tough economic times.
- Revised discussion of how advances in IT dramatically simplify the administration of piece-rate pay.
- New 2013 "*The New York Times* Case in the News."

Chapter 10

- New "Management Snapshot" on how "Lorenzo Effectively Leads Frog Design."
- New examples of women CEOs.
- Updated "Ethics in Action" box on "Servant Leadership at Zingerman's."
- New discussion of how managers with expert power need to recognize that they are not always right.
- New "Manager as a Person" box on "Gregory Maffei and Expert Power."
- Updated statistics on the underrepresentation of women in corporate officer and top-earner positions.
- New 2013 "*The Wall Street Journal* Case in the News."

Chapter 11

- New "Management Snapshot" on "Using Teams to Innovate at Boeing."
- New "Information Technology Byte" on how "Pizza Teams Innovate at Amazon."
- New "Management Insight" box on "Self-Managed Teams at Louis Vuitton and Nucor Corporation."
- New 2013 "*The Wall Street Journal* Case in the News."

Chapter 12

- Updated "Management Snapshot" on "Effectively Managing Human Resources at Zappos."
- New "Managing Globally" box on "Recent Trends in Outsourcing."

- New "Information Technology Byte" on "Fog Creek Software's Approach to Recruiting."
- Updated discussion of the use of background checks by employers.
- Updated discussion of concerns about excessive CEO pay and pay comparisons between CEOs and average workers.
- Updated statistics on union membership in the U.S.
- New 2013 "*The Wall Street Journal* Case in the News."

Chapter 13

- New "Management Snapshot" on Salesforce.com.
- New "Management Insight" box on cloud computing, bricks-and-mortar, and mobile container data center storage solutions.
- New 2013 "*Bloomberg Businessweek* Case in the News."

Chapter 14

- New "Management Snapshot" on Zynga Inc.
- New 2013 "*Bloomberg Businessweek* Case in the News."

UPDATED RESEARCH CONCEPTS Just as we included pertinent new research concepts in each chapter, so we were careful to eliminate outdated or marginal management concepts. As usual, our goal is to streamline our presentation and keep the focus on recent changes that have the most impact on managers and organizations. In today's world of video downloading, streaming media, and text messaging and tweeting, less is often more—especially when students are often burdened by time pressures stemming from the need to work long hours at paying jobs. New chapter opening "Management Snapshot" cases, the many boxed illustrations inside each chapter, and new (2013) "Case in the News" closing cases reinforce updated content critically but succinctly.

We feel confident that the changes to the sixth edition of *Essentials of Contemporary*

Management will stimulate and challenge students to think about their future in the world of organizations.

Emphasis on Applied Management

We went to great lengths to bring the manager back into the subject matter of management. That is, we wrote our chapters from the perspective of current or future managers to illustrate, in a hands-on way, the problems and opportunities they face and how they can effectively meet them. For example, in Chapter 3 we provide an integrated treatment of ethics and diversity that clearly explains their significance to practicing managers. In Chapter 6, we provide an integrated treatment of planning, strategy, and competitive advantage, highlighting the crucial choices managers face as they go about performing the planning role. Throughout the text, we emphasize important issues managers face and how management theory, research, and practice can help them and their organizations be effective.

The last two chapters cover the topics of managing information systems, technology, and operations management, topics that tend to be difficult to teach to new management students in an interesting and novel way. Our chapters provide a student-friendly, behavioral approach to understanding the management processes entailed in information systems and operations management. As our reviewers noted, while most books' treatment of these issues is dry and quantitative, ours comes alive with its focus on how managers can manage the people and processes necessary to give an organization a competitive advantage.

Flexible Organization

We designed the grouping of chapters to allow instructors to teach the chapter material in the order that best suits their needs. Instructors are not tied to the planning, organizing, leading, controlling framework, even though our presentation remains consistent with this approach.

Acknowledgments

Finding a way to integrate and present the rapidly growing literature on contemporary management and make it interesting and meaningful for students is not an easy task. In writing and revising the several editions of *Essentials of Contemporary Management,* we have been fortunate to have had the assistance of several people who have contributed greatly to the book's final form. First, we are grateful to Michael Ablassmeir, our executive brand manager, for his support and commitment to our project, and for always finding ways to provide the resources that we needed to continually improve and refine our book. Second, we are grateful to Trina Hauger, our senior development editor, for so ably coordinating the book's progress, and to her and Elizabeth Trepkowski, our marketing manager, for providing us with concise and timely feedback and information from professors and reviewers that have allowed us to shape the book to the needs of its intended market. We also thank Matt Diamond for executing an awe-inspiring design and Harvey Yep for coordinating the production process. We are also grateful to the many colleagues and reviewers who provided us with useful and detailed feedback, perceptive comments, and valuable suggestions for improving the manuscript.

Producing any competitive work is a challenge. Producing a truly market-driven textbook requires tremendous effort beyond simply obtaining reviews on a draft manuscript. Our goal behind the development of *Essentials of Contemporary Management* has been clear-cut: to be the most customer-driven essentials of management text and supplement package ever published! The favorable reception that our book has received from its users suggests that our thorough product development plan did lead to a book that has met the expectations of both faculty and students. For the new edition, we have continued to add new reviewers to the over 200 faculty who originally took part in developmental activities ranging from regional focus groups to manuscript reviews and surveys. Consequently, we're confident that the changes we have made to our book and its excellent support package

will even more closely meet your expectations and needs.

Our thanks to these faculty who have contributed greatly to *Essentials of Contemporary Management:*

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He continues to pursue his research interests in strategic management and organizational theory and his well-known research that applies transaction cost analysis to explain many forms of strategic and organizational behavior. He also studies the complex and changing relationships between competitive advantage and information technology in the 2010s.

He has published many articles in leading journals of the field and his research has appeared in the *Academy of Management Review,* the *Journal of International Business Studies,* and *Human Relations.* He published an article about the role of information technology in many aspects of organizational functioning in the *Journal of Management.* One of his articles won the *Academy of Management Journal*'s Best Paper Award, and he is one of the most cited authors in the *Academy of Management Review.* He is, or has served, on the editorial boards of the *Academy of Management Review,* the *Journal of Management,* and *Management Inquiry.*

Gareth Jones has used his academic knowledge to craft leading textbooks in management and three other major areas in the management discipline: organizational behavior, organizational theory, and strategic management. His books are widely recognized for their innovative, contemporary content and for the clarity with which they communicate complex, real-world issues to students.

Jennifer George is the Mary Gibbs Jones Professor of Management and Professor of Psychology in the Jesse H. Jones Graduate School of Business at Rice University. She received her BA in Psychology/Sociology from Wesleyan University, her MBA in Finance from New York University, and her PhD in Management and Organizational Behavior from New York University. Prior to joining the faculty at Rice University, she was a professor in the Department of Management at Texas A&M University.

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RICH AND RELEVANT EXAMPLES

An important feature of our book is the way we use real-world examples and stories about managers and companies to drive home the applied lessons to students. Our reviewers were unanimous in their praise of the sheer range and depth of the rich, interesting examples we use to illustrate the chapter material and make it come alive. Moreover, unlike boxed material in other books, our boxes are seamlessly integrated into the text; they are an integral part of the learning experience, and not tacked on to or isolated from the text itself. This is central to our pedagogical approach.

A Management Snapshot opens each chapter, posing a chapter-related challenge and then discussing how managers in one or more organizations responded to that challenge. These vignettes help demonstrate the uncertainty and excitement surrounding the management process.

Our box features are not traditional boxes; that is, they are not disembodied from the chapter narrative. These thematic applications are fully integrated into the reading. Students will no longer be forced to decide whether to read boxed material. These features are interesting and engaging for

MANAGEMENT SNAPSHOT

Tim Cook Succeeds Steve Jobs as CEO of Apple

What is High-Performance Management?

In 2011 Tim Cook took full management control of Apple as its CEO six weeks after Steve Jobs stepped down as its CEO before his untimely death. Cook had been Apple's longtime chief operating officer and had been responsible for organizing and controlling its global supply chain to bring its innovative products to market as quickly and efficiently as possible.[1] One of Apple's major strengths is to continuously introduce new and improved products such as its iPhones and iPads, often at six-month and yearly intervals, to offer customers more options and to stay ahead of the competition. Cook was acknowledged as the leader who controlled Apple's purchasing and manufacturing operations, and of course he had intimate knowledge of Apple's new product design and engineering. However, Steve Jobs had been the manager who ultimately decided what kinds of new products Apple would develop and the design of their hardware and software.

Starting with Apple's founding in 1977, Jobs saw his main task as leading the planning process to develop new and improved PCs. Although this was a good strategy, his management style was often arbitrary and overbearing. For example, Jobs often played favorites among the many project teams he created. His approach caused many conflicts and led to fierce competition, many misunderstandings, and growing distrust among members of the different teams.

Jobs's abrasive management style also brought him into conflict with John Sculley, Apple's CEO. Employees became unsure whether Jobs (the chairman) or Sculley was leading the company. Both managers were so busy competing for control that the task of ensuring its resources were being used efficiently was neglected. Apple's costs soared, and its performance and profits fell. Apple's directors became convinced Jobs's management style was the heart of the problem and asked him to resign.

After he left Apple, Jobs started new ventures such as PC maker NEXT to develop powerful new PCs and Pixar, the computer animation company which become a huge success after it made block-buster movies such as *Toy Story* and *Finding Nemo*, both distributed by Walt Disney. In both these companies Jobs developed a clear vision for managers to follow, and he built strong management teams to lead the project teams developing the new PCs and movies. Jobs saw his main task as planning the companies' future product development strategies. However, he left the actual tasks of leading and organizing to managers below him. He gave them the autonomy to put his vision into practice. In 1996 Jobs convinced Apple to buy NEXT and use its powerful operating system in new Apple PCs. Jobs began working inside Apple to lead its turnaround and was so successful that in 1997 he was asked to become its CEO. Jobs agreed and continued to [...]

INFORMATION TECHNOLOGY BYTE

Fog Creek Software's Approach to Recruiting

Fog Creek Software is a small, privately owned software company founded in 2000 by Joel Spolsky and Michael Pryor in a renovated loft in the Fashion District of New York City.[59] Fog Creek has earned a profit each year since its founding.[60] Hiring great computer software developers is essential for a company like Fog Creek; according to Spolsky, the top 1% of software developers outperform average developers by a ratio of around 10:1. And the top 1% are the inventive types who can successfully develop new products while also being highly efficient.[61]

Finding, never mind recruiting, the top 1% is a real challenge for a small company like Fog Creek because many of these people already have great jobs and are not looking to switch employers. Realizing that the top 1% of developers might rarely apply for positions with Fog Creek (or any other company), Fog Creek uses paid summer internships to recruit over 50% of its developers while they are still in college; they are hired full-time after graduation.[62]

In the fall of every year, Fog Creek sends personalized letters to computer science majors across the country who have the potential to be top developers in the future, contacts professors [...]

Fog Creek Software uses paid summer internships to help identify and attract promising software developers.

[...] their website.[63] The best of whom are invited to candidates describe the solving a software thing they want at [...]

Those who do expense paid visit a hip hotel, receive Fog Creek, and the themselves) to get recruits who are [...]

Interns perform of four interns dev Creek Copilot.[66] T interns they would paid, they receive t in New York City. A which interns are g graduation with ge Although Fog Cree more than pays for indicates, "An inter long pipeline, so we [...]

[...] emotions and moods signal that things are going well and thus can lead to more expansive, even playful, thinking. Negative emotions and moods signal that there are problems in need of attention and areas for improvement. So when managers are in negative moods, they tend to be more detail-oriented and focused on the facts at hand.[74] Some studies suggest that critical thinking and devil's advocacy may be promoted by a negative mood, and sometimes especially accurate judgments may be made by managers in negative moods.[75]

As indicated in the following "Management Insight," emotions can sometimes be the impetus for important changes in an organization.

MANAGEMENT INSIGHT

Emotions as Triggers for Changes in Organizations

In our personal lives, intense emotional experiences can often be triggers for changes for the better. For example, the fear that accompanies a near miss auto accident may prompt a driver to slow down and leave more time to get to destinations. Embarrassment experienced from being underprepared for a major presentation might prompt a student to be more prepared in the future. Anger over being treated poorly can sometimes help people get out of bad personal relationships.

Interestingly enough, some managers and organizations are using emotions to prompt needed changes. For example, the CEO of North American Tool, Curt Lansberry, was dismayed that employees weren't contributing as much as they could to their 401(k) retirement plans because the company had a matched contribution plan whereby it contributed a percentage of an employee's contribution.[76] North American Tool makes industrial cutting machinery and each year has an annual 401(k) enrollment meeting. Lansberry decided to bring a bag full of money to the next meeting that equaled the amount of money employees did not receive the prior year because they did not contribute the maximum to their 401(k) plans. He dumped the money on a table and told the employees that this really should be their money, not the company's.[77] The negative feelings that this invoked in employees—there's a bunch of money that should be ours and is not—prompted many more to maximize their 401(k) contributions for the coming year and reap the benefits of the matched contribution plan.[78]

Dr. Leon Bender and other colleagues at Cedars-Sinai Medical Center were concerned that doctors and nurses weren't washing their hands as often as they should.[79] Repeated hand-washing by medical staff is a key contributor to keeping patients free of secondary bacterial infections; avoiding these kinds of preventable bacterial infections [...]

Need to change your culture? Try a tug at the heartstrings—or the gut. A screen saver image of how quickly and how thoroughly medical personnel hands got dirty was the impetus for a turnaround at a hospital with low hand-washing stats.

MANAGING GLOBALLY

First Outsourcing, Now Insourcing

Outsourcing has become a major global strategic imperative over the last decades; to survive against low-cost competitors U.S. companies have been forced to find ways to reduce costs by moving manufacturing overseas. First, millions of unskilled manufacturing jobs were outsourced to countries in Asia and Central America; then semiskilled and skilled jobs in engineering and information technology followed. There is a huge talented workforce in coun-

Boeing embraces insourcing: the [...]
being built at Boeing's Paine Fie[...]

The Conference Board has been tracking levels of U.S. job satisfaction since 1987, when 61.1% of workers surveyed indicated that they were satisfied with their jobs.[36] In 2009 only 45% of workers surveyed indicated that they were satisfied with their jobs, an all-time low for the survey.[37] Some sources of job dissatisfaction include uninteresting work, lack of job security, incomes that have not kept pace with inflation, and having to spend more money on health insurance. For example, three times as many workers in 2009 had to contribute to paying for their health insurance and had rising levels of contributions compared to 1980. Only 43% of workers thought their jobs were secure in 2009 compared to 59% in 1987. In the 2000s, average household incomes adjusted for inflation declined.[38]

Of all age groups, workers under 25 were the most dissatisfied with their jobs. More specifically, approximately 64% of workers in this age group were dissatisfied with their jobs, perhaps due to declining opportunities and relatively low earnings. Around 22% of all respondents didn't think they would still have the same job in a year.[39]

Some organizations have combined a concern about protecting the environment with a concern about preserving workers' jobs and avoiding layoffs, as illustrated in the following "Ethics in Action."

ETHICS IN ACTION

Protecting the Environment and Jobs at Subaru of Indiana Automotive

Subaru of Indiana Automotive (SIA) is located in Lafayette, Indiana; produces the Subaru Legacy, Outback, and Tribeca; and has over 3,500 employees.[40] While the U.S. auto industry has had its share of major problems ranging from massive layoffs to huge bankruptcies, SIA has never laid off employees.[41] In fact, SIA employees receive annual raises, premium-free health care, substantial amounts of overtime work, financial counseling, the option of earning a Purdue University degree at the production facility, and pay for volunteer work. While 46,000 auto jobs have been lost in Indiana and several auto manufacturing plants have shut down in the state, SIA appears to be thriving.[42]

At the same time, SIA has been on an uncompromising mission to protect the environment and save money by eliminating waste. Around 98% of the waste at SIA is recycled or composted with considerable efficiencies and cost savings.[43] An on-site broker manages bids for recycled metals, glass, plastic, and paper. Only about 2% of waste is incinerated and this is done locally at an operation that converts waste to fuel. Suppliers are encouraged

More than corn in Indiana? Definitely more benefits for the environment as Subaru of Indiana pioneers efforts to reduce packaging, eliminate waste, and reuse extra materials.

MANAGER AS A PERSON

Joe Coulombe Knows How to Make an Organization Work

Trader Joe's, an upscale specialty supermarket chain, was started in 1967 by Joe Coulombe, who owned a few convenience stores that were fighting an uphill battle against the growing 7-11 chain. 7-11 offered customers a wider selection of lower-priced products, and Coulombe had to find a new way to manage his small business if it was going to survive. As he began planning new strategies to help his small business grow, he was struck by the fact that there might be a niche for supplying specialty products, such as wine, drinks, and gourmet foods, which were more profitable to sell; moreover, he would no longer be competing against giant 7-11. Coulombe changed the name of his stores to Trader Joe's and stocked them with every variety and brand of California wine produced at the time. He also began to offer fine foods like bread, crackers, cheese, fruits, and vegetables to complement and encourage wine sales.

Pictured is Trader Joe's first New York City store that opened in 2006. Founder Joe Coulombe's approach to motivating and rewarding his employees to provide excellent customer service paid off in a city where the prices of food and drink are so high that customers were delighted to shop in stores with a great ambiance and friendly customer service.

From the beginning Coulombe realized that good planning was only the first step in successfully managing his small, growing company. He knew that to encourage customers to visit his stores and buy high-priced gourmet products, he needed to give them excellent customer service. So he had to motivate his salespeople to perform at a high level. His approach was to decentralize authority, empowering salespeople to take responsibility for meeting customer needs. Rather than forcing employees to follow strict operating rules and to obtain the consent of their superiors in the hierarchy of authority, employees were given autonomy to make decisions and provide personalized customer service. Coulombe's approach led employees to feel they "owned" their supermarkets, and he worked to develop a store culture based on values and norms about providing excellent customer service and developing personalized relationships with customers. Today many employees and customers are on first-name terms.

Coulombe led by example and created a store environment in which employees are treated as individuals and feel valued as people. For example, the theme behind the design of his stores was to create the feeling of a Hawaiian resort: He and his employees wear loud Hawaiian shirts, store managers are called captains, and the store decor uses lots of wood and contains tiki huts where employees give customers food and drink samples and interact with them. Once again, this helped create strong values and norms that emphasize personalized customer service.

Finally, Joe Coulombe's approach from the beginning was to create a policy of promotion from within the company so that the highest-performing salespeople could rise to become store captains and beyond in the organization. He had

students while bringing the chapter contents to life.

In-depth examples appear in boxes throughout each chapter. Management Insight boxes illustrate the topics of the chapter, while the Ethics in Action, Managing Globally, Focus on Diversity, and Information Technology Byte boxes examine the chapter topics from each of these perspectives.

Further emphasizing the unique content covered in Chapter 2, "Values, Attitudes, Emotions, and Culture: The Manager as a Person," the Manager as a Person boxes focus on how real managers brought about change within their organizations. These examples allow us to reflect on how individual managers dealt with real-life, on-the-job challenges related to various chapter concepts.

NEW! EXPANDED USE OF SMALL BUSINESS EXAMPLES

To ensure that students see the clear connections between the concepts taught in their Principles of Management course and the application in their future jobs in a medium or small business, Jones and George have expanded the number of examples of the opportunities and challenges facing founders, managers, and employees in small businesses.

EXPERIENTIAL LEARNING FEATURES

We have given considerable time and effort to developing state-of-the-art experiential end-of-chapter learning exercises that drive home the meaning of management to students. These exercises are grouped together at the end of each chapter in a section called "Management in Action." The following activities are included at the end of every chapter:

TOPICS FOR DISCUSSION AND ACTION are a set of chapter-related questions and points for reflection. Some ask students to research actual management issues and learn firsthand from practicing managers.

BUILDING MANAGEMENT SKILLS is a self-developed exercise that asks students to apply what they have learned from their own experience in organizations and from managers or from the experiences of others.

MANAGING ETHICALLY is an exercise that presents students with an ethical scenario or dilemma and asks them to think about the issue from an ethical perspective to better understand the issues facing practicing managers.

SMALL GROUP BREAKOUT EXERCISE is designed to allow instructors in large classes to utilize interactive experiential exercises.

BE THE MANAGER presents a realistic scenario where a manager or organization faces some kind of challenge, problem, or opportunity.

Management *in Action*

TOPICS FOR DISCUSSION AND ACTION

Discussion

1. Would a flexible or a more formal structure be appropriate for these organizations: (a) a large department store, (b) a Big Five accountancy firm, (c) a biotechnology company? Explain your reasoning. **[LO 7-1, 7-2]**

2. Using the job characteristics model as a guide, discuss how a manager can enrich or enlarge subordinates' jobs. **[LO 7-2]**

3. How might a salesperson's job or a secretary's job be enlarged or enriched to make it more motivating? **[LO 7-2, 7-3]**

4. When and under what conditions might managers change from a functional to (a) a product, (b) a geographic, or (c) a market structure? **[LO 7-1, 7-3]**

5. How do matrix structures and product team structures differ? Why is the product team structure more widely used? **[LO 7-1, 7-3, 7-4]**

Action

6. Find and interview a manager, and identify the kind of organizational structure that his or her organization uses to coordinate its people and resources. Why is the organization using that structure? Do you think a different structure would be more appropriate? If so which one? **[LO 7-1, 7-3, 7-4]**

7. With the same or another manager, discuss the distribution of authority in the organization. Does the manager think that decentralizing authority and empowering employees are appropriate? **[LO 7-1, 7-3]**

8. Interview some employees of an organization, and ask them about the organization's values and norms, the typical characteristics of employees, and the organization's ethical values and socialization practices. Using this information, try to describe the organization's culture and the way it affects the way people and groups behave. **[LO 7-1, 7-3]**

BUILDING MANAGEMENT SKILLS
Understanding Organizing [LO 7-1, 7-2, 7-3]

Think of an organization with which you are familiar, perhaps one you have worked for—such as a store, restaurant, office, church, or school. Then answer the following questions.

1. Which contingencies are most important in explaining how the organization is organized? Do you think it is organized in the best way?

2. Using the job characteristics model, how motivating do you think the job of a typical

3. Can you think of any ways in which a typical job could be enlarged or enriched?

4. What kind of organizational structure does the organization use? If it is part of a chain, what kind of structure does the entire organization use? What

organization to operate more effectively? For example, would the move to a product team structure lead to greater efficiency or effectiveness? Why or why not?

5. How many levels are there in the organization's hierarchy?

MANAGING ETHICALLY [LO 4-4, 4-5]

In recent years the number of U.S. companies that buy their inputs from low-cost overseas suppliers has been growing, and concern about the ethics associated with employing young children in factories has been increasing. In Pakistan and India, children as young as six years old work long hours to make rugs and carpets for export to Western countries or clay bricks for local use. In countries like Malaysia and in Central America, children and teenagers routinely work long hours in factories and sweatshops to produce the clothing that is found in most U.S. discount and department stores.

Questions

1. Either by yourself or in a group, discuss whether it is ethical to employ children in factories and whether U.S. companies should buy and sell products made by these children. What are some arguments for and against child labor?

2. If child labor is an economic necessity, what methods could be employed to make it as ethical a practice as possible? Or is it simply unethical?

SMALL GROUP BREAKOUT EXERCISE [LO 4-1, 4-2]
How to Enter the Copying Business

Form groups of three to five people, and appoint one group member as the spokesperson who will communicate your findings to the whole class when called on by the instructor. Then discuss the following scenario:

You and your partners have decided to open a small printing and copying business in a college town of 100,000 people. Your business will compete with companies like FedEx Kinko's. You know that over 50% of small businesses fail in their first year, so to increase your chances of success, you have decided to perform a detailed analysis of the task environment of the copying business to discover what opportunities and threats you will encounter.

1. Decide what you must know about (a) your future customers, (b) your future competitors, and (c) other critical forces in the task environment if you are to be successful.

2. Evaluate the main barriers to entry into the copying business.

3. Based on this analysis, list some steps you would take to help your new copying business succeed.

BE THE MANAGER [LO 4-1, 4-2]
The Changing Environment of Retailing

You are the new manager of a major clothing store that is facing a crisis. This clothing store has been the leader in its market for the last 15 years. In the last three years, however, two other major clothing store chains have opened, and they have steadily been attracting customers away from your store—your sales are down 30%. To find out why, your store surveyed former customers and learned that they perceive your store as not keeping up with changing fashion trends and new forms of customer service. In examining how the store operates, you found out that the 10 purchasing managers who buy the clothing and accessories for the store have been buying from the same clothing suppliers and have become reluctant to try new ones. Moreover, salespeople rarely, if ever, make suggestions for changing how the store operates, and

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THE WALL STREET JOURNAL CASE IN THE NEWS [LO 3-1, 3-3]

Legislators Step Up Push for Paid Sick Leave

Amid the worst flu season in recent years, lawmakers in at least a half-dozen cities and states are intensifying a push for laws requiring paid time off when workers take sick days.

Some 39% of private-sector workers aren't entitled to paid time off when they fall ill, according to the Bureau of Labor Statistics, and 11% of state and local government workers lack the benefit. Low-wage and part-time workers, particularly those at small firms or who work in restaurants, are among the least likely to get paid sick time.

To change that, Democratic lawmakers and their allies in Maryland, Washington, and Massachusetts, and in cities including New York, Philadelphia, and Portland, Ore., are trying to advance measures that would make paid sick time a legal requirement for most firms. In Congress, Sen. Tom Harkin (D., Iowa) plans to reintroduce a federal paid-sick-leave bill this spring.

Such efforts started before this year, but a vicious flu season that sidelined many workers has given them new urgency. Former President Bill Clinton chimed in this month, calling for the first federal paid-sick-leave law. The White House also supports a federal paid-sick-leave law.

Opponents of codifying paid sick leave say such laws weigh on businesses and ultimately hurt workers. In Connecticut, which last year became the first state to mandate paid sick leave, some employers contend the measure has raised costs and harmed workers by prompting cuts in wages or increases. Most firms there with 50 or more workers must provide five paid sick days a year, which employees accrue at a rate of one hour of leave for every 40 worked.

A canvassing of Connecticut businesses from the right-leaning Employment Policies Institute found that, of 156 respondents, more than half had begun complying with the law and most of those said it wasn't good for business. Many said they had offset expected expenses ahead of the law, including by raising prices, cutting workers' hours, and limiting their expansion in the state.

Dan Shackford, owner of Great Beginnings day care in Plainville, Conn., said that before the law, his 50 employees were welcome to call in sick without pay and earn a day off for three months of perfect attendance. Now when someone calls in sick, he has to pay a substitute and the worker. "The law is hurting me," he said.

To cope, he and his wife have lowered the annual raises they selectively give, to 3% from 5%. Mr. Shackford estimates it would cost up to $30,000 annually if his workers used all their sick time. The BLS says that, on average, full-time private-sector workers with a fixed number of days don't use them all.

Proponents contend the benefits outweigh the costs. Connecticut Gov. Dannel Malloy, a Democrat who signed the law, said it has been good for the state as people "aren't going to work and therefore making other people sick." He said he has talked with a variety of employers statewide who "now admit it really wasn't that big of a deal."

Cities with such laws include Seattle, Washington, D.C., and San Francisco, whose policy was enacted in 2007. Research by the left-leaning Institute for Women's Policy Research found that San Francisco's paid-sick ordinance is rarely misused by workers, supported by most employers now, and isn't hurting profits for the vast majority.

The federal Bureau of Labor Statistics also said the benefits of paid sick leave have been shown to help productivity and reduce the spread of workplace disease, but it wasn't specific about the extent.

It is "not only the right thing to do for families, but good for businesses and the economy," said Sen. Harkin, who is chairman of a Senate labor committee. His Healthy Families Act would let workers accrue up to seven paid sick days a year through hours worked to care for themselves or family, including doctor visits.

Tennessee Sen. Lamar Alexander, the top Republican on the labor committee, contends such a requirement "would only make a bad unemployment problem worse" by increasing hiring costs.

The majority of workers who already have paid sick time receive it from employers that provide it voluntarily, usually through a fixed number of days or, less frequently, as needed.

Karen Barnes, a single mother and part-time director of a Philadelphia day care, wants options like that. She is advocating for a paid-sick bill that

ASSURANCE OF LEARNING READY

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Essentials of Contemporary Management, Sixth Edition,* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution.

Each test bank question for *Essentials of Contemporary Management* maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test and EZ Test Online, or *Connect Management* to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB STATEMENT

The McGraw-Hill Companies are a proud corporate member of AACSB International. To support the importance and value of AACSB accreditation, *Essentials of Contemporary Management, Sixth Edition,* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and/or the test bank to the six general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Essentials of Contemporary Management, Sixth Edition,* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Essentials of Contemporary Management* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Essentials of Contemporary Management* labeled selected questions according to the six general knowledge and skill areas.

INTEGRATED LEARNING SYSTEM

Great care was used in the creation of the supplementary material to accompany *Essentials of Contemporary Management.* Whether you are a seasoned faculty member or a newly minted instructor, you'll find our support materials to be the most thorough and thoughtful ever created.

Instructor's Manual (IM)   The IM supporting this text has been completely updated in order to save instructors' time and support them in delivering the most effective course to their students. For each chapter, this manual provides a chapter overview and lecture outline with integrated PowerPoint® slides, lecture enhancers, notes for end-of-chapter materials, video cases and teaching notes, and more.

PowerPoint® Presentation   Forty slides per chapter feature reproductions of key tables and figures from the text as well as original content. Lecture-enhancing additions such as quick polling questions and company or video examples from outside the text can be used to generate discussion and illustrate management concepts.

Test Bank and EZ Test   The test bank has been thoroughly reviewed, revised, and improved. There are approximately 100 questions per chapter, including true/false, multiple-choice, and essay. Each question is tagged with learning objective, level of difficulty (corresponding to Bloom's taxonomy of educational objectives), AACSB standards, the correct answer, and page references. The new AACSB tags allow instructors to sort questions by the various standards and create reports to help give assurance that they are including recommended learning experiences in their curricula.

McGraw-Hill's flexible and easy-to-use electronic testing program **EZ Test** allows instructors to create tests from book-specific items. It accommodates a wide range of question types, and instructors may add their own questions. Multiple versions of the test can be created, and any test can be exported

for use with course management systems such as WebCT or BlackBoard. And now **EZ Test Online** (**www.eztestonline.com**) allows you to access the test bank virtually anywhere at any time, without installation, and it's even easier to use. Additionally, it allows you to administer EZ Test–created exams and quizzes online, providing instant feedback for students.

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McGraw-Hill *Connect Management* helps prepare students for their future by enabling faster learning, more efficient studying, and higher retention of knowledge.

MCGRAW-HILL *CONNECT MANAGEMENT* FEATURES

Connect Management offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect Management,* students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. *Connect Management* offers you the features described below.

Diagnostic and Adaptive Learning of Concepts: LearnSmart

Students want to make the best use of their study time. The LearnSmart adaptive self-study technology within *Connect Management* provides students with a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to every student response and automatically delivers concepts that advance the student's understanding while reducing time devoted to the concepts already mastered. The result for every student is the fastest path to mastery of the chapter concepts. LearnSmart

- Applies an intelligent concept engine to identify the relationships between concepts and to serve new concepts to each student only when he or she is ready.
- Adapts automatically to each student, so students spend less time on the topics they understand and practice more those they have yet to master.
- Provides continual reinforcement and remediation, but gives only as much guidance as students need.

- Integrates diagnostics as part of the learning experience.
- Enables you to assess which concepts students have efficiently learned on their own, thus freeing class time for more applications and discussion.

Online Interactives

Online Interactive*s* are engaging tools that teach students to apply key concepts in practice. These Interactives provide them with immersive, experiential learning opportunities. Students will engage in a variety of interactive scenarios to deepen critical knowledge of key course topics. They receive immediate feedback at intermediate steps throughout each exercise, as well as comprehensive feedback at the end of the assignment. All Interactives are automatically scored and entered into the instructor gradebook.

Student Progress Tracking

Connect Management keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
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Smart Grading

When it comes to studying, time is precious. ***Connect Management*** helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to

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- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Simple Assignment Management

With ***Connect Management,*** creating assignments is easier than ever, so you can spend more time teaching and less time managing. The assignment management function enables you to

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Instructor Library

The *Connect Management* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Management* Instructor Library includes

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- TestBank.
- Management Asset Gallery.
- eBook.

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The *Connect Management* Student Study Center is the place for students to access additional resources. The Student Study Center

- Offers students quick access to lectures, practice materials, eBooks, and more.
- Provides instant practice material and study questions, easily accessible on the go.
- Give students access to self-assessments, video materials, Manager's Hot Seat, and more.

Lecture Capture Via Tegrity Campus

Increase the attention paid to lecture discussion by decreasing the attention paid to note taking. For an additional charge, Lecture Capture offers new ways for students to focus on the in-class discussion, knowing they can revisit important topics later. See page xxxviii for further information.

McGraw-Hill *Connect Plus Management*

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In short, *Connect Management* offers you and your students powerful tools and features that optimize your time and energies, enabling you to focus on course content, teaching, and student learning. *Connect Management* also offers a wealth of content resources for both instructors and students. This state-of-the-art, thoroughly tested system supports you in preparing students for the world that awaits.

For more information about *Connect,* go to **www.mcgrawhillconnect.com,** or contact your local McGraw-Hill sales representative.

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Tegrity Campus is a service that makes class time available 24/7 by automatically capturing every lecture in a searchable format for students to review when they study and complete assignments. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac.

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- Record and distribute your lecture with a click of a button.
- Record and index PowerPoint® presentations and anything shown on your computer so it is easily searchable, frame by frame.
- Offer access to lectures anytime and anywhere by computer, iPod, or mobile device.
- Increase intent listening and class participation by easing students' concerns about note taking. Lecture Capture will make it more likely you will see students' faces, not the tops of their heads.

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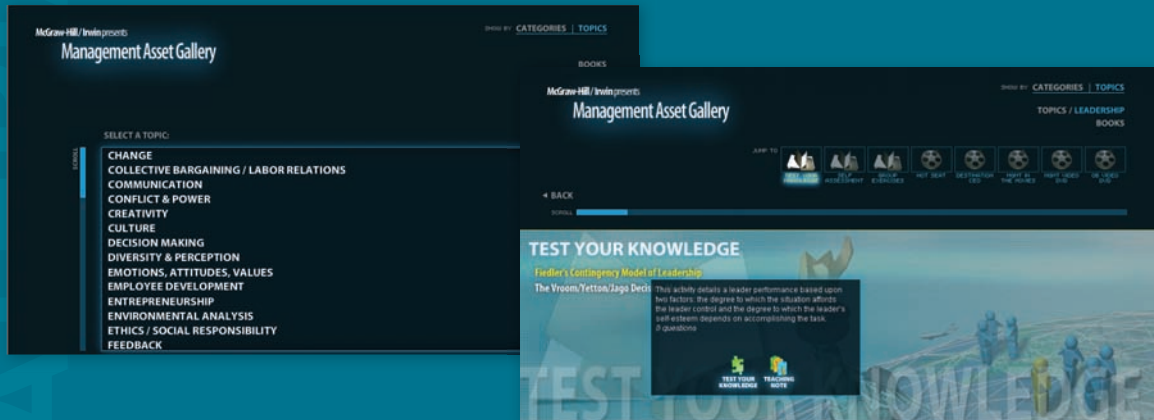
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Essentials of

Contemporary Management

1

The Management Process Today

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1 Describe what management is, why management is important, what managers do, and how managers use organizational resources efficiently and effectively to achieve organizational goals. **[LO 1-1]**

2 Distinguish among planning, organizing, leading, and controlling (the four principal managerial tasks), and explain how managers' ability to handle each one affects organizational performance. **[LO 1-2]**

3 Differentiate among three levels of management, and understand the tasks and responsibilities of managers at different levels in the organizational hierarchy. **[LO 1-3]**

4 Distinguish among three kinds of managerial skill, and explain why managers are divided into different departments to perform their tasks more efficiently and effectively. **[LO 1-4]**

5 Discuss some major changes in management practices today that have occurred as a result of globalization and the use of advanced information technology (IT). **[LO 1-5]**

6 Discuss the principal challenges managers face in today's increasingly competitive global environment. **[LO 1-6]**

Tim Cook Succeeds Steve Jobs as CEO of Apple

What is High-Performance Management?

In 2011 Tim Cook took full management control of Apple as its CEO six weeks after Steve Jobs stepped down as its CEO before his untimely death. Cook had been Apple's longtime chief operating officer and had been responsible for organizing and controlling its global supply chain to bring its innovative products to market as quickly and efficiently as possible.[1] One of Apple's major strengths is to continuously introduce new and improved products such as its iPhones and iPads, often at six-month and yearly intervals, to offer customers more options and to stay ahead of the competition. Cook was acknowledged as the leader who controlled Apple's purchasing and manufacturing operations, and of course he had intimate knowledge of Apple's new product design and engineering. However, Steve Jobs had been the manager who ultimately decided what kinds of new products Apple would develop and the design of their hardware and software.

Starting with Apple's founding in 1977, Jobs saw his main task as leading the planning process to develop new and improved PCs. Although this was a good strategy, his management style was often arbitrary and overbearing. For example, Jobs often played favorites among the many project teams he created. His approach caused many conflicts and led to fierce competition, many misunderstandings, and growing distrust among members of the different teams.

Jobs's abrasive management style also brought him into conflict with John Sculley, Apple's CEO. Employees became unsure whether Jobs (the chairman) or Sculley was leading the company. Both managers were so busy competing for control of Apple that the task of ensuring its resources were being used efficiently was neglected. Apple's costs soared, and its performance and profits fell. Apple's directors became convinced Jobs's management style was the heart of the problem and asked him to resign.

After he left Apple, Jobs started new ventures such as PC maker NEXT to develop powerful new PCs and Pixar, the computer animation company, which become a huge success after it made blockbuster movies such as *Toy Story* and *Finding Nemo,* both distributed by Walt Disney. In both these companies Jobs developed a clear vision for managers to follow, and he built strong management teams to lead the project teams developing the new PCs and movies. Jobs saw his main task as planning the companies' future product development strategies. However, he left the actual tasks of leading and organizing to managers below him. He gave them the autonomy to put his vision into practice. In 1996 Jobs convinced Apple to buy NEXT and use its powerful operating system in new Apple PCs. Jobs began working inside Apple to lead its turnaround and was so successful that in 1997 he was asked to become its CEO. Jobs agreed and continued to put

the new management skills he had developed over time to good use.

The first thing he did was create a clear vision and goals to energize and motivate Apple employees. Jobs decided that, to survive, Apple had to introduce state-of-the-art, stylish PCs and related digital equipment. He delegated considerable authority to teams of employees to develop all the many different hardware and software components necessary to build the new products, but he also established strict timetables and challenging "stretch" goals, such as bringing new products to market as quickly as possible, for these teams. Moreover, he was careful to keep the different teams' activities separate; only he and his chief designers knew what the new products would actually look like and their capabilities—and his demand for secrecy increased over time.[2]

In 2003 Jobs announced that Apple was starting a new service called iTunes, an online music store from which people could download songs for 99 cents. At the same time Apple introduced its iPod music player, which can store thousands of downloaded songs, and it quickly became a runaway success. By 2006 Apple had gained control of 70% of the digital music player market and 80% of the online music download business, and its stock price soared to a new record level. The next milestone in Jobs's product strategy came in 2007 when he announced that Apple would introduce the iPhone.

Once again he assembled different teams of engineers not only to develop the new phone's hardware and software but also to create an online iPhone applications platform where users could download applications to make their iPhones more valuable. In 2010 Jobs announced that Apple planned to introduce a new iPad tablet computer.

Since Cook assumed leadership of Apple, it has become apparent to its employees and shareholders that he brings a new, more open, and participative approach to managing the company. While Jobs was respected as a guru, magician, and ruler—someone to be revered as well as feared—Cook makes himself available to employees in Apple's cafeteria and talks directly to shareholders and analysts, something that Jobs had no time for. Cook has also worked to integrate Apple's global supply chain and project management functions with its engineering functions to break down the barriers between teams in the company and increase the flow of information between product units as the company grows and becomes more complex. Following Jobs, Cook's goal is for Apple to focus on introducing innovative new products and not to lose its commitment to being the leader in every market in which it competes. However, while Cook is a demanding boss, he is down to earth, approachable, and well respected, as opposed to Jobs who became increasingly isolated, forbidding, and secretive as time went on.

Overview   The story of Steve Jobs's and Tim Cook's rise to the top of Apple illustrates many challenges facing people who become managers: Managing a company is a complex activity, and effective managers must possess many kinds of skills, knowledge, and abilities. Management is an unpredictable process. Making the right decision is difficult; even effective managers often make mistakes, but the most effective managers, like Jobs and Cook, learn from their mistakes and continually strive to find ways to increase their companies' performance. In 2013 Cook was facing a host of new competitive challenges.

In this chapter we look at what managers do and what skills and abilities they must develop to manage their organizations successfully. We also identify the different kinds of managers that organizations need and the skills and abilities they must develop to succeed. Finally, we identify some challenges managers must address if their organizations are to grow and prosper.

What Is Management?

When you think of a manager, what kind of person comes to mind? Do you see someone who, like Tim Cook, can determine the future prosperity of a large for-profit company? Or do you see the administrator of a not-for-profit organization, such as a community college, library, or charity, or the person in charge of your local Walmart store or McDonald's restaurant, or the person you answer to if you have a part-time job? What do all these people have in common? First, they all work in organizations. Organizations are collections of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes.[3] Second, as managers, they are the people responsible for supervising and making the most of an organization's human and other resources to achieve its goals.

Management, then, is the planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively. An organization's *resources* include assets such as people and their skills, know-how, and experience; machinery; raw materials; computers and information technology; and patents, financial capital, and loyal customers and employees.

Achieving High Performance: A Manager's Goal

One of the most important goals that organizations and their members try to achieve is to provide some kind of good or service that customers value or desire. The principal goal of CEO Tim Cook is to manage Apple so it creates a continuous stream of new and improved goods and services—such as more powerful phones and tablets and to provide excellent quality customer service and support versatility that customers are willing to buy. In 2013 Apple still led the field in many of these areas but competitors like Samsung and Google were quickly catching up. Apple managers are currently working to make its hardware, software, and support service the most competitive in its industry. Similarly, the principal goal of doctors, nurses, and hospital administrators is to increase their hospital's ability to make sick people well—and to do so cost-effectively. Likewise, the principal goal of each McDonald's restaurant manager is to produce burgers, salads, fries, coffees, and drinks that people want to pay for and enjoy so they become loyal return customers.

Organizational performance is a measure of how efficiently and effectively managers use available resources to satisfy customers and achieve organizational goals. Organizational performance increases in direct proportion to increases in efficiency and effectiveness (see Figure 1.1). What are efficiency and effectiveness?

Efficiency is a measure of how productively resources are used to achieve a goal.[4] Organizations are efficient when managers minimize the amount of input resources (such as labor, raw materials, and component parts) or the amount of time needed to produce a given output of goods or services. For example, McDonald's develops ever more efficient fat fryers that not only reduce the amount of oil used in cooking, but also speed up the cooking of french fries. UPS develops new work routines to reduce delivery time, such as instructing drivers to leave their truck doors open when going short distances. Tim Cook instructed Apple's engineers not only to develop ever more compact, powerful, and multipurpose mobile devices but also to find cost-effective ways to do so. A manager's responsibility is to ensure that an organization and its members perform as efficiently as possible all the work activities needed to provide goods and services to customers.

organizations
Collections of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes.

management
The planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively.

LO 1-1 Describe what management is, why management is important, what managers do, and how managers utilize organizational resources efficiently and effectively to achieve organizational goals.

organizational performance
A measure of how efficiently and effectively a manager uses resources to satisfy customers and achieve organizational goals.

efficiency A measure of how well or how productively resources are used to achieve a goal.

Figure 1.1

Efficiency,
Effectiveness, and
Performance in an
Organization

EFFICIENCY

	LOW	HIGH
HIGH	**Low efficiency/ High effectiveness** Manager chooses the right goals to pursue, but does a poor job of using resources to achieve these goals. Result: A product that customers want, but that is too expensive for them to buy.	**High efficiency/ High effectiveness** Manager chooses the right goals to pursue and makes good use of resources to achieve these goals. Result: A product that customers want at a quality and price that they can afford.
LOW	**Low efficiency/ Low effectiveness** Manager chooses the wrong goals to pursue and makes poor use of resources. Result: A low-quality product that customers do not want.	**High efficiency/ Low effectiveness** Manager chooses inappropriate goals, but makes good use of resources to pursue these goals. Result: A high-quality product that customers do not want.

EFFECTIVENESS

High-performing organizations are efficient *and* effective.

effectiveness

A measure of the
appropriateness of the
goals an organization is
pursuing and the degree
to which the organization
achieves those goals.

Effectiveness is a measure of the *appropriateness* of the goals that managers have selected for the organization to pursue and the degree to which the organization achieves those goals. Organizations are effective when managers choose appropriate goals and then achieve them. Some years ago, for example, managers at McDonald's decided on the goal of providing breakfast service to attract more customers. The choice of this goal has proved smart: Sales of breakfast food now account for more than 30% of McDonald's revenues and are still increasing because sales of its new lines of coffees and fruit drinks have risen sharply. Cook's goal is to create a continuous flow of innovative PC and digital entertainment products. High-performing organizations, such as Apple, McDonald's, Walmart, Intel, Home Depot, Accenture, and Habitat for Humanity are simultaneously efficient and effective. Effective managers are those who choose the right organizational goals to pursue and have the skills to utilize resources efficiently.

Why Study Management?

Today more students are competing for places in business courses than ever before; the number of people wishing to pursue Master of Business Administration (MBA) degrees—today's passport to an advanced management position—either on campus or from online universities and colleges is at an all-time high. Why is the study of management currently so popular?[5]

First, in any society or culture resources are valuable and scarce; so the more efficient and effective use that organizations can make of those resources, the greater the relative well-being and prosperity of people in that society. Because managers decide how to use many of a society's most valuable resources—its skilled employees, raw materials like oil and land, computers and information systems,

and financial assets—they directly impact the well-being of a society and the people in it. Understanding what managers do and how they do it is of central importance to understanding how a society creates wealth and affluence for its citizens.

Second, although most people are not managers, and many may never intend to become managers, almost all of us encounter managers because most people have jobs and bosses. Moreover, many people today work in groups and teams and have to deal with coworkers. Studying management helps people deal with their bosses and their coworkers. It reveals how to understand other people at work and make decisions and take actions that win the attention and support of the boss and coworkers. Management teaches people not yet in positions of authority how to lead coworkers, solve conflicts between them, achieve team goals, and thus increase performance.

Third, in any society, people are in competition for a very important resource—a job that pays well and provides an interesting and satisfying career; and understanding management is one important path toward obtaining this objective. In general, jobs become more interesting the more complex or responsible they are. Any person who desires a motivating job that changes over time might therefore do well to develop management skills and become promotable. A person who has been working for several years and then returns to school for an MBA can usually, after earning the degree, find a more interesting, satisfying job that pays significantly more than the previous job. Moreover, salaries increase rapidly as people move up the organizational hierarchy, whether it is a school system, a large for-profit business organization, or a not-for-profit charitable or medical institution.

Indeed, the salaries paid to top managers are enormous. For example, the CEOs and other top executives or managers of companies such as Apple, Walt Disney, GE, and McDonald's receive millions in actual salary each year. However, even more staggering is the fact that many top executives also receive bonuses in the form of valuable stock or shares in the company they manage, as well as stock options that give them the right to sell these shares at a certain time in the future.[6] If the value of the stock goes up, the managers keep the difference between the option price at which they obtained the stock (say, $10) and what it is worth later (say, $33). For example, when Steve Jobs became CEO of Apple again in 1997, he accepted a salary of only $1 a year. However, he was also awarded stock options that, with the fast rise in Apple's stock price throughout the 2000s, are worth billions of dollars today (he was also given the free use of a $90 million jet).[7] In 2010 Goldman Sachs paid its top managers stock bonuses worth $16.2 billion, and its CEO Lloyd Blankfein received Goldman Sachs stock worth over $8 billion—but this was only half the value of the stock that JPMorgan Chase CEO Jamie Dimon received from his company![8] These incredible amounts of money provide some indication of both the responsibilities and the rewards that accompany the achievement of high management positions in major companies—and go to any entrepreneur who successfully creates and manages a small business that dominates its market. What is it that managers actually do to receive such rewards?[9]

Essential Managerial Tasks

The job of management is to help an organization make the best use of its resources to achieve its goals. How do managers accomplish this objective? They do so by performing four essential managerial tasks: *planning, organizing, leading,* and *controlling*. The arrows linking these tasks in Figure 1.2 suggest the sequence in which managers typically perform them. French manager Henri Fayol first outlined the nature of these managerial activities around the turn of the 20th

century in *General and Industrial Management,* a book that remains the classic statement of what managers must do to create a high-performing organization.[10]

Managers at all levels and in all departments—whether in small or large companies, for-profit or not-for-profit organizations, or organizations that operate in one country or throughout the world—are responsible for performing these four tasks, which we look at next. How well managers perform these tasks determines how efficient and effective their organizations are.

Planning

To perform the planning task, managers identify and select appropriate organizational goals and courses of action; they develop *strategies* for how to achieve high performance. The three steps involved in planning are (1) deciding which goals the organization will pursue, (2) deciding what strategies to adopt to attain those goals, and (3) deciding how to allocate organizational resources to pursue the strategies that attain those goals. How well managers plan and develop strategies determines how effective and efficient the organization is—its performance level.[11]

As an example of planning in action, consider the situation confronting Michael Dell, founder and CEO of Dell Computer, who in 2013 was struggling to increase the PC sales of his company given competition from HP, Apple, and Acer. In 1984 the 19-year-old Dell saw an opportunity to enter the PC market by assembling PCs and selling them directly to customers. Dell began to plan how to put his idea into practice. First, he decided that his goal was to sell an inexpensive PC, to undercut the prices charged by companies like Apple, Compaq, and HP. Second, he had to choose a course of action to achieve this goal. He decided to sell PCs directly to customers by telephone and so bypass expensive computer stores that sold Compaq and Apple PCs. He also had to decide how to obtain low-cost components and how to tell potential customers about his products. Third, he had to decide how to allocate his limited funds (he had only $5,000) to buy labor and other resources. He hired three people and worked with them around a table to assemble his PCs.

Figure 1.2
Four Tasks of Management

Michael Dell sits in the dorm room at the University of Texas–Austin, where he launched his personal computer company as a college freshman. When he visited, the room was occupied by freshmen Russell Smith (left) and Jacob Frith, both from Plano, Texas.

Thus to achieve his goal of making and selling low-price PCs, Dell had to plan, and as his organization grew, his plans changed and became progressively more complex. After setbacks during the 2000s that saw HP, Apple, and a new Taiwanese company, Acer, achieve competitive advantage over Dell in performance, styling, or pricing, Dell and his managers actively searched for new strategies to better compete against agile rivals and help the company regain its position as the highest-performing PC maker. In 2013 Dell was still locked in a major battle with its competitors, and its performance had not recovered despite attempts to introduce innovative new models of laptops and digital devices. Dell needed a new approach to planning to compete more effectively; and new strategies Dell has followed in the 2010s include more powerful customized lines of new laptops, and a major focus on providing computer hardware, software, and consulting geared to the need of corporate customers.

strategy A cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals.

As the battle between Dell, HP, Acer, and Apple suggests, the outcome of planning is a strategy, a cluster of decisions concerning what organizational goals to pursue, what actions to take, and how to use resources to achieve these goals. The decisions that were the outcome of Michael Dell's original planning formed a *low-cost strategy*. A low-cost strategy is a way of obtaining customers by making decisions that allow an organization to produce goods or services more cheaply than its competitors so it can charge lower prices than they do. Throughout its history, Dell has continuously refined this strategy and explored new ways to reduce costs. Dell became the most profitable PC maker as a result of its low-cost strategy, but when HP and Acer also lowered their costs, it lost its competitive advantage and its profits fell. By contrast, since its founding Apple's strategy has been to deliver to customers new, exciting, and unique computer and digital products, such as its iPods, iPhones, and its new iPads—a strategy known as *differentiation*.[12] Although this strategy almost ruined Apple in the 1990s when customers bought inexpensive Dell PCs rather its premium-priced PCs, today Apple's sales have boomed as customers turn to its unique PCs and digital products. To fight back, Dell has been forced to offer more exciting, stylish products—hence its decision to introduce powerful customized PCs.

Planning strategy is complex and difficult, especially because planning is done under uncertainty when the result is unknown so that either success or failure is a possible outcome of the planning process. Managers take major risks when they commit organizational resources to pursue a particular strategy. Dell enjoyed great success in the past with its low-cost strategy; but presently Apple is performing spectacularly with its differentiation strategy and hurting competitors such as HP, Sony, Nokia, and Blackberry. In Chapter 6 we focus on the planning process and on the strategies organizations can select to respond to opportunities or threats in an industry. The story of the way Joe Coulombe, the founder of Trader Joe's, used his abilities to plan and make the right decisions to create the strategies necessary for his and his new organization's success is discussed in the following "Manager as a Person" box.