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organizational behavior

MICHAEL A. HITT
Texas A&M University

C. CHET MILLER
University of Houston

ADRIENNE COLELLA
Tulane University

WILEY

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about the authors

Michael A. Hitt

Texas A & M University

Michael Hitt is currently a University Distinguished Professor at Texas A&M University and holds the Joe B. Foster Chair in Business Leadership. He received his PhD from the University of Colorado. Dr. Hitt has coauthored or co-edited 27 books and authored or coauthored many journal articles. A recent article listed him as one of the 10 most cited authors in management over a 25-year period. The *Times Higher Education* listed him among the top scholars in economics, finance, and management and tied for first among management scholars, with the highest number of highly cited articles. A recent article in the *Academy of Management Perspectives* lists him as one of the top two management scholars in terms of the combined impact of his work both inside (i.e., citations in scholarly journals) and outside of academia. He has served on the editorial review boards of multiple journals and is a former editor of the *Academy of Management Journal* and a former co-editor of the *Strategic Entrepreneurship Journal*.

He is currently the editor-in-chief of *Oxford Research Reviews-Business and Management*, which publishes scholarly monographs. He has served on the editorial review boards of multiple journals, is a former editor of the *Academy of Management Journal*, and is the former co-editor of the *Strategic Entrepreneurship Journal*. He received the 1996 Award for Outstanding Academic Contributions to Competitiveness and the 1999 Award for Outstanding Intellectual Contributions to Competitiveness Research from the American Society for Competitiveness. He is a Fellow in the Academy of Management and in the Strategic Management Society and a Research Fellow in the National Entrepreneurship Consortium, and he received an honorary doctorate from the Universidad Carlos III de Madrid for his contributions to the field. He is a former president of the Academy of Management, former president of the Strategic Management Society, and a member of the Academy of Management Journals' Hall of Fame.

He received awards for the best article published in the *Academy of Management Executive* (1999), *Academy of Management Journal* (2000), *Journal of Management* (2006), and the *Family Business review* (2012). In 2001, he received the Irwin Outstanding Educator Award and the Distinguished Service Award from the Academy of Management. In 2004, Dr. Hitt was awarded the Best Paper Prize by the Strategic Management Society. In 2006, he received the Falcone Distinguished Entrepreneurship Scholar Award from Syracuse University. In 2014, he received the Lifetime Achievement Award for Research and Scholarship from the Mays Business School, Texas A&M University. He was named as a 2014 Thomson Reuters Highly Cited Researcher and named one of the 2014 World's Most Influential Scientific Minds.



To Frankie—You have been a wonderful partner in life. I look forward to many more years together.

—MIKE

C. Chet Miller

University of Houston

C. Chet Miller is the Bauer Professor of Organizational Studies at the Bauer School of Business, University of Houston. He received his PhD from the University of Texas at Austin. He also received his BA from the University of Texas, where he was a member of Phi Beta Kappa and a Summa Cum Laude graduate.

Since working as a shift manager and subsequently completing his graduate studies, Professor Miller has served on the faculties of Baylor University, Wake Forest University, and the University of Houston. He also has been a visiting faculty member at Cornell University and a guest instructor at Duke University. He is an active member of the Academy of Management



To Laura, Chimaya, and Sierra. You have made the world spin just a little bit faster, and that has made all the difference.

—CHET

and the Strategic Management Society. He currently serves on the editorial boards of *Academy of Management Journal*, *Organization Science*, and *Strategic Management Journal*, and is a past associate editor of *Academy of Management Journal* and a current associate editor of *Academy of Management Discoveries*. Awards and honors include the outstanding young researcher award, the best paper award from *Academy of Management Review*, and teaching awards from Duke University, University of Houston, and Wake Forest University.

Professor Miller has worked with a number of managers and executives. Through management development programs, he has contributed to the development of individuals from such organizations as ABB, Bank of America, Krispy Kreme, La Farge, Red Hat, State Farm Insurance, and the United States Postal Service. His focus has been change management, strategic visioning, and high-involvement approaches to managing people.

His published research focuses on the functioning of executive teams, the design of organizational structures and management systems, and the design of strategic decision processes. Publications have appeared in *Organization Science*, *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Executive*, *Strategic Management Journal*, *Journal of Organizational Behavior*, and *Journal of Behavioral Decision Making*.

Professor Miller teaches courses in the areas of organizational behavior, organization theory, and strategic management.



Adrienne Colella

Tulane University

Adrienne Colella is a professor and the McFarland Distinguished Chair in Business at the A.B. Freeman School of Business at Tulane University. Professor Colella has also been a faculty member at Rutgers University and Texas A&M University. She received her PhD in Industrial/Organizational Psychology from the Ohio State University. Professor Colella is a Fellow of the Society for Industrial and Organizational Psychology (SIOP), the American Psychological Association, and the Association for Psychological Science.

Professor Colella's research focuses on treatment issues regarding persons with disabilities in the workplace and workplace accommodation. Professor Colella has also published on the topics of organizational entry, newcomer socialization, goal setting, utility analysis, and biographical data testing. Her research appears in the *Journal of Applied Psychology*, *Personnel Psychology*, *Academy of Management Journal*, *Academy of Management Review*, *Research in Personnel and Human Resource Management*, *Human Resource Management Review*, *Journal of Applied Social Psychology*, and the *Journal of Occupational Rehabilitation*, among other places. She is the editor of a SIOP Frontiers Series book on the psychology of workplace discrimination and an upcoming Oxford handbook on workplace discrimination.

Her research on disability in the workplace has been funded by the New Jersey Developmental Disabilities Council. She has also received grants and contracts from a variety of sources including the Army Research Institute, the Navy Personnel R&D Center, Rutgers University, and Texas A&M University. She serves on the editorial boards of the *Journal of Applied Psychology*, *Personnel Psychology*, *Journal of Organizational Behavior*, and *Journal of Management*, as well as others. She was the 2011–2012 president of the Society for Industrial and Organizational Psychology.

To Elvira Caserta
Colella—
You made it all possible.
I miss you.
—ADRIENNE



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● OPENING CASE STUDY

Whole Foods, Whole People

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preface

Several years ago, the following statement appeared on the cover of *Fast Company*: “The best leaders know where all of the great companies start. It’s the people. . . .” Despite all of the major technological advances made and the substantial increases in the power of technologies that allow us to perform many functions more easily than in the past and to accomplish some tasks that we could not do in the past, all of this activity is driven by people. People developed all of Apple’s innovative products that helped it transform several major industries. People developed and implemented Twitter and Facebook. We communicate on cell phones and technologically advanced devices developed by people. Our automobiles are serviced by people; at restaurants we eat food prepared by people; we enjoy college and professional sports played by people. People are the drivers of organizations, and they make or break their success. Both Ed Breen, former CEO of Tyco, and Anne Mulcahy, former chairman of the board and former CEO of Xerox, argue that people are critical to high performance by a firm. Pixar, which we use as a prime example in Chapter 1, is the epitome of success based on strong human capital. A principal in Pixar from its beginning, Ed Catmull, recently wrote a book titled *Creativity Inc.*, which describes how he and his colleagues managed Pixar’s human capital to produce 14 straight number one movies. One of the most recent successes, *Frozen*, has achieved more than \$1 billion in revenue on its way to becoming the highest grossing animated film in history (note that Pixar is now part of Disney). An early partner in Pixar, Steve Jobs, was taught by Catmull, which may have helped him achieve the major successes during his second term as CEO at Apple.¹

Purpose

We wrote this book for several reasons. First, we wanted to communicate in an effective way the knowledge of managing people in organizations. The book presents up-to-date concepts of organizational behavior (OB) in a lively and easy-to-read manner. The book is based on classic and cutting-edge research on the primary topic of each chapter. Second, we wanted to emphasize the importance of people to the success of organizations. We do so by communicating how managing people is critical to implementing an organization’s strategy, gaining an advantage over competitors, and ensuring positive organizational performance. This approach helps students to better understand the relevance of managing people, allowing the student to integrate these concepts with knowledge gained in other core business courses. To emphasize the importance of people, we use the term *human capital*. People are important assets to organizations; application of their knowledge and skills is necessary for organizations to accomplish their goals.

New to the Fourth Edition

A number of changes have been made to enrich the content of the book and to ensure that it is up-to-date with current organizational behavior research and managerial practice. For example, we have changed or updated all chapter-opening cases (Exploring Behavior in Action) and all major case examples in the content of the chapters (Experiencing Organizational Behavior and Managerial Advice features). The few that were not changed represent classic examples (such as the one focused on the U.S. Civil War). Several of the major changes to the content are described below:

- Added new statistics on labor market composition throughout Chapter 2, including all new data in Exhibit 2-2.
- Added a new section on institutions and their effects on managerial actions and behavior in organizations (Chapter 3). As part of this upgrade, a new definition of institutions (current in the research) was included.
- Included important new material on social learning theory (Chapter 4).
- Added new leading-edge material on stretch goals (Chapter 6).
- Included additional information on the Demand Control Model for depicting stressful jobs (Chapter 7). New content on workplace bullying was also added to the stress chapter.
- Added new content on strategic leadership (Chapter 8). Sections on (1) transactional leadership and (2) gender and leadership were fundamentally redeveloped. The Catalyst Pyramid was incorporated as Exhibit 8-5.

- Reorganized presentation to better emphasize individual level issues in communication (Chapter 9). Added a new section on communication styles, and a section on virtual worlds.
- Enhanced the material on effects of mood and emotion in decision making, an area of growing importance (Chapter 10).
- Incorporated a new section on managerial change capabilities, along with new material on dynamic capabilities (Chapter 14). Also, a discussion of goal-based leadership replaced the prior material on management by objectives (MBO).

In addition, we have added more than 500 new references from the organizational behavior research literature and from popular press articles on managerial practice. For this edition, the Part-ending Case Studies have been moved from the print book to be available in digital versions of the book and on the Book Companion Site, at www.Wiley.com/College/Hitt. This change increases the flexibility of their use by students and in the classroom. Although we have made important revisions and updated materials to reflect current managerial practice, we have maintained all of the basic OB content that instructors found to be valuable and all of the pedagogical approaches that supported students' efforts to learn. Therefore, this fourth edition represents continued improvement of a high-quality teaching and learning tool. It continues to be written in an easy style and is user friendly, as were the first three editions of the book.

Value Provided by This Book

Managing OB involves acquiring, developing, managing, and applying the knowledge, skills, and abilities of people. A strategic approach to OB rests on the premise that people are the foundation for any firm's competitive advantage. Providing exceptionally high-quality products and services, excellent customer service, valuable innovative products, and other advantages are based on the capabilities of the firm's people, its human capital. If organized and managed effectively, the knowledge and skills of the people in the firm are the basis for gaining an advantage over competitors and achieving long-term financial success (as shown in the Whole Foods case and the Pixar example mentioned above and detailed in Chapter 1).

Individual, interpersonal, and organizational characteristics determine the behavior and ultimately the value of an organization's people. Factors such as individuals' technical skills, personality characteristics, personal values, abilities to learn, and abilities to be self-managing are important bases for the development of organizational capabilities. At the interpersonal level, factors such as quality of leadership, communication within and between groups, and conflict within and between groups are noteworthy in the organization's ability to build important capabilities and apply them to achieve its goals. Finally, at the organizational level, the culture and policies of the firm are also among the most important factors, as they influence whether the talents and positive predispositions of individuals are effectively used. Thus, managing human capital is critical for an organization to beat its competition and to perform effectively.

This book explains how to effectively manage behavior in organizations. In addition, we emphasize how effective behavioral management relates to organizational performance. We link the specific behavioral topic(s) emphasized in each chapter to organizational strategy and performance through explicit but concise discussions. We also provide short cases and examples to highlight the relationships.

Therefore, we emphasize the importance of managing OB and its effect on the outcomes of the organization. This is highly significant because a number of organizations routinely mismanage their workforce. For example, some organizations routinely implement major reductions in the workforce (layoffs, downsizing) whenever they experience performance problems. How does an organization increase its effectiveness by laying off thousands of its employees? The answer is that it rarely does so.² Layoffs reduce costs but they also result in losses of significant human capital and valuable knowledge. These firms then suffer from diminished capabilities, and their performance decreases further. Research shows that firms increasing their workforce during economic downturns enjoy much stronger performance when the economy improves.³ These firms have the capabilities to take advantage of the improving economy, whereas firms that downsized must rebuild their capabilities and are less able to compete effectively. The firms listed annually in *Fortune's* "100 Best Companies to Work for" are consistently among the highest performers in their industries (e.g., Apple, Starbucks, The Container Store, Whole Foods Market, Marriott). Likewise, *Fortune's* annual list of The World's Most Admired Companies contains many of the same firms. In fact, according to *Fortune*, the 2014 list contains innovators (e.g., Apple), market disrupters (e.g., Google) and transformed companies that have overcome adversity (e.g., Delta).⁴ A primary contributor to their ability to perform so well is the effective management of their human capital and the resulting output by those managers and associates.

Concluding Remarks

The knowledge learned from a course in organizational behavior is important for managers at all levels: top executives, middle managers, and lower-level managers. While top executives may understand the strategic importance of managing human capital, middle and lower-level managers must also understand the linkage between managing behavior effectively and the organization's ability to formulate and implement its strategy. Managers do not focus solely on individual behavior. They also manage interpersonal, team, intergroup, and interorganizational relationships. Some refer to these relationships as *social capital*. The essence of managing organizational behavior is the development and use of human capital and social capital.

Jack Welch, former CEO of GE, suggested that he and his management team used management concepts that energized armies of people allowing them to dream, dare, reach, and stretch their talents in order to do things they never thought possible. This book presents concepts that will help students to gain the knowledge needed to effectively manage behavior in organizations. This, in turn, helps in the implementation of the organization's strategy, affects the organization's productivity, allows the organization to gain advantages over its competitors, and therefore contributes to the organization's overall performance.

MAH
CCM
AJC

1. R. Tetzeli, "Creativity Inc.," *Fast Company*, April 2014, pp. 64–74.
2. H. Krishnan, M. A. Hitt, and D. Park, "Acquisition Premiums, Subsequent Workplace Reductions and Post-Acquisition Performance," *Journal of Management Studies* 44 (2007): 709–732; R. D. Nixon, M. A. Hitt, H. Lee, and E. Jeong, "Market Reactions to Announcements of Corporate Downsizing Actions and Implementation Strategies," *Strategic Management Journal* 25 (2004): 1121–1129.
3. C. R. Greer and T. C. Ireland, "Organizational and Financial Correlates of a 'Contrarian' Human Resource Investment Strategy," *Academy of Management Journal* 35 (1992): 956–984.
4. C. Fairchild, "Atop Our Annual Ranking: Innovators, Disrupters and Companies That Overcame Adversity," *Fortune*, March 17, 2014, pp. 123–130.

FOCUS AND PEDAGOGY

The book explains and covers all organizational behavior topics, based on the most current research available. Unlike other OB texts, it uses the lens of an organization's strategy as a guide. Elements of the book through which we apply this lens include the following.

Exploring Behavior in Action

Each chapter opens with a case, grounding the chapter in a real-world context. Some of the companies featured include The Container Store, Oakland Athletics, Xerox, Starbucks, and J. Crew.

exploring behavior in action

Strategic Use of Human Capital: A Key Element of Organizational Success

In their book, *The New American Workplace*, James O'Toole and Edward Lawler described the existence of high-involvement, high-performance companies that spanned many industries. Examples of such companies are Nucor, W.L. Gore & Associates, and Proctor & Gamble, among others. For example, Proctor & Gamble (P&G) adopted high-involvement work practices at some of its manufacturing facilities, including empowerment of work teams to allocate the tasks among their members, establish their own work schedules, recruit new members to their team and even to select the methods used to accomplish their tasks. In addition, P&G invests in building human capital, and much of the training is done by P&G managers instead of human resource management or training specialists. In fact, P&G views work life as a career-long learning and development process. P&G has a different "college" for educating its workforce in the knowledge and skills needed for their current and future jobs. The company also carefully screens all candidates in the hiring process. The company received approximately 400,000 applications in 2009 for entry-level management positions and hired fewer than 2,000 (less than one-half of one percent).

The Container Store was started in 1978, and from the beginning the founders and top executives stated the top stakeholders were the employees (even ranked above shareholders and customers). Since its founding, The Container Store has enjoyed an average compound annual growth rate of approximately 25 percent, with annual revenues now exceeding \$700 million. It is the top specialty retailer of containers in the country.

The Strategic Importance of ...

Links the issues in the opening case to the topic of the chapter. The issues are discussed in light of their importance to organization strategy and ultimately how they affect the organization's performance.

The Strategic Importance of... and The Strategic Lens are appropriate 'bookends' for the chapter; they set up how decision making is strategic and reinforce that at the end of the chapter."

(PAM ROFFOL-DOBIES, UNIVERSITY OF MISSOURI KANSAS CITY)

the strategic importance of Organizational Diversity

As the LAFD case shows, negative reactions to diversity can have harmful effects on an organization. These reactions, including discrimination and harassment of various forms, often lead to lawsuits, turnover, reduced satisfaction, and performance issues. Furthermore, organizations with a past history of lack of diversity and discrimination may find it very difficult to become a more diverse organization. In the most effective organizations, associates and managers understand the value of diversity and capitalize on it to improve performance. Moreover, associates and managers cannot escape diverse workgroups and organizations. Differences in gender, race, functional

background, and so on are all around us. The United States is a particularly diverse country with respect to race and ethnicity, and current demographic trends indicate that its population will become even more diverse.

LAFD's legal troubles, financial settlements costs, and public embarrassment have led to renewed efforts to change the culture. The changing nature of the firefighter's job, where 80 percent of fire calls no longer involve structural or brush fires, probably has helped in this process.¹ Many organizations, however, have not needed public embarrassment or changing jobs to motivate diversity efforts. Many organizations, particularly

large ones, have voluntarily adopted diversity management programs aimed at recruiting, retaining, and motivating high-quality associates from all demographic backgrounds. Most Fortune 500 companies, for example, have diversity management programs.² A full 78 percent of organizations with 10,000 or more employees report having a diversity strategy, as compared with 44 percent of companies with 100 to 999 employees and 31 percent in companies with fewer than 100 workers. Over 79 percent of human resource managers at Fortune 1000 companies said they believed that successfully managing diversity improves their organizations.³

EXPERIENCING ORGANIZATIONAL BEHAVIOR

Tying Rewards to Performance at Microsoft

Until recently, rewards at Microsoft were tied to performance through a system known as stock ranking, or forced ranking. In this system, managers were expected to assign their associates to three categories: the top 20 percent, the middle 70 percent, and the bottom 10 percent. Bonuses, raises, promotions, and even terminations were based on these assignments. The goal was to supercharge motivation by lavishly rewarding the best performers while weeding out the worst performers. Stock ranking, however, created a number of problems. One of the worst was dysfunctional competition. Microsoft's associates in a given unit did not always want to help their colleagues because they were in competition with them for membership in the top category, and in competition with them to avoid the bottom category. It did not matter if everyone performed well—only 20 percent could be in the top category, and 10 percent had to be in the bottom category. Thus, cooperation was not always what it needed to be. One former software engineer said the following about the system:

"If you were on a team of 10 people, you walked in the first day knowing that, no matter how good everyone was, two people were going to get a great review; seven were going to get mediocre reviews, and one was going to get a terrible review. It leads to employees focusing on competing with each other rather than competing with other companies."

Outright sabotage and politicking also seemed to be part of the problem. Another engineer said this about stock ranking at Microsoft:

"The behavior this engenders, people do everything they can to stay out of the bottom bucket. People responsible for features will openly sabotage other people's efforts. One of the most valuable things that I learned was to give the appearance of being courteous while withholding just enough information from colleagues to ensure they didn't get ahead of me on the rankings."

A recent analyst of Microsoft's woes over the past decade indicated that every former and current employee with whom he had spoken identified stock ranking as the most destructive process at the company. Recognizing the issues, Microsoft softened its use of the approach for a period of time and then in the fall of 2013 announced that stock ranking would be largely abandoned. It remains to be seen how this change will affect the company's fortunes, but it seems to be a wise move.

Other firms, however, continue to use the approach. One estimate suggests that at least 30 percent of the Fortune 500 continue to use some version of stock ranking, and it is very popular for big firms in the investment banking, law, and accounting industries. At Yahoo!, stock ranking has been implemented by new CEO Marissa Mayer. In short order, 600 associates have been terminated as a result of being in the bottom bucket. In Mayer's view, the system is useful for cutting deadwood from a company that had become somewhat complacent. Indeed, short-term use of stock ranking in a company that has workforce issues seems reasonable. Long-term use in firms with strong workforces seems much less reasonable. Even General Electric, where former CEO Jack Welch originated the process, has greatly softened its use of stock ranking.



Sources: K. Eichenwald, "Microsoft's Last Decade," *Vanity Fair* (August 2012), pp. 108-113. A. Hill, "Forced Ranking Is a Relic of an HR Tool," *Financial Times* (July 17, 2012), 10; S. Ovde & R. Feinzeig, "Microsoft Abandons Dreaded 'Stock' Software Great Drives Forced Ranking of Employees," *Wall Street Journal* (Nov. 13, 2013), 8. 1; "Ranked and Yanked: Motivating Workers," *The Economist* (Nov. 2013), 69; D. Walden, "Microsoft's New Performance Policy Favors Collaboration, Not Competition," *Forbes* (Nov. 2013), <http://www.forbes.com/story/microsofts-new-performance-policy-favors-collaboration-not-competition/2013-11-18>.

Experiencing Organizational Behavior

The two Exploring Organizational Behavior sections in each chapter apply key concepts of the chapter. Real-world case situations are used, including those focused on women, work, and stereotypes; extreme jobs, workplace aggression; high-quality associates at Google; creating innovation with human capital at Apple; and performance management systems at Microsoft. Each discussion highlights the connection between an OB concept and the organization's strategy and performance.

"The Experiencing OB section is also useful since it provides a conceptual view of the changing approach to OB. I like the idea that it walks the students through a situation and then summarizes the prospects for acting successfully."

(MARIAN SCHULTZ,
UNIVERSITY OF WEST FLORIDA)

"After reading the Experiencing OB section on the football league, I also found that the example was an excellent choice. My classroom includes both traditional and nontraditional students, ranging in age from 20 to 72, and I think it is important to provide a variety of examples that everyone can relate to in the course."

(MARILYN WESNER,
GEORGE WASHINGTON UNIVERSITY)

Managerial Advice

These sections provide advice for future managers and make a connection to the organization's strategy and performance. Examples of Managerial Advice include those focused on multinational corporations and "glocalization," Ursula Burns, chair and CEO of Xerox, managing virtual teams, finding a fit at Home Depot, "green" policies and practices, and experiential team building.

MANAGERIAL ADVICE

Ursula Burns, Chairwoman and CEO of Xerox

Ursula Burns, the daughter of a single mother, grew up in a housing project on New York City's Lower East Side. She excelled through her schooling and earned a master's degree in mechanical engineering. While still in school, she began her career at Xerox in 1980 as a summer intern. In 2009, Burns became CEO of the company and was named chairwoman in 2010. As the first African American woman to head a Fortune 500 company, she does not fit the typical profile of a Fortune 500 CEO, of which only 4 percent are women and only 1.4 percent are African American. It is also rare that a CEO grows up poor. So, how did Ursula Burns go from summer intern to chairwoman and CEO of a Fortune 500 company with 140,000 associates servicing clients in more than 150 countries?

- **Pick the right company:** Burns credits her success to being in the right company. She states that whatever position she held, Xerox allowed her to excel as long as she worked hard. "They didn't try to spend a lot of time trying to make me into something else—kind of fit into whatever would have been a normal hire. When I first entered the company, they just thought I was smart and said, 'You go do some stuff.' And they kept giving me things to do."
- **Be authentic:** She believes that in order for a leader to be successful, that leader must be authentic. Quoting her mother,



Ursula Burns/Blomberg via Getty Images

she states, "It's not where you are, but who you are" that is important.

- **Take a stand:** Burns states that it is necessary to take a stand in order to lead. Say what you think. An important step in Burns's rise to the top was being promoted from engineer to the assistant to the president of marketing, who at the time was Mylesford Hicks. Her first encounter with Mr. Hicks was at a meeting

where they had an argument. She didn't know who Mr. Hicks was at the time, but the day after the meeting he called her into his office and offered her the job. He was obviously impressed by her ability to say what was on her mind.

- The engaged Ursula Burns says that one needs to be engaged in his or her job. She states that the reason that she can manage all the demands of being CEO is that she truly loves her job. She also refers to herself as the "Chief Storyteller" because she travels to visit Xerox associates to engage them in their jobs and in the company. "Work should be fun."
- **Listen:** She says that leaders must learn to listen. It is incredibly important for any leader to really listen to others in order to build "followership."
- **Measure:** In order to make good decisions, one must set goals and assess outcomes. There must be accountability for achieving goals.
- **Have a great mother:** Ursula Burns refers to her mother as a role model and as being responsible for her success. Her mother, who didn't have power due to position or wealth, taught her how to be a powerful woman. Her mother's power was due to being "clever, strong, and focused." Ursula Burns has carried these traits with her throughout her life and career.

Xerox, "Ursula Burns, CEO," <http://www.xerox.com/aboutxerox/executive-leadership/ceo/ursula-burns>. Accessed February 8, 2014. "One on One Conversation with Ursula Burns, 2013 Black Enterprise Women of Power Summit," <http://www.blackenterprise.com/entrepreneurofpowersummit/one-on-one-1/ursula-burns-04085899976448938794886ce3996d8c0a00e01b7670847a0c0f4601e1e3d0a35e0e01e259847491854984952627a28135/>. 3 Burnes, "Xerox CEO Ursula Burns on Virtual Corporate Leaders: There's a Told Wire Coming," *Huffington Post* June 11, 2013, http://www.huffpost.com/entry/ursula-burns-on-virtual-corporate-leaders_n_4377382.html. A. Park, "Ursula Burns Shows Her Views on Leadership," *MIT Sloan Blog* archive (March 6, 2011), <http://mitsloanlib.org/wordpress/2011/03/ursula-burns-shows-her-views-on-leadership.html>. "African American Chairman & CEO of Fortune 500 Company," *Fortune* Feb. 5, 2014, <http://www.blackenterpriseprofile.com/fortune500ceo/>. "Pyramid: U.S. Women in Business," *Crain's* Jan. 14, 2014, http://www.crain.com/knowledge/women-in-business/C_Home.htm. "Xerox's Ursula Burns on Her Career Path and Changing Company Strategy," *BloombergBusinessweek* Aug. 8, 2013, <http://www.businessweek.com/articles/2013-08-08/xerox-ursula-burns-on-her-career-path-and-changing-company-strategy>.

THE STRATEGIC LENS

Decision making is the essence of management. The primary task of managers is to make decisions. Top-level managers decide what products and services to provide and what markets to enter. Middle managers decide where to locate facilities and how many products to manufacture. Lower-level managers decide which tasks should be assigned to particular associates and when certain associates should be laid off. Therefore, the quality of managers' decisions at all levels has a major effect on the success of an organization. If managers decide to enter the wrong markets or to hire less than the best applicants, the organization's performance is likely to suffer. If, however, they decide on excellent products for the market and hire outstanding associates and motivate them to achieve, the organization is likely to flourish. Thus, understanding how to make effective decisions is necessary to be a successful manager; and organizations must have managers who are effective decision makers if they are to achieve their goals.¹ All strategic decisions—down to decisions regarding which holidays to allow for associates—affect the organization's performance.

Critical Thinking Questions

1. You are a manager of a unit with 25 associates. You have just been informed that you must lay off 20 percent of the associates in your unit. What process will you follow to make the decision and to implement it?
2. If you made a decision that your manager told you was important for the organization and later you learned that you made an error in that decision, what actions would you take? Assume that others will not notice the error for some time.
3. You make decisions on a daily basis. Do you find it difficult to make decisions, especially those of importance? What can you do to improve your decision-making abilities?

1. You are a manager of a unit with 25 associates. You have just been informed that you must lay off 20 percent of the associates in your unit. What process will you follow to make the decision and to implement it?

The Strategic Lens

The Strategic Lens section concludes each chapter. The section explains the topic of the chapter through the lens of organizational strategy. Highlighted is the critical contribution of the chapter's concepts to the organization's achievement of its goals. The Strategic Lens concludes with *Critical Thinking Questions* that are designed to emphasize the student's knowledge of the OB topic, its effects on the organization's strategy, and its effects on organizational functioning.

Thinking about Ethics

Given the growing importance of ethics, the "Thinking about Ethics" feature at the end of every chapter provides an opportunity to analyze various ethical dilemmas that confront today's managers. Students are asked to apply OB concepts to realistic ethical issues to determine the most ethical course of action.

Thinking about Ethics

1. What ethical responsibilities do leaders have in the organizations in which they work? What are the primary ethical issues involved in the leader's relationship to the organization?
2. What is more important, associates' productivity or leaders' exhibiting ethical behaviors? Is ethical behavior more important even if the result is poor performance? Why or why not?
3. Are ethical leaders more effective than leaders who exhibit unethical behaviors? Explain why or why not.
4. Assume that you are the leader of a marketing group and have been trying for some time to acquire a large new customer in a foreign country. One of your sales representatives reports that a competitor has offered a bribe to a key official of the company to obtain the contract. If you do not respond, your organization will likely lose this major new contract and your group will probably not meet its sales goal for the year. What should you do? Explain the reasons for your recommendation.

Human Resource Management Applications

The human resource management (HRM) function is often responsible for several applications of the concepts explained in this chapter. For example, *managerial training* programs help managers learn how to develop the most effective structures for their context (e.g., when to use an organic structure). They may also be responsible for the *organization development* function that helps managers to identify when and how to make needed changes such as structure changes.

The HRM department often has responsibility for designing, implementing and interpreting *culture surveys* (to assess the current culture and identify changes needed, if any). In addition, they frequently conduct *culture audits*.

Finally, the HRM function has the responsibility for *recruitment and selection* of new human capital. Therefore, HRM professionals play a major role in maintaining the person-organization fit.

Human Resource Management Applications

This feature at the end of each chapter highlights the importance of OB concepts to human resource management and how managers can use these concepts to more effectively manage human capital in the organization. Students will learn various ways in which managers can use management-development programs, compensation programs, and selection processes.

Building Your Human Capital

To help students better know themselves and develop needed skills in organizational behavior, a personal assessment instrument is included in each chapter. This includes information on scoring and interpreting the results. Assessments, for example, are focused on approaches to difficult learning situations, the propensity to be creative, skill at managing with power, and the ability to tolerate change.

The Building Your Human Capital segment is unique. Students need to recognize the importance of the topics for developing their personal skills. This section does a good job in forwarding that idea.”

(CEASAR DOUGLAS, FLORIDA STATE UNIVERSITY)

building your human capital

What’s Your DQ (Diversity Quotient)?

How well do you handle diversity? Your ability to be flexible, work with many different types of people, and deal with ambiguous situations will be crucial to a successful career in the twenty-first century. The following assessment will allow you to determine whether you have had the experience necessary to help in successfully navigating a diverse work environment.

Instructions

Use the following scale to answer the questions below.

- 1 point = never
- 2 points = once or twice
- 3 points = three or four times
- 4 points = four or more times

In the last month, how often did you ...?

1. See a foreign movie.
2. Speak a language other than your first language.
3. Visit an art or history museum.
4. Have a conversation with someone who was of a different race.

5. Have a conversation with someone who was from a different country.
6. Attend a social event where at least half of the people differed from you in race or ethnic background.
7. Visit a church that was of a religion different from yours.
8. Visit a place where people spoke a language different from your first language.
9. Do something you’ve never done before.
10. Attend a cultural event (art show, concert).
11. Eat ethnic food.
12. Visit a foreign country.
13. Watch a program about world (non-US) history.
14. Read a book about another culture.
15. Watch a movie or TV show about another culture.
16. Attend a social event where you didn’t know anyone.
17. Read a book written by a foreign author.
18. Listen to music from a different culture.
19. Attend an event where you were in a minority based on any demographic characteristic (age, gender, race, ethnicity, religion, sexual orientation).

an organizational behavior moment

Managing in a Foreign Land

Spumonti, Inc., is a small manufacturer of furniture. The company was founded in 1990 by Joe Spumonti, who had been employed as a cabinetmaker in a large firm before he decided to open his own shop in the town of Colorado Springs. He soon found that some of his customers were interested in special furniture that could be built to complement their cabinets. Joe found their requests easy to accommodate. In fact, it wasn’t long before their requests for custom furniture increased to the point that Joe no longer had time to build cabinets.

Joe visited a banker, obtained a loan, and opened a larger shop. He hired several craftspeople, purchased more equipment, and obtained exclusive rights to manufacture a special line of furniture. By 2000, the business had grown considerably. He then expanded the shop by purchasing adjoining buildings and converting them into production facilities. Because of the high noise level, he also opened a sales and administrative office several blocks away, in the more exclusive downtown business district.

Morale was very good among all associates. The workers often commented on Joe Spumonti’s dynamic enthusiasm, as he shared his dreams and aspirations with them and made them feel like members of a big but close-knit family. Associates viewed the future with optimism and anticipated the growth of the company along with associated growth in their own responsibilities. Although their pay was competitive with that provided by other local businesses, it was not exceptional. Still, associates and others in the community viewed

jobs with Spumonti as prestigious and desirable. The training, open sharing of information, and individual autonomy were noteworthy.

By 2013, business volume had grown to the extent that Joe found it necessary to hire a chief operating officer (COO) and to incorporate the business. Although incorporation posed no problem, the COO did. Joe wanted someone well acquainted with modern management techniques who could monitor internal operations and help computerize many of the procedures. Although he preferred to promote one of his loyal associates, none of them seemed interested in management at that time. Ultimately, he hired Wolfgang Schmidt, a visa holder from Germany who had recently completed his MBA at a German university. Joe thought Wolfgang was the most qualified among the applicants, especially with his experience in his family’s furniture company in Germany.

Almost immediately after Wolfgang was hired, Joe began to spend most of his time on strategic planning and building external relationships with key constituents. Joe had neglected these functions for a long time and felt they demanded his immediate attention. Wolfgang did not object to being left on his own because he was enthusiastic about his duties. It was his first leadership opportunity.

Wolfgang was more conservative in his approach than Joe had been. He did not like to leave things to chance or to the gut feel of the associates, so he tried to intervene in many decisions the associates previously had been making for themselves.

An Organizational Behavior Moment

The applied, hypothetical case at the end of each chapter gives students an opportunity to apply the knowledge they have gained throughout the chapter. Each case concludes with questions. Teaching suggestions are included in the instructor’s resources.

“The case was a good illustration of what life as a manager is like and it lends itself to a discussion of what might keep a manager from being highly involved.”

(DEBORAH BUTLER, GEORGIA STATE UNIVERSITY)

Team Exercise

These experiential exercises expand the student’s learning through activities and engage students in team-building skills. Teaching suggestions are included in the instructor’s resources.

“The Exercise at the end of the chapter seemed like a great way to get students involved and to help them understand the material.”

(SHARON PURKISS, CALIFORNIA STATE UNIVERSITY AT FULLERTON)

team exercise

Dealing with Stress

STEPS

1. If you have not done so already, complete the assessment presented in *Building Your Human Capital*. In addition to the periodic stressors identified in that assessment, identify and list any ongoing stressors (demanding classes, a teacher who is not treating you appropriately, etc.).
2. Write down what you currently do to cope with stress. Be specific in commenting on each element found in the section entitled “Individual Stress Management” (e.g., endurance exercise, instrumental social support, meditation).

3. Give your results from Steps 1 and 2 to two classmates, as identified by your instructor (if you have privacy concerns, consult with your instructor).
4. Receive results from the same two classmates, and evaluate the effectiveness of their coping strategies in light of their stressors.
5. Team up with the other two people and discuss your evaluations.

Steps 1–4 should take about 30 minutes to complete, and step 5 should take about 20–30 minutes.

Case Studies

Available on the Book Companion Site and in digital versions of the text are Case Studies on Cooperating and Communicating Across Cultures, Brussels and Bradshaw, Bright and Dedicated: What More Do You Want?, Anna Frisch at Aesch AG, and Organizational Culture at DreamWorks Animation. These Case Studies can be accessed at www.Wiley.com/College/Hitt.

SUPPLEMENTS

WileyPlus Learning Space

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Companion Website

The text's website at www.wiley.com/college/Hitt contains myriad resources and links to aid both teaching and learning, including the web quizzes described above.

Instructor's Resource Guide

The Instructor's Resource Guide includes an Introduction with sample syllabi, Chapter Outlines, Chapter Objectives, Teaching Notes on how to integrate and assign special features within the text, and suggested answers for all quiz and test questions found in the text. The Instructor's Resource Guide also includes additional discussion questions and assignments that relate specifically to the cases, as well as case notes, self-assessments, and team exercises.

Test Bank

This robust Test Bank consists of true/false (approximately 60 per chapter), multiple choice (approximately 60 per chapter), short-answer (approximately 25 per chapter), and essay questions (approximately 5 per chapter). Further, it is specifically designed so that questions will vary in degree of difficulty, ranging from straightforward recall to more challenging application questions to ensure student mastery of all key concepts and topics. The organization of test questions also offers instructors the most flexibility when designing their exams. A Computerized Test Bank provides flexibility and customization options to instructors. This electronic version of the Test Bank includes all the questions from the Test Bank within a test-generating program that allows instructors to customize their exams and to add their own test questions in addition to what is already available.

PowerPoint Presentations

These PowerPoint presentations provide another visual enhancement and learning aid for students, as well as additional talking points for instructors. Each chapter's set of interactive PowerPoint slides includes lecture notes to accompany each slide. Each presentation includes roughly 30 slides with illustrations, animations, and related web links interspersed appropriately.

Lecture Notes

Lecture Notes provide an outline of the chapter and knowledge objectives, highlighting the key topics/concepts presented within each chapter. PowerPoint slides have been integrated, where relevant, and the lecture notes suggest to instructors when it's best to show the class each slide within a particular chapter's PowerPoint presentation.

Web Quizzes

Online quizzes with questions varying in level of difficulty have been designed to help students evaluate their individual comprehension of the key concepts and topics presented within each chapter. Each chapter's quiz includes 10 questions, including true/false and multiple-choice questions. These review questions, developed by the Test Bank author have been created to provide the most effective and efficient testing system for students as they prepare for more formal quizzes and exams. Within this system, students have the opportunity to “practice” responding to the types of questions they'll be expected to address on a quiz or exam.

Prelecture and Postlecture Quizzes

The Prelecture and Postlecture Quizzes consist of multiple-choice and true/false questions which vary in level of detail and difficulty while focusing on a particular chapter's key terms and concepts. This resource allows instructors to quickly and easily evaluate their students' progress by monitoring their comprehension of the material both before and after each lecture.

The prelecture quiz questions enable instructors to gauge their students' comprehension of a particular chapter's content so they can best determine what to focus on in their lectures.

The postlecture quiz questions are intended to be homework or review questions that instructors can assign to students after covering a particular chapter. The questions typically provide hints, solutions, or explanations to the students, as well as page references.

Organizational Behavior Lecture Launcher Video

Video clips from the BBC and CBS News, ranging from 2 to 5 minutes in length, tied to the current news topics in organizational behavior are available on the book companion site at www.Wiley/College/Hitt. These video clips provide an excellent starting point for lectures. An instructor's manual for using the lecture launcher is available on the Instructor's portion of the Hitt website. If you are an instructor and need access to the Instructor Companion Site, please contact your local Wiley sales representative.

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WHOLE FOODS, whole people

Whole Foods Market is the largest natural food retailer in the world with more than 360 stores and approximately \$12 billion in annual sales. With operations located primarily in the United States and also in Canada and the United Kingdom, Whole Foods sells natural and organic food products that include produce, meat, poultry, seafood, grocery products, baked and prepared goods, many drinks such as beer and wine, cheese, floral products, and pet products. The origin of the company dates to 1978 when John Mackey and his girlfriend used \$45,000 in borrowed funds to start a small natural food store then named SaferWay. The store was located in Austin, Texas. John and his girlfriend lived in the space over the store (without a shower) because they were “kicked out” of their apartment for storing food products in it.

In 1980, Mackey developed a partnership with Craig Weller and Mark Skiles, merging SaferWay with Weller’s and Skiles’s Clarksville Natural Grocer to create the Whole Foods Market. Its first store opened in 1980 with 12,500 square feet and

19 employees. This was a very large health food store relative to others at that time. There was a devastating flood in Austin within a year of its opening and the store was heavily damaged.

Much of its inventory was ruined and its equipment was damaged. The total losses were approximately \$400,000, and the company had no insurance. Interestingly, customers and neighbors helped the staff of the store to repair and clean up the damage. Creditors, vendors, and investors all partnered to help the store reopen only 28 days after the flood. With their assistance, Whole Foods survived this devastating natural disaster.

Whole Foods started to expand in 1984 when it opened its first store outside of Austin. The new store was located in Houston, followed by another store in Dallas and one in New Orleans. It also began acquiring other companies that sold natural foods, which helped to increase its expansion into new areas of the United States. In 2007, it expanded into international markets by opening its first Whole Foods branded store in London, England. (In 2004, it acquired a small natural foods company in the United Kingdom, Fresh & Wild, but did not

**WHOLE
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M A R K E T

Logo property of Whole Foods Market

use the Whole Foods brand until opening its new store in London.) It also acquired one of its major U.S. competitors, Wild Oats, in 2007. And, it is currently planning on expanding its footprint in Canada from 9 stores (all in British Columbia) to 49 stores moving into other Canadian markets such as Montreal. It now has approximately 67,000 employees with about 7 percent growth in the employee base annually. Thus, Whole Foods has become a major business enterprise and the most successful natural and organic food retailer in the world.

MANAGING HUMAN CAPITAL

Whole Foods Market has done a number of things right, thereby achieving considerable success. Yet, many people believe that one of the best things it has done is to implement an effective people-management system. Each Whole Foods store employs approximately 40 to as many as 650 associates. All of the associates are organized into self-directed teams; associates are referred to as team members. Each of the teams is responsible for a specific product or service area (e.g., prepared foods, meats and poultry, customer service). Team members report to a team leader, who then works with store management, referred to as store team leaders. The team members are a critically important part of the Whole Foods operation. Individuals are carefully selected and trained to be highly knowledgeable in their product areas, to offer friendly service, and to make critical decisions related to the types and quality of products offered to the public. Thus, they operate much differently than most “employees” in retail grocery outlets. These team members work with their team leader to make a number of joint decisions with regard to their specific areas, and they contribute to store level decisions as well. Some observers have referred to this approach

as “workplace democracy.” In fact, many of the team members are attracted to Whole Foods because of the discretion they have in making decisions regarding product lines and so on. Of course, there are other attractions such as the compensation. For example, the company’s stock option program involves employees at all levels. In fact, 94 percent of the stock options offered by the company have been presented to nonexecutive members, including front-line team members. The company pays competitive wages and pays 100 percent of the health insurance premium for all associates working at least 30 hours per week, which includes 89 percent of its workforce. Although the annual deductible is high (\$2,500), each associate receives a grant of up to \$1,800 annually in a Personal Wellness Account to be used for health care out-of-pocket costs. All of the benefit options are voted on by the associates in the company. Current programs include options for dental, vision, disability, and life insurance in addition to the full medical coverage for full-time associates.

Whole Foods follows a democratic model in the selection of new associates. For example, potential new team members can apply for any one of the 13 teams that operate in most Whole Foods Markets. Current team members participate in the interview process and actually vote on whether to offer a job to prospective colleagues. A candidate is generally given a four-week trial period to determine whether he or she has potential. At the end of that trial period, team members vote on whether to offer a permanent job to the candidate. The candidate must receive a two-thirds majority positive vote from the unit team members in order to be hired.

Teams also receive bonuses if they perform exceptionally well. They set goals relative to prior performance and must achieve those goals to attain a bonus. Exceptionally

high-performing teams may earn up to \$2 an hour more than their current wage base.

The top management of Whole Foods believes that the best philosophy is to build a shared identity with all team members. They do so by involving them in decisions and encouraging their participation at all levels in the business. They empower employees to make decisions and even allow them to participate in the decision regarding the benefit options, as noted above. All team members have access to full information on the company. It is referred to as Whole Foods’ open-book policy. In this open-book policy, team members have access to the firm’s financial records, which include compensation information for all associates and even the top management team and the CEO. Therefore, the firm operates with full transparency regarding its associates. This approach emphasizes the company’s core values of collaboration and decentralization. The company attracts people who share those core values and tries to reward a highly engaged and productive workforce.

The company also limits the pay of top executives to no more than 19 times the lowest paid associate in the firm. While this amount has been increased over time in order to maintain competitive compensation for managers, it is still well below industry averages for top management team members. And, John Mackey, the former CEO and now co-CEO, only receives \$1 annually in salary and no stock options.

The outcomes of this unique system for managing human capital have been impressive. For example, Whole Foods’ voluntary turnover is much lower than the industry average. The industry average is almost 90 percent annually, but Whole Foods’ data show that it has a voluntary turnover rate of only 7 percent (in 2012). In addition, Whole

Foods has been ranked in the top 100 best companies to work for by *Fortune* magazine every year since the inception of the ranking in 1998.

In addition to its flat organization structure (few layers of management between associates and top managers) and decentralized decision making (e.g., selection of new associates), the company believes that each employee should feel a stake in the success of the company. In fact, this is communicated in its "Declaration of Interdependence." The Declaration of Interdependence suggests that the company has eight core values. They are listed in Table 1.

The company attempts to support team member excellence and happiness through its empowering work environment in which team members work together to create the results. In such an environment, they try to create a motivated work team that achieves the highest possible productivity. There is an emphasis on individuals taking responsibility for their success and failure and seeing both as opportunities for personal and organizational growth.

The company develops self-directed work teams and gives them significant decision-making authority to resolve problems and build a department and product line to satisfy and delight the customers. The company believes in providing open and timely information and in being highly transparent in all of its operations. It also focuses on achieving progress by continuously allowing associates to apply their collective creativity and intellectual capabilities to build a highly competitive and successful organization. Finally, the company emphasizes a shared fate among all stakeholders. This is why there are no special privileges given to anyone, not even to top managers. It is assumed that everybody works together to achieve success.

TABLE 1 Whole Foods' Declaration of Interdependence (Eight Core Values)

1. Selling the highest-quality natural and organic products available.
2. Satisfying, delighting and nourishing customers.
3. Supporting team member excellence and happiness.
4. Creating wealth through profits and growth.
5. Serving and supporting local and global communities.
6. Practicing and advancing environmental stewardship.
7. Creating ongoing win-win partnerships with suppliers.
8. Promoting the health of stakeholders through healthy eating education.

SOCIAL AND COMMUNITY RESPONSIBILITIES

Whole Foods Market takes pride in being a responsible member of its community and of society. For example, it emphasizes the importance of sustainable agriculture. In particular, the firm tries to support organic farmers, growers, and the environment by a commitment to using sustainable agriculture and expanding the market for organic products. In this regard, the Whole Foods Market launched a program to loan approximately \$10 million annually to help independent local producers around the country to expand. It holds seminars and teaches producers how to move their products onto grocery shelves and how to command and receive premium prices for their products. These seminars and related activities have been quite popular. Overall, the Whole Foods Market does business with more than 2,400 independent growers.

Whole Foods Market also supports its local communities in other ways. For example, the company promotes active involvement in local communities by giving a minimum of 5 percent of its profits each year to a variety of community and nonprofit organizations. These actions encourage philanthropy and outreach in the communities that Whole Foods serves.

Whole Foods Market also tries to promote positive environmental

practices. The company emphasizes the importance of recycling and reusing products and reducing waste wherever possible. Furthermore, Whole Foods was the first retailer to build a supermarket that met environmental standards of the Leadership in Energy and Environmental Design Green Building Rating System (LEED). It offsets 100 percent of its energy use with wind credits. Finally, Whole Foods announced a new initiative a few years ago to create an animal compassion standard that emphasizes the firm's belief in the needs of animals. The company developed standards for each of the species that are used for foods and sold through their supermarkets (concern for human treatment and animal welfare). In 2012, the company produced its first Green Mission Report that reports on all of its areas related to environmental sustainability.

Whole Foods launched a program to encourage higher wages and prices paid to farmers in poor countries, while simultaneously promoting environmentally safe practices. In fact, the company donates a portion of its proceeds to its Whole Planet Foundation, which in turn provides microloans to entrepreneurs in developing countries.

Finally, Whole Foods has become a champion for healthy eating. It engages in healthy eating education to promote more healthy

citizens and communities. It provides recipes for preparing healthy meals.

Very few, if any, major corporations, including competing supermarket chains, have established programs that rival those of the Whole Foods Market to meet social and community responsibilities.

SOME BUMPS IN THE ROAD

While the Whole Foods Market has been a highly successful company, it still has experienced some problems along the way. Obviously, it has produced a concept that has been imitated by other natural foods companies and a number of competing supermarkets as well. Yet, in general, Whole Foods has been able to maintain its competitive advantage and market leadership, partly by being the first to the market and partly because of its practices, which continue to generate a strong reputation and a positive company image. Yet, a number of firms have developed competing products and are making headway in selling organic foods, including some regular large supermarket chains. For example, Sprouts Farmers Market has garnered a large number of customers with its sales of natural and organic foods. Major supermarket retailers such as Kroger have expanded the number and type of organic foods sold. Even Wal-Mart offers organic foods in its grocery operations. In order to maintain its leadership and to continue to command a premium price, Whole Foods Market has been continuously differentiating its products and building its image so that people will buy from it rather than from competitors. Whole Foods continues to expand the number of its stores and move into new markets. It has recently begun to expand into smaller cities such as Boise, Idaho (population is 212,000) and Lincoln, Nebraska (population is 260,000), with success. Previously, it only located stores in large metropolitan areas. It recently opened its first

Domain store in which it offers dining experiences such as oyster bars and Texas barbecue along with retail groceries. And, Whole Foods recently market tested a “click and collect” program whereby consumers can order organic foods online and pick up the order at the nearest Whole Foods retail store.

The top management of the Whole Foods Market has been strongly opposed to unionization. The belief is that the company pays workers well and treats them with dignity and respect and that a union is likely to interfere in its relationships with associates. Mackey, the CEO of the company, suggests that it is a campaign to “love the worker, not a union.” Yet, the first union for Whole Foods was voted in at its Madison, Wisconsin, store. However, the Whole Foods Market executives have been able to fend off union efforts at other stores, including a campaign launched that the company referred to as “union awareness training.” Still, it may experience problems with its planned expansion into Montreal where unions are especially strong.

Several years ago Mackey was criticized for and investigated by the Securities and Exchange Commission (SEC) for posting on a Yahoo! financial message board anonymous online critiques of competitors and self-congratulating statements about the Whole Foods Market. These comments were made using a pseudonym so no one knew that he was the CEO of Whole Foods. This action was strongly criticized by analysts and others, and several questioned the ethics of his actions. The Whole Foods’ Board investigated the actions and reaffirmed its support for Mackey. In addition, the SEC concluded that no enforcement action would be taken against the company or the CEO. Mackey has not engaged in such actions since that time.

FIRM PERFORMANCE AND THE FUTURE

Whole Foods Market has performed well over the past several years, sustaining significant growth in sales and profits. Its stock price has also generally performed well. However, during the period 2005–2008, some analysts argued that the stock was overvalued, partly because they did not believe that Whole Foods’ growth rate and returns could be sustained. Undoubtedly, maintaining its growth rate will be difficult as the competition in its natural and organic foods continues to grow. It was a special concern during the recent economic recession. Yet, Whole Foods’ business model seems to be strong even with the challenging economic environment. The company is highly profitable and continues to outperform its direct competitors. And the value of its stock has increased considerably with a return of 1,075 percent over its most recent five years ending with fiscal 2013. Shareholders enjoyed a 2 for 1 stock split in 2013.

The firm has been combating competition with its new approaches and stores and recently offering discounts on its products. The expansion of stores to new communities has been successful as well, hurting established supermarket competitors such as Albertsons in its own backyard (Boise, Idaho). Clearly, Whole Foods Market has been a very positive force in dealing with its associates through its highly unique means of managing human capital. It also has built a strong positive reputation and differentiated its products in the eyes of consumers. Yet, there are some challenges with which the firm must deal, such as growing competition and potential unionization. While the future likely remains bright, further evaluation will be needed to determine whether there will be continued growth and positive returns for all stakeholders of the Whole Foods Market.

Source: Whole Foods Market logo used with permission.

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WHOLE FOODS CASE DISCUSSION QUESTIONS

Chapter 1

1. Describe how Whole Foods uses human capital as a source of competitive advantage.
2. Identify the aspects of high-involvement management contained in Whole Foods' approach to managing its associates.

Chapter 2

1. Compared to other companies in the service sector, is Whole Foods more or less likely to experience discrimination problems? Explain your answer.

2. How could Whole Foods' democratic model of selection interfere with the development or continuance of a diverse workforce? What should it do to prevent difficulties?

Chapter 3

1. How do you think that globalization will affect Whole Foods over time? Please explain several ways it could affect the company operations.
2. In what ways can national culture affect the management of human capital? Will Whole Foods have to adapt its democratic approach to selecting new team

members or the benefits it provides to its associates as it expands further into international markets?

Chapter 4

1. To what extent do you think that training and associate learning would be more important for Whole Foods than for other grocery stores?
2. What type of perceptual problems on the part of associates and the public may have resulted from the scandal regarding John Mackey's blog activities?

Chapter 5

1. Given the nature of Whole Foods' jobs and the way in which associates are selected, what type of personality traits are important for Whole Foods' associates to possess?
2. Compared to the industry average, Whole Foods has a low turnover rate and is consistently ranked as a great place to work. Why do you think Whole Foods' associates are so satisfied and committed to the organization?

Chapter 6

1. Are Whole Foods' team members likely to experience problems with procedural and/or distributive justice? Explain.
2. Which of the major motivational practices are emphasized by Whole Foods in its management system? For example, do they include meaningful rewards, tying rewards to performance, designing enriched jobs, providing feedback, or clarifying expectations and goals?

Chapter 7

1. Based on the demand-control and effort-reward models of stress, are Whole Foods' team members likely to experience a great deal of stress? What about its executives?

2. Does Whole Foods need a wellness program? Why or why not?

Chapter 8

1. Is John Mackey a transformational leader? Why or why not?
2. Based on contingency theories of leadership, what approach to leadership should be used by Whole Foods' team leaders? Why?

Chapter 9

1. Whole Foods' open-book policy allows all associates to have full access to all information about the company and its executives. Would this degree of open communication work as well in other companies? Why or why not? What impact do you think this degree of transparency has on the attitudes and behavior of Whole Foods' associates?
2. What ethical issues arise from John Mackey's use of a pseudonym to post opinions, information, and critiques on blog sites?

Chapter 10

1. What decision styles does John Mackey appear to use? Do these fit his situation?
2. Which group decision-making pitfalls appear most likely within Whole Foods' teams, and which decision-making techniques would you recommend to counter those pitfalls?

Chapter 11

1. What policies and procedures does Whole Foods enact that allow it to develop successful associate teams?
2. What impact do you think that the process of allowing team members to vote on hiring new members has on the dynamics and performance of the Whole Foods teams?

Chapter 12

1. Whole Foods' "Declaration of Interdependence" states that two of the company's core values are "creating wealth through profits and growth" and "caring about our communities and the environment." Often, these two values are in conflict for many companies. How does Whole Foods resolve this conflict?
2. Whole Foods has been opposed to the unionization of its associates. However, associates in a Madison, Wisconsin, store voted to become unionized. What type of conflicts or power struggles may have caused this to occur?

Chapter 13

1. Analyze the effects of the democratic approach to store operations and hiring new associates on store performance.
2. What does the transparency about company financial data and associate and managers' compensation communicate about Whole Foods' culture? How does the Declaration of Interdependence reflect aspects of Whole Foods' culture?

Chapter 14

1. Analyze how Whole Foods has managed change over the years since it started.
2. Whole Foods now faces a significant amount of competition. How should it respond to the changes in the competitive landscape of its industry? What future challenges do you envision for Whole Foods' market?

THE STRATEGIC LENS



PART 1

the strategic lens

This book describes the rich and important concepts that make up the field of organizational behavior. We have based the book on cutting-edge research as well as current practices in organizations. Beyond this, the book is unique in presenting these concepts through a strategic lens. That is, in each chapter, we explain the strategic importance of the primary concepts presented in the chapter. Our discussions emphasize how managers can use knowledge of these concepts to improve organizational performance.

In Part I, we develop and explain the strategic lens for organizational behavior. To begin, we describe in **Chapter 1** the concept of competitive advantage and how

organizational behavior affects the organization's ability to gain and maintain an advantage over its competitors. Gaining and maintaining a competitive advantage is critical for organizations to perform at high levels and provide returns to their stakeholders (including owners). We emphasize the importance of managing human capital for high performance and describe the high-involvement organization and how to manage associates to achieve it.

Chapter 2 examines the critical topic of organizational diversity. Given the demographic diversity in the United States, all organizations' workforces are likely to become increasingly diverse. Thus, it is important to

understand diversity and how to manage it effectively in order to gain a competitive advantage. This chapter explains how these outcomes can be achieved.

Chapter 3 discusses managing organizations in a global environment. International markets offer more opportunities but also are likely to present greater challenges than domestic markets. Understanding the complexities of managing in international markets is a necessity. It is especially important to understand how to manage diverse cultures and operations in varying types of institutional environments.

The three chapters of Part I provide the setting for exploring the topics covered in the chapters that follow.



a strategic approach to organizational behavior



knowledge objectives

After reading this chapter, you should be able to:

1. Define organizational behavior and explain the strategic approach to OB.
2. Provide a formal definition of *organization*.
3. Describe the nature of human capital.
4. Discuss the conditions under which human capital is a source of competitive advantage for an organization.
5. Describe positive organizational behavior and explain how it can contribute to associates' productivity.
6. Explain the five characteristics of high-involvement management and the importance of this approach to management.

exploring behavior in action

Strategic Use of Human Capital: A Key Element of Organizational Success

In their book, *The New American Workplace*, James O'Toole and Edward Lawler described the existence of high-involvement, high-performance companies that spanned many industries. Examples of such companies are Nucor, W.L. Gore & Associates, and Proctor & Gamble, among others. For example, Proctor & Gamble (P&G) adopted high-involvement work practices at some of its manufacturing facilities, including empowerment of work teams to allocate the tasks among their members, establish their own work schedules, recruit new members to their team and even to select the methods used to accomplish their tasks. In addition, P&G invests in building human capital, and much of the training is done by P&G managers instead of human resource management or training specialists. In fact, P&G views work life as a career-long learning and development process. P&G has a different "college" for educating its workforce in the knowledge and skills needed for their current and future jobs. The company also carefully screens all candidates in the hiring process. The company received approximately 400,000 applications in 2009 for entry-level management positions and hired fewer than 2,000 (less than one-half of one percent).

The Container Store was started in 1978, and from the beginning the founders and top executives stated the top

stakeholders were the employees (even ranked above shareholders and customers). Since its founding, The Container Store has enjoyed an average compound annual growth rate of approximately 25 percent, with annual revenues now exceeding \$700 million. It is the top specialty retailer of containers in the country.

The Container Store has now been listed as one of *Fortune's* "100 Best Companies to Work For" for the last 14 years straight. The company has enjoyed this success in its markets and its workforce because of adherence to its founding principles. These founding principles include the following:

1. Hiring only great employees. One great person outproduces three good people.
2. Focus on training and development. Intuition does not come to an unprepared mind.
3. Emphasis on quality communication. Communication is leadership.
4. Empowering the employees to make decisions. Empowerment helps realize both the employee's and the company's potential.
5. Culture provides an air of excitement. Employees love their jobs and love helping customers.

The company invests many resources in recruiting, especially in the selecting the best person to hire. In fact, it hires only 3 percent of the people who apply for a job. People who are hired go through as many as eight interviews, many of them group interviews with other associates. New employees are giving 263 hours of training during their first year (the industry average is

eight hours of training). They receive a significant benefits package and are paid 50 to 100 percent more than the average pay for retail employees. In addition, employees are empowered to make decisions commonly made by the store managers in most retail organizations.

During the most recent economic recession, The Container Store experienced financial difficulties (similar to many other retailers). However, it refused to lay off any of its employees. Each year it also declares a “National We Love Our Employees Day,” taking out large ads in major newspapers such as the *New York Times* to promote it. This level of commitment by the company is rewarded with strong employee loyalty; it has a voluntary turnover rate of only about 5 percent annually. This compares to rates as high as 100 percent turnover at other major retailers.

Executives of The Container Store claim that the company’s focus on hiring great employees, giving them the knowledge they need, and providing them the authority to make decisions unleashes their creativity to identify solutions that best serve their customers. The results are obvious to customers. One customer recently remarked that he found that the staffing in the store “radiated happiness and enthusiasm,” and the excitement in the store was evident. This enthusiasm makes for happy customers, which in return produces a successful business.

The success of The Container Store and other companies mentioned above should promote frequent attempts to imitate their practices, but this has not been the case. Instead, confronted

with difficult industry conditions, managers in many retailing firms attempt to minimize costs through low compensation and little training. They implement supervision and surveillance systems designed to tightly control employees. Many companies make assumptions about their workforce, but their actions do not allow the human potential in their workforce to be realized.

Yet, some of the highest-performing companies treat their associates in a different way. The leadership of these companies believes that valuing people is crucial for business success. They believe they get more out of their employees by providing them power and autonomy, and the results support this belief. These companies continue to grow, have low labor costs and achieve high profits while paying high compensation because of the productivity of their workforce. For example, Starbucks provides a much larger and more costly benefits package to its workforce than most other retailers. Starbucks can do this not because of the “premium” it charges for its products but because of its productive, customer-oriented associates who produce a premium for the company. The bottom line is that companies that allow associates to participate in major decisions, invest heavily in training, and provide profit-sharing programs to them have a much more productive workforce and enjoy the many benefits that are derived from it. They are often among *Fortune’s* Best 100 Companies to Work For and are among the top financial performers in industry. They perform well because they gain the most value from their human capital.

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the strategic importance of Organizational Behavior

The examples of The Container Store, Procter & Gamble, and Starbucks show the powerful difference that a firm’s human capital can make. Faced with less-than-favorable industry characteristics and a labor pool that many find unattractive in the retail field, The Container Store and Starbucks have succeeded in part by paying careful attention to human behavior. Any firm can sell containers and coffee, but it requires special management to effectively embrace and use to advantage the complexities and subtleties of human behavior. From the

motivational and leadership practices of managers to the internal dynamics of employee-based teams to the values that provide the base for the organization’s culture, successful firms develop approaches that unleash the potential of their people (human capital).

In the current highly competitive landscape, the ability to understand, appreciate, and effectively leverage human capital is critical in all industries. A strategic approach to organizational behavior is focused on these issues. In this chapter, we introduce the concept

of organizational behavior and explain how to view it through a strategic lens in order to enhance organizational performance.

To introduce the strategic approach to organizational behavior, or OB, we address several issues. First, we define organizational behavior and discuss its strategic importance for organizational performance. Next, we explore the concept of human capital and its role in organizations. We then discuss how human capital most likely contributes to a competitive advantage for an organization.