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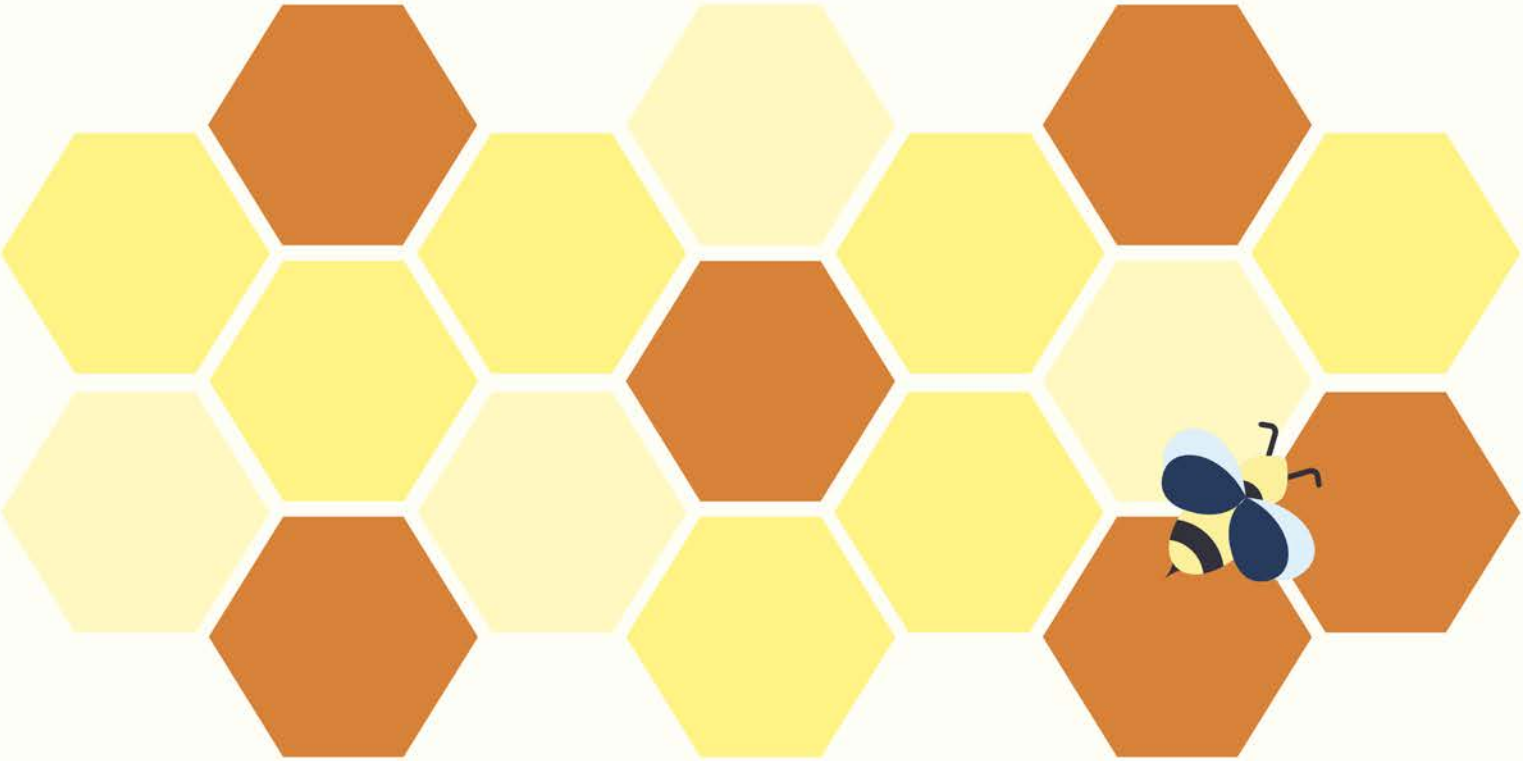
MGMT 4

4TH ASIA–PACIFIC EDITION



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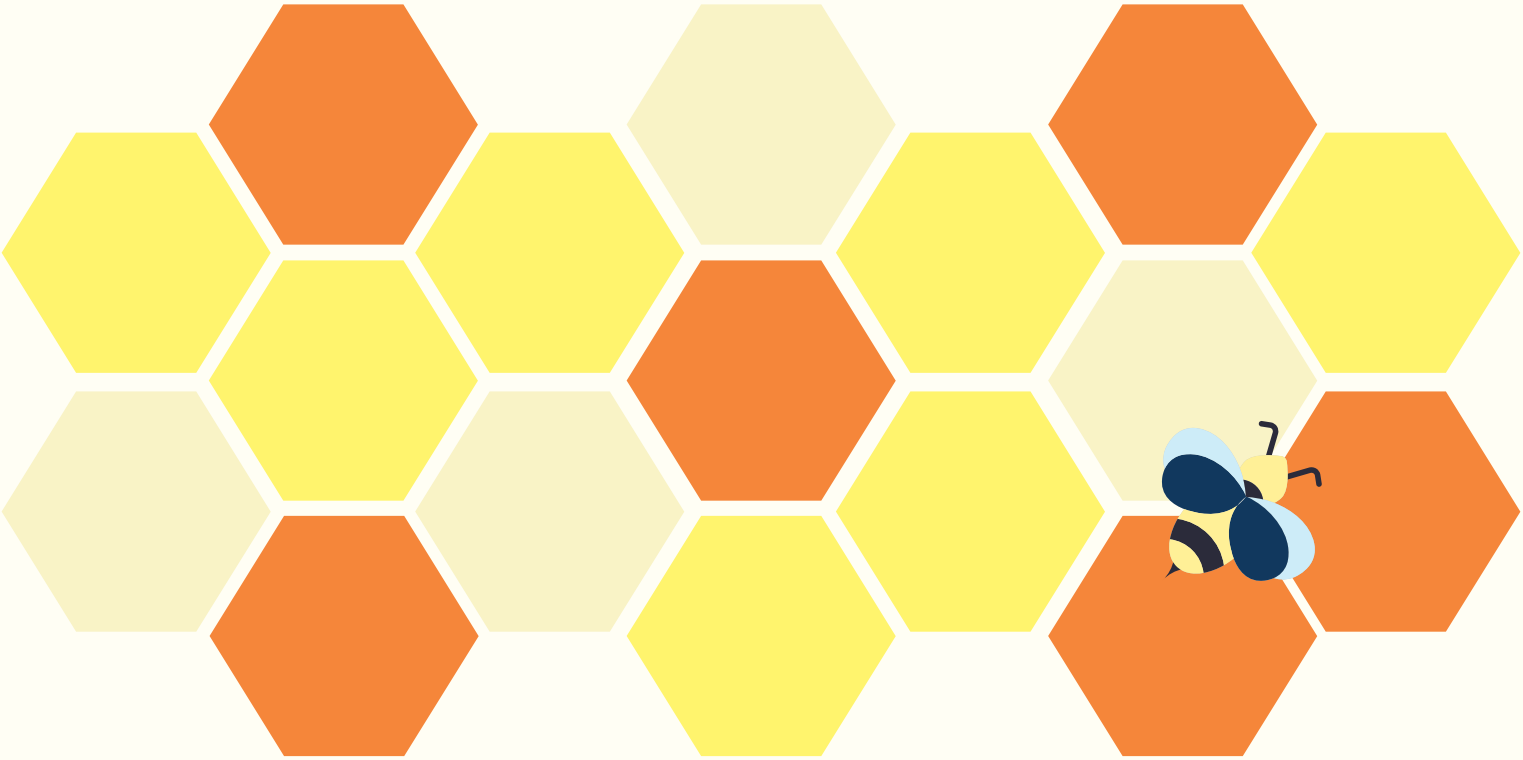

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BRIEF CONTENTS

CONTENTS

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PART FOUR: LEADING 221

Guide to the text

As you read this text you will find features in every chapter to enhance your study of Management and help you understand how the theory is applied in the real world.

PART OPENING FEATURES

The **Part openers** outline the chapters contained in each part for easy reference.

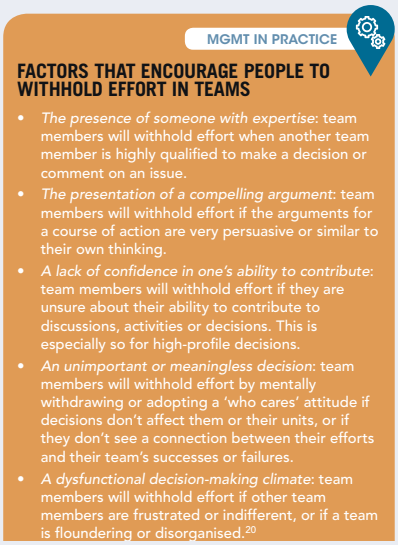
NEW

CHAPTER OPENING FEATURES

Identify the key concepts that the chapter will cover with the **Learning outcomes** at the start of each chapter. The Learning outcome icons throughout the chapters indicate where this content is covered.

FEATURES WITHIN CHAPTERS

MGMT in Practice boxes present practical applications of key management concepts and tips.

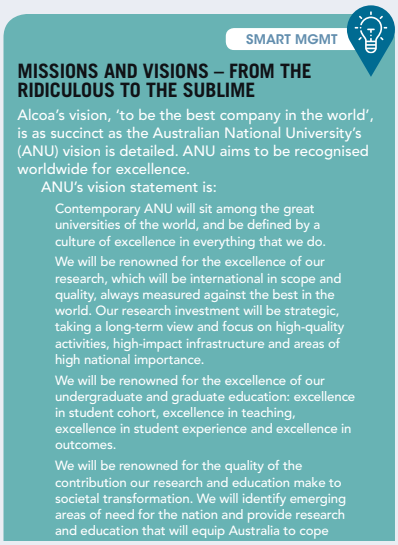


MGMT IN PRACTICE

FACTORS THAT ENCOURAGE PEOPLE TO WITHHOLD EFFORT IN TEAMS

- *The presence of someone with expertise*: team members will withhold effort when another team member is highly qualified to make a decision or comment on an issue.
- *The presentation of a compelling argument*: team members will withhold effort if the arguments for a course of action are very persuasive or similar to their own thinking.
- *A lack of confidence in one's ability to contribute*: team members will withhold effort if they are unsure about their ability to contribute to discussions, activities or decisions. This is especially so for high-profile decisions.
- *An unimportant or meaningless decision*: team members will withhold effort by mentally withdrawing or adopting a 'who cares' attitude if decisions don't affect them or their units, or if they don't see a connection between their efforts and their team's successes or failures.
- *A dysfunctional decision-making climate*: team members will withhold effort if other team members are frustrated or indifferent, or if a team is floundering or disorganised.[20]

Smart MGMT boxes showcase examples of innovative management.



SMART MGMT

MISSIONS AND VISIONS – FROM THE RIDICULOUS TO THE SUBLIME

Alcoa's vision, 'to be the best company in the world', is as succinct as the Australian National University's (ANU) vision is detailed. ANU aims to be recognised worldwide for excellence.

ANU's vision statement is:

> Contemporary ANU will sit among the great universities of the world, and be defined by a culture of excellence in everything that we do.
>
> We will be renowned for the excellence of our research, which will be international in scope and quality, always measured against the best in the world. Our research investment will be strategic, taking a long-term view and focus on high-quality activities, high-impact infrastructure and areas of high national importance.
>
> We will be renowned for the excellence of our undergraduate and graduate education: excellence in student cohort, excellence in teaching, excellence in student experience and excellence in outcomes.
>
> We will be renowned for the quality of the contribution our research and education make to societal transformation. We will identify emerging areas of need for the nation and provide research and education that will equip Australia to cope

FEATURES WITHIN CHAPTERS

MGMT Trend boxes reveal the current and future directions of management.

Workplace and Community boxes present a behind the scenes look at real world management practices and their outcomes.

MGMT Fact boxes present interesting facts about contemporary and historical management.

MGMT TREND

TAYLOR'S REST BREAK NOW INCLUDES NAPPING

While rest breaks traditionally involve sitting or taking a brief walk, some employers now see a rest break as an opportunity for a quick snooze. Lampooned in movies, television and even the business press, napping at work is nonetheless a proven way to increase focus, memory and alertness on the job. A recent study from the University of Michigan found that a one-hour nap during the workday produced all those benefits—and more. As numerous as the benefits of napping are said to be, the challenges of napping at work are even more so. Not only is it difficult to break pace during the workday long enough to actually fall asleep, but finding a place to sleep can be challenging as well. Only 6 per cent of companies have dedicated spaces for napping, and many employees work in loud, crowded spaces with stiff, uncomfortable chairs. Sleep experts do have some advice for people working at companies that embrace workday naps. First, when deciding what time to close your eyes, figure out the midpoint of your previous night's rest and add 12 hours. (For example, if you slept from 11 p.m. to 7 a.m., then your ideal nap time the next day is 3 p.m.) Once you know when to nap, sleep either for 20 or 90 minutes—ideal times for a re-energizing nap. Anything in between or beyond those two durations will

WORKPLACE AND COMMUNITY

WANT FRIES WITH THAT?

Don't think scientific management has much to do with today's work life? Think again about the last time you were in a shop and the salesperson said, 'Have a nice day'. Service providers – particularly at restaurants – use scripts to ensure that employees are following the 'one best way' of interacting with customers. McDonald's uses a speech-only script (employees must say, 'May I help you?' instead of 'Can I help someone?'). At one popular chain of restaurants, employees must greet the table within 30 seconds of arrival, take the drink order within three minutes, suggest five items while taking the order and check back with the table three minutes after the food arrives.[12]

MGMT FACT

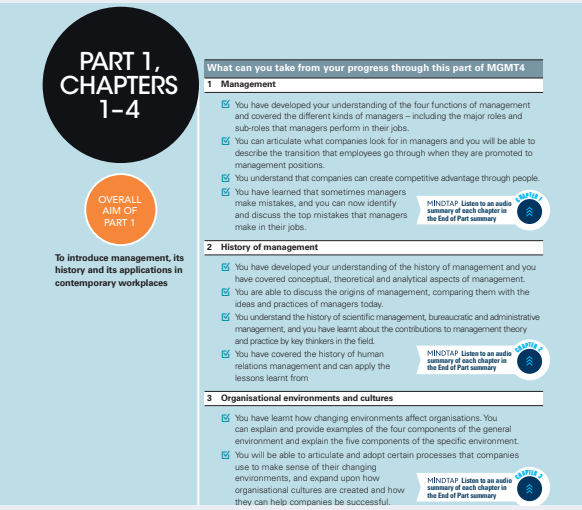
CASH MANAGEMENT

The cash register, invented in 1879, kept sales clerks honest by recording all sales transactions on a roll of paper securely locked inside the machine. But managers soon realised that its most important contribution was better management and control of their business. For example, department stores could

REVIEW FEATURES

Review your understanding of the key chapter topics with the **Concept summary** at the end of each Part.

Chapter tear-out cards found at the back of the book provide a portable study tool, summarising each chapter for class preparation and revision.



PART 1, CHAPTERS 1–4

OVERALL AIM OF PART 1

To introduce management, its history and its applications in contemporary workplaces

What can you take from your progress through this part of MGMT4

1 Management

- You have developed your understanding of the four functions of management and covered the different kinds of managers – including the major roles and sub-roles that managers perform in their jobs.
- You can articulate what companies look for in managers and you will be able to describe the transition that employees go through when they are promoted to management positions.
- You understand that companies can create competitive advantage through people.
- You have learned that sometimes managers make mistakes, and you can now identify and discuss the top mistakes that managers make in their jobs.

MINDTAP Listen to an audio summary of each chapter in the End of Part summary

2 History of management

- You have developed your understanding of the history of management and you have covered conceptual, theoretical and analytical aspects of management.
- You are able to discuss the origins of management, comparing them with the ideas and practices of managers today.
- You understand the history of scientific management, bureaucratic and administrative management, and you have learnt about the contributions to management theory and practice by key thinkers in the field.
- You have covered the history of human relations management and can apply the lessons learnt from

MINDTAP Listen to an audio summary of each chapter in the End of Part summary

3 Organisational environments and cultures

- You have learnt how changing environments affect organisations. You can explain and provide examples of the four components of the general environment and explain the five components of the specific environment.
- You will be able to articulate and adopt certain processes that companies use to make sense of their changing environments, and expand upon how organisational cultures are created and how they can help companies be successful.

MINDTAP Listen to an audio summary of each chapter in the End of Part summary

REVIEW

KEY TERMS

Management
Getting work done through others.

Efficiency
Getting work done with a minimum of effort, expense or waste.

Effectiveness
Accomplishing tasks that help fulfil organisational objectives.

Planning
Determining organisational goals and a means for achieving them.

Organising
Deciding where decisions will be made, who will do what jobs and tasks and who will work for whom.

Leading
Inspiring and motivating workers to work hard to achieve organisational goals.

Controlling
Monitoring progress towards goal achievement and taking corrective action when needed.

Top managers
Executives responsible for the overall direction of the organisation.

Middle managers
Managers responsible for setting objectives consistent with top management's goals and for planning and implementing subunit strategies for achieving these objectives.

First-line managers
Managers who train and supervise the performance of non-managerial employees who are directly responsible for producing the company's

Leader role
The interpersonal role managers play when they motivate and encourage workers to accomplish organisational objectives.

Liaison role
The interpersonal role managers play when they deal with people outside their units.

Monitor role
The informational role managers play when they scan their environment for information.

Disseminator role
The informational role managers play when they share information with others in their departments or companies.

Spokesperson role
The informational role managers play when they share information with people outside their departments or companies.

Entrepreneur role
The decisional role managers play when they adapt themselves, their subordinates and their units to change.

Disturbance handler role
The decisional role managers play when they respond to severe problems that demand immediate action.

Resource allocator role
The decisional role managers play when they decide who gets what resources.

Negotiator role
The decisional role managers play when they negotiate schedules, projects, goals, outcomes, resources and

LEARNING OUTCOMES

LO1 **Management is ...**
Good management is working through others to accomplish tasks that help fulfil organisational objectives as efficiently as possible.

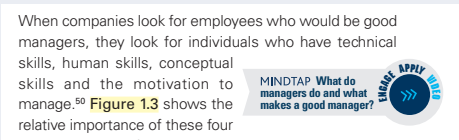
LO2 **Management functions**
Henri Fayol's classic management functions are known today as planning, organising, leading and controlling. Planning is determining organisational goals and a means for achieving them. Organising is deciding where decisions will be made, who will do what jobs and tasks and who will work for whom. Leading is inspiring and motivating employees to work hard to achieve organisational goals. Controlling is monitoring progress toward goal achievement and taking corrective action when needed. Studies show that performing management functions well leads to better managerial performance.

LO3 **Kinds of managers**
There are four different kinds of managers. Top managers are responsible for creating a context for change, developing attitudes of commitment and ownership, creating a positive organisational culture through words and actions and monitoring their company's business environments. Middle managers are responsible for planning and allocating resources, coordinating and linking groups and departments, monitoring and managing the performance of subunits and implementing the changes or strategies generated by top managers. First-line managers are responsible for managing the performance of non-managerial employees, teaching their workers how to do their jobs and making detailed schedules and operating plans based on middle management's intermediate-range plans. Team leaders are responsible for facilitating team performance, managing external relationships and facilitating internal team relationships.

LO4 **Managerial roles**
Managers perform interpersonal, informational and decisional roles in their jobs. In fulfilling the interpersonal role, managers act as figureheads by performing ceremonial duties, as leaders by motivating and encouraging workers and as liaisons by dealing with people outside their units. In performing their informational role, managers act as monitors by scanning their environment for information, as disseminators by sharing

ICONS

Throughout this text, **MindTap icons** indicate an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above each icon identifies the MindTap folder in which you can find it.



When companies look for employees who would be good managers, they look for individuals who have technical skills, human skills, conceptual skills and the motivation to manage.[50] Figure 1.3 shows the relative importance of these four

MINDTAP What do managers do and what makes a good manager?

Guide to the online resources

FOR THE INSTRUCTOR

Cengage is pleased to provide you with resources that will help you prepare your lectures and assessments. These teaching tools are accessible via **cengage.com.au/instructors** for Australia or **cengage.co.nz/instructors** for New Zealand.

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- Lesson plans
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FOR THE STUDENT

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PART ONE

INTRODUCTION TO MANAGEMENT

1 Management

LEARNING OUTCOMES

1. Describe what management is.
2. Explain the four functions of management.
3. Describe the different kinds of managers.
4. Explain the major roles and sub-roles that managers perform in their jobs.
5. Explain what companies look for in managers.
6. Discuss the top mistakes that managers make in their jobs.
7. Describe the transition that employees go through when they are promoted to management positions.
8. Explain how and why companies can create competitive advantage through people.

CENGAGE | MINDTAP

Throughout this chapter the MindTap icon indicates an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above the icon identifies the chapter folder in which you can find it.

WHAT IS MANAGEMENT?

Management issues are fundamental to any organisation: how do we plan to get things done, organise the company to be efficient and effective, lead and motivate employees and put in place controls to make sure our plans are followed and our goals are met? Good management is basic to starting a business, growing a business and maintaining a business once it has achieved some measure of success.

Determining what constitutes good management for individual businesses is not always straightforward. Companies in Australia pay management consultants nearly $6.5 billion[1] a year for advice on basic management issues, such as how to lead people effectively, organise the company efficiently and manage large-scale projects and processes.[2] This textbook will help you understand some of the basic issues that management consultants help companies resolve (and it won't cost you billions of dollars).

After reading the next two sections, you should be able to:

- describe what management is
- explain the four functions of management.

MINDTAP **Get started with the media quiz: Camp Bow Wow: Innovative Management for a Changing World**

LO1 MANAGEMENT IS …

Many of today's managers got their start working on the factory floor, clearing dishes from tables, helping customers choose the right dress to buy or working in a supermarket. Similarly, lots of you will start at the bottom and work your way up. There's no better way to get to

know your competition, your customers and your business. However, whether you begin your career at the entry level or as a supervisor, your job is not to do the work, but to help others do theirs. **Management** is getting work done through others. Vineet Nayar, Founder of Sampark Foundation and former CEO of IT services company HCL Technologies, doesn't see himself as the guy who has to do everything or have all the answers. Instead, he sees himself as 'the guy who is obsessed with enabling employees to create value'. Rather than coming up with solutions himself, Nayar creates: opportunities for collaboration, peer review and employees to give feedback on ideas and work processes. Says Nayar, 'My job is to make sure everybody is enabled to do what they do well'.[3]

management
getting work done through others

Nayar's description of managerial responsibilities suggests that managers also have to be concerned with efficiency and effectiveness in the work process. **Efficiency** is getting work done with a minimum of effort, expense or waste. For example, Australia Post has reduced freight costs and increased efficiency by developing a partnership with the China Post and Sai Cheng Logistics. This partnership has created an efficient supply chain between Australia and China, allowing for direct contact between suppliers in China and consumers in Australia, subsequently reducing freight and middle-man costs.[4]

efficiency
getting work done with a minimum of effort, expense or waste

Shutterstock.com/Stuart Taylor

By managing effective partnerships, Australia Post increases its business' efficiency

By itself, efficiency is not enough to ensure success. Managers must also strive for **effectiveness**, which is accomplishing tasks that help fulfil organisational objectives, such as customer service and satisfaction. The renowned writer on management, Peter Drucker, puts it like this: 'efficiency is doing things right, effectiveness is doing the right things'.[5]

effectiveness
accomplishing tasks that help fulfil organisational objectives

LO2 MANAGEMENT FUNCTIONS

Henri Fayol, who was a managing director (CEO) of a large steel company in the early 1900s, was one of the founders of the field of management. You'll learn more about Fayol and management's other key contributors when you read about the history of management in Chapter 2. Based on his 20 years of experience as a CEO, Fayol argued that 'the success of an enterprise generally depends much more on the administrative ability of its leaders than on their technical ability'.[6]

A century later, Fayol's arguments still hold true. During a two-year study code-named Project Oxygen, Google analysed performance reviews and feedback surveys to identify the traits of its best managers. According to Laszlo Bock, Google's vice president for people operations, 'We'd always believed that to be a manager, particularly on the engineering side, you need to be as deep or deeper a technical expert than the people who work for you. It turns out that that's absolutely the least important thing.'[7] What was most important? 'Be a good coach.' 'Empower; Don't micromanage.' 'Be product and results-oriented.' 'Be a good communicator and listen to your team.' 'Be interested in [your] direct reports' success and wellbeing.'[8] In short, Google found what Fayol observed: administrative ability, or management, is key to an organisation's success.

According to Fayol, to be successful managers need to perform five managerial functions: planning, organising, coordinating, commanding and controlling.[9] Today, though, most management textbooks have dropped the coordinating function and refer to Fayol's commanding function as 'leading'. Consequently, Fayol's management functions are known today as planning, organising, leading and controlling (see Figure 1.1). Studies indicate that managers who perform these management functions well are more successful. For example, the more time that CEOs spend planning, the more profitable their companies are.[10] Over a 25-year period, a large US telecommunications company, AT&T, found that

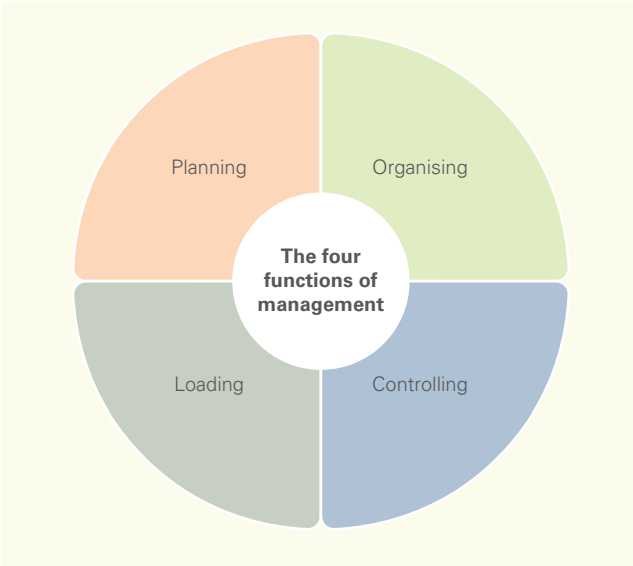

FIGURE 1.1 The four functions of management

employees with better planning and decision-making skills were more likely to be promoted into management jobs, to be successful as managers and to be promoted into upper levels of management.[11]

The evidence is clear. Managers serve their companies well by planning, organising, leading and controlling. (That's why this book is organised around the four functions of management.) Now let's take a closer look at each of these management functions in more detail.

SMART MGMT

HAMBURGER U

As McDonald's looks to grow in the booming market of China, the company knows that a key to its success there is the quality of its managers. That's why it recently opened up a training centre, Hamburger University, in Shanghai, with the goal of recruiting and retaining top employees. With an investment of about $23 million, McDonald's created a centre where it could train about 1000 people per year for junior and senior management positions. The centre also helps franchise owners learn how to operate their restaurants effectively and efficiently. With an acceptance rate of only 1 per cent of applicants, it is not easy to get in; McDonald's Shanghai course sets a higher standard than Harvard (which has a 7 per cent acceptance rate).[12] And all of this investment is intended to serve as a foundation for the company's plans to expand aggressively in China by opening 1000 more stores. Hamburger University is great for employees, too, since it gives them an opportunity to move up in the McDonald's hierarchy. An entry-level employee can rise to store manager, and with training from Hamburger University, rise to middle and senior management in the organisation, making McDonald's an ideal place for people looking for steady career paths.[13]

PLANNING

planning determining organisational goals and a means for achieving them

Planning is determining organisational goals and a means for achieving them. As you'll learn in Chapter 5, planning is one of the best ways to improve performance. It encourages people to work harder, to work hard for extended periods, to engage in behaviour directly related to goal accomplishment and to think of better ways to do their jobs. More importantly, companies that plan have larger profits and faster growth than companies that don't plan.

For example, the question, 'What business are we in?' is at the heart of strategic planning, which you'll learn about in Chapter 6. If you can answer the question, 'What business are you in?' in two sentences or less, chances are you have a very clear plan for your business.

But getting a clear plan is not so easy. Sometimes even very successful companies stray from their core business. Cisco Systems, maker of the critical computer routers and switches that run the Internet and create high-speed networks in offices and homes, strayed from its core networking business by spending $34 billion acquiring or developing consumer products, such as Pure Digital, which made the once-popular Flip camera; Kiss Technology, which made networked DVD players; and Umi, a $600 videoconference service for homes that came with a $25 monthly charge for video access. Longtime CEO John Chambers has admitted that Cisco lost its focus and that going forward its priorities will be its core business: 'leadership in core routing, switching, and services; collaboration; data centre virtualization and cloud; architectures; and video'.[14] Accordingly, Cisco has now shut down its Flip, Kiss and Umi divisions.

You'll learn more about planning in Chapter 5 on planning and decision making, Chapter 6 on organisational strategy, Chapter 7 on innovation and change and Chapter 8 on global management.

ORGANISING

organising deciding where decisions will be made, who will do what jobs and tasks and who will work for whom

Organising is deciding where decisions will be made, who will do what jobs and tasks and who will work for whom in the company. In other words, organising is about determining how things get done. In the retail industry, that usually means matching staffing levels to customer traffic, increasing staffing when busy and then decreasing staffing when slow. Walmart recently implemented software to match the schedules of its

2.2 million associates with the flows of its 260 million weekly customers. While this dynamic, just-in-time approach sounds like a great idea, it resulted in highly fragmented schedules for thousands of store employees who could be sent home from work after just a few hours (due to unexpectedly slow customer traffic) or called back unexpectedly (when customer traffic increased). These unpredictable work schedules, which effectively put many associates perpetually on call, produced backlash from employees, advocacy groups and unions alike. In response, Walmart reconfigured its schedules using three types of shifts: open, fixed and flex. Managers schedule open shift employees during times that they previously indicated that they would be available for. Fixed shifts, which are offered first to long-time employees, guarantee the same weekly hours for up to a year. Finally, flex shifts let employees build their own schedules in two- to three-week blocks. Walmart is also developing an app that will allow employees to view, update and set their schedules using a smartphone. Walmart managers have high hopes for the new shift structures, which reduced absenteeism by 11 per cent and employee turnover by 14 per cent during a two-year test.[15]

You'll learn more about organising in Chapter 9 on designing adaptive organisations, Chapter 10 on managing teams and Chapter 11 on human resource management.

LEADING

Our third management function, **leading**, involves inspiring and motivating employees to work hard to achieve organisational goals. Gail Kelly, former CEO of Westpac, retired as leader of one of Australia's largest banks in 2015. A former school teacher and bank teller, Kelly has made it to the top of the management tree through hard work and good leadership. Reported to be a fierce and courageous head of her organisation, Gail Kelly is also an outspoken advocate for the role of women in business and society. After her career in banking with Westpac, Kelly has taken up an Adjunct Professorship in business with the University of New South Wales, is a director of Woolworths (South Africa), as well as Country Road Group and David Jones (Australia), has written a book on leadership and, as an Ambassador for Women's Empowerment with CARE Australia, is a mentor for young business leaders. She is quoted as saying 'My whole model is based around gathering the best people you can around you and creating an environment where people can do their best work'.[16]

leading
inspiring and motivating employees to work hard to achieve organisational goals

Gail Kelly inspired people around her to work hard to achieve organisational goals by clearly outlining a vision for her bank, by being a role model and by setting an example of effective management.

You'll learn more about leading in Chapter 12 on motivation, Chapter 13 on leadership and Chapter 14 on managing communication.

CONTROLLING

The last function of management, **controlling**, is monitoring progress towards goal achievement and taking corrective action when progress isn't being made. The basic control process involves setting standards to achieve goals, comparing actual performance to those standards and then making changes to return performance to the standards you set.

controlling
monitoring progress towards goal achievement and taking corrective action when needed

To maintain low-priced airfares and cut costs, budget carrier Jetstar charges customers for what they call 'extras'. Food and drink are optional extras that can be paid for online when booking or on board, along with entertainment and comfort packs containing pillows and blankets. For an additional fee, customers can also reserve a window or aisle seat, or a seat with extra legroom. A surcharge for checked-in luggage (starting at around $50 for a domestic flight in Australia) also controls expenditure.[17]

You'll learn more about the control function in Chapter 15 on control, Chapter 16 on managing information and Chapter 17 on managing service and manufacturing operations.

WHAT DO MANAGERS DO?

Not all managerial jobs are the same. The demands and the requirements placed on the CEO of Facebook, for example, are significantly different from those placed on the manager of your local fast-food restaurant.

After reading the next two sections, you should be able to:

- describe different kinds of managers
- explain the major roles and sub-roles that managers perform in their jobs.

LO3 KINDS OF MANAGERS

As shown in Table 1.1, there are four kinds of managers, each with different jobs and responsibilities:

- top managers
- middle managers
- first-line managers
- team leaders.

TABLE 1.1 What the four kinds of managers do

Jobs		Responsibilities
Top managers CEO CIO COO Vice-president CFO Corporate heads		Change Commitment Culture Environment
Middle managers General manager Plant manager Regional manager Divisional manager		Resources Objectives Coordination Subunit performance Strategy implementation
First-line managers Office manager Shift supervisor Department manager		Non-managerial worker supervision Teaching and training Scheduling Facilitation
Team leaders Team leader Team contact Group facilitator		Facilitation External relationships Internal relationships

TOP MANAGERS

Top managers hold positions like chief executive officer (CEO), chief operations officer (COO), chief financial officer (CFO) and chief information officer (CIO), and are responsible for the overall direction of the organisation. Top managers have the following responsibilities.[18] First, they are responsible for creating a context for change.

top managers executives responsible for the overall direction of the organisation

When Satya Nadella was appointed CEO of Microsoft, the company was perceived as a shortsighted, lumbering behemoth. Nadella reoriented the company with a series of acquisitions and innovations, including purchasing Mojang, maker of the Minecraft video game, and a 3D-hologram feature for controlling Windows. After following Microsoft for years, one analyst noted about Nadella's new direction for the company, 'Microsoft hasn't really shown any sort of vision like this in a long, long time.'[19] As one CEO said, 'The CEO has to think about the future more than anyone.'[20]

Second, once that vision or mission is set, the next responsibility of top managers is to develop employees' commitment to and ownership of the company's performance. That is, top managers are responsible for getting employee commitment and agreement. Third, top managers are responsible for creating a positive organisational culture through language and action. Top managers have an impact on company values, strategies and lessons through what they do and say to others, both inside and outside the company. Above all, no matter what they communicate, it's critical for CEOs to send and reinforce clear, consistent messages.[21]

When Mark Fields became Ford Motor Company's CEO, the clear, consistent message from his predecessor,

Alan Mulally, was 'One Ford', which was meant to pull together a fractionalised company characterised by 'infighting and fiefdom-building'.[22] Said Mulally, 'Our single most important strategy is to continue to integrate Ford around the world.'[23] By contrast, Fields made clear that the message under his leadership is 'Two Fords': one Ford was 'foundational', but the company needed to 'evolve' to being an auto and mobility company. Fields explained that total revenue from 'the traditional automotive industry is around $2.3 trillion today and growing'; Ford, he says, gets about 6 per cent of this. Fields notes that, 'transportation products and services revenue is already around $5.4 trillion [per year]. We and the traditional auto industry get 0 per cent of this today. That's why being an auto and a mobility company makes business sense [for Ford].'[24]

Finally, top managers are responsible for monitoring their business environments. This means that top managers must closely monitor customer needs, competitors' moves, economic conditions and long-term business and social trends.

MIDDLE MANAGERS

Middle managers hold positions like factory manager, regional manager or divisional manager. They are responsible for setting objectives consistent with top management's goals and for planning and implementing subunit strategies for achieving those objectives.[25] They are also responsible for monitoring and managing the performance of the subunits and individual managers who report to them.

middle managers managers responsible for setting objectives consistent with top management's goals and for planning and implementing subunit strategies for achieving these objectives

Another major responsibility of middle managers is to coordinate and link groups, departments and divisions within a company. Following the earthquake which devastated the New Zealand city of Christchurch in 2011, insurance companies were tasked with responding to a multitude of claims from local businesses. A recent study of the effectiveness of these insurers has shown that some insurance organisations managed their resources better than others when tasked with coordinating extensive inspection of damaged properties and the generation of accurate claim reports. While the earthquake is now in the past, reconstruction of the city is being slowed by ongoing seismic activity and there is still a lot to be done. It is anticipated that the task of full reconstruction may take another decade to complete.[26] In addition to the seismic activity, the slowdown is in part attributed to bureaucratic 'red tape' and delays in processing insurance claims with some companies. The industry watchdog, InsuranceWatch, is tasked with monitoring all of New Zealand's insurance agencies to ensure that their implementation teams meet required objectives.[27]

SMART MGMT

CULTURE IN THE GOOGLEPLEX

In the increasingly fierce competition to hire and retain the best and brightest employees, companies are looking to their organisational culture to find an advantage. Research from consulting firm Deloitte shows that culture, engagement and employee retention are now the top talent challenges facing businesses today. A leader in building a high-performance culture that is attractive to work in is Google.

Google actively encourages employees to put their ideas into action. The company advocates that everyone has access to senior decision makers, as can be seen from this online statement about Google culture: 'We strive to maintain the open culture often associated with startups, in which everyone is a hands-on contributor and feels comfortable sharing ideas and opinions. In our weekly allhands ("TGIF") meetings – not to mention over email or in the cafe – Googlers ask questions directly to Larry [Larry Page, CEO], Sergey [Sergey Brin, co-founder] and other execs about any number of company issues. Our offices and cafes are designed to encourage interactions between Googlers within and across teams, and to spark conversation about work as well as play'.[28]

Alamy Stock Photo/SiliconValleyStock

Finally, middle managers are also responsible for implementing changes or strategies implemented by top managers. When the Aldi supermarket chain entered the Australian market, they realised the opportunity to 'simplify' the task of grocery shopping compared to larger grocery chains. In order to lower their prices, they cut out expensive advertising and marketing departments, relying on middle managers to deal with suppliers and producers face-to-face.[29]

FIRST-LINE MANAGERS

First-line managers, sometimes known as *front-line* managers, hold positions like office manager, shift supervisor or department manager. The primary responsibility of first-line

first-line managers managers who train and supervise the performance of non-managerial employees, who are directly responsible for producing the company's products or services

managers is to manage the performance of entry-level employees, who are directly responsible for producing a company's goods and services. Therefore, first-line managers are the only managers who don't supervise other managers.

First-line managers encourage, monitor and reward the performance of their employees. They also make detailed schedules and operating plans based on middle management's intermediate-range plans. In fact, in contrast to the long-term plans of top managers (three to five years out) and the intermediate plans of middle managers (six to 18 months out), first-line managers engage in plans and actions that typically produce results within two weeks.[30] For example, a typical convenience store manager might start the day by driving past competitors' stores to inspect their specials' prices. Then they would check the outside of their own store for anything in need of maintenance, such as blown light globes or damaged signs, or that needs restocking, like windscreen washer fluid and paper towels. Then comes an inside check, where the manager determines what needs to be done for the day (Are there enough muffins and juices for breakfast or enough sandwiches for lunch?). Once the day is planned, the manager turns to weekend orders. After accounting for the weather (hot or cold) and the sales trends at the same time last year, the manager makes sure the store will have enough bread, milk, soft drinks and weekend newspapers on hand. Finally, the manager looks seven to 10 days ahead for staffing needs and preparing staff rosters.

TEAM LEADERS

The fourth kind of manager is a **team leader**. This relatively new kind of management job developed as many companies have moved to self-managing teams, which, by definition, have no formal supervisor. In traditional management hierarchies, first-line managers are responsible for the performance of non-managerial employees, making job assignments and controlling resources, and may even have the authority to hire and fire employees.

team leaders
managers responsible for facilitating team activities toward goal accomplishment

Team leaders have a different set of responsibilities than traditional first-line managers. Team leaders are primarily responsible for facilitating team activities toward accomplishing a goal. This doesn't mean team leaders are responsible for team performance. They aren't. The team is.

Team leaders help their team members plan and schedule work, learn to solve problems and work effectively with each other. Management consultant Franklin Jonath says, 'The idea is for the team leader to be at the service of the group. It should be clear that the team members own the outcome. The leader is there to bring intellectual, emotional and spiritual resources to the team. Through his or her actions, the leader should be able to show the others how to think about the work that they're doing in the context of their lives. It's a tall order, but the best teams have such leaders'.[31]

Relationships among team members and between different teams are crucial to good team performance, and must be well managed by team leaders, who are responsible for fostering good relationships and addressing problematic ones within their teams. Getting along with others is much more important in team structures because team members can't get work done without the help of teammates. Tim Clem emerged as a team leader at a software company that provides collaborative tools and online work spaces for people who code software. The company also uses team structures and team leaders to decide which software projects its 170 employees will work on. After only a few months at the company, Clem, who had not previously led a team, convinced his colleagues to work on a new product he had designed for Microsoft Windows.[32] Without their approval, he would not have been able to implement the change or secure the resources to hire people to do the project. By contrast, a manager, and not the team, would have likely made this decision in a traditional management structure.

Second, team leaders are responsible for managing external relationships. Team leaders act as the bridge or liaison between their teams and other teams, departments and divisions in a company. For example, if a member of Team A complains about the quality of Team B's work, Team A's leader needs to initiate a meeting with Team B's leader. Together, these team leaders are responsible for getting members of both teams to work together to solve the problem. If it's done right, the problem is solved without involving company management or blaming members of the other team.[33]

Alamy Stock Photo/Erik Isakson

Even first-line managers perform the four functions of management

Third, team leaders are responsible for internal team relationships. Getting along with others is much more important in team structures because team members can't get work done without the help of their teammates. You will learn more about teams in Chapter 10.

LO4 MANAGERIAL ROLES

MINDTAP **Complete the Develop your career potential worksheet for Chapter 1**

So far, we have described managerial work by focusing on the functions of management and by examining the four kinds of managerial jobs. Although those are valid and accurate ways of categorising managerial work, if you followed managers around as they performed their jobs, you probably would not use the terms *planning*, *organising*, *leading* and *controlling* to describe what they do. In fact, that's exactly the conclusion that management researcher Henry Mintzberg came to when he observed five American CEOs. Mintzberg spent a week 'shadowing' each of the CEOs and analysing their mail, their conversations and their actions. Mintzberg concluded that managers fulfil three major roles while performing their jobs:[34]

- interpersonal roles
- informational roles
- decisional roles.

In other words, managers talk to people, gather and give information and make decisions. Furthermore, as shown in Figure 1.2, these three major roles can be subdivided into 10 sub-roles; we will examine these in the following sections.

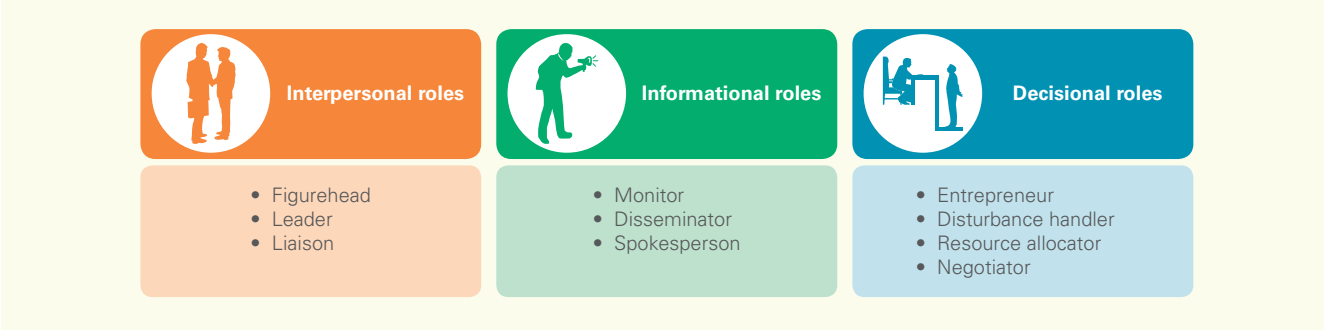

FIGURE 1.2 Mintzberg's managerial roles

Source: Adapted from "The Manager's Job: Folklore and Fact," by Mintzberg, H. Harvard Business Review, July–August 1975.

INTERPERSONAL ROLES

More than anything else, management jobs are people-intensive. Estimates vary with the level of management, but most managers spend between two-thirds and four-fifths of their time in face-to-face communication with others.[35] If you're a loner or if you consider dealing with people to be a pain, then you may not be cut out for management work. In fulfilling the interpersonal roles of management, managers perform three sub-roles: figurehead, leader and liaison.

In the **figurehead role**, managers perform ceremonial duties like greeting company visitors, speaking at the opening of a new facility or representing the company at a community luncheon to support local charities. In January 2018, the charity supporting children with cancer, RedKite, celebrated five years of corporate partnership with Coles. RedKite CEO Monique Keighery marked the occasion by saying, '… this partnership has ensured support for families 120 000 times …'.[36] Among other events, children's cancer charity RedKite holds an annual Corporate Quiz in state capitals across Australia to raise money, and Keighery, other board members of RedKite and their corporate sponsors attend these events to represent the charity and their respective organisations.[37]

figurehead role
the interpersonal role managers play when they perform ceremonial duties

When managers are in the **leader role**, they motivate and encourage employees to accomplish organisational objectives. The QANTAS name is well known for its enviable safety record of never having lost a jet. That kind of focus on safety comes from the top. For CEO Alan Joyce, the QANTAS reputation for safety is at the core of the business. Joyce is quoted as saying that safety is '… top of mind in everything that we do from the management down to the engineers, pilots and cabin crew'. When Joyce holds management meetings, the first item of business is to go over every single safety issue that has arisen since the last meeting.[38]

leader role
the interpersonal role managers play when they motivate and encourage employees to accomplish organisational objectives

liaison role
the interpersonal role managers play when they deal with people outside their units

And finally, in the **liaison role**, managers deal with people outside their units. Studies consistently indicate that managers spend as much time with 'outsiders' as they do with their own subordinates and their own bosses.[39]

INFORMATIONAL ROLES

Not only do managers spend more of their time in face-to-face contact with others, but they also spend much of it obtaining and sharing information. Indeed, Mintzberg found that the managers in his study spent 40 per cent of their time giving and getting information from others. In this regard, management can be viewed as processing information, gathering information by scanning the business environment and listening to others, and then sharing that information with the people inside and outside the company. Mintzberg described three informational sub-roles: monitor, disseminator and spokesperson.

monitor role
the informational role managers play when they scan their environment for information

In the **monitor role**, managers scan their environment for information, actively contact others for information and, because of their personal contacts, receive a great deal of unsolicited information. Besides receiving first-hand information, managers monitor their environment by reading online news and business sites, local newspapers and the business pages of *The Age*, *Sydney Morning Herald* or the *Financial Review* to keep track of customers, competitors and technological changes that may affect their businesses. Now, managers can also take advantage of electronic monitoring and distribution services that track news services (Associated Press, Reuters and so forth) for stories related to their businesses.

disseminator role
the informational role managers play when they share information with others in their departments or companies

Because of their numerous personal contacts and their access to subordinates, managers are often hubs for the distribution of critical information. In the **disseminator role**, managers share information they have collected with their subordinates and others in the company. Although there will never be a complete substitute for face-to-face dissemination of information, the primary methods of communication in large companies are email and voicemail. At Qualtrics, a software company that provides sophisticated online survey research tools, CEO Ryan Smith makes sure that everyone in the company is clear on company goals and plans. Every Monday, employees are asked via email to respond to two questions: 'What are you going to get done this week?' and 'What did you get done last week that you said you were going to do?' Smith says: 'Then that rolls up into one email that the entire organisation gets. So if someone's got a question, they can look at that for an explanation. We share other information, too – every time we have a meeting, we release meeting notes to the organisation. When we have a board meeting, we write a letter about it afterward and send it to the organisation'.[40]

Qualtrics also uses an internal database where each quarter employees enter their plans for meeting the company's objectives. Those plans are then made visible to everyone else at Qualtrics.[41]

spokesperson role
the informational role managers play when they share information with people outside their departments or companies

In contrast to the disseminator role, in which managers distribute information to employees inside the company, in the **spokesperson role**, managers share information with people outside their departments and companies. One of the most common ways CEOs serve as spokespeople for their companies is at annual meetings with company shareholders or the board of directors. The news is not always good, and managers have to sometimes 'face the music' and admit when their company has got it wrong. For example, as problems with bad behaviour in the Australian banking industry became known during the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, senior managers were faced with the job of apologising and explaining to the public how these things could happen. Matt Comyn's first public task as CEO of the Commonwealth Bank of Australia was to say 'sorry'. In a letter written to 51 000 bank staff Matt Comyn wrote: 'We have made mistakes. That starts with me and our senior executives. We have let some of our customers down when they have needed us most … in doing so we have let you down. We have been too slow to fix mistakes and we have failed to meet some important regulatory and compliance obligations. This is unacceptable.'[42]


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CEOs often adopt the spokesperson role to communicate important information to stakeholders

MGMT FACT

CONNECT TO YOUR BUSINESS

Making good decisions depends on having good information. Business leaders need to assess a broad range of information, from both inside and outside their organisation. Among the range of available information, many managers turn to online sources which deal with business matters specifically.

Some of these services, such as the ones listed below, deliver customised electronic newspapers that include only stories on topics the reader specifies:

- Crikey (http://www.crikey.com.au) – business commentary and analysis.
- Boss Financial Review (http://www.afr.com/boss) – regular background information and reporting of current business issues.
- The Business Times (Singapore)(http://www.businesstimes.com.sg) – business news and stock market information.

DECISIONAL ROLES

Mintzberg found that obtaining and sharing information is not an end in itself. Obtaining and sharing information with people inside and outside the company is useful to managers because it helps them make good decisions. According to Mintzberg, managers engage in four decisional sub-roles: entrepreneur, disturbance handler, resource allocator and negotiator.

In the **entrepreneur role**, managers adapt themselves, their subordinates and their units to change.

entrepreneur role
the decisional role managers play when they adapt themselves, their subordinates and their units to change

Amid the ongoing speculation over the future of traditional postal services around the world, Australia Post has tackled the challenge of digital disruption head on. Two senior executives with the task of leading the group into the new territory are Andrew Walduck, the executive GM of trusted services, and Greg Sutherland, CMO and now the executive GM of consumer and SMB products. Australia Post sees digital transformation as an opportunity for innovation and sustainable change that is informed and shaped by customer feedback.

The two executives are quick to point out, however, that they're not just focusing on digital solutions alone. Australia Post sees digital as the impetus for adopting new ways of working that put the customer firmly at the centre. The two executives explain that Australia Post is changing from being a business that used its fleet of trucks and motorbikes to deliver mail and parcels to an address, to a customer-centric business that delivers to a person.[43]

In the **disturbance handler role**, managers respond to pressures and problems so severe that they demand immediate attention and action. Managers often play the role of disturbance handler when events which impact negatively on the company have to be addressed. How Optus responded to a technical crisis with its sports streaming services is a good example. In the middle of the 2018 FIFA World Cup, Australian telecommunications company Optus was forced to admit to an embarrassing 'own goal' when its much publicised online streaming coverage of the football competition collapsed and left customers without the promised service. After a few infuriating days for fans while Optus tried in vain to fix the technical issues, Optus finally chose to refund money to subscribers and hand over the very expensive and potentially lucrative broadcast rights to the coverage of the World Cup in Australia to TV station SBS. As a compensation to disgruntled fans who had paid a premium price to watch the World Cup games, Optus offered free sports streaming services to its customers for a month.[44] Optus chief executive Allan Lew acted quickly by offering to refund subscription fees and allow SBS to broadcast the remaining group-stage matches. By resolving the problem and compensating customers, Allan Lew was acting in his disturbance handler role as CEO of Optus.

disturbance handler role
the decisional role managers play when they respond to severe problems that demand immediate action

In the **resource allocator** role, managers decide who will get what resources and how much of each resource they will get.

resource allocator role
the decisional role managers play when they decide who gets what resources

Alphabet (formerly Google) is the second most profitable company in the world after Apple. For years, it grew so fast, with revenues greatly exceeding costs, that budgets, much less budget discipline, didn't matter (if ever used at all). Founders Larry Page and Sergey Brin hired CFO Ruth Porat to get Alphabet's businesses to make and stick to their budgets. Alphabet Chairman Eric Schmidt admits, 'Before she was there, we had lost discipline.'[45] Alphabet makes 95 per cent of its revenue from online ads, including Google search, YouTube and mobile ads (mostly on Android phones). But in the rest of Alphabet (Nest thermostats, Google Ventures, Google Fiber), expenses far exceed revenues. So Porat is instilling discipline by cutting budgets, by approving video conferences rather than business travel and by charging the business units for using Alphabet's functions (legal, human resources and public relations). Chairman Schmidt says, 'The cost cutting is real, and it's the right thing to be done, and it's driven by [Porat].'[46]

negotiator role
the decisional role managers play when they negotiate schedules, projects, goals, outcomes, resources and employee raises

In the **negotiator role**, managers negotiate schedules, projects, goals, outcomes, resources and employee raises.

Twenty of the US's largest companies, including American Express, IBM, Marriott, Shell Oil and Verizon Communications, have formed the Health Transformation Alliance (HTA) to negotiate lower drug and medical costs. Kevin Cox, former chief human resource office at American Express, says, 'Even the most successful companies won't be able to afford the rising costs of health care in the not too distant future.'[47] At a time when health care spending is increasing 6 to 8 per cent per year, the HTA expects to lower drug costs by 15 per cent for their 6 million employees. Kyu Rhee, IBM's chief health officer says, 'This is the group that's paying the bill. We're not waiting for the public sector to come up with the solution – we have the skills and expertise to do this ourselves.'[48]

WHAT DOES IT TAKE TO BE A MANAGER?

> I didn't have the slightest idea what my job was. I walked in giggling and laughing because I had been promoted and had no idea what principles or style to be guided by. After the first day, I felt like I had run into a brick wall.
>
> SALES REPRESENTATIVE #1

> Suddenly, I found myself saying, 'Boy, I can't be responsible for getting all the revenue. I don't have the time'. Suddenly you've got to go from [taking care of] yourself and say 'Now I'm the manager and what does a manager do?' It takes a while thinking about it for it to really hit you ... a manager gets things done through other people. That's a very, very hard transition to make.
>
> SALES REPRESENTATIVE #2 [49]

The statements above come from two star sales representatives, who, on the basis of their superior performance, were promoted to the position of sales manager. As their communications indicate, at first they did not feel confident about their ability to do their jobs as managers. Like most new managers, these sales managers suddenly realised that the knowledge, skills and abilities that led to success early in their careers (and were probably responsible for their promotion into the ranks of management) would not necessarily help them succeed as managers. As sales representatives, they were responsible only for managing their own performance. But as sales managers, they were now directly responsible for supervising all of the sales representatives in their territories. Furthermore, they were now directly accountable for whether those sales representatives achieved their sales goals or not.

If performance in non-managerial jobs doesn't necessarily prepare you for a managerial job, then what does it take to be a manager?

After reading the next three sections, you should be able to:

- explain what companies look for in managers
- discuss the top mistakes that managers make in their jobs
- describe the transition that employees go through when they are promoted to management.

LO5 WHAT COMPANIES LOOK FOR IN MANAGERS

When companies look for employees who would be good managers, they look for individuals who have technical skills, human skills, conceptual skills and the motivation to manage.[50] Figure 1.3 shows the relative importance of these four skills to the jobs of team leaders, first-line managers, middle managers and top managers.

MINDTAP **What do managers do and what makes a good manager?** ENGAGE APPLY VIDEO

Technical skills are the ability to apply the specialised procedures, techniques and knowledge required to get the job done. For sales managers, technical skills are the ability to find new sales prospects, develop accurate sales pitches based on customer needs and close the sale. For a nurse supervisor, technical skills might include being able to give an injection or know what to do if a patient goes into cardiac arrest.

technical skills
the ability to apply the specialised procedures, techniques and knowledge required to get the job done

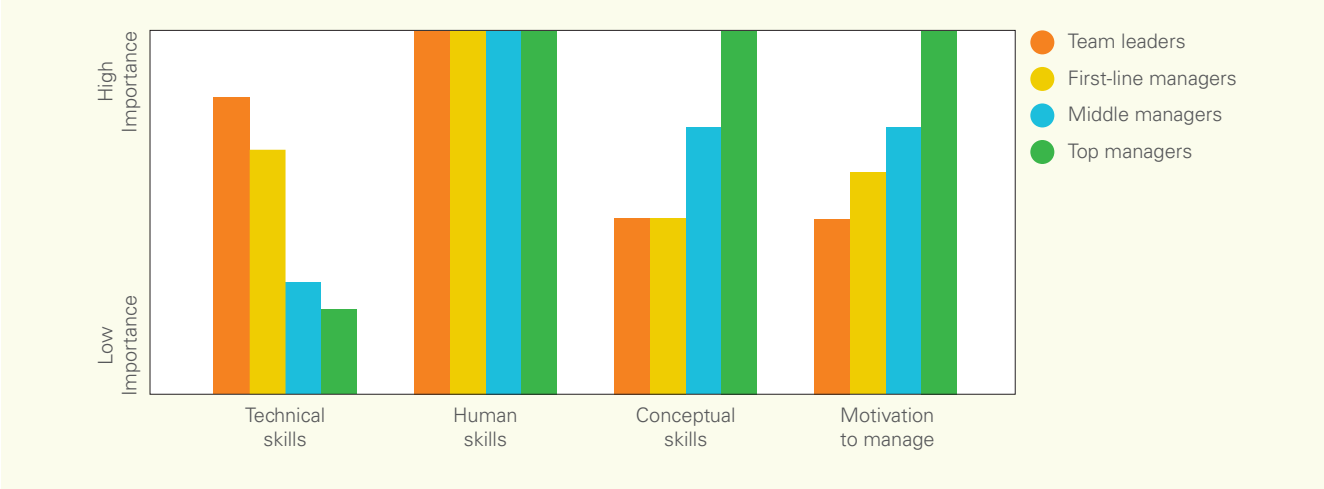

FIGURE 1.3 Management skills

Technical skills are most important for team leaders and lower-level managers because they supervise the employees who make products or serve customers. Team leaders and first-line managers need technical knowledge and skills to train new employees and help employees solve problems. Technical knowledge and skills are also needed to troubleshoot problems that employees can't handle. Technical skills become less important as managers rise through the managerial ranks, but they are still important.

WORKPLACE AND COMMUNITY

RESOURCE ALLOCATION: THE ABC RESPONDS TO BUDGET CUTS

Faced with rapidly changing circumstances which included a funding cut in the 2014 national budget, the Australian Broadcasting Corporation (ABC) has had to make some tough decisions about where it allocates its scarce financial resources. In response to the budget cuts the ABC set about the task of looking for operational efficiencies and the seemingly inevitable reduction in staff numbers. The ABC announced a redundancy process at the end of 2014 as a result of the federal government's decision to reintroduce an efficiency dividend for the national broadcaster, cutting the budget by $254 million over a five-year period. During a Senate estimates hearing in early 2015 the ABC's chief operating officer David Pendleton confirmed that the Australian Broadcasting Corporation had recorded almost 250 redundancies since the beginning of the 2014/15 financial year.[51] The funding cuts have continued for the national broadcaster and in 2018 the then Managing Director, Michelle Guthrie, was faced with the news that the ABC was facing even deeper cuts to its budget. The Commonwealth Government announced that the amount of money allocated to the ABC would be 'frozen' from July 2019 for three years, effectively costing the organisation $84 million.

Human skills can be summarised as the ability to work well with others. Managers with people skills work effectively within groups, encourage others to express their thoughts and feelings, are sensitive to others' needs and viewpoints and are good listeners and communicators. Human skills are equally important at all levels of management, from first-line supervisors to CEOs. However, because lower-level managers spend much of their time solving technical problems, upper-level managers may actually spend more time dealing directly with people. On average, first-line managers spend 57 per cent of their time with people, but that percentage increases to 63 per cent for middle managers and 78 per cent for top managers.[52]

human skills
the ability to work well with others

Conceptual skills are the ability to see the organisation as a whole, to understand how the different parts of the company affect each other and to recognise how the company fits into or is affected by its external environment, such as the local community, social and economic forces, customers and the competition. Good managers have to be able to recognise, understand and reconcile multiple complex problems and perspectives. In other words, managers have to be smart! In fact,

conceptual skills
the ability to see the organisation as a whole, understand how the different parts affect each other and recognise how the company fits into or is affected by its environment

intelligence makes so much difference for managerial performance that managers with above-average intelligence typically outperform managers with average intelligence by approximately 48 per cent.[53] Clearly, companies need to be careful to promote smart employees into management. Conceptual skills increase in importance as managers rise through the management hierarchy.

Good management involves much more than intelligence, however. For example, making the department genius a manager can be disastrous if that genius lacks technical skills, human skills or one other factor known as the 'motivation to manage'.

Motivation to manage is an assessment of how motivated employees are to interact with superiors, participate in competitive situations, behave assertively towards others, tell others what to do, reward good behaviour and punish poor behaviour, perform actions that are highly visible to others and handle and organise administrative tasks. Managers typically have a stronger motivation to manage than their subordinates and managers at higher levels usually have stronger motivation to manage than managers at lower levels. Furthermore, managers with a stronger motivation to manage are promoted faster, are rated as better managers by their employees and earn more money than managers with a weak motivation to manage.[54]

motivation to manage
an assessment of how enthusiastic employees are about managing the work of others

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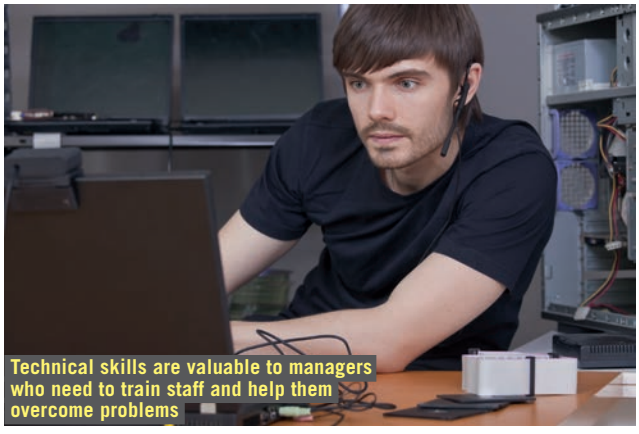


Technical skills are valuable to managers who need to train staff and help them overcome problems

LO6 MISTAKES MANAGERS MAKE

Another way to understand what it takes to be a manager is to look at the mistakes managers make. In other words, we can learn just as much from what managers shouldn't do as from what they should do.

Several studies of American and British managers have compared **arrivers**, or managers who made it all the way to the top of their companies, with **derailers**, managers who were successful early in their careers but were knocked off the fast track by the time they reached the middle to upper levels of management.[55]

arrivers
managers who have made it to the top of a company

derailers
managers who were successful early in their careers, but stagnated in middle or upper management

The researchers found that there were only a few differences between arrivers and derailers. For the most part, both groups were talented and both groups had weaknesses. But what distinguished derailers from arrivers was that derailers possessed two or more 'fatal flaws' with respect to the way that they managed people. Although arrivers were by no means perfect, they usually had no more than one fatal flaw or had found ways to minimise the effects of their flaws on the people with whom they worked.

The number one mistake made by derailers was that they were insensitive to others by virtue of their abrasive, intimidating and bullying management style. The authors of one study described a manager who walked into his subordinate's office and interrupted a meeting by saying, 'I need to see you'. When the subordinate tried to explain that he was not available because he was in the middle of a meeting, the manager barked, 'I don't give a damn. I said I wanted to see you now'.[56] Not surprisingly, only 25 per cent of derailers were rated by others as being good with people, compared with 75 per cent of arrivers.

The second mistake was that derailers were often cold, aloof or arrogant. Although this sounds like insensitivity to others, it has more to do with derailer managers being so smart, so expert in their areas of knowledge, that they treated others with contempt because they weren't experts too. For example, an American telecommunications company called in an industrial psychologist to counsel its head of human resources because she had been blamed for ruffling too many feathers at the company. Interviews with her co-workers and subordinates revealed that they thought she was brilliant, was 'smarter and faster than other people', 'generates a lot of ideas' and 'loves to deal with complex issues'. Unfortunately, these smarts were accompanied by a cold, aloof and arrogant management style. The people she worked with complained that she does 'too much too fast', treats co-workers with 'disdain', 'impairs teamwork', 'doesn't always show her warm side' and has 'burned too many bridges'.[57]

The third and fourth mistakes made by the derailers, betraying trust and being overly ambitious, reflect a lack of concern for co-workers and subordinates. Betraying a trust doesn't mean being dishonest. Instead, it means making others look bad by not doing what you said you would do when you said you would do it. The mistake, in itself, is not

fatal because managers and their employees aren't machines. Tasks go undone in every company every single business day. There's always too much to do and not enough time, people, money or resources to do it. The fatal betrayal of trust is failing to inform others when things will not be done on time. This failure to admit mistakes, quickly inform others of the mistakes, take responsibility for the mistakes and then fix them without blaming others distinguishes the behaviour of derailers from arrivers.

The fourth mistake is being overly political and ambitious. Managers who always have their eye on their next job rarely establish more than superficial relationships with peers and co-workers. In their haste to gain credit for successes that would be noticed by upper management, they make the fatal mistake of treating people as though they don't matter. An employee with an overly ambitious boss described him this way: 'He treats employees coldly, even cruelly. He assigns blame without regard to responsibility, and takes all the credit for himself. I once had such a boss, and he gave me a new definition of shared risk: if something I did was successful, he took the credit. If it wasn't, I got the blame'.[58]

The final mistake made by derailer managers is being unable to delegate or build a team and staff effectively. Many derailer managers were unable to make the most basic transition to managerial work: to quit being hands-on doers and start getting work done through others. In fact, according to an article in *Harvard Business Review*, up to 50 per cent of new managers fail because they cannot make the transition from producing to managing.[59]

When managers meddle in decisions that their subordinates should be making – when they can't stop being doers – they alienate people who work for them. According to Richard Kilburg of Johns Hopkins University, when managers interfere with employees' decisions, 'You … have a tendency to lose your most creative people. They're able to say, "Screw this. I'm not staying here"'.[60] In addition to trying to do their subordinates' jobs as well as their own, managers who fail to delegate will not have enough time to do anything well.

LO7 THE TRANSITION TO MANAGEMENT: THE FIRST YEAR

In her book *Becoming a Manager: Mastery of a new identity*,[61] Harvard Business School professor Linda Hill followed the development of 19 people in their first year as managers. Her study found that becoming a manager produced a profound psychological transition that changed the way these managers viewed themselves and others. As shown in **Figure 1.4**, the evolution of the managers' thoughts, expectations and realities over the course of their first year in management reveals the magnitude of the changes they experienced.

Initially, the managers in Hill's study believed that their job was to exercise formal authority and to manage tasks – basically being the boss, telling others what to do, making decisions and getting things done.

One of the managers Hill interviewed said, 'Being the manager means running my own office, using my ideas and thoughts.' Another said, '[The office is] my baby. It's my job to make sure it works.'[62]

In fact, most of the new managers were attracted to management positions because they wanted to be 'in charge'. Surprisingly, the new managers did not believe that their job was to manage people. The only aspects of people management mentioned by the new managers were hiring and firing.

After six months, most of the new managers had concluded that their initial expectations about managerial work were wrong. Management wasn't being 'the boss'. It wasn't just about making decisions and telling others what to do. The first surprise was the fast pace and heavy workload involved in being a manager. Said one manager, 'This job is much harder than you think. It is 40 to 50 per cent more work than being a producer! Who would have ever guessed?' The pace of managerial

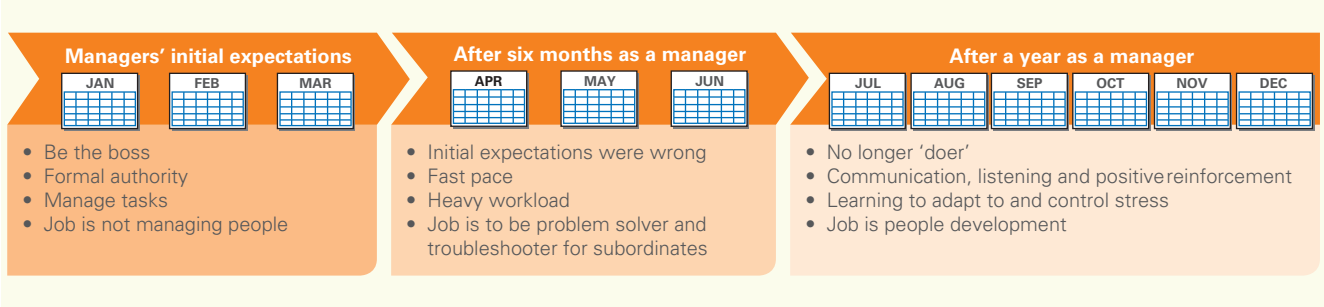


FIGURE 1.4 Stages in the transition to management

Source: L.A. Hill, *Becoming a manager: mastery of a new identity* (Boston: Harvard Business School Press, 1992).

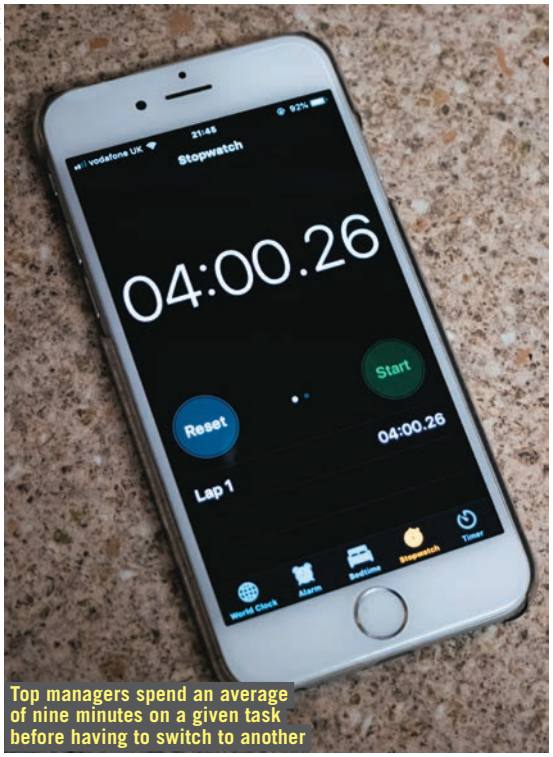
work was startling, too. Another manager said, 'You have eight or nine people looking for your time … coming into and out of your office all day long'. A somewhat frustrated manager declared that management was 'a job that never ended … a job you couldn't get your hands around'.[63]

Informal descriptions like this are consistent with studies indicating that the average first-line manager spends no more than two minutes on a task before being interrupted by a request from a subordinate, a phone call or an email. The pace is somewhat less hurried for top managers, who spend an average of approximately nine minutes on a task before having to switch to another. In practice, this means that supervisors may perform 30 different tasks per hour, while top managers perform seven different tasks per hour, with each task typically different from the other that preceded it. A manager described this frenetic level of activity by saying, 'The only time you are in control is when you shut your door and then I feel I am not doing the job I'm supposed to be doing, which is being with the people'.[64]

The other major surprise after six months on the job was that the managers' expectations about what they should do as managers were very different from their subordinates' expectations. Initially, the managers defined their jobs as helping their subordinates perform their jobs well. For the managers, who still defined themselves as doers rather than managers, assisting their subordinates means going out on sales calls or handling customer complaints. But when managers 'assisted' in this way, their subordinates were resentful and viewed their help as interference. The subordinates wanted their managers to help them by solving problems that they couldn't solve. Once the managers realised this distinction, they embraced their role as problem solver and troubleshooter. Therefore, they could help without interfering with their subordinates' jobs.

After a year on the job, most of the managers thought of themselves as managers and no longer as doers. In making the transition, they finally realised that people management was the most important part of their jobs. One manager summarised the lesson that had taken him a year to learn by saying, 'As many demands as managers have on their time, I think their primary responsibility is people development. Not production, but people development'. Another indication of how much their views had changed was that most of the managers now regretted the rather heavy-handed approach they had used in their early attempts to manage their subordinates. 'I wasn't good at managing … so I was bossy like a first-grade teacher.' 'Now I see that I started out as a drill sergeant. I was inflexible, just a lot of how-to's.'[65] By the end of the year, most of the managers had abandoned their authoritarian approach for one based on communication, listening and positive reinforcement.

Finally, after beginning their year as managers in frustration, the managers came to feel comfortable with their subordinates, with the demands of their jobs and with their emerging managerial styles. While being managers had made them acutely aware of their limitations and their need to develop as people, it also provided them with an unexpected regard for coaching and developing the people who worked for them. One manager said, 'I realise now that when I accepted the position of branch manager that it is truly an exciting vocation. It is truly awesome, even at this level; it can be terribly challenging and terribly exciting'.[66]



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Top managers spend an average of nine minutes on a given task before having to switch to another

LO8 COMPETITIVE ADVANTAGE THROUGH PEOPLE

MINDTAP **An overview of competitive advantage** ENGAGE APPLY VIDEO

In his books *Competitive Advantage Through People* and *The Human Equation: Building profits by putting people first*, Stanford University business professor Jeffrey Pfeffer contends that what separates top-performing companies from their competitors is the way they treat their workforces – in other words, their management.[68]

WHY MANAGEMENT MATTERS

If you look on the shelves of the business section in your campus bookstore, you'll find hundreds of books that explain precisely what companies need to do to be successful. Unfortunately, the best-selling business books tend to be faddish, changing dramatically every few years. One thing that has not changed, though, is the importance of good people and good management – companies can't succeed for long without them.

Apple CEO Tim Cook agrees, saying, 'I think about my day and weeks and months and years – I put them in three buckets: people, strategy and execution. I sort of move between those on a daily basis as to where I put my time. I always think the most important one of those is people. If you don't get that one right, it doesn't matter what kind of energy you have in the other two – it's not enough.'[67]

After reading this section, you should be able to explain how and why companies can create competitive advantage through people.

Pfeffer found that managers in top-performing companies used ideas like employment security, selective hiring, self-managed teams and decentralisation, high pay contingent on company performance, extensive training, reduced status distinctions (between managers and employees) and extensive sharing of financial information to achieve financial performance that, on average, was 40 per cent higher than that of other companies. These ideas, which are explained in detail in Table 1.2, help organisations develop workforces that are smarter, better trained, more motivated and more committed than their competitors' workforces. Also, as indicated by the phenomenal growth and return on investment earned by these companies, smarter, better trained and more committed workforces provide superior products and service to customers, who keep buying and, by telling others about their positive experiences, bring in new customers.

Pfeffer also argues that companies that invest in their people will create long-lasting competitive advantages that are difficult for other companies to duplicate. Indeed, other studies clearly demonstrate that sound management practices can produce substantial advantages in four critical areas of organisational performance: sales revenues, profits, stock market returns and customer satisfaction.

A study of nearly 1000 organisations found that those that use just some of the ideas shown in Table 1.2 had over $27 000 more in sales per employee and over $3800 more in product per employee than companies that didn't.[69] For a company with 100 people, these differences amount to $2.7 million more in sales and nearly $400 000 more in annual profit!

Another study investigating the effect of investing in people on company sales found that poorly performing companies that adopted simple management techniques such as setting performance expectations and coaching, as well as reviewing and rewarding employee performance, were able to improve their average return on investment from 5.1 per cent to 19.7 per cent, and increase sales by approximately $130 000 per employee![70]

They did this by adopting management techniques as simple as setting performance expectations (establishing goals, results and schedules), coaching (informal ongoing discussions between managers and subordinates about what is being done well and what could be done better), reviewing employee performance (annual formal discussion about results) and rewarding employee performance (adjusting salaries and bonuses based on employee performance and results).[71] Two decades of research across 92 companies indicates that the average increase in company performance from using these management practices is typically around 20 per cent.[72] That fits with another study of 2000 firms showing that an average improvement in management practices can produce a 10 to 20 per cent increase in the total value of a company.[73]

So, in addition to significantly improving the profitability of healthy companies, sound management practices can turn around failing companies.

To determine the effect of investing in people on stock market performance, researchers matched companies on *Fortune* magazine's list of '100 Best Companies to Work for in America' with companies that were similar in industry, size and – this is the key– operating performance. In other words, both sets of companies were equally good performers; the key difference was how well they treated their employees. For both sets of companies, the researchers found that employee attitudes such as job satisfaction changed little from year to year. The people who worked for the '100 best' companies were consistently more satisfied with their jobs and employers year after year than were employees in the matched companies. More importantly, those stable differences in employee attitudes were strongly related to differences in stock market performance. Over a three-year period, an investment in the '100 Best Companies to Work for' would have resulted in an 82 per cent cumulative stock return compared to just 37 per cent for the matched companies.[74] This difference is remarkable given that both sets of companies were equally good performers at the beginning of the period.

TABLE 1.2 Competitive advantage through people: management practices	
1 Employment security	Employment security is the ultimate form of commitment that companies can make to their employees. Employees can innovate and increase company productivity without fearing the loss of their jobs.
2 Selective hiring	If employees are the basis for a company's competitive advantage, and those employees have employment security, then the company needs to aggressively recruit and selectively screen applicants in order to hire the most talented employees available.
3 Self-managed teams and decentralisation	Self-managed teams are responsible for their own hiring, purchasing, job assignments and production. Self-managed teams can often produce enormous increases in productivity through increased employee commitment and creativity. Decentralisation allows employees who are closest to (and most knowledgeable about) problems, production and customers to make timely decisions. Decentralisation increases employee satisfaction and commitment.
4 High wages contingent on organisational performance	High wages are needed to attract and retain talented employees and to indicate that the organisation values its employees. Employees, like company founders, shareholders and managers, need to share in the financial rewards when the company is successful. Why? Because employees who have a financial stake in their companies are more likely to take a long-run view of the business and think like business owners.
5 Training and skill development	Like a high-tech company that spends millions of dollars to upgrade computers or research and development labs, a company whose competitive advantage is based on its people must invest in the training and skill development of its people.
6 Reduction of status differences	These are fancy words that indicate that the company treats everyone, no matter what the job, as equal. There are no reserved parking spaces. Everyone eats in the same cafeteria and has similar benefits. The result: much improved communication as employees focus on problems and solutions rather than on how they are less valued than managers.
7 Sharing information	If employees are to make decisions that are good for the long-run health and success of the company, they need to be given information about costs, finances, productivity, development times and strategies that was previously known only by company managers.

Source: J. Pfeffer, *The human equation: building profits by putting people first* (Boston: Harvard Business School Press, 1996).

Finally, research also indicated that managers have an important effect on customer satisfaction. Many people find this surprising. They don't understand how managers, who are largely responsible for what goes on inside the company, can affect what goes on outside the company. They wonder how managers, who often interact with customers in negative situations (when customers are angry or dissatisfied), can actually improve customer satisfaction. It turns out that managers influence customer satisfaction through employee satisfaction. When employees are satisfied with their jobs, their bosses and the companies they work for, they provide much better service to customers.[75]

You will learn more about the service-profit chain in Chapter 17 on managing service and manufacturing operations.

ENGAGE APPLY VIDEO MINDTAP **Find out more about your management strengths and growth areas with this self assessment**

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People provide companies with significant competitive advantages

2 History of management

LEARNING OUTCOMES

1. Explain the origins of management.
2. Explain the history of scientific management.
3. Discuss the history of bureaucratic and administrative management.
4. Explain the history of human relations management.
5. Discuss the history of operations, information, systems and contingency management.

CENGAGE | MINDTAP

Throughout this chapter the MindTap icon indicates an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above the icon identifies the chapter folder in which you can find it.

IN THE BEGINNING

Each day, managers are asked to solve challenging problems and are given only a limited amount of time, people or resources. Yet it's still their responsibility to get things done on time and within budget. Tell today's managers to 'reward employees for improved production or performance', 'set specific goals to increase motivation' or 'innovate to create and sustain a competitive advantage', and they'll respond, 'Of course! Who doesn't know that?' Only 130 years ago, however, business ideas and practices were so different that today's widely accepted management ideas would have been as 'self-evident' as space travel, mobile phones and the Internet. In fact, 130 years ago, management wasn't yet a field of study and there were no management jobs and no management careers. So, if there were no managers 130 years ago, but you can't walk down the hall today without bumping into one, where did management come from?

After reading the next section, you should be able to explain the origins of management.

MINDTAP **Get started with the media quiz: Barcelona Restaurant Group: The Evolution of Management Thinking**

LO1 THE ORIGINS OF MANAGEMENT

Although we can find the seeds of many of today's management ideas throughout history, it wasn't until the last two centuries that systematic changes in the nature of work and organisations created a compelling need for managers.

Let's begin our discussion of the origins of management by learning about:

- management ideas and practice throughout history
- why we need managers today.

ENGAGE APPLY VIDEO MINDTAP **Get a quick overview of the origins and evolution of management**

MANAGEMENT IDEAS AND PRACTICE THROUGHOUT HISTORY

Examples of management thought and practice can be found throughout history.[1] For example, the Egyptians recognised the need for planning, organising and controlling; for submitting written requests; and for consulting staff for advice before making decisions. The practical problems they encountered while building the great pyramids no doubt led to the development of these management ideas. The enormity of the task they faced is evident in the great pyramid of Khufu, which contains 2.3 million blocks of stone. Each block had to be quarried, cut to the precise size and shape, cured (hardened in the sun), transported by boat for two to three days, moved onto the construction site, numbered to identify where it would be placed and then shaped and smoothed so that it would fit perfectly into place. It took 20 000 workers 23 years to complete this pyramid; more than 8000 people were needed just to quarry the stones and transport them. A typical 'quarry expedition' might include 100 army officers, 50 government and religious officials, 200 members of the king's court to lead the expedition, 130 stone masons to cut the stones, 5000 soldiers, 800 barbarians and 2000 bond servants to transport the stones on and off the ships.[2]

Table 2.1 shows how other management ideas and practices throughout history relate to management functions.

WHY WE NEED MANAGERS TODAY

Working from 8 a.m. to 5 p.m., coffee breaks, lunch hours, crushing peak-hour traffic and punching a time clock are associated with today's working world. But for most of

TABLE 2.1 Management ideas and practice throughout history

Time	Individual or group	Planning	Organising	Leading	Controlling	Contributions to management thought and practice
5000 BCE	Sumerians				✓	Record keeping.
4000 BCE to 2000 BCE	Egyptians	✓	✓		✓	Recognised the need for planning, organising and controlling when building the pyramids; submitted requests in writing; made decisions after consulting staff for advice.
1800 BCE	Hammurabi				✓	Established controls by using witnesses (to vouch for what was said or done) and writing to document transactions.
600 BCE	Nebuchadnezzar		✓	✓		Wage incentives and production control.
500 BCE	Sun Tzu	✓		✓		Strategy; identifying and attacking opponent's weaknesses.
400 BCE	Xenophon	✓	✓	✓	✓	Recognised management as a separate art.
400 BCE	Cyrus		✓	✓	✓	Human relations and motion study.
175	Cato		✓			Job descriptions.
284	Diocletian		✓			Delegation of authority.
900	Alfarabi			✓		Listed leadership traits.
1100	Ghazali			✓		Listed managerial traits.
1418	Barbarigo		✓			Different organisational forms/structures.
1436	Venetians				✓	Numbering, standardisation, and interchangeability of parts.
1500	Sir Thomas More			✓		Critical of poor management and leadership.
1525	Machiavelli		✓	✓		Cohesiveness, power and leadership in organisations.

Source: C. S. George, *Jr, The history of management thought.* © 1972. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

humankind's history, people didn't commute to work; work usually occurred in homes or on farms.

As recently as 1900, the majority of Australians earned their living from agriculture. Even most of those who didn't earn their living from agriculture didn't commute to work. Blacksmiths, furniture makers, leather-goods makers and other skilled tradesmen or craftsmen, who formed trade guilds (the historical predecessors of labour unions) in England as early as 1093, typically worked out of shops in or next to their homes.[3] Likewise, until the late 1800s, cottage workers worked with each other out of small homes that were often built in a semicircle. A family in each cottage would complete a different production step, with work passed from one cottage to the next until production was complete. With small, self-organised work groups, no commuting, no bosses and no common building, there wasn't a strong need for management.

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It took 20 000 workers 23 years to complete this pyramid; more than 8000 were needed just to quarry the stones and transport them

During the Industrial Revolution (late eighteenth century into the nineteenth century), however, jobs and organisations changed dramatically.[4] First, thanks to the availability of power (steam engines and later electricity), low-paid, unskilled labourers running machines began to replace high-paid, skilled artisans who made entire products by themselves, by hand. This new mass-production system was based on a division of labour: each worker, interacting with machines, performed separate, highly specialised tasks that were but a small part of all the steps required to make manufactured goods. While workers focused on their singular tasks, managers were needed to effectively coordinate the different parts of the production system and optimise its overall performance. Productivity skyrocketed at companies that understood this. For example, at the Ford Motor Company, the time required to assemble a car dropped from 12.5 work hours to just 93 minutes.[5]

Second, jobs existed in large, formal organisations where hundreds, if not thousands, of people worked under one roof, instead of in fields, homes or small shops.[6] In 1884, Australian industrialist H.V. McKay, who first started out working in a blacksmiths in Ballarat, established the Sunshine Harvester Works in what are now the western suburbs of Melbourne. Sunshine Harvester Works was at one time the largest manufacturer in Australia, with over 3000 employees around 1906.[7] By 1913, Henry Ford employed 12 000 employees in just his Highland Park, Michigan factory in the US. With individual factories employing so many workers under one roof, companies now had a strong need for disciplinary rules (to impose order and structure). For the first time, they needed managers who knew how to organise large groups, work with employees and make good decisions.

MGMT FACT

ANCIENT MANAGERS

Sumerian priests developed a formal system of writing (scripts) that allowed them to record and keep track of the goods, flocks and herds of animals, coins, land and buildings that were contributed to their temples. Furthermore, to encourage honesty in such dealings, the Sumerians instituted managerial controls that required all priests to submit written accounts of the transactions, donations and payments they handled to the chief priest. Just like clay or stone tablets and animal-skin documents, these scripts were first used to manage the business of Sumerian temples.[8]

THE EVOLUTION OF MANAGEMENT

Before 1880, business educators taught only basic bookkeeping and secretarial skills, and no one published books or articles about management.[9] Today, if you have a question about management, you can turn to dozens of academic journals, hundreds of business school and practitioner journals (such as *Harvard Business Review, Sloan Management Review, Journal of Management and Organisation* and *Academy of Management Executive*) and thousands of books and articles. In the following sections, you will learn about other important contributors to the field of management, and how their ideas shaped our current understanding of management theory and practice.

After reading the next four sections, which review the different schools of management thought, you should be able to:

- explain the history of scientific management
- discuss the history of bureaucratic and administrative management
- explain the history of human relations management
- discuss the history of operations, information, systems and contingency management.

LO2 SCIENTIFIC MANAGEMENT

Before scientific management, organisational decision making could best be described as 'seat-of-the-pants'. Decisions were made haphazardly without any systematic study, thought or collection of information. If the 'managers' hired by the company founder or owner decided that workers should work twice as fast, little or no thought was given to worker motivation. If workers resisted, 'managers' often resorted to physical beatings to get workers to work faster, harder or longer. With no incentives for 'managers' to cooperate with workers and vice versa, managers and workers played games within the system, trying to take advantage of each other. Likewise, each worker did the same job in his or her own way with different methods and different tools. In short, there were no procedures to standardise operations, no objective standards by which to judge whether performance was good or bad, and no follow-up to determine if productivity or quality actually improved when changes were made.[10]

scientific management
thoroughly studying and testing different work methods to identify the best, most efficient way to complete a job

This all changed with the advent of **scientific management**, which thoroughly studied and tested different work methods to identify the best, most efficient ways to complete a job.

Let's find out more about scientific management by learning about:

- Frederick W. Taylor, the father of scientific management
- Frank and Lillian Gilbreth and motion studies
- Henry Gantt and his Gantt charts.

FATHER OF SCIENTIFIC MANAGEMENT: FREDERICK W. TAYLOR

Frederick W. Taylor (1856–1915), the 'father of scientific management', began his career as a worker at Midvale Steel Company. He was later promoted to patternmaker, supervisor and then chief engineer.

At Midvale, Taylor was deeply affected by his three-year struggle to get the men who worked for him to do, as he called it, 'a fair day's work'. Taylor explained that as soon as he became the boss, 'the men who were working under me … knew that I was onto the whole game of **soldiering**, or deliberately restricting output [to one-third of what they were capable of producing]'. When Taylor told his workers, 'I am going to try to get a bigger output', the workers responded, 'We warn you, Fred, if you try to bust any of these rates we will have you over the fence in six weeks'.[11] (A **rate buster** was someone who worked faster than the group.)

soldiering
when workers deliberately slow their pace or restrict their work outputs

rate buster
a group member whose work pace is significantly faster than the normal pace in his or her group

Over the next three years, Taylor tried everything he could think of to improve output. By doing the job himself, he showed workers that it was possible to produce more output. He hired new 'intelligent' workers and trained them himself, hoping they would produce more. But they would not because of 'very heavy social pressure' from the other workers. Pushed by Taylor, the workers began breaking their machines so that they couldn't produce. Taylor responded by fining them every time they broke a machine and for any violation of the rules, no matter how small, such as being late to work. Tensions became so severe that some of the workers threatened to shoot him. The remedy that Taylor eventually developed was 'scientific management'.

The goal of scientific management is to use systematic study to find the 'one best way' of doing each task. To do that, managers must follow the four principles shown in Table 2.2. First, 'develop a science' for each element of work. Study it. Analyse it. Determine the 'one best way' to do the work. For example, one of Taylor's controversial proposals at the time was to give rest breaks to factory workers doing physical labour. Today, we take breaks for granted, but in Taylor's day, factory workers were expected to work without stopping. Using systematic experiments, Taylor showed that frequent rest breaks greatly increased daily output.

Second, scientifically select, train, teach and develop workers to help them reach their full potential. Before Taylor, supervisors often hired on the basis of favouritism and nepotism. Who you knew was often more important than what you could do. By contrast, Taylor instructed supervisors to hire 'first class' workers on the basis of their aptitude to do a job well. For similar reasons, Taylor also recommended that companies train and develop their workers – a rare practice at the time.

Third, cooperate with employees to ensure implementation of the scientific principles. As Taylor knew from personal experience, more often than not workers and management viewed each other as enemies. Taylor said: 'The majority of these men believe that the fundamental interests of employees and employers are necessarily antagonistic. Scientific management, on the contrary, has at its very foundation the firm conviction that the true interests of the two are one and the same; that prosperity for the employer cannot exist for many years unless it is accompanied by prosperity for the employee and vice versa;

TABLE 2.2 Taylor's four principles of scientific management

1st	Develop a science for each element of a man's work, which replaces the old rule-of-thumb method.
2nd	Scientifically select and then train, teach and develop the workman, whereas in the past he chose his own work and trained himself as best he could.
3rd	Heartily cooperate with the men so as to ensure all of the work being done is in accordance with the principles of the science that has been developed.
4th	There is an almost equal division of the work and the responsibility between the management and the workmen. The management take over all the work for which they are better fitted than the workmen, while in the past almost all of the work and the greater part of the responsibility were thrown upon the men.

Source: F. W. Taylor, *The principles of scientific management* (New York: Harper, 1911).

WORKPLACE AND COMMUNITY

WANT FRIES WITH THAT?

Don't think scientific management has much to do with today's work life? Think again about the last time you were in a shop and the salesperson said, 'Have a nice day'. Service providers – particularly at restaurants – use scripts to ensure that employees are following the 'one best way' of interacting with customers. McDonald's uses a speech-only script (employees must say, 'May I help you?' instead of 'Can I help someone?'). At one popular chain of restaurants, employees must greet the table within 30 seconds of arrival, take the drink order within three minutes, suggest five items while taking the order and check back with the table three minutes after the food arrives.[12]

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MGMT TREND

TAYLOR'S REST BREAK NOW INCLUDES NAPPING

While rest breaks traditionally involve sitting or taking a brief walk, some employers now see a rest break as an opportunity for a quick snooze. Lampooned in movies, television and even the business press, napping at work is nonetheless a proven way to increase focus, memory and alertness on the job. A recent study from the University of Michigan found that a one-hour nap during the workday produced all those benefits—and more. As numerous as the benefits of napping are said to be, the challenges of napping at work are even more so. Not only is it difficult to break pace during the workday long enough to actually fall asleep, but finding a place to sleep can be challenging as well. Only 6 per cent of companies have dedicated spaces for napping, and many employees work in loud, crowded spaces with stiff, uncomfortable chairs. Sleep experts do have some advice for people working at companies that embrace workday naps. First, when deciding what time to close your eyes, figure out the midpoint of your previous night's rest and add 12 hours. (For example, if you slept from 11 p.m. to 7 a.m., then your ideal nap time the next day is 3 p.m.) Once you know when to nap, sleep either for 20 or 90 minutes—ideal times for a re-energizing nap. Anything in between or beyond those two durations will leave the napper feeling groggy and ineffective, counteracting the point of the nap in the first place.

SOURCE: R. GREENFIELD, "NAPPING AT WORK CAN BE SO EXHAUSTING," *BLOOMBERG BUSINESSWEEK*, 20 AUGUST 2015, HTTP://WWW.BLOOMBERG.COM/NEWS/ARTICLES/2015-08-20/NAPPING-AT-WORK-CAN-BE-SO-EXHAUSTING, ACCESSED 26 MARCH 2016.

and that it is possible to give the worker what is most wanted – high wages – and the employer what he wants – a low labour cost – for the product'.[13]

The fourth principle of scientific management was to divide the work and the responsibility equally between management and employees. Prior to Taylor, workers alone were held responsible for productivity and performance. But, said Taylor, Almost every act of the workman should be preceded by one or more preparatory acts of the management which enable him to do his work better and quicker than he otherwise could'.[14]

Above all, Taylor felt these principles could be used to determine a 'fair day's work'; that is, what an average worker could produce at a reasonable pace, day in and day out. Once that was determined, it was management's responsibility to pay workers fairly for that 'fair day's work'. In essence, Taylor

was trying to align management and employees so that what was good for employees was also good for management. In this way, he felt, workers and managers could avoid the conflicts that he had experienced at Midvale Steel. One of the best ways, according to Taylor, to align management and employees was to use incentives to motivate workers. In particular, Taylor believed in piece-rate incentives for which pay was directly tied to how much workers produced.

Although Taylor remains a controversial figure among some academics, nearly a century later it is inarguable that his key ideas have stood the test of time.[15] In fact, his ideas are so well accepted and widely used that we take most of them for granted. As eminent management scholar Edwin Locke says, 'The point is not, as is often claimed, that he was "right in the context of his time", but is now outdated, but that most of his insights are still valid today'.[16]

MOTION STUDIES: FRANK AND LILLIAN GILBRETH

The husband and wife team Frank and Lillian Gilbreth are best known for their use of motion studies to simplify work, but they also made significant contributions to industrial psychology. Like Frederick Taylor, their early experiences significantly shaped their interests and contributions to management.

Though admitted to MIT, Frank Gilbreth (1868–1924) began his career as an apprentice bricklayer. While learning the trade, he noticed the bricklayers using three different sets of motions – one to teach others how to lay bricks, a second to work at a slow pace and a third to work at a fast pace. Wondering which was best, he studied the various approaches and began eliminating unnecessary motions. For example, by designing a stand that could be raised to waist height, he eliminated the need to bend over to pick up each brick. By having lower-paid workers place all the bricks with their most attractive side up, bricklayers didn't waste time turning a brick over to find it. By mixing a more consistent mortar, bricklayers no longer had to tap each brick numerous times to put it in the right position. Together, Gilbreth's improvements raised productivity from 120 to 350 bricks per hour and from 1000 bricks to 2700 bricks per day.[17]

As a result of his experience with bricklaying, Gilbreth and his wife Lillian developed a long-term interest in using motion study to simplify work, improve productivity and reduce the level of effort required to safely perform a job. Indeed, Frank Gilbreth said, 'The greatest waste in the world comes from needless, ill-directed and ineffective motions'.[18] The Gilbreths' motion study, however, is different from Frederick W. Taylor's time study. Taylor developed time study to put an end to soldiering and to determine what could be considered a fair day's work. **Time study** worked by timing how long it took a 'first-class man' to complete each part of his job. After allowing for rest periods, a standard time was established and a worker's pay would increase or decrease depending on whether the worker exceeded or fell below that standard. By contrast, **motion study**, as we saw in Frank Gilbreth's analysis of bricklaying, broke each task or job into separate motions and then eliminated those that were unnecessary or repetitive. Because many motions were completed very quickly, the Gilbreths used motion-picture films, a relatively new technology at the time, to analyse jobs. Most film cameras, however, were hand-cranked and thus variable in their film speed, so Frank Gilbreth invented the micro chronometer, a large clock that could record time to 1/2000th of a second. By placing the micro chronometer next to the worker in the camera's field of vision and attaching a flashing strobe light to the worker's hands to better identify the direction and sequence of key movements, the Gilbreths could use film to detect and precisely time even the slightest, fastest movements. Motion study typically yielded production increases of 25 to 300 per cent.[19]

time study
timing how long it takes good workers to complete each part of their jobs

motion study
breaking each task or job into its separate motions and then eliminating those that are unnecessary or repetitive

Lillian Gilbreth (1878–1972) was an important contributor to management as well. She was the first woman to receive a PhD in management, as well as the first woman to become a member of the Society of Industrial Engineers and the American Society of Mechanical Engineers. When Frank died in 1924, she continued the work of their management consulting company (which they had shared for over a dozen years) on her own. Lillian, who was concerned with the human side of work, was one of the first contributors to industrial psychology, originating ways to improve office communication, incentive programs, job satisfaction and management training. Her work also convinced the government to enact laws regarding workplace safety, ergonomics and child labour.[20]

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The Gilbreths used early motion picture cameras to analyse workers and improve productivity

CHARTS: HENRY GANTT

Henry Gantt (1861–1919) was first a protégé and then an associate of Frederick Taylor. Gantt is best known for the Gantt chart, but he also made significant contributions to management with respect to the training and development

Gantt chart
a graphical chart that shows which tasks must be completed at which times in order to complete a project or task

of workers. As shown in Figure 2.1, a **Gantt chart**, which shows time in various units on the *x*-axis and tasks on the *y*-axis, visually indicates what tasks must be completed at which times in order to complete a project. For example, Figure 2.1 shows that to start construction on a new company headquarters by the week of 18 November, the following tasks must be completed by the following dates: architectural company selected by 7 October, architectural planning done by 4 November, permits obtained from the city by 11 November, site preparation finished by 18 November and loans and financing finalised by 18 November. Though simple and straightforward, Gantt charts were revolutionary in the era of 'seat-of-the-pants' management because of the detailed planning information they provided to managers. Gantt said, 'Such sheets show at a glance where the delays occur, and indicate what must have our attention in order to keep up the proper output'. Today, the use of Gantt charts is so widespread that nearly all project management software and computer spreadsheets have the capability to create charts that track and visually display the progress being made on a project.

Finally, Gantt, along with Taylor, was one of the first to strongly recommend that companies train and develop their workers.[21] In his work with companies, he found that workers achieved their best performance levels if they were trained first. At the time, however, supervisors, fearing that they could lose their jobs to more knowledgeable workers, were reluctant to teach workers what they knew. Gantt overcame the supervisors' resistance by rewarding them with bonuses for properly training all of their workers. Thus, Gantt's approach to training was straightforward: '(1) a scientific investigation in detail of each piece of work, and the determination of the best method and the shortest time in which the work can be done. (2) A teacher capable of teaching the best method and the shortest time. (3) Reward for both teacher and pupil when the latter is successful'.[22]

LO3 BUREAUCRATIC AND ADMINISTRATIVE MANAGEMENT

MINDTAP **Get an introduction to the concept of bureaucracy** ENGAGE APPLY EXPLORE

The field of scientific management focused on improving the efficiency of manufacturing facilities and their workers. At about the same time, equally important ideas were developing in Europe. German sociologist Max Weber's ideas about bureaucratic management, which presented a new way to run entire organisations, were published in *The Theory of Economic and Social Organisation* in 1922. Henri Fayol, an experienced French CEO, published his ideas about administrative management, including how and what managers should do in their jobs, in *General and Industrial Management* in 1916.

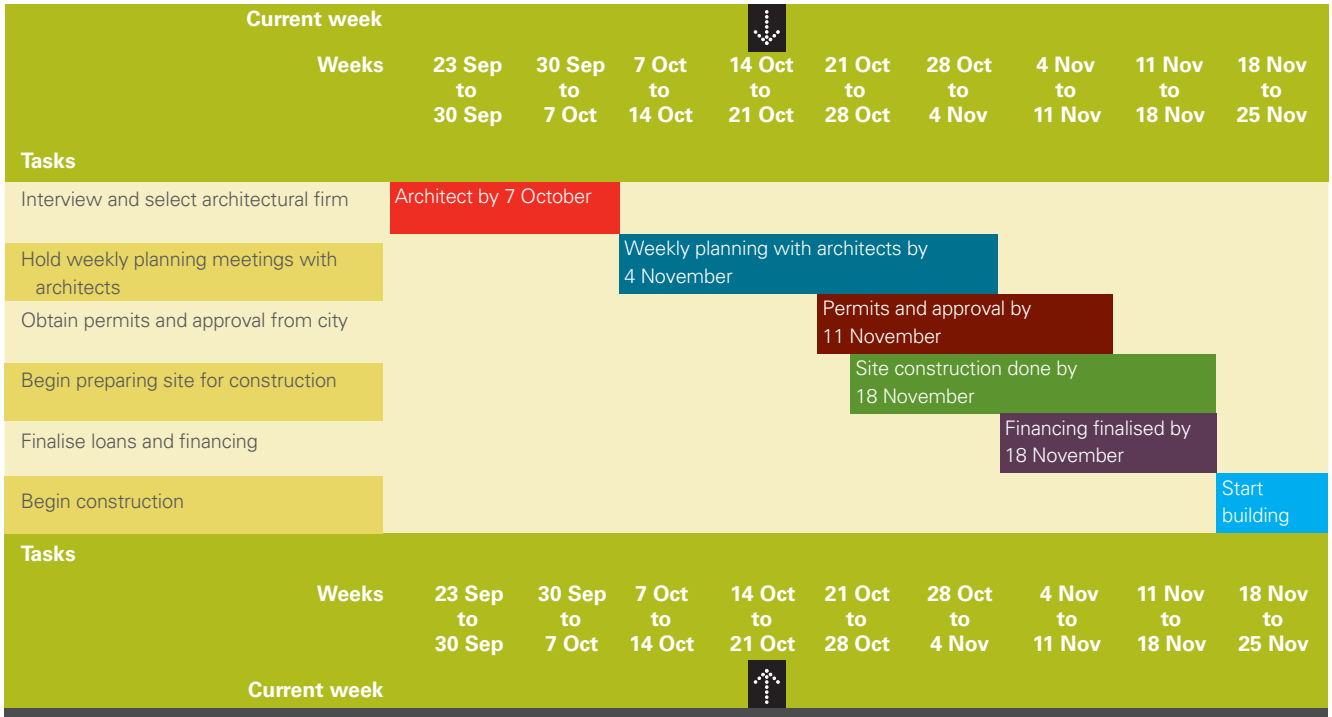

FIGURE 2.1 Gantt chart for starting construction on a new headquarters

Let's find out more about Weber's and Fayol's contributions to management by learning about:

- bureaucratic management
- administrative management.

BUREAUCRATIC MANAGEMENT: MAX WEBER

Today, when we hear the term 'bureaucracy', we think of inefficiency and red tape, incompetence and ineffectiveness, and rigid administrators blindly enforcing nonsensical rules. When German sociologist Max Weber (1864–1920) first proposed the idea of bureaucratic organisations, however, monarchies and patriarchies, not bureaucracies, were associated with these problems. In monarchies, where kings, queens, sultans and emperors ruled, and patriarchies, where a council of elders, wise men or male heads of extended families ruled, the top leaders typically achieved their positions by virtue of birthright. Likewise, promotion to prominent positions of authority was based on who you knew (politics), who you were (heredity) or traditions.

bureaucracy
the exercise of control on the basis of knowledge, expertise or experience

It was against this historical background that Weber proposed the then new idea of bureaucracy. According to Weber, bureaucracy is 'the exercise of control on the basis of knowledge'.[23] So, in a **bureaucracy**, rather than ruling by virtue of favouritism or personal or family connections, people would lead by virtue of their rational–legal authority – in other words, their knowledge, expertise or experience. Furthermore, the aim of bureaucracy is to achieve an organisation's goals in the most efficient way possible.

TABLE 2.3 Elements of bureaucratic organisations

Qualification-based hiring	Employees are hired on the basis of their technical training or educational background.
Merit-based promotion	Promotion is based on experience or achievement. Managers, not organisational owners, decide who is promoted.
Chain of command	Each job occurs within a hierarchy, the chain of command, in which each position reports and is accountable to a higher position. A grievance procedure and a right to appeal protect people in lower positions.
Division of labour	Tasks, responsibilities and authority are clearly divided and defined.
Impartial application of rules and procedures	Rules and procedures apply to all members of the organisation and will be applied in an impartial manner, regardless of one's position or status.
Recorded in writing	All administrative decisions, acts, rules or procedure will be recorded in writing.
Managers separate from owners	The owners of an organisation should not manage or supervise the organisation.

Source: M. Weber, *The Theory of Economic and Social Organization*, trans. A. Henderson & T. Parsons (New York: The Free Press, 1947): 329–34.

Table 2.3 shows the seven elements that, according to Weber, characterise bureaucracies. First, instead of hiring people because of their family or political connections or personal loyalty, they should be hired because their technical training or education qualifies them to do their jobs well. Second, along the same lines, promotion within the company would no longer be based on who you knew or who you were (heredity), but on your experience or achievements. Furthermore, to limit the influence of personal connections in the promotion process, managers, rather than organisational owners, should decide who gets promoted. Third, each position or job is part of a chain of command that clarifies who reports to whom throughout the organisation. Those higher in the chain of command have the right, if they so choose, to give commands, take action and make decisions concerning activities occurring anywhere below them in the chain. Fourth, to increase efficiency and effectiveness, tasks and responsibilities are separated and assigned to those best qualified to complete them. Fifth, an organisation's rules and procedures should apply to all members, regardless of their position or status. Sixth, to ensure consistency and fairness over time and across different leaders, all rules, procedures and decisions should be recorded in writing. Finally, to reduce favouritism, 'professional' managers rather than company owners should manage or supervise the organisation.

When viewed in historical context, Weber's ideas about bureaucracy represent a tremendous improvement. Fairness supplanted favouritism, the goal of efficiency

MGMT FACT

PRISONERS OF BUREAUCRACY

Despite its advantages over monarchical and patriarchal organisational forms, even Weber recognised bureaucracy's limitations. He called it the 'iron cage' and said, 'Once fully established, bureaucracy is among those social structures which are the hardest to destroy'.[24] According to management professors Gary Hamel and Michele Zanini, in the US alone its cost is $3 trillion a year, or 17 per cent of GDP! How is this so? Too many managers! Twenty-four million US managers results in one manager for every 4.7 workers. Hamel and Zanini estimate that companies could easily double that to one manager for every 10 workers.

SOURCES: G. HAMEL & M. ZANINI, 'EXCESS MANAGEMENT IS COSTING THE U.S. $3 TRILLION PER YEAR', *HARVARD BUSINESS REVIEW DIGITAL ARTICLES*, 5 SEPTEMBER 2016, ACCESSED 4 MARCH 2017, HTTPS://HBR.ORG/2016/09/EXCESS-MANAGEMENT-IS-COSTING-THE-US-3-TRILLION-PER-YEAR; M. WEBER, *THE PROTESTANT ETHIC AND THE SPIRIT OF CAPITALISM* (NEW YORK: SCRIBNER'S, 1958).

replaced the goal of personal gain, and logical rules and procedures took the place of traditions or arbitrary decision making.

Today, however, after more than a century of experience we recognise that bureaucracy has limitations as well. In bureaucracies, managers are supposed to influence employee behaviour by fairly rewarding or punishing employees for compliance or non-compliance with organisational policies, rules and procedures. In reality, however, most employees would argue that bureaucratic managers emphasise punishment for non-compliance much more than rewards for compliance. Ironically, bureaucratic management was created to prevent just this type of managerial behaviour.

ADMINISTRATIVE MANAGEMENT: HENRI FAYOL

Though his work was not translated and widely recognised in the US until 1949, Frenchman Henri Fayol (1841–1925) was as important a contributor to the field of management as Frederick Taylor. But, whereas Taylor's ideas changed companies from the shop floor up, Fayol's ideas, which were shaped by his experience as a managing director (CEO), generally changed companies from the board of directors down.[25] Fayol is best known for developing five functions of managers and 14 principles of management.

The most formative events in Fayol's business career came during his 20-plus years as the managing director of Compagnie de Commentry-Fourchambault-Decazeville, commonly known as Comambault, a vertically integrated steel company that owned several coal and iron ore mines and employed 10 000 to 13 000 workers. Fayol was initially hired by the board of directors to shut the 'hopeless' steel company down. But, after 'four months of reflection and study', he presented the board with a plan, backed by detailed facts and figures, to save the company. With little to lose, the board agreed. Fayol then began the process of turning the company around by obtaining supplies of key resources, such as coal and iron ore; using research to develop new steel alloy products; carefully selecting key subordinates in research, purchasing, manufacturing and sales and then delegating responsibility to them; and cutting costs by moving the company to a better location closer to key markets. Looking back 10 years later, Fayol attributed his and the company's success to changes in management practices. He wrote, 'When I assumed the responsibility for the restoration of Decazeville, I did not rely on my technical superiority … I relied on my ability as an organizer [and my] skill in handling men'.[26]

Based on his experience as a CEO, Fayol argued that 'the success of an enterprise generally depends much more on the administrative ability of its leaders than on their technical ability'.[27] Remember, as you learned in Chapter 1, Fayol argued that this means that if managers are to be successful, they need to perform five managerial functions or elements: planning, organising, coordinating, commanding and controlling.[28] Today though, most management textbooks have dropped the coordinating function and now refer to Fayol's commanding function as 'leading'. Consequently, Fayol's management functions are widely known as planning (determining organisational goals and a means for achieving them), organising (deciding where decisions will be made, who will do what jobs and tasks, and who will work for whom), leading (inspiring and motivating employees to work hard to achieve organisational goals) and controlling (monitoring progress towards goal achievement and taking corrective action when needed). In addition, according to Fayol, effective management is based on the 14 principles shown in Table 2.4.

LO4 HUMAN RELATIONS MANAGEMENT

As we have seen, scientific management focused on improving efficiency; bureaucratic management focused on using knowledge, fairness and logical rules and procedures; and administrative management focused on how and what managers should do in their jobs. In contrast, in the human relations approach to management, people were more than just extensions of machines; they were valuable organisational resources whose needs were important and whose efforts, motivation and performance were affected by the work they did and their relationships with their bosses, co-workers and work groups. In other words, efficiency alone is not enough. Organisational success also depends on treating employees well.

Let's find out more about human relations management by learning about:

- Mary Parker Follett's theories of constructive conflict
- Elton Mayo's Hawthorne Studies
- Chester Barnard's theories of cooperation and acceptance of authority.

CONSTRUCTIVE CONFLICT: MARY PARKER FOLLETT

Mary Parker Follett (1868–1933) was a social worker who, after 25 years of working with schools and non-profit organisations, began lecturing and writing about management and working extensively as a consultant for business and government. Many of today's 'new' management ideas can clearly be traced to her work.

Follett is known for developing ideas regarding constructive conflict, also called cognitive conflict, which is discussed in Chapter 5 on decision making and Chapter 10

TABLE 2.4 Fayol's 14 principles of management

1	**Division of work** Increase production by dividing work so that each worker completes smaller tasks or job elements.
2	**Authority and responsibility** A manager's authority, which is the 'right to give orders', should be commensurate with the manager's responsibility. However, organisations should enact controls to prevent managers from abusing their authority.
3	**Discipline** Clearly defined rules and procedures are needed at all organisational levels to ensure order and proper behaviour.
4	**Unity of command** To avoid confusion and conflict, each employee should report to and receive orders from just one boss.
5	**Unity of direction** One person and one plan should be used in deciding the activities to be used to accomplish each organisational objective.
6	**Subordination of individual interests to the general interest** Employees must put the organisation's interests and goals before their own.
7	**Remuneration** Compensation should be fair and satisfactory to both the employees and the organisation; that is, don't overpay or underpay employees.
8	**Centralisation** Avoid too much centralisation or decentralisation. Strike a balance depending on the circumstances and employees involved.
9	**Scalar chain** From the top to the bottom of an organisation, each position is part of a vertical chain of authority in which each worker reports to just one boss. For the sake of simplicity, communication outside normal work groups or departments should follow the vertical chain of authority.
10	**Order** To avoid conflicts and confusion, order can be obtained by having a place for everyone and having everyone in their place; in other words, there should be no overlapping responsibilities.
11	**Equity** Kind, fair and just treatment for all will develop devotion and loyalty. This does not exclude discipline, if warranted, and consideration of the broader general interest of the organisation.
12	**Stability of tenure of personnel** Low turnover, meaning a stable workforce with high tenure, benefits an organisation by improving performance, lowering costs and giving employees, especially managers, time to learn their jobs.
13	**Initiative** Because it is a 'great source of strength for business', managers should encourage the development of initiative – the ability to develop and implement a plan – in others.
14	**Esprit de corps** Develop a strong sense of morale and unity among workers that encourages coordination of efforts.

ENGAGE APPLY VIDEO MINDTAP **Find out more about your conflict management style with this self-assessment**

on teams. Unlike most people, then and now, who view conflict as bad, Follett believed that conflict could be beneficial. She said that conflict is 'the appearance of difference, difference of opinions, of interests. For that is what conflict means – difference'. She went on to say, 'As conflict – difference – is here in this world, as we cannot avoid it, we should, I think, use it to work for us. Instead of condemning it, we should set it to work for us. Thus we shall not be afraid of conflict, but shall recognise that there is a destructive way of dealing with such moments and a constructive way'.[29]

Follett believed that the best way to deal with conflict was not 'domination', where one side won and the other lost, nor compromise, where each side gave up some of what they wanted, but integration. Said Follett, 'There is a way beginning now to be recognized at least, and even occasionally followed: when two desires are integrated, that means that a solution has been found in which both desires have found a place that

integrative conflict resolution
an approach to dealing with conflict in which both parties deal with the conflict by indicating their preferences and then working together to find an alternative that meets the needs of both

neither side has had to sacrifice anything'. So, rather than one side dominating the other or both sides compromising, the point of **integrative conflict resolution** is to have both parties indicate their preferences and then work together to find an alternative that meets the needs of both. According to Follett, 'Integration involves invention, and the clever thing is to recognize this, and not to let one's thinking stay within the boundaries of two alternatives which are mutually exclusive'.[30] Indeed, Follett's ideas about the positive use of conflict and an integrative approach to conflict resolution predate accepted thinking in the negotiation and conflict resolution literature by six decades (see the best-selling book *Getting to Yes: Negotiating agreement without giving in* by Roger Fisher, William Ury and Bruce Patton, 1983).

Table 2.5 summarises, in Follett's own words, her contributions to management regarding power ('with' not 'over' others), the giving of orders (discussing instructions and resentment), authority (flowing from job knowledge and experience, not position), leadership (that leaders make the team and that aggressive, dominating leaders may be harmful), coordination and control (should be based on facts, information and coordination). In the end, Follett's contributions added significantly to our understanding of the human, social and psychological sides of management. Peter Parker, the former chairman of the London School of Economics, said about Follett: 'People often puzzle about who is the father of management. I don't know who the father was, but I have no doubt about who was the mother'.[31]

HAWTHORNE STUDIES: ELTON MAYO

Australian-born Elton Mayo (1880–1948) is best known for his role in the famous Hawthorne Studies at the Western Electric Company.

The Hawthorne Studies were conducted in several stages between 1924 and 1932 at a Western Electric plant in Chicago. Although Mayo didn't join the studies until 1928, he played a significant role thereafter, writing about the results in his book, *The Human Problems of an Industrial Civilization*.[32] The first stage of the Hawthorne Studies investigated the effects of lighting levels and incentives on employee productivity in the Relay Test Assembly Room, where workers took approximately a minute to put 'together a coil, armature, contact springs, and insulators in a fixture and secure the parts by means of four machine screws'.[33] Two groups of six experienced female workers,

TABLE 2.5 Some of Mary Parker Follett's key contributions to management

Constructive conflict	• 'As conflict — difference — is here in this world, as we cannot avoid it, we should, I think, use it to work for us. Instead of condemning it, we should set it to work for us.'
Power	• 'Power might be defined as simply the ability to make things happen, to be a causal agent, to initiate change.' • 'It seems to me that whereas power usually means power-over, the power of some person or group over some other person or group, it is possible to develop the conception of power-with, a jointly developed power, a co-active, not a coercive power.'
The giving of orders	• 'Probably more industrial trouble has been caused by the manner in which orders have been given than in any other way.' • 'But even if instructions are properly framed, are not given in an over-bearing manner, there are many people who react violently against anything that they feel is a command. It is often the command that is resented, not the thing commanded.' • 'An advantage of not exacting blind obedience, of discussing your instructions with your subordinates, is that if there is any resentment, any come-back, you get it out into the open, and when it is in the open you can deal with it.'
Authority	• 'Indeed there are many indications in the present reorganisation of industry that we are beginning to rid ourselves of the over and under idea, that we are coming to a different conception of authority, many indications that there is an increasing tendency to let the job itself, rather than the position occupied in a hierarchy, dictate the kind and amount of authority.' • 'Authority should go with knowledge and experience, that is where obedience is due, no matter whether it is up the line or down.'
Leadership	• 'Of the greatest importance is the ability to grasp a total situation … Out of a welter of facts, experience, desires, aims, the leader must find the unifying thread. He must see a whole, not a mere kaleidoscope of pieces … The higher up you go, the more ability you have to have of this kind.' • 'The leader makes the team. This is pre-eminently the leadership quality — the ability to organise all the forces there are in an enterprise and make them serve a common purpose.' • '[It is wrong to assume] that you cannot be a good leader unless you are aggressive, masterful, dominating. But I think not only that these characteristics are not the qualities essential to leadership but, on the contrary, that they often militate directly against leadership.'
Coordination	• 'One, which I consider a very important trend in business management is a system of cross-functioning between the different departments … Each department is expected to get in touch with certain others.' • 'Many businesses are now organised in such a way that you do not have an ascending and descending ladder of authority. You have a degree of cross-functioning, of inter-relation of departments, which means a horizontal rather than a vertical authority.' • 'The most important thing to remember about unity is — that there is no such thing. There is only unifying. You cannot get unity and expect it to last a day — or five minutes. Every man in a business should be taking part in a certain process and that process is unifying.'
Control	• 'Control is coming more and more to mean fact-control rather than man-control.' • 'Central control is coming more and more to mean the co-relation of many controls rather than a superimposed control.'

Source: Mary Parker Follett, *Mary Parker Follett – prophet of management: a celebration of writings from the 1920s*, ed. P. Graham (Boston: Harvard Business School Press, 1995).

five to do the work and one to supply needed parts, were separated from the main part of the factory by a three-metre partition and placed at a standard work bench with the necessary parts and tools. Over the next five years, the experimenters introduced various levels and combinations of lighting, financial incentives and rest pauses (work breaks) to study the effect on productivity. Curiously, however, whether they increased or decreased the lighting, paid workers based on individual production or group production, or increased or decreased the number and length of rest pauses, production levels increased. The question, however, was why?

Mayo and his colleagues eventually concluded that two things accounted for the results. First, substantially more attention was paid to these workers than to workers in the rest of the plant. Mayo wrote, 'Before every change of program [in the study], the group is consulted. Their comments are listened to and discussed; sometimes their objections are allowed to negate a suggestion. The group unquestionably develops a sense of participation in the critical determinations and becomes something of a social unit'.[34]

The 'Hawthorne Effect' cannot be understood, however, without giving equal importance to the 'social units', which became intensely cohesive groups. (For years, the 'Hawthorne Effect' has been incorrectly defined as increasing productivity by paying more attention to workers.)[35] Mayo said: 'What actually happened was that six individuals became a team and the team gave itself wholeheartedly and spontaneously to cooperation in the experiment. The consequence was that they felt themselves to be participating freely and without afterthought, and were happy in the knowledge that they were working without coercion from above or limits from below'.[36] Together, the increased attention from management and the development of a cohesive work group led to significantly higher levels of job satisfaction and productivity. For the first time, human factors related to work were found to be more important than the physical conditions or design of the work. In short, workers' feelings and attitudes affected their work.

During the first stage of the Hawthorne Studies, Mayo and his colleagues tested the effects of lighting levels and incentives on employee productivity in the Relay Test Assembly Room

'Women in the Relay Assembly Test Room', ca. 1930. Western Electric Company Hawthorne Studies Collection, Baker Library, Harvard Business School.

The next stage of the Hawthorne Studies was conducted in the Bank Wiring Room, where 'the group consisted of nine wiremen, three solderers and two inspectors. Each of these groups performed a specific task and collaborated with the other two in completion of each unit of equipment. The task consisted of setting up the banks of terminals side-by-side on frames, wiring the corresponding terminals from bank to bank, soldering the connections and inspecting with a test set for short circuits or breaks in the wire. One solderman serviced the work of the three wiremen'.[37] In contrast to the results from the Relay Test Assembly Room, where productivity increased no matter what the researchers did, productivity dropped in the Bank Wiring Room. Again, the question was why?

Interestingly, Mayo and his colleagues found that group effects were responsible. The difference was that the workers in the Bank Wiring Room had been an existing work group for some time and had already developed strong negative norms that governed their behaviour. For instance, despite a group financial incentive for production, the group members decided that they would wire only 6000 to 6600 connections a day (depending on the kind of equipment they were wiring), well below the production goal of 7300 connections that management had set for them. Individual workers who worked at a faster pace were

WORKPLACE AND COMMUNITY

TOUGH JOBS

During the early twentieth century, labour unrest, dissatisfaction and protests (some of them violent) were widespread in the United States, Europe and Asia. In 1919 alone, for example, more than four million American workers went on strike.[39] Working conditions contributed to the unrest. Millions of workers in large factories toiled at boring, repetitive, unsafe jobs for low pay. Employee turnover was high and absenteeism was rampant. With employee turnover approaching 380 per cent in his automobile factories, Henry Ford had to double the daily wage of his manufacturing workers from $2.50, the going wage at the time, to $5 to keep enough workers at their jobs. It's not surprising that Mayo's ideas became popular during this period.

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socially ostracised from the group, or 'binged' – hit on the arm – until they slowed their work pace. Thus, the group's behaviour was reminiscent of the soldiering that Frederick Taylor had observed.[38]

In the end, the Hawthorne Studies demonstrated that the workplace was more complex than previously thought, that workers were not just extensions of machines and that financial incentives weren't necessarily the most important motivator for workers. Thanks to Mayo and the Hawthorne Studies, managers better understood the effect that group social interactions and employee satisfaction and attitudes had on individual and group performance.

COOPERATION AND ACCEPTANCE OF AUTHORITY: CHESTER BARNARD

Like Henri Fayol, Chester Barnard (1886–1961) had experiences as a top executive that shaped his views of management. Barnard began his career in 1909 as an engineer and translator for AT&T, becoming a general manager at Pennsylvania Bell Telephone in 1922 and then president of New Jersey Bell in 1927.[40] Barnard's ideas, published in his classic book *The Functions of the Executive*, influenced companies from the board of directors down. Barnard is best known for his ideas about cooperation and the acceptance of authority.

In *The Functions of the Executive*, Barnard proposed a comprehensive theory of cooperation in formal organisations. In fact, he defines **organisation** as a 'system of consciously coordinated activities or forces of two or more persons'.[41] In other words, 'organisation' occurs whenever two people work together for some purpose. Thus, organisation occurs when classmates work together to complete a class project, when Red Cross volunteers donate their time to fundraise and when managers work with subordinates to reduce costs, improve quality or increase sales. Why did Barnard place so much emphasis on cooperation? Because, he said, it is the 'abnormal, not the normal, condition'. 'Failure to cooperate, failure of cooperation, failure of organisation, disorganisation, disintegration, destruction of organisation – and reorganisation – are characteristic facts of human history.'[42]

organisation
a system of consciously coordinated activities or forces created by two or more people

According to Barnard, the extent to which people willingly cooperate in an organisation depends on how workers perceive executive authority and whether they're willing to accept it. According to Barnard, for many managerial requests or directives, there is a 'zone of indifference', in which acceptance of managerial authority is automatic. For example, if your boss asks you for a copy of the monthly inventory report, and compiling and writing that report is part of your job, you think nothing of the request and automatically send it. In general, people will not be indifferent to managerial directives or orders if they (1) are understood, (2) are consistent with the purpose of the organisation, (3) are compatible with the people's personal interests and (4) can actually be carried out by those people. Acceptance of managerial authority (i.e. cooperation) is not automatic, however. Ask people to do things contrary to the organisation's purpose or to their own benefit and they'll put up a fight. So, while many people assume that managers have the authority to do whatever they want, Barnard, referring to the 'fiction of superior authority', believed that workers ultimately grant managers their authority.[43]

LO5 OPERATIONS, INFORMATION, SYSTEMS AND CONTINGENCY MANAGEMENT

In this last section, we review four other significant historical approaches to management that have influenced how today's managers produce goods and services on a daily basis, gather and manage the information they need to understand their businesses and make good decisions, understand how the different parts of the company work together as a whole, and recognise when and where particular management practices are likely to work.

To better understand these ideas, we look at the following:

- operations management
- information management
- systems management
- contingency management.

OPERATIONS MANAGEMENT

Have you upgraded your mobile phone lately? Maybe you have a pair of Bluetooth headphones that you have to recharge the batteries in? Chances are you have a few old phone chargers around your house that will still fit into your new phone or even charge your headphones. This is possible because of standardisation in manufacturing. You may be surprised to know that there is even an international electrical engineering standard for things like USB plugs and ports as well as what frequency Bluetooth signals are transmitted at (search IEEE on the Internet to see what these are). Even the processor in your phone is manufactured to an IEEE standard, which means that the processors in all phones are manufactured by a relatively small number of companies. Modern manufacturing depends completely on these basic ideas of standards, and what we call interchangeability. In Chapter 17, you will learn about operations management, which involves managing the daily production of goods and services. In general, operations management uses a quantitative or mathematical approach to find ways to increase productivity, improve quality and manage or reduce costly inventories.

Today, we take it for granted that manufactured goods will be made with standardised, interchangeable parts; that the design of those parts will be based on detailed plans; and that manufacturing companies will manage inventories to keep costs low and increase productivity. Surprisingly, these key elements of operations management have some rather strange origins: guns, geometry and fire.

Since the 1500s, skilled craftsmen made the parts of a gun by hand. After each part was made, a skilled worker assembled the parts into a complete gun. The gun finisher did not simply screw the different parts of a gun together; each handmade part required extensive adjusting so that it would fit together with the other parts. This was necessary because, even when made by the same skilled craftsman, no two parts were alike.

All this changed in 1791, however, when the US government ordered 40 000 muskets from private gun contractors. Because each handmade musket was unique, if a part broke, a replacement part had to be handcrafted. But one contractor, Eli Whitney, determined that if gun parts were made accurately enough, guns could be made with standardised, interchangeable parts. So he designed machine tools that allowed unskilled workers to make each gun part the same as the next. In 1801, he demonstrated the superiority of interchangeable parts to President-elect Thomas Jefferson by quickly and easily assembling complete muskets from randomly picked piles of musket parts.[44]

Today, because of Whitney's ideas, most products are manufactured using standardised, interchangeable parts. But even with this advance, manufacturers still faced the significant limitation that they could not produce a part unless they had seen or examined it firsthand. Thanks to Gaspard Monge, a Frenchman of modest beginnings, this soon changed.

Monge's greatest achievement was his book *Descriptive Geometry*. In it, he explained techniques for drawing three-dimensional objects on paper. For the first time, precise drawings permitted manufacturers to make standardised, interchangeable parts without first examining a prototype. Today, manufacturers rely on CAD (computer-aided design) and CAM (computer-aided manufacturing) to take designs straight from the computer to the factory floor.

Once standardised, interchangeable parts became the norm, and parts could be made from design drawings alone, manufacturers ran into a costly problem that they had never faced before: too much inventory. Inventory is the amount and number of raw materials, parts and finished products that a company has in its possession. A solution to this problem was found in 1905 when the Oldsmobile Motor Works in Detroit burned down. After the fire, management rented a new production facility to get production up and running as quickly as possible. But because the new facility was much smaller, there was no room to store large stockpiles of inventory. Therefore, the company made do with what it called 'hand-to-mouth inventories', in which each production station had only enough parts on hand to do a short production run. Since all of its parts suppliers were close by, Oldsmobile could place orders in the morning and receive them in the afternoon, just like today's computerised, just-in-time inventory systems. So, contrary to common belief, just-in-time inventory systems were not invented by Japanese manufacturers. Instead, they were invented out of necessity a century ago because of a fire.

INFORMATION MANAGEMENT

For most of recorded history, information has been costly, difficult to obtain and slow to spread. It took immense efforts of labour and time to hand-copy information, and therefore books, manuscripts and written documents of any kind were rare and extremely expensive. Word of Joan of Arc's death in 1431 took 18 months to travel from France across Europe to Constantinople (now Istanbul, Turkey).

Consequently, throughout history, organisations have pushed for and quickly adopted new information technologies that reduce the cost or increase the speed with which they can acquire, retrieve or communicate information. The first 'technologies' to truly revolutionise the business use of information were paper and the printing press. In the fourteenth century, water-powered machines were created to pulverise rags into pulp to make paper. Paper prices quickly dropped by 400 per cent. Less than a half-century later, Johannes Gutenberg invented the printing press, which reduced the cost and time needed to copy written information by 99.8 per cent. For instance, in 1483 in Florence, Italy, a scribe would charge one florin (an Italian unit of money) to hand-copy one document page. By contrast, a printer would set up and print 1025 copies of the same document for just three florins.

What Gutenberg's printing press did for publishing, the manual typewriter did for daily communication. Before 1850, most business correspondence was written by hand and copied using the 'letter press'. With the ink still wet, the letter would be placed into a tissue paper 'book'. A hand press would then be used to squeeze the 'book' and copy the still-wet ink onto the tissue paper. By the 1870s, manual typewriters made it cheaper, easier and faster to produce and copy business correspondence. Of course, in the 1980s, slightly more than a century later, typewriters were replaced by personal computers and word processing software for identical reasons.

Finally, businesses have always looked for information technologies that would speed access to timely information. For instance, the Medici family, who opened banks throughout Europe in the early 1400s, used post messengers to keep in contact with their more than 40 'branch' managers. The post messengers, who predated modern postal services by 400 years, could travel 90 miles

per day, twice what average riders could cover at the time, because the Medici were willing to pay for the expense of providing them with fresh horses. This need for timely information also led companies to quickly adopt the telegraph in the 1860s, the telephone in the 1880s and, of course, Internet technologies in the last two decades.

SYSTEMS MANAGEMENT

Today's companies are much larger and more complex. They most likely manufacture, service and finance what they sell. They also operate in complex, fast-changing, competitive, global environments that can quickly turn competitive advantages into competitive disadvantages.

How, then, can managers make sense of this complexity, both within and outside their organisations?

MGMT FACT

CASH MANAGEMENT

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The cash register, invented in 1879, kept sales clerks honest by recording all sales transactions on a roll of paper securely locked inside the machine. But managers soon realised that its most important contribution was better management and control of their business. For example, department stores could track performance and sales by installing separate cash registers in the food, clothing and hardware departments. Modern retail point-of-sales systems have evolved to the point where every sale not only records who handled the transaction (if it's not being completed on a self-serve terminal) but also updates the store's stock information and links to the inventory management system for reordering from the warehouse. If the customer includes their store loyalty card information as part of the transaction, each item they buy is recorded as part of their personal profile. The biggest challenge for stores today is not how to get customer data, but how to use the mountains of data they have.[46]

One way to deal with organisational and environmental complexity is to take a systems view of organisations.[45] A **system** is a set of interrelated elements or parts that functions as a whole. So, rather than viewing one part of an organisation as separate from the other parts, a systems approach encourages managers to complicate their thinking by looking for connections between the different parts of the organisation. Indeed, one of the more important ideas in the systems approach to management is that organisational systems are composed of parts or **subsystems**, which are simply smaller systems within larger systems. Subsystems and their connections matter in systems theory because of the possibility for managers to create synergy. **Synergy** occurs when two or more subsystems working together produce more than they can working apart. In other words, synergy occurs when 1 + 1 = 3.

system
a set of interrelated elements or parts that functions as a whole

subsystems
smaller systems that operate within the context of a larger system

synergy
when two or more subsystems working together produce more than they can working apart

Figure 2.2 illustrates how the elements of systems management work together. Whereas **closed systems** can function without interacting with their environments, nearly all organisations should be viewed as **open systems** that interact with their environments and depend on them for survival. Therefore, rather than viewing what goes on within the organisation as separate from what goes on outside it, the systems approach also encourages managers to look for connections between the different parts of the organisation and the different parts of its environment.

closed systems
systems that can sustain themselves without interacting with their environments

open systems
systems that can sustain themselves only by interacting with their environments, on which they depend for their survival

A systems view of organisations offers several advantages. First, it forces managers to view their organisations as part of and subject to the competitive, economic, social, technological and legal/regulatory forces in their environments.[47] Second, it also forces managers to be aware of how the environment affects specific parts of the organisation. Third, because of the complexity and difficulty of trying to achieve synergies between different parts of the organisation, the systems view encourages managers to focus on better communication and cooperation within the organisation. Finally, survival also depends on making sure that the organisation continues to satisfy critical environmental stakeholders, such as shareholders, employees, customers, suppliers, governments and local communities.

CONTINGENCY MANAGEMENT

Earlier you learned that the goal of scientific management was to use systematic study to find the 'one best way' of

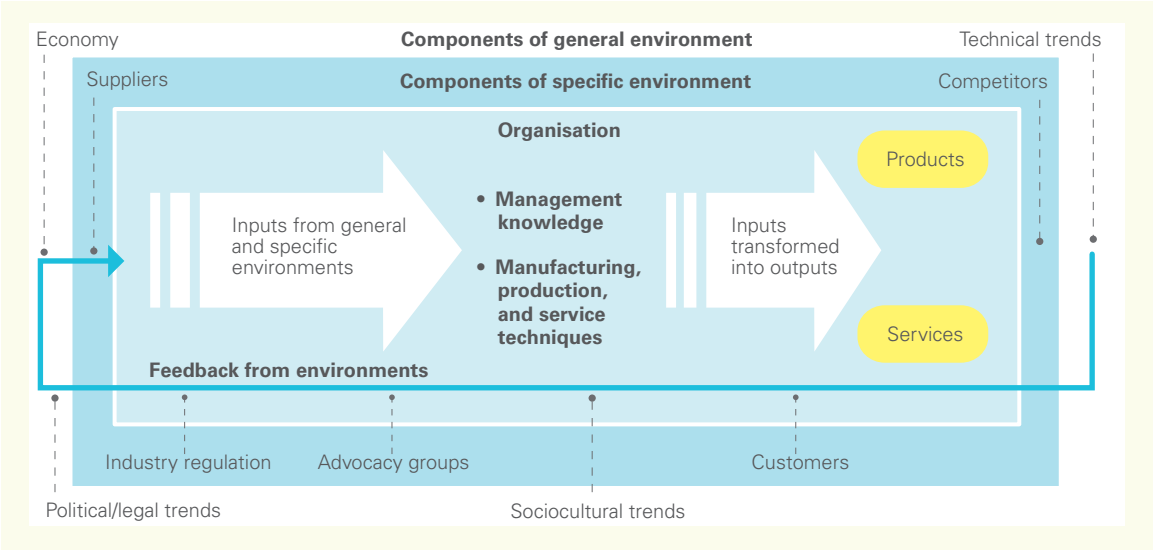

FIGURE 2.2 Systems view of organisations

doing each task and then use that 'one best way' everywhere. The problem, as you may have gathered from reading about the various approaches to management, is that no one in management seems to agree on what that 'one best way' is. Furthermore, more than 100 years of management research has shown that there are clear boundaries or limitations to most management theories and practices. No management ideas or practices are universal. Though they may work much of the time, none works all the time. But, then, how is a manager to decide what theory to use? Well, it depends on the situation. The **contingency approach** to management precisely states that there are no universal management theories, and that the most effective management theory or idea depends on the kinds of problems or situations that managers or organisations are facing at a particular time.[48] In short, the 'best way' depends on the situation.

contingency approach
a theory which holds that there are no universal management theories, and that the most effective management theory or idea depends on the kinds of problems or situations that managers are facing at a particular time and place

One of the practical implications of the contingency approach to management is that management is much harder than it looks. In fact, because of the clarity and obviousness of some management theories, students and employees often wrongly assume that if management would take just a few simple steps, then a company's problems would be quickly and easily solved. If this were true, few companies would have problems. A second implication of the contingency approach is that managers need to look for key contingencies that differentiate today's situation or problems from yesterday's situation or problems. Moreover, it means that managers need to spend more time analysing problems, situations and employees before taking action to fix them. Finally, it means that as you read this text and learn about management ideas and practices, you need to pay particular attention to qualifying phrases such as 'usually', 'in these situations', 'for this to work' and 'under these circumstances'. Doing so will help you identify the key contingencies that will help you become a better manager.

3 Organisational environments and cultures

LEARNING OUTCOMES

1. Discuss how changing environments affect organisations.
2. Describe the four components of the general environment.
3. Explain the five components of the specific environment.
4. Describe the process that companies use to make sense of their changing environments.
5. Explain how organisational cultures are created and how they can help companies be successful.

CENGAGE | MINDTAP

Throughout this chapter the MindTap icon indicates an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above the icon identifies the chapter folder in which you can find it.

EXTERNAL ENVIRONMENTS

External environments are the forces and events outside a company that have the potential to influence or affect it. Education and related services are Australia's fourth-largest export, beaten only by commodities such as iron ore, coal and gold. The growth in the number of international students had been trending upwards, hitting a high of 270 000 in 2010. However, events in the external environment were about to change that. Unlike many of the economies of countries around the world, the Australian economy weathered the Global Financial Crisis (GFC) very well, and one impact was the rise in value of the Australian dollar against other currencies. While this was great for anyone going on a holiday overseas, it also meant that the cost of study in Australia went up. From 2010 to 2012 the numbers of students choosing to study in Australia went down sharply. From late 2013 and as other national economies recovered from the impact of the GFC, and as other changes had their influence on the Australian economy, the Australian dollar fell back to pre-GFC levels. With the fall of the Australian dollar from parity (and higher) with the US dollar back to around 75 US cents, international student numbers started to rise once again. In 2018, the number of international students in Australian Higher Education rose to over 381 000.[1] As national economies recover from the effects of the GFC, more people can afford to study overseas. As the Australian dollar falls, tuition fees at Australian universities and schools get cheaper when paid for with yuan, rupees, ringgit or Thai baht and demand rises.[2]

external environments all events outside a company that have the potential to influence or affect it

This chapter examines the internal and external forces that affect business. We'll examine the two types of external organisational environments: the general

environment that affects all organisations and the specific environment unique to each company. Then we learn how managers make sense of their changing general and specific environments. The chapter finishes with a discussion of internal organisational environments by focusing on organisational culture. But first, let's see how the changes in external organisational environments affect the decisions and performance of a company.

After reading the next four sections, you should be able to:

- discuss how changing environments affect organisations
- describe the four components of the general environment
- explain the five components of the specific environment
- describe the process that companies use to make sense of their changing environments.

MINDTAP **Get started with the media quiz: Camp Bow Wow: The Environment and Corporate Culture**

LO1 CHANGING ENVIRONMENTS

Let's examine the four basic characteristics of changing external environments:

- environmental change
- environmental complexity
- resource scarcity
- environmental uncertainty for organisational managers created by environmental change, environmental complexity and resource scarcity.

ENVIRONMENTAL CHANGE

environmental change the rate at which a company's general and specific environments change

stable environment an environment in which the rate of change is slow

Environmental change is the rate at which a company's general and specific environments change. In **stable environments**, the rate of environmental change is slow. A part from occasional shortages due to drought or frost, the wholesale food distribution business – where dairy items, fresh produce, baked goods, poultry, fish and meat are processed and delivered by trucks from warehouses to restaurants, grocery stores and other retailers – changes little from year to year. Distributors take shipments from farmers, food manufacturers and food importers, consolidate them at warehouses and then distribute them to retailers. While recent adoption of global positioning satellite (GPS) systems and radio frequency identification (RFID) devices might be seen as 'change', wholesale food distributors began using them because, like the trucks they bought to replace horse-drawn carriages in the early 1900s, GPS and RFID improve the core part of their business – getting the freshest food ingredients to customers as quickly and inexpensively as possible – which has not changed in over a century.[3]

dynamic environment an environment in which the rate of change is fast

In **dynamic environments**, the rate of environmental change is fast. While wholesale food distribution companies have stable environments, Apple, which produces iPhone smartphones, competes in an extremely dynamic external environment. Apple's competitors, such as Samsung, Sony, Google Pixel, LG, Xiaomi and Oppo, frequently update models with innovative features and new technology. Over a 10-year span, Apple has released several different iPhone models, each having better features and functionality than the model it replaces. Let's compare the original iPhone to the 2018 iPhone XS: the original had a 320 × 480 pixel resolution screen versus the iPhone XS 2436×1125 pixel Super Retina HD OLED display; the original's processor was 32-bit 412 MHz, with 128 MB of RAM, and the iPhone XS has Apple's A12 Bionic processor which has a speed of 2.49 Ghz with 4 GB of RAM. The iPhone XS is also water resistant with a rating of IP68 (which means it can be under water to a depth of up to 1.5 metres for about 30 minutes without letting water into the phone). With such great advances from the introduction of the original iPhone in 2007 to the iPhone XS release in 2018, it is apparent that pressure from Apple's competitors in this very dynamic market forces them to continually update and upgrade their products at a rapid rate.[4]

MINDTAP **Complete the Management Decision worksheet for Chapter 3**

Although you might think that a company's external environment would be either stable or dynamic, research suggests that companies often experience both. According to **punctuated equilibrium theory**, companies go through long, simple periods of stability (equilibrium) during which incremental changes occur, followed by short, complex periods of dynamic, fundamental change (revolutionary periods), finishing with a return to stability (new equilibrium).[5]

punctuated equilibrium theory a theory that holds that companies go through long, simple periods of stability (equilibrium), followed by short periods of dynamic, fundamental change (revolution), finishing with a return to stability (new equilibrium)

One example of punctuated equilibrium is the Australian airline industry. Twice in the last 20 years, the Australian airline industry has experienced revolutionary periods. The first, from the early 1990s to 1999, occurred immediately after airline deregulation in 1990. Prior to deregulation, the Australian federal government controlled where airlines could fly, how much could be charged, when they could fly and the number of flights they could have on a particular route. After deregulation, these choices were left to the airlines. The financial losses during this period and the two

failed attempts to start a low-cost airline (Compass Mk 1 and Mk 2) clearly indicated that the airlines had trouble adjusting to the intense competition that occurred after deregulation. By the mid-1990s, however, profits returned to the industry and held steady until mid-2000.

Then, after experiencing escalating costs and being bought by the smaller Air New Zealand, Ansett airlines lost millions of dollars at the same time as the industry went through dramatic changes. Key expenses, including jet fuel and employee salaries, which had held steady for years, increased. As more modern, fuel efficient aircraft were put into operation by its main rival, Ansett faced increasing operating costs associated with its older fleet. Furthermore, revenues, which had grown steadily year after year, dropped because of dramatic changes in the airlines' customer base. Business travellers, who had typically paid full-priced fares, comprised more than half of all passengers during the1980s. However, by the late 1990s, the largest customer base had changed to leisure travellers, who wanted the cheapest flights they could get.[6]

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Airlines like Scoot, Tiger Airways and Jetstar have maintained relative market equilibrium by offering services for customers on a limited budget

After the collapse of Ansett in 2003 and the successful start-up of Virgin Australia in 2000, the domestic aviation industry in Australia experienced a decade of stability, just as punctuated equilibrium theory predicts. The decade between 2003 and 2013 saw new entrants into the Australian market, with the Qantas offshoot Jetstar starting up in 2003 and Tiger Airways, at that time a subsidiary of Tiger Airways Singapore, commencing Australian domestic operations in 2007. Following poor financial performance, Tiger Airways Australia was effectively taken over when Virgin Australia bought a 60% share of the company, the other 40% being owned by Singapore Airlines. In 2014, Virgin Australia bought Singapore Airlines' share and became the sole owner of what we know today as Tigerair Australia.[7] Scoot, another low cost carrier, this time an offshoot from Singapore Airlines, commenced international flights into Australia in 2012 and was a competitor to Jetstar on routes between Perth and Singapore – although in the first quarter of 2015 Scoot announced to the stock market a significant trading loss of Sg$20 million.[8] Just to show how complicated the industry is, Singapore Airlines owns both the Scoot and Tigerair companies outside Australia, while Tigerair Australia remains a subsidiary of Virgin Australia![9] However, the industry in Australia remains relatively stable despite the arrival of the new entrants. The next section will explain the concept of environmental complexity in more detail.

ENVIRONMENTAL COMPLEXITY

Environmental complexity is the number and the intensity of external factors in the environment that affect organisations. **Simple environments** have few environmental factors, whereas **complex environments** have many environmental factors. The dairy industry is an excellent example of a relatively simple external environment. Australia is the fourth largest dairy exporter in the world. Approximately 40 per cent of Australian milk production is exported, which was worth an estimated $2.7 billion in 2014–15. More than 125 Australian companies export milk and dairy products.[10] Even accounting for decades-old advances in processing and automatic milking machines, milk is produced in much the same way today as it was 100 years ago. As food manufacturers have introduced dozens of new dairy-based products each year, the population has climbed, and exports to countries like China have increased, milk production in Australia has enjoyed steady growth in output between 2000 and 2018. Productivity growth (the measure of outcomes compared to inputs) in the Australian dairy industry has also risen in recent years, with a 1.4 per cent increase each year between 2015 and 2016 as dairy farmers have looked for more efficient ways of doing their job.[11]

environmental complexity
the number of external factors in the environment that affect organisations

simple environment
an environment with few environmental factors

complex environment
an environment with many environmental factors

At the other end of the spectrum, few industries find themselves in more complex environments today than the personal computer (PC) business. Since the early 1980s, PC sales have grown spectacularly. But with consumers now spending technology dollars on tablets, e-readers like the Amazon Kindle and smartphones like the iPhone, sales of Windows-based PCs dropped 6.2 per cent during 2016 and into 2017. With global sales of personal computers falling, Lenovo, HP and Dell still managed to maintain their position as the top three manufacturers, whereas Asus, Apple and Acer all lost sales to the tune of 2.6 per cent, 8.7 per cent and 9.9 per cent respectively. On a slightly brighter note, the introduction of Windows 10 in 2015 had a positive impact in the market for Microsoft; reports showed an increase in business deployment of the Windows 10 operating system during 2016 and into 2017.[12]

RESOURCE SCARCITY

resource scarcity
the abundance or shortage of critical organisational resources in an organisation's external environment

Thanks to the growing middle classes in India and China having a taste for sweet things, global demand for chocolate is up, but with global production down because of antiquated farming methods and ageing, less productive cocoa trees, cocoa prices have risen 40 per cent since 2012. The 10 largest chocolate producers have combined efforts to increase supply by dedicating $1 billion toward sharing ways to improve crop yields. Yea Amekudzi, who works for Mondelez International, which makes Cadbury Dairy Milk bars, says that producers in Ghana (which is the second largest cocoa exporter in the world), '… need to change the way they farm. We don't have the forest cover we had, we don't have the rain our grandfathers had, and the soil isn't as fertile …'[13]. With the right methods, chocolate companies believe that Ghana's farmers can triple yields.

ENVIRONMENTAL UNCERTAINTY

environmental uncertainty
the extent to which managers can understand or predict which environmental changes and trends will affect their businesses

As Figure 3.1 shows, environmental change, environmental complexity and resource scarcity affect **environmental uncertainty**, which is how well managers can understand or predict the external changes and trends affecting their businesses. Starting at the left side of the figure, environmental uncertainty is lowest when environmental change and environmental complexity are at low levels and resource scarcity is small (i.e. resources are plentiful). In these environments, managers feel confident that they can understand, predict and react to the external forces that affect their businesses. By contrast, the right side of the figure shows that environmental uncertainty is highest when environmental change and complexity are extensive and resource scarcity is a problem. In these environments, managers may not be confident that they can understand, predict and handle the external forces affecting their businesses.

LO2 GENERAL ENVIRONMENT

As Figure 3.2 shows, two kinds of external environments influence organisations: the general environment and the specific environment. The **general environment** consists of the economy and the technological, sociocultural and political/legal trends that indirectly affect all organisations. Changes in any sector of the general environment eventually affect most organisations. For example, when a country's central bank (the Reserve Bank of Australia, Reserve Bank of New Zealand, Bank Negara in Malaysia or the Federal Reserve in the US) lowers its prime lending rate, most businesses benefit because banks and credit card companies often pass on the lower interest rates to their customers in the rates they charge for loans. Consumers can then borrow money more cheaply to buy homes, cars, refrigerators and large-screen TVs.

general environment
the economic, technological, sociocultural and political trends that indirectly affect all organisations

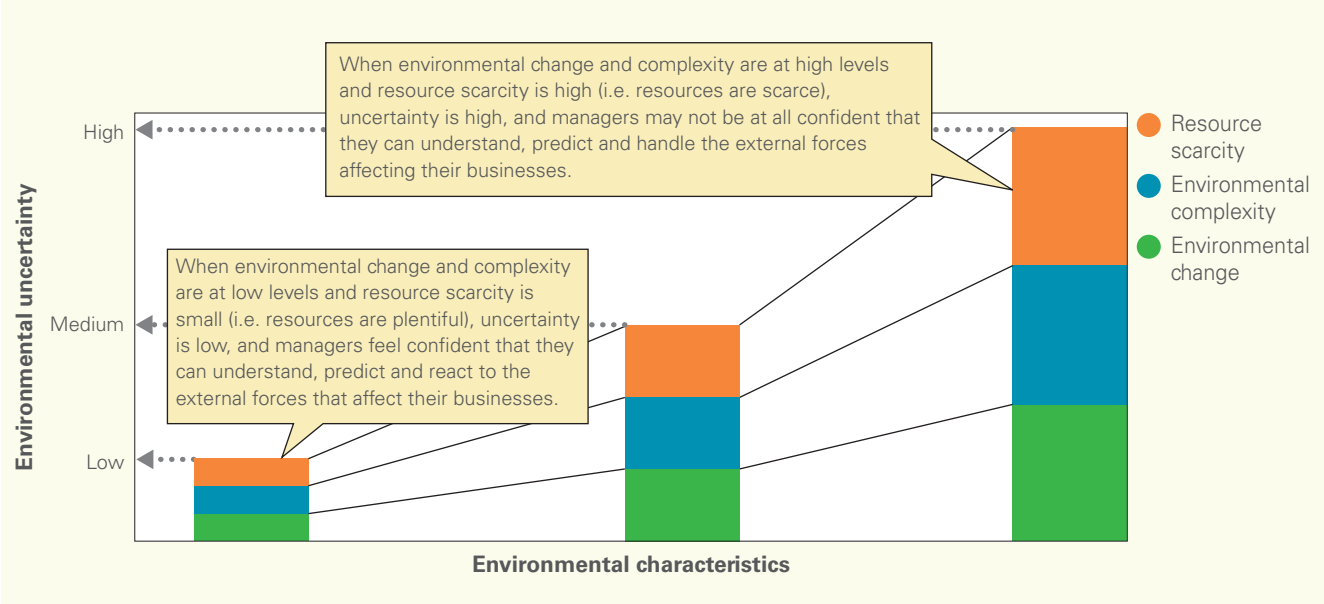


FIGURE 3.1 Environmental change, environmental complexity and resource scarcity

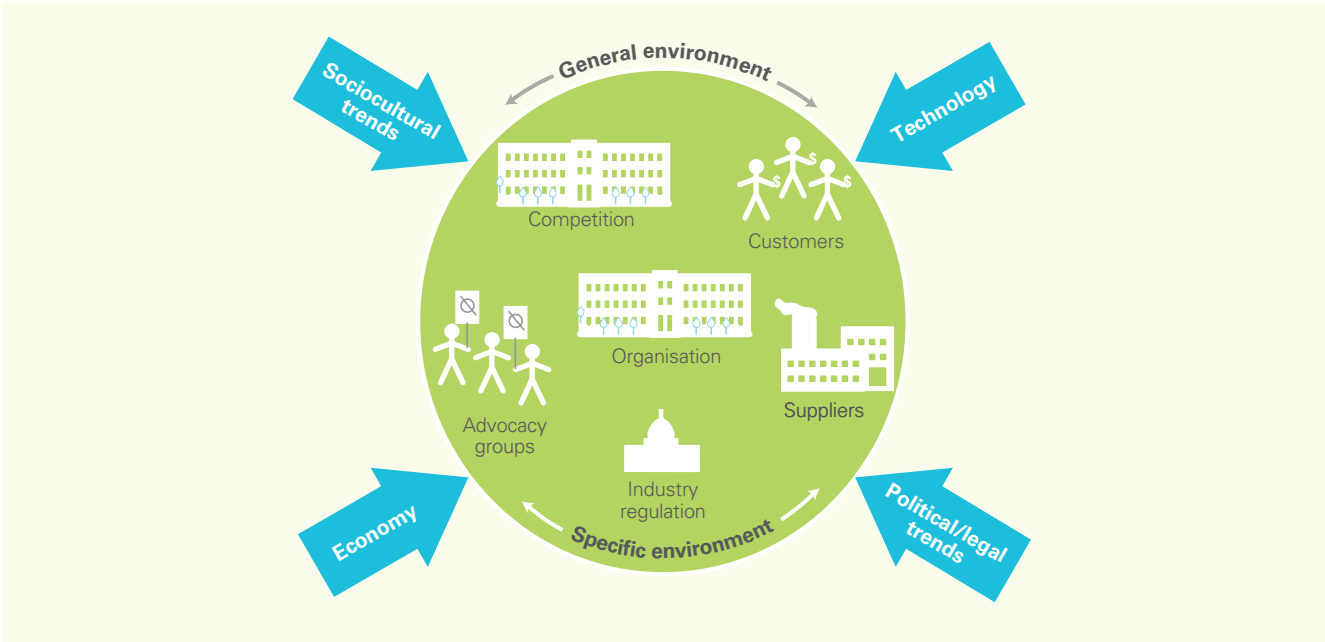


FIGURE 3.2 General and specific environments

specific environment the customers, competitors, suppliers, industry regulations and advocacy groups that are unique to an industry and directly affect how a company does business

Each organisation also has a **specific environment** that is unique to that organisation's industry and directly affects the way it conducts day-to-day business. After more than 20 million unsafe toys – many of them produced in Chinese factories – were recalled, the toy industry spent A$200 million to increase the safety of its products.[14] But, because that change was a response to the specific environment (which only influences this industry) and not the general environment (which influences all businesses), only toy manufacturers and retailers were affected. The specific environment, which will be discussed in detail later in this chapter, includes customers, competitors, suppliers, industry regulation and advocacy groups.

Let's take a closer look at the four components of the general environment that affect all organisations:

- the economy
- technological trends
- sociocultural trends
- political/legal trends.

ECONOMY

The current state of a country's economy affects virtually every organisation doing business there. In general, in a growing economy, more people are working and wages are growing, and therefore consumers have relatively more money to spend. More products are bought and sold in a growing economy than in a static or shrinking economy. Though an individual organisation's sales will not necessarily increase, a growing economy does provide an environment favourable to business growth. By contrast, in a shrinking economy, consumers have less money to spend and relatively fewer products are bought and sold. Thus, a shrinking economy makes growth for individual businesses more difficult.

Because the economy influences basic business decisions, such as whether to hire more employees, expand production or take out loans to purchase equipment, managers scan their economic environments for signs of significant change.

business confidence indices indices that show the level of confidence managers have about future business growth

Some managers try to predict future economic activity by keeping track of business confidence. **Business confidence indices** show how confident managers in organisations are about future business growth. For example, an Australian index that is widely cited is the National Australia Bank (NAB) business confidence index. Managers often prefer business confidence indices to economic statistics because they know that managers make business decisions that are in line with their expectations concerning the economy's future. In Hong Kong, the Swedish Chamber of Commerce (Swedcham) collates a series of business confidence surveys to present an annual 'summary of surveys'.[15] So if the *Swedchamsurvey* or the NAB business confidence index in Australia are dropping, a manager might decide against hiring new employees, increasing production or taking out additional loans to expand the business.

TECHNOLOGICAL COMPONENT

technology
the knowledge, tools and techniques used to transform input into output

Technology is the knowledge, tools and techniques used to transform inputs (raw materials, information and so forth) into outputs (products and services). For example, the inputs of authors, editors and artists (knowledge) and the use of equipment like computers and printing presses (technology) transformed paper, ink and glue (raw materials) into this book (the finished product). In the case of a service company such as an airline, the technology consists of equipment, including aeroplanes, repair tools and computers, as well as the knowledge of mechanics, ticket clerks and flight crews. The output is the service of transporting people from one place to another.

Changes in technology can help companies provide better products or produce their products more efficiently. For example, advances in surgical techniques and imaging equipment have made open-heart surgery much faster and safer in recent years. While technological changes can benefit a business, they can also threaten it.

For example, the Australian insurance industry earns about $20 billion annually in premiums for auto insurance.[16] When self-driving cars arrive, they could, much like technology in passenger jet cockpits, reduce accidents by 80 per cent. Furthermore, does the passenger who is not driving pay the insurance? As self-driving cars are already operating in San Francisco, Singapore and Paris, and testing of driverless vehicles is currently being conducted in parts of Australia, it seems inevitable that self-driving will become more commonplace.[17] The law, regulation and insurance offerings will need to adapt to keep pace with this new technology. In the US, insurance company Allstate Corporation's CEO Tom Wilson says, 'Change is coming, and we need to get ahead of it.'[18].

Companies must embrace new technology and find effective ways to use it to improve their products and services or decrease costs. If they don't, they will lose out to those companies that do.

SOCIOCULTURAL COMPONENT

The sociocultural component of the general environment refers to the demographic characteristics, general behaviour, attitudes and beliefs of people in a particular society. Sociocultural changes and trends influence organisations in two important ways.

First, changes in demographic characteristics – such as the number of people with particular skills or the growth/decline in particular population segments (marital status, age, gender, ethnicity) – affect how companies staff their businesses. Married women with children are much more likely to work today than five decades ago. In 1960, less than 30 per cent of Australian women were in paid employment. By 1996, the participation rate of Australian women in paid employment had risen to 59 per cent and to 66 per cent in 2017. In Australia, the female workplace participation rate in 2015 was 56.8 per cent compared to 78 per cent for men.

Second, sociocultural changes in behaviour, attitudes and beliefs also affect the demand for a business' products and services. Today, with traffic congestion creating longer commutes and both parents working longer hours, employees are much more likely to value products and services that allow them to recapture free time with their families.

For example, urban dwellers in their 20s and early 30s who follow the latest styles, trends and fashions – often referred to as hipsters – spend more of their income on food than their parents did at the same age. But rather than buying from the commercial food and beverage companies that their parents made into household names, these young adults gravitate toward organic foods, exotic ingredients and craft beers, spirits, and mixers. Consequently, markets that used to be considered niche are booming. In Australia and New Zealand, companies like Marley Spoon, HelloFresh and My Food Bag provide a food (and recipe) delivery service, and companies like Uber Eats offer home delivery from the menus of good-quality restaurants.[19] Despite the economic impact that hipsters have in these markets, large consumer product companies find it difficult to get and keep their purchasing loyalty. Economist Douglas McWilliams says that hipsters have 'identifiable spending patterns and homogeneous tastes. But they don't want others to copy them, so they keep up by changing their tastes, by moving on to the next things. You have to watch that if you're a consumer products company.'[20]

POLITICAL/LEGAL COMPONENT

The political/legal component of the general environment includes the legislation, regulations and court decisions that govern and regulate business behaviour. New laws and regulations continue to impose additional responsibilities on companies. Unfortunately, many managers are unaware of these new responsibilities. For example, under Australia's *Sex Discrimination Act 1984*, if an employee is harassed by anyone at work, the company – not just the harasser – is potentially liable to face prosecution. An employer must take all adequate measures to prevent such an act or provide adequate facilities and management to avoid workplace harassment.[21]

Another example, under Australian workplace law, is that employees who have been on the job for one year or more are guaranteed 52 weeks unpaid parental leave after the birth or adoption of a child.[22] The same job, pay and benefits will be standing when they return to work.

Employees are also eligible for 10 days paid carer's leave each year.[23]

Many managers are also unaware of the potential legal risks associated with traditional managerial decisions like recruiting, hiring and firing employees. Increasingly, businesses and managers face stiff penalties for not exercising their duty of care towards employees regarding their safety and wellbeing. In 2018 a fast food restaurant chain and a recycling company found themselves in court following an accident that resulted in the death of one pedestrian and the severe injury to another. The fast food restaurant chain was fined $275 000 for an incident at one of their Victorian restaurants where an elderly couple passing by had a large recycling bin accidentally dropped on them.[24] The elderly man died in hospital shortly after the accident and his wife was left severely injured. The fast food restaurant chain was found guilty by a County Court jury of failing to ensure persons other than employees are not exposed to risk. The restaurant had well-developed safety procedures in place for their own staff, but had failed to ensure that any potential risk to restaurant patrons, or people just passing by, had been considered and planned for.

Some think that companies' legal risks are too severe. But many believe that the government should do more to regulate and restrict business behaviour and that it should be easier for average people to sue dishonest or negligent corporations. From a managerial perspective, the best medicine against legal risk is prevention. As a manager, it is your responsibility to educate yourself about the laws, regulations and potential lawsuits that could affect your business. Failure to do so may put you and your company at risk of sizeable penalties, fines or legal charges.

LO3 SPECIFIC ENVIRONMENT

As you just learned, changes in any sector of the general environment (economic, technological, sociocultural and political/legal) eventually affect most organisations. By contrast, each organisation also has a specific environment that is unique to that organisation's industry and directly affects the way it conducts day-to-day business. For instance, if your customers decide to use another product, your main competitor cuts prices by 10 per cent, your best supplier can't deliver raw materials, government departments mandate reductions in pollutants in your industry or environmental groups accuse your company of selling unsafe products, the impact from the specific environment on your business is immediate.

Let's examine how the following components of the specific environment affect businesses:

- customers
- competitors
- suppliers
- industry regulation
- advocacy groups.

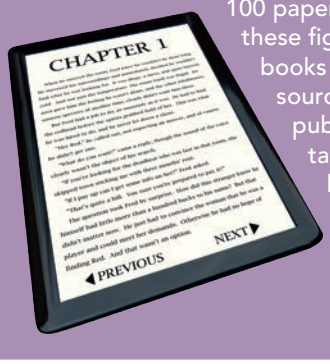
CUSTOMER COMPONENT

Customers purchase products and services. Companies cannot exist without customer support. Therefore, monitoring customers' changing wants and needs is critical to business success. There are two basic strategies for monitoring customers: reactive and proactive.

MGMT TREND

E-READER INFLUENCES ON BOOK PUBLISHING

Prime View International, based in Taipei, Taiwan, is responsible for one of the biggest threats to book publishers. It makes the E Ink screens used in the leading e-reader devices: Amazon's Kindle, Barnes & Noble's Nook and Sony's Reader. Their popularity stems from the displays' uncanny likenesses to newsprint (i.e. black and white), which makes the screens much easier to read for longer periods; lack of backlighting, which means devices using E Ink screens can be read in direct sunlight without reflection or washing out; and incredibly low power consumption that allows e-readers to go four weeks between charges. E Ink screens grew so rapidly in popularity that in 2010, a little less than three years after the screen's introduction, Amazon.com was selling 143 Kindle books for every 100 hardcover books and 115 Kindle books for every 100 paperback books. Despite these figures, print-based books remain the dominant source of revenue for most publishers. E-readers and tablet devices have, however, started a trend away from print-based books.[25]



Shutterstock.com/iQoncept

Reactive customer monitoring is identifying and addressing customer trends and problems after they occur. One reactive strategy is to identify customer concerns by listening closely to customer complaints. This strategy involves not only listening to complaints but also responding to customer concerns. For example, companies that respond quickly to customer letters of complaint are viewed

much more favourably than companies that are slow to respond or never respond. In particular, studies have shown that when a company's follow-up letter thanks the customer for writing; offers a sincere, specific response to the complaint (not a form letter, but an explanation of how the problem will be handled); and contains a small gift, coupons or a refund to make up for the problem, customers are much more likely to purchase products or services again from that company.[26]

Proactive monitoring of customers means identifying and addressing customer needs, trends and issues before they occur. An example of proactive monitoring is the fast-food industry's use of multibranding, in which two or more food chains share space under the same roof. Multibranding brings in more customers by giving them more choice. Customer research has suggested that people dining together might like to eat at different places at the same time.

Spotify is the world's most popular subscription music service, with 20 million paying subscribers and 55 million ad-supported users. Spotify Fan Insights, a data analytics tool, helps musical artists better understand their listeners and convert their fans' enthusiasm into deeper engagement. Fan Insights lists listeners' geographic locations, demographic information (such as gender and age), how they are listening (for example, to a Spotify-curated playlist or to their own collections), when they are listening (down to the time of day) and even which playlists contain the artists' music. In addition, artists can now sell concert tickets and merchandise directly through Spotify. For Spotify Chief Revenue Officer Jeff Levick, supporting artists with metrics and selling tools helps them understand their own audiences. 'For artists, this can even give them the ability to better manage their tours. They can have the knowledge about where they should be playing certain songs, for example, rather than just doing the same set list everywhere.'[27]. This kind of information is particularly helpful for finding and catering to superfans. According to Spotify's vice president of product, Charlie Hellman, these fans 'have a disproportionate impact on revenue: they're the people who'll buy tickets, VIP packages, merchandise, and will be the social evangelists for the band.'[28]

COMPETITOR COMPONENT

competitors
companies in the same industry that sell similar products or services to customers

Competitors are companies in the same industry that sell similar products or services to customers. Holden, Ford, Toyota, Honda, Mitsubishi, Nissan, Hyundai and Kia all compete for automobile customers. SBS, ABC, Channel 9, Channel 7 and Channel 10, along with cable channels and content streaming providers like Netflix, Stan and Amazon's Prime Video, compete for the attention of TV viewers. Often the difference between business success and failure comes down to whether your company is doing a better job of satisfying customer wants and needs than the competition. Consequently, companies need to keep close track of what their competitors are doing. To do this, managers perform a **competitive analysis**, which involves deciding who your competitors are, anticipating competitors' moves and determining competitors' strengths and weaknesses.

competitive analysis
a process for monitoring the competition that involves identifying competition, anticipating their moves and determining their strengths and weaknesses

Surprisingly, managers often do a poor job of identifying potential competitors because they tend to focus on only two or three well-known competitors with similar goals and resources.[29] Electrolux, Hoover, Dirt Devil and, more recently, Oreck compete fiercely in the market for vacuum cleaners. Because these companies produced relatively similar vacuum cleaners, they paid attention to each other and competed mostly on price. When Dyson entered the market in the early 2000s with its radically different vacuum cleaner, which developed and maintained significantly more suction power, the company garnered 20 per cent market share within its first 12 months on the shelves.[30] Only then did Electrolux, Hoover and Dirt Devil design their own bagless vacuums. Dyson has continued to grow and in 2015–16, sales of their vacuum cleaners exceeded $2.7 million (GBP 1.6 million), or three times that of 2004.[31]

SMART MGMT

REDUCING SUPPLIER DEPENDENCE

One of the ways that companies are trying to reduce the bargaining power of rare-earth metal suppliers in China is by looking for alternative sources. Japanese electronics maker Hitachi announced plans to recycle two rare-earth metals, neodymium and dysprosium, by recycling their own products (such as hard drives and air conditioners) rather than ordering them from Chinese suppliers. This demand has driven new exploration and new refining techniques around the world, including Australia. Recent projections suggest that Australian producers are set to exceed China in the global supply of rare-earth metals.[32]

Another mistake managers may make when analysing the competition is to underestimate potential competitors' capabilities. When this happens, managers don't take the steps they should to continue to improve their products or services. The result can be significant decreases in both market share and profits. For the latter part of the 1990s and the majority of the first decade of the 2000s, Nokia was the dominant company in the mobile phone business. Nokia developed their own phone operating system, Symbian, and developed top-end phones to use it. The top

of the line Nokia 'smart' phones did not use touch screen technology and were often noted for being 'non-intuitive' in their use. The arrival of the Apple iPhone and other smartphones like Samsung, LG and HTC using the Android operating system, with a touch screen and icon-based user interface, toppled Nokia from its top spot. The rapid fall from the top shook the Finnish company as they faced a future without their own operating system installed on their flagship smartphones. What followed was an ill-fated and relatively brief relationship which saw Microsoft buy Nokia for US$7.2 billion in 2014 and put the Windows operating system in Nokia smartphones. Despite initial high hopes, the Nokia/Microsoft phones never caught the sales levels that Apple's iPhone enjoys and only gained 3 per cent of the smartphone market.[33] Nokia has been coming back into the smartphone market over the course of 2017 and 2018, with their most recent range of phones using the Android operating system and containing lots of features. For the people old enough to have fond memories of the classic Nokia phones, the company has released retro-styled phones which replicate the look and feel of the 'old school' phone. The Nokia 3310 and 8810 4G 'banana phone' look and feel like products from 1996 when Nokia was king, and once again Nokia is using an operating system that is not Android, Windows or iOS. These retro phones are using KaiOS, which is a Linux-based operating system for phones.[34]

SUPPLIER COMPONENT

suppliers companies that provide material, human, financial and informational resources to other companies

supplier dependence the degree to which a company relies on a supplier because of the importance of the supplier's product to the company and the difficulty of finding other sources of that product

Suppliers are companies that provide material, human, financial and informational resources to other companies. A key factor influencing the impact and quality of the relationship between companies and their suppliers is how dependent they are on each other.[35] **Supplier dependence** is the degree to which a company relies on that supplier because of the importance of the supplier's product to the company and the difficulty of finding other sources for that product. Chinese mining companies, for example, provide 97 per cent of rare-earth materials like samarium, scandium and yttrium, which are used to manufacture TV screens, mobile phones, fibre optics and electric motors.[36] When China announced it was cutting exports of rare-earth materials, Sojitz, which imports rare-earth materials to Japan for companies like Hitachi, estimated that Japanese companies would face shortages of 10 000 tonnes a year. 'The only real solution to the problem is to buy new mining rights overseas', according to Toru Okabe, an engineering professor at the University of Tokyo.[37] The emerging rare earth metal mines in Australia may just meet that demand.

buyer dependence the degree to which a supplier relies on a buyer because of the importance of that buyer to the supplier and the difficulty of finding other buyers for its products

Buyer dependence is the degree to which a supplier relies on a buyer because of the importance of that buyer to the supplier's sales and the difficulty of finding other buyers for its products. An example of this can be seen in the food and grocery industry. According to Samantha Blake of the Australian Food and Grocery Council (AFGC), 'Australia's retail environment for food and grocery products is one of the most concentrated in the world with the top three retailers in Australia accounting for over 90 per cent of total supermarket sales'.[38]

In recent years it has been argued that it is difficult for supermarket suppliers to negotiate reasonable trading terms in Australia and New Zealand because these countries have the highest levels of supermarket concentration in the world, giving substantial market power to major supermarkets. Furthermore, it has been said that manufacturers are also finding it hard to compete with growing levels of private-label products, which are forecast to rise in Australia from 25 per cent to more than 40 per cent by 2020.[39] Critics of the level of market concentration in Australia have said that suppliers and farmers simply can't afford not to deal with the major two supermarkets and because of this power imbalance, farmers and manufacturers have now become 'price-takers'.

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In Australia 90 per cent of supermarket sales come from one of the three major retailers, granting these companies significant market power

The AFGC has stated that supermarkets have been unfairly expecting manufacturers to accept no or very small price increases to subsidise their own new low prices. However, in 2015, following intervention from the Australian Competition and Consumer Commission (ACCC) and an arbitration process chaired by former Victorian State Premier Jeff Kennett, the two major supermarket chains have agreed to refund suppliers money and allow them to quit unfair supply contracts if they choose to. Gary Dawson, CEO of AFGC, has welcomed the outcome and

congratulated Coles and Woolworths for formally committing to sign up to an industry code of conduct for the treatment of suppliers. The code is intended to drive behavioural change and encourage fair and effective competition in the long-term interest of consumers.[40]

As the Australian supermarkets example shows, a high degree of buyer or seller dependence can lead to **opportunistic behaviour**, in which one party benefits at the expense of the other. Though opportunistic behaviour between buyers and suppliers will never be completely eliminated, many companies believe that both buyers and suppliers can benefit by improving the buyer–supplier relationship.[41] In contrast to opportunistic behaviour, **relationship behaviour** focuses on establishing a mutually beneficial, long-term relationship between buyers and suppliers.[42]

opportunistic behaviour a transaction in which one party in the relationship benefits at the expense of the other

relationship behaviour mutually beneficial, long term exchanges between buyers and suppliers

INDUSTRY REGULATION COMPONENT

Regulatory agencies affect businesses by creating and enforcing rules and regulations to protect consumers, employees or society as a whole. Government agencies and regulatory commissions can affect almost any kind of business. Surveys indicate that managers rank dealing with government regulations as one of the most demanding and frustrating parts of their jobs.[43]

Whereas the political/legal component of the general environment affects all businesses, the industry regulation component consists of regulations and rules that govern the practices and procedures of specific industries, businesses and professions. Airbnb, the home-sharing website that helps homeowners earn extra money through short-term rentals of rooms, apartments or homes, is facing regulatory push back from major cities. Regulators argue that Airbnb rentals reduce the supply of housing that could go to full-time renters or owners, thus driving expensive housing prices even higher. Accordingly, in Australia some state governments are regulating how Airbnb can operate. In 2018, the New South Wales state government passed legislation to allow strata owner corporations to pass by-laws to prevent short-term letting in their block if the owner does not live in the unit they are letting out. The intention is to prevent speculators buying up apartments to put on Airbnb, but still allowing owner/occupiers to continue to let spare rooms if they are not in use. The new rules also state that there is a limit of 180 days per year for any short-term rental. NSW's then Minister for Innovation and Better Regulation, Matt Kean stated that it had been a complex issue to resolve. 'We've been grappling with how to regulate this industry for a little over two years', he said.[44]

Similarly, London makes Airbnb limit homeowners to no more than 90 rental days a year. Amsterdam does the same, but the limit is 60 rental days a year. Regulators believe that limiting rental days should discourage home owners from purchasing properties for the purpose of renting them out all year via Airbnb. Not surprisingly, Airbnb disagrees with these regulations and frequently takes regulators to court. In New York, Airbnb's largest market, where it's illegal to rent an entire apartment for less than 30 days, Airbnb has filed with a court appeal, arguing that the law, 'would impose significant immediate burdens and irreparable harm' to its business.[45]

ADVOCACY GROUPS

Advocacy groups are groups of concerned people who band together to try to influence the business practices of specific industries, businesses and professions. The members of a group generally share the same point of view on a particular issue. For example, environmental advocacy groups might try to get manufacturers to reduce pollution emissions. Unlike the industry regulation component of the specific environment, advocacy groups cannot force organisations to change their practices. Nevertheless, they can use a number of techniques to try to influence companies, such as public communications, media advocacy, webpages, blogs and product boycotts.

advocacy groups (also known as lobby groups) groups of concerned people who band together to try to influence the business practices of specific industries, businesses and professions

The **public communications** approach relies on voluntary participation by the news media and the advertising industry to send out an advocacy group's message. For example, a public service campaign to encourage people to quit smoking ran ads in newspapers and magazines and on television throughout Australia with the message that 'Every cigarette is doing you damage'.[46]

public communications an advocacy group tactic that relies on voluntary participation by the news media and the advertising industry to get the advocacy group's message out

Media advocacy is much more aggressive than the public communications approach. A **media advocacy** approach typically involves framing the group's concerns as public issues (affecting everyone); exposing questionable, exploitative or unethical practices; and creating controversy that is likely to receive extensive news coverage. PETA (People for the Ethical Treatment of Animals), which has offices in Australia, the United States, England, Italy and Germany, uses controversial publicity stunts and advertisements to try to change the behaviour of large organisations, fashion designers, medical researchers and

media advocacy an advocacy group tactic that involves framing issues as public issues; exposing questionable, exploitative or unethical practices; and forcing media coverage by buying media time or creating controversy that is likely to receive extensive news coverage

MGMT FACT

AUSTRALIAN GOVERNMENT REGULATORY AGENCIES AND COMMISSIONS

Australian Competition and Consumer Commission http://www.accc.gov.au/	The ACCC promotes competition and fair trade in the market place to benefit consumers, businesses and the community. It also regulates national infrastructure services. Its primary responsibility is to ensure that individuals and businesses comply with the Commonwealth competition, fair trading and consumer protection laws.
Department of Sustainability, Environment, Water, Population and Communities http://www.environment.gov.au/	The Australian Government Department of Sustainability, Environment, Water, Population and Communities (formerly the Department of the Environment, Water, Heritage and the Arts) develops and implements national policy, programs and legislation to protect and conserve Australia's environment.
Australian Human Rights Commission http://www.humanrights.gov.au/	The Australian Human Rights Commission (previously the Human Rights and Equal Opportunity Commission, HREOC) website provides information on human rights issues including: Aboriginal and Torres Strait Islander social justice, disability rights, human rights, racial discrimination and sex discrimination. They also provide information about the United Nations, how to make a complaint, information for employers and information for students.
Australian Communications and Media Authority http://www.acma.gov.au/	The Australian Communications and Media Authority (ACMA) is responsible for the regulation of broadcasting, radio communications, telecommunications and online content. They provide information on the Internet, radio and TV, phones and licences for consumers and industry.
The Reserve Bank of Australia http://www.rba.gov.au/	As the nation's central bank, the RBA controls interest rates and money supply, and monitors the Australian banking system to produce a growing economy with stable prices.
Pharmaceutical Benefits Scheme http://www.pbs.gov.au/	The PBS Schedule lists all of the medicines available to be dispensed to patients at a government-subsidised price. The Schedule is part of the wider Pharmaceutical Benefits Scheme managed by the Department of Health and Ageing and administered by Medicare Australia.
Australian Securities and Investments Commission http://www.asic.gov.au	ASIC is Australia's corporate, markets and financial services regulator and contributes to Australia's economic wellbeing by ensuring that Australia's financial markets are fair and transparent.

anyone else it believes is hurting or mistreating animals. In one protest, PETA mounted a vigorous campaign against the Australian wool industry practice of *mulesing* sheep to prevent *fly strike* (a deadly infestation of blowfly larvae in the skin and fleece of merino sheep). PETA recruited high-profile celebrities to advocate against mulesing and called for fashion designers around the world to stop using Australian wool. Sections of the Australian wool industry responded to public pressure by seeking alternative ways to protect sheep from flystrike.[47] Research undertaken at the University of Adelaide's Roseworthy campus is conducting animal trials with naturally occurring proteins that help to stop wool growing around the problematic area of the sheep's backside, so the desired effect of mulesing occurs naturally.[48]

product boycott an advocacy group tactic that involves protesting a company's actions by convincing consumers not to purchase its product or service

A **product boycott** is a tactic in which an advocacy group actively tries to persuade consumers not to purchase a company's product or service.

WORKPLACE AND COMMUNITY

OPERATORS ARE STANDING BY

Ever wonder how so many people can vote on TV competitions such as *Big Brother, The Voice or Dancing with the Stars* at the same time? Or what would happen if millions of people all used the phone at once? In most countries around the world, telecommunications companies have dedicated systems to identify mass-calling events. Specialists keep on top of what's going on in the world that could cause a spike in phone traffic. They patrol the Internet, TV networks and newspapers. They subscribe to the email newsletters and Twitter accounts of every major league sports team and regularly visit Ticketmaster.com and other ticket vendors. They know when concert tickets for popular bands go on sale, when major public appearances by dignitaries are scheduled and when TV shows are asking viewers to call in. The goal of all this monitoring is to ensure that they can manage call volumes without a disruption in service.

The same pressure on telephone services can become a serious public safety issue. During natural disasters, telephone companies have contingency plans for such surges in demand should they happen during a flood, bushfire or earthquake. For example, immediately following the June 2012 earthquake in Melbourne, Telstra monitoring showed a dramatic spike in mobile phone usage.[49]

Newspix/Brendan Radke

This was the case with the LEGO Group, a family-owned Danish company that makes LEGO block and toys. While 90 per cent of LEGO players are boys, the company has launched four girl-focused toy lines since 1979 – mostly for building jewellery, beach houses and stables in pink and purple. Feminist groups criticised each line for being less challenging than the traditional LEGO bricks aimed at boys and for perpetuating gender stereotypes through 'pinkification'. Before making another attempt at appealing to girls, LEGO spent five years conducting observation research to better understand how they assembled and played with LEGO products. LEGO also researched how girls and their parents make purchase decisions. (As it turns out, when given the choice, they still opted for pinks and purples over gender-neutral packaging.) The research led to the development and launch of LEGO Friends, which design director Rosario Costa described as, 'a real construction toy – not dumbing it down'.[50] But as with prior product lines aimed at girls, LEGO Friends was harshly criticised and boycotted. Advocacy group Spark Movement published an open letter to LEGO, beginning, 'We represent the girls, the parents, the children, the fans, the hobbyists, the collectors, the friends, the big sisters and brothers, the grandparents, and your future. And we are very disappointed.'[51] LEGO ultimately modified some of the LEGO Friends marketing materials, but the product remained unchanged – pink and purple bricks for building pop star houses, cupcake cafés and a supermarket. Overall, LEGO Friends has been a tremendous success. The boycott had no effect on sales, and independent research firm NPD Group credits LEGO Friends with increasing the market for girls' building toys from $300 million to $900 million in just three years.[52] According to LEGO Senior Design Manager Benedikte Schinkel Stamp, 'We just had to wait for the controversy to die out.'[53]

LO4 MAKING SENSE OF CHANGING ENVIRONMENTS

In Chapter 1, you learned that managers are responsible for making sense of their business environments. As our discussions of the general and specific environments have indicated, however, making sense of business environments is not an easy task. Because external environments can be dynamic, confusing and complex, managers use a three-step process to make sense of the changes in their external environments:

- environmental scanning
- interpreting environmental factors
- acting on threats and opportunities.

ENVIRONMENTAL SCANNING

Environmental scanning is searching the environment for important events or issues that might affect an organisation. Managers scan the environment to stay up to date on important factors in their industry. For example, with one out of every four new car buyers purchasing highly profitable 4WD sports utility vehicles (SUVs), car executives hadn't paid much attention to environmental groups' complaints about SUVs' extremely poor fuel consumption figures. However, and in line with recent global trends, new car buyers in Australia have been increasingly switching to smaller vehicles and to SUVs. These two categories now make up nearly two-thirds of the Australian new car market.[54]

environmental scanning
searching the environment for important events or issues that might affect an organisation

MINDTAP **Complete the 'What would you do?' worksheet for Chapter 3** ENGAGE APPLY VIDEO

Managers also scan their environments to reduce uncertainty. Recently, Gatorade created a 'Mission Control Center', a room filled with computer monitors and marketing experts, resembling a NASA control centre,

that constantly monitors social media networks. The monitors display constantly updated visuals that provide real-time information on what people are saying about Gatorade, its competitors, and even sport nutrition in general, within social media networks. This allows Gatorade's marketing team to track how consumers are reacting to its ads and to make quick adjustments based on those reactions. After releasing a campaign called 'Gatorade Has Evolved', Mission Control determined that the song featured in the ad, by David Banner, was so popular that within 24 hours, the company produced and released a full-length version of the song. With such a speedy response to consumers' desires, Gatorade was able to increase engagement with its product education by 250 per cent.[55]

Organisational strategies also affect environmental scanning. In other words, managers pay close attention to trends and events that are directly related to their company's ability to compete in the market place.[56] Microsoft used to take software hackers to court to prosecute them for the damage caused by their efforts. However, since former chairman Bill Gates declared that security is Microsoft's top priority, the company has been actively trying to engage the services of friendly hackers. Though companies like Microsoft long considered hackers to be the enemy, they are now a source of competitive advantage. From Microsoft's perspective, teaming up with the hacker community to solve software problems prior to release simply makes good business sense. The security program manager for Microsoft stated that, with the assistance of the so-called researchers, 'we have discovered things during the development of these products that we might not have discovered otherwise'.[57]

iStock.com/QUO_Images

Gatorade's 'Mission Control Center', a room filled with computer monitors and marketing experts, resembling a NASA control centre, constantly monitors social media networks

Finally, environmental scanning is important because it contributes to organisational performance. Environmental scanning helps managers detect environmental changes and problems before they become organisational crises.[58] Furthermore, companies whose CEOs do more environmental scanning have higher profits.[59] CEOs in better-performing organisations scan their organisation's environments more frequently and scan more key factors in their environments, in more depth and detail than do CEOs in poorer-performing organisations.[60]

INTERPRETING ENVIRONMENTAL FACTORS

After scanning, managers determine what environmental events and issues mean to the organisation. Typically, managers view environmental events and issues as either threats or opportunities. When managers interpret environmental events as threats, they take steps to protect the company from further harm. For example, when Internet phone services (Voice over Internet Protocol or VoIP) emerged as a threat, traditional phone companies around the world responded by announcing billion-dollar plans to expand their fibre-optic networks so that they could offer phone (using VoIP), Internet services and TV packages, just like those the cable and satellite companies offered.[61]

By contrast, when managers interpret environmental events as opportunities, they consider strategic alternatives for taking advantage of those events to improve company performance.

ACTING ON THREATS AND OPPORTUNITIES

After scanning for information on environmental events and issues, and interpreting them as threats or opportunities, managers have to decide how to respond to these environmental factors. Deciding what to do under conditions of uncertainty is always difficult. Managers can never be completely confident that they have all the information they need or that they correctly understand the information they have.

Because it is impossible to comprehend all the factors and changes, to assist decision making, managers often rely on simplified models of external environments called 'cognitive maps'. **Cognitive maps** visually summarise the perceived relationships between environmental factors and possible organisational actions. For example, the cognitive map shown in Figure 3.3 represents a small clothing store owner's interpretation of her business environment.

cognitive maps
graphic depictions of how managers believe environmental factors relate to possible organisational actions

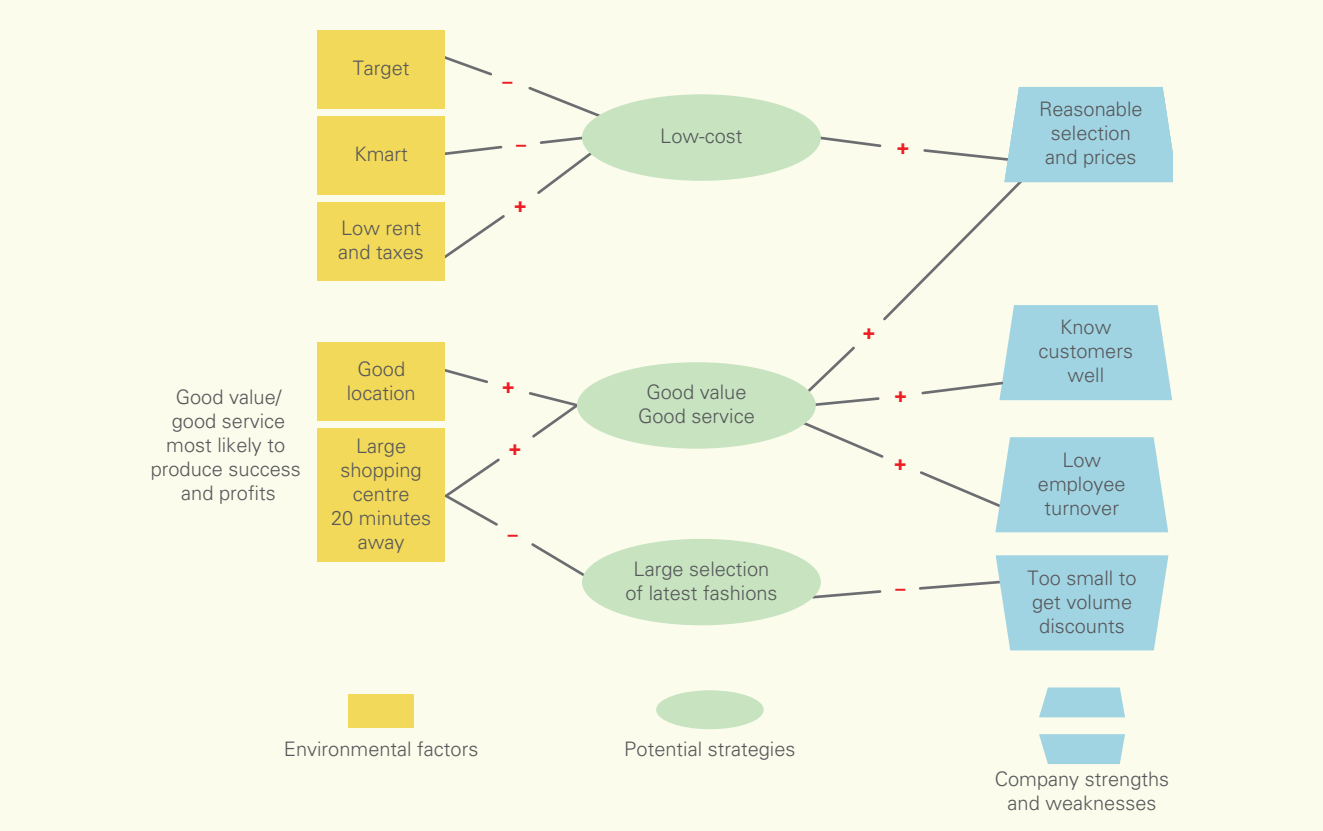

FIGURE 3.3 Cognitive maps

The map shows three kinds of variables. The first variables, shown as rectangles, are environmental factors, such as a large shopping centre located 20 minutes away. The second variables, shown in ovals, are potential actions that the store owner might take, such as a low-cost strategy; good-value, good-service strategy; or a large selection of the latest fashions strategy. The third variables, shown as trapezoids, are company strengths, such as low employee turnover, and weaknesses, such as small size.

The plus and minus signs on the map indicate whether the manager believes there is a positive or negative relationship between variables. For example, the manager believes that a low-cost strategy won't work because Kmart and Target are nearby. Offering a large selection of the latest fashions would not work either – not with the small size of the store and its close proximity to a large shopping centre. However, the manager believes that a good-value, good-service strategy would lead to success and profits because of the store's low employee turnover, good knowledge of customers, reasonable selection of clothes at reasonable prices and good location.

ENGAGE APPLY VIDEO MINDTAP **Get an overview of what environmental uncertainty is and how to manage it**

INTERNAL ENVIRONMENTS

External environments are external trends and events that have the potential to affect companies. By contrast, the **internal environment** consists of the trends and events *within* an organisation that affect the management, employees and organisational culture. Internal environments are important because they affect what people think, feel and do at work.

internal environment the events and trends inside an organisation that affect management, employees and organisational culture

Creating, maintaining and changing organisational culture matters because research shows that positive, consistent cultures improve company performance. From a six-year study of 95 automobile dealerships, Professor Michael Gillespie says, 'We found

that culture causes performance, not vice versa.' Culture clearly comes first. Dealerships whose cultures did not improve were less profitable over the course of the study.[62] But dealerships with positive cultures in the study's first few years usually had higher profits in the later years. It usually took, however, several years of change to an organisational culture to improve dealership performance as measured by customer satisfaction and dealer sales. 'The culture of a sales department right now is to influence the customer satisfaction from that department two years from now, and that customer satisfaction is going to drive vehicle sales two years from that point', says Gillespie.[63] Gillespie and his co-authors concluded, '… that strong culture at the foundation can be a unique point of leverage for winning and retaining customers over time.'[64] Leadership consultant David Grossman concludes, 'Culture change today is at the heart of winning because it's so difficult for [other] employers to copy.' [65]

The key component in internal environments is **organisational culture**, which is the set of key values, beliefs and attitudes shared by organisational members.

organisational culture
the values, beliefs and attitudes shared by organisational members

After reading the next section, you should be able to explain how organisational cultures are created and how they can help companies be successful.

LO5 ORGANISATIONAL CULTURES: CREATION, SUCCESS AND CHANGE

Let's take a closer look at:

- how organisational cultures are created and maintained
- the characteristics of successful organisational cultures
- how companies can accomplish the difficult task of changing organisational cultures.

ENGAGE APPLY VIDEO MINDTAP **Get an overview of what corporate culture is and how it develops**

CREATION AND MAINTENANCE OF ORGANISATIONAL CULTURES

A primary source of organisational culture is the company founder. Founders like Bill Gates (Microsoft) create organisations in their own image and imprint them with their beliefs, attitudes and values. Microsoft employees share founder Bill Gates' determination to stay ahead of software competitors. Says a Microsoft vice-president, 'No matter how good your product, you are only 18 months away from failure'.[66]

Though company founders are instrumental in the creation of organisational cultures, eventually founders retire, die or choose to leave their companies. When the founders are gone, how are their values, attitudes and beliefs sustained in the organisational culture? The answer to this is 'through stories and heroes'.

Organisational members tell **organisational stories** to make sense of organisational events and changes and to emphasise culturally consistent assumptions, decisions and actions.[67] At Wal-Mart, the giant US retail chain that also operates in China and other regions of the world, stories abound of founder Sam Walton's thriftiness as he strove to make Wal- Mart the low-cost retailer that it is today. According to Gary Reinboth, one of Wal-Mart's first store managers: 'in those days, we would go on buying trips with Sam, and we'd all stay, as much as we could, in one room or two. I remember one time in Chicago when we stayed eight of us to a room. And the room wasn't very big to begin with. You might say we were on a pretty restricted budget'.[68]

organisational stories
stories told by organisational members to make sense of organisational events and changes and to emphasise culturally consistent assumptions, decisions and actions

Today, Sam Walton's thriftiness still permeates Wal-Mart. Everyone, including top executives and the CEO, flies economy class rather than business or first class. When employees travel on business, it's still the norm to share rooms (though two to a room, not eight!) at relatively inexpensive motels instead of business class hotels. Likewise, for business travel, Wal-Mart will reimburse only up to US$15 per meal, which is half to one-third the reimbursement rate at similar-sized companies (remember, Wal-Mart is one of the largest companies in the world).

A second way in which organisational culture is sustained is by recognising and celebrating heroes. By definition, **organisational heroes** are people within

organisational heroes
people celebrated for their qualities and achievements within an organisation

iStock.com/GYI NSEA

Bill Gates' creation and maintenance of an organisational culture while with the company was crucial for Microsoft's continued success

the organisation admired for their qualities and achievements. When it was renovating a large car dealership, a major building company found that its carpet subcontractor had mistakenly scheduled the new carpet to be delivered two weeks after it was to be installed. Rather than allow construction to be delayed, a company employee kept the project on schedule by immediately reordering the carpet, flying interstate to the carpet manufacturer's factory, renting a truck and then driving the carpet back to the car dealership, all within 48 hours of learning about the problem. The building company CEO says this story is told and retold within their company as an example of heroic customer service. Moreover, the car dealership was so delighted with this extraordinary service that it went on to refer over $10 million in new business to the builder.[69]

Finally, the last way of sustaining organisational culture is through ceremonies. Organisational ceremonies are gatherings in which symbolic acts commemorate or celebrate notable achievements or changes. Patti Sanchez, senior vice president at Duarte, a communications consulting firm, explains that organisations, '… rely on ceremonies to anticipate new beginnings, demarcate endings, and help everyone understand or navigate the changes at hand.'[70] Sanchez describes a famous organisational ceremony at Apple in which co-founder and CEO Steve Jobs held a mock funeral for the Mac OS 9 operating system (which could only run one application at a time) nine months after Apple released the unix-based Mac OS X capable of running multiple applications simultaneously. 'With sad music playing in the background, Jobs placed a large box labeled "Mac OS 9" into a coffin on stage and then delivered a eulogy for the operating system that had been "a friend to us all".'[71] Though done tongue-in-cheek, Jobs' Mac OS 9 funeral was an important signal to Apple's customer and software developers that it would never go back to OS 9's outdated computing standards.

SUCCESSFUL ORGANISATIONAL CULTURES

Preliminary research shows that organisational culture is related to organisational success. Cultures based on adaptability, involvement, a clear vision and consistency can help companies achieve higher sales growth, return on assets, profits, quality and employee satisfaction.[72]

Adaptability is the ability to notice and respond to changes in the organisation's environment. Cultures need to reinforce important values and behaviours, but a culture becomes dysfunctional if it prevents change.

In cultures that promote higher levels of *employee involvement* in decision making, employees feel a greater sense of ownership and responsibility.

Unfortunately, that was the case at Mattel, the toy company, where Barbie sales were down 18 per cent after dropping 13 per cent the year before. Sales of Fisher-Price toys had declined three straight years. With revenues shrinking, Mattel cut $550 million in expenses just to maintain profits. CEO Bryan Stockton tried turning things around by changing the PowerPoint-presentation, meeting-driven, slow-to-make decisions culture. For example, it took eight meetings and 30 design iterations to approve the school crest for the Monster High toy line. As such, Mattel drifted from its creative roots focused on fun and play toward a conservative culture focused on the bottom line. To jump-start cultural change, CEO Stockton generated new rules for meetings: no more than 10 participants (except for training meetings), every meeting must have a specific purpose and 'There should be no more than a TOTAL of three meetings to make any decision'.[73] Change was slow, but it took just one meeting to approve the new package designs for the 2016 Hot Wheels toys. Unfortunately, Mattel subsequently lost a $300 million-a-year Disney toy licensing agreement to Hasbro. CEO Stockton resigned in January 2015. Interim CEO Christopher Sinclair led a two-year turnaround that saw global Barbie doll sales rebound 20 per cent. Sinclair relinquished his interim CEO responsibilities in April 2017 when Google executive Margaret Georgiadis became Mattel's new CEO.[74]

Company mission is the business' purpose or reason for existing. In organisational cultures with a clear company vision, the organisation's strategic purpose and direction are apparent to everyone in the company. When managers are uncertain about their business environments, the vision helps guide the discussions, decisions and behaviour of the people in the company.

company mission
a business' purpose or reason for existing

Finally, in **consistent organisational cultures**, the company actively defines and teaches organisational values, beliefs and attitudes. Consistent organisational cultures are also called 'strong cultures' because the core beliefs are widely shared and strongly

consistent organisational cultures
when a company actively defines and teaches organisational values, beliefs and attitudes

Getty Images/Universal Images Group

When employees enjoy the space they work in, it helps to foster a positive organisational culture

held. For example, everyone who has ever worked at McDonald's has been taught its four core values: quality, service, cleanliness and value.[75] Studies show that companies with consistent or strong corporate cultures will outperform those with inconsistent or weak cultures most of the time.[76] Why? The reason is that when core beliefs are widely shared and strongly held, it is easy for everyone to figure out what to do or not do to achieve organisational goals.

Having a consistent or strong organisational culture doesn't guarantee good company performance. When core beliefs are widely shared and strongly held, it is very difficult to bring about needed change. Consequently, companies with strong cultures tend to perform poorly when they need to adapt to dramatic changes in their external environments. Their consistency sometimes prevents them from adapting to those changes.[77] Indeed, McDonald's saw its sales and profits decline over the last decade as customer eating patterns began changing. To turn around performance, McDonald's developed hospitality and multilingual computer training programs and expanded its menu to include healthier and snack-oriented selections. Over 5000 McDonald's restaurants were remodelled in a three-year period and now feature warmer lighting, upbeat music, flat-screen TVs and wi-fi networks; some of these changes can be found in McCafés around Australia (in fact, the first McCafé was in Melbourne), Malaysia, Singapore and Hong Kong. The company's promotional message 'I'm lovin' it' went from being derided by advertising executives to becoming one of the most recognisable jingles in any market. Only a few years into the plan, McDonald's achieved 32 consecutive months of positive sales (its longest streak in 25 years), reached record annual revenues of more than US$20 billion (A$28 billion) and tripled the cash dividend paid to shareholders.[78]

MGMT FACT

HARDCORE TECH CULTURE

Crunchtime at a software development firm can be so intense that employees spend several days at the office without even going home. As journalist Joel Stein puts it, 'Sleeping in the office is as Silicon Valley as startups in garages.' Spending the night at work can be seen as a badge of commitment and dedication; not so much to a company, but to the occupation of computer coding itself. It's said that even after he was a billionaire, Yahoo! co-founder David Filo would doze in a sleeping bag under his desk. Elon Musk of PayPal (and now Tesla and SpaceX) would do the same on a beanbag alongside Filo's sleeping bag. Aaron Levie, founder of Box.com, even moved his bed to his new office when his company (and his staff) outgrew his home. But workers who actually live on site are in another category altogether. Google programmer Matthew Weaver lived in an RV in the company's parking lot for 54 weeks, eating at the Googleplex and showering in the company gym. His record stood until programmer Ben Discoe joined Google and lived out of a GMC van in the company parking lot for 56 weeks. Following Weaver's strategy, Discoe ate at the Googleplex, charged his electronics at the office and 'badged' into the building in the middle of the night if he needed the restroom. According to Discoe, 'Only a fool would pay rent in the Bay Area'.

SOURCE: J. STEIN, 'THE MAN WHO LIVED AT GOOGLE: THIRTEEN MONTHS OF WORKING, EATING, SLEEPING, AND BATHING AT THE GOOGLEPLEX. THE SAGA OF BEN DISCOE', *BLOOMBERG BUSINESSWEEK*, 27 JULY–2 AUGUST 2015, 57–59.

CHANGING ORGANISATIONAL CULTURES

As shown in Figure 3.4, organisational cultures exist on three levels.[79] First, on the surface level are the reflections of an organisation's culture that can be seen and observed, such as symbolic artefacts (e.g. dress codes and office layouts) and employees' and managers' behaviours. Next, just below the surface, are the values and beliefs expressed by people in the company. You can't see these values and beliefs, but they become clear if you listen carefully to what people say and to how decisions are made or explained. Finally, unconsciously held assumptions and beliefs about the company are buried deep below the surface. These are the unwritten views and rules that are so strongly held and so widely shared that they are rarely discussed or even thought about, unless someone attempts to change them or unknowingly violates them. Changing such assumptions and beliefs can be very difficult. Instead, managers should focus on the parts of the organisational culture they can control; these include observable surface-level items, such as employees' behaviours and symbolic artefacts, and expressed values and beliefs, which can be influenced through employee selection. Let's see how these can be used to change organisational cultures.

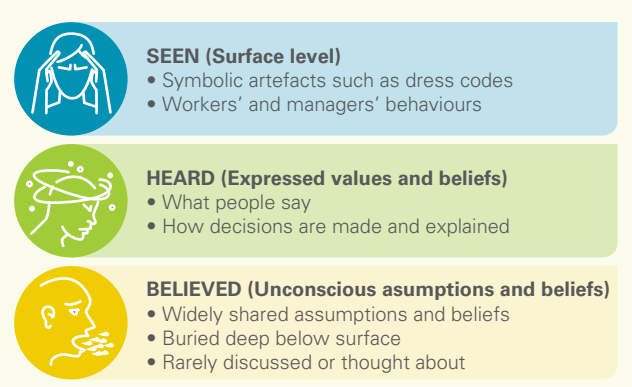

FIGURE 3.4 Three levels of organisational culture

One way of changing a corporate culture is to use behavioural addition or behavioural substitution to establish new patterns of behaviour among managers and employees. **Behavioural addition** is the process of having managers and employees perform a new behaviour, while **behavioural substitution** is having managers and employees perform a new behaviour in place of another behaviour. The key in both instances is to choose behaviours that are central to and symbolic of the 'old' culture you're changing and the 'new' culture that you want to create.

behavioural addition
the process of having managers and employees perform new behaviours that are central to and symbolic of the new organisational culture that a company wants to create

behavioural substitution
the process of having managers and employees perform new behaviours central to the 'new' organisational culture in place of behaviours that were central to the 'old' organisational culture

Qantas, the Australian national airline, has embarked on a restructuring of the business which started with the establishment of its subsidiary, Jetstar. With the Global Financial Crisis dampening demand for international travel and intense competition coming from old and new foes (Qatar Airlines, Emirates and Singapore Airlines, to name just a few), Qantas is looking to be more efficient. The current Qantas plan includes separating the domestic operations arm of the business from the international operations. Over 90 years of tradition and experience is being confronted with change. The management culture of Qantas is being reshaped to cope with this change through the initiatives of CEO Alan Joyce. Joyce, who came to his current role from a background in low-cost airlines in Europe and Jetstar in Australia, is bringing to Qantas that same sharp eye for cutting through layers of entrenched behaviours. Joyce is, however, insisting on preserving the record of safety and engineering excellence that are hallmarks of the company. By articulating a clear vision of the future and by setting a personal example of the new ways of doing business, Alan Joyce is changing behaviours and culture at Qantas. The changes are paying off; in 2018 Qantas was able to report half year profit before tax of $975 million, a 14.6 per cent improvement on the same time period in 2017. The after tax profit for Qantas was $607 million, up by 17.8 per cent.[80] Similar changes can be also be seen in other industries.

Another way in which managers can begin to change corporate culture is to change the **visible artefacts** of their old culture, such as the office design and layout, company dress code, and recipients (or non-recipients) of company benefits and perks like stock options, personal parking spaces or the private company dining room.

visible artefacts
visible signs of an organisation's culture, such as the office design and layout, company dress code and company benefits and perks like stock options, personal parking spaces or the private company dining room

Ryanair is a Dublin based airline that offers incredibly low rates. Ryanair led the way in charging passengers for every part of the flight experience, including $50 to print a boarding pass at the airport and a 'no refunds' policy for cancelled flights. Ryanair's brazen policies originate from its brash CEO, Michael O'Leary. Regarding passengers who forget to print boarding passes at home, O'Leary says, 'We think they should pay 60 euros for being so stupid.' Regarding cancelled flights, he says, 'You're not getting a refund, so **** off. We don't want to hear your sob stories. What part of "no refund" don't you understand?'[81] Unfortunately, O'Leary's unabashed statements have rubbed off on the company's staffers, whose similarly negative attitudes discourage customers from choosing the airline. To address the problem, Ryanair recently introduced the 'Always Getting Better' campaign (also called the 'Being Nicer' campaign) to change the company's focus from being cheap to providing a superior customer experience. The company reduced or eliminated some (but not all) of its fees; simplified online booking to require only 5 mouse clicks instead of 17; and introduced fully allocated seating to minimise congestion at the boarding gate. Previously, its 'first come, first served' boarding strategy encouraged travellers to rush the gates to get better seats.[82] Crews were issued new, brightly colored uniforms and the company moved its headquarters from a tired, dull facility to a cheerful building with colourful art on the walls. The changes dramatically improved company performance. In just one year, the number of Ryanair passengers increased 10 per cent, and the load factor (the measurement of how full a jet is) reached 95 per cent. O'Leary said, 'If I'd known being nicer to customers was going to work so well, I'd have done it ages ago.'[83]

Cultures can also be changed by hiring and selecting people with values and beliefs consistent with the company's desired culture. *Selection* is the process of gathering information about job applicants to decide who should be offered a job. In the human resources management role for most organisations, selection instruments measure whether job applicants have the knowledge, skills and abilities needed to succeed in their jobs. But companies are increasingly testing job applicants to determine how they fit with the company's desired culture (i.e. values and beliefs).

During the hiring process, Amazon uses a group of employees called 'Bar Raisers', who interview job candidates from other areas of the company, asking difficult and unexpected questions. Bar Raisers, who spend two to three hours on each job candidate, conducting phone and face-to-face interviews and participating in evaluation meetings, have the power to veto any applicant they've assessed. Founder Jeff Bezos started the Bar Raiser program to create a consistent corporate culture by 'raising the bar' when it came to hiring talent. Rather than hiring people for particular jobs, Bezos asks Bar Raisers to focus on hiring people who can succeed in Amazon's culture. John Vlastelica, an HR consultant who worked at Amazon

in its early days, says, 'You want someone who can adapt to new roles in the company, not just someone who can fill the role that's vacant'. Susan Harker, Amazon's vice president of global talent acquisition, says, 'We want to be as objective and scientific in our hiring as possible. The point is to optimize our chances of having long-term employees.' And, unlike many companies, that means hiring talented people who fit Amazon's culture. Human resource consultant Valerie Frederickson says, 'There is no company that sticks to its process like Amazon does. They don't just hire the best of what they see; they're willing to keep looking and looking for the right talent.'[84]

Corporate cultures are very difficult to change. Consequently, there is no guarantee that any one approach changing visible cultural artefacts, using behavioural substitution or hiring people with values consistent with a company's desired culture, will change a company's organisational culture. The best results are obtained by combining these methods. Together, these are some of the best tools managers have for changing culture because they send the clear message to managers and employees that 'the accepted way of doing things' has changed.

MINDTAP **Find out more about how you deal with the unknown, or your tolerance for ambiguity, with this self assessment** ENGAGE APPLY VIDEO

4 Ethics and social responsibility

LEARNING OUTCOMES

1. Identify common kinds of workplace deviance.
2. Describe the role of the Australian Competition and Consumer Commission (ACCC) in the Australian business environment.
3. Describe what influences ethical decision making.
4. Explain what practical steps managers can take to improve ethical decision making.
5. Explain to whom organisations are socially responsible.
6. Explain why organisations are socially responsible.
7. Explain how organisations can choose to respond to societal demands for social responsibility.
8. Explain whether social responsibility hurts or helps an organisation's economic performance.

CENGAGE | MINDTAP

Throughout this chapter the MindTap icon indicates an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above the icon identifies the chapter folder in which you can find it.

WHAT IS ETHICAL AND UNETHICAL WORKPLACE BEHAVIOUR?

Today, it's not enough for companies to make a profit. We also expect managers to make a profit by doing the right things. Managers don't have the luxury of choosing theoretically optimal, win–win solutions that are obviously desirable to everyone involved. In practice, solutions to ethical and social responsibility problems aren't optimal. Often, managers must be satisfied with a solution that just makes do or does the least harm. Rights and wrongs are rarely crystal clear to managers charged with doing the right thing. The business world is much messier than that.

Ethics is the set of moral principles or values that defines right and wrong for a person or group.

ethics
the set of moral principles or values that defines right and wrong for a person or group

Unfortunately, numerous studies have consistently produced distressing results about the state of ethics in today's business world. One global ethics study found that even though business is substantially more trusted than government and that 65 per cent of employees trust the company where they work, just 40 per cent believe the companies they work for are ethical, and only 37 per cent believe that CEOs can be believed.[1] Another study found that just 25 per cent trust business leaders to honestly correct mistakes and that less than 20 per cent believed that business leaders would be truthful and make ethical decisions.[2] The Ethics & Compliance Initiative's Global Business Ethics Survey across 13 countries found that:

- 22 per cent of employees were pressured to commit unethical acts
- 33 per cent of employees observed unethical behaviour
- 59 per cent of employees observing unethical behaviour reported it to company officials

- 36 per cent of those reporting unethical behaviour experienced retaliation for doing so (see the discussion of whistle-blowing in section 4-4d).[3]

Fortunately, some studies contain good news about workplace ethics. When people believe their work environment is ethical, they are six times more likely to stay with that company than if they believe they work in an unethical environment.[4] In fact, a survey by Deloitte reported that employees who were considering leaving their jobs cited 'loss of trust' as the greatest factor.[5] One study asked 444 whitecollar workers which qualities they considered to be important in company leaders. The results? Honesty (30%) and communication (22%) ranked by far the highest. Interestingly, these two qualities also ranked highest as areas in which business leaders needed to improve – 16 per cent of respondents said that leaders need to improve their honesty, and 11 per cent cited communication.[6] Michael Gould, Bloomingdale's CEO of 22 years, agrees, saying, 'To me, the fundamental basis of leadership is trust. If you don't have trust, you have no leadership.'[7] In short, much needs to be done to make workplaces more ethical, but – and this is very important – most managers and employees want this to happen.

Every two years KPMG Australia undertakes a survey of fraud, bribery and corruption in Australian and New Zealand businesses. KPMG's 2017 fraud and misconduct survey found, among other things, that:[8]

- The most common perpetrators of fraud are inside the business, with 36 per cent of fraud being attributed to company management.
- Sixty-two per cent of fraud is motivated by personal greed.
- Twenty-two per cent of frauds used some form of technology, such as credit card fraud, hacking into financial systems, setting up false regular electronic transfers and using fake adverts.
- Forty per cent of frauds in Australia are in place over a five-year period before being discovered – detection is taking too long.
- Frauds are evenly spread across the age range – 46–54 year olds top the list with 28 per cent, but 25 per cent are committed by people below 36 – up from the findings of previous studies and high by international standards
- The average loss reported is around $3.1 million.


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It seems that we all want to work for organisations, and people, we can trust. In short, much needs to be done to make workplaces more ethical, but – and this is very important – most managers and employees want this to happen.

After reading the next two sections, you should be able to:

- identify common kinds of workplace deviance
- describe the role of the Australian Competition and Consumer Commission (ACCC) in the Australian business environment and explain how companies are encouraged to behave ethically and are punished for unethical behaviour.

MINDTAP **Get started with the media quiz: Theo Chocolate: Managing Ethics and Social Responsibility** ENGAGE APPLY VIDEO

LO1 WORKPLACE DEVIANCE

Ethical behaviour follows accepted principles of right and wrong. Depending on which study you look at, one-third to three-quarters of all employees admit that they have stolen from their employers, committed computer fraud, embezzled funds, vandalised company property, sabotaged company projects, faked injuries to receive workers' compensation benefits or insurance, or been 'sick' from work when they weren't really sick. Some experts suggest that unethical behaviours like these, which researchers call *workplace deviance*, may cost companies as much as $3.7 trillion a year, or roughly 5 per cent of their revenues.[9]

ethical behavior behaviour that conforms to a society's accepted principles of right and wrong

More specifically, **workplace deviance** is unethical behaviour that violates organisational norms about right and wrong. As Figure 4.1 shows, workplace deviance can be categorised by how deviant the behaviour is, ranging from minor to serious; and by the target of the deviant behaviour, either the organisation or particular people in the workplace.[10] One kind of workplace deviance, called **production deviance**, hurts the quality and quantity of work produced. Examples include leaving early, taking excessively long work breaks, intentionally working more slowly or wasting resources.

workplace deviance unethical behaviour that violates organisational norms about right and wrong

production deviance unethical behaviour that hurts the quality and quantity of work produced

MGMT TREND

LOST TIME IS LOST MONEY

A Salary.com study found that 89 per cent of employees admit to wasting time at work, with 62 per cent wasting 30 minutes to an hour, 22 per cent wasting 2 to 3 hours and 4 per cent wasting 4 to 5 hours per day.[11] The most accomplished time wasters secretly brought their pet birds to the office, hid under boxes to scare coworkers and held wrestling matches with other employees. A female employee wasted time by shaving her legs in the women's restroom.[12] The biggest source of workplace deviance, however, is probably cyberloafing: wasting time on the job with non-work-related social-media sites and apps like Facebook, Twitter, Instagram or SnapChat, as well as surfing non-work-related retail sites like Amazon .com. Amazingly, participants in a Kansas State University study admitted to wasting 60 per cent to 80 per cent of their work time online! Cyberloafing is estimated to cost US businesses $85 billion a year in loss productivity.[13]

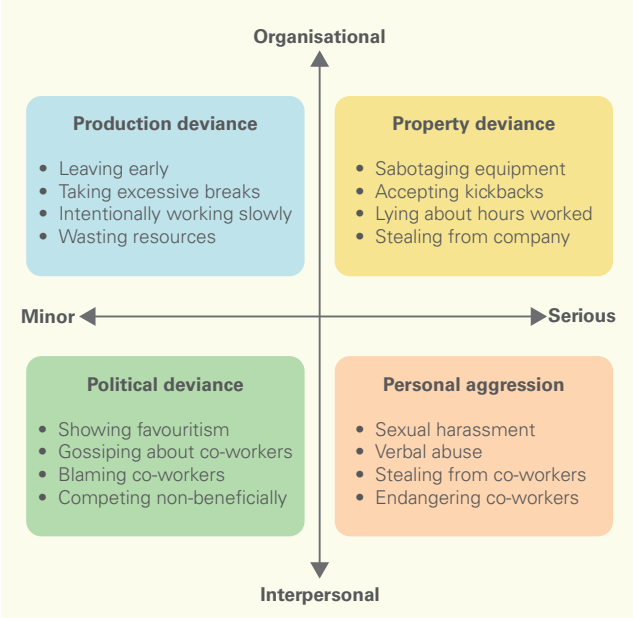

FIGURE 4.1 Types of workplace deviance

Source: Adapted from "A Typology of Deviant Workplace Behaviors" (Figure), S. L. Robinson and R. J. Bennett. *Academy of Management Journal* 38 (1995).

property deviance unethical behaviour aimed at the organisation's property or products

Property deviance is unethical behaviour aimed at company property or products. Examples include sabotaging, stealing or damaging equipment or products, and overcharging for services and then pocketing the difference. A survey of 2200 Australian shoppers by research firm Canstar Blue has found that when using self-service checkouts 7 per cent admitted to bagging (stealing) an item without scanning it, while 9 per cent admitted to not paying the full price by scanning the item as a cheaper alternative – 'swipe everything as carrots'. The items most commonly stolen were fruits and vegetables (24%), packaged foods (16%), snacks and drinks (12%), baby products (12%) and fresh packaged meats (10%). Just 5 per cent of the survey respondents who admitted to stealing an item said they had been caught. Of those who tried to incorrectly scan an item (calling avocados carrots, for example), just 10 per cent said they had been caught. Shoppers aged 18–29 years old were the worst offenders, with 12 per cent admitting to deliberately stealing and 14 per cent scanning an item as something cheaper. In general terms, the older the shopper, the less likely they were to steal. The numbers are not much different from those of two years ago, suggesting that efforts by Coles and Woolworths to crack down on the 'swipe everything as carrots' mentality and rein in their massive theft bills have been largely unsuccessful.[14]

An American study found that organisational employees are involved in a significant amount of property deviance. A survey of 24 large retailers employing 2.3 million employees found that one out of 28 employees was caught stealing each year.[15] Likewise, 58 per cent of office employees acknowledge taking company property for personal use, according to a survey conducted for Lawyers.com.[16]

employee shrinkage employee theft of company merchandise

The theft of company merchandise by employees, called **employee shrinkage**, is another common form of property deviance. Employee shrinkage costs retailers around $3 billion in Australia, with around $750 million directly attributable to employees.[17] Around a quarter (24.37%) of theft from retail stores is committed by staff. The causes of shrinkage are such things as internal error (including mispricing), invoicing errors and administrative failure, shoplifting, employee theft and theft/errors by suppliers and vendors. 'Sweethearting' occurs when employees discount or don't ring up merchandise their family or friends bring to the cash register. In 'dumpster diving', employees unload trucks, stash merchandise in a dumpster and then retrieve it after work.[18] In the US, 'sweethearting' costs the retail service industry (that is, restaurants, hotels, hair salons, car washes and so on) $80 billion annually. Sixty-seven per cent of employees admit to sweethearting, primarily in the hope of receiving similar deals and discounts from the customers to whom they had extended a sweetheart deal.[19]

political deviance using one's influence to harm others in the company

Whereas production and property deviance harm companies, political deviance and personal aggression are unethical behaviours that hurt particular people within companies. **Political deviance** is using one's influence to harm others in the company. Examples include making decisions based on favouritism rather than

personal aggression
hostile or aggressive behaviour toward others

performance, spreading rumours about co-workers or blaming others for mistakes they didn't make. **Personal aggression** is hostile or aggressive behaviour towards others. Examples include sexual harassment, verbal abuse, stealing from co-workers or personally threatening co-workers.

Thankfully, more extreme examples of personal aggression such as workplace deaths due to violence are low in Australia. In fact, the overall incidence of workplace deaths is seemingly trending downwards. Safe Work Australia statistics show that in Australia, as of October 2018, there were 100 work-related deaths – down from 134 in 2017. In 2016–2017, there were 106 260 claims due to serious injury; of these claimants 68 105 were male and 38 155 were female. The highest number of claims by age group was the 50–54 year old cohort (13 735) and the lowest was the 65+ year old cohort (2845). The 20–24 year old cohort recorded 10 085 serious claims. The trend is downward, not just in number but also in frequency. In 2012 there were 223 workplace fatalities in Australia and as of October 2018 there were 100: this is a frequency of 1.5 deaths per 100 000 workers in 2018 and a frequency of 1.93 per 100 000 workers in 2012.[20]

Safe Work Australia statistics do not disaggregate the cause of traumatic death to the extent that deaths due to violence can be separated from accidents and other causes.

In the US, the fatality rate was 3.4 per 100 000 employees in 2015; this is 4836 workplace deaths. In the same year, 703 workplace deaths were due to violence.[21]

LO2 REGULATORS AND REGULATIONS

Regulating the corporate sector in Australia is mainly undertaken by three government agencies: the Australian Competition and Consumer Commission (ACCC), the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). The ACCC deals with competition matters generally at a national level. The ACCC was established in 1995 following the amalgamation of the Trade Practices Commission (1974) and the Prices Surveillance Authority (1983). The ACCC acts as the consumer and competition 'watch dog' and has general consumer protection responsibilities and powers to prohibit companies from substantially lessening competition. Its authority to do this comes from the *Trade Practices Act 1974*.

ASIC is the national regulator of corporate entities, originally established as the Australian Securities Commission in 1991. When it became the Australian Securities and Investments Commission in 1998, it took up investor and consumer protection responsibilities for all financial entities. ASIC has its own Act – the *Australian Securities and Investments Commission Act 2001* – and is supported by several other statutes, including the *Corporations Act 2001*. ASIC is the authority that grants licences to financial entities that enable them to offer financial products and services so long as they adequately disclose their financial position to consumers.

APRA is the national regulator of prudential institutions – deposit takers (e.g. banks), insurance companies and superannuation funds. Established to regulate financial entities and to ensure that they maintain a minimum level of financial soundness, APRA was formed by the *Australian Prudential Regulation Authority Act 1998*.

Collectively, the role of the ACCC, ASIC and APRA is to protect consumers, investors and creditors by ensuring that companies and financial institutions abide by company and competition law.

In the following we will examine:

- to whom regulations apply and what they cover
- how an organisation can be punished for the unethical behaviour of its managers and employees.

WHO, WHAT AND WHY?

Nearly all businesses, non-profits, partnerships, labour unions, unincorporated organisations and associations, incorporated organisations and even pension funds, trusts and joint stock companies are covered by some kind of formal regulation or industry code of conduct. If your organisation can be characterised as a business (remember, non-profits count, too), then it is subject to some form of regulation or industry code of conduct. Regulations cover offences defined by laws, such as invasion of privacy, price fixing, fraud, customs violations, antitrust violations, civil rights violations, theft, money laundering, conflicts of interest, embezzlement, dealing in stolen goods, copyright infringements, extortion and more. It's not enough merely to stay 'within the law', however. The purpose of formal regulation is not just to punish companies after they or their employees break the law, but rather to encourage companies to take proactive steps, such as ethics training, that will discourage or prevent white-collar crime before it happens. Regulations and industry codes of conduct also provide an incentive for businesses to cooperate with and disclose illegal activities to the relevant authorities.

DETERMINING THE PUNISHMENT

In general, regulators tend to impose smaller fines on companies that take proactive steps to encourage ethical behaviour or voluntarily disclose illegal activities to the relevant authorities. Essentially, regulators use a carrot-and-stick approach. The stick is the threat of heavy fines,

sometimes in the millions of dollars.[22] The carrot is a lesser fine, but only if the company has started an effective compliance program (discussed below) to encourage ethical behaviour before the illegal activity occurs.[23] The method used to determine a company's punishment illustrates the importance of establishing a compliance program.

The approach of the ACCC in policing business in Australia is to initially bring the matter to the attention of the business and to work with the business to find a remedy. Should this prove difficult, or if criminal action is uncovered, the ACCC will act to have the issue brought before the courts. Once a matter has been handed to the justice system and the Commonwealth Director of Public Prosecutions, the role of the ACCC changes. Only a court can determine whether a contravention of the Act has occurred and make orders against offenders. The ACCC's role is to bring matters before the courts, so the courts can rule on whether contraventions have occurred and order suitable remedies and deterrents. The courts can make a wide range of findings and orders; for example:

- declarations that a company or individual has contravened the Act require respondents to publish public notices about their conduct and corrective advertising, and to disclose relevant information to others such as customers' injunctions, restraining current or future conduct or requiring respondents to take certain action
- findings of fact which show contraventions of the Act, so that damages may be recovered by consumers and business affected by the conduct
- performance of community service
- placing respondents on probation.

Getty Images/WILLIAM WEST/AFP

If the ACCC brings a business' or an individual's breaches of the *Trade Practices Act 1974* before the courts, significant penalties can apply

Breaches of the restrictive trade practices provisions (aside from the boycott provisions) by companies may result in whichever is greatest of the following penalties:

- $10 million
- three times the value of the illegal benefit, when the value of illegal benefit can be ascertained
- 10 per cent of the turnover in the preceding 12 months, when the value of the illegal benefit cannot be ascertained.

WORKPLACE AND COMMUNITY

ACCC COOPERATION POLICY FOR ENFORCEMENT MATTERS

The ACCC has a general policy of encouraging people and companies who might have contravened the Act to come forward and cooperate with the ACCC in addressing their possible contraventions of the Act.

Such cooperation can be recognised by the ACCC through, for example: complete or partial immunity from action by the ACCC, ACCC submissions to the court for a reduction in penalty or administrative settlement instead of litigation. This policy is flexible and evolving, and the ACCC determines each case on its merits.

Immunity will not be granted where the person or company concerned has compelled or induced someone else to take part in the conduct or where they were the ringleader or originator of the contravention.

The policy applies only to potential civil contraventions of the Act (under the competition, fair trading and consumer protection provisions). Discretion regarding immunity for criminal conduct (under some fair trading and consumer protection provisions) lies with the Commonwealth Director of Public Prosecutions, not the ACCC.

For details of the cooperation policy and how to approach the ACCC under it, see ACCC cooperation policy for enforcement matters, July 2002, and ACCC immunity policy for cartel conduct, August 2005.

If you are unsure whether you have contravened the Act, or otherwise want to 'blow the whistle' on a possible contravention, approach the ACCC.[24]

A civil penalty of up to $500 000 can be imposed on an individual for breaches of any of the anti-competitive conduct sections. Breaches of the boycott provisions may attract penalties of up to $750 000.

HOW DO YOU MAKE ETHICAL DECISIONS?

Let's look at a hypothetical example (although it is based on a real situation) of a decision made by a large corporation. On a sultry, cyclone season morning in the build-up to a storm, schools were closed and most people

had decided to stay home from work. Nevertheless, John Smith had already showered, shaved and dressed for the office. He kissed his wife Joan goodbye, but before he could get to his car, he fell dead on the garage floor from a sudden heart attack. Smith was four months short of his 30-year anniversary with the company. Having begun work at the age of 18, he was just 48 years old.[25]

Imagine you're the manager in charge of benefits at Smith's employer. Given that he was only four months short of full retirement, do you award full retirement benefits to John Smith's wife and daughters? If the answer is yes, they will receive his full retirement benefits of 70 per cent of his salary, averaged over the last three years he worked there, for the rest of Joan Smith's life. If you say no, his widow and two daughters will receive only 30 per cent of John's salary. As the manager in charge of employee benefits, what would be the ethical thing for you to do?

After reading the next two sections, you should be able to:

- describe what influences ethical decision making
- explain what practical steps managers can take to improve ethical decision making.

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LO3 INFLUENCES ON ETHICAL DECISION MAKING

Although some ethical issues are easily solved, many do not have clearly right or wrong answers.

The ethical answers that managers choose depend on:

- the ethical intensity of the decision
- the moral development of the manager
- the ethical principles used to solve the problem.

ENGAGE APPLY VIDEO MINDTAP **Get an overview of what ethical decision making involves and aims to achieve**

ETHICAL INTENSITY OF THE DECISION

Managers don't treat all ethical decisions the same. The manager who has to decide whether to deny or extend full benefits to Joan Smith and her family is going to treat that decision much more seriously than the decision of how to deal with an assistant who has been taking computer paper home for personal use. These decisions differ in their **ethical intensity**, or the degree of concern people have about an ethical issue. When addressing an issue of high ethical intensity, managers are more aware of the impact their decision will have on others. They are more likely to view the decision as an ethical or moral decision rather than as an economic decision. They are also more likely to worry about doing the 'right thing'.

ethical intensity the degree of concern people have about an ethical issue

Ethical intensity depends on six factors:[26]

- magnitude of consequences
- social consensus
- probability of effect
- temporal immediacy
- proximity of effect
- concentration of effect.

Magnitude of consequences is the total harm or benefit derived from an ethical decision. The more people who are harmed or the greater the harm to those people, the larger the consequences. **Social consensus** is agreement on whether behaviour is bad or good. **Probability of effect** is the chance that something will happen and then result in harm to others. If we combine these factors, we can see the effect they can have on ethical intensity. For example, if there is *clear agreement* (social consensus) that a managerial decision or action is *certain* (probability of effect) to have *large negative consequences* (magnitude of consequences) in some way, then people will be highly concerned about that managerial decision or action, and ethical intensity will be high.

magnitude of consequences the total harm or benefit derived from an ethical decision

social consensus agreement on whether behaviour is bad or good

probability of effect the chance that something will happen and then harm others

Temporal immediacy is the time between an act and the consequences the act produces. Temporal immediacy is stronger if a manager has to lay off employees next week as opposed to three months from now. **Proximity of effect** is the social, psychological, cultural or physical distance of a decision maker from those affected by his or her decisions. Thus, proximity of effect is greater for the manager who works with employees who are to be laid off than it is for a manager who works where no layoffs will occur. Finally, whereas the magnitude of consequences is the total effect across all people, **concentration of effect** is how much an act affects the average person. Temporarily laying off 100 employees for 10 months without pay is a greater concentration of effect than temporarily laying off 1000 employees for one month.

temporal immediacy the time between an act and the consequences the act produces

proximity of effect the social, psychological, cultural or physical distance between a decision maker and those affected by his or her decisions

concentration of effect the total harm or benefit that an act produces on the average person

Which of these six factors has the most impact? Studies indicate that managers are much more likely to view decisions as ethical decisions when the magnitude of consequences (total harm) is high and there is a social consensus (agreement) that a behaviour or action is bad.[27]

MORAL DEVELOPMENT

It's Friday. Another long week of classes and studying is over, and all you want to do is sit down and relax. 'A movie sounds good', you think to yourself, but you don't want to trek down to the local cinema to spend upwards of $20, and while it would cost you less to rent a movie on iTunes or YouTube, you can't quite bring yourself to pay the few dollars that they charge.[28] Your roommate says he's got the perfect solution and gives you the URL of a website that streams all the latest blockbuster movies and TV shows for free. The writers, actors and producers won't earn a cent if you watch the pirated copy of the movie. Furthermore, it's illegal to download or watch streamed copies of pirated shows. But how will the movie studios ever find out? Are the cops going to come through your door because you watched a pirated copy of *Crazy Rich Asians*? Will you watch the movie? What are you going to do?

In part, according to psychologist Lawrence Kohlberg, your decision will be based on your level of moral development. Kohlberg identified three phases of moral development, with two stages in each phase (see Figure 4.2).[29] At the **preconventional level of moral development**, people make decisions based on selfish reasons. For example, if you are in Stage 1, the punishment and obedience stage, your primary concern will be to avoid trouble for yourself. So, you won't download the movie because you are afraid of being caught and punished. Yet, in Stage 2, the instrumental exchange stage, you worry less about punishment and more about doing things that directly advance your wants and needs. So, you download the movie.

preconventional level of moral development
the first level of moral development in which people make decisions based on selfish reasons

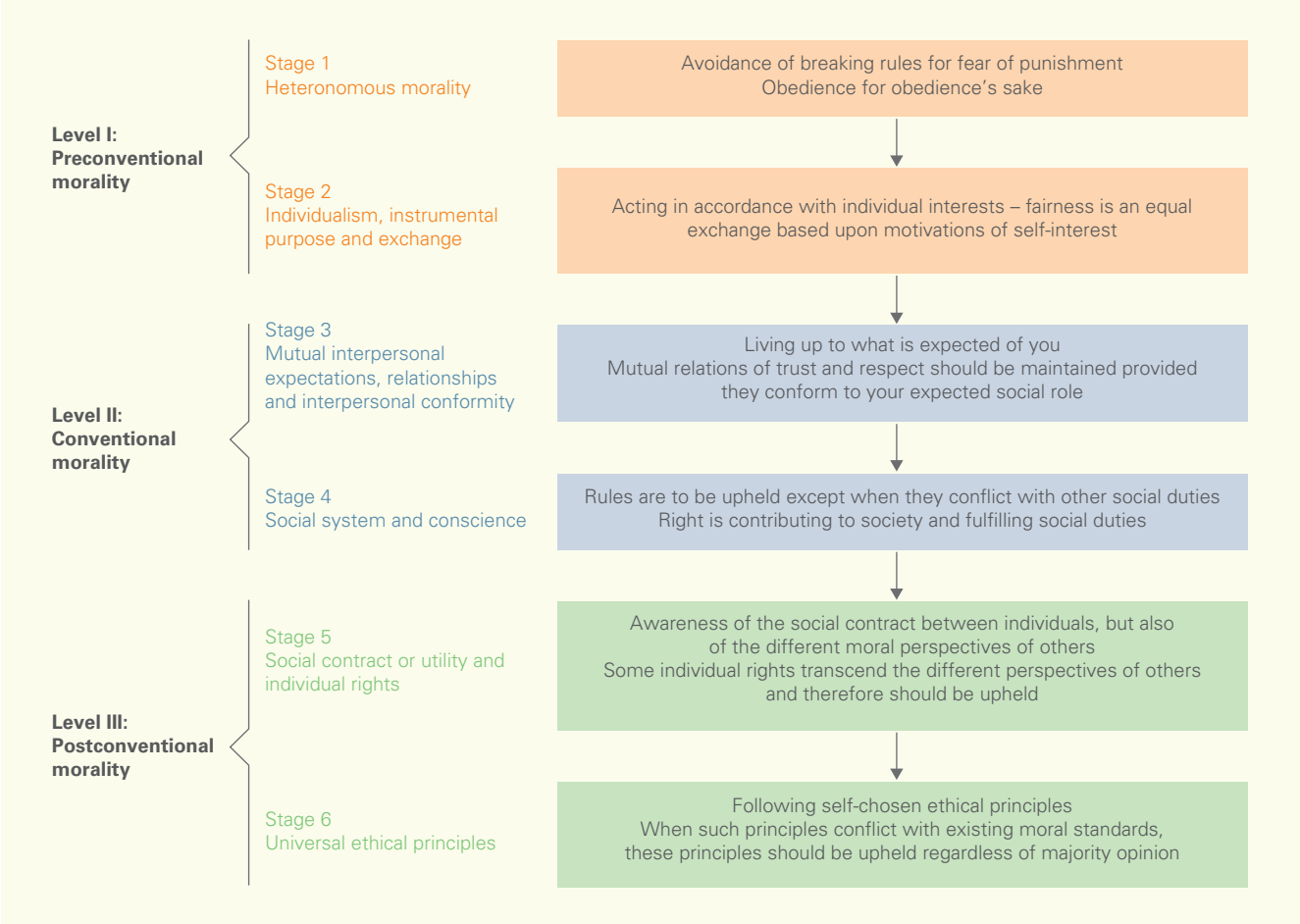

FIGURE 4.2 Kohlberg's stages of moral development

Source: Adapted from Weiten, W. (2001: 455, Figure 11.16). Reprinted with permission of Wadsworth, a division of Cengage Learning.

WORKPLACE AND COMMUNITY

FILE SHARING

Downloading movies via BitTorrent or just letting your friends have copies of your music or movie files is a common practice among people with a conventional level of morality. Despite widespread comments in the media about the illegality of file sharing, and high-profile cases like *Dallas Buyers Club*, people still share their movies, TV shows and music – illegally. Some of the 'reasons' given for this behaviour are that 'Hollywood is doing well financially and they won't miss the income', or 'file sharing has no measurable effect on the movie and TV industry'. Worldwide statistics would suggest otherwise. Illegal downloads do hurt the movie industry, and the number of people going to see movies in cinemas has shown very little growth since 2000 (when Internet access really became popular). While a lot of this lack of growth is being attributed to streaming services (Netflix, Stan, Amazon), it is also argued that piracy is still a major problem in Australia. Research shows that 21 per cent of Australians aged 12–64 still download movie and TV content from pirate websites even though the same or similar content is available legally from streaming services for relatively low cost.[30]

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conventional level of moral development
the second level of moral development in which people make decisions that conform to societal expectations

postconventional level of moral development
the third level of moral development in which people make decisions based on internalised principles

People at the **conventional level of moral development** make decisions that conform to societal expectations. In other words, they look to others for guidance on ethical issues. In Stage 3, the good boy, nice girl stage, you normally do what the other 'good boys' and 'nice girls' are doing. If everyone else is illegally downloading movies, music and TV shows, you will, too. But if they aren't, you won't either. In the law and order stage, Stage 4, you again look for external guidance and do whatever the law permits, so you won't get the movie.

People at the **postconventional level of moral development** always use internalised ethical principles to solve ethical dilemmas. In Stage 5, the social contract stage, you will refuse to download the movie because, as a whole, society is better off when the rights of others – in this case, the rights of actors, directors, movie makers and distributors – are not violated. In Stage 6, the universal principle stage, you might or might not download a movie, depending on your principles of right and wrong. Moreover, you will stick to your principles even if your decision conflicts with the law (Stage 4) or what others believe is best for society (Stage 5). For example, those with strongly held socialist or communist beliefs would probably choose to download the movie because they believe goods and services should be owned by society rather than by individuals and corporations.

Kohlberg believed that as people became more educated and mature, they would progress sequentially from earlier stages to later stages. But only 20 per cent of adults ever reach the postconventional stage of moral development where internal principles guide their decisions. By contrast, most adults are in the conventional stage of moral development in which they look outside themselves to others for guidance on ethical issues. This means that most people in the workplace look to and need leadership when it comes to ethical decision making.[31]

PRINCIPLES OF ETHICAL DECISION MAKING

Besides an issue's ethical intensity and a manager's level of moral maturity, the particular ethical principles that managers use will also affect how they solve ethical dilemmas. Unfortunately, there is no one 'ideal principle' to use in making ethical business decisions.

According to professor LaRue Hosmer, a number of different ethical principles can be used to make business decisions: long-term self-interest, personal virtue, religious injunctions, government requirements, utilitarian benefits, individual rights and distributive justice.[32] All of these ethical principles encourage managers and employees to take others' interests into account when making ethical decisions. At the same time, however, these principles can lead to very different ethical actions, as we can see by using these principles to decide whether to award full benefits to Joan Smith and her children.

principle of long-term self-interest
an ethical principle that holds that you should never take any action that is not in your or your organisation's long-term self-interest

According to the **principle of long-term self-interest**, you should never take any action that is not in your or your organisation's long-term self-interest. Although this sounds as if the principle promotes selfishness, it doesn't. What we do to maximise our long-term interests (save more, spend less, exercise every day, watch what we eat) is often very different from what we do to maximise short-term interests (max out our credit cards, be couch potatoes, eat whatever we want). At

any given time, John Smith's employer has nearly 1000 employees who are just months away from retirement. Thus, because of the costs involved, it serves the company's long-term interest to pay full benefits only after employees have put in their 30 years.

principle of personal virtue
an ethical principle that holds that you should never do anything that is not honest, open and truthful, and is not something that you would be glad to see reported in the newspapers or on TV

The **principle of personal virtue** holds that you should never do anything that is not honest, open and truthful and is not something that you would be glad to see reported in the newspapers or on TV. Using the principle of personal virtue, John Smith's employer should have quietly awarded Joan Smith her husband's full benefits. Had it done so, it could have avoided the publication of an embarrassing *Wall Street Journal* article on this topic.[33]

principle of religious injunctions
an ethical principle that holds that you should never take any action that is not kind and that does not build a sense of community

The **principle of religious injunctions** holds that you should never take an action that is unkind or that harms a sense of community, such as the positive feelings that come from working together to accomplish a commonly accepted goal. Using this principle, John Smith's employer would have been concerned foremost with compassion and kindness. Thus, it would have awarded full benefits to Joan Smith.

principle of government requirements
an ethical principle that holds that you should never take any action that violates the law, for the law represents the minimal moral standard

According to the **principle of government requirements**, the law represents the minimal moral standards of society, so you should never take any action that violates the law. Using this principle, Joan's husband's former employer would deny full benefits to Joan Smith because her husband did not work for the company for 30 years. Indeed, a spokesperson for the corporation stated that making exceptions would violate relevant legislation relating to the payment of retirement benefits.[34]

principle of utilitarian benefits
an ethical principle that holds that you should never take any action that does not result in the greater good for society

The **principle of utilitarian benefits** states that you should never take an action that does not result in the greater good for society. In short, you should do whatever creates the greatest good for the greatest number. At first, this principle seems to suggest that the corporation should award full benefits to Joan Smith. If the corporation did this with any regularity, however, the costs would be enormous; profits would shrink and the corporation would have to cut its stock dividend, harming countless shareholders, many of whom rely on their dividends for retirement income. In this case, the principle does not lead to a clear choice.

principle of individual rights
an ethical principle that holds that you should never take any action that infringes on others' agreed-upon rights

The **principle of individual rights** holds that you should never take an action that infringes on others' agreed-upon rights. Using this principle, the corporation would deny Joan Smith full benefits. If it carefully followed the rules specified in its pension plan and granted Mrs Smith due process – meaning the right to appeal the decision – then the corporation would not be violating her rights. In fact, it could be argued that providing full benefits to Mrs Smith would violate the rights of employees who had to wait 30 years to receive full benefits.

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Managers should consider the principles of ethical decision making when making decisions that affect their employees

principle of distributive justice
an ethical principle that holds that you should never take any action that harms the least fortunate among us: the poor, the uneducated and the unemployed

Finally, under the **principle of distributive justice**, you should never take any action that harms the least fortunate among us in some way. This principle is designed to protect the poor, the uneducated and the unemployed. Although Joan Smith could probably find a job, after 20 years as a stay-at-home mum, it's unlikely that she could easily find one that would support her and her daughters in the manner to which they are accustomed. Using the principle of distributive justice, her husband's former employer would award her full benefits.

So, what did the employer decide to do? Since John Smith had not completed 30 full years with the company, his employer's officials felt they had no choice but to give Joan Smith and her two daughters the smaller, partial retirement benefits.[35] Do you think the employer's decision was ethical? It's likely many of you don't. You may wonder how the company could be so heartless as to deny John Smith's family the full benefits to which you believe they were entitled. Yet others might argue that the employer did the ethical thing by strictly following the rules laid out in its pension benefit plan. After all, being fair means applying the rules to everyone.

As mentioned at the beginning of this chapter, one of the 'real-world' aspects of ethical decisions is that no matter *what* you decide, someone or some group will be

unhappy. This corollary is also true: no matter *how* you decide, someone or some group will be unhappy. Consequently, although all of these ethical principles encourage managers to balance others' needs against their own, they can also lead to very different ethical actions. So even when managers strive to be ethical, there are often no clear answers when it comes to doing 'the' right thing.

WORKPLACE AND COMMUNITY

UNETHICAL AMNESIA: WHY UNETHICAL WORKERS CAN LIVE WITH THEMSELVES

'I hope you can sleep at night!' is what we might (or would like) to say to someone acting unethically or making unethical decisions. But, thanks to unethical amnesia, people who are repeatedly unethical generally forget that they were, which makes it easier to continue being unethical. When recalled, memories of unethical behaviour are remembered less clearly than ethical behaviour, which is easily and accurately remembered. So why do unethical workers have a 'clear conscious'? Because they can't remember.

SOURCE: F. GINA & M. KOUCHAKI, "WE'RE UNETHICAL AT WORK BECAUSE WE FORGET OUR MISDEEDS," *HARVARD BUSINESS REVIEW*, MAY 18, 2016, ACCESSED 21 MARCH, 2017, HTTPS://HBR.ORG/2016/05/WERE -UNETHICAL-AT-WORK-BECAUSE-WE-FORGET-OUR-MISDEEDS.

LO4 PRACTICAL STEPS TO ETHICAL DECISION MAKING

Managers can encourage more ethical decision making in their organisations by:

- carefully selecting and hiring ethical employees
- establishing a specific code of ethics
- training employees to make ethical decisions
- creating an ethical climate.

SELECTING AND HIRING ETHICAL EMPLOYEES

As an employer, you can gain an understanding of how closely a job applicant's view of honesty matches your own or your organisation's standards by giving them integrity tests. **Overt integrity tests** estimate job applicants' honesty by directly asking them what they think or feel about theft or about punishment of unethical behaviour.[36] For example, an employer might ask an applicant, 'Don't most people steal from their companies?' Surprisingly, unethical people will usually answer 'yes' to such questions, because they believe that the world is basically dishonest and that dishonest behaviour is normal.[37]

overt integrity test
a written test that estimates job applicants' honesty by directly asking them what they think or feel about theft or about punishment of unethical behaviours

Personality-based integrity tests indirectly estimate job applicants' honesty by measuring psychological traits such as dependability and conscientiousness. For example, prison inmates serving time for white-collar crimes (counterfeiting, embezzlement and fraud) scored much lower than a comparison group of middle-level managers on scales measuring reliability, dependability, honesty, conscientiousness and abiding by rules.[38] These results show that companies can selectively hire and promote people who will be more ethical.[39]

personality-based integrity test
a written test that indirectly estimates job applicants' honesty by measuring psychological traits, such as dependability and conscientiousness

CODES OF ETHICS

Today, almost all large corporations have similar ethics codes in place. Still, two things must happen if those codes are to encourage ethical decision making and behaviour. First, a company must communicate its code inside and outside the company. An example of a well-communicated code of ethics can be found at the financial services company PWC (Price Waterhouse Coopers) website (see https://www.pwc.com.au/about-us/code-of-conduct.html). With the click of a computer mouse, anyone inside or outside the company can obtain detailed information about the company's specific ethical business practices.[40]

WORKPLACE AND COMMUNITY

WHAT'S IN THE BOX? VW DIESELGATE

Regulators in Europe and the US have imposed strict standards on automobile engine emissions, and for many car makers it means that engine performance will have to be sacrificed if the standards are going to be met.

Diesel engines have been used for decades for trucks and other heavy vehicles because of their strength and durability, as well as their fuel economy. In Europe diesel passenger cars have been popular for similar reasons, especially the fuel economy of diesel engines. However, diesel passenger cars have a reputation of being noisy, smelly and slow compared to cars with similar-sized petrol engines. Diesel passenger cars have not enjoyed the same popularity in the US that they have in Europe.

The biggest car maker in the world by volume, Volkswagen (VW) Group, has been relatively successful selling diesel cars in the US in recent years. Modern diesel engines are quieter, don't smell like a farm tractor and perform nearly as well as a similar-sized petrol engine.

Too good to be true? Well, maybe.

A university research group in the US, at West Virginia University, were testing diesel powered cars, including VW diesels, to demonstrate how clean and efficient they are when they found that their 'real

world' on-the-road testing showed the emissions were significantly higher than the figures the car maker claimed. The emissions were also up to 35 times higher than results gained by US government authorities.

Once the university tests were made public the US Environmental Protection Agency and the California Clean Air board started asking questions. Not long after that the European Union agencies did the same. Shortly after the scandal broke, Martin Winterkorn, CEO of VW Group, resigned.

It seems that VW were able to write computer code for the on-board engine management computer that was able to determine if the car was being tested. If so, the computer code changed the engine management parameters to give the best fuel economy and lowest emission output possible, at the cost of performance and 'driveability'.

How were they caught? The usual tests for emissions and fuel economy are done under laboratory conditions, not on the road. The laboratory conditions run the car being evaluated through a series of tests on a stationary 'rolling road', inside a building. The West Virginia University researchers actually took the cars out on the road to test them.

VW has lost its good reputation, customer confidence and sales around the world.[41] In the US, a middle-level manager has been sentenced to seven years in prison, whereas no such convictions have been recorded in Europe yet. VW share value dipped by 55.6 billion euros, and worldwide sales went into reverse. However, in 2018 the tide seems to have turned and VW profits rose from 5.1 billion euros in 2016, returning to a very healthy 11.4 billion euros in 2017.[42] VW last posted an 11 billion euro profit in the year before the Dieselgate scandal broke.

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Second, in addition to having an ethics code with general guidelines like 'do unto others as you would have others do unto you', management must also develop practical ethical standards and procedures specific to the company's line of business. The ANZ Bank's website also contains references to very specific ethical standards on topics ranging from bribes and kickbacks to expense claims. For example, one of ANZ's ethical guidelines is:

'ANZ's Anti-Bribery and Anti-Corruption Policy prohibits employees and contractors of ANZ from offering, promising, providing, requesting or receiving bribes directly, indirectly or through third parties, in any form, including kickbacks and facilitation payments. The Policy is based on Australian and international legislation and best practice, including guidance issued by Transparency International and Social Accountability International.'[43]

Specific codes of ethics such as this make it much easier for employees to decide what to do when they want to do the 'right thing'.

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Ethics training will often reinforce a business' code of conduct or mission statement

ETHICS TRAINING

The first objective of ethics training is to develop employees' awareness of ethics.[44] This means helping employees recognise which issues are ethical issues and then avoid rationalising unethical behaviour by thinking, 'This isn't really illegal or immoral' or 'No one will ever find out'. Many organisations around the world take ethics training very seriously. The comprehensive code of ethical behaviour developed by the Australian Banking Association (ABA) and proposed to be adopted by all association members by July 2019 outlines their approach to ethics training for frontline staff and management.[45] The ABA code states that 'Our staff and representatives will be trained and competent — including about the Code. We will make sure that our staff and our representatives are trained so that they: a) can competently do their work; and b) understand the Code and how to comply with it when they are providing banking services.'[46] Ethics training can be conducted in any organisation, in small group seminars or, increasingly more often, as an online self-paced training module.

Ethical training is something that can be structured and undertaken in the workplace (or university), and it can also

be a process of personal reading and reflection on everyday experiences and events. In Australia *The Ethics Centre* (http://www.ethics.org.au/) provides a helpful webpage with online articles to help people reflect on everyday ethical issues (http://www.ethics.org.au/ > articles > Filter by topic: Everyday ethics) as well as being able to provide ethical training for businesses.[47]

Several companies have created board games to improve awareness of ethical issues.[48] And other ethics training tools, like the Kew Gardens Principles, examine how ethical decisions can be made in specific scenarios. The Kew Gardens Principles were based on the study of a murder in Kew Gardens, New York, in which witnesses to the attack failed to intervene or seek help. Researchers developed a series of four decision-making factors that are used to help employees determine how they should respond to problems and ethical situations, even when the problems are not of their own doing.[49] These decision-making factors can be applied to other scenarios as well. Specific company-related questions and scenarios make it easier for managers and employees to recognise and be aware of ethical issues and situations.

The second objective for ethics training programs is to achieve credibility with employees. Not surprisingly, employees can be highly suspicious of management's reasons for offering ethics training. Some companies have hurt the credibility of their ethics programs by having outside instructors and consultants conduct the classes.[50] Employees often complain that outside instructors and consultants are teaching theory that has nothing to do with their jobs and the practical dilemmas they actually face on a daily basis.

One company, CA Technologies, made its ethics training practical and relevant by creating a series of comical training videos with a fictional manager, Griffin Peabody, who is shown facing a series of ethics issues, such as conflicts of interest, competitive intelligence, workplace harassment, client expenses and conduct outside the workplace (search 'Griffin Peabody' at YouTube.com). Chief ethics officer Joel Katz says, 'It's easy for it [ethics training] to become a check-the-box exercise. We use Griffin's escapades to teach compliance lessons in a funny way'. For instance, since CA Technologies acquires lots of companies – a common practice in technology industries – it's critical, and required by law, that its employees keep potential acquisitions confidential to prevent insider trading. Chief compliance officer Gary Brown says, 'They think they can tell a friend, "Guess what I was working on today". They have to realize it is a much bigger problem'. To reinforce this point, Griffin Peabody is visited by Securities and Exchange Commission investigators after publicly disclosing information about a company that is being acquired.[51]

Ethics training becomes even more credible when top managers teach the initial ethics classes to their subordinates who in turn teach their subordinates.[52] Michael Hoffman, executive director for the Center for Business Ethics at Bentley University, says that having managers teach ethics courses greatly reinforces the seriousness with which employees treat ethics in the workplace.[53] Unfortunately, though, 25 per cent of large companies don't require top managers to attend, much less teach, ethics training.[54]

An example of good practice can be seen in Australian government. If you go to https://vpsc.vic.gov.au/ethics-behaviours-culture/, you'll see that the Victorian State government has put in place a number of resources to help employees develop an understanding of ethical issues. The Australian Commonwealth Public Service has similar resources at https://www.apsc.gov.au/aps-values-and-code-conduct-practice. The third objective of ethics training is to teach employees a practical model of ethical decision making. A basic model of ethical decision making, as seen in Table 4.1, helps employees think about the consequences their choices will have on others and consider how they will choose between different solutions.

ETHICAL CLIMATE

Organisational culture is the key to fostering ethical decision making. The 2018 Global Business Ethics Survey reported that where companies have a program of minimum ethical standards in place and had a strong ethical culture (where core beliefs are widely shared and strongly held), 79 per cent of employees stated that they had reported unethical conduct and 74 per cent stated that they were satisfied with the process and outcomes. However, in companies without a program of minimum ethical standards and with weak ethical cultures (where core beliefs are not widely shared or strongly held), only 34 per cent of employees stated that they had reported unethical conduct and only 20 per cent stated that they were satisfied with the process and outcomes.[55] Arguably, employees in strong ethical cultures are also more likely to report violations, because they expect that management wants them reported and won't retaliate against them for doing so.[56]

The first step in establishing an ethical climate is for managers, especially top managers, to act ethically themselves. It's no surprise that in study after study, when researchers ask, 'What is the most important influence on your ethical behaviour at work?', the answer comes back, 'My manager'. A second step in establishing an ethical climate is for top management to be active in and committed to the company ethics program.[57] Top managers who consistently talk about the importance of ethics and back up that talk by participating in their companies' ethics programs send the clear message that ethics matter. Business writer Dayton Fandray says, 'You can have ethics offices ... and training programs and reporting systems, but if the CEO doesn't seem to care, it's all just a sham. It's not surprising to find

TABLE 4.1 Descriptions of the LPC and their corresponding leadership style

1	**Identify the problem** What makes it an ethical problem? Think in terms of rights, obligations, fairness, relationships and integrity. How would you define the problem if you stood on the other side of the fence?
2	**Identify the constituents** Who has been hurt? Who could be hurt? Who could be helped? Are they willing players or are they victims? Can you negotiate with them?
3	**Diagnose the situation** How did it happen in the first place? What could have prevented it? Is it going to get worse or better? Can the damage now be undone?
4	**Analyse your options** Imagine the range of possibilities. Limit yourself to the two or three most manageable. What are the likely outcomes of each? What are the likely costs? Look to the company mission statement or code of ethics for guidance.
5	**Make your choice** What is your intention in making this decision? How does it compare with the probable results? Can you discuss the problem with the affected parties before you act? Could you disclose without qualms your decision to your boss, the CEO, the board of directors, your family or society as a whole?
6	**Act** Do what you have to do. Don't be afraid to admit errors. Be as bold in confronting a problem as you were in causing it.

Source: L. A. Berger, 'Train all employees to solve ethical dilemmas', *Best's Review – Life-Health Insurance Edition*, 95, 1995: 70–80.

that the companies that really do care about ethics make a point of including senior management in all of their ethics and compliance programs'.[58]

A third step is to put in place a reporting system that encourages managers and employees to report potential ethics violations. **Whistleblowing**, that is, reporting others' ethics violations, is a difficult step for most people to take.[59] Protection for whistleblowers in Australia who provide information to the ACCC is found in the *Competition and Consumer Act 2010* (CCA). If an individual person is found to have disadvantaged a whistleblower, they can be subject to a fine not exceeding $2000 or imprisonment for 12 months and a business may be subject to a fine not exceeding $10 000.

whistleblowing
reporting others' ethics violations to management or legal authorities

Potential whistleblowers often fear that they, and not the ethics violators, will be punished.[60] Professor Elizabeth Morrison says, 'You have to confront the two fundamental challenges preventing employees from speaking up. The first is the natural feeling of futility—feeling like speaking up isn't worth the effort or that no one wants to hear it. The second is the natural fear that speaking up will lead to retribution or harsh reactions'.[61] Indeed, in large companies without an effective compliance program, 62 per cent of workers have observed unethical behaviour, 32 per cent of those have reported the misconduct and 59 per cent of those who reported the unethical behaviour experienced some kind of retaliation.[62]

The factor that does the most to discourage whistleblowers from reporting problems is lack of company action on their complaints.[63] Thus, the final step in developing an ethical climate is for management to fairly and consistently punish those who violate the company's code of ethics. Netflix immediately fired an employee at a Netflix call centre who was caught stealing credit card information from the customers she was supposed to be helping. Netflix spokesperson Steve Swasey said, 'We do everything we can to safeguard our members' personal data and privacy, and when there's an issue like this we deal with it swiftly and decisively'.[64] Amazingly, though, not all companies fire ethics violators. In fact, 8 per cent of surveyed companies admit that they would promote top performers even if they violated ethical standards.[65]

However, as was the case with Volkswagen and Dieselgate, whistleblowers are often the people who provide the key information for regulatory authorities to act on.

WHAT IS SOCIAL RESPONSIBILITY?

Social responsibility is a business' obligation to pursue policies, make decisions and take actions that benefit society.[66] Unfortunately, because there are strong disagreements over to whom and for what in society organisations are responsible, it can be difficult for managers to know what is or will be perceived as socially responsible corporate behaviour.

social responsibility
a business' obligation to pursue policies, make decisions and take actions that benefit society

After a terrorist attack that killed 14 people, the US government asked Apple to break into the attacker's encrypted iPhone. In a public letter to its customers, CEO Tim Cook stated, 'While we believe the FBI's intentions are good, it would be wrong for the government to force us to build a backdoor into our products. And ultimately, we fear that this demand would undermine the very freedoms and liberty our government is meant to protect'.[67] District Attorney Cyrus Vance Jr. criticised Apple, saying, 'Apple and Google are their own sheriffs. There are no rules'. Was Apple's refusal principled and to society's benefit, or will its lack of cooperation harm, if not eventually endanger, others?[68]

After reading the next four sections, you should be able to explain:

- to whom organisations are socially responsible
- for what are organisations socially responsible
- how organisations can choose to respond to societal demands for social responsibility
- whether social responsibility hurts or helps an organisation's economic performance.

LO5 TO WHOM ARE ORGANISATIONS SOCIALLY RESPONSIBLE?

There are two perspectives regarding to whom organisations are socially responsible: the shareholder model and the stakeholder model. According to the late Nobel Prize-winning economist Milton Friedman, the only social responsibility that organisations have is to satisfy their owners; that is, company shareholders. This view – called the **shareholder model** – holds that the only social responsibility that businesses have is to maximise profits. By maximising profit, the organisation maximises shareholder wealth and satisfaction. More specifically, as profits rise, the company stock owned by shareholders generally increases in value.

shareholder model
a view of social responsibility that holds that an organisation's overriding goal should be profit maximisation for the benefit of shareholders

ENGAGE APPLY VIDEO MINDTAP **Complete the 'Develop your career potential' worksheet for Chapter 4**

Friedman argued that it is socially irresponsible for companies to divert time, money and attention from maximising profits to social causes and charitable organisations. The first problem, he believed, is that organisations cannot act effectively as moral agents for all company shareholders. Although shareholders are likely to agree on investment issues concerning a company, it's highly unlikely that they have common views on what social causes a company should or should not support. Rather than act as moral agents, Friedman argued, companies should maximise profits for shareholders. Shareholders can then use their time and increased wealth to contribute to the social causes, charities or institutions they want, rather than those that companies want.

The second major problem, Friedman said, is that the time, money and attention diverted to social causes undermine market efficiency.[69] In competitive markets, companies compete for raw materials, talented employees, customers and investment funds. A company that spends money on social causes will have less money to purchase quality materials or to hire talented employees who can produce a valuable product at a good price. If customers find the company's product less desirable, its sales and profits will fall. If profits fall, the company's stock price will decline and the company will have difficulty attracting investment funds that could be used to fund long-term growth. In the end, Friedman argues, diverting the organisation's money, time and resources to social causes hurts customers, suppliers, employees and shareholders.[70] Russell Roberts, an economist and research fellow at Stanford University's Hoover Institution, agrees, saying, 'Doesn't it make more sense to have companies do what they do best, make good products at fair prices, and then let consumers use the savings for the charity of their choice?'[71]

By contrast, under the **stakeholder model**, management's most important responsibility is the organisation's long-term survival (not just maximising profits), which is achieved by satisfying the interests of multiple corporate stakeholders (not just shareholders).[72] **Stakeholders** are persons or groups with a legitimate interest in a company.[73] Since stakeholders are interested in and affected by the organisation's actions, they have a 'stake' in what those actions are. PepsiCo CEO Indra Nooyi says that because stakeholders are multifaceted, with different interests, a company operating under the stakeholder model has to redefine 'profit'. She says, '[we] have to make sure our new P & L (profit & loss statement) actually says revenue, less costs of goods sold, less costs to society – and that's your real profit'.[74] Consequently, stakeholder groups may try to influence the organisation to act in their own interests. Figure 4.3 shows the various stakeholder groups that the organisation must satisfy to ensure its long-term survival.

stakeholder model
a theory of corporate responsibility that holds that management's most important responsibility, long-term survival, is achieved by satisfying the interests of multiple corporate stakeholders

stakeholders
persons or groups with a 'stake' or legitimate interest in a company's actions

Being responsible to multiple stakeholders raises two basic questions. First, how does a company identify organisational stakeholders? Second, how does a company balance the needs of different stakeholders? Distinguishing between primary and secondary stakeholders can help answer these questions.[75]

Some stakeholders are more important to the organisation's survival than others. **Primary stakeholders** are

primary stakeholder
any group on which an organisation relies for its long-term survival

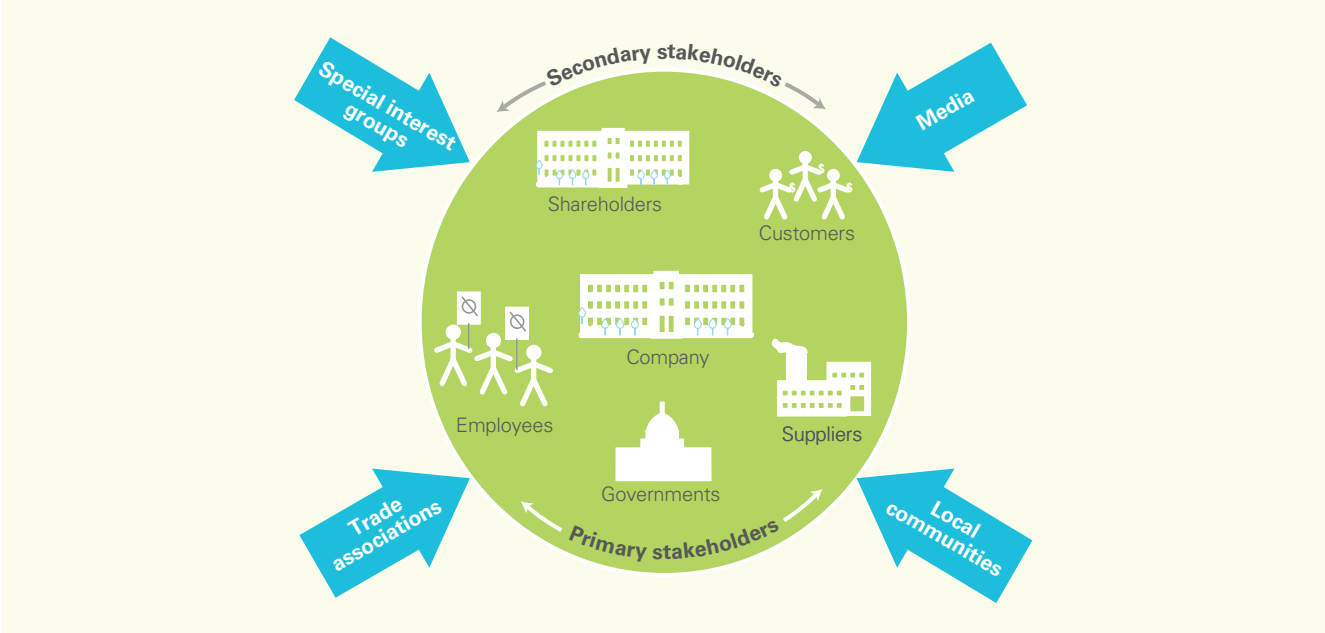

FIGURE 4.3 Stakeholder model of corporate social responsibility

groups on which the organisation depends for its long-term survival; they include shareholders, employees, customers, suppliers, governments and local communities. When managers are struggling to balance the needs of different stakeholders, the stakeholder model suggests that the needs of primary stakeholders take precedence over the needs of secondary stakeholders. But, among primary stakeholders, are some more important than others? In practice, yes, as CEOs typically give somewhat higher priority to shareholders, employees and customers than to suppliers, governments and local communities.[76] Addressing the concerns of primary stakeholders is important because, if a stakeholder group becomes dissatisfied and terminates its relationship with the company, the company could be seriously harmed or go out of business.

Secondary stakeholders, such as the media and special interest groups, can influence or be influenced by the company. Unlike the primary stakeholders, however, they do not engage in regular transactions with the company and are not critical to its long-term survival. Consequently, meeting the needs of primary stakeholders is usually more important than meeting the needs of secondary stakeholders. Nevertheless, secondary stakeholders are still important because they can affect public perceptions and opinions about socially responsible behaviour.

secondary stakeholder any group that can influence or be influenced by a company and can affect public perceptions about its socially responsible behaviour

For instance, as mentioned in Chapter 3, People for the Ethical Treatment of Animals (PETA) have called for a total boycott of Australia's $2.2 billion wool industry. With an aggressive ad campaign entitled, 'Did your sweater cause a bloody butt?', PETA wants Australia's 55 000 sheep farmers to stop the practice of 'mulesing', which it considers cruel. Mulesing removes skin folds from a sheep's rear end, usually without anaesthesia, to prevent the animal from becoming infested with blowfly eggs, which turn into flesh-eating maggots. PETA has convinced 30 leading fashion retailers, such as Benetton, Abercrombie & Fitch, Timberland, H&M and Hugo Boss, to stop using Australian wool. PETA spokesperson Matt Prescott says, 'Approaching companies with big names and deep pockets is the best way to drive change'. Craig Johnston, an Australian farmer with 6000 merino sheep, says, 'We don't mules to be cruel, we do it because it's the best husbandry practice available. Once a sheep suffers flystrike you are at a loss to do anything'. Still, as a result of PETA's pressure, Australian Wool Innovation, the industry's trade group, is sponsoring research to develop alternatives to mulesing.[77]

So, to who are organisations socially responsible? Many commentators, especially economists and financial analysts, continue to argue that organisations are responsible only to shareholders. Increasingly, however, top managers have come to believe that they and their companies must be socially responsible to their stakeholders. Today, surveys show that a significant number of managers in the Asia–Pacific region believe that it is unethical to focus just on shareholders. In the US, 29 states have changed their laws to allow company boards of directors to consider the needs of employees, creditors, suppliers, customers and local communities, as well as those of shareholders.[78] So,

although there is not complete agreement, a majority of opinion makers would argue that companies must be socially responsible to their stakeholders.

LO6 FOR WHAT ARE ORGANISATIONS SOCIALLY RESPONSIBLE?

ENGAGE APPLY VIDEO

MINDTAP **Get an overview of why and how organisations act responsibly**

If organisations are to be socially responsible to stakeholders, what are they to be socially responsible for? Well, companies can best benefit their stakeholders by fulfilling their economic, legal, ethical and discretionary responsibilities.[79] Economic and legal responsibilities play a larger part in a company's social responsibility than do ethical and discretionary responsibilities. However, the relative importance of these various responsibilities depends on society's expectations of corporate social responsibility at a particular point in time.[80] A century ago, society expected businesses to meet their economic and legal responsibilities and little else. Today, when society judges whether businesses are socially responsible, ethical and discretionary responsibilities are considerably more important than they used to be.

Historically, **economic responsibility**, making a profit by producing a product or service valued by society, has been a business' most basic social responsibility. Organisations that don't meet their financial and economic expectations come under tremendous pressure. For example, company boards are very, very quick these days to fire CEOs. Spirit Airlines is known for its extremely low cost 'Bare Fare' pricing. Spirit customers get cheap prices, but they don't get snacks (not even water), are charged for carry-on luggage (which is free on most other airlines) and sit in crowded, non-reclining seats (more people equals lower prices). Spirit grew steadily, went public, and by September 2015 had revenues of $1.6 billion, up 11 per cent over 2014. More impressively, profits rose 43 per cent to nearly $243 million during that same period. Competing airlines noticed. Helped by low oil prices, they aggressively slashed fares. In turn, Spirit cut fares 17 per cent to stay competitive. Its revenues, profits and stock price all declined. Three months later, CEO Ben Baldanza was abruptly replaced.[81]

economic responsibility
the expectation that a company will make a profit by producing a valued product or service

William Rollnick, who became acting chairman of Mattel (toys) after the company fired its previous CEO, says, 'There's zero forgiveness. You screw up and you're dead'.[82] Indeed, in both Europe and the United States, nearly one-third of all CEOs are fired because of their inability to successfully change their companies.[83] In fact, CEOs are three times more likely to be fired today than two decades ago.

legal responsibility
a company's social responsibility to obey society's laws and regulations as it tries to meet its economic responsibilities

Legal responsibility is a company's social responsibility to obey society's laws and regulations as it tries to meet its economic responsibilities.

Volkswagen clearly violated its legal responsibilities after admitting to using software to falsify emissions tests (turning emissions controls on during testing to meet standards and then turning them off during driving for better mileage). It agreed to pay $22 billion in settlements and fines in the US, including payments of $5000 to $10 000 to each owner of a VW diesel car and $4.3 billion in civil and criminal penalties. 'Volkswagen deeply regrets the behaviour that gave rise to the diesel crisis', the company said in a statement. 'The agreements that we have reached with the US government reflect our determination to address misconduct that went against all of the values Volkswagen holds so dear.'[84]

ethical responsibility
a company's social responsibility not to violate accepted principles of right and wrong when conducting its business

Ethical responsibility is a company's social responsibility not to violate accepted principles of right and wrong when conducting its business. News Corporation, owned by billionaire Rupert Murdoch, which owns the *Wall Street Journal* and Fox News, is a global media company offering network programming, films, TV shows, direct broadcast satellite TV and publishing, primarily in the US, the UK and Australia. News Corporation shut down *News of the World*, the best-selling Sunday newspaper in the UK, after it was discovered that its reporters tapped into voicemails in pursuit of stories, including those of murdered children, family members of deceased soldiers and relatives of people killed in the 2005 London terrorist attacks. James Murdoch, News Corporation's then deputy chief operating officer who eventually resigned his position because of the scandal, said that the newspaper's reputation had been 'sullied by behaviour that was wrong'. On the shutting down of the newspaper, he went on to say, 'The *News of the World* is in the business of holding others to account. But it failed when it came to itself'.[85]

Getty Images/Michael Bocchieri

Many companies stepped in to help Americans rebuild in the wake of Hurricane Sandy

discretionary responsibility
the expectation that a company will voluntarily serve a social role beyond its economic, legal and ethical responsibilities

Discretionary responsibilities pertain to the social roles that businesses play in society beyond their economic, legal and ethical responsibilities. The protracted drought affecting Australian farmers has had a punishing impact on farm income and the wellbeing of farming families. Governments, both state and Commonwealth, have put in place measures to support farmers through the crisis. The Australian Banking Association has announced that their members would offer help, depending on the needs and circumstances of farm borrowers, in the form of a deferral of scheduled loan repayments, waiving fees and charges, including break costs on early redemption of farm management deposits, interest free periods or no interest rate increases, and debt consolidation to help make repayments more manageable.[86]

The Bank of Queensland (BOQ) has made a $50 000 donation to Rural Aid Australia, ANZ has donated $1 million and the Commonwealth Bank has promised $2 million to charities established to support drought-affected farms.[87] Among other moves to support farms experiencing hardship, NAB has donated $100 000 to the Country Women's Association.[88] Several transport companies, mostly those who base their businesses on carting hay and other agricultural produce, have donated their time and used their vehicles to transport hay free of charge to drought-stricken farmers.[89] Westpac has also announced a $100 million commitment to its agribusiness activities aimed at supporting farms affected by the drought.[90] Carrying out discretionary responsibilities such as these is voluntary. Companies are not considered unethical if they don't perform them. Today, however, corporate stakeholders expect companies to do much more than in the past to meet their discretionary responsibilities.

LO7 RESPONSES TO DEMANDS FOR SOCIAL RESPONSIBILITY

social responsiveness
a company's strategy to respond to stakeholders' economic, legal, ethical or discretionary expectations concerning social responsibility

Social responsiveness refers to a company's strategy to respond to stakeholders' economic, legal, ethical or discretionary expectations concerning social responsibility. A social responsibility problem exists whenever company actions do not meet stakeholder expectations. One model of social responsiveness identifies four strategies for responding to social responsibility problems: reactive, defensive, accommodative and proactive. These strategies differ in the extent to which the company is willing to act to meet or exceed society's expectations.

reactive strategy
a social responsiveness strategy in which a company does less than society expects

defensive strategy
a social responsiveness strategy in which a company admits responsibility for a problem but does the least required to meet societal expectations

A company using a **reactive strategy** will do less than society expects. It may deny responsibility for a problem or fight any suggestions that the company should solve a problem.

By contrast, a company using a **defensive strategy** would admit responsibility for a problem but would do the least required to meet societal expectations. Foxconn is a Taiwanese electronics manufacturing company that operates Chinese factories that produce 40 per cent of the world's consumer electronic products. At the Foxconn factories that make iPhones and iPads in China, 18 employees attempted suicide in 2010, most by leaping to their deaths. After the eleventh suicide, the company placed suicide nets that reach 20 feet out around the perimeter of each building.[91]

An extensive *New York Times* investigation found that employees often worked seven days a week, were exposed to dangerous chemicals and lived in crowded, company-supplied dorm rooms, some with as many as 20 people per three-bedroom apartment. However, Apple, which had been conducting audits of its suppliers' manufacturing facilities for many years, was slow to respond. A consultant with Business for Social Responsibility, a company Apple hired for advice on labour issues, said, 'We've spent years telling Apple there are serious problems and recommending changes. They don't want to pre-empt problems, they just want to avoid embarrassments'. A former Apple executive said, 'If you see the same pattern of problems, year after year, that means the company's ignoring the issue rather than solving it. Non-compliance is tolerated, as long as the suppliers promise to try harder next time. If we meant business, core violations would disappear'.[92]

After the *New York Times* story, Apple began working with the Fair Labor Association, a non-profit organisation that promotes and monitors safe working conditions. Four years after the problems began, following the Fair Labor Association's report, Apple and Foxconn agreed to increase pay, limit employees to a maximum of 49 hours a week, build more dormitories and hire thousands of additional employees.[93]

accommodative strategy
a social responsiveness strategy in which a company accepts responsibility for a problem and does all that society expects to solve that problem

A company using an **accommodative strategy** will accept responsibility for a problem and take a progressive approach by doing all that can be expected to solve the problem. Big banks in Australia are often derided in the media for putting their huge profits ahead of people and the community; however, the banks are also often at the forefront of the relief effort following natural disasters such as droughts, fires, floods and storms. ANZ, NAB, Westpac and Commonwealth Bank have made supporting drought relief a centrepiece of their rural business.

AAP Images/David Mariuz

Since 2008, IBM's Corporate Service Corps has sent 1400 employees, in teams of eight to 15, to emerging countries to solve significant economic and social problems. Prior to leaving, teams prepare for three months, learning about cultures, researching the problems they'll be addressing and using technology to begin building relationships with the local government, business and civic leaders with whom they'll be working. When a team of 10 from IBM visited the Philippines, a local tour turned into a team project when they learned that a well in a village had not been completed because of mistakes and a lack of money. IBM's employees immediately suspended their trip to begin pulling together local contacts with engineering knowledge to conduct the work. The team also paid for the project to be completed. As a result, local residents no longer walk 6.4 kilometres to retrieve drinkable water for their homes and families.[94] Likewise, other IBM Corporate Service Corps members have redesigned Kenya's postal system and developed plans to grow the eco-tourism industry in Tanzania. While these experiences develop the global and leadership skills of its employees, there are tremendous benefits for the people and societies they help.[95]

Finally, a company using a **proactive strategy** will anticipate responsibility for a problem before it occurs, do more than expected to address the problem and lead the industry in its approach. Twenty-five years ago, Merck, a pharmaceutical company, began giving away its drug for river blindness, which thrives and spreads easily along fertile riverbanks in Africa and Latin America. River blindness affects 37 million people worldwide and could infect up to 140 million others.[96] Merck's drug program is the largest ongoing medical donation program in history. Since 1987, Merck has given away more than 2 billion treatments in 28 countries in Africa, six countries in Latin America and Yemen at a cost of more than $4 billion. Roy Vegas, Merck's CEO in 1987, said, 'We decided the company would do it at that point at no charge. We announced [in 1987] that Merck would contribute the drug free of charge for as long as it was needed'.[97] The World Health Organization (WHO) now believes that, thanks to Merck's contributions, river blindness is on the verge of being completely eliminated in Africa.[98] In support of new WHO guidelines, Merck announced in November 2017 that they would expand their drug donation program to reach up to an additional 100 million people per year through to 2025 as part of the global effort to eliminate river blindness. The program covers more than 250 million people in the areas where river blindness occurs.[99] Figure 4.4 summarises the discussion of social responsiveness.

proactive strategy
a social responsiveness strategy in which a company anticipates responsibility for a problem before it occurs and does more than society expects to address the problem

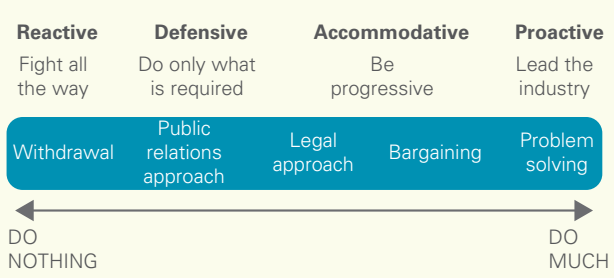

FIGURE 4.4 Social responsiveness

Source: A. B. Carroll, 'A three-dimensional conceptual model of corporate performance' (Figure 3.3), *Academy of Management Review, 4,* 1979. Republished with Permission of Academy of Management, P.O. Box 3020, Briar Cliff Manor, NY, 10510-8020. Reproduced by Permission of the Publisher via Copyright Clearance Center, Inc.

LO8 SOCIAL RESPONSIBILITY AND ECONOMIC PERFORMANCE

One question that managers often ask is, 'Does it pay to be socially responsible?' In previous editions of this textbook, the answer tended to be 'no', as early research indicated that there was not an inherent relationship between social responsibility and economic performance.[100] Recent research, however, leads to different conclusions. There is no trade-off between being socially responsible and economic performance,[101] and there is a small, positive relationship between being socially responsible and economic performance that strengthens with corporate reputation.[102] Let's explore what each of these results means.

First, as noted earlier, there is no trade-off between being socially responsible and economic performance.[103] Being socially responsible usually won't make a business less profitable. What this suggests is that the costs of being socially responsible – and those costs can be high, especially early on – can be offset by a better product or corporate reputation, which results in stronger sales or higher profit margins. When businesses enhance their reputations by being socially responsible, they hope to maximise *willingness to pay*, that is, customers paying more for products and services that are socially responsible.

Australian company Cotton On has established a scheme to provide aid in the form of education opportunities

in developing nations. The Cotton On Foundation aims to provide 20 000 education places by 2020, funded by selling special products in their stores. The products sold to support the Cotton On Foundation include bottled water, mints, wrist bands, pocket packs of tissues and re-useable tote bags. Since 2007, the Cotton On Foundation has raised over $72 million for its charitable projects.[104]

Second, it usually *does* pay to be socially responsible, and that relationship becomes stronger particularly when a company or its products have a strong reputation for social responsibility.[105] Finally, even if there is generally a small positive relationship between social responsibility and economic performance that becomes stronger when a company or its products have a positive reputation for social responsibility, and even if there is no trade-off between being socially responsible and economic performance, there is no guarantee that socially responsible companies will be profitable. Simply put, socially responsible companies experience the same ups and downs in economic performance that traditional businesses do.

For all of the positive press that Tesla gets for its high-performing, environmentally friendly, very expensive cars (without options, Model S prices range from $71 000 to $137 800 while Model X prices range from $89 000 to $139 000), few people realise that Tesla has reported a quarterly profit just twice since going public in 2010 (Tesla was founded in 2003). Every other quarter resulted in millions of dollars of losses. Part of this is because Tesla is a startup automotive company, which is a cash-intensive business. As of February 2017, Tesla reported 10 straight quarters of negative free cash flow, which means that Tesla was burning more cash than it was generating.[106] Indeed, as Tesla finally delivered its more reasonably priced $35 000 Model 3 in 2018, five years late to market, founder Elon Musk explained that Tesla's cash will drop 'close to the edge'.[107] Musk further projects that Tesla will not be profitable until 2020 when it reaches full production capacity on all three of its cars.[108] Tesla could ultimately disrupt the automotive industry and be wildly profitable. But if it does so on Musk's estimated schedule, it will have taken 17 years just to get to consistent profitability. Being socially responsible may be the right thing to do, and it is usually associated with increased profits, but it doesn't guarantee business success.

MINDTAP **Find out more about how your ethical beliefs align with your management approach with this self assessment** ENGAGE APPLY VIDEO

Getty Images/Ulrich Baumgarten

PART 1, CHAPTERS 1–4

OVERALL AIM OF PART 1

To introduce management, its history and its applications in contemporary workplaces

What can you take from your progress through this part of MGMT4

1 Management

- You have developed your understanding of the four functions of management and covered the different kinds of managers – including the major roles and sub-roles that managers perform in their jobs.
- You can articulate what companies look for in managers and you will be able to describe the transition that employees go through when they are promoted to management positions.
- You understand that companies can create competitive advantage through people.
- You have learned that sometimes managers make mistakes, and you can now identify and discuss the top mistakes that managers make in their jobs.

MINDTAP **Listen to an audio summary of each chapter in the End of Part summary** CHAPTER 1

2 History of management

- You have developed your understanding of the history of management and you have covered conceptual, theoretical and analytical aspects of management.
- You are able to discuss the origins of management, comparing them with the ideas and practices of managers today.
- You understand the history of scientific management, bureaucratic and administrative management, and you have learnt about the contributions to management theory and practice by key thinkers in the field.
- You have covered the history of human relations management and can apply the lessons learnt from

MINDTAP **Listen to an audio summary of each chapter in the End of Part summary** CHAPTER 2

3 Organisational environments and cultures

- You have learnt how changing environments affect organisations. You can explain and provide examples of the four components of the general environment and explain the five components of the specific environment.
- You will be able to articulate and adopt certain processes that companies use to make sense of their changing environments, and expand upon how organisational cultures are created and how they can help companies be successful.

MINDTAP **Listen to an audio summary of each chapter in the End of Part summary** CHAPTER 3

4 Ethics and social responsibility

- You have learnt how to identify common kinds of workplace deviance, and understand the role of the Australian Competition and Consumer Commission (ACCC) in the Australian business environment.
- Your study of ethical decision making has allowed you to discuss how companies are encouraged to behave ethically and how they may be punished for unethical behaviour.
- You are able to explain and apply practical steps that managers can take to improve ethical decision making.
- You understand the key concept of social responsibility, and can explain to whom organisations are socially responsible, why they are socially responsible and how they can choose to respond to societal demands for social responsibility.
- In simulations and examples, you can illustrate whether social responsibility hurts or helps an organisation's economic performance.

MINDTAP **Listen to an audio summary of each chapter in the End of Part summary** CHAPTER 4

PART TWO

PLANNING

5 Planning and decision making

LEARNING OUTCOMES

1. Discuss the benefits and pitfalls of planning.
2. Describe how to make a plan that works.
3. Discuss how companies can use plans at all management levels, from top to bottom.
4. Explain the steps (and the limits) of rational decision making.
5. Explain how group decisions and decision-making techniques can improve decision making.

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Throughout this chapter the MindTap icon indicates an opportunity to go online and access videos, audio, quizzes and more. The highlighted text above the icon identifies the chapter folder in which you can find it.

PLANNING

Even inexperienced managers know that planning and decision making are central parts of their jobs. They have to decide what the problem is. They need to generate potential solutions or plans. They have to pick the best one and make it work. Experienced managers, however, know how hard it really is to make good plans and decisions. One seasoned manager says: 'I think the biggest surprises are the problems. Maybe I had never seen it before. Maybe I was protected by my management when I was in sales. Maybe I had delusions of grandeur, I don't know. I just know how disillusioning and frustrating it is to be hit with problems and conflicts all day and not be able to solve them very cleanly'.[1]

Planning is choosing a goal and developing a method or strategy to achieve that goal. German-owned discount supermarket chain Aldi, which has 13.2 per cent of grocery sales in the supermarket sector ($11.9 billion), opened its 500th Australian store in 2017, and continued an aggressive store roll-out with 32 new stores opening in 2018. The company built new distribution centres in Sydney and Melbourne to cope with the expected expansion. Aldi continues to expand in the Australian market at a rapid pace. For good reason too, with a total grocery market of just over $90bn in Australia, every 0.1 per cent of market share is worth nearly $100 million.[2]

Aldi's plan also differs from traditional full-line supermarkets in that the range of products offered by the store is limited. Unlike a full-line supermarket, Aldi stocks only about 1000 grocery items, more than 95 per cent of which are private-label rather than name-brand products. By restricting its range to just one of each type of item, Aldi can drastically reduce the size of its stores and, therefore, its overheads and prices. In addition to market-leading