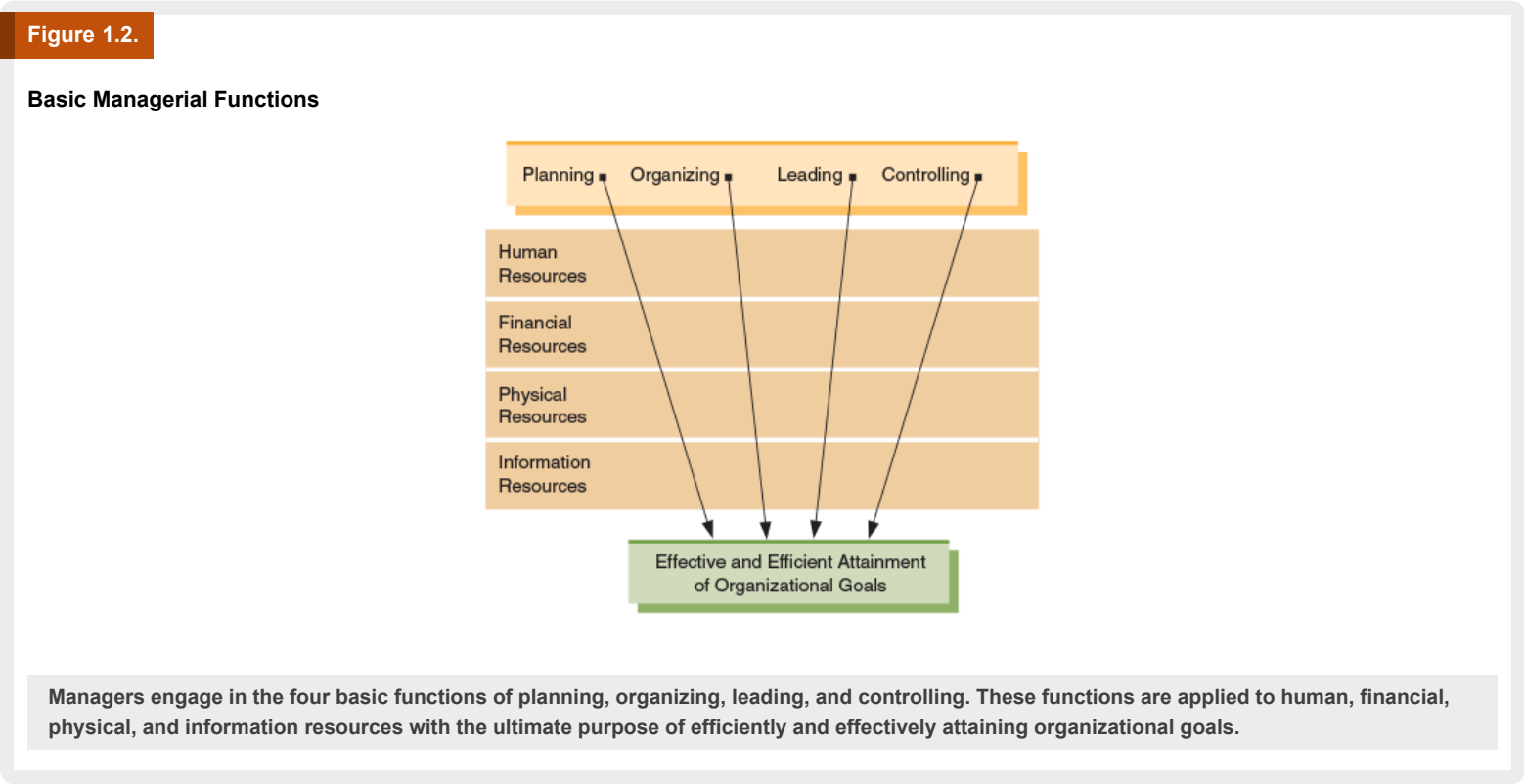


Basic Management Functions and Organizational Behavior

Managerial work is fraught with complexity and unpredictability but also enriched with opportunity and excitement. However, in characterizing managerial work, most educators and other experts find it useful to conceptualize the activities performed by managers as reflecting one or more of four basic functions. These functions are generally referred to as planning, organizing, leading, and controlling. While these functions are often described in a sequential manner, in reality, of course, most managerial work involves all four functions simultaneously.

Similarly, organizations use many different resources in the pursuit of their goals and objectives. As with management functions, though, these resources can also generally be classified into four groups: human, financial, physical, and/or information resources. As illustrated in **Figure 1.2**, managers combine these resources through the four basic functions, with the ultimate purpose of efficiently and effectively attaining the goals of the organization. That is, the figure shows that managers apply the basic functions across resources to advance the organization toward its goals.



Planning, the first managerial function, is the process of determining the organization’s desired future position and deciding how best to get there. The planning process at Target, for example, includes studying and analyzing the environment, deciding on appropriate goals, outlining strategies for achieving those goals, and developing tactics to help execute the strategies. OB processes and characteristics pervade each of these activities. Perception, for instance, plays a major role in environmental scanning, and creativity and motivation influence how managers set goals, strategies, and tactics for their organization. Larger corporations such as Walmart, Disney, and Starbucks usually rely on their top management teams to handle most planning activities. In smaller firms, the owner usually takes care of planning.

The second managerial function is **organizing**—the process of designing jobs, grouping jobs into manageable units, and establishing patterns of authority among jobs and groups of jobs. This process produces the basic structure, or framework, of the organization. For large organizations such as Apple, Delta Airlines, and Toyota, that structure can be incredibly complex. The structure includes several hierarchical layers and spans myriad activities and areas of responsibility. Smaller firms can often function with a relatively simple and straightforward form of organization. As noted earlier, the processes and characteristics of the organization itself are a major theme of organizational behavior.

Leading, the third major managerial function, is the process of motivating members of the organization to work together toward the organization’s goals. An Old Navy store manager, for example, must hire people, train them, and motivate them. Major components of leading include motivating employees, managing group dynamics, and the actual process of leadership itself. These are all closely related

to major areas of organizational behavior. All managers, whether they work in a huge multinational corporation spanning dozens of countries or in a small neighborhood business serving a market only a few square city blocks in size, must understand the importance of leading.



WAVEBREAKMEDIA/SHUTTERSTOCK.COM

Leading is a major part of the jobs of most managers. This manager is presenting information to his team in an effort to lead them to perform at a higher level.

The fourth managerial function, [controlling](#), is the process of monitoring and correcting the actions of the organization and its people to keep them headed toward their goals. A manager at Best Buy has to control costs, inventory, and so on. Again, behavioral processes and characteristics are a key part of this function. Performance evaluation and reward systems, for example, both apply to control. Control is of vital importance to all businesses, but it may be especially critical to smaller ones. Target, for example, can withstand with relative ease a loss of several thousand dollars due to poor control, but an equivalent loss may be devastating to a small firm.

Critical Management Skills and Organizational Behavior

Another important element of managerial work is mastery of the skills necessary to carry out basic functions and fill fundamental roles. In general, most successful managers have a strong combination of technical, interpersonal, conceptual, and diagnostic skills.*

Technical skills are skills necessary to accomplish specific tasks within the organization. Designing a new mobile game app for Rovio, the company that created Angry Birds, developing a new weight loss supplement for Advocare, or writing a press release for Halliburton about the firm's new drilling technologies, all require technical skills. Hence, these skills are generally associated with the operations employed by the organization in its production processes. For example, the Chair of Xerox Corporation, Ursula Burns, began her career with the company as a mechanical engineering intern. Other examples of managers with strong technical skills include Mark McCullum (CEO of Weatherford International, who began his career as a petroleum engineer) and Andrew Taylor (former CEO of Enterprise Holdings, who began his career washing cars on Rent-A-Car lots when he was 16 years of age). The CEOs of the Big Four accounting firms also began their career as accountants.



ECHO/GETTY IMAGES

Technical skills are the skills needed to perform specific tasks. This retail manager is teaching a new sales clerk how to operate the store's payment system. He has to have the technical skills needed for this task in order to teach others.





WENN LTD/ALAMY STOCK PHOTO

Ursula Burns, Chair and CEO of Xerox Corporation, started her career as a mechanical engineer. She subsequently moved into management and now leads a major corporation.

Managers use [interpersonal skills](#) to communicate with, understand, and motivate individuals and groups. As we have noted, managers spend a large portion of their time interacting with others, so it is clearly important that they get along well with other people. For instance, Howard Schultz is the Chairman of Starbucks. Schultz is able to relate to employees by demonstrating respect and dignity. Schultz remains committed to providing health benefits despite raising healthcare costs and has created educational opportunities for Starbucks partners to finish school. Schultz has been recognized for his passion and leadership. These qualities inspire others throughout the organization and motivate them to work hard to help Starbucks reach its goals.

[Conceptual skills](#) are the manager's ability to think in the abstract. A manager with strong conceptual skills is able to see the "big picture." That is, he or she can see opportunity where others see roadblocks or problems. For example, after Steve Wozniak and Steve Jobs built a small computer of their own design in a garage, Wozniak essentially saw a new toy that could be tinkered with. Jobs, however, saw far more and convinced his partner that they should start a company to make and sell the computers. The result, of course, was Apple Computer. In subsequent years, Jobs also used his conceptual skills to identify the potential in digital media technologies, leading to the introduction of such products as the iPod, the iPhone, iTunes, and the iPad as well as his overseeing the creation of Pixar Animation Studios. When he died in 2011, Jobs was hailed as one of the most innovative managers of all time.

Most successful managers also bring [diagnostic skills](#) to the organization. Diagnostic skills allow managers to better understand cause-and-effect relationships and to recognize the optimal solutions to problems. For instance, when Ed Whitacre was chairman and CEO of SBC Communications, he recognized that, though his firm was performing well in the consumer market, it lacked strong brand identification in the business environment. He first carefully identified and then implemented an action to remedy the firm's shortcomings—SBC would buy AT&T (for \$16 billion), acquiring in the process the very name recognition that his company needed. After the acquisition was completed, the firm changed its corporate name from SBC to AT&T. And it was Whitacre's diagnostic skills that pulled it all together.* Indeed, his reputation for having strong diagnostic skills led to his being asked to lead the corporate turnaround at General Motors during the recession of 2009.

Organizational Behavior and Human Resource Management

We noted earlier that OB is generally related to all areas of an organization. It is especially relevant, though, to human resource management. [Human resource management](#) (HRM) is the set of organizational activities directed at attracting, developing, and maintaining an effective workforce. More precisely, HR managers select new employees, develop rewards and incentives to motivate and retain employees, and create programs for training and developing employees. But how do they know which applicants to hire? And how do they know which rewards will be more motivating than others? The answers to these and related questions are generally drawn from the field of OB. For example, personality traits (covered in **Chapter 3**) are often used in selection decisions. Likewise, motivation theories (as discussed in Chapters 5 and 6) help managers understand how to most effectively reward and retain employees. This chapter's *Improve Your Skills* feature highlights some common job interview questions that you should be prepared to answer before interviewing for your next job. These questions and your answers to them all involve OB concepts.

Improve Your Skills

OB-Related Job Interview Questions

1. What do you think is the most important thing that a manager does?
2. What was the most ethical decision you've had to make at work?
3. Tell me about a conflict you've experienced at work and how you handled it.
4. Tell me about a challenging team experience you have had and how you handled it.
5. How would you manage an employee who misses performance goals?
6. How would you describe your leadership style?

6. How would you describe your leadership style?

7. How do you deal with stressful deadlines at work?

8. Have you ever dealt with a difficult boss? If so, how did you manage the situation? If not, what would you do if you found yourself in this situation?

9. What types of innovative problem-solving or decision-making techniques do you use at work?

10. What type of organizational culture would be the best fit for you? Why?

Consider, for example, a major announcement made by Walmart a few years ago. In early 2015 the giant retailer began giving pay raises to 500,000 U.S. workers. At the same time, the company indicated that it was changing the methods it uses to hire and train new employees.* Clearly, Walmart did not make the decision to raise its labor costs lightly. Instead, its managers expect that the higher wages and new HR practices will enable the company to better recruit new employees and retain its existing ones. Hence, this significant—and expensive—decision by Walmart managers had its origins in theories and research from OB and will be implemented in the firm through HRM. The Walmart example also provides a preview of the strategic context of OB, explored in our next section.

The Strategic Context of Organizational Behavior

Successful business strategies are grounded in creating and maintaining a sustainable competitive advantage, which exists any time an organization has an edge over rivals in attracting customers and defending itself against competition. The effective management of people is key to the creation of a competitive advantage and business strategy execution. As legendary former General Electric CEO Jack Welch once said, “We now know where productivity—real and limitless productivity—comes from. It comes from challenged, empowered, excited, rewarded teams of people.”* We now turn our attention more specifically to the nature of strategic management and its relationship to OB.



DANIEL ACKER/BLOOMBERG/GETTY IMAGES

Walmart recently announced plans to raise the hourly pay rates for 500,000 of its U.S. employees. The retailer expects its higher wages to make it easier to hire new employees and retain existing ones.

Sources of Competitive Advantage

How does an organization gain a competitive advantage? Strategy researchers have identified several sources of [competitive advantage](#) including especially well-made or low-priced products, excellent customer service, convenience, short product development times, and well-known brand name.* Because it is an organization’s people who are responsible for gaining and keeping most competitive advantage, effective management is critical to business success.*

Warehouse retailer Costco's strong and loyal customer base, access to a broad range of high-quality products for a low price, and committed employees give it a competitive advantage over smaller and lesser-known retailers. Although Costco pays its employees substantially more than its closest competitor, Sam's Club, it has similar financial returns on its labor costs due to lower turnover and higher levels of employee productivity.* This, in turn, results in a higher-quality customer experience.

According to Michael Porter, to have a competitive advantage, a company must ultimately be able to give customers superior value for their money (a combination of quality, service, and acceptable price)—either a better product that is worth a premium price or a good product at a lower price can be a source of competitive advantage.* Table 1.1 lists some possible sources of competitive advantage. You should note that an organization's talent is the key to securing each of these. One of the most important things managers do is execute a firm's business strategy. We next discuss business strategy in more detail, as well as how OB concepts and models can reinforce the organization's overall business strategy and support its execution.

Table 1.1.

Businesses can choose to pursue competitive advantage by using an array of different sources.

- *Innovation*: developing new products, services, and markets and improving current ones
- *Distribution*: dominating distribution channels to block competition
- *Speed*: excelling at getting your product or service to consumers quickly
- *Convenience*: being the easiest for customers to do business with
- *First to market*: introducing products and services before competitors
- *Cost*: being the lowest-cost provider
- *Service*: providing the best customer support before, during, or after the sale
- *Quality*: providing the highest-quality product or service
- *Branding*: developing the most positive image



Sam's Club and Costco are major competitors but have very different approaches to competitive advantage. Sam's Club pays its workers relatively lower wages in order to keep its costs and prices lower. Costco pays higher wages, though, in order to hire more more experienced employees and provide better customer service.

Types of Business Strategies

A company may create value based on price, technological leadership, customer service, or some combination of these and other factors. Business strategy involves the challenges and opportunities associated with how to compete with other firms, but also encompasses:

- The strategies of different functional areas in the firm.
- How changing industry conditions such as deregulation, product market maturity, and changing customer demographics will be addressed.
- How the firm as a whole will address the range of strategic issues and choices it faces.

Business strategies are partially planned and partially reactive to changing circumstances. A large number of possible strategies exist for any organization, and an organization may pursue different strategies in different business units. Companies may also pursue more than one strategy at a particular time. According to Michael Porter, businesses can compete successfully by being the cheapest producer, by making unique products valued by consumers, or by applying their expertise in a narrow market segment to meet that segment's particular product or service needs.* These three primary business strategies are:

1. Cost leadership
2. Differentiation
3. Specialization

Another strategic choice is whether to grow the business, and if so how to do it. We next discuss each of these strategies and their implications for OR

Cost Leadership Strategy

Firms pursuing a [cost leadership strategy](#) strive to be the lowest-cost producer in an industry for a particular level of product quality. These businesses are typically effective at acquiring, distributing, or designing products that can be efficiently manufactured (e.g., designing products with a minimum number of parts needing assembly) and engineering efficient manufacturing processes to keep production costs and, therefore, customer prices low. Walmart is a good example of a firm that uses a cost leadership strategy. For instance, Walmart has invested heavily in creating both a highly efficient supply chain and a state-of-the-art information system to maintain real-time data on consumer buying patterns. These allow Walmart to make sure it has the right products in its stores in the optimal quantities at all times. The retailer is also known as a tough negotiator with its suppliers, constantly pushing them to keep their prices low so that Walmart retail prices can stay low as well.

Organizations pursuing a strategy of keeping costs and prices low usually try to develop a competitive advantage in [operational excellence](#). Employees in these firms need to identify and follow efficient processes and engage in continuous improvement. Manufacturing and transportation companies frequently adopt this approach. These organizations continually look for ways to modify their operational systems in order to reduce costs and lower prices while offering a desirable product that competes successfully with competitors' products. Dell Computers, FedEx, and Walmart are good examples of companies whose competitive advantage is based on operational excellence.

Most operationally excellent firms require managers to hire and train flexible employees who are able to focus on shorter-term production objectives, who avoid waste, and who are concerned about minimizing production costs.* Operationally excellent organizations usually function with small but consistent profit margins and rely more on teamwork than individual performance.

Differentiation Strategy

A [differentiation strategy](#) calls for the development of products or services with unique characteristics valued by customers. In concept, the value added by the product's uniqueness may enable the business to charge a premium price for it. The dimensions along which a firm can differentiate include image (Coca-Cola), product durability (Wrangler clothing), quality (Lexus), safety (Volvo), and user-friendliness (Apple products). Some companies, such as Spirit Airlines, differentiate themselves from their competitors by pursuing a strategy based on only providing no-frills, basic products and services at a low cost. Companies can pursue more than one strategy at a time. In this case, Spirit is both a cost leader and a differentiator.



VANDERWOLF IMAGES/SHUTTERSTOCK.COM

Lexus uses a differentiation strategy. It promotes its automobiles as being higher in quality than those sold by competitors. This differentiation, in turn, allows Lexus to sell its automobiles for premium prices.

Organizations pursuing a differentiation strategy often try to develop a competitive advantage based on [product innovation](#). This requires employees to continually develop new products and services to create an advantage in the market. These companies create and maintain a culture that encourages employees to bring new ideas into the company. These companies then listen to and consider these ideas, however unconventional they might be. For these companies, the frequent introduction of new products is key to staying competitive. This strategy is common in technology and pharmaceutical companies. Johnson & Johnson, Nike, and Apple are good examples of organizations whose competitive advantage is based on product innovation.

Product innovators usually work to protect their entrepreneurial environment. To that end, managers develop and reinforce an innovative culture. Instead of selecting job candidates based only on their related experience, they also assess whether a candidate can work cooperatively in teams and whether the candidate is open-minded and creative.* An organization with a product innovation competitive advantage would likely seek a core workforce of research and development employees who have an entrepreneurial mindset, long-term focus, high tolerance for ambiguity, and an interest in learning and discovery. Employees who need stability and predictability would not fit as well. Managers in innovative companies also need to motivate and empower other employees to also be open minded and to proactively suggest new ideas.*

Specialization Strategy

Businesses pursuing a [specialization strategy](#) focus on a narrow market segment or niche—a single product, a particular end use, or buyers with special needs—and pursue either a differentiation or cost leadership strategy within that market segment. Successful businesses following a specialist strategy know their market segment very well and often enjoy a high degree of customer loyalty. This strategy can be successful if it results in either lower costs than competitors serving the same niche, or an ability to offer customers something other competitors do not (e.g., manufacturing nonstandard parts). Chuck E. Cheese, Dunkin' Donuts, and Starbucks are examples of companies that use a specialization strategy.

Organizations pursuing a specialization strategy often try to develop a competitive advantage based on [customer intimacy](#) and strive to deliver unique and customizable products or services to meet their customers' needs and increase customer loyalty. This approach involves dividing markets into segments or niches and then tailoring the company's offerings to meet the demands of those niches. Creating customer loyalty requires employees to combine detailed knowledge about their customers with operational flexibility so that they can respond quickly to almost any customer need, from customizing a product to fulfilling special requests. Consulting, retail, and banking organizations often adopt this approach.

Most service-quality experts say that talent is the most critical element in building a customer-oriented company.* Hiring active learners with good customer relations skills and emotional resilience under pressure would complement a customer intimacy competitive advantage and help ensure that the organization continually enhances its ability to deliver on promises to customers.* Because employee cooperation and collaboration are important to developing customer intimacy, managers should also focus on building effective teams and creating effective communication channels.

Companies such as Starbucks are able to get a relatively higher price for their products because of their focus on customer relationships. Imagine if Starbucks began to hire cheaper labor, including people with weak communication skills, and cut back on its investments in employee training and satisfaction. Starbucks' competitive advantage would quickly erode, and the company would have to reduce the price of its coffee to keep customers coming back. This could eventually result in Starbucks pursuing a cost leadership strategy rather than a specialization strategy because it stopped attracting, motivating, and retaining the kinds of employees needed to support its original strategy.

Growth Strategy

Another strategic choice is whether to expand the company and seek to increase business. Companies often pursue a [growth strategy](#) in response to investor preferences for rising earnings per share, and the required business expansion generally requires the acquisition of additional talent. For example, growth-oriented chains such as Blaze Pizza and Five Guys Burgers regularly open new stores that require additional managers and employees.

The success of a growth strategy depends on the firm's ability to find and retain the right number and types of employees to sustain its intended growth. Growth can be organic, happening as the organization expands from within by opening new factories or stores. If it is, it requires an investment in recruiting, selecting, and training the right people to expand the company's operations. Firms can also pursue growth strategies through mergers and acquisitions. Mergers and acquisitions have been a common way for organizations to achieve growth, expand internationally, and respond to industry deregulation. In addition to expanding the organization's business, mergers and acquisitions can also be a way for an organization to acquire the quality and amount of talent it needs to execute its business strategy.

When using mergers and acquisitions as a way to implement a growth strategy, it is important to consider the match between the two organizations' cultures, values, and organizational structures. Mismatches between merged or acquired organizations can result in underperformance and the loss of talented employees. Mergers and acquisitions often fail because of culture issues rather than technical or financial issues.* The failed DaimlerChrysler, HP and Compaq, and AOL-Time Warner mergers and still troubled merger between United and Continental Airlines are just a few prominent examples.

Integrating Business Strategy and Organizational Behavior

There are a number of significant linkages that connect business strategy and OB. For instance, a firm that relies on a cost leadership strategy will usually need to keep all of its expenses as low as possible. Therefore, this strategy might dictate relying on low-wage employees and trying to automate as many jobs as possible. These actions, in turn, clearly relate to employee motivation and the design of work. Likewise, a company using a differentiation strategy might want to emphasize exemplary customer service. As a result, it needs

employees, a company using a differentiation strategy might want to emphasize exemplary customer service, reward employees who are motivated to provide high levels of service, leaders who can help develop a customer service culture, and a reward structure tied to customer service. A specialization strategy often requires employees with specialized skills and abilities.

Strategy implementation and strategic change also require large-scale organizational changes. Two of the largest may be the new organizational culture and new behaviors required of employees. Depending on the nature of a strategic change, some employees are likely to lack the willingness or even the ability to support the new strategy. Targeting management efforts to coach, motivate, and influence the people who are critical to implementing a new strategy may help it to take hold and ultimately influence the strategy's effectiveness.

Imagine an organization currently manufacturing semiconductor chips. The competitive environment is such that the organization must compete on cost. The organization is focused on operational efficiencies to control expenses. Its focus is on keeping costs contained, and the culture reinforces strict adherence to operating rules to help achieve these goals. Now consider what would change if the organization were to identify a better competitive position by specializing in designing new and innovative computer chips and outsourcing their production to a low-wage country in Asia. The organization's focus would now be on innovation, problem solving, and teamwork. Managers would need to do less rule enforcement and more leading, motivating, and communicating. Employee involvement in decision making might also increase. Intel went through just this type of transformation in the early 1970s when it moved from being a producer of semiconductor memory chips to programmable microprocessor chips.

The previous discussion should help you to understand the role of OB in executing a variety of business strategies. Effective managers understand what needs to be done to execute a company's business strategy, then they plan, organize, direct, and control the activities of employees to get it done. It is important to note that managers do not accomplish organizational objectives by themselves—they get work done through others. Flexibly applying OB concepts and models will help you to do that most effectively.

