Seventh Edition

Essentials of Contemporary Management

Gareth R. Jones

Jennifer M. George

Mc Graw Hill Education

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Rice University

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ESSENTIALS OF CONTEMPORARY MANAGEMENT, SEVENTH EDITION

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He has published many articles in leading journals of the field and his research has appeared in the *Academy of Management Review,* the *Journal of International Business Studies,* and *Human Relations*. He published an article about the role of information technology in many aspects of organizational functioning in the *Journal of Management.* One of his articles won the *Academy of Management Journal*'s Best Paper Award, and he is one of the most cited authors in the *Academy of Management Review.* He is, or has served, on the editorial boards of the *Academy of Management Review,* the *Journal of Management,* and *Management Inquiry.*

Gareth Jones has used his academic knowledge to craft leading textbooks in management and three other major areas in the management discipline: organizational behavior, organizational theory, and strategic management. His books are widely recognized for their innovative, contemporary content and for the clarity with which they communicate complex, real-world issues to students.

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Preface

In this seventh edition of *Essentials of Contemporary Management,* we continue to focus on providing the most up-to-date account of the changes taking place in the world of management and management practices while maintaining our emphasis on making our text relevant and interesting to students. And we know from feedback from instructors and students that the text does engage them. Our increased focus on the challenges and opportunities facing businesses large and small and integrated timely examples bring management issues to life for students.

The number and complexity of the strategic, organizational, and human resource challenges facing managers and all employees have continued to increase throughout the 2000s and into the 2010s. In most companies, managers at all levels continue to play catch-up as they work toward meeting these challenges by implementing new and improved management techniques and practices. Today, relatively small differences in performance between companies, such as in the speed at which they bring new products or services to market or in the ways they motivate their employees to find ways to reduce costs or improve performance, can combine to give a company a significant competitive advantage. Managers and companies that utilize proven management techniques and practices in their decision making and actions increase their effectiveness over time. Companies and managers that are slower to implement new management techniques and practices find themselves at a growing competitive disadvantage that makes it even more difficult to catch up. Thus, in many industries, there is a widening gap between the most successful companies whose performance reaches new heights and their weaker competitors, because their managers have made better decisions about how to use company resources in the most efficient and effective ways.

The challenges facing managers continue to mount as changes in the global environment, such as increasing global outsourcing and rising commodity prices, impact organizations large and small. Moreover, the revolution in information technology (IT) has transformed how managers make decisions across all levels of a company's hierarchy and across all its functions and global divisions. This seventh edition addresses these emerging challenges. For example, we extend our treatment of global outsourcing, examine its pros and cons, and examine the new management problems that emerge when millions of functional jobs in IT, customer service, and manufacturing are performed in countries overseas. Similarly, increasing globalization means that managers must respond to major differences in the legal rules and regulations and ethical values and norms that prevail in countries around the globe.

Other major challenges we continue to expand on in this edition include the impact of the steadily increasing diversity of the workforce on companies and how this increasing diversity makes it imperative for managers to understand how and why people differ so that they can effectively manage and reap the performance benefits of diversity. Similarly, across all functions and levels, managers and employees must continually seek ways to "work smarter" and increase performance. Using new IT to improve all aspects of an organization's operations to enhance efficiency and customer responsiveness is a vital part of this process. So too is the continuing need to innovate and improve the quality of goods and services, and the ways they are produced, to allow an organization to compete effectively. We significantly revised this edition of *Essentials of Contemporary Management* to address these challenges to managers and their organizations.

Major Content Changes

Once again, encouraged by the increasing number of instructors and students who use each new edition of our book, and based on the reactions and suggestions of both users and reviewers, we revised and updated our book in many ways. However, the organization and sequence of chapters remain the same in this new edition. Instructors tell us that they like the way the chapters flow, and

the way they build up a picture of management part by part, to provide an excellent learning experience and a comprehensive coverage of management. The way we link and integrate topics, such as our inclusion of entrepreneurship in Chapter 5, "Decision Making, Learning, Creativity, and Entrepreneurship," allows students to make connections among these important topics. As examples of the many changes we made, this new edition expands the coverage of ways to encourage high motivation, creativity, and innovation in organizations and the importance of managers' and organizations' taking steps to protect the natural environment and promote sustainability. Our three-chapter sequence on strategy, structure, and control systems to improve competitive advantage is also updated in many ways. And, in this new edition, throughout the chapters we offer increased coverage of new approaches to leadership and the design of reward systems, new uses of advanced IT at all levels in the organization and across all functions to improve job design and employee motivation, and expanded coverage of the pros and cons associated with global outsourcing.

CHAPTER-BY-CHAPTER CHANGES We made the following specific changes to this edition.

Chapter 1

- New "Management Snapshot" on Scott Parish of Alcon Entertainment.
- New "Manager as a Person" feature on Dennis Corsi, president of Armstrong Consultants, an airport engineering firm.
- New "Managing Globally" feature about GE bringing manufacturing jobs back to the United States.
- New "Ethics in Action" feature on Apple demanding quality from its global suppliers.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 2

- New "Management Snapshot" on how "Determination and Broad Interests Lead Jess Lee to the Top at Polyvore."
- New in-text discussion of how some successful entrepreneurs are high on openness to experience and conscientiousness.
- New "Manager as a Person" on "Kevin Plank's Openness to Experience and Conscientiousness Pay Off at Under Armour."
- New "Ethics in Action" on "Telling the Truth at Gentle Giant Moving."
- New in-text discussion of levels of job satisfaction/dissatisfaction in the United States in 2012.
- New 2015 "*Bloomberg Businessweek* Case in the News."

Chapter 3

- Updated "Management Snapshot" on "Ethics and Social Responsibility at Whole Foods Market."
- New "Ethics in Action" on "Safety in the Garment Industry."
- New "Focus on Diversity" on "Effectively Managing Diversity at Sodexo and Principal Financial Group."
- Updated in-text statistics on age of U.S. workforce.
- Updated in-text statistics on men and women in the workforce, gender pay gap, and women in top positions and on boards.
- Updated in-text statistics on median weekly earnings of black and white women and men.
- Updated in-text statistics on number of Hispanics in the U.S. population.
- Updated in-text statistics on poverty in the United States.
- Updated in-text statistics on states prohibiting sexual orientation discrimination.
- New in-text discussion of Merrill Lynch racial discrimination lawsuit settled in 2013 for $160,000,000.
- New in-text discussion of Merrill Lynch/Bank of America gender discrimination lawsuit settled in 2013.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 4

- New "Management Snapshot" on the importance of effective global websites.
- New "Managing Globally" feature on reducing water shortages around the world.

- New "Managing Globally" feature on translating athletic success into business leadership.
- New "Management Insight" feature on the cultural challenges faced by expatriates in global business.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 5

- New "Management Snapshot" on "Decision Making and Learning Are the Keys to Entrepreneurial Success."
- New "Focus on Diversity" on "Programmed Decision Making at UPS."
- New "Management Insight" on "Decision Making and Learning from Feedback at GarageTek."
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 6

- New "Management Snapshot" on the turnaround plan for Toys "R" Us.
- New "Manager as a Person" feature on General Motors CEO Mary Barra.
- New "Management Insight" feature on Crocs and the shoe retailer's revised business strategy.
- New "Management Insight" feature on PepsiCo's determination to keep the company intact.
- New 2015 "*Bloomberg Business* Case in the News."

Chapter 7

- New chapter learning objective added to reflect how IT helps managers build strategic alliances and network structures as a way of increasing efficiency and effectiveness.
- New "Management Snapshot" on how Disney lets its studios set unique organizational structures that influence employee creativity.
- New "Management Insight" feature on how one of Wendy's top franchisees focuses on job enlargement for its employees.
- New "Managing Globally" feature on a company reorganization at an international engineering firm that focuses on the needs of local clients.
- New "Management Insight" feature on how an NFL team restored its "team-first" culture.
- New 2015 "*Business Insider* Case in the News."

Chapter 8

- New "Management Snapshot" on Vynamic, a Philadelphia-based health care consulting firm, and its "Zmail" policy.
- New "Management Insight" feature on the military's use of the control process in Afghanistan.
- New "Management Insight" feature on the need for companies to hire employees with strong data analysis skills in this era of "big data."
- New "Management Insight" feature on how Netflix lacks bureaucratic control—on purpose.
- New "Management Insight" feature on "Philanthrofits"—mobile fitness apps that donate money to charity based on the behavior of their users.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 9

- New "Management Snapshot" on "High Motivation at the SAS Institute."
- New "Management Insight" on "Motivating and Retaining Employees at The Container Store."
- New "Management Insight" on "Employees Are Motivated at Enterprise Rent-A-Car."
- New section on "Equity and Justice in Organizations."
- Four new key terms: distributive justice, procedural justice, interpersonal justice, and informational justice.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 10

- New "Management Snapshot" on "Jim Whitehurst Leads Red Hat."
- New "Management Insight" on "Consideration at Costco."
- Updated in-text statistics on percentages of women in top leadership positions in the United States.

- New "Focus on Diversity" on "Admitting a Mistake Helps Small Business Leader."
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 11

- New "Management Snapshot" on "Using Teams to Innovate at W. L. Gore."
- New "Ethics in Action" on "Leadership in Teams at ICU Medical."
- New "Management Insight" on "Teams Benefit from Deviance and Conformity at IDEO."
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 12

- New "Management Snapshot" on "Effectively Managing Human Resources at the Four Seasons."
- New "Management Insight" on "Recruitment and Selection and Training at Zappos."
- New in-text discussion of online degree programs.
- New in-text examples of companies with formal and mandatory mentoring programs.
- New in-text discussion of companies that provide incentives for employees to improve their health.
- New "Managing Globally" on "Managing Human Resources at Semco."
- Updated in-text statistics on union membership in the United States.
- New 2015 "*The Wall Street Journal* Case in the News."

Chapter 13

- New "Management Snapshot" on how wearable technology tracks employee performance.
- New "Management Insight" feature on how companies are using "big data" to find the right talent.
- New "Managing Globally" feature on GE Healthcare's effective global communications.
- New "Ethics in Action" feature on monitoring employees' email and Internet use.
- New 2015 "*Fast Company* Case in the News."

Chapter 14

- New "Management Snapshot" on how airlines try many methods to expedite the boarding process.
- New "Management Insight" feature on Panera's new use of technology to speed up service for customers.
- New "Management Insight" feature on how the TJX Companies, a leading discount retailer, makes customer satisfaction its top priority.
- New "Management Insight" feature on Steelcase, a leading office furniture manufacturer, and how the company took its own advice when it came to office layout.
- New 2015 "*The Wall Street Journal* Case in the News."

UPDATED RESEARCH CONCEPTS Just as we included pertinent new research concepts in each chapter, so we were careful to eliminate outdated or marginal management concepts. As usual, our goal is to streamline our presentation and keep the focus on recent changes that have the most impact on managers and organizations. In today's world of video downloading, streaming media, and text messaging and tweeting, less is often more—especially when students are often burdened by time pressures stemming from the need to work long hours at paying jobs. New chapter opening "Management Snapshot" cases, the many boxed illustrations inside each chapter, and new "Case in the News" closing cases reinforce updated content critically but succinctly.

We feel confident that the changes to the seventh edition of *Essentials of Contemporary Management* will stimulate and challenge students to think about their future in the world of organizations.

Emphasis on Applied Management

We went to great lengths to bring the manager back into the subject matter of management. That is, we wrote our chapters from the perspective of current or future managers to illustrate, in a hands-on way, the problems and opportunities they face and how they can effectively meet them. For example, in Chapter 3, we provide an integrated treatment of ethics and diversity that clearly explains their

significance to practicing managers. In Chapter 6, we provide an integrated treatment of planning, strategy, and competitive advantage, highlighting the crucial choices managers face as they go about performing the planning role. Throughout the text, we emphasize important issues managers face and how management theory, research, and practice can help them and their organizations be effective.

The last two chapters cover the topics of managing information systems, technology, and operations management, topics that tend to be difficult to teach to new management students in an interesting and novel way. Our chapters provide a student-friendly, behavioral approach to understanding the management processes entailed in information systems and operations management. As our reviewers noted, while most books' treatment of these issues is dry and quantitative, ours comes alive with its focus on how managers can manage the people and processes necessary to give an organization a competitive advantage.

Flexible Organization

We designed the grouping of chapters to allow instructors to teach the chapter material in the order that best suits their needs. Instructors are not tied to the planning, organizing, leading, and controlling framework, even though our presentation remains consistent with this approach.

Guided Tour

RICH AND RELEVANT EXAMPLES

An important feature of our book is the way we use real-world examples and stories about managers and companies to drive home the applied lessons to students. Our reviewers were unanimous in their praise of the sheer range and depth of the rich, interesting examples we use to illustrate the chapter material and make it come alive. Moreover, unlike boxed material in other books, our boxes are seamlessly integrated into the text; they are an integral part of the learning experience, and not tacked on to or isolated from the text itself. This is central to our pedagogical approach.

A Management Snapshot opens each chapter, posing a chapter-related challenge and then discussing how managers in one or more organizations responded to that challenge. These vignettes help demonstrate the uncertainty and excitement surrounding the management process.

Toys "R" Us President Hank Mullany (left) and CEO Antonio Urcelay (right) have implemented a business strategy designed to help the company play to its strengths and address its weaknesses. © Bloomberg via Getty Images

MANAGEMENT SNAPSHOT

Toy Retailer Implements Turnaround Plan

How Can Identifying Corporate Strengths and Weaknesses Lead to Better Planning and Strategy?

Toys "R" Us, Inc., with its mascot Geoffrey the Giraffe, is a well-known brand. The toy retailer was founded in 1948 as Children's Supermart and later rebranded as Toys "R" Us after adding toys to its baby furniture business. By 2014, the company had grown to 872 stores in the United States and more than 700 stores outside the United States.

Despite its growth, 2013 was not a good year for Toys "R" Us. Net sales were down, and the company's net loss was $1 billion. Chairman and CEO Antonio Urcelay and President Hank Mullany announced a "TRU Transformation" plan for the company.

"Our 'TRU Transformation' strategy is grounded in consumer research and customer insights and is anchored by three guiding principles—Easy, Expert, Fair," Mullany said. "Among our highest priorities will be to deepen our focus on the customer, build meaningful relationships through loyalty and targeted marketing programs, and improve the shopping experience both in store and online."[1]

Urcelay and Mullany recognize that external factors affect sales at Toys "R" Us. The factors they identified are opportunities and threats, over which the company has no control. They include falling birthrates, changes in the play patterns of children, and the growth of online shopping. While it might be easy for Urcelay and Mullany to blame falling sales on these factors, the two company leaders also looked at internal factors that hurt the business—factors the company does control. "We are encouraged that all of these . . . issues are firmly within our own control to fix," Urcelay said. "And our strategy will address these to improve the business over the short term and put the company on track for the future."

Urcelay and Mullany described four categories of weaknesses at Toys "R" Us and discussed how they could be turned into strengths. First, the retailer said it has provided a weak customer experience both in stores and online. Customers complain that the checkout process in stores is slow and that stores are cluttered and disorganized. The apps for the online store are out of date and frustrating to customers. When customers do buy a product online, they often encounter shipping problems. Toys "R" Us would like to turn this weakness into a strength by making its stores easy, uncluttered places at which to shop, with sales associates who have been trained and who will be perceived as experts on the company's products.

Second, there is a perception that prices at Toys "R" Us are higher than at other retailers. Toys "R" Us

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Our box features are not traditional boxes; that is, they are not disembodied from the chapter narrative. These thematic applications are fully integrated into the reading. Students will no longer be forced to decide whether to read boxed material. These features are interesting and engaging for students while bringing the chapter contents to life.

In-depth examples appear in boxes throughout each chapter. Management Insight boxes illustrate the topics of the chapter, while the Ethics in Action, Managing Globally, and Focus on Diversity boxes examine the chapter topics from each of these perspectives.

Further emphasizing the unique content covered in Chapter 2, "Values, Attitudes, Emotions, and Culture: The Manager as a Person," the Manager as a Person boxes focus on how real managers brought about change within their organizations. These examples allow us to reflect on how individual managers dealt with real-life, on-the-job challenges related to various chapter concepts.

***New!* Expanded Use of Small Business Examples** To ensure that students see the clear connections between the concepts taught in their Principles of Management course and the application in their future jobs in a medium or small business, Jones and George have expanded the number of examples of the opportunities and challenges facing founders, managers, and employees in small businesses.

EXPERIENTIAL LEARNING FEATURES

We have given considerable time and effort to developing state-of-the-art experiential end-of-chapter learning exercises that drive home the meaning of management to students. These exercises are grouped together at the end of each chapter in a section called "Management in Action." The following activities are included at the end of every chapter:

Topics for Discussion and Action are a set of chapter-related questions and points for reflection. Some ask students to research actual management issues and learn firsthand from practicing managers.

Building Management Skills is a self-developed exercise that asks students to apply what they have learned from their own experience in organizations and from managers or from the experiences of others.

Managing Ethically is an exercise that presents students with an ethical scenario or dilemma and asks them to think about the issue from an ethical perspective to better understand the issues facing practicing managers.

Small Group Breakout Exercise is designed to allow instructors in large classes to utilize interactive experiential exercises.

Be the Manager presents a realistic scenario where a manager or organization faces some kind of challenge, problem, or opportunity. These exercises provide students with a hands-on way of solving "real" problems by applying what they've just learned in the chapter.

Management *in Action*

TOPICS FOR DISCUSSION AND ACTION

Discussion

1. Describe the three steps of planning. Explain how they are related. [LO 6-1]
2. What is the relationship among corporate-, business-, and functional-level strategies, and how do they create value for an organization? [LO 6-2, 6-3]
3. Pick an industry and identify four companies in the industry that pursue one of the four main business-level strategies (low-cost, focused low-cost, etc.). [LO 6-1, 6-2]
4. What is the difference between vertical integration and related diversification? [LO 6-3]

Action

5. Ask a manager about the kinds of planning exercises he or she regularly uses. What are the purposes of these exercises, and what are their advantages or disadvantages? [LO 6-1]
6. Ask a manager to identify the corporate- and business-level strategies used by his or her organization. [LO 6-2, 6-3]

BUILDING MANAGEMENT SKILLS

How to Analyze a Company's Strategy [LO 6-2, 6-3]

Pick a well-known business organization that has received recent media coverage and that provides its annual reports on its website. From the information in the media and annual reports, answer the following questions:

1. What is (are) the main industry(ies) in which the company competes?
2. What business-level strategy does the company seem to be pursuing in this industry? Why?
3. What corporate-level strategies is the company pursuing? Why?
4. Have there been any major changes in its strategy recently? Why?

MANAGING ETHICALLY [LO 6-1, 6-4]

A few years ago, IBM announced that it had fired the three top managers of its Argentine division because of their involvement in a scheme to secure a $250 million contract for IBM to provide and service the computers of one of Argentina's largest state-owned banks. The three executives paid $14 million of the contract money to a third company, CCR, which paid nearly $6 million to phantom companies. This $6 million was then used to bribe the bank executives who agreed to give IBM the contract.

These bribes are not necessarily illegal under Argentine law. Moreover, the three managers argued that all companies have to pay bribes to get new business contracts and they were not doing anything that managers in other companies were not.

Questions

1. Either by yourself or in a group, decide if the business practice of paying bribes is ethical or unethical.
2. Should IBM allow its foreign divisions to pay bribes if all other companies are doing so?
3. If bribery is common in a particular country, what effect would this likely have on the nation's economy and culture?

SMALL GROUP BREAKOUT EXERCISE [LO 6-1, 6-2]

Low Cost or Differentiation?

Form groups of three or four people, and appoint one member as the spokesperson who will communicate your findings to the class when called on by the instructor. Then discuss the following scenario.

You are a team of managers of a major national clothing chain, and you have been charged with finding a way to restore your organization's competitive advantage. Recently, your organization has been experiencing increasing competition from two sources. First, discount stores such as Walmart and Target have been undercutting your prices because they buy their clothes from low-cost foreign manufacturers while you buy most of yours from high-quality domestic suppliers. Discount stores have been attracting your customers who buy at the low end of the price range. Second, small boutiques opening in malls provide high-price designer clothing and are attracting your customers at the high end of the market. Your company has become stuck in the middle, and you have to decide what to do: Should you start to buy abroad so that you can lower your prices and begin to pursue a low-cost strategy? Should you focus on the high end of the market and become more of a differentiator? Or should you try to pursue both a low-cost strategy and a differentiation strategy?

1. Using SWOT analysis, analyze the pros and cons of each alternative.
2. Think about the various clothing retailers in your local malls and city, and analyze the choices they have made about how to compete with one another along the low-cost and differentiation dimensions.

BE THE MANAGER [LO 6-1, 6-2]

A group of investors in your city is considering opening a new upscale supermarket to compete with the major supermarket chains that are currently dominating the city's marketplace. They have called you in to help them determine what kind of upscale supermarket they should open. In other words, how can they best develop a competitive advantage against existing supermarket chains?

Questions

1. List the supermarket chains in your city, and identify their strengths and weaknesses.
2. What business-level strategies are these supermarkets currently pursuing?
3. What kind of supermarket would do best against the competition? What kind of business-level strategy should it pursue?

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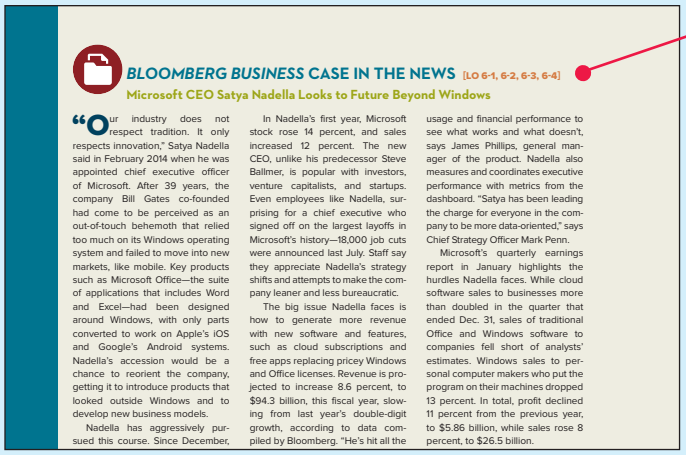

BLOOMBERG BUSINESS CASE IN THE NEWS [LO 6-1, 6-2, 6-3, 6-4]

Microsoft CEO Satya Nadella Looks to Future Beyond Windows

"Our industry does not respect tradition. It only respects innovation," Satya Nadella said in February 2014 when he was appointed chief executive officer of Microsoft. After 39 years, the company Bill Gates co-founded had come to be perceived as an out-of-touch behemoth that relied too much on its Windows operating system and failed to move into new markets, like mobile. Key products such as Microsoft Office—the suite of applications that includes Word and Excel—had been designed around Windows, with only parts converted to work on Apple's iOS and Google's Android systems. Nadella's accession would be a chance to reorient the company, getting it to introduce products that looked outside Windows and to develop new business models.

Nadella has aggressively pursued this course. Since December, In Nadella's first year, Microsoft stock rose 14 percent, and sales increased 12 percent. The new CEO, unlike his predecessor Steve Ballmer, is popular with investors, venture capitalists, and startups. Even employees like Nadella, surprising for a chief executive who signed off on the largest layoffs in Microsoft's history—18,000 job cuts were announced last July. Staff say they appreciate Nadella's strategy shifts and attempts to make the company leaner and less bureaucratic.

The big issue Nadella faces is how to generate more revenue with new software and features, such as cloud subscriptions and free apps replacing pricey Windows and Office licenses. Revenue is projected to increase 8.6 percent, to $94.3 billion, this fiscal year, slowing from last year's double-digit growth, according to data compiled by Bloomberg. "He's hit all the usage and financial performance to see what works and what doesn't, says James Phillips, general manager of the product. Nadella also measures and coordinates executive performance with metrics from the dashboard. "Satya has been leading the charge for everyone in the company to be more data-oriented," says Chief Strategy Officer Mark Penn.

Microsoft's quarterly earnings report in January highlights the hurdles Nadella faces. While cloud software sales to businesses more than doubled in the quarter that ended Dec. 31, sales of traditional Office and Windows software to companies fell short of analysts' estimates. Windows sales to personal computer makers who put the program on their machines dropped 13 percent. In total, profit declined 11 percent from the previous year, to $5.86 billion, while sales rose 8 percent, to $26.5 billion.

Case in the News Each chapter has one Case in the News that is an actual or shortened version of a current article. The concluding questions encourage students to think about how real managers deal with problems in the business world.

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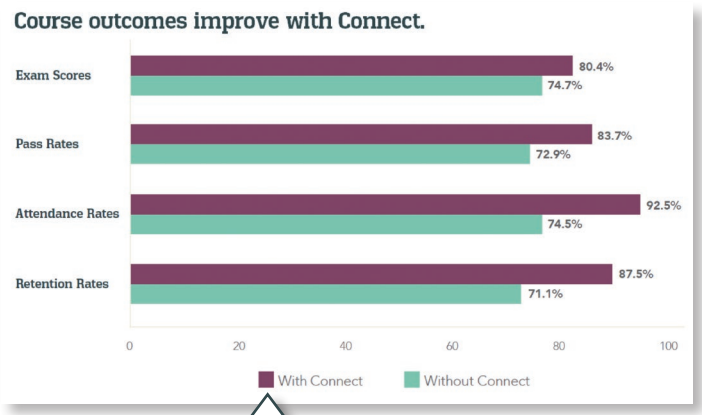

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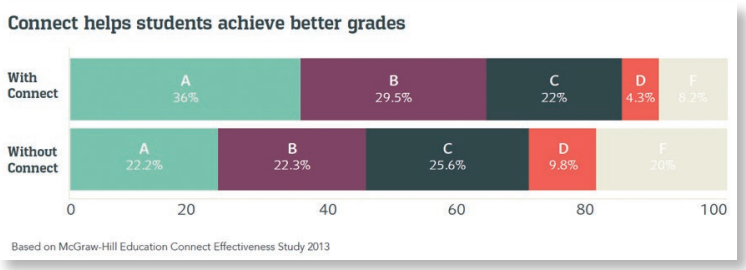

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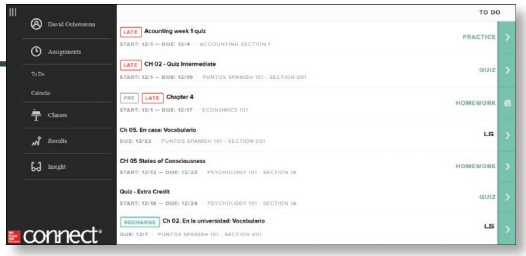

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Producing any competitive work is a challenge. Producing a truly market-driven textbook requires tremendous effort beyond simply obtaining reviews on a draft manuscript. Our goal behind the development of *Essentials of Contemporary Management* has been clear-cut: to be the most customer-driven essentials of management text and supplement package ever published! The favorable reception that our book has received from its users suggests that our thorough product development plan did lead to a book that has met the expectations of both faculty and students. For the new edition, we have continued to add new reviewers to the over 200 faculty who originally took part in developmental activities ranging from regional focus groups to manuscript reviews and surveys. Consequently, we're confident that the changes we have made to our book and its excellent support package will even more closely meet your expectations and needs.

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PART 1

1 The Management Process Today

Learning Objectives

After studying this chapter, you should be able to:

LO 1-1 Describe what management is, why management is important, what managers do, and how managers use organizational resources efficiently and effectively to achieve organizational goals.

LO 1-2 Distinguish among planning, organizing, leading, and controlling (the four principal managerial tasks), and explain how managers' ability to handle each one affects organizational performance.

LO 1-3 Differentiate among three levels of management, and understand the tasks and responsibilities of managers at different levels in the organizational hierarchy.

LO 1-4 Distinguish among three kinds of managerial skill, and explain why managers are divided into different departments to perform their tasks more efficiently and effectively.

LO 1-5 Discuss some major changes in management practices today that have occurred as a result of globalization and the use of advanced information technology (IT).

LO 1-6 Discuss the principal challenges managers face in today's increasingly competitive global environment.

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Broderick Johnson (*left*) and Andrew Kosove (*right*) started Alcon Entertainment, a successful film, TV, and music company, and continue as the company's co-CEOs. Despite turbulent times in the entertainment industry, they have managed to maintain and even expand their business by hiring experienced managers across the organization. © Chris Pizzello/ AP Images

MANAGEMENT SNAPSHOT

Alcon Entertainment Hits the Mark

How Does Management Adapt to Changing Technologies?

Scott Parish is the chief financial officer and chief operating officer of Alcon Entertainment, a Los Angeles–based entertainment production company. Alcon was started in 1997 by film producers (and former business students) Broderick Johnson and Andrew Kosove, who remain Alcon's chief executive officers (CEOs). Since its humble beginnings in a rented apartment, the company has grown into a respected and profitable enterprise, making hit movies such as *The Blind Side; P.S., I Love You;* and *What to Expect When You're Expecting.*

Parish left a successful career in logistics and transportation to pursue his dream of working in the motion picture industry. Relocating from Mississippi to California, he took an hourly administrative job at a film production company to learn about the craft. By taking the initiative to develop his understanding of the entertainment business from the ground up, Parish was able to rise in management over the years. Now as a member of Alcon's top team, he is credited with helping grow Alcon from a boutique film company into a respected creator of not just films but television shows and music as well.

However, maintaining Alcon's growth is a significant challenge in a turbulent and changing entertainment business. Managers like Scott Parish must economically produce valuable content that earns profits. Film creation is a complex process. It can take years to shepherd a film from inception to distribution before audiences. As a result, significant planning is invested into production long before the cameras roll. Parish and Alcon's leadership team are constantly on the lookout for innovative ideas that give them an edge at the box office and must identify and produce ideas, which have a strong potential to connect with the intended audience.

Once viable ideas are obtained and screened, Parish must obtain funding for projects that can cost $40 to $80 million each. Financing films often means coordinating with outside investors, so Parish and his team must be able to explain complex film production processes to those unacquainted with the film business. These outside investors represent important stakeholders in the film production process.

After representing Alcon to investors and obtaining needed financing, Parish must build the right team to produce and market new hit films. This means negotiating with and retaining the services of directors and a cast who can help turn concepts into reality. Missteps at this stage of a film's development can be highly detrimental to its eventual success, and Parish and his team must also balance the needs of Hollywood superstars against the creative demands of directors to create products audiences will pay to

see and enjoy. Hollywood talent is notoriously difficult to manage, so Parish must negotiate and align the interests of the company with the talent it retains to help make films.

In addition to the challenges of managing film production in a competitive environment, Parish is helping lead Alcon in an entertainment industry being transformed by technological and economic change. Consumers increasingly prefer to watch content digitally, so Alcon has evolved to broaden the ways it distributes content. Previously, film production companies like Alcon worked with movie theaters and brick-and-mortar retailers to sell content. Although these distribution channels are still being used, Alcon's content can now be found digitally on streaming subscription services such as Netflix, for download on Amazon Prime, and on other services.[1] Alcon also retains the rights to its films, meaning it earns residual income from its catalog of film projects. With changing consumer tastes and a recession that has limited consumers' disposable income, managers like Parish are challenged to find new ways of ensuring profitable content creation and distribution.

In a larger sense, the ease of transferring digital content has made digital piracy more prevalent, posing a significant threat to the entertainment industry. Piracy occurs when third parties distribute copyrighted materials that they do not own to others without permission from the copyright holder, typically for commercial gain. However, entertainment production companies only receive revenues when their content is purchased by retailers or consumers, which means piracy has the potential to undermine the production of new movies, music, and television. Indeed, Alcon now adjusts its revenue projections to reflect the threats of piracy. However, the company is not responding passively to this new managerial challenge but is taking action to mitigate the distribution and use of pirated content.

For example, in conjunction with other major studios and entertainment production companies, Alcon has responded to this new economic and technological reality by mobilizing support for CreativeFuture, an industry coalition designed to mitigate digital piracy on the web by informing and educating policymakers and consumers about the long-term effects of digital piracy on the sustainability of the entertainment industry.[2]

Running an entertainment company is difficult work. Managers like Scott Parish must help their companies stay creative and create profitable content in an industry rapidly evolving amid changing consumer tastes and technological change. This requires managers to represent the interests of the organization to the public and an increasingly complex array of external stakeholders.

Overview

The story of Scott Parish's rise to the top of Alcon Entertainment illustrates many of the challenges facing people who become managers. Managing a company is a complex activity, and effective managers must possess many kinds of skills, knowledge, and abilities. Management is an unpredictable process. Making the right decision is difficult, and even effective managers often make mistakes. But the most effective managers, like Scott Parish, learn from their mistakes and continually try to find ways to improve their companies' performance.

In this chapter we look at what managers do and what skills and abilities they must develop to manage their organizations successfully. We also identify the different kinds of managers that organizations need and the skills and abilities they must develop to succeed. Finally, we identify some challenges managers must address if their organizations are to grow and prosper.

What Is Management?

When you think of a manager, what kind of person comes to mind? Do you think of an executive like Scott Parish, who helps direct his company? Or do you see a manager at a fast-food restaurant, who deals directly with employees

and customers, or the person you answer to if you have a part-time job? What do all these people have in common? First, they all work in organizations. **Organizations** are collections of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes.[3] Second, as managers, they are the people responsible for supervising and making the most of an organization's human and other resources to achieve its goals.

Management, then, is the planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively. An organization's *resources* include assets such as people and their skills, know-how, and experience; machinery; raw materials; computers and information technology; and patents, financial capital, and loyal customers and employees.

organizations
Collections of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes.

management
The planning, organizing, leading, and controlling of human and other resources to achieve organizational goals efficiently and effectively.

Achieving High Performance: A Manager's Goal

LO1-1 Describe what management is, why management is important, what managers do, and how managers utilize organizational resources efficiently and effectively to achieve organizational goals.

One of the most important goals that organizations and their members try to achieve is to provide some kind of good or service that customers value or desire. The principal goal of Scott Parish is to manage Alcon so that it creates a continuous stream of new and improved entertainment content—enjoyable films, television shows, and music—that customers are willing to buy. Like other entertainment companies, Alcon also seeks projects that have the potential to grow into film or television franchises, encouraging repeat business. Likewise, the principal goal of fast-food managers is to produce tasty and convenient food that customers enjoy and come back to buy again and again.

Organizational performance is a measure of how efficiently and effectively managers use available resources to satisfy customers and achieve organizational goals. Organizational performance increases in direct proportion to increases in efficiency and effectiveness (see Figure 1.1). What are efficiency and effectiveness?

Efficiency is a measure of how productively resources are used to achieve a goal.[4] Organizations are efficient when managers minimize the amount of input resources (such as labor, raw materials, and component parts) or the amount of time needed to produce a given output of goods or services. For example, McDonald's develops ever more efficient fat fryers that not only reduce the amount of oil used in cooking, but also speed up the cooking of french fries. UPS develops new work routines to reduce delivery time, such as instructing drivers to leave their truck doors open when going short distances.

organizational performance
A measure of how efficiently and effectively a manager uses resources to satisfy customers and achieve organizational goals.

efficiency
A measure of how well or how productively resources are used to achieve a goal.

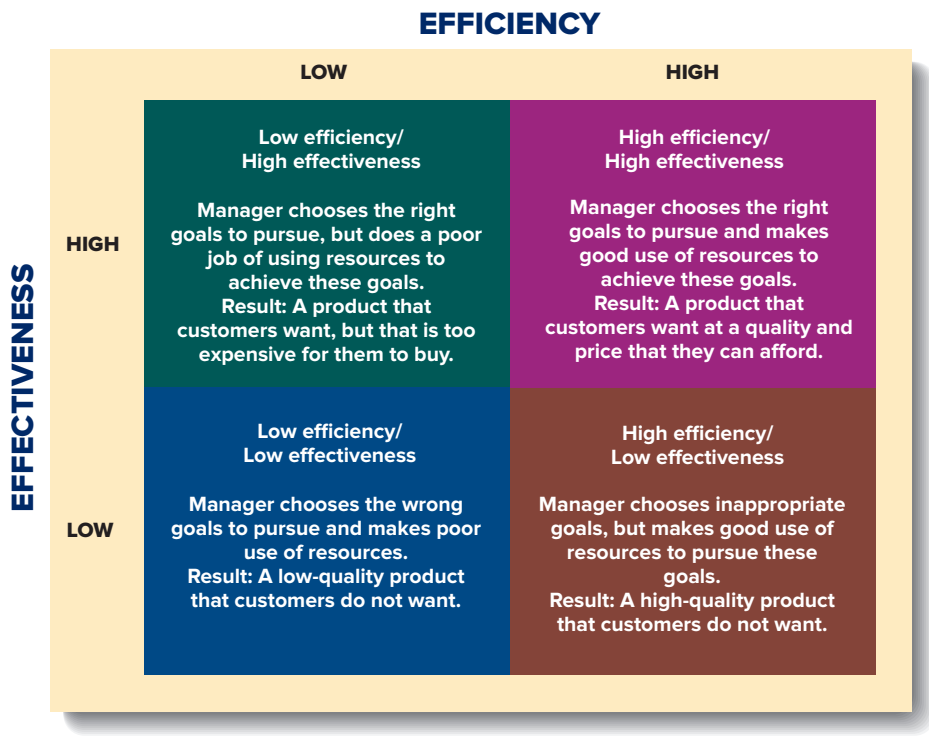
To encourage efficiency, Scott Parish has changed the way Alcon compensates many of its actors. Previously, film production companies paid actors using guaranteed compensation without consideration of a movie's success. They would recoup the cost of making a movie only if the film had adequate success at the box office. Unfortunately, that meant film producers like Alcon held all of the risk.

As an alternative, Parish has linked actor compensation to a film's success.[5] This new compensation method means the company risks fewer dollars if a film flops. However, for actors, the new compensation model means they can earn far more than a flat sum of guaranteed compensation. Thus, when a film succeeds, both Alcon and its actors realize the gains. This new compensation model encourages both parties to work efficiently. Alcon also strives to build good relationships and trust with its actors, which in turn brings goodwill to the organization.

Effectiveness is a measure of the *appropriateness* of the goals that managers have selected for the organization to pursue and the degree to which the organization achieves those goals. Organizations are effective when managers choose appropriate

effectiveness
A measure of the appropriateness of the goals an organization is pursuing and the degree to which the organization achieves those goals.

Figure 1.1
Efficiency, Effectiveness, and Performance in an Organization



High-performing organizations are efficient *and* effective.

goals and then achieve them. Some years ago, for example, managers at McDonald's decided on the goal of providing breakfast service to attract more customers. The choice of this goal has proved smart: Sales of breakfast food account for more than 30% of McDonald's revenues and are still increasing. Parish's goal is to create a continuous flow of innovative entertainment products at Alcon that resonate with audiences. High-performing organizations, such as Apple, McDonald's, Walmart, Intel, Home Depot, Accenture, and Habitat for Humanity are simultaneously efficient and effective. Effective managers are those who choose the right organizational goals to pursue and have the skills to utilize resources efficiently.

Why Study Management?

The dynamic and complex nature of modern work means that managerial skills are in demand. Organizations need individuals like you who can understand this complexity, respond to environmental contingencies, and make decisions that are ethical and effective. Studying management helps equip individuals to accomplish each of these tasks.

In a broader sense, individuals generally learn through personal experience (think the "school of hard knocks") or through the experiences of others. By studying management in school, you are exposing yourself to the lessons others have learned. The advantage of such social learning is that you are not bound to repeat the mistakes others have made in the past. Furthermore, by studying and practicing the behaviors of good managers and high-performing companies, you will equip yourself to help your future employer succeed.

The economic benefits of becoming a good manager are also impressive. In the United States, general managers earn a median wage of $96,430, with a projected growth rate in job openings of 8% to 14% between now and 2022.[6]

Essential Managerial Tasks

LO 1-2 Distinguish among planning, organizing, leading, and controlling (the four principal managerial tasks), and explain how managers' ability to handle each one affects organizational performance.

The job of management is to help an organization make the best use of its resources to achieve its goals. How do managers accomplish this objective? They do so by performing four essential managerial tasks: *planning, organizing, leading,* and *controlling.* The arrows linking these tasks in Figure 1.2 suggest the sequence in which managers typically perform them. French manager Henri Fayol first outlined the nature of these managerial activities around the turn of the 20th century in *General and Industrial Management,* a book that remains the classic statement of what managers must do to create a high-performing organization.[7]

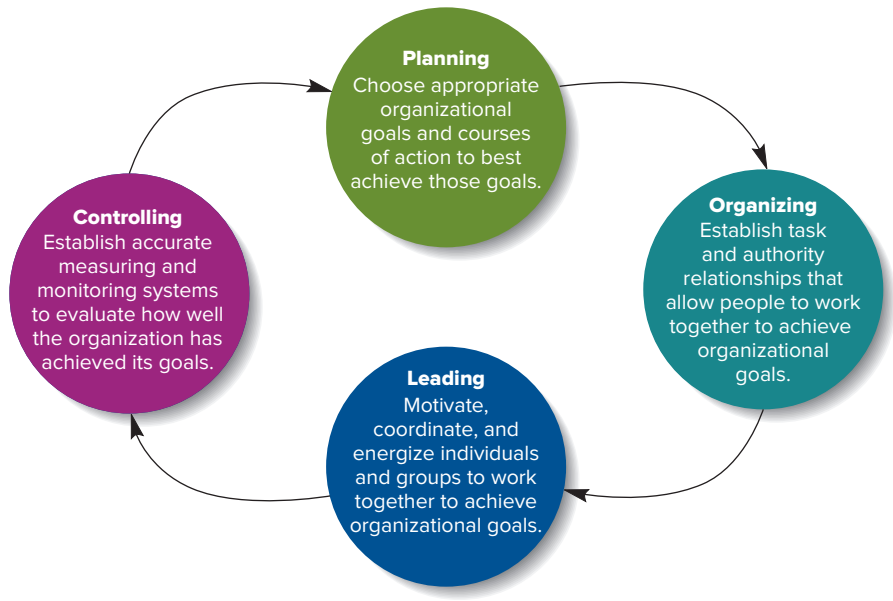
Managers at all levels and in all departments—whether in small or large companies, for-profit or not-for-profit organizations, or organizations that operate in one country or throughout the world—are responsible for performing these four tasks, which we look at next. How well managers perform these tasks determines how efficient and effective their organizations are.

Planning

planning Identifying and selecting appropriate goals; one of the four principal tasks of management.

To perform the **planning** task, managers identify and select appropriate organizational goals and courses of action; they develop *strategies* for how to achieve high performance. The three steps involved in planning are (1) deciding which goals the organization will pursue, (2) deciding what strategies to adopt to attain those goals, and (3) deciding how to allocate organizational resources to

Figure 1.2
Four Tasks of Management



pursue the strategies that attain those goals. How well managers plan and develop strategies determines how effective and efficient the organization is—its performance level.[8]

As an example of planning in action, consider Alcon Entertainment's recent venture into television. Co-CEOs Broderick Johnson and Andrew Kosove are taking Alcon's expertise in film production and applying it to television audiences by producing and distributing quality original programming. Movie and television production have many features in common but operate on different economic models. Films are produced and distributed with partners to reach theater audiences, whereas television shows are produced and offered for channels to distribute to cable, satellite, and streaming audiences.

To help navigate these new challenges, Alcon hired Sharon Hall, formerly of Sony Pictures Television. One of Hall's top priorities is finding ways to create television content that supports and reinforces Alcon's film business.

Alcon is entering a highly competitive market. There are more television stations and shows today than ever before, and competition is fierce to build and maintain audience interest. Thus, the company will need to shape its planning into an effective business **strategy**, which is a cluster of decisions concerning what organizational goals to pursue, what actions to take, and how to use resources to achieve these goals. Alcon recently announced a partnership with the Syfy Channel to produce *The Expanse,* an original sci-fi series.[9]

Alcon originally produced one film at a time, with an emphasis on reducing costs and maximizing efficiency in filmmaking. This constituted a low-cost strategy—a way of obtaining customers by making decisions that allow an organization to produce goods or services more cheaply than its competitors so it can charge lower prices than they do. This low-cost strategy allowed Alcon to weather some disappointing box office results. Alcon's low-cost strategy contrasts with a *differentiation* strategy, in which organizations seek to create highly innovative products that appeal to different types of consumers.[10]

strategy A cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals.

Planning strategy is complex and difficult, especially because planning is done under uncertainty when the result is unknown so that either success or failure is a possible outcome of the planning process. Managers take major risks when they commit organizational resources to pursue a particular strategy. Another manager passionate about his industry is Dennis Corsi, who is profiled in the "Manager as a Person" box.

MANAGER AS A PERSON

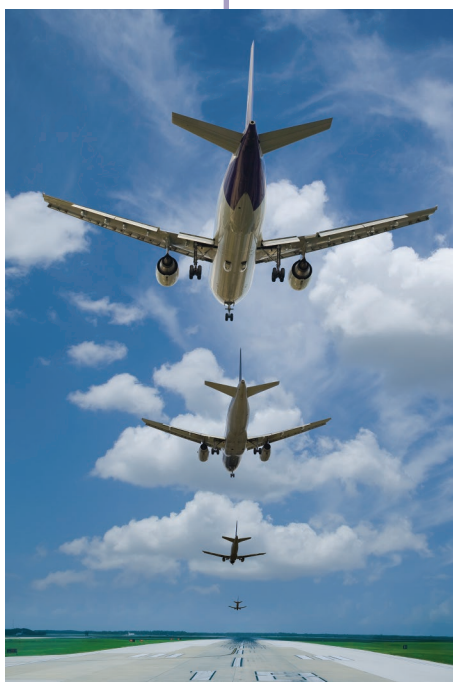
Dennis Corsi Helps Airports Take Off

Each day more than 2 million people fly within the country's large network of nearly 20,000 commercial and general aviation airports. In fact, an estimated 87,000 flights operate daily in U.S. skies. Most people probably don't realize the amount of work required to plan, develop, and maintain such a comprehensive airport system, but Dennis Corsi does. Corsi is president of Armstrong Consultants, a Colorado-based

airport engineering firm. He is a pilot and former member of the U.S. Air Force. The knowledge and experience Corsi has acquired over the years, coupled with his managerial talent, have helped Armstrong become a leader in the region.[11]

Headquartered in Grand Junction in western Colorado, Armstrong Consultants helps general and commercial aviation airports plan, engineer, and construct facilities that meet the needs of their customers. Airports receive revenues primarily when aircraft land and refuel at their facilities. However, as aircraft have different landing, takeoff, and taxiing requirements, Armstrong must offer the right mix of facilities to accommodate pilots' needs. For example, some propeller aircraft can use grass airport runways as short as 600 feet, while other business jets require paved runways exceeding one mile in length and more than 100 feet wide. Managers at engineering companies like Armstrong help airports understand and accommodate these different needs. This is where Corsi's more than 23 years of experience in aviation and time spent managing more than 250 airport projects come in handy.[12]

Like other forms of transportation, airports are highly regulated. They must comply with a complicated mix of regulations that specify how they can operate. Managers like Corsi help clients coordinate with local, state, and federal agencies to comply with highly complex regulations. Armstrong has completed more than 1,200 airport improvement projects, which amounts to 30 or more projects each year that must comply with different kinds of regulatory issues.[13] Aviation is also marked by significant technological change and changing consumer needs. Managers like Corsi work hard to stay ahead of the curve, refining their expertise to provide valued insight to clients. Companies like Armstrong also benefit from building and maintaining strong relationships with regulatory agencies, such as the Federal Aviation Administration, which help guide the activities of client airports.



Armstrong Consultants and its president, Dennis Corsi, use their aviation knowledge and managerial expertise to help airport clients succeed in a complex business. © Joe Drivas/ Photographer's Choice/Getty Images

The process of airport planning and engineering is challenging—something Corsi understands well. For example, before facilities are constructed or modified, airports must obtain adequate funding, typically through a combination of local and federal grants that are financed by aviation fuel taxes. Airports then develop forecasts that help identify the types of traffic they expect, as well as the impact on the local economy. These forecasts act as inputs for facility engineering plans, which are developed to guide the use and development of airfield facilities. However, before amending facilities, airports must also obtain adequate state and federal environmental clearances to ensure their activities do not damage the local environment. This includes surveying the area around an airport, estimating light and sound emissions, testing air and water, and forecasting potential impacts to the region. Only then can construction begin at an airport, which presents its own set of challenges.

To help airports with this daunting process, Armstrong retains a staff of engineers, planners, environmental specialists, and construction managers. At the employee-owned company, Corsi and staff must be able to understand the complexities of each of these functional areas and coordinate their activities for multiple clients at once.