chapter 1

Introduction to the Field of Organizational Behavior

learning objectives

After studying chapter 1, you should be able to:

1-1 Define organizational behavior and organizations, and discuss the importance of this field of inquiry.

1-2 Compare and contrast the four current perspectives of organizational effectiveness.

1-3 Debate the organizational opportunities and challenges of globalization, workforce diversity, and emerging employment relationships.

1-4 Discuss the anchors on which organizational behavior knowledge is based.

Quicken Loans is America's third-largest residential mortgage lender, yet it is almost the antithesis of a traditional financial institution. The Detroit-based company does business completely online and boasts a high-involvement, creative, customer-focused, and fun culture. "We encourage everyone who works at the company to be curious, look for ways to improve our processes, then take the next step and make the changes a reality," says one manager. The information technology group takes the creative process one step further through "Bullet Time," a half-day event each Monday during which information technology staff work on a project outside their usual duties that benefits the company. "You need to provide the freedom and motivation for employees to make a difference" explains Bill Parker, the company's Innovation Architect.

The company invests heavily in employee development, beginning with an intensive two-day orientation program, during which Chair Dan Gilbert and CEO Bill Emerson personally describe the company's culture and 18 principles (called "ISMs") that guide employee behavior. Emerson even hands out his e-mail address and personal cell number to keep the communication lines open. "I encourage leaders to be accessible because it breeds an inclusive culture," says Emerson.

Quicken Loans' work environment also supports its work hard–play hard culture. The company's offices in downtown Detroit (as well as in six other cities) are a riot of brightly colored walls and furniture, graffiti-painted concrete floors, and unusual spaces for impromptu gatherings and work breaks. Surrounded by progress charts and posters highlighting each of Quicken Loans' "ISMs," employees take time out to engage in Ping-Pong tournaments, basketball games, Nerfball battles, and costume contests. "We've done some pretty wild stuff, but people will respond well to that," suggests Quicken facilities director Melissa Price. "It creates an energy level that an old, tired space doesn't have."

Quicken Loans is also recognized for its strong community support, such as reviving Detroit's central business district, donating time and resources to charities, and assisting employees serving in the National Guard. The company isn't perfect. Yet it is recognized by multiple sources as one of the best financial institutions for

Quicken Loans has become one of America's most successful companies through high involvement, a focus on creativity, a strong culture, and other effective organizational behavior practices.

customer service and one of the best places to work in America. "There's so much room for growth," says Quicken Loans employee Ricardo Williams. "No one in the company limits you to where you're at."[1]

Welcome to the Field of Organizational Behavior!

This opening story about Quicken Loans illustrates some of the important ways that organizations succeed in today's turbulent environment. In every sector of the economy, organizations need to employ skilled and motivated people who can be creative, work in teams, and maintain a healthy lifestyle. They need leaders with foresight and vision, who support innovative work practices and make decisions that consider the interests of multiple stakeholders. In other words, the best companies succeed through the concepts and practices that we discuss in this organizational behavior book.

Our purpose is to help you understand what goes on in organizations, including the thoughts and behavior of employees and teams. We examine the factors that make companies effective, improve employee well-being, and drive successful collaboration among coworkers. We look at organizations from numerous and diverse perspectives, from the deepest foundations of employee thoughts and behavior (personality, self-concept, commitment) to the complex interplay among the organization's structure and culture and its external environment. Along this journey, we emphasize why things happen and what you can do to predict and manage organizational events.

We begin this chapter by introducing you to the field of organizational behavior (OB) and why it is important to your career and to organizations. Next, this chapter describes the "ultimate dependent variable" in OB by presenting the four main perspectives of organizational effectiveness. This is followed by an overview of three challenges facing organizations: globalization, increasing workforce diversity, and emerging employment relationships. We complete this opening chapter by describing four anchors that guide the development of organizational behavior knowledge.

The Field of Organizational Behavior

LO 1-1

Organizational behavior (OB) is the study of what people think, feel, and do in and around organizations. It looks at employee behavior, decisions, perceptions, and emotional responses. It examines how individuals and teams in organizations relate to each other and to their counterparts in other organizations. OB also encompasses the study of how organizations interact with their external environments, particularly in the context of employee behavior and decisions. OB researchers systematically study these topics at multiple levels of analysis, namely, the individual, team (including interpersonal), and organization.[2]

The definition of organizational behavior begs the question: What are organizations? **Organizations** are groups of people who work interdependently toward some purpose.[3] Notice that organizations are not buildings or government-registered entities. In fact, many organizations exist without either physical walls or government documentation to confer their legal status. Organizations have existed for as long as people have worked together. Massive temples dating back to 3500 BC were constructed through the organized actions of multitudes of people. Craftspeople and merchants in ancient Rome formed guilds, complete with elected managers. More than 1,000 years ago, Chinese factories were producing 125,000 tons of iron each year.[4]

Throughout history, these and other organizations have consisted of people who communicate, coordinate, and collaborate with each other to achieve common objectives. One key feature of organizations is that they are collective entities. They consist of human beings (typically, but not

organizational behavior (OB)
The study of what people think, feel, and do in and around organizations.

organizations
Groups of people who work interdependently toward some purpose.

necessarily, employees), and these people interact with each other in an *organized* way. This organized relationship requires some minimal level of communication, coordination, and collaboration to achieve organizational objectives. As such, all organizational members have degrees of interdependence with each other; they accomplish goals by sharing materials, information, or expertise with coworkers.

A second key feature of organizations is that their members have a collective sense of purpose. This collective purpose isn't always well defined or agreed on. Although most companies have vision and mission statements, these documents are sometimes out of date or don't describe what employees and leaders try to achieve in reality. Still, imagine an organization without a collective sense of purpose. It would be a collection of people without direction or unifying force. So, whether it's providing home loans at Quicken Loans or designing better aircraft at Boeing, people working in organizations have some sense of collective purpose. As Steve Jobs, the late cofounder of Apple Inc. and Pixar Animation Studios, once said: "A company is one of humanity's most amazing inventions. It's totally abstract. Sure, you have to build something with bricks and mortar to put the people in, but basically a company is this abstract construct we've invented, and it's incredibly powerful."[5]

HISTORICAL FOUNDATIONS OF ORGANIZATIONAL BEHAVIOR

Organizational behavior emerged as a distinct field around the early 1940s, but organizations have been studied by experts in other fields for many centuries. The Greek philosopher Plato wrote about the essence of leadership. Around the same time, the Chinese philosopher Confucius extolled the virtues of ethics and leadership. In 1776, Adam Smith discussed the benefits of job specialization and division of labor. One hundred years later, the German sociologist Max Weber wrote about rational organizations, the work ethic, and charismatic leadership. Soon after, industrial engineer Frederick Winslow Taylor proposed systematic ways to organize work processes and motivate employees through goal setting and rewards.[6]

Until the 1930s, most organizational research and practice tried to improve work efficiency by changing working conditions and job duties. Employees' thoughts and feelings were ignored and considered irrelevant. Elton Mayo (left in photo), his research assistant and later professor Fritz Roethlisberger (right), and others at Harvard University adopted a completely different view. Their research at Western Electric Hawthorne Works near Chicago found that employee attitudes, formal team dynamics, informal groups, and supervisor leadership style strongly influenced employee performance and well-being. This focus, known as the "human relations" school, laid the foundation for the field of organizational behavior as we know it today.[8]

From the 1920s to the 1940s, Harvard professor Elton Mayo and his colleagues established the "human relations" school of management, which emphasized the study of employee attitudes and informal group dynamics in the workplace. Also during that time, political philosopher and social worker Mary Parker Follett advocated new ways of thinking about several OB topics, including constructive conflict, team dynamics, organizational democracy, power, and leadership. In the late 1930s, Chester Barnard wrote insightful views regarding organizational communication, coordination, leadership and authority, organizations as open systems, and team dynamics.[7] This brief historical tour indicates that OB has been around for a long time; it just wasn't organized into a unified discipline until around World War II.

WHY STUDY ORGANIZATIONAL BEHAVIOR?

Organizational behavior instructors face a challenge: Students who have not yet begun their careers tend to value courses related to specific jobs, such as accounting and marketing.[9] However, OB doesn't have a specific career path—there is no "vice president of OB"—so students sometimes have difficulty recognizing the value that OB knowledge can offer to their future. Meanwhile, students with several years of work experience identify OB as one of the most important courses. Why? Because they have learned through experience that OB *makes a difference* to one's career success. OB helps us make sense of and predict the world in which we live.[10] We use OB theories to question our personal beliefs and assumptions and to adopt more accurate models of workplace behavior.

But probably the greatest value of OB knowledge is that it helps us get things done in the workplace.[11] By definition, organizations are people who work together to accomplish things, so we need a toolkit of knowledge and skills to work successfully with others. Building a high-performance team, motivating coworkers, handling workplace conflicts, influencing your boss, and changing employee behavior are just a few of the areas of knowledge and skills offered in organizational behavior. No matter what career path you choose, you'll find that OB concepts play an important role in performing your job and working more effectively within organizations.

connect

Is OB just common sense? Visit **connect.mcgrawhill.com** to assess how much your personal theories about what goes on in organizations are consistent with current organizational behavior evidence.

Organizational Behavior Is for Everyone A common misunderstanding is that organizational behavior is for managers. Although OB knowledge is critical for effective management, this book takes the broader view that the ideas presented in this book are valuable for everyone who works in and around organizations. Whether you are a geologist, mortgage loan banker, customer service representative, or chief executive officer, you need to understand and apply the many organizational behavior topics that are discussed in this book. Most organizations will probably always have managers, and this book recognizes the relevance of OB knowledge in these vital roles. But we also recognize that all employees are increasingly expected to manage themselves and work effectively with each other in the workplace. In the words of one forward-thinking OB writer more than four decades ago: Everyone is a manager.[12]

OB and the Bottom Line Up to this point, our answer to the question "Why study OB?" has focused on how organizational behavior knowledge benefits you as an individual. However, OB knowledge is just as important for the organization's financial health. Quicken Loans illustrates this point: Its success has been driven by a strong workplace culture, individual rewards and development, teamwork, creative decision making, visionary leadership, and many other organizational behavior practices.

Numerous studies have reported that OB practices are powerful predictors of the organization's survival and success.[13] One investigation found that hospitals with higher levels of specific OB activities (e.g., training, staff involvement, rewards and recognition) have lower patient mortality rates. Another study found that companies receiving "best place to work" awards have significantly stronger financial and long-term stock market performance. Companies with higher levels of employee engagement also have significantly higher sales and profitability (see Chapter 5).

The bottom-line value of organizational behavior is also supported by human capital and investment portfolio studies. These investigations suggest that specific OB characteristics (employee attitudes, work–life balance, performance-based rewards, leadership, employee training and development) are important "positive screens" for selecting companies with the best long-term stock appreciation. For example, various studies report that a company's performance is significantly influenced by the quality of its chief executive officer. There is plenty of anecdotal evidence of this relationship, including the leadership failures that caused problems at JCPenney and SNC Lavalin.[14]

Perspectives of Organizational Effectiveness

LO 1-2

Apple, Inc. and Google, Inc. are the two most admired companies in the world, according to *Fortune* magazine's annual list.[15] Yet neither of these companies was on anyone's radar screen a dozen years ago. Apple was on life support in the late 1990s, barely clinging on to a few percentage points of market share in the computer industry. Google wasn't even registered as a company. It was little more than a computer project by two Stanford PhD students that was quickly outgrowing the dorm room where their equipment was housed. How did Apple and Google achieve their incredible successes? They consistently applied the four perspectives of organizational effectiveness that we discuss over the next few pages.

connect

Visit **connect.mcgrawhill.com** for activities and test questions to help you learn the four perspectives of organizational effectiveness.

Almost all organizational behavior theories have the implicit or explicit objective of making organizations more effective.[16] In fact, **organizational effectiveness** is considered the "ultimate dependent variable" in organizational behavior.[17] This means that organizational effectiveness is the outcome that most OB theories are ultimately trying to achieve. Many theories use different labels—organizational performance, success, goodness, health, competitiveness, excellence—but they are basically presenting models and recommendations to help organizations become more effective.

Many years ago, OB experts thought the best indicator of a company's effectiveness was how well it achieved its stated objectives. According to this definition, Delta Airlines would be an effective organization if it met or exceeded its annual sales and profit targets. Today, we know this isn't necessarily so. Any leadership team could set corporate goals that are easy to achieve but would put the organization out of business. These goals also could be left in the dust by competitors' more aggressive objectives. Worse still, some goals might point the organization in the wrong direction. Consequently, goal attainment is not part of the organizational effectiveness model in this book.

organizational effectiveness
A broad concept represented by several perspectives, including the organization's fit with the external environment, internal subsystems configuration for high performance, emphasis on organizational learning, and an ability to satisfy the needs of key stakeholders.

The best yardstick of organizational effectiveness is a composite of four perspectives: open systems, organizational learning, high-performance work practices, and stakeholders.[18] Organizations are effective when they have a good fit with their external environment, are learning organizations, have efficient and adaptive internal subsystems, and satisfy the needs of key stakeholders. Let's examine each of these perspectives in more detail.

OPEN SYSTEMS PERSPECTIVE

The **open systems** perspective of organizational effectiveness is one of the earliest and most well-entrenched ways of thinking about organizations.[19] Indeed, the other major organizational effectiveness perspectives might be considered detailed extensions of the open systems model. This perspective views organizations as complex organisms that "live" within an external environment, rather like the illustration in Exhibit 1.1. The word *open* describes this permeable relationship, whereas *closed systems* operate without dependence on or interaction with an external environment.

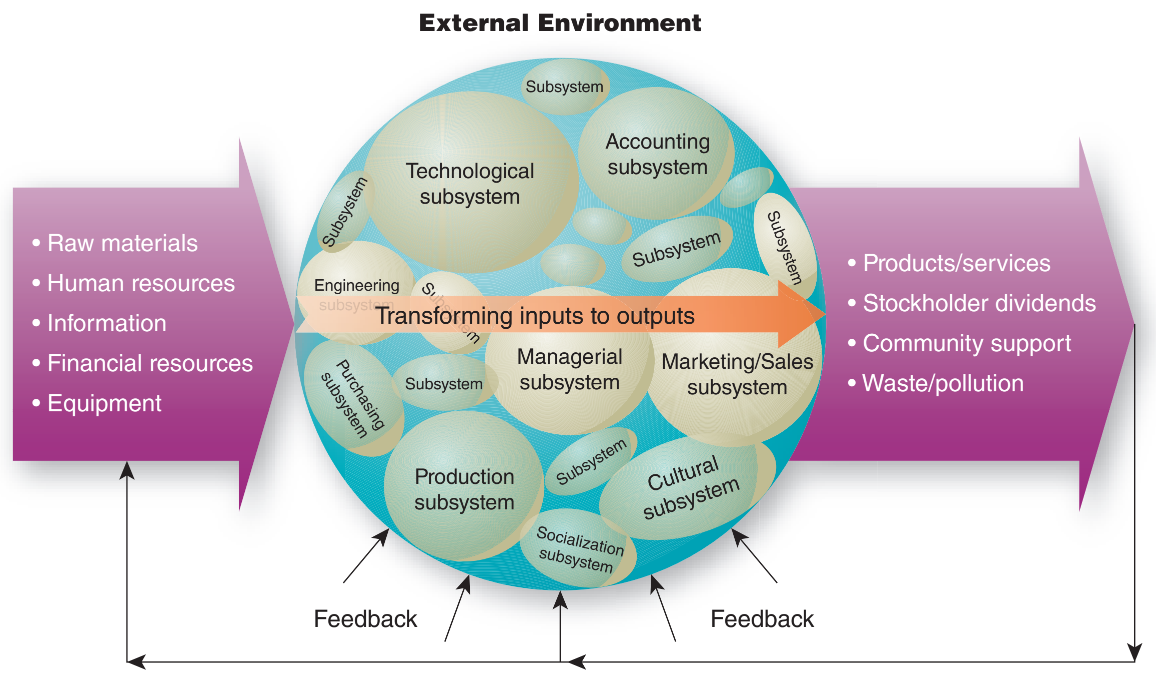
As open systems, organizations depend on the external environment for resources, including raw materials, job applicants, financial resources, information, and equipment. The external environment also consists of rules and expectations, such as laws and cultural norms, that place demands on how organizations should operate. Some environmental resources (e.g., raw materials) transform into outputs that are exported to the external environment, whereas other resources (e.g., job applicants, equipment) become subsystems in the transformation process.

Inside the organization are numerous subsystems, such as departments, teams, informal groups, work processes, technological configurations, and other elements. Rather like the Russian *matryoshka* dolls nested within each other, organizational subsystems are systems with their own subsystems.[20] For example, the Nordstrom department store in Spokane, Washington, is a subsystem of the Nordstrom chain, but the Spokane store is also a system with its own subsystems of departments, teams, and work processes. An organization's subsystems are organized interdependently so they interact with each other to transform inputs into various outputs. Some outputs (e.g., products, services, community support) may be valued by the external environment, whereas other outputs (e.g., employee layoffs, pollution) are by-products that may have adverse effects on the environment and the organization's relationship with that environment. Throughout this process, organizations receive feedback from the external environment regarding the value of their outputs and the availability of future inputs.

open systems
A perspective that holds that organizations depend on the external environment for resources, affect that environment through their output, and consist of internal subsystems that transform inputs to outputs.

Organization–Environment Fit According to the open systems perspective, organizations are effective when they maintain a good "fit" with their external environment.[22] Good fit exists when the organization's inputs, processes, and outputs are aligned with the needs and expectations of the external environment. There are three ways that companies

EXHIBIT 1.1 Open Systems Perspective of Organizations



maintain a good environmental fit. The most common strategy to fit with the external environment is to change the company's products and services, as well as how those outputs are produced. Zara, the world's largest fashion retailer, relies on continuous adaptation to maintain a good fit with its highly volatile external environment. As Global Connections 1.1 describes, the Spanish company receives continuous feedback from each of its 6,000 stores, and then uses that feedback along with ongoing creativity to rapidly design, manufacture, and deliver new styles. In contrast, fashion retailers with a poor environmental fit are overstocked with products that few people want to buy and respond slowly to changing preferences.

A second way that organizations maintain a good fit is actively managing their external environment. Many firms manage their environment through marketing, which attempts to increase demand for their products or services. Others gain exclusive rights to particular resources (e.g., to sell a known brand) or restrict competitor access to valued resources. Still others lobby for legislation that strengthens their position in the marketplace or try to delay legislation that would disrupt their business activities.

global connections 1.1

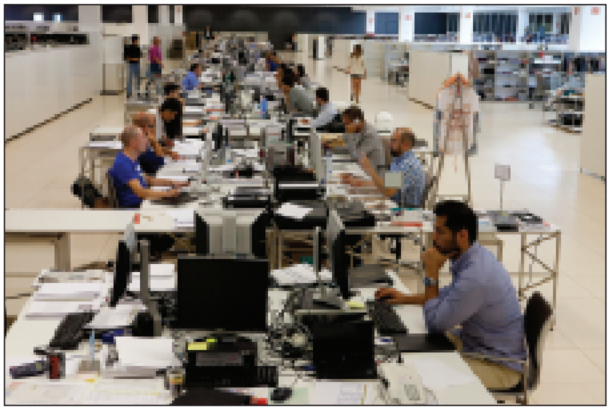
Zara Relies on Open Systems Thinking for Fast Fashion

Zara, the world's largest clothing retailer, thrives in one of the world's most volatile industries. What is its secret to success? The Spanish flagship brand of Inditex (which also owns Pull & Bear, Stradivarius, and other brands) has a business model that applies open systems thinking.

In the fashion industry, customer preferences change quickly and have limited predictability. Zara maintains a close fit with that turbulent environment by experimenting with numerous new styles, receiving almost immediate and continuous feedback about which ones are most popular, learning what minor adjustments would make the styles more appealing, and quickly producing and delivering new or revised styles to match current demand. Zara practically invented the notion of "fast fashion," whereby the company responds quickly to customer preferences and fashion trends. Most other retailers instead produce a limited variety of styles, offer only two or three batches of new designs each year, and require up to six months for those designs to show up in stores.

The nucleus of this open systems process is an aircraft hangar–sized room at Zara's headquarters in A Coruña, Spain (shown in the photo). In the center of the room is a long line of facing desks where regional managers from two dozen countries are in daily contact with each of the company's 6,000 stores in 86 countries. Equally important, sales staff are trained to ask customers about why they bought a garment or how a garment could be designed more to their liking. These customer comments are then quickly reported back to headquarters. On both sides of the room are designers and other staff who use this continuous store feedback to revise existing styles and spark ideas for new designs.

Suppose several regional managers receive reports that the new line of women's white jackets is selling slowly; however, customers have told sales staff they would buy that style of jacket in a cream-color with silkier fabric. Designers receive this information and quickly get to work designing a cream-colored jacket with the preferred material. Some regional differences exist, of course, but Zara reports that most of its products are in demand globally. Zara also produces limited stocks of a large variety of designs. Thus, the company can sample a wider array of market preferences while minimizing the problem of having too much inventory. In fact, knowing that Zara's products are constantly changing attracts customers back to the stores more often.



Zara, the Spanish fashion retail giant, relies on an open systems perspective to achieve success in one of the world's most volatile industries. emileluider.com

Rapid and rich feedback from stores is vital, but Zara also thrives because of its quick response to that feedback. Most fashion retailers rely on independent manufacturers in distant countries that require several months' lead time to produce a garment. Zara uses such low-cost manufacturers to some extent, but half of its garments are made "in proximity" by nearby Spanish companies or companies in Portugal, Morocco, and Turkey. Nearby manufacturing costs more, but it often takes less than three weeks for a new design from these nearby sites to arrive in stores, which receive new stock twice each week.[21]

The third way organizations maintain a healthy fit is to change their business or market location. In other words, if the external environment is too challenging, organizations move to a new environment that can sustain them. Nucor, the largest steelmaker by market value in the United States, began as a car and truck manufacturer (under the name REO), then became a steel joist manufacturer, before settling into its current business. IBM exited the computer products industry when senior executives (correctly) predicted that selling computers would be less prosperous than the rapidly growing technology services business.

Internal Subsystems Effectiveness The open systems perspective considers more than an organization's fit with the external environment. It also defines effectiveness by how well the company operates internally—that is, how well it transforms inputs into outputs. The most common indicator of this internal transformation process is **organizational efficiency** (also called *productivity*), which is the ratio of inputs to outcomes.[23] Quicken Loans, described at the beginning of this chapter, gained considerable advantage over competitors by dramatically increasing its efficiency in processing home loans through online technologies (initially through web pages and more recently through smartphone apps).

Successful organizations usually require more than efficient transformation processes, however. They also need more *adaptive* and *innovative* transformation processes.[24] Adaptivity makes the organization's transformation process more responsive to changing conditions and customer needs. Innovation enables the company to design work processes that are superior to what competitors can offer. Zara thrives on its adaptability because its internal subsystems continuously revise styles in line with customer preferences. The company's internal subsystems and tight relations with external contractors also are more efficient than competitors', because new fashion ideas become products on store racks within a few weeks (whereas most fashion companies require several months).

Finally, internal subsystem effectiveness calls for well-tuned coordination among subsystems.[25] As companies grow, their internal subsystems (divisions, specializations, and the like) become more complex. This complexity and clustering increases the risk that information will get lost, ideas and resources are hoarded, messages are misinterpreted, and rewards get distributed unfairly. Subsystems are also interconnected, so small work practice changes in one subsystem may ripple through the organization and undermine the effectiveness of other subsystems. Consequently, organizations need to maintain an efficient and adaptable transformation process through work procedures, informal communication, and other coordinating mechanisms (see Chapter 13).

ORGANIZATIONAL LEARNING PERSPECTIVE

The open-systems perspective has traditionally focused on physical resources that enter the organization and are processed into physical goods (outputs). This focus was representative of the industrial economy but not the "new economy," where the most valued input is knowledge.[26] According to the **organizational learning** perspective (also called *knowledge management*), organizational effectiveness depends on the organization's capacity to acquire, share, use, and store valuable knowledge.

Intellectual Capital: The Stock of Organizational Knowledge The organizational learning perspective views knowledge as a resource, and this stock of knowledge exists in three forms, collectively known as **intellectual capital.**[27] The most commonly mentioned form of intellectual capital is **human capital**—the knowledge, skills, and abilities

organizational efficiency
The amount of outputs relative to inputs in the organization's transformation process.

organizational learning
A perspective that holds that organizational effectiveness depends on the organization's capacity to acquire, share, use, and store valuable knowledge.

intellectual capital
A company's stock of knowledge, including human capital, structural capital, and relationship capital.

human capital
The stock of knowledge, skills, and abilities among employees that provide economic value to the organization.

that employees carry around in their heads. Human capital has been described as valuable, rare, difficult to imitate, and nonsubstitutable.[28] It is valuable because employees help the organization discover opportunities and minimize threats in the external environment. Human capital is rare and difficult to imitate, meaning that talented people are difficult to find and cannot be cloned like sheep. Finally, human capital is nonsubstitutable, because it cannot be easily replaced by technology.

Because of these characteristics, human capital is a competitive advantage as well as a huge risk for most organizations. When key people leave, they take with them some of the most valuable knowledge that makes the company effective.[29] Fortunately, some intellectual capital remains, even if every employee left the organization. **Structural capital** (also called *organizational capital*) includes the knowledge captured and retained in an organization's systems and structures, such as the documentation of work procedures and the physical layout of the production line.[30] Structural capital also includes the organization's finished products, because knowledge can be extracted by taking them apart to discover how they work and are constructed (i.e., reverse engineering).

The third form of intellectual capital is **relationship capital,** which is the value derived from an organization's relationships with customers, suppliers, and others that provide added mutual value for the organization. It includes the organization's goodwill, brand image, and combination of relationships that organizational members have with people outside the organization.[31]

Organizational Learning Processes Organizations nurture their intellectual capital through four organizational learning processes: knowledge acquisition, sharing, use, and storage (see Exhibit 1.2).[32]

Knowledge Acquisition Knowledge acquisition includes extracting information and ideas from the external environment, as well as through insight. One of the fastest and most powerful ways to acquire knowledge is by hiring individuals or buying entire companies (called *grafting*). Knowledge is also acquired by scanning the external environment and interpreting messages from external sources. As was described a few pages ago, Zara heavily relies on environmental scanning through store feedback (as well as watching competitors) to make clothes that the customer wants. Quicken Loans also pays close attention to customer feedback so it can develop better products and improve the customer service experience. "Client feedback provides us great insight into areas where we can improve," says a Quicken Loans executive.[33] A third knowledge acquisition strategy is experimentation. Companies receive knowledge through insight as a result of research and other creative processes.

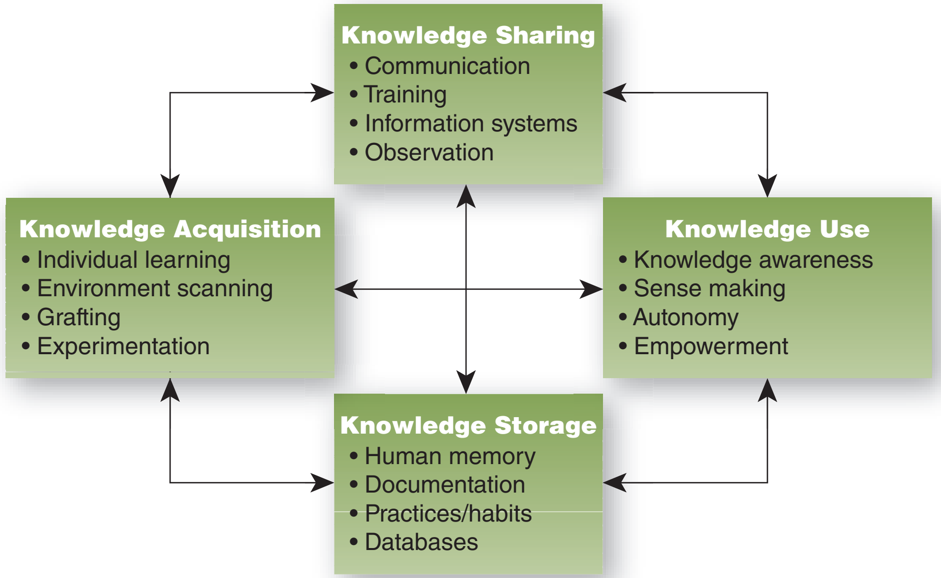
Knowledge Sharing Knowledge sharing involves distributing knowledge to others within the organization. Although typically equated with computer intranets and digital repositories, knowledge sharing mainly occurs through structured and informal communication, as well as various forms of learning (e.g., observation, experience, training, practice). Organizational structure, company practices, and cultural values influence how well employees share knowledge with coworkers.[34] For example, nickel, aluminum, petroleum, and iron ore division employees at BHP

structural capital
Knowledge embedded in an organization's systems and structures.

relationship capital
The value derived from an organization's relationships with customers, suppliers, and other.

EXHIBIT 1.2

Four Organizational Learning Processes



Billiton, the world's largest mining company, were previously spread across Australia and overseas. To break down the silos of knowledge, BHP moved thousands of these people into one building in downtown Perth, Australia. Employees who work in this skyscraper are even discouraged from eating lunch at their desks, so they will mingle more with coworkers in the cafeteria.

Knowledge Use The competitive advantage of knowledge ultimately comes from using it in ways that add value to the organization and its stakeholders. To do this, employees must be aware of the knowledge, be able to locate it, and have enough freedom to apply it. This requires a culture that encourages experimentation and open communication and that recognizes mistakes are part of that process.

Knowledge Storage and Organizational Memory Knowledge storage is the process of holding knowledge for later retrieval. In other words, it involves preserving the organization's intellectual capital (its stock of knowledge). This store of knowledge is often called *organizational memory*.[35] Organizational memory includes knowledge that employees possess, as well as knowledge embedded in the organization's systems and structures. It includes documents, objects, and anything else that provides meaningful information about how the organization should operate.

How do organizations store knowledge? One way is by motivating employees to stay employed with the company. Quicken Loans and other progressive businesses achieve this goal by adapting their employment practices to be more compatible with emerging workforce expectations. A second organizational memory strategy is to systematically transfer knowledge to other employees. This occurs when newcomers apprentice with skilled employees, thereby acquiring knowledge that is not documented. A third strategy is to convert knowledge into structural capital. This includes bringing out hidden knowledge, organizing it, and putting it in a form that can be available to others. Reliance Industries, India's largest business enterprise, applies this strategy by encouraging employees to document their successes and failures through a special intranet knowledge portal. One of these reports alone provided information that later prevented a costly plant shutdown.[36]

One last point about the organizational learning perspective: Effective organizations not only learn; they also unlearn routines and patterns of behavior that are no longer appropriate.[38] Unlearning removes knowledge that no longer adds value and, in fact, may undermine the organization's effectiveness. Some forms of unlearning involve replacing dysfunctional policies, procedures, and routines. Other forms of unlearning erase attitudes, beliefs, and

The software industry depends heavily on the knowledge that employees bring to work. This fact is always on the mind of Jim Goodnight, CEO of the statistical software developer SAS Institute, Inc. "Ninety-five percent of my assets drive out the gate every evening," says Goodnight (center in photo). "As such, it's my job to maintain a work environment that keeps those people coming back every morning. The creativity they bring to SAS is a competitive advantage for us."[37]

assumptions. Research in Motion held strong beliefs and assumptions about phones with physical keypads, with the result that its main product, BlackBerry, was slow to respond to touchscreen technology. Organizational unlearning is particularly important for organizational change, which we discuss in Chapter 15.

HIGH-PERFORMANCE WORK PRACTICES (HPWP) PERSPECTIVE

The open-systems perspective states that successful companies are good at transforming inputs into outputs. However, it does not identify the subsystem characteristics that distinguish effective organizations from others. Consequently, an entire field of research has blossomed around the objective of determining specific "bundles" of organizational practices that offer competitive advantage. This research has had various labels over the years, but it is now most commonly known as **high-performance work practices (HPWP).**[39]

Similar to organizational learning, the HPWP perspective is founded on the belief that human capital—the knowledge, skills, and abilities that employees possess—is an important source of competitive advantage for organizations.[40] The distinctive feature of the HPWP perspective is that it tries to identify a specific bundle of systems and structures that generate the most value from this human capital. Researchers have investigated numerous potential high-performance work practices, but we focus on the four discussed in most studies: employee involvement, job autonomy, competency development, and rewards for performance and competency development.[41] Notice that Quicken Loans, described at the beginning of this chapter, applies all of these practices to improve customer service. Each of these four work practices individually improves organizational performance, but studies suggest that they have a stronger effect when bundled together.[42]

The first two factors—involving employees in decision making and giving them more autonomy over their work activities—tend to strengthen employee motivation and improve decision making, organizational responsiveness, and commitment to change. In high-performance workplaces, employee involvement and job autonomy often take the form of self-directed teams (see Chapter 8). The third factor, employee competence development, refers to recruiting, selecting, and training people so the company employs people with relevant skills, knowledge, values, and other personal characteristics. The fourth high-performance work practice involves linking performance and skill development to various forms of financial and nonfinancial rewards valued by employees.

high-performance work practices (HPWP)
A perspective that holds that effective organizations incorporate several workplace practices that leverage the potential of human capital.

American Express has taken a page from the high-performance work practices playbook. The financial services company encourages employees to go "off script," meaning that they have the autonomy to customize their conversations rather than rely on memorized statements. Employees also have the discretion to solve problems on the spot, such as setting up a conference call to settle a dispute with a vendor. "We are getting more and more power to make the decisions at our level," says Teresa Tate, a customer service employee in Phoenix.[43]

Why are HPWP practices associated with organizational effectiveness? OB experts have debated and found evidence for three explanations.[44] The first is that HPWPs build human capital. These practices develop employee skills and knowledge, which improve work performance. A second explanation is that superior human capital may improve the organization's adaptability to rapidly changing environments. Employees respond better when they have a wide skill set to handle diverse tasks, as well as confidence to handle unfamiliar situations. A third explanation is that HPWP practices strengthen employee motivation and attitudes toward the employer. They represent the company's investment in and recognition of its workforce, which motivates employees to reciprocate through greater effort in their jobs and assistance to coworkers.

The HPWP perspective is still developing, but it already reveals important information about specific organizational practices that improve the input-output transformation process. Still, this perspective has been criticized for focusing on stockholder and customer needs at the expense of employee well-being.[45] This concern illustrates that the HPWP perspective offers an incomplete picture of organizational effectiveness. The remaining gaps are mostly filled by the stakeholder perspective of organizational effectiveness.

STAKEHOLDER PERSPECTIVE

The three organizational effectiveness perspectives described so far mainly pay attention to processes and resources, yet they only minimally acknowledge the importance of relations with **stakeholders.** Stakeholders include anyone with a stake in the company—employees, stockholders, suppliers, labor unions, government, communities, consumer and environmental interest groups, and so on (see Exhibit 1.3).[46] The stakeholder perspective personalizes the open-systems perspective; it identifies specific people and social entities in the external environment as well as within the organization (the internal environment). It is also consistent with the reality that stakeholder relations are dynamic; they can be negotiated and managed, not just taken as a fixed condition.[47] Organizations are more effective when they consider the needs and expectations of any individual group, or other entity that affects, or is affected by, the organization's objectives and actions. In other words, the stakeholder perspective requires organizational leaders and employees to understand, manage, and satisfy the interests of their stakeholders.[48]

Understanding, managing, and satisfying the interests of stakeholders is more challenging than it sounds, because stakeholders have conflicting interests, and organizations don't have the resources to satisfy every stakeholder to the fullest. Therefore, organizational leaders need to decide how much priority to give to each group.[49] There is some evidence that corporate leaders rely on their personal values to prioritize stakeholders. This makes sense, because leader values are typically (but not always) compatible with the organization's long-term survival. A more commonly cited factor is to favor stakeholders with the most power. This makes sense when we consider that the most powerful stakeholders present the

stakeholders
Individuals, groups, and other entities that affect, or are affected by, the organization's objectives and actions.

EXHIBIT 1.3

Organizational Stakeholders

Note: This exhibit does not show the complete set of possible stakeholders

greatest threat to and opportunities for the company's survival. Yet stakeholder power should not be the only factor to consider. Ignoring less powerful stakeholders might motivate those weaker groups to form coalitions or seek government support, which would give them more power. Ignoring smaller stakeholders might also irritate the more powerful stakeholders if ignoring weaker interests violates the norms and standards of society.

Values, Ethics, and Corporate Social Responsibility This brings us to one of the key strengths of the stakeholder perspective, namely, that it incorporates values, ethics, and corporate social responsibility into the organizational effectiveness equation.[50] The stakeholder perspective states that to manage the interests of diverse stakeholders, leaders ultimately need to rely on their personal and organizational values for guidance. **Values** are relatively stable, evaluative beliefs that guide our preferences for outcomes or courses of action in a variety of situations.[51] Values help us know what is right or wrong, or good or bad, in the world. Chapter 2 explains how values anchor our thoughts and, to some extent, motivate our actions. Although values exist within individuals, groups of people often hold similar values, so we tend to ascribe these *shared values* to the team, department, organization, profession, or entire society. For example, Chapter 14 discusses the importance and dynamics of organizational culture, which includes shared values across the company or within subsystems.

Many companies have adopted a values-driven organization model, whereby employee decisions and behavior are guided by the company's espoused values rather than by expensive and often demoralizing command-and-control management (i.e., top-down decisions with close supervision of employees).[52] For instance, TrustPower, a New Zealand power company that relies entirely on renewable energy sources (hydro-electric and wind turbines), embraces six core values that emphasize the importance of its employees. "It comes from having a business that is values-based," explains TrustPower CEO Vince Hawksworth. "So we have what we call our PRIIDE values—passion, respect, integrity, innovation, delivery and empowerment. These are fundamental to what we say and what we do."[53]

values
Relatively stable, evaluative beliefs that guide a person's preferences for outcomes or courses of action in a variety of situations.

The stakeholder perspective's focus on values also brings ethics and corporate social responsibility into the organizational effectiveness equation. In fact, the stakeholder perspective emerged out of earlier writing on ethics and corporate social responsibility. **Ethics** refers to the study of moral principles or values that determine whether actions are right or wrong and outcomes are good or bad. We rely on our ethical values to determine "the right thing to do." Ethical behavior is driven by the moral principles we use to make decisions. These moral principles represent fundamental values. According to one global survey, almost 80 percent of MBA students believe a well-run company operates according to its values and code of ethics.[54] Chapter 2 provides more detail about ethical principles and related influences on moral reasoning.

Corporate social responsibility (CSR) consists of organizational activities intended to benefit society and the environment, beyond the firm's immediate financial interests or legal obligations.[55] It is the view that companies have a contract with society, in which they must serve stakeholders beyond stockholders and customers. In some situations, the interests of the firm's stockholders should be secondary to those of other stakeholders.[56] As part of CSR, many companies have adopted a triple bottom-line philosophy: They try to support or "earn positive returns" in the economic, social, and environmental spheres of sustainability. Firms that adopt the triple bottom-line aim to survive and be profitable in the marketplace (economic), but they also intend to maintain or improve conditions for society (social) as well as the physical environment.[57] Companies are particularly eager to become "greener" by minimizing any negative effect they have on the physical environment. This activity ranges from reducing and recycling waste in the production process to using goats to mow the lawn (one of the many environmental initiatives at Google).

Not everyone agrees that organizations need to cater to a wide variety of stakeholders. Many years ago, economist Milton Friedman pronounced that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits."[59] Friedman is highly respected for developing economic theory, but few writers take this extreme view today. Some argue that companies need to give stockholders first priority, but the relationship among CSR, stockholders, and company success is far more complex. The emerging evidence, however, is that companies with a positive CSR reputation tend to have better financial performance, more loyal employees (stronger organizational identification), and better relations with customers, job applicants, and other stakeholders.[60] "Our company's position on corporate social responsibility and the environment is a significant part of what job candidates find attractive about HBC," acknowledges a senior executive at Hudson's Bay Co., the Canadian department store chain and oldest commercial business in North America.[61] In short, leaders may put their organization at risk if they ignore their broader corporate social responsibility.

CONNECTING THE DOTS: ORGANIZATIONAL EFFECTIVENESS AND ORGANIZATIONAL BEHAVIOR

These four perspectives on organizational effectiveness—open systems, organizational learning, high-performance work practices, and stakeholders—provide a roadmap to the survival and success of organizations. They also provide a central source of links to the topics discussed throughout this book. The adaptive emphasis of the open systems perspective connects directly to leadership (Chapter 12) and organizational change (Chapter 15). The transformation process aspect of open systems relates to job design (Chapter 6), organizational structure (Chapter 13), and relations between subunits in terms of conflict (Chapter 11) and power and influence (Chapter 10).

ethics
The study of moral principles or values that determine whether actions are right or wrong and outcomes are good or bad.

corporate social responsibility (CSR)
Organizational activities intended to benefit society and the environment beyond the firm's immediate financial interests or legal obligations.

MTN Group is the largest mobile telecommunications company in Africa and a leader in corporate social responsibility (CSR). Through its award-winning "21 Days of Y'ello Care" program, most of the company's 34,000 employees volunteer for specific CSR events held over three weeks each year. This photo shows a recent CSR initiative: painting schools and hospitals throughout the 21 African and Middle Eastern countries where MTN does business. Y'ello Care themes in other years included fighting against malaria, planting trees, reducing traffic accidents, and supporting orphanages.[58]

The organizational learning perspective highlights the importance of communication (Chapter 9) as well as creativity, employee involvement, and other decision-making topics (Chapter 7). The high-performance work practices perspective of effectiveness throws a spotlight on team dynamics (Chapter 8), employee motivation (Chapter 5), rewards (Chapter 6), and most individual-level topics (Chapters 2–4). The stakeholder approach has direct relevance for values and ethics (Chapter 2), organizational culture (Chapter 14), and decision making (Chapter 7).

Contemporary Challenges for Organizations

LO 1-3

A message threaded throughout the previous section on organizational effectiveness is that organizations are deeply affected by the external environment. Consequently, they need to maintain a good organization-environment fit by anticipating and adjusting to changes in society. The external environment is continuously changing, but some changes over the past decade and in the decade to come are more profound than others. These changes require corporate leaders and all other employees to make personal and organizational adjustments. In this section, we highlight three of the major challenges facing organizations: globalization, increasing workforce diversity, and emerging employment relationships.

Visit **connect.mcgrawhill.com** for activities and test questions to help you learn about the topics of contemporary organizational challenges and anchors of OB knowledge.

GLOBALIZATION

Maja Baiocco was delighted when her employer, PricewaterhouseCoopers LLP, sent her on a two-year international assignment to Zurich. Baiocco, an asset management auditor in the accounting firm's office in Toronto, Canada, welcomed the opportunity to gain global experience and boost her career. "This company (PwC) is global and opportunities are global, and I know that international experiences are important to expand my experience and open new opportunities for advancement," she says.[62] Baiocco is developing her career in a world of increasing globalization. **Globalization** refers to economic, social, and cultural connectivity with people in other parts of the world. Organizations globalize when they actively participate in other countries and cultures. Although businesses have traded goods across borders for centuries, the degree of globalization today is unprecedented, because information technology and transportation systems allow a much more intense level of connectivity and interdependence around the planet.[63]

Globalization offers numerous benefits to organizations in terms of larger markets, lower costs, and greater access to knowledge and innovation. At the same time, there is considerable debate about whether globalization benefits developing nations and whether it is primarily responsible for increasing work intensification, as well as reducing job security and work–life balance in developed countries.[64]

Globalization is now well entrenched, so the most important issue for organizational behavior is how corporate leaders and employees alike can lead and work effectively in this emerging reality.[65] Throughout this book, we refer to the effects of globalization on teamwork, diversity, cultural values, organizational structure, leadership, and other themes. Each topic highlights that globalization has introduced more complexity to the workplace, but also more opportunities and potential benefits for individuals and organizations. Globalization requires additional knowledge and skills that we will also discuss in this book, such as emotional intelligence, a global mindset, nonverbal communication, and conflict handling.

INCREASING WORKFORCE DIVERSITY

Walk into the offices of Verizon Communications, and you can quickly see that the telecommunications giant values workforce diversity. Women and people of color constitute nearly 60 percent of the company's 195,000-person workforce and nearly half of its board of directors. African Americans represent 20 percent of Verizon's workforce (compared with 11 percent of the U.S. labor force). More than one-quarter of senior management (vice-president and above) positions are held by women. The company also actively supports diversity among its many suppliers. Verizon's inclusive culture has won awards from numerous organizations and publications representing Hispanic, African American, and gay/lesbian people, as well as people with disabilities. "A diverse workplace is one of Verizon's biggest strengths as a global innovation leader," says Verizon CEO Lowell McAdam.[66]

Verizon Communications is a model employer and a reflection of the increasing diversity of people living in the United States and in many other countries. The description of Verizon's diversity refers to **surface-level diversity**—the observable demographic and other overt differences in people, such as their race, ethnicity, gender, age, and physical capabilities. Surface-level diversity has changed considerably in the United States over the past few decades. People with non-Caucasian or Hispanic origin represent one-third of the American population, and this level is projected to increase substantially over the next few decades. Within the next 50 years, one in four Americans will be Hispanic, 14 percent will be African American, and eight percent will be of Asian descent. By 2060, people with a European non-Hispanic ethnicity will be a minority.[68] Many other countries are also experiencing increasing levels of racial and ethnic diversification.

Diversity also includes differences in the psychological characteristics of employees, including personalities, beliefs, values, and attitudes.[69] We can't directly see this

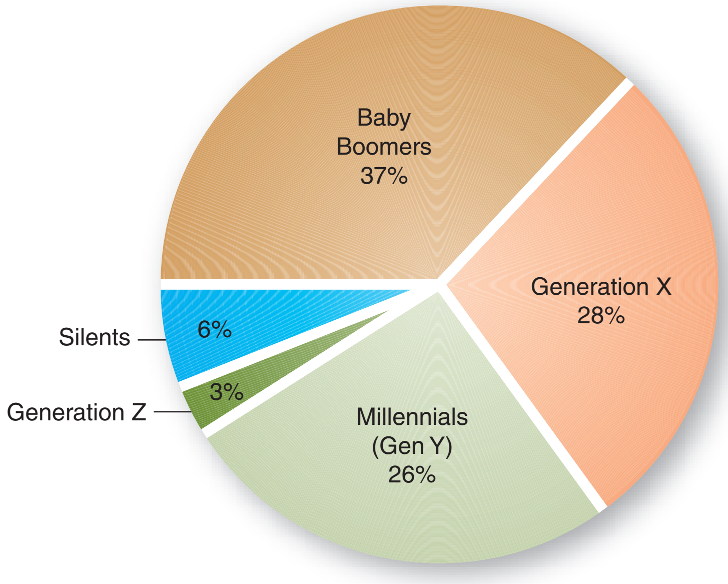
globalization
Economic, social, and cultural connectivity with people in other parts of the world.

surface-level diversity
The observable demographic or physiological differences in people, such as their race, ethnicity, gender, age, and physical disabilities.

EXHIBIT 1.4

America's Multigenerational Workforce[71]

Percentage of United States workforce by age group, based on data from the U.S. Bureau of Labor Statistics. "Silents" represent the generation of employees born before 1946. Generation Z employees were born after 1990, though some sources consider this group part of Millennials.



deep-level diversity, but it is evident in a person's decisions, statements, and actions. A popular example is the apparent deep-level diversity across generations.[70] Exhibit 1.4 illustrates the distribution of the American workforce by major generational cohort: 37 percent *Baby Boomers* (born from 1946 and 1964), 28 percent *Generation X* (born from 1965 to 1980), and 26 percent *Millennials* (also called *Generation Y*, born after 1980).

Do these differences really exist? The answer is a qualified "yes." Some generational differences are smaller than depicted in the popular press, and some of these differences are due to age, not cohort (i.e., the Boomers had many of the same attitudes as Millennials when they were that age).[72] One recent investigation of 23,000 undergraduate college students reported that Millennials expect rapid career advancement regarding promotions and pay increases.[73] These observations are consistent with other studies, which have found that Millennials are more self-confident, are more narcissistic (self-centered), and have less work centrality (i.e., work is less of a central life interest) than Boomers. Generation X employees typically average somewhere between these two cohorts.[74]

One large-scale cohort study surveyed the three generational groups when each was in senior high school. The results suggest that Millennials have the highest preference for leisure, followed by Gen-Xers and Baby Boomers.[75] Millennials and Gen-Xers also value extrinsic rewards significantly more than do Boomers, and Millennials value social interaction significantly less than do Boomers or Gen-Xers. Of course, these results don't apply to everyone in each cohort, but they do suggest that deep-level diversity exists across generations.

Consequences of Diversity Diversity presents both opportunities and challenges in organizations.[76] Diversity is an advantage because it provides diverse knowledge. Furthermore, teams with some forms of diversity (particularly occupational diversity) make better decisions on complex problems than do teams whose members have similar backgrounds. There is also some evidence that diversity award–winning companies have higher financial returns, at least in the short run.[77] This is consistent with anecdotal evidence from many corporate leaders, who assert that having a diverse workforce improves customer service and creativity. "As a company serving customers around the globe, we greatly value the diverse opinions and experiences that an inclusive and diverse workforce brings to the table," says a Verizon executive. The American telecommunications company has won several awards for its inclusive practices.[78]

deep-level diversity
Differences in the psychological characteristics of employees, including personalities, beliefs, values, and attitudes.

The board of directors in most Japanese companies usually consists of older generation Japanese males. The only diversity is whether the board member has an engineering or non-engineering education. Hitachi Chairman Takashi Kawamura recognized that this lack of diversity limited the conglomerate's potential. "Governance handled by Japanese men with homogenous thinking is no good," says Kawamura. "To be global is to bring diversity into the company's governance." Hitachi is in the process of diversifying its board. It now includes three foreign executives, including one female executive.[67]

Is workforce diversity a sound business proposition? Yes, though research indicates that the reasons are not clear-cut, because most forms of diversity create challenges as well as benefits.[79] Teams with diverse employees usually take longer to perform effectively. Diversity brings numerous communication problems, as well as "faultlines" in informal group dynamics. Diversity is also a source of conflict, which can reduce information sharing and, in extreme cases, increase morale problems and turnover.

Aside from the ongoing debate about the productivity and marketing benefits of workforce diversity, companies need to make diversity a priority, because surface-level diversity is a moral and legal imperative. Ethically, companies that offer an inclusive workplace are making fair and just decisions regarding employment, promotions, rewards, and so on. Fairness is a well-established influence on employee loyalty and satisfaction. In summary, workforce diversity is the new reality, and organizations need to adjust to this reality, both to survive and to experience its potential benefits for organizational success.

EMERGING EMPLOYMENT RELATIONSHIPS

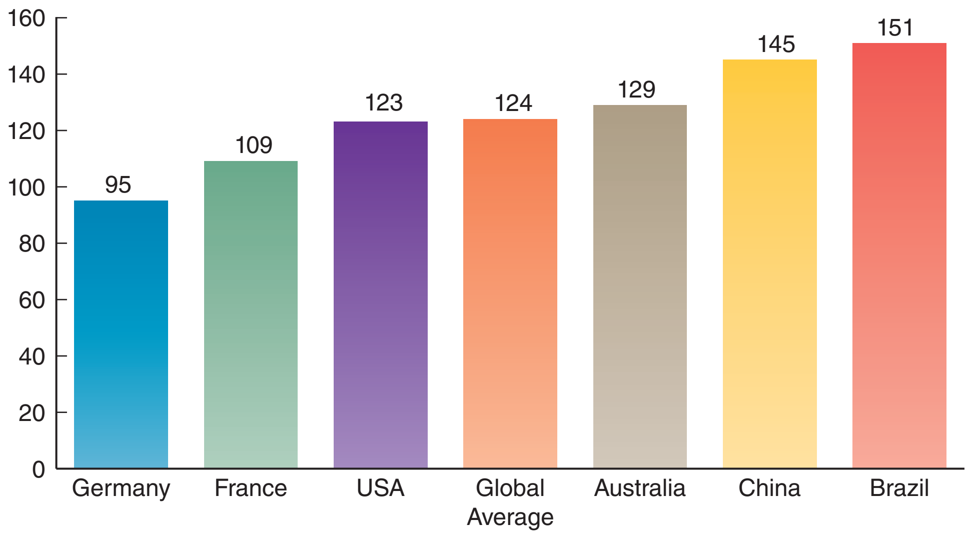
Combine globalization with emerging workforce diversity, then add in recent developments in information technology. The resulting concoction has created incredible changes in employment relationships. A few decades ago, most (though not all) employees in the United States and similar cultures finished their workday after eight or nine hours and separated their personal time from the work day. There were no smartphones or Internet connections to keep them tethered to work on a 24/7 schedule. Even business travel was more of an exception, due to its high cost. Most competitors were located in the same country, so they had similar work practices and labor costs. Today, work hours are longer (though arguably less than 100 years ago), employees experience more work-related stress, and there is growing evidence that family and personal relations are suffering.

work–life balance
The degree to which a person minimizes conflict between work and nonwork demands.

Little wonder that one of the most important employment issues over the past decade has been **work–life balance.** Work–life balance occurs when people are able to minimize conflict between their work and nonwork demands.[80] Most employees lack this balance, because they spend too many hours each week performing or thinking about their job, whether at the workplace, at home, or on vacation. This focus on work leaves too little time to fulfill

Global Work–Life Balance Index[81]

Based on interviews with more than 16,000 business respondents from the Regus global contacts database, this exhibit shows the work–life balance index for each country listed, as well as globally (including several countries not shown here). A higher score indicates that employees in that country experience better work–life balance. The index is standardized to 100 as the average country score in the first survey (in 2010).



nonwork needs and obligations. Our discussion of work-related stress (Chapter 4) will examine work–life balance issues in more detail.

Another employment relationship trend is **virtual work,** whereby employees use information technology to perform their jobs away from the traditional, physical workplace.[82] Some virtual work occurs when employees are connected to the office while traveling or at clients' offices. However, the most common form involves working at home rather than commuting to the office (often called *telecommuting* or *teleworking*). One estimate is that the number of American employees who work from home at least one day per month has increased from 7.6 million in 2004 to well above 17 million today. The U.S. government reports that 32 percent of its employees are eligible to telework, but only 170,000 actually make use of that policy. More than half of Canadian workers say they want to work at home some of the time, whereas less than 10 percent of them actually do so. More than 10 percent of Japanese employees work from home at least one day each week, a figure that the Japanese government wants to double within the next few years.[83]

Are you a good telecommuter? Visit **connect.mcgrawhill.com** to assess your adaptability to telework.

virtual work
Work performed away from the traditional physical workplace, using information technology.

There has been much study and debate regarding the benefits and risks of virtual work, particularly working from home. The evidence suggests that telework attracts job applicants and improves employees' work–life balance (which reduces stress) and productivity.[84] One study of 25,000 IBM employees found that female telecommuters with children were able to work 40 hours per week, whereas non-telecommuters could only manage 30 hours before feeling work–life balance tension.

Telework also offers environmental benefits. Cisco Systems estimates that telecommuting among its employees worldwide avoids almost 50,000 metric tons of greenhouse gas emission and saves employees $10 million in fuel costs each year. Deloitte saved $30 million in one year due to the reduced office space requirements as more employees worked part of the

A few years ago, Chris Keehn commuted for three hours round trip between his home and office at Deloitte LLC in downtown Chicago. Most days, his young daughter would be asleep when he left in the morning and when he returned home at night. The senior tax accountant solved this problem by becoming a teleworker four days each week. Working from home gives Keehn more time to take his daughter to school and attend her evening basketball games. Keehn even found that he communicates more often with his team. "I actually talk to them more now," he explains. "On the day I go into the office, I make sure I touch base with everyone."[86]

week from home. Productivity also usually improves with telework in place. One study found that employees allocate 60 percent of time they would have been commuting to work and use the other 40 percent of that time for personal activities. When a major blizzard shut federal government offices in Washington, DC, 30 percent of employees teleworked, saving the government $30 million per day.[85]

Against these potential benefits, work-at-home employees face a number of real or potential challenges. Family relations may suffer rather than improve if employees lack sufficient space and resources for a home office. Some employees complain of social isolation and reduced promotion opportunities when they work away from the office most of the time. To minimize problems of social isolation, many companies require teleworkers to visit the office once or twice each week.

Telework is clearly better suited to people who are self-motivated and organized, can work effectively with broadband and other technology, and have sufficient fulfillment of social needs elsewhere in their life. "They tend to be the kind of people who would stay late and do the job at the office, people who know what they're responsible for and want to get it done," says Michelle van Schouwen, president of van Schouwen Associates, an advertising and marketing firm in Longmeadow, Massachusetts.[87] Virtual work arrangements are also more successful in organizations that evaluate employees by their performance outcomes rather than face time (i.e., visibility).[88]

Anchors of Organizational Behavior Knowledge

LO 1-4

Globalization, increasing workforce diversity, and emerging employment relationships are just a few of the trends that challenge organizations and make the field of organizational behavior more relevant than ever before. To understand these and other topics, the field of organizational behavior relies on a set of basic beliefs or knowledge structures (see Exhibit 1.5). These conceptual anchors represent the principles on which OB knowledge is developed and refined.[89]

EXHIBIT 1.5

Anchors of Organizational Behavior Knowledge

Systematic research anchor	Study organizations using systematic research methods
Multidisciplinary anchor	Import knowledge from other disciplines, not just create its own knowledge
Contingency anchor	Recognize that the effectiveness of an action may depend on the situation
Multiple levels of analysis anchor	Understand OB events from three levels of analysis: individual, team, organization

THE SYSTEMATIC RESEARCH ANCHOR

A key feature of OB knowledge is that it should be based on systematic research, which typically involves forming research questions, systematically collecting data, and testing hypotheses against those data.[90] Appendix A at the end of this book provides a brief overview of these research methods. Systematic research investigation produces **evidence-based management,** which involves making decisions and taking actions on the basis of this research-derived evidence. It makes perfect sense, doesn't it, that management practice should be founded on the best available systematic knowledge? Yet many of us who study organizations using systematic methods are amazed at how often corporate leaders embrace fads, consulting models, and their own pet beliefs, without bothering to find out if they actually work![91]

There are many reasons why people have difficulty applying evidence-based management. Leaders and other decision makers are bombarded with so many ideas from newspapers, books, consultant reports, and other sources that it is a challenge to figure out which ones are based on good evidence. Another problem is that good OB research is necessarily generic; it is rarely described in the context of a specific problem in a specific organization. Managers therefore have the difficult task of figuring out which theories are relevant to their unique situation.

A third reason organizational leaders accept fads and other knowledge that lacks sufficient evidence is that consultants and popular book writers are rewarded for marketing their concepts and theories, not for testing to see if they actually work. Indeed, some management concepts have become popular (some have even found their way into OB textbooks!) because of heavy marketing, not because of any evidence that they are valid. Finally, as we will learn in Chapter 3, people form perceptions and beliefs quickly and tend to ignore evidence that their beliefs are inaccurate.

OB experts have proposed a few simple suggestions to create a more evidence-based organization.[95] First, be skeptical of hype, which is apparent when so-called experts say the idea is "new, "revolutionary," and "proven." In reality, most management ideas are evolutionary adaptations that cannot be proven (i.e., science can disprove, but never prove; it can only find evidence to support a practice). Second, the company should embrace collective expertise rather than rely on charismatic stars and management gurus. Third, stories provide useful illustrations and possibly preliminary evidence of a useful practice, but they should never become the main foundation to support management action. Instead, managers must rely on more systematic investigations with larger samples. Finally, the firm should take a critical and neutral approach to popular trends and ideologies. Executives tend to get caught up in what their counterparts at other companies are doing, without determining the validity of those trendy practices or their relevance for their own, particular organization.

evidence-based management
The practice of making decisions and taking actions based on research evidence.

debating point

IS THERE ENOUGH EVIDENCE TO SUPPORT EVIDENCE-BASED MANAGEMENT?

One of the core anchors of organizational behavior is that knowledge must be built on a solid foundation of scientifically based research. This evidence-based management (EBM) approach particularly embraces scientific methods—relevant measures, appropriate sampling, systematic experimental design, and the like—because they produce more valid theories to guide management decisions. Scholars also advise managers to become more aware of these well-studied cause-effect principles, and to use diagnostic tools (such as surveys and checklists) to effectively apply those principles in the workplace. Invariably, supporters of the evidence-based management movement contrast this systematic approach with reliance on management fads, hyped consulting, or untested personal mental models.

It seems obvious that we should rely on good evidence rather than bad evidence (or no evidence at all) to make sound decisions in the workplace. Yet there is another side to this debate.[92] The question isn't whether good evidence is valuable; it is about the meaning of "good evidence." One concern is that scholars might be advocating an interpretation of good evidence that is far too narrow. They typically limit evidence to empirical research and consider qualitative information "anecdotal." Albert Einstein tried to avoid this questionable view by keeping the following message framed on his wall: "Not everything that can be counted counts, and not everything that counts can be counted."

Another concern is that managers don't view organizational research as particularly relevant to the issues they face.[93] This partly occurs because academic journals usually set very high standards for studies, requiring uncontaminated, quantifiable measures in environments that control for other factors. But managers do not operate in such pristine conditions. Their world is much more complex, with more obscure indicators of key variables. One indicator of this research–practice gap is that most organizational studies are correlational, whereas managers typically require knowledge of behavioral interventions. Only about 2 percent of organizational studies are real-world interventions.[94]

A third critique of the EBM movement is that the systematic elements of organizational research studies (e.g., sample size, measurement reliability, advanced data analysis methods) sometimes mask other potentially serious faults. Cross-cultural studies, for example, often use college student samples to represent an entire culture. Lab studies with students assume they replicate workplace conditions, without considering substantial differences in skills and team dynamics between the two settings. Indeed, some meta-analyses report substantially different results of studies using students versus employees. Finally, even if the published research is valid, it is usually biased because studies with nonsignificant results are much less likely to be published.

THE MULTIDISCIPLINARY ANCHOR

Organizational behavior is anchored by the idea that the field should welcome theories and knowledge in other disciplines, not just from its own isolated research base. For instance, psychological research has advanced our understanding of individual and interpersonal behavior. Sociologists have contributed to our knowledge of team dynamics, organizational socialization, organizational power, and other aspects of the social system. OB knowledge has also benefited from knowledge in emerging fields such as communications, marketing, and information systems. This theory-borrowing practice from other disciplines is inevitable. Organizations have central roles in society, so they are the subject of many social sciences. Furthermore, organizations consist of people who interact with each other, so there is an inherent intersection between OB and most disciplines that study human beings.

Borrowing theories from other disciplines has helped the field of OB nurture a diversity of knowledge and perspectives about organizations, but there are a few concerns.[96] One issue is whether OB suffers from a "trade deficit"—importing far more knowledge from other disciplines than is exported to other disciplines. By relying on theories developed in other fields, OB knowledge necessarily lags rather than leads in knowledge production. In contrast, OB-bred theories allow researchers to concentrate on the quality and usefulness of the theory.

Finally, heavy reliance on theories borrowed from other disciplines may leave OB vulnerable to a lack of common identity. The field could potentially become a place for researchers who are raised in and mainly identify with the other disciplines (psychology, sociology, and so on) rather than with organizational behavior. The lack of identification as an "OB scholar" might further challenge the field's ability to develop its own theory and weaken its focus on practical relevance.

THE CONTINGENCY ANCHOR

People and their work environments are complex, and the field of organizational behavior recognizes this by stating that a particular action may have different consequences in different situations. In other words, no single solution is best all of the time.[97] Of course, it would be so much simpler if we could rely on "one-best-way" theories, in which a particular concept or practice has the same results in every situation. OB experts search for simpler theories, but they also remain skeptical about sure-fire recommendations; an exception is inevitably around the corner. Thus, when faced with a particular problem or opportunity, we need to understand and diagnose the situation and select the strategy most appropriate *under those conditions*.[98]

THE MULTIPLE LEVELS OF ANALYSIS ANCHOR

This textbook divides organizational behavior topics into three levels of analysis: individual, team (including interpersonal), and organization. The individual level includes the characteristics and behaviors of employees, as well as the thought processes that are attributed to them, such as motivation, perceptions, personalities, attitudes, and values. The team level of analysis looks at the way people interact. This includes team dynamics, decisions, power, organizational politics, conflict, and leadership. At the organizational level, we focus on how people structure their working relationships and how organizations interact with their environments.

Although an OB topic is typically pegged to one level of analysis, it often relates to multiple levels.[99] For instance, communication is located in this book as a team (interpersonal) process, but it also includes individual and organizational processes. Therefore, you should try to think about each OB topic at the individual, team, and organizational levels, not just at one of these levels.

The Journey Begins

This chapter gives you some background about the field of organizational behavior. But it's only the beginning of our journey. Throughout this book, we will challenge you to learn new ways of thinking about how people work in and around organizations. We begin this process in Chapter 2 by presenting a basic model of individual behavior, then introducing, over the next few chapters, various stable and mercurial characteristics of individuals that relate to elements of the individual behavior model. Next, this book moves to the team level of analysis. We examine a model of team effectiveness and specific features of high-performance teams. We also look at decision making and creativity, communication, power and influence, conflict, and leadership. Finally, we shift our focus to the organizational level of analysis, where the topics of organizational structure, organizational culture, and organizational change are examined in detail.

chapter summary

1-1 Define organizational behavior and organizations, and discuss the importance of this field of inquiry.

Organizational behavior is the study of what people think, feel, and do in and around organizations. Organizations are groups of people who work interdependently toward some purpose. OB theories help people (a) make sense of the workplace, (b) question and rebuild their personal mental models, and (c) get things done in organizations. OB knowledge is for everyone, not just managers. OB knowledge is just as important for the organization's financial health.

1-2 Compare and contrast the four current perspectives of organizational effectiveness.

The open systems perspective views organizations as complex organisms that "live" within an external environment. They depend on the external environment for resources, then use organizational subsystems to transform those resources into outputs, which are returned to the environment. Organizations receive feedback from the external environment to maintain a good "fit" with that environment. Fit occurs by adapting to the environment, managing the environment, or moving to another environment. According to the organizational learning perspective, organizational effectiveness depends on the organization's capacity to acquire, share, use, and store valuable knowledge. Intellectual capital consists of human capital, structural capital, and relationship capital. Knowledge is retained in the organizational memory; companies also selectively unlearn.

The high-performance work practices (HPWP) perspective identifies a bundle of systems and structures to leverage workforce potential. The most widely identified HPWPs are employee involvement, job autonomy, developing employee competencies, and performance-/skill-based rewards. HPWPs improve organizational effectiveness by building human capital, increasing adaptability, and strengthening employee motivation and attitudes. The stakeholder perspective states that leaders manage the interests of diverse stakeholders by relying on their personal and organizational values for guidance. Ethics and corporate social responsibility (CSR) are natural variations of values-based organizations, because they rely on values to determine the most appropriate decisions involving stakeholders. CSR consists of organizational activities intended to benefit society and the environment beyond the firm's immediate financial interests or legal obligations.

1-3 Debate the organizational opportunities and challenges of globalization, workforce diversity, and emerging employment relationships.

Globalization, which refers to various forms of connectivity with people in other parts of the world, has several economic and social benefits, but it may also be responsible for work intensification, reduced job security, and lessening work–life balance. Workforce diversity is apparent at both the surface level (observable demographic and other overt differences in people) and deep level (differences in personalities, beliefs, values, and attitudes). There is some evidence of deep-level diversity across generational cohorts. Diversity may be a competitive advantage that improves decision making and team performance on complex tasks, but it also imposes numerous challenges, such as dysfunctional team conflict and lower team performance. One emerging employment relationship trend is a call for more work–life balance (minimizing conflict between work and nonwork demands). Another employment trend is virtual work, particularly working from home (telework). Working from home potentially increases employee productivity and reduces employee stress, but it also may lead to social isolation, reduced promotion opportunities, and tension in family relations.

1-4 Discuss the anchors on which organizational behavior knowledge is based.

The multidisciplinary anchor states that the field should develop from knowledge in other disciplines (e.g., psychology, sociology, economics), not just from its own isolated research base. The systematic research anchor states that OB knowledge should be based on systematic research, consistent with evidence-based management. The contingency anchor states that OB theories generally need to consider that there will be different consequences in different situations. The multiple levels of analysis anchor states that OB topics may be viewed from the individual, team, and organization levels of analysis.

key terms

corporate social responsibility (CSR), p. 16
deep-level diversity, p. 19
ethics, p. 16
evidence-based management, p. 23
globalization, p. 18
high-performance work practices (HPWP), p. 13
human capital, p. 10
intellectual capital, p. 10
open systems, p. 8
organizational behavior (OB), p. 4
organizational effectiveness, p. 7
organizational efficiency, p. 10
organizational learning, p. 10
organizations, p. 4
relationship capital, p. 11
stakeholders, p. 14
structural capital, p. 11
surface-level diversity, p. 18
values, p. 15
virtual work, p. 21
work–life balance, p. 20

critical thinking questions

1. A friend suggests that organizational behavior courses are useful only to people who will enter management careers. Discuss the accuracy of your friend's statement.
2. A young student from the United States is interested in doing international business across China, India, Brazil, and Russia. Discuss how the knowledge of OB can be useful to the student.
3. After hearing a seminar on organizational learning, a mining company executive argues that this perspective is relevant to software and other knowledge businesses, but it ignores the fact that mining companies cannot rely on knowledge alone to stay in business. They also need physical capital (such as extracting and ore-processing equipment) and land (where the minerals are located). In fact, these two may be more important than what employees carry around in their heads. Evaluate the mining executive's comments.
4. It is said that the CEO and other corporate leaders are keepers of the organization's memory. Please discuss this.
5. A common refrain among executives is "People are our most important asset." Relate this statement to any two of the four perspectives of organizational effectiveness presented in this chapter. Does this statement apply better to some perspectives than to others? Why or why not?
6. Corporate social responsibility is one of the hottest issues in corporate boardrooms these days, partly because it is becoming increasingly important to employees and other stakeholders. In your opinion, why have stakeholders given CSR more attention recently? Does abiding by CSR standards potentially cause companies to have conflicting objectives with some stakeholders in some situations?
7. Look through the list of chapters in this textbook, and discuss how globalization could influence each organizational behavior topic.
8. "Organizational theories should follow the contingency approach." Comment on the accuracy of this statement.
9. What does *evidence-based management* mean? Describe situations you have heard about in which companies have practiced evidence-based management, as well as situations in which companies have relied on fads that lacked sufficient evidence of their worth.

CASE STUDY: IMPROVING HEALTH BY GETTING LEAN

By Steven L. McShane, University of Western Australia

How is serving surgical patients similar to manufacturing a car? The answer is clear to staff at Sunderland Royal Hospital. The health facility in northern England borrowed several ideas from the nearby Nissan factory, one of the most efficient car plants in Europe, to improve its day surgery unit. "We took [Sunderland hospital staff] on a tour of our plant, showing them a variety of lean processes in action, and let them decide which ones could be applied back at the hospital," says a training manager at Nissan's factory in Sunderland.

Lean management involves seeking ways to reduce and remove waste from work processes. Employees are typically involved, where they map out the work process and identify ways to reduce steps, time, spaces, and other resources without threatening the work objectives. Sunderland's day surgery staff were actively involved in applying lean management to their work unit. After attending Nissan's two-day workshop, they mapped out the work processes, questioned assumptions about the value or relevance of some activities, and discovered ways to reduce the lengthy patient wait times (which were up to three hours). There was some initial resistance and skepticism, but the hospital's day surgery soon realized significant improvements in efficiency and service quality.

"By working with Nissan's staff, we have streamlined the patient pathway from 29 to 11 discrete stages," says Anne Fleming, who oversees Sunderland's 32-bed day case unit and its 54 staff. "We have done this by reducing duplication, halving the time that patients spend in the unit to three hours by giving them individual appointment times, and introducing the just-in-time approach to the patient pathway." Fleming also reports that Sunderland's operating theatres are now much more efficient.

Sunderland Royal Hospital is one of many health-care centers around the world that are improving efficiency through lean thinking. After receiving training in Japan on lean practices, several teams of doctors, nurses, and other staff from Virginia Mason Medical Center in Seattle, Washington, redesigned their work flows to cut out 34 miles of unnecessary walking each day. Park Nicollet Health Services in Minneapolis, Minnesota, improved efficiency at its ambulatory clinic to such an extent that the unit does not require a patient waiting area. One Park Nicollet team worked with orthopedic surgeons to reduce by 60 percent the variety of instruments and supplies they ordered for hip and knee surgery.

Flinders Medical Center also adopted lean management practices after the South Australian medical facility experienced severe congestion of patients in its emergency department. After mapping out the steps in the patient journey through the department, staff realized that the process was inefficient and stressful for everyone, particularly as lower priority patients got "bumped" down the queue when more serious cases arrived. Now, incoming emergency patients are immediately streamed to one of two emergency teams: those who will be treated and sent home and those who will be treated and admitted to the hospital. This change immediately improved efficiency and the quality of patient care.

Bolton Hospitals NHS Trust in the United Kingdom is yet another illustration of how lean management practices can improve organizational efficiency and effectiveness. By involving employees in an analysis of procedures, the hospital reduced average wait times for patients with fractured hips by 38 percent (from 2.4 to 1.7 days), which also resulted in a lower mortality rate for these patients. By smoothing out the inflow of work orders and rearranging the work process, Bolton's pathology department cut the time to process samples from 24–30 hours to just 2–3 hours, and it reduced the space used by 50 percent.

"We know that our case for extra funding will fall on deaf ears unless we cut out waste in the system," explains Dr. Gill Morgan, chief executive of the NHS Confederation. "Lean works because it is based on doctors, nurses, and other staff leading the process and telling us what adds value and what doesn't. They are the ones who know."[100]

Discussion Questions

1. What perspective(s) of organizational effectiveness best describe the application of lean management practices? Describe how specific elements of that perspective related to the interventions described in this case study.
2. Does lean management ignore some perspectives of organizational effectiveness? If so, what are the unintended consequences of these practices that might undermine rather than improve the organization's effectiveness?
3. In what situations, if any, would it be difficult or risky to apply lean management practices? What conditions make these practices challenging in these situations?

WEB EXERCISE: DIAGNOSING ORGANIZATIONAL STAKEHOLDERS

PURPOSE This exercise is designed to help you understand how stakeholders influence organizations as part of the open-systems anchor.

MATERIALS Students need to select a company and, prior to class, retrieve and analyze publicly available information over the past year or two about that company. This may include annual reports, which are usually found on the websites of publicly traded companies. Where possible, students should also scan full-text newspaper and magazine databases for articles published over the previous year about the company.

INSTRUCTIONS The instructor may have students work alone or in groups for this activity. Students will select a company and investigate the relevance and influence of various stakeholder groups on the organization. Stakeholders can be identified from annual reports, newspaper articles, website statements, and other available sources. Stakeholders should be rank-ordered in terms of their perceived importance to the organization.

Students should be prepared to present or discuss their rank ordering of the organization's stakeholders, including evidence for this ordering.

Discussion Questions

1. What are the main reasons certain stakeholders are more important than others for this organization?
2. On the basis of your knowledge of the organization's environmental situation, is this rank order of stakeholders in the organization's best interest? Should specific other stakeholders be given higher priority?
3. What societal groups, if any, are not mentioned as stakeholders by the organization? Does this lack of reference to these unmentioned groups make sense?

SELF-ASSESSMENT
IT ALL MAKES SENSE?

PURPOSE This exercise is designed to help you comprehend how organizational behavior knowledge can help you understand life in organizations.

INSTRUCTIONS (*Note:* Your instructor might conduct this activity as a self-assessment or as a team activity.) Read each of the statements below and circle whether each statement is true or false, in your opinion. The class will consider the answers to each question and discuss the implications for studying organizational behavior.

Due to the nature of this activity, the instructor will provide the answers to these questions. There is no scoring key in Appendix B.

1. True False A happy worker is a productive worker.
2. True False A decision maker's effectiveness increases with the number of choices or alternatives available to her or him.
3. True False Organizations are more effective when they minimize conflict among employees.

4. True False Employees have more power with many close friends than with many acquaintances.
5. True False Companies are more successful when they have strong corporate cultures.
6. True False Employees perform better without stress.
7. True False The best way to change people and organizations is by pinpointing the source of their current problems.
8. True False Female leaders involve employees in decisions to a greater degree than do male leaders.
9. True False The best decisions are made without emotion.
10. True False If employees feel they are paid unfairly, nothing other than changing their pay will reduce their feelings of injustice.

After reading this chapter, if you feel that you need additional tips on managing your studies, see **www.mhhe.com/mcshane7e** for more in-depth information and interactivities that correspond to this chapter.