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MANAGEMENT

Leading & Collaborating in a Competitive World

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Bateman Snell Konopaske



TWELFTH EDITION

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MANAGEMENT

LEADING & COLLABORATING IN A COMPETITIVE WORLD

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MANAGEMENT: LEADING & COLLABORATING IN A COMPETITIVE WORLD,
TWELFTH EDITION

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For my parents, Tom and Jeanine Bateman,
and Mary Jo, Lauren, T.J., and James

and

My parents, John and Clara Snell,
and Marybeth, Sara, Jack, and Emily

and

My parents, Art and Rose Konopaske
and Vania, Nick, and Isabella

About the Authors

THOMAS S. BATEMAN

Thomas S. Bateman is Bank of America professor and management area coordinator in the McIntire School of Commerce at the University of Virginia. He teaches leadership courses and is director of a new leadership minor open to undergraduate students of all majors. Prior to joining the University of Virginia, he taught organizational behavior at the Kenan-Flagler Business School of the University of North Carolina to undergraduates, MBA students, PhD students, and practicing managers. He also taught for two years in Europe as a visiting professor at the Institute for Management Development (IMD), one of the world's leaders in the design and delivery of executive education. Professor Bateman completed his doctoral program in business administration in 1980 at Indiana University. Prior to receiving his doctorate, Dr. Bateman received his BA from Miami University. In addition to Virginia, UNC-Chapel Hill, and IMD, Dr. Bateman has taught at Texas A&M, Tulane, and Indiana universities.



Professor Bateman is an active management researcher, writer, and consultant. He serves on the editorial boards of the *Academy of Management Review*, the *Academy of Management Journal*, and the *Asia Pacific Journal of Business and Management*. His articles have appeared in professional journals such as the *Academy of Management Journal*, *Academy of Management Review*, *Journal of Applied Psychology*, *Organizational Behavior and Human Decision Processes*, *Journal of Management*, *Business Horizons*, *Journal of Organizational Behavior*, and *Decision Sciences*.

Tom's current consulting and research center on practical wisdom in business executives, leadership in the form of problem solving at all organizational levels, various types of proactive behavior by employees at all levels, and the successful pursuit of long-term work goals. He works with organizations including Singapore Airlines, the Brookings Institution, the U.S. Chamber of Commerce, the Nature Conservancy, and LexisNexis.

SCOTT A. SNELL



Scott Snell is professor of business administration at the University of Virginia's Darden Graduate School of Business. He teaches courses in leadership, organizational capability development, and human capital consulting. His research focuses on human resources and the mechanisms by which organizations generate, transfer, and integrate new knowledge for competitive advantage. He is co-author of four

books: *Managing People and Knowledge in Professional Service Firms*, *Management: Leading & Collaborating in a Competitive World*, *M: Management*, and *Managing Human Resources*. His work has been published in a number of journals such as the *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Journal of Management*, *Journal of Management Studies*, and *Human Resource Management*, and he was recently listed among the top 100 most-cited authors in scholarly journals of management. He has served on the boards of the Strategic Management Society's human capital group, the Society for Human Resource Management Foundation, the Academy of Management's human resource division, the *Human Resource Management Journal*, the *Academy of Management Journal*, and the *Academy of Management Review*. Professor Snell has worked with companies such as AstraZeneca, Deutsche Telekom, Shell, and United Technologies to align strategy, capability, and investments in talent. Prior to joining the Darden faculty in 2007, he was professor and director of executive education at Cornell University's Center for Advanced Human Resource Studies and a professor of management in the Smeal College of Business at Pennsylvania State University. He received a BA in psychology from Miami University, as well as MBA and PhD degrees in business administration from Michigan State University.

ROBERT KONOPASKE

Rob Konopaske is an associate professor of management and principles of management course coordinator in the McCoy College of Business at Texas State University. A passionate educator who cares deeply about providing students with an exceptional learning experience, Rob has taught numerous undergraduate, graduate, and executive management courses, including Introduction to Management, Organizational Behavior, Human Resource Management, International Human Resources Management, and International Business. He has received numerous teaching honors over the years, most recently the 2014 Gregg Master Teacher Award and 2012–2013 Namesake for the PAWS Preview new student socialization program at Texas State University (an honor bestowed annually upon eight out of approximately 2,000 faculty and staff throughout the university). Rob earned his doctoral degree in business administration (management) at the University of Houston, a master in international business studies (MIBS) degree from the University of South Carolina, and a Bachelor of Arts degree (Phi Beta Kappa) from Rutgers University. He has taught at the University of



Houston, the University of North Carolina at Wilmington, and Florida Atlantic University.

Rob is co-author of several recent editions of six books: *Management: Leading & Collaborating in a Competitive World*, *M: Management, Organizational Behavior and Management*, *Human Resource Management*, *Global Management and Organizational Behavior*, and *Organizations: Behavior, Structure, Processes*. The eleventh edition of *Organizations* won a McGuffey Award (for longevity of textbooks and learning materials whose excellence has been demonstrated over time) from the national Text and Academic Authors' Association.

Rob's research has been published in such outlets as the *Journal of Applied Psychology*, *Academy of Management Executive*, *Management International Review*, *Business Horizons*, *Human Resource Management*, *Journal of Business Research*, *Journal of Management Education*, *Nonprofit Management and Leadership*, *Journal of Managerial Psychology*, and *Human Resource Management Review*. Dr. Konopaske currently serves on the editorial board of the *International Journal of Human Resource Management*.

Rob has lived and worked internationally, speaks three languages, and has held management positions with a large nonprofit organization and a Fortune 500 multinational firm. He consults, trains, and conducts research projects for a wide range of companies and industries. Current or former clients include PricewaterhouseCoopers, Credit Suisse, KPMG, New Braunfels Utilities, and Johnson & Johnson.

Preface

Welcome to our 12th edition! Thank you to everyone who has used and learned from previous editions. We are proud to present to you our newest and most exciting edition.

Our Goals

Our mission with this text hasn't changed from that of our previous editions: to inform, instruct, and inspire. We hope to inform by providing descriptions of the important concepts and practices of modern management. We hope to instruct by describing how you can take action on the ideas discussed. We hope to inspire not only by writing in an interesting and optimistic way but also by providing a real sense of the opportunities ahead of you. Whether your goal is starting your own company, leading a team to greatness, building a strong organization, delighting your customers, or generally forging a positive, and sustainable future, we want to inspire you to take constructive actions.

We hope to inspire you to be both a thinker and a doer. We want you to think about the issues, think about the impact of your actions, think before you act. But being a good thinker is not enough; you also must be a doer. Management is a world of action. It is a world that requires timely and appropriate action. It is a world not for the passive but for those who commit to positive accomplishments.

Keep applying the ideas you learn in this course, read about management online outside of this course, and keep learning about management after you leave school and continue your career. Make no mistake about it: Learning about management is a personal voyage that will last years, an entire career.

Competitive Advantage

Today's world is competitive. Never before has the world of work been so challenging. Never before has it been so imperative to your career that you learn the skills of management. Never before have people had so many opportunities and challenges with so many potential risks and rewards.

You will compete with other people for jobs, resources, and promotions. Your organization will compete with other firms for contracts, clients, and customers. To survive the competition, and to thrive, you must perform in ways that give you an edge over your competitors, that make the other party want to hire you, buy from you, and do repeat

business with you. You will want them to choose you, not your competitor.

To survive and thrive, today's managers have to think and act strategically. Today's customers are well educated, aware of their options, and demanding of excellence. For this reason, managers today must think constantly about how to build a capable workforce and manage in a way that delivers the goods and services that provide the best possible value to the customer.

By this standard, managers and organizations must perform. Six essential types of performance, on which the organization beats, equals, or loses to the competition, are *cost, quality, speed, innovation, service, and sustainability*. These six performance dimensions, when managed well, deliver value to the customer and competitive advantage to you and your organization. We will elaborate on all of these topics throughout the book.

The idea is to keep you focused on a type of bottom line to make sure you think continually about delivering the goods that make both you and your organization a competitive success. This results-oriented approach is unique among management products.

Leading & Collaborating

Yes, business is competitive. But it's not that simple. In fact, to think strictly in terms of competition is overly cynical, and such cynicism can sabotage your performance. The other fundamental elements in the success equation are collaboration and leadership. People working with, rather than against, one another are essential to competitive advantage. Put another way, you can't do it alone—the world is too complex, and business is too challenging.

You need to work with your teammates. Leaders and followers need to work as collaborators more than as adversaries. Work groups throughout your organization need to cooperate with one another. Business and government, often viewed as antagonists, can work productively together. And today more than ever, companies that traditionally were competitors engage in joint ventures and find other ways to collaborate on some things even as they compete in others. Leadership is needed to make these collaborations happen.

How does an organization create competitive advantage through collaboration? It's all about the people, and it

derives from good leadership. Three stereotypes of leadership are that it comes from the top of the company, that it comes from one's immediate boss, and that it means being decisive and issuing commands. These stereotypes may contain grains of truth, but the reality is much more complex. First, the person at the top may or may not provide effective leadership—in fact, many observers believe that good leadership is far too rare. Second, organizations need leaders at all levels, in every team and work unit. This includes you, beginning early in your career, and this is why leadership is an important theme in this book. Third, leaders should be capable of decisiveness and of giving commands, but relying too much on this traditional approach isn't enough. Great leadership is far more inspirational than this and helps people both to think differently and to work differently—including working collaboratively with a focus on results.

Leadership—from your boss as well as from you—generates collaboration, which in turn creates results that are good for the company and good for the people involved.

As Always, Currency and Variety in the 12th Edition

It goes without saying that this textbook, in its 12th edition, remains on the cutting edge of topical coverage, updated via both current business examples and recent management research. Chapters have been thoroughly updated, and students are exposed to a broad array of important current topics. Moreover, we have expanded and strengthened our coverage of sustainability and social enterprise, topics on which we were early leaders and that we continue to care about as much as today's students.

We have done our very best to draw from a wide variety of subject matter, sources, and personal experiences. We continue to emphasize throughout the book themes such as real results, ethics, cultural considerations, and leadership and collaboration. Here is just a sampling of new highlights in the 12th edition—enough to convey the wide variety of people, organizations, issues, and contexts represented throughout the text.

Chapter 1

- New Social Enterprise about Richard Branson and the “B-Team” encouraging governments to act more quickly to limit greenhouse gas emissions.
- New Multiple Generations at Work about Boomer retirements creating career opportunities for Gen Xers and Millennials.
- New or revised high-impact exhibits: 1.1, 1.2, 1.3, and 1.4.

- New text example about the Internet, mobile applications, Big Data analytics, and cloud computing.
- New example of Singapore Airlines being named the most admired airline.
- New text example about Yum! Brands receiving most of its revenue from international markets.
- New example of Netflix using technology to disrupt Blockbuster in the movie rental space.
- New quote by W. Edwards Deming about the impact of long-term relationships on quality.

Chapter 2

- New Social Enterprise about Terracycle eliminating waste through “upcycling.”
- New Multiple Generations at Work about CVS Caremark turning to older workers to address staffing shortages.
- New or revised high-impact exhibits: 2.1, 2.3, 2.4, 2.5, 2.6, and 2.10.
- New text discussing post-recession employment and participation rates.
- New example about Google's Project Loon delivering high-speed Internet to people out of range of cell towers.
- New example of how companies use LinkedIn Pages, Google+ Communities to connect directly with customers.
- New text example of Affordable Care Act impacting the health care industry.
- New Concluding Case: “Tata Motors: From Cheap to Awesome?”

Chapter 3

- New Social Enterprise about Saul Garlick creating a self-sustaining organization to reduce poverty.
- New Multiple Generations at Work about PepsiCo and Intel crowdsourcing to generate ideas and buzz about new products.
- New or revised high-impact exhibits: 3.2, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, and 3.11.
- New text example of PillPack changing how customers interact with pharmacies.
- New passage about social loafing influencing team cohesiveness and performance.
- New exhibit highlighting the successes of college student entrepreneurs.

Chapter 4

- New Social Enterprise about Novo Nordisk monitoring progress toward achieving its Triple Bottom Line.
- New Multiple Generations at Work about employees and managers perceiving workers from other generational cohorts.
- New or revised high-impact exhibits: 4.2, 4.3, and 4.10.
- New example of Starbucks planning to open 3,400 stores in China.
- New text example of Walmart creating emergency plans to offer water, food, and pharmaceutical supplies in the wake of a natural disaster.
- New example about Ocean Renewable Power Company producing electric power from ocean and river currents.
- New example of AT&T acquiring DirecTV.
- New Bottom Line about how low-cost strategy impacts competitors' prices.

Chapter 5

- New Social Enterprise about a former yoga instructor trying to clean up the trucking industry.
- New Multiple Generations at Work about which generation is the least trusting of people.
- New or revised high-impact exhibits: 5.1, 5.2, 5.3, 5.5, and 5.6.
- New example of officials of Petroleo Brasileiro acting in an unethical manner.
- New text example describing why some companies post fake reviews on Yelp and Google Places.
- New example of Kickboard empowering teachers to use data to improve student performance in high-poverty areas.
- New example of Coca-Cola's goal to be "water-neutral" by 2020.

Chapter 6

- New Social Enterprise about student social entrepreneurs competing for a \$1 million Hultz Prize Foundation award.
- New Multiple Generations at Work about Millennials' need for international work experience to further their careers.
- New or revised high-impact exhibits: 6.1, 6.3, 6.5, and 6.8.
- New example about trade and foreign direct investment contributing to a flat world.

- New text example of New York Delhi, a small spice business in London, becoming a global exporter of spiced nuts and snacks.
- New example about the growing trend known as *inshoring*.
- New example of European Union regulators deciding to fine Google for alleged antitrust activities.
- New text example of Western and Chinese universities forming joint ventures in China.

Chapter 7

- New Social Enterprise about Nely Galan's Adelante movement to empower Latina entrepreneurs.
- New Multiple Generations at Work about how the Millennial founder of Attend.com believes three generations are better than one.
- New or revised high-impact exhibits: 7.1, 7.2, and 7.4.
- New example about Elon Musk's journey from birth in South Africa to entrepreneurial success in the United States.
- New text example of Johnson & Johnson collaborating with Google to develop advanced robots to aid in surgeries.
- New example of the Panera Bread chain of bakery-cafés expanding rapidly in recent years.
- New example of Houston Technology Center, an incubator for start-ups, specializing in energy and nanotechnology solutions.
- New example of peer-to-peer loans from Prosper and Lending Club helping entrepreneurs launch or expand their businesses.

Chapter 8

- New Social Enterprise about Kiva, a micro lender to entrepreneurs in 86 countries, using a functional organizational structure.
- New Multiple Generations at Work about why Millennials prefer collaborative, network-driven workplaces.
- New or revised high-impact exhibits: 8.2, 8.5, and 8.8.
- New example about how Steve Jobs viewed delegation.
- New example of global food giant Nestlé following a decentralized approach to decision making.
- New text example of IT firm EMC helping customers transition to cloud computing.
- New example of Avon Products restructuring of its sales force to focus more on the fast-growing Hispanic women market.

Chapter 9

- New Social Enterprise about organizations like Network for Good scaling their operations to increase reach and impact.
- New Multiple Generations at Work about companies creating internal structures that attract and retain early career employees.
- New or revised high-impact exhibits: 9.1, 9.2, 9.4, 9.7, and 9.9.
- New example of Tag Heuer, Google, and Intel collaborating to develop a smartwatch.
- New example of QuickenLoans expanding into the online banking market.
- New example of Netflix using insights mined from voluminous subscriber data (“Big Data”) to create its hit show *House of Cards*.
- New text examples of Baldrige National Quality Award winners, including PricewaterhouseCoopers Public Sector Practice and St. David’s Healthcare of Texas.
- New example about Wipro using lean methods to develop high-quality software projects.

Chapter 10

- New Social Enterprise about business school graduates’ willingness to work for social enterprises.
- New Multiple Generations at Work about ways that college students can develop the skills desired by employers.
- New or revised high-impact exhibits: 10.1, 10.5, 10.6, and 10.8.
- New example of Target, Valero Energy, and Verizon establishing internships to address the shortage of IT workers.
- New example of a former CEO of Yahoo being removed after listing a nonexistent computer science degree on his résumé.
- New text example describing AutoZone’s fine for gender and pregnancy discrimination.
- New example applying performance standards to a decision about pay.
- New section about organizations reducing health care benefits due to costs associated with the Patient Protection and Affordable Care Act.

Chapter 11

- New Social Enterprise about Change.org embracing diversity and inclusion.
- New Multiple Generations at Work about tips for individuals who want jobs that offer work–life balance.

- New or revised high-impact exhibits: 11.1, 11.2, 11.3, 11.4, 11.6, and 11.7.
- New example of Microsoft sponsoring undergraduate college minority students pursuing computer science or software engineering degrees.
- New example of industries most at risk of skill shortages, including health care (hospitals and nursing facilities), transportation, and social assistance.
- New text example about Zappos posting entertaining videos on YouTube to attract job applicants.
- New example of Procter & Gamble valuing diversity as an important part of fulfilling its strategy.
- New example of Lincoln Electric using ambicultural management practices.

Chapter 12

- New Social Enterprise about Richard Murphy using his leadership to serve the needs of tens of thousands of disadvantaged youth.
- New Multiple Generations at Work about some key attributes that Millennials desire in their leaders.
- New or revised high-impact exhibits: 12.1, 12.2, 12.3, 12.4, 12.5, and 12.12.
- New example of Howard Schultz, CEO of Starbucks, sharing his vision.
- New example of Steve Jobs having inspired extraordinary performance from employees.
- New text examples of transformational leaders, including Indra Nooyi (CEO of PepsiCo), Richard Branson (founder and CEO of Virgin Group), and Brad Smith (CEO of Intuit).

Chapter 13

- New Social Enterprise about Team Rubicon giving veterans a renewed sense of purpose.
- New Multiple Generations at Work about Ultra Mobile helping Millennial employees fulfill higher-order needs.
- New or revised high-impact exhibits: 13.1, 13.2, 13.3, 13.5, and 13.9.
- New example of the FBI setting goals to prevent terrorist attacks.
- New text example of Whole Foods wanting to improve people’s health and well-being.
- New example of YouEarnedIt creating a mobile app to increase employee engagement at work.
- New example about W.L. Gore encouraging associates to reach their full potential by directing their own work activities.

Chapter 14

- New Social Enterprise about individuals paying for coworking space with social capital.
- New Multiple Generations at Work about universities training students to work effectively in global virtual teams.
- New or revised high-impact exhibits: 14.1, 14.2, 14.4, and 14.5.
- New example of U.S. senators forming a task force to investigate how insurance companies assessed damage after Hurricane Sandy.
- New example of measuring team effectiveness and productivity.
- New text example of Geonetric giving employees responsibility for budgets and revenues.
- New example of Amazon using a two-pizza rule to determine optimal team size.

Chapter 15

- New Social Enterprise about key differences between social enterprises and other organizational forms.
- New Multiple Generations at Work about the advantages and disadvantages of employees bringing their own devices to work.
- New or revised high-impact exhibit: 15.2.
- New example of Groupon, IBM, and Blue Cross/Blue Shield using an online platform to generate anonymous ideas for problem solving.
- New text example of Microsoft's SharePoint enabling employees to collaborate on Web pages, documents, lists, calendars, and data.
- New example about Unisys and Sprint providing training programs to help employees use social media in a productive manner.
- New example of JPMorgan dropping voicemail service for its retail banking employees.
- New example of Automattic being a global virtual organization where employees stay connected through video chat and instant messaging.
- New example of Google Cafés encouraging employee interaction.

Chapter 16

- New Social Enterprise about measuring organizational impact.
- New Multiple Generations at Work about Adobe dropping traditional performance appraisals.

- New or revised high-impact exhibit: 16.10.
- New example of Accurid Pest Solutions installing GPS tracking software on company-issued smartphones to monitor employee movement.
- New example of Coca-Cola dealing with suppliers' violations related to employee overtime and rest days.
- New example of employees at the U.S. Department of Veteran Affairs falsifying the number of days it took veterans to receive medical help.
- New example of the National Marrow Donor Program using a balanced scorecard to achieve its mission.

Chapter 17

- New Social Enterprise about Bibak's inexpensive device to detect landmines buried near villages.
- New Multiple Generations at Work about companies using gamification to engage their customers and employees.
- New or revised high-impact exhibits: 17.1 and 17.5.
- New example of deploying robots in human-machine contexts.
- New text example of Apple adding "force of touch" to its next iPhone.
- New example about IBM developing a powerful new million-neuron chip.
- New example of General Motors launching InnovationXchange to tap employees' creative ideas.
- New example of Nestlé Health Sciences and Chi-Med establishing a joint venture.
- New text section about IDEO applying design thinking to help companies solve problems.

Chapter 18

- New Social Enterprise about co-creation between diverse stakeholders amplifying the impact of organizations.
- New Multiple Generations at Work about ways to align skills with the future of work.
- New or revised high-impact exhibits: 18.3, 18.4, 18.5, 18.7, and 18.11.
- New Management in Action about Shell Oil and its position on climate change.
- New example of futurists Fred Rogers and Richard Lalich predicting smart machines and processes will transform how we live.
- New text examples about how Airbnb, Uber, and PayPal disrupted the travel, taxi, and credit industries.

A Team Effort

This book is the product of a fantastic McGraw-Hill team. Moreover, we wrote this book believing that we are part of a team with the course instructor and with students. The entire team is responsible for the learning process.

Our goal, and that of your instructor, is to create a positive learning environment in which you can excel. But in the end, the raw material of this course is just words. It is up to you to use them as a basis for further reflection, deep learning, and constructive action.

What you do with the things you learn from this course, and with the opportunities the future holds, *counts*. As a manager, you can make a dramatic difference for yourself and for other people. What managers do matters *tremendously*.

Acknowledgments

This book could not have been written and published without the valuable contributions of many individuals.

Special thanks to Lily Bowles, Taylor Gray, and Meg Nexsen for contributing their knowledge, insights, and research to Appendix B: Managing in Our Natural Environment.

Our reviewers over the last 11 editions contributed time, expertise, and terrific ideas that significantly enhanced the quality of the text. The reviewers of the 12th edition are

Maria Aria
Camden County College

Charles Beem
Bucks County Community College

Patricia Crisp
University of Texas-Arlington

Randall Fletcher
Sinclair Community College

John Gironda
Nova Southeastern University

Frank Harber
Indian River State College

Nathan Himmelstein
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Erin McLaughlin
Nova Southeastern University

Thomas Norman
California State University

Martha Robinson
University of Memphis

Mansour Sharifzadeh
California State Polytechnic

Christy Shell
Houston Community College

Many individuals contributed directly to our development as textbook authors. Dennis Organ provided one of the authors with an initial opportunity and guidance in textbook writing. Jack Ivancevich did the same for one of the other authors. John Weimeister has been a friend and adviser from the very beginning. The entire McGraw-Hill Education team, starting with director Mike Ablassmeir (who spontaneously and impressively knew *Rolling Stone's* top three drummers of all time), provided great support and expertise to this new edition. Many thanks to managing development editor Christine Scheid for so much good work on previous editions and for continued friendship. And to our superb product developer, Katie Eddy, and Sam Deffenbaugh, marketing coordinator, thank you for your skills, professionalism, collegiality, good fun, and for making the new edition *rock!* What a team!

Finally, we thank our families. Our parents, Jeanine and Tom Bateman and Clara and John Snell, provided us with the foundation on which we have built our careers. They continue to be a source of great support. Our wives, Mary Jo, Marybeth, and Vania, demonstrated great encouragement, insight, and understanding throughout the process. Our children, Lauren, T.J., and James Bateman, Sara, Jack, and Emily Snell, and Nick and Isabella Konopaske,

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In this ever more competitive environment, there are six essential types of performance on which the organization beats, equals, or loses to the competition: cost, quality, speed, innovation, service, and sustainability. These six performance dimensions, when done well, deliver value to the customer and competitive advantage to you and your organization.

Throughout the text, Bateman, Snell, and Konopaske remind students of these six dimensions and their impact on the bottom line with marginal icons. This results-oriented approach is a unique hallmark of this textbook.

Questions have also now been added to this edition to emphasize the bottom line further. Answers to these questions can be found in the Instructor's Manual.

Bottom Line

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In all businesses—services as well as manufacturing—strategies that emphasize good customer service provide a critical competitive advantage.

Name a company that has delivered good customer service to you.



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In CASE You Haven't Noticed . . .

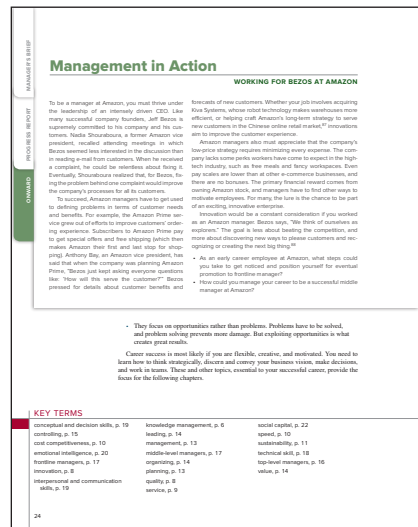
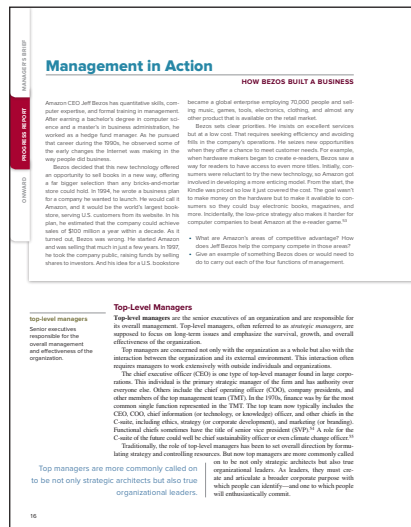
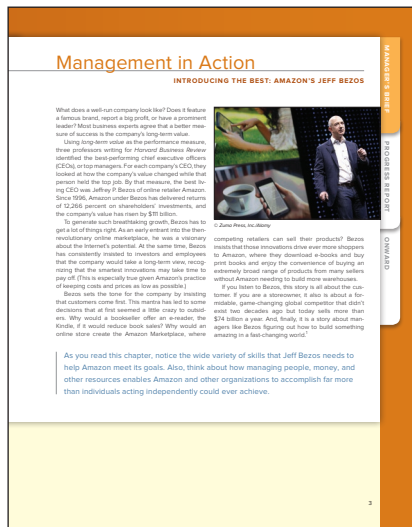
Bateman, Snell, and Konopaske (new co-author) have put together an outstanding selection of case studies of various lengths that highlight companies' ups and downs, stimulate learning and understanding, and challenge students to respond.

CHAPTER UNFOLDING CASES

Each chapter begins with a "Management in Action: Manager's Brief" section that describes an actual organizational situation, leader, or company. The Manager's Brief is referred to again within the chapter in the "Progress Report" section, showing the student

Instructors will find a wealth of relevant and updated cases in every chapter, using companies—big and small—that students will enjoy learning about.

how the chapter material relates back to the company, situation, or leader highlighted in the chapter opener. At the end of the chapter, the "Onward" section ties up loose ends and brings the material full circle for the student. Answers to Management in Action: section questions can be found in the Instructor's Manual.



SOCIAL ENTERPRISE (NEW)

Social Enterprise boxes have been added to each chapter to familiarize students with this fast-growing sector. Answers to Social Enterprise questions are included in the Instructor's Manual.

MULTIPLE GENERATIONS AT WORK (NEW)

In each chapter, a Multiple Generations at Work box is added to highlight some of the intergenerational challenges faced by managers and employees today.

CONCLUDING CASES

Each chapter ends with a case based on disguised but real companies and people that reinforces key chapter elements and themes.

SUPPLEMENTARY CASES

At the end of each part, an additional case is provided for professors who want students to delve further into part topics.

Assurance of Learning

① This 12th edition contains revised learning objectives for each chapter, and ② learning objectives are called out within the chapter where the content begins. ③ The Retaining What You Learned for each chapter ties the

①

CHAPTER 5

Ethics, Corporate Responsibility, and Sustainability

It is truly enough said that a corporation has no conscience; but a corporation of conscientious men is a corporation with a conscience.

—HENRY DAVID THOREAU

After studying Chapter 5, you will be able to:

- LO 1** Describe how different ethical perspectives guide decision making.
- LO 2** Explain how companies influence their ethics environment.
- LO 3** Outline a process for making ethical decisions.
- LO 4** Summarize the important issues surrounding corporate social responsibility.
- LO 5** Discuss reasons for businesses' growing interest in the natural environment.
- LO 6** Identify actions managers can take to manage with the environment in mind.

Ethics

- Ethical Systems
- Business Ethics
- The Ethics Environment
- Ethical Decision Making
- Courage

Corporate Social Responsibility

- Contrasting Views
- Reconciliation
- The Natural Environment and Sustainability**
- A Risk Society

Ecocentric Management

- Environmental Agendas for the Future

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②

Ethics, Corporate Responsibility, and Sustainability Chapter 5 143

promises, pursuing excellence, showing loyalty, being fair, acting with integrity, respecting others, and being a responsible citizen.⁹

Most people would agree that all of these values are admirable guidelines for behavior. However, ethics becomes a more complicated issue when a situation dictates that one value overrules others. An **ethical issue** is a situation, problem, or opportunity in which an individual must choose among several actions that must be evaluated as morally right or wrong.¹⁰

Ethical issues arise in every facet of life; we concern ourselves here with business ethics in particular. **Business ethics** comprises the moral principles and standards that guide behavior in the world of business.¹¹

Ethics becomes a more complicated issue when a situation dictates that one value overrules others.

ethical issue
Situation, problem, or opportunity in which an individual must choose among several actions that must be evaluated as morally right or wrong.

Ethical Systems
Moral philosophy refers to the principles, rules, and values people use in deciding what is right or wrong. This is a simple definition in the abstract but often terribly complex and difficult when facing real choices. How do you decide what is right and wrong? Do you know what criteria you apply and how you apply them?

Ethics scholars point to various major ethical systems as guides (see Exhibit 5.2).¹² The first ethical system, **universalism**, states that all people should uphold certain values, such as honesty, that society needs to function. Universal values are principles so fundamental to human existence that they are important in all societies—for example, rules against murder, deceit, torture, and oppression.

Some efforts have been made to establish global, universal ethical principles for business. The Caux Roundtable, a group of international executives based in Caux, Switzerland, worked with business leaders from Japan, Europe, and the United States to create the **Caux Principles**. Two basic ethical ideals underpin the Caux Principles: *kyosei* and human dignity. *Kyosei* means living and working together for the common good, allowing cooperation and mutual prosperity to coexist with healthy and fair competition. Human dignity concerns the value of each person as an end, not a means to the fulfillment of others' purposes.

LO 1

business ethics
The moral principles and standards that guide behavior in the world of business. See also *ethics*.

moral philosophy
Principles, rules, and values people use in deciding what is right or wrong.

universalism
The ethical system stating that all people should uphold certain values that

③

tion to the benefits to the world of sustainable practices, many now believe that preparing for and adapting to climate change is a big and fast-arriving challenge,¹¹⁰ and that solving environmental problems is one of the biggest opportunities in the history of commerce.¹¹¹

KEY TERMS

business ethics, p. 143	ethical issue, p. 143	philanthropic responsibilities, p. 154
carbon footprint, p. 157	ethical leader, p. 147	relativism, p. 144
Caux Principles, p. 143	ethical responsibilities, p. 153	Sarbanes-Oxley Act, p. 145
compliance-based ethics programs, p. 149	ethics, p. 140	stewardship, p. 152
corporate social responsibility (CSR), p. 152	integrity-based ethics programs, p. 149	sustainable growth, p. 157
ecocentric management, p. 157	Kohlberg's model of cognitive moral development, p. 145	transcendent education, p. 154
economic responsibilities, p. 153	legal responsibilities, p. 153	triple bottom line, p. 153
egoism, p. 144	life-cycle analysis (LCA), p. 157	universalism, p. 144
ethical climate, p. 146	moral philosophy, p. 143	utilitarianism, p. 143
		virtue ethics, p. 145

RETAINING WHAT YOU LEARNED

In Chapter 5, you learned that ethics is an important and personal issue that affects employees and organizational behavior. Ethical decisions are influenced by individuals' values and which ethical system they use to frame a given problem. Companies attempt to influence their ethics environment by establishing ethical programs or codes. Codes prescribe guidelines for how various stakeholders should

on the next page). Corporate social responsibility suggests that corporations have not only economic but also legal, ethical, and philanthropic responsibilities. While most companies used to view the natural environment as a source of raw materials and profit, now more companies are adopting a greener agenda for philosophical reasons and personal commitment to sustainable development. Ecocentric man

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ASSURANCE OF LEARNING READY

Many educational institutions today focus on the notion of assurance of learning, an important element of some accreditation standards. *Management: Leading & Collaborating in a Competitive World* is designed specifically to support instructors’ assurance of learning initiatives with a simple yet powerful solution. Each test bank question for *Management: Leading & Collaborating in a Competitive World* maps to a specific chapter learning objective listed in the text. Instructors can use our test bank software, EZ Test, to easily query for learning objectives that directly relate to the learning outcomes for their course. Instructors 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 TAGGING



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Understanding the importance and value of AACSB accreditation, *Management: Leading & Collaborating in a Competitive World* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the

test bank to the eight general knowledge and skill guidelines in the AACSB standards. The statements contained in *Management: Leading & Collaborating in a Competitive World* are provided only as a guide for the users of this product. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While the *Management: Leading & Collaborating in a Competitive World* teaching package makes no claim of any specific AACSB qualification or evaluation, we have within *Management: Leading & Collaborating in a Competitive World* labeled selected questions according to the eight general knowledge and skills areas.

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Outstanding Pedagogy

Management: Leading & Collaborating in a Competitive World is pedagogically stimulating and is intended to maximize student learning. With this in mind, we used

END-OF-CHAPTER ELEMENTS

- **Key terms** are page-referenced to the text and are part of the vocabulary-building emphasis. These terms are defined again in the glossary at the end of the book.
- **Retaining What You Learned** provides clear, concise responses to the learning objectives, giving students a quick reference for reviewing the important concepts in the chapter.
- **Discussion Questions**, which follow, are thought-provoking questions on concepts covered in the chapter and ask for opinions on controversial issues.
- **Experiential Exercises** in each chapter bring key concepts to life so students can experience them firsthand.

a wide array of pedagogical features—some tried and true, others new and novel:

KEY TERMS		
affective conflict, p. 90	devil's advocate, p. 91	maximizing, p. 82
bounded rationality, p. 94	dialectic, p. 91	nonprogrammed decisions, p. 77
brainstorming, p. 92	discounting the future, p. 86	optimizing, p. 82
certainty, p. 77	framing effects, p. 85	programmed decisions, p. 77
coalitional model, p. 94	garbage can model, p. 95	ready-made solutions, p. 79
cognitive conflict, p. 90	goal displacement, p. 89	risk, p. 78
conflict, p. 78	groupthink, p. 89	satisficing, p. 82
contingency plans, p. 81	illusion of control, p. 85	uncertainty, p. 77
custom-made solutions, p. 79	incremental model, p. 94	vigilance, p. 84

RETAINING WHAT YOU LEARNED	
<p>In Chapter 3, you learned that most managers make less than perfectly rational decisions because they lack the necessary information, time, or structure. The ideal decision-making process includes six steps (see Exhibit 3.3 below) and requires managers to ask themselves questions at each stage. The best decision hinges on the manager's ability to be vigilant at all stages of the decision-making process. Barriers can diminish the effectiveness of the decision-making process. While there are advantages and disadvantages of making decisions in groups, a good leader can manage the challenges by using the right leadership style, allowing constructive conflict, encouraging creativity, and brainstorming.</p> <p>Decision making in organizations is complex and individuals are often bounded by multiple constraints. Decisions</p>	<p>a discrepancy between the current state and a desired state and then delving below surface symptoms to uncover the underlying causes of the problem.</p> <ul style="list-style-type: none"> • The second phase, generating alternative solutions, requires adopting ready-made or designing custom-made solutions. • The third, evaluating alternatives, means predicting the consequences of different alternatives, sometimes through building scenarios of the future. • Fourth, a solution is chosen; the solution might maximize, satisfy, or optimize. • Fifth, people implement the decision; this phase requires more careful planning than it often receives.

DISCUSSION QUESTIONS	
<ol style="list-style-type: none"> 1. Discuss Boeing's Dreamliner in terms of risk, uncertainty, and how its managers handled the company's challenges. What is the current news on this company? 2. Identify some risky decisions you have made. Why did you take the risks? How did they work out? Looking back, what did you learn? 3. Identify a decision you made that had important unexpected consequences. Were the consequences good, bad, or both? Should you, and could you, have done anything differently in making the decision? 4. What effects does time pressure have on your decision making? In what ways do you handle it well and not so well? 	<ol style="list-style-type: none"> 6. What do you think are some advantages and disadvantages to using computer technology in decision making? 7. Do you think that when managers make decisions they follow the decision-making steps as presented in this chapter? Which steps are apt to be overlooked or given inadequate attention? What can people do to make sure they do a more thorough job? 8. Discuss the potential advantages and disadvantages of using a group to make decisions. Give examples from your experience. 9. Suppose you are the CEO of a major corporation and one of your company's oil tanks has ruptured, spilling thousands of gallons of oil into a river that empties into

EXPERIENTIAL EXERCISES	
3.1 DECISION MAKING IN ACTION	
<p>OBJECTIVE</p> <p>Learn how to improve your ability to make good decisions.</p>	<p>INSTRUCTIONS</p> <p>Refer back to Exhibit 3.3 in the chapter. Think back to a recent expensive purchase you made. It could have been a bike, mobile device, suit for interviews, and so forth. In order to evaluate the quality of your decision, please think about your purchase when answering each of the questions below.</p>
<p>Decision Making Worksheet</p> <ol style="list-style-type: none"> 1. What problem did you hope to solve by making this purchase? _____ 2. What alternative (or competing) products did you consider? _____ 	

Comprehensive Supplements

INSTRUCTOR'S MANUAL

The Instructor's Manual was revised and updated to include thorough coverage of each chapter as well as time-saving features such as an outline, key student questions, class prep work assignments, guidance for using the unfolding cases, video supplements, and, finally, PowerPoint slides.

TEST BANK

The Test Bank includes more than 100 questions per chapter in a variety of formats. It has been revised for accuracy and expanded to include a greater variety of comprehension and application (scenario-based) questions as well as tagged with Bloom's Taxonomy levels and AACSB requirements.

POWERPOINT PRESENTATION SLIDES

The PowerPoint presentation collection contains an easy-to-follow outline including figures downloaded from the text. In addition to providing lecture notes, the slides also include questions for class discussion as well as company examples not found in the textbook. This versatility allows you to create a custom presentation suitable for your own classroom experience.

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This interactive, video-based application puts students in the manager's hot seat, building critical thinking and decision-making skills and allowing students to apply concepts to real managerial challenges. Students watch as 21 real managers apply their years of experience when confronting unscripted issues such as bullying in the workplace, cyber loafing, globalization, intergenerational work conflicts, workplace violence, and leadership versus management. In addition, Manager's Hot Seat interactive applications, featuring video cases and accompanying quizzes, can be found in Connect.





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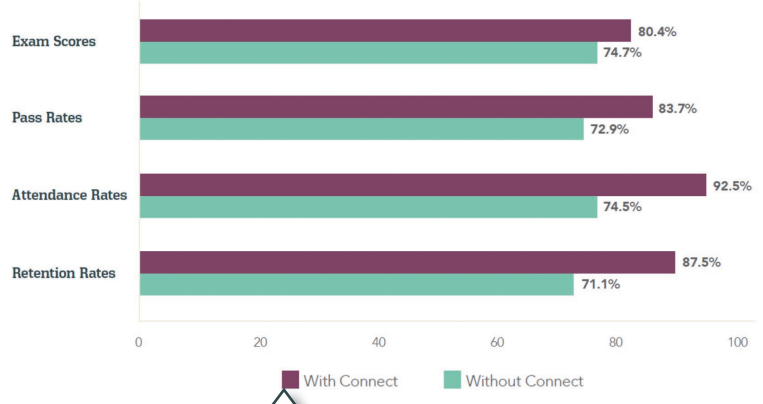
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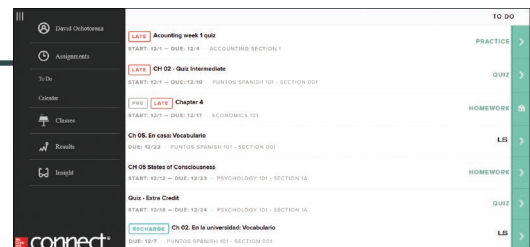


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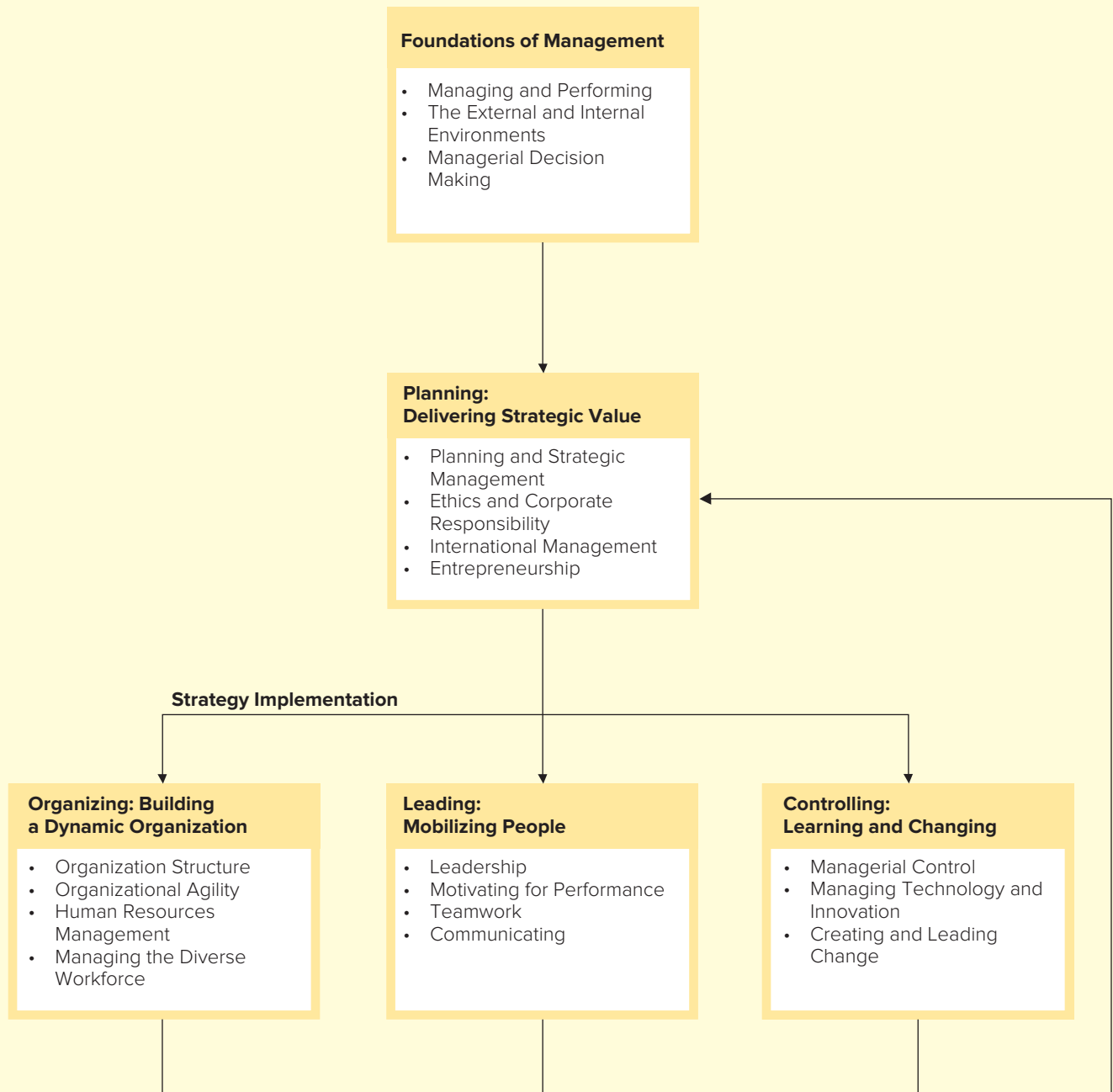
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The Management Process



CHAPTER 1

Managing and Performing

Management means, in the last analysis, the substitution of thought for brawn and muscle, of knowledge for folklore and tradition, and of cooperation for force.

—PETER DRUCKER

After studying Chapter 1, you will be able to:

- LO 1** Summarize the major challenges of managing in the new competitive landscape.
- LO 2** Describe the sources of competitive advantage for a company.
- LO 3** Explain how the functions of management are evolving in today’s business environment.
- LO 4** Compare how the nature of management varies at different organizational levels.
- LO 5** Define the skills you need to be an effective manager.
- LO 6** Understand the principles that will help you manage your career.

LEARNING OBJECTIVES

CHAPTER OUTLINE

Managing in the New Competitive Landscape

- Globalization
- Technological Change
- Knowledge Management
- Collaboration across Boundaries

Managing for Competitive Advantage

- Innovation
- Quality
- Service
- Speed
- Cost Competitiveness
- Sustainability

Delivering All Types of Performance

The Functions of Management

- Planning: Delivering Strategic Value
- Organizing: Building a Dynamic Organization
- Leading: Mobilizing People
- Controlling: Learning and Changing
- Performing All Four Management Functions

Management Levels and Skills

- Top-Level Managers
- Middle-Level Managers
- Frontline Managers

Working Leaders with Broad Responsibilities

Must-Have Management Skills

- Technical
- Conceptual and Decision
- Interpersonal and Communication

You and Your Career

- Be Both a Specialist and a Generalist
- Be Self-Reliant
- Connect with People
- Actively Manage Your Relationship with Your Organization
- Survive and Thrive

Management in Action

INTRODUCING THE BEST: AMAZON'S JEFF BEZOS

What does a well-run company look like? Does it feature a famous brand, report a big profit, or have a prominent leader? Most business experts agree that a better measure of success is the company's long-term value.

Using *long-term value* as the performance measure, three professors writing for *Harvard Business Review* identified the best-performing chief executive officers (CEOs), or top managers. For each company's CEO, they looked at how the company's value changed while that person held the top job. By that measure, the best living CEO was Jeffrey P. Bezos of online retailer Amazon. Since 1996, Amazon under Bezos has delivered returns of 12,266 percent on shareholders' investments, and the company's value has risen by \$111 billion.

To generate such breathtaking growth, Bezos has to get a lot of things right. As an early entrant into the then-revolutionary online marketplace, he was a visionary about the Internet's potential. At the same time, Bezos has consistently insisted to investors and employees that the company would take a long-term view, recognizing that the smartest innovations may take time to pay off. (This is especially true given Amazon's practice of keeping costs and prices as low as possible.)

Bezos sets the tone for the company by insisting that customers come first. This mantra has led to some decisions that at first seemed a little crazy to outsiders. Why would a bookseller offer an e-reader, the Kindle, if it would reduce book sales? Why would an online store create the Amazon Marketplace, where



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competing retailers can sell their products? Bezos insists that those innovations drive ever more shoppers to Amazon, where they download e-books and buy print books and enjoy the convenience of buying an extremely broad range of products from many sellers without Amazon needing to build more warehouses.

If you listen to Bezos, this story is all about the customer. If you are a storeowner, it also is about a formidable, game-changing global competitor that didn't exist two decades ago but today sells more than \$74 billion a year. And, finally, it is a story about managers like Bezos figuring out how to build something amazing in a fast-changing world.¹

As you read this chapter, notice the wide variety of skills that Jeff Bezos needs to help Amazon meet its goals. Also, think about how managing people, money, and other resources enables Amazon and other organizations to accomplish far more than individuals acting independently could ever achieve.

Amazon's CEO, Jeff Bezos, is one of the most interesting leaders in business today. He is an innovator who combines financial know-how with a vision for the future of technology and an unswerving drive to serve customers. Together, those qualities have helped him build a business idea into a major corporation that continues to transform industry.

Bezos and the other top business leaders identified by *Harvard Business Review* are chief executives who have been far more than a flashy presence in the media; they have delivered strong performance over years at the helm. In the 2014 rankings, Bezos garnered the top spot. After Bezos, other top CEOs on the list were Cisco Systems' John Chambers (number 3), Novo Nordisk's Lars Rebien Sorensen (number 6), and Yum! Brands' David Novak (number 12).²

Consider Groupon as a contrasting example. You might have been one of its many fans if you like low prices for local goods and services. The new company was booming as it strived to become the Amazon.com of local commerce, but then its performance collapsed, and the board in 2013 fired CEO and cofounder Andrew Mason. Groupon's great deals brought businesses new one-time customers wanting rock-bottom prices, angering customers who paid full price. Not enough customers returned. The jury is still out regarding the ability of Eric Lefkofsky, who replaced Mason as CEO, to transform Groupon into a successful company by diversifying into the sale of physical goods and offering longer lasting discounts via mobile phones.³

In business, there is no alternative to managing well. Companies may fly high for a while, but they cannot do well for very long without good management. It's the same for individuals: the best managers succeed by focusing on fundamentals, knowing what's important, and managing well. The aim of this book is to help you succeed in those pursuits.

Managing in the New Competitive Landscape

LO 1

When the economy is soaring, business seems easy. Starting an Internet company looked easy in the 1990s, and ventures related to the real estate boom looked like a sure thing just a few years ago. But investors grew wary of dot-com start-ups, and the demand for new homes dropped off the table when the economy crashed in late 2008. At such times, it becomes evident that management is a challenge requiring knowledge and skills to adapt to new circumstances.

Management is a challenge requiring knowledge and skills to adapt to new circumstances.

What defines the competitive landscape of today's business? You will be reading about many relevant issues in the coming chapters, but we begin here by highlighting four ongoing challenges that characterize the current business landscape: globalization, technological change, the importance of knowledge and ideas, and collaboration across organizational boundaries.

Globalization

Far more than in the past, today's enterprises are global, with offices and production facilities in countries all over the world. Corporations operate worldwide, transcending national borders. Companies that want to grow often need to tap international markets, where incomes are rising and demand is increasing. The change from a local to a global marketplace is gaining momentum and is irreversible.⁴

Fortune magazine annually publishes a list of the world's most admired companies. Whereas U.S. companies used to dominate, Switzerland-based Nestlé was the most admired maker of consumer food products in 2014, Germany's BMW was the most admired producer of motor vehicles, and Singapore Airlines was the most admired airlines company.⁵

According to *Fortune's* 2014 Global 500 list, the top five largest firms are Royal Dutch Shell (Netherlands), Sinopec Group (China), China National Petroleum (China), Walmart (U.S.), and ExxonMobil (U.S.).⁶

Globalization also means that a company's talent and competition can come from anywhere. As with its sales, more than half of GE's 307,000 employees live outside the United States.⁷ Kentucky-based Yum! Brands (KFC, Pizza Hut, and Taco Bell) has over 40,000 restaurants in more than 125 countries. In 2013, almost 70 percent of its profits came from outside the United States. On average, Yum! Brands opens 5 stores per day in international locations.⁸

PepsiCo's chief executive, Indra Nooyi, brings a much-needed global viewpoint to a company whose international business has been growing three times faster than sales in the United States. Nooyi, who was raised in India and educated there and in the United States, has steered the company toward more "better for you" and "good for you" snacks such as Chudo Drinkable Yoghurt in Russia, Quaker Stila Cereal in Mexico, and Sabra Roasted Garlic Hummus in the United States.⁹

Globalization affects small companies as well as large. Many small companies export their goods. Many domestic firms assemble their products in other countries. And companies are under pressure to improve their products in the face of intense competition from foreign manufacturers. Firms today must ask themselves, "How can we be the best in the world?"

For students, it's not too early to think about the personal ramifications. In the words of CEO Jim Goodnight of SAS, the largest privately held software company in the world, "The best thing business schools can do to prepare their students is to encourage them to look beyond their own backyards. Globalization has opened the world for many opportunities, and schools should encourage their students to take advantage of them."¹⁰

Technological Change

The Internet, mobile applications, Big Data analytics, and cloud computing are only some of the ways that technology is vitally important in the business world. Technology both complicates things and creates new opportunities. The challenges come from the rapid rate at which communication, transportation, information, and other technologies change.¹¹ For example, after just a couple of decades of widespread desktop use, customers switched to laptop models, which require different accessories. More recently, users are turning to mini-laptops, tablets, and smartphones to meet their mobility technology needs.¹² Any company that served desktop users had to rethink its customers' wants and needs, not to mention the possibility that these customers are now working at the airport or a local Starbucks outlet rather than in an office.

Later chapters discuss technology further, but here we highlight the rise of the Internet and its effects. Why is the Internet so important to business?¹³ It is a marketplace, a means for manufacturing goods and services, a distribution channel, an information service, and more. It drives down costs and speeds up globalization. It improves efficiency of decision making. Managers can watch and learn what other companies are doing—on the other side of the world. Although these advantages create business opportunities, they also create threats as competitors sometimes capitalize on new developments more than you do.

Things continue to change at breakneck speed. In 2003, tech guru Tim O'Reilly coined the term "Web 2.0" to describe the exciting new wave of social networking start-ups that allow users to publish and share information. But most failed or are stalled; very few, other than Facebook, make a profit.¹⁴ Nevertheless, Web 2.0 not only is a continuing reality, it is redefining the ways that customers and sellers, employees and employers are sharing knowledge. (And the saying is true: knowledge really is power.) Looking forward, the



Globalization has changed the face of the workforce. Management in this new competitive landscape will need to attract and effectively manage a talent pool from all over the globe.

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managers of the future will take Web 2.0 for granted and must be ready for Web 3.0, which has been described as a “read-write-execute” web where applications, search findings, and online services are more tailored, integrated, and relevant to users.¹⁵

Knowledge Management

Companies and managers need good new ideas. Because companies in advanced economies have become so efficient at producing physical goods, most workers have been freed up to provide services or “abstract goods” such as software, entertainment, data, and advertising. These workers, whose primary contributions are ideas and problem-solving expertise, are often referred to as *knowledge workers*. Managing these workers poses some particular challenges, which we examine throughout this book. For example, determining whether they are doing a good job can be difficult because the manager cannot simply count or measure a knowledge worker’s output. Also, these workers often are most motivated to do their best when the work is interesting, not because of a carrot or stick dangled by the manager.¹⁶

Because the success of modern businesses so often depends on the knowledge used for innovation and the delivery of services, organizations need to manage that knowledge. **Knowledge management** is the set of practices aimed at discovering and harnessing an organization’s intellectual resources—fully using the intellects of the organization’s people. Knowledge management is about finding, unlocking, sharing, and capitalizing on the most precious resources of an organization: people’s expertise, skills, wisdom, and relationships. The nearby “Multiple Generations at Work” box explores how important knowledge transfer is to organizational survival.

Knowledge managers find these human assets, help people collaborate and learn, generate new ideas, and harness those ideas into successful innovations.

In hospitals, important knowledge includes patients’ histories, doctors’ orders, billing information, dietary requirements, prescriptions administered, and much more. With lives at stake, many hospitals have embraced knowledge management. For example, at Virginia Commonwealth University (VCU) Health System, a single information system lets doctors write prescriptions, look up patient information and lab results, and consult with one another. Billing also is automated as part of VCU’s knowledge management system, making the process more efficient and connecting with patient data so that it can remind the physician of all the conditions being treated—and billed for.¹⁷ Hospitals can also give patients access to the knowledge management system so that they can schedule appointments, request prescription refills, and send questions to their doctors.

Collaboration across Boundaries

One of the most important processes of knowledge management is to ensure that people in different parts of the organization collaborate effectively with one another. This requires productive communications among different departments, divisions, or other subunits of the organization. For example, “T-shaped” managers break out of the traditional corporate hierarchy to share knowledge freely across the organization (the horizontal part of the T) while remaining committed to the bottom-line performance of their individual business units (the vertical part). This emphasis on dual responsibilities for performance and knowledge sharing occurs at pharmaceutical giant GlaxoSmithKline, large German industrial company Siemens, and London-based steelmaker Ispat International.¹⁸

For example, Toyota keeps its product development process efficient by bringing together design engineers and manufacturing employees from the very beginning. Often, manufacturing employees can see ways to simplify a design so that it is easier to make without defects or unnecessary costs. Toyota expects its employees to listen to input from all areas of the organization, so this type of collaboration is a natural part of the organization’s culture. Employees use software to share their knowledge—best practices they have developed for design and manufacturing.¹⁹ Thus, at Toyota, knowledge management supports collaboration and vice versa.

knowledge management

Practices aimed at discovering and harnessing an organization’s intellectual resources.

Multiple Generations at Work

Boomer Retirements = Opportunities for Gen Xers and Millennials

The workforce is changing rapidly. A large number of Baby Boomers (born 1946–1964) will be exiting the workforce over the next 20 years. Approximately 10,000 Boomers are turning 65 years old each day in the United States. Though some Boomers will work into their later years, others will step out of the workforce to engage in hobbies, travel opportunities, and family time.

Senior talent exodus of top-level executives, managers, and leaders will translate into significant career opportunities for younger generations in the workplace. Gen Xers (born 1965–1979) currently occupy many of the middle-level managerial roles in organizations. There are not enough of them to fill all of the soon-to-be-vacant positions. Enter the Millennial generation (born 1980–2000), who make up the largest demographic cohort on record.²⁰ Not only are these early 30- and 20-somethings flooding into the job market, but they're also moving up into team leader and frontline managerial positions.

An important consideration is that before Gen Xers and Millennials can assume higher-level positions in businesses, schools, government agencies, and nonprofits, organizational knowledge must be transferred from senior management to the less experienced Gen Xers and Millennial employees. Senior managers and leaders



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possess a great deal of “know how” and “know who” that are critical to the long-term success and survival of their respective organizations. Prior to retirement, senior talent will look to transfer their knowledge to younger employees.

Complicating this organizational need is the fact that generations, like individuals, differ in their attitudes, personalities, and behaviors. These differences can affect everything from communication, customer service, teamwork, job satisfaction, morale, and retention to overall organizational performance.

Collaboration across boundaries occurs even beyond the boundaries of the organization itself. Companies today must motivate and capitalize on the ideas of people outside the organization. Customers, for instance, can be collaborators. Companies must realize that the need to serve the customer drives everything else.

In the Web 3.0 era, customers *expect* to share their ideas and be heard. Companies collaborate with their customers by actively and continuously listening and responding. L.L.Bean, for example, tracks customer comments and reviews on its website; if any product averages fewer than three stars out of five, the company removes it and directs the product manager to resolve the problem.²¹ Businesses also pay attention to customer comments on Amazon, Zappos, Yelp, TripAdvisor, Facebook, Twitter, and many more. Customer feedback management software can search these and other sites and generate statistics and reports. Also, companies can respond to negative online reviews with the goal of winning over their critics.²²

Managing for Competitive Advantage

The turbulent dot-com era turned careers (and lives) upside down. Students dropped out of school to join Internet start-ups or start their own. Managers in big corporations quit their jobs to do the same. Investors salivated, and invested heavily. The risks were often ignored or downplayed—sometimes tragically as the boom went bust. Or consider an earlier industry with similar transforming power: automobiles. There have been at least 2,000 carmakers—how many remain?

LO 2

Bottom Line

Because it's easy for managers to get so caught up in being busy, get distracted, and lose sight of what really drives performance, you will periodically see icons as bottom-line reminders of the need for innovation, quality, service, speed, cost competitiveness, and sustainability.

Which of these advantages do you think would be hard to deliver at the same time?



innovation

The introduction of new goods and services; a change in method or technology; a positive, useful departure from previous ways of doing things.

quality

The excellence of your product (goods or services).

What is the lesson to be learned from the failures in these important transformational industries? A key to understanding the success of a company—whether traditional, Internet-based, or a combination of both—is not just how much the industry in which it operates will affect society or how much it will grow. The key is the competitive advantage a particular company holds and how well it can sustain that advantage.

To survive and win over time, you have to gain and sustain advantages over your competitors. You gain competitive advantage by being better than your competitors at doing valuable things for your customers. But what does this mean, specifically? To succeed, managers must deliver performance. The fundamental success drivers of performance are innovation, quality, service, speed, cost competitiveness, and sustainability.

Innovation

Companies must continually innovate. **Innovation** is the introduction of new goods and services. Your firm must adapt to changes in consumer demands and to new competitors. Products don't sell forever; in fact, they don't sell for nearly as long as they used to because competitors are continuously introducing new products. Your firm must innovate, or it will die. In 2000, Blockbuster was the market leader of the video rental industry. It didn't see the need to offer customers an alternative to driving to their retail stores to rent a movie, nor did the company feel it wise to eliminate late charges as they were a major source of revenue. Reed Hastings, founder of Netflix, eventually displaced market leader Blockbuster by allowing customers to order a video which would be delivered by mail. Customers could watch the video for as long as they wanted, then mail it back to Netflix. In 2010, Blockbuster filed for bankruptcy. Netflix has become a successful \$28 billion company.²³

The need for innovation is driven in part by globalization. One obvious reason is that facilities in other countries can manufacture appliances or write software code at a lower cost than facilities in the United States; U.S. facilities thus operate at a disadvantage. Therefore, they must provide something their foreign competitors can't—and often that requires delivering something new. This is a challenge as developing nations such as China increase their engineering prowess. Philips, which started out making light bulbs in the Netherlands in the 1890s, has set up research as well as manufacturing operations in China because that country is becoming a key source of technical know-how, not just cheap labor.²⁴ Nevertheless, as labor and other costs rise overseas, and as U.S. companies find ways to improve efficiency at home, the future for North American facilities is brightening. Nissan, for example, has expanded production in Smyrna, Tennessee, including assembly of its Infiniti JX luxury car and Leaf electric car. Other companies that have announced plans to expand in the United States, especially in the South, include Toyota, General Motors, Ford, and Honda.²⁵

Innovation is today's holy grail (2014's number one most admired company in *Fortune's* innovativeness category was Apple, and number two was Amazon).²⁶ Like the other sources of competitive advantage, innovation comes from people, it must be a strategic goal, and it must be managed properly. Later chapters show you how great companies innovate.

Quality

When Spectrum Health, a hospital chain based in Grand Rapids, Michigan, asked patients how well they were served, patients rated staff low on helpfulness and their attitude toward visitors and said they didn't get good information about procedures or how to take care of themselves after being released to go home. Spectrum set up an advisory council of patients and family members, making visiting hours more flexible, getting patient input into who was allowed to hear medical information and make decisions about treatment, and calling discharged patients at home to make sure they understood the directions they had received. Satisfaction scores of Spectrum patients improved dramatically.²⁷

Spectrum Health's efforts reflect a commitment to quality. In general, **quality** is the excellence of your product. The importance of quality and the standards for

acceptable quality have increased dramatically in recent years. Customers now demand high-quality goods and services, and often they will accept nothing less.

Historically, quality pertained primarily to the physical goods that customers bought, and it referred to attractiveness, lack of defects, reliability, and long-term dependability. The traditional approach to quality was to check work after it was completed and then eliminate defects, using inspection and statistical data to determine whether products were up to standards. But then W. Edwards Deming, J. M. Juran, and other quality gurus convinced managers to take a more complete approach to achieving *total* quality. This includes *preventing* defects before they occur, *achieving zero defects* in manufacturing, and *designing* products for quality. The goal is to solve and eradicate from the beginning all quality-related problems and to live a philosophy of *continuous improvement* in the way the company operates.²⁸

Quality is further provided when companies customize goods and services to the wishes of the individual consumer. Choices at Starbucks give consumers thousands of variations on the drinks they can order, whether it's half-caff or all caffeine, skim milk or soy milk, or shots of espresso and any of a variety of flavored syrups. For a premium price, candy lovers can select M&M's candies bearing the message of their own creation.²⁹

Providing world-class quality requires a thorough understanding of what quality really is.³⁰ Quality can be measured in terms of product performance, customer service, reliability (avoidance of failure or breakdowns), conformance to standards, durability, and aesthetics. Only when you move beyond broad, generic concepts such as "quality" and identify specific quality requirements can you identify problems, target needs, set performance standards more precisely, and deliver world-class value.

By the way, *Fortune* magazine's 2014 number one company for quality of products and services was Apple; Starbucks' was number two.

Service

As noted, important quality measures often pertain to the service customers receive. This dimension of quality is particularly important because the service sector has come to dominate the U.S. economy. In recent years, the fastest-growing job categories have been almost entirely services and retailing jobs, and the jobs with the greatest declines are primarily in manufacturing (although some manufacturing is returning to the United States).³¹ Services include intangible products such as insurance, hotel accommodations, medical care, and haircuts.

Service means giving customers what they want or need, when they want it. So service is focused on continually meeting the needs of customers to establish mutually beneficial long-term relationships. Thus cloud computing companies, in addition to providing the online access to software, applications, and other computer services, may help their customers store and analyze large amounts of customer and employee data.

An important dimension of service quality is making it easy and enjoyable for customers to experience a service or to buy and use products. The Detroit Institute of Arts recently hired a manager formerly with the Ritz-Carlton hotel chain, noted for its exceptional level of service, to be vice president of museum operations. As the art museum prepared for a grand reopening following a major renovation, the manager analyzed the types of customer interactions that occur in a museum, identifying ways to make the experience more pleasant. He also worked with his staff to identify ways to customize services, such as offering tours tailored to the interests of particular groups.³²



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The result of long-term relationships is better and better quality, and lower and lower costs.

—W. Edwards Deming

service

The speed and dependability with which an organization delivers what customers want.