Fundamentals of Management 8th edition Ricky Griffin Solutions Manual

SKU: 9781285849041-SOLUTIONS

CHAPTER 1

Understanding the Manager's Job

Part I: An Introduction to Management introduces students to the world of management and to establish a foundation for the rest of the book. Part I has two chapters. Chapter 1 is entitled "Understanding the Manager's Job." Chapter 2 is entitled "The Environment of Organizations and Managers."

CHAPTER SUMMARY

Chapter 1 provides an overview of management and the manager's job. After a brief introduction, the chapter describes the management process, the various kinds of managers, and managerial functions and skills. Next, the art and science of management is described. The history of management is then discussed, beginning with a discussion of the role of theory and history in management. Next, the chapter introduces and discusses in detail the classical, behavioral, and quantitative perspectives on management. Integrating perspectives for managers are then described. The chapter concludes by identifying several contemporary management challenges.

LEARNING OUTCOMES

After studying this chapter, students should be able to:

1. Define *management,* describe the kinds of managers found in organizations, identify and explain the four basic management functions, describe the fundamental management skills, and comment on management as a science and art.
2. Justify the importance of history and theory to managers and explain the evolution of management thought through the classical, behavioral, and quantitative perspectives.
3. Identify and discuss key contemporary management perspectives represented by the systems and contingency perspectives and identify the major challenges and opportunities faced by managers today.

The opening incident describes how Reed Hastings (and co-founder Marc Randolph) launched Netflix, made it into the industry leader in DVD rentals, and basically destroyed that advantage by moving aggressively to streaming video. By 2008, Hastings realized that streaming (or video-on-demand) was likely to disrupt conventional DVD-based viewing. He quickly repositioned Netflix to take advantage of this change, even if it meant destroying all that the company had built in the DVD business. The incident ends with Hastings contemplating the company's next move.

Management Update: Netflix reported strong revenue and profit gains for fiscal 2013. Its market capitalization was $20.97 billion in mid-May 2014 and the stock price was nearly $350 a share.

LECTURE OUTLINE

I. An Introduction to Management
Many different definitions of management exist. *Management* is a set of activities (including planning and decision making, organizing, leading, and controlling) directed at an organization's resources (human, financial, physical, and information) with the aim of achieving organizational goals in an efficient and effective manner.

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Teaching Tip: Note the similarities and differences among the kinds of resources used by profit-seeking and not-for-profit organizations. For example, both an airline and a university may buy food in bulk, but they have different revenue sources to pay for that food.

Group Exercise: A good icebreaking exercise for the first day of class is to have students form into small groups, select two or three different kinds of organizations, and identify examples of the different kinds of resources they use.

Efficient means using resources wisely and in a cost-effective way. *Effective* means making the right decisions and successfully implementing them.

A. Kinds of Managers
   1. Managers at different levels of the organization
      a) *Top managers* are the small group of executives who control the organization by setting its goals, overall strategy, and operating policies. Top managers also represent the organization to the external environment. Job titles for top managers include CEO, president, and vice president.

Management Update: While CEO salaries have risen over the years, they have been affected by the economic downturn. The average salary for S&P 500 company CEOs was $11.4 million in 2009, a 11% cut over 2008. The decline was starker in 2012, where the average salary was $9.6 million, while it increased to $14.1 million in 2013.

      b) *Middle managers* are the largest group of managers in most companies. These managers hold positions such as plant manager, operations manager, and division head. They primarily take the goals and strategies designed by top managers and put them into effect. They supervise lower-level managers.
      c) *First-line managers* supervise and coordinate the activities of operating employees. They often have job titles such as foreman, supervisor, and office manager. The majority of their work is direct supervision of their subordinates.
   2. Areas of management
      a) Marketing managers work in areas related to the marketing function of the organization. They help to find ways to get consumers and clients to buy the organization's products.

Discussion Starter: Point out for students that their major will play a large role in determining the area of management they enter after graduation (assuming that they go to work for a large organization). For example, a marketing major's first job is likely to be a first-line management position in the marketing function, whereas a finance major will more likely start out as a first-line financial manager.

      b) Financial managers deal primarily with an organization's financial resources and are involved in such activities as accounting, cash management, and investments.
      c) Operations managers are concerned with creating and managing the systems that create an organization's products and services. They achieve their goals through production control, inventory control, quality control, and plant site selection and layout.
      d) Human resource managers are responsible for hiring and developing employees. They are concerned with the flow of employees into the organization, through the organization, and out of the organization.
      e) General managers are generalists who have some basic familiarity with all functional areas of management rather than specialized training in any one area.
      f) Specialized types of managers include those who work in public relations, R&D, internal consulting, and international business.

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Discussion Starter: Ask students to identify additional examples of managers, with an emphasis on as many different kinds of organizations and management positions as possible. The wide variety of answers that is likely to emerge can be used to stress the diversity that exists in managerial work.

B. Basic Management Functions

The management process, as noted earlier, involves the four basic functions of planning and decision making, organizing, leading, and controlling.

Extra Example: Richard Parsons, the former CEO of Time Warner, can be used to illustrate the basic management functions. He planned how the firm will increase the value of its stock. He fostered an organization design that helped to better integrate the firm's many business units. He had a reputation for being well liked, thanks to his self-deprecating sense of humor. He continually monitored the firm's progress toward its goals.

1. Planning and decision making determine courses of action. *Planning* means setting an organization's goals and deciding how best to achieve them. *Decision making*, a part of the planning process, involves selecting a course of action from a set of alternatives.
2. *Organizing* is grouping activities and resources.

Management Update: The most significant trend in organizing today is the elimination of management layers to create organizations that are leaner and flatter.

3. *Leading* is the set of processes used to get people to work together to further the interests of the organization.
4. *Controlling* is monitoring the progress of the organization as it works toward its goals to ensure that it is effectively and efficiently achieving these goals.

C. Fundamental Management Skills

Management Update: In recent years, there has been a renewed interest in the concept of managerial skills. There are useful self-assessment skills exercises found at the end of each chapter in this book.

1. *Technical skills* are necessary to accomplish or understand tasks relevant to the organization.

Extra Example: When Louis Gerstner was appointed as CEO of IBM, some critics argued that he knew nothing about computers. However, he silenced his critics by immersing himself in the study of new technology and soon became a knowledgeable expert.

2. *Interpersonal skills* rely on the ability to communicate with, understand, and motivate individuals and groups.
3. *Conceptual skills* include the ability to think in abstract terms and the mental capacity to understand the "big picture" or the overall workings of the organization and its environment.
4. *Diagnostic skills* consist of the ability to recognize the symptoms of a problem and then determine an action plan to fix it.
5. *Communication skills* are abilities to effectively convey ideas and information to others and effectively receive ideas and information from others.

Extra Example: Bill Ford, the former CEO and chairman of Ford Motors, is known for his ability to effectively convey a vision of the firm's future to both workers and investors.

6. *Decision-making skills* include the ability to correctly recognize and define problems and opportunities and to then select an appropriate course of action to solve problems and capitalize on opportunities.
7. *Time management skills* are abilities such as prioritizing work, working efficiently, and delegating appropriately.

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Extra Example: One of the criticisms of Martha Stewart, head of Living Omnimedia, is that she has a hard time delegating tasks to her subordinates and becomes personally involved in too many decisions. Stewart, however, responds that her attention to detail is an important factor in her success.

D. The Science and the Art of Management

1. Management is partly a science, because some aspects of management are objective and can be approached with rationality and logic.

Discussion Starter: The science of management might be analogous to the activities of developing computer hardware or playing a violin. There are specific right and wrong ways of doing things, and mistakes are easily noted.

2. Management is partly an art, because some aspects of management are subjective and are based on intuition and experience.

Discussion Starter: The art of management might be analogous to the activities of writing computer software or conducting the orchestra. More intuition and "feel" are needed to complete these activities, and mistakes may be harder to pinpoint.

II. The Evolution of Management

A. The Importance of History and Theory

Teaching Tip: Many students seem to react negatively to the concept of a "theory." Ask for student opinions about the reasons for the popularity or lack of popularity of a particularly high-profile politician (such as the president) or other public figure (such as a sports figure or movie star). Then point out that their explanation is a theory. Go on to stress the point that theories are simply frameworks of thought and that most people hold a number of different theories.

1. Why theory? Theory provides a simple conceptual framework for organizing knowledge and providing a blueprint to help organizations achieve their goals.

Management Update: Andrew Grove continued to espouse his theory of organizations at Intel until his retirement. He gave the theory credit for Intel's continued success in the semiconductor business.

2. Why history? Contributions from past industrialists have molded the American culture, and managers can benefit from an awareness of these contributions.

Interesting Quote: "Business history lets us look at what we did right and, more important, it can help us be right the next time." (Alfred Chandler, Harvard Business School professor, *Audacity*, Fall 1992, p. 15.)

Discussion Starter: Ask students if they have read any books about history that may help them be better managers.

B. The Historical Context of Management

While the practice of management can be traced back thousands of years, it was not given serious attention until the 1800s, when large organizations emerged.

Global Connection: Many Japanese executives today give some of the credit for their success to a book written in 1645. The book, entitled *A Book of Five Rings*, was written by a samurai warrior. The book describes numerous ideas and concepts for successful competition that can be generalized to management.

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Discussion Starter: Ask students to think about social, economic, and political forces today that may shape the way business will be conducted in the future. How can managers better anticipate these changes?

C. The Classical Management Perspective
The *classical management perspective* includes two approaches: scientific management and administrative management.

1. *Scientific management* focuses on ways to improve the performance of individual workers.
   a) Frederick W. Taylor saw workers *soldiering,* or deliberately working beneath their potential. He divided each job into parts and determined how much time each part of the job should take, thus indicating what each worker should be producing. He designed the most efficient way of doing each part of the job, and instituted a piecework pay system with incentives for workers who met or exceeded the target output level.

Discussion Starter: Ask students if they have ever observed soldiering. Ask them if they have ever been "guilty" of such behavior themselves.

Extra Example: Frederick Taylor applied many of the concepts of scientific management to his favorite sports, lawn tennis and croquet.

   b) Frank and Lillian Gilbreth, a husband-and-wife team, also helped to find more efficient ways for workers to produce output.

Discussion Starter: Ask students to discuss or debate the merits of time-and-motion studies and other efficiency techniques.

Extra Example: Another area in which Frank and Lillian Gilbreth made substantial contributions was in assisting the handicapped. In particular, they helped develop vocational training methods for assisting disabled veterans.

Extra Example: Other businesses today that rely heavily on scientific management concepts include poultry processing plants and recycling centers that sort glass, plastics, and papers into different categories.

2. *Administrative management* focuses on managing the total organization.
   a) Henri Fayol was the first to identify the four management functions—planning, organizing, leading, and controlling—and he developed guidelines for managers to follow. These guidelines form fourteen principles for effective management.

Discussion Starter: Ask students to discuss the relevance of each of Fayol's principles to modern management.

   b) Lyndall Urwick is best known for integrating scientific management with administrative management.
   c) Max Weber outlined the concept of bureaucracy based on a rational set of guidelines for structuring organizations in the most efficient manner. His work is the foundation of contemporary organization theory.

Global Connection: Note the influence of foreign scholars. For example, Fayol was French, Urwick was British, and Weber was German.

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3. Assessment of the classical perspective
   a) Contributions of the classical perspective are that it laid the foundation for management theory; it identified key processes, functions, and skills that are still important today; and it made management a valid subject of scientific inquiry.
   b) Limitations include that it is not well suited for complex or dynamic organizations, it provided universal procedures that are not appropriate in all settings, and it viewed employees as tools rather than resources.

D. The Behavioral Management Perspective

The *behavioral management perspective* placed more emphasis on individual attitudes and behaviors and on group and behavioral processes. Hugo Munsterberg and Mary Parker Follett were early contributors to this perspective.

Global Connection: Again, note the international influence on management, as evidenced by Hugo Munsterberg, a German psychologist.

1. The Hawthorne studies

Discussion Starter: Ask students if they have ever been in a group that deliberately limited its productivity or output.

   a) The Hawthorne studies, performed by Elton Mayo, showed that when illumination was increased, productivity increased. However, productivity also increased in a control group, where the lighting did not change. The increase in productivity was attributed to the fact that the workers were having extra attention paid to them, maybe for the first time.
   b) Other studies found that employees will not work as fast as they can when being paid piecework wages. Instead, they will perform to the level informally set by the group in order to be accepted by the group. These two studies, and others, led Mayo to the conclusion that individual and social processes played a major role in shaping employee attitudes and behavior at work.

Discussion Starter: Recent evidence suggests that important details about the Hawthorne studies were not reported properly. For example, all the workers in the illumination study were paid extra for participating. What, if any, implications might be drawn from this?

2. The human relations movement

The *human relations movement*, which stemmed from the Hawthorne studies, is based on the idea that a manager's concern for workers will lead to increased satisfaction and improved performance. The movement includes the need theories of motivation, such as Maslow's hierarchy of needs and McGregor's *Theory X* and *Theory Y*.

Teaching Tip: Use Table 1.1 from the text to summarize the assumptions of Theory X and Theory Y.

3. Contemporary behavioral science in management

The emergence of organizational behavior occurred because of the too-simplistic descriptions of work behavior by the human relationists. *Organizational behavior* takes a holistic view of behavior, including individual, group, and organization processes.

4. Assessment of the behavioral perspective
   a) Contributions include that it gave insights into interpersonal processes, focused managerial attention on these processes, and challenged the view of employees as tools and not resources.

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b) Limitations include that prediction is difficult due to the complexity of human behavior, managers may be reluctant to adopt some of the behavioral concepts, and contributions may not be communicated to practicing managers in an understandable form.

E. The Quantitative Management Perspective

The *quantitative management perspective* focuses on decision making, economic effectiveness, mathematical models, and the use of computers in organizations. The two branches of the quantitative perspective are management science and operations management.

Extra Example: Many business programs today have separate courses in management science and/or operations management. If your school has either or both courses, identify its number and title for your students and briefly review their topical coverage (i.e., their course description).

1. Management science

Management science focuses specifically on the development of mathematical models. These models help organizations to try out various activities with the use of a computer. Modeling can help managers locate the best way to do things and save money and time.

2. Operations management

Operations management is an applied form of management science that helps organizations develop techniques to produce their products and services more efficiently.

Extra Example: General Motors uses elaborate management science and operations management models to determine the optimum number and types of cars to make during a given period of time, what options to put on them, and so forth.

3. Assessment of the quantitative perspective
   a) Contributions include that it developed sophisticated quantitative techniques that improve decision making, and it increased awareness of complex organizational processes.
   b) Limitations are that it cannot fully explain or predict behavior, that mathematical sophistication may come at the expense of other important skills, and that the models may require unrealistic or unfounded assumptions.

III. Contemporary Management Perspectives

A. The Systems Perspective

1. A *system* is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements: inputs (material or human resources), transformation processes (technological and managerial processes), outputs (products or services), and feedback (reactions from the environment).

Group Exercise: Break students up into small groups. Have them select an organization and diagram its inputs, transformation processes, outputs, and feedback mechanisms.

2. *Open systems* are systems that interact with their environment. *Closed systems* do not interact with their environment.
3. *Subsystems* are systems within a broader system. *Synergy* refers to units that are more successful working together than working alone. *Entropy* is the process that leads to decline.

Teaching Tip: Note the subtle but important distinction between entropy and poor management.

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B. The Contingency Perspective
Appropriate managerial behavior depends on the elements of the situation. *Universal perspectives* try to identify the "one best way" to manage organizations. The *contingency perspective* argues that universal theories cannot be applied to organizations because each is unique.

Group Exercise: Form small groups of students. Have them identify a problem or opportunity facing a business or other organization. Then have them identify elements and ideas from the classical, behavioral, and quantitative perspectives that might be relevant. In addition, ask them to discuss how systems and contingency perspectives might affect the situation.

C. Contemporary Management Challenges and Opportunities
1. Books written for the popular press, including executive biographies and profiles of successful companies, are having an important impact on the theory and practice of management today.
2. Management challenges include the following:
   a) Globalization is another significant challenge as managers must reach out across cultural and national boundaries.
   b) There is renewed importance placed on ethics, social responsibility, and corporate governance.
   c) Quality also poses an important challenge, as a basis for competition, improving customer satisfaction, lowering costs, and increasing productivity.
   d) The shift toward a service economy continues to be important, challenging managers who may be more familiar with manufacturing sectors.
   e) The economic recession of 2008-2010 and slow recovery in 2011-2014 pose many challenges as well as offering some opportunities.
   f) Managers must contend with the changing nature of the workplace, including workforce reductions and expansion.
   e) The management of diversity is an important opportunity and challenge, especially with regard to younger generations of workers.
   f) Organizations need more than ever to monitor the environment and change to keep pace with it.
   g) Technological advances, especially in communication, have increased the pace of work, reduced managers' available time to consider decisions, and increased the amount of information managers must process.

END-OF-CHAPTER

Questions for Review

1. What are the three basic levels of management that can be identified in most organizations? How precise are the lines differentiating these levels? In which of the basic areas do managers work?

   Top managers manage the overall organization. They create the organization's goals, overall strategy, and operating policies. Middle managers are primarily responsible for implementing the policies and plans developed by top managers and for supervising and coordinating the activities of lower-level managers. First-line managers supervise and coordinate the activities of operating employees. How well defined are the lines differentiating these levels often depends on the type of organization and its size.

   Managers may work in various areas within an organization. Common areas include marketing, financial, operations, human resources, and administrative.

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2. What four basic functions make up the management process? How are they related to one another?

   Planning and decision making, leading, organizing, and controlling are the four basic management functions. Each is related to and must occur simultaneously with the others. Planning and decision making are perhaps the most intertwined with the three other functions. For example, managers must plan and make decisions about how to lead, organize, and control. Another example of an important interrelationship is how managers must balance the need for control against the need for autonomy that makes leadership easier.

3. Identify several of the important skills that help managers succeed. Give an example of each. How might the importance of different skills vary by level and area within an organization?

   Managerial skills include technical, interpersonal, conceptual, diagnostic, communication, decision making, and time management. Technical skills are specialized skills related to a specific area or a specialized industry. An example is an oil and gas exploration project leader who holds an engineering degree.

   Interpersonal skills are the ability to understand and motivate others. An example is a manager who knows how to give rewards that will motivate workers.

   Conceptual skills consist of abstract and logical thinking that will aid the manager as an innovator and an integrator. An example is an architect who is able to see what a house will look like from just studying a blueprint.

   Diagnostic skills are the ability to observe the current situation and understand the cause-and-effect relationships that are leading to success or failure. An example is a manager who recognizes that productivity is dropping in an area and is able to investigate and isolate the problem.

   Communication skills are the ability to give and receive information. An example is a manager who has the skills needed to plan and run an effective business meeting.

   Decision-making skills are the capacity to choose the correct course of action, based on information. An example is a manager who introduces a new product just at the time when customers are demanding that product.

   Time management skills are the ability to prioritize appropriately and to use time resources effectively. An example is a manager who spends more time on critical tasks, such as training workers, and less time on routine tasks, such as reading routine reports.

   In a large organization with distinct layers of management, these skills are likely to vary significantly, but may not be so in smaller organizations where these levels are not distinct.

4. Briefly describe the principles of scientific management and administrative management. What assumptions do these perspectives make about workers? To what extent are these assumptions still valid today?

   The principles of scientific management and administrative management are founded upon concerns about efficiency. Scientific management looks at the performance of individual workers and attempts to improve productivity through measures such as incentive pay systems, optimal task design, specialized training, and careful selection of the most productive workers. Administrative management looks at the performance of the organization as a whole and attempts to improve overall organizational efficiency by utilizing bureaucracy, effective planning, top-down coordination and control, and so on.

   Both scientific management theory and administrative management theory assume that workers do not like to work, accept responsibility, or change their behavior; that they are motivated only

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by money; and that they prefer to be told exactly what to do. One could argue that many of these assumptions are valid even today.

5. Describe the systems perspective. Why is a business organization considered an open system?

   The systems perspective describes an organization as a set of elements that function together as a whole. The theory looks at the linkages between elements and at the functioning of the system, from inputs to transformation processes to outputs and feedback. Systems theory also investigates the interaction of the system with its environment. A business organization has a lot of interactions with its environment, including the labor force, customers, regulators, and local communities. Thus a business organization is considered to be an open system because it interacts with its environment.

Questions for Analysis

1. Recall a recent group project or task in which you have participated. Explain how members of the group displayed each of the managerial skills.

   Clearly, answers will vary. Students should have no trouble thinking of a situation. They should then describe how technical, interpersonal, conceptual, diagnostic, communication, decision-making, or time management skills were used in that situation.

2. The text notes that management is both a science and an art. Recall an interaction you have had with someone at a higher level in an organization (manager, teacher, group leader, or the like). In that interaction, how did the individual use science? If he or she did not use science, what could have been done to use science? In that interaction, how did the individual use art? If he or she did not use art, what could have been done to use art?

   Students' answers will vary, depending on the situation they describe. Examples of the use of science would include mention of rational, systematic, objective decision making or the use of quantitative models and scientific approaches to problem solving. Examples of the use of art would include mention of intuition, experience, instinct or personal insights. Other examples would include the use of communication or interpersonal skills.

3. Watch a movie that involves an organization of some type. *Harry Potter*, *Avatar*, *The Avengers, Flight*, and *Up in the Air* would all be good choices. Identify as many management activities and skills as you can.

   Depending on the movie selected, answers will vary. Students who choose a *Harry Potter* movie, for example, will find examples of leading and planning as well as a variety of roles and skills.

4. Young, innovative, or high-tech firms often adopt the strategy of ignoring history or attempting to do something radically new. In what ways might this strategy help them? In what ways might this strategy hinder their efforts?

   Innovations that are truly radical are the only ones that have the potential to break through tradition and create something that has a chance of great success. Also, if the new firm is able to innovate in a way that is valued by consumers, they will attain an advantage over their rivals that may endure for a long time—a sustainable competitive advantage. On the other hand, willfully ignoring history increases the chances of repeating an error—for example, of trying a strategy or creating a product that has already been shown to be a failure or dead end. Also, by ignoring history, firms reject strategies and techniques that are known to work, and so they risk terrible failure.

5. Can a manager use tools and techniques from several different perspectives at the same time? For example, can a manager use both classical and behavioral perspectives? Give an example of a time when a manager did this and explain how it enabled him or her to be effective.

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Managers can and do use multiple tools and techniques at the same time. This is often necessary to effectively cope with complex, varied situations and persons. Students will give different examples, but here is one possibility. "When I worked at a fast food restaurant, the manager had problems with one employee. This employee made mistakes, arrived at work late, and had a poor attitude. First, the manager tried to use a behavioral approach, where the manager reasoned with the employee and asked the other employees to use peer pressure to change the problem employee's behavior. Next, the manager tried to use needs theories of motivation by threatening to cut the employee's pay if the employee continued to create difficulties. Finally, the manager used scientific management to assign that employee to tasks where politeness, accuracy, and timeliness were less important, such as cleaning the restrooms and taking out the trash."

Building Effective Time-Management Skills Exercise

Teaching Tip: Each chapter concludes with three skill-building exercises. These are designed for both groups and individuals. Some are best done during class, while others are intended to be begun or completed outside of class.

a. Purpose

This exercise allows students to assess their current time-management skills and to understand ways to improve in this area.

b. Format

This exercise must be done individually, outside of class. It will take about 20 minutes to complete. The results may be discussed in class.

c. Exercise Task

1. Visit the web site of Franklin Covey, at www.franklincovey.com. Click on the tab marked "Effectiveness Zone," then select "assessment center." Take the Urgency Analysis Profile. This short online survey will require you to answer several questions and take about 10 minutes.

2. Look at your profile. Explore the information available there, including the assessment of your current use of time and the suggestions for how you can improve your time management.
Covey's site shows students that they spend time on tasks of four different types: critical but not urgent, urgent but not critical, critical and urgent, and neither urgent nor critical. Covey recommends that students spend the most time on tasks that are both critical and urgent, and that they do not neglect tasks that are critical but not urgent.

3. Think of a task that you regularly perform and that, if you were being perfectly honest, you could label *not urgent* and *not critical*. How much time do you spend on this task? What might be a more appropriate amount of time? To what tasks could you give some of the time that you spend on this *not urgent* and *not critical* task?
Students' opinions will vary. Covey's characterization can be useful because it points out that too many people spend most of their time on urgent tasks, especially on urgent tasks that are not critical.

4. What is one thing that you can do today to make better use of your time? Try it, and see if your time management improves.
Covey's web site makes few suggestions in this regard (although his books do a very thorough job of this). Upon reflection, however, students should be able to think of ideas for better time-management on their own. Remind students that it's not really a good use of time to try to eliminate all non-critical, non-urgent tasks. Some of these tasks, such as hanging out

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with friends or watching TV, can be relaxing and allow one to return to urgent and critical tasks with a fresh enthusiasm.

Building Effective Decision-Making Skills Exercise

a. Purpose

This exercise is designed to help students develop their decision-making skills, emphasizing the importance of system interdependencies in organizations.

b. Format

This exercise is designed so that it can be effective when done individually or in small groups. Answers could be written or presented to the class for evaluation. It should take less than a half hour.

c. Follow-up

1. Carefully examine each of the three alternatives under consideration. In what ways might each alternative impact other parts of the organization?

   The option to buy lower-grade materials will require changes in purchasing, but it will also impact workers, because they will have to work harder to make a good quality product from inferior materials. It may also have a major impact on sales, if the decline in quality is recognized by buyers. The layoff option will create anxiety and resentment in those workers remaining in the firm, and it will probably raise overall wage expense, because the less skilled workers will not work as efficiently as those who have better training. The option to purchase new equipment requires the most up-front investment, but has the greatest potential for cost savings later.

2. Which is the most costly option (in terms of impact in other parts of the organization, not absolute dollars)? Which is the least costly?

   Both layoffs and inferior materials will be very costly for the organization. The use of inferior materials may be the "most costly," because it could cause customers to buy competitors' products and, eventually, lead to the failure of the firm. The least costly option is the purchase of new equipment. (See reasons under item 1 above.)

3. What are the primary obstacles that you might face regarding each of the three alternatives?

   The option to use inferior materials may cause dissatisfaction from the workers and will certainly cause customers' dissatisfaction, if it is detected. The layoff option will encounter resistance from workers, and the best, most experienced workers may leave the company for other employment. The purchase of new equipment will likely encounter resistance from the CEO or other financial personnel, based on the increase in up-front costs.

4. Can you think of other alternatives that might accomplish the cost-reduction goal?

   Students may suggest cost-cutting ideas, such as better inventory control or improved use of information systems. They may also suggest a closer integration with suppliers or use of a less expensive distribution channel. There are possibilities for cost savings in every functional area of the firm.

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Skills Self-Assessment Instrument

Self-Awareness

a. Purpose

This instrument is designed to help students become more self-aware of their possession or lack of skills generally felt to be required of effective managers. The intent is that students will use the feedback from this self-assessment to focus better on the skills they need to develop to increase their chances of being an effective manager.

b. Format

Students should respond individually and privately to the items in this self-assessment.

c. Interpretation

Students' total numerical score (obtained by finding the sum of the individual scores) suggests their perceptions of their possession of the skills of effective managers—the lower the total score, the lower the level of skills. Students should be encouraged to examine their item scores for lower numbers and then to try to use their educational experiences to develop more skill in the areas identified.

Experiential Exercise

Johari Window

a. Purpose

This exercise has two purposes: to encourage students to analyze themselves more accurately and to start them working on small-group cohesiveness. This exercise encourages students to share data about themselves and then to assimilate and process the feedback.

b. Format

Students individually complete three lists:

Quadrant 1—things that they and others know about themselves

Quadrant 3—things that they know about themselves that others do not know

Quadrant 2—things that they did not know about themselves but that they learned from others last semester

c. Follow-up

You might want to lead a group discussion on interpersonal perception as a follow-up to this exercise. Any students who wish to share how they have moved information about themselves from, say, Quadrant 3 to Quadrant 1 should be encouraged to do so.

If you are doing a major group project throughout the course, you may want to use this exercise around the middle of the term, having each student focus on Johari Window as it relates to his or her group.

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MANAGEMENT AT WORK

SOME KEYS TO MAKING A STEINWAY

The case details the painstaking way in which Steinway & Sons builds its pianos, world-renowned instruments that have earned the company plaudits from generations of professional musicians. A variety of processes—sourcing inputs, employing skilled labor—are used to build the product and extreme care is taken every step of the way. The vignette illustrates a variety of management principles at work, such as the systems view and the contingency perspective of management.

1. Explain the process by which a Steinway grand piano is constructed as a subsystem of a larger system. From what the text tells you, give some examples of how the production subsystem is affected by the management, financial, and marketing subsystems.

The company Steinway & Sons is a large system that is made up of several interrelated subsystems such as operations, management, and marketing. The operations subsystem is responsible for constructing pianos. Here, skilled employees use various inputs (wood, glue, etc.) to make the product. The operations subsystem at Steinway (and in any organization) is, however, not independent of the other subsystems in the organization. For example, the employees have to be recruited, trained, and retained by the organization (the management subsystem), the inputs have to paid for and the cash flow managed over the long period from when inputs are sourced until the piano is sold (the finance subsystem), and the operations process must work in tandem with the marketing subsystem to synchronize the demand and supply of the product.

2. Discuss the Steinway process in terms of the systems perspective of organizations summarized in Figure 1.4. Explain the role of each of the three elements highlighted by the figure—inputs from the environment, the transformation process, and outputs into the environment.

Steinway & Sons illustrates all three essential elements of the systems perspective. The company obtains various kinds of inputs—materials (wood, glue), human inputs (skilled labor, for example), financial inputs (cash from sales of pianos)—to run the business. In turn, it uses its labor and technology to transform inputs into finished products, and finally, it sells the product in the market to complete the cycle.

3. Discuss some of the ways in which the principles of behavioral management and operations management can shed light on the Steinway process. How about the contingency perspective? In what ways does the Steinway process reflect the universal perspective and in what ways does it reflect a contingency perspective?

Behavioral management comes into play at Steinway when it comes to managing its employees. Its skilled employees—many of them with long tenures—are most likely the company's most valuable resource and they have to be managed with care, keeping their motivation, their stake in the company, and their personal growth in mind. Operations management is important because Steinway builds its product very carefully and its product is meant to both perform well and be long lasting. Steinway illustrates both the universal and the contingency perspective at work. Some things at Steinway are universal, such as building the piano. The case describes how the company "bends" wood to take the shape of the outer case. This is a practice that has remained unchanged over the years. The contingency perspective is reflected in the situation involving the loss of a worker due to an accident. The company had to change its plans, in this case to slow down its production, until a replacement could be found.

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YOU MAKE THE CALL

Reed Hastings Doesn't Like Standing Still

4. You're a Netflix employee and Reed Hastings has just stopped by your desk. "I'd like to know," he says, "what you like most and least about working here." How do you think you might respond?

   Student response may vary depending upon how they approach work. Some may like the work culture at Netflix that fosters innovation and unleashes their creativity. Others may prefer a more structured workplace.

5. You're a major Netflix stockholder attending the firm's annual board meeting. When you bump into Reed Hastings at a reception, he asks you, "How do you think we're doing with this company?" How would you respond?

   Netflix's financial performance is mixed: it has had its ups and downs in recent years. On the one hand, if you were a stockholder at the very beginning (when the company did its IPO), you would have been handsomely rewarded, given that the company's market price (and hence the value of your shares) peaked in 2014. On the other hand, if you were a stockholder in 2011 when the company briefly split into two parts and saw an adverse downturn in its stock price, you would have seen a sharp decline in your investments. Your question to him could be how to compete in an industry with significant technology shifts.

6. You're the founder and owner of a small media company and Netflix has indicated an interest in buying your business. In addition to price, what other factors, if any, are important to you?

   Responses may vary depending upon one's personal values. Relevant questions might include whether the employees of the acquired company would be retained, and what the role of the new company would be in Netflix.

7. You've been contacted by a marketing research company doing work for Netflix. The researcher asks if you use Netflix and if not, why not? If you do use Netflix and the researcher asks what you like and dislike most about it, what would you say?

   This question is from the perspective of a user or a potential user of Netflix, so opinions are likely to vary considerably. Issues such as availability of content and price are relevant here.

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CHAPTER 2

The Environments of Organizations and Managers

CHAPTER SUMMARY

Chapter 2 is devoted to the environment and culture of organizations. It begins with a description of the organization's external and internal environments. Then the ethical and social environments are discussed. A discussion of the international environment follows. Finally, organization culture is described.

LEARNING OUTCOMES

After studying this chapter, students should be able to:

1. Discuss the nature of an organization's environments and identify the components of its general, task, and internal environments.
2. Describe the ethical and social environment of management, including individual ethics, the concept of social responsibility, and how organizations can manage social responsibility.
3. Discuss the international environment of management, including trends in international business, levels of international business activities, and the context of international business.
4. Describe the importance and determinants of an organization's culture, as well as how organizational culture can be managed.

The opening vignette features the nonprofit organization, the Oregon-based Mercy Corps. In the aftermath of the devastating 2010 earthquake in Haiti, Mercy Corps quickly set up shop in that country to provide much needed relief services. Since its founding, Mercy Corps has provided $2.2 billion in humanitarian aid and development assistance to 114 countries (including India, Japan, and Sudan) and annually reaches almost 19 million people in 36 nations.

- **Management Update:** Mercy Corps' website www.mercycorps.org provides recent examples of the organization's activities such as helping out in the Philippines after typhoon Haiyan. It is interesting to note that 88% of donations go to relief activities, with very little spent on running the organization.

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LECTURE OUTLINE

I. The Organization's Environments

Managers must develop and maintain a deep understanding and appreciation of the environments in which they and their organization function.

The *external environment* is everything outside an organization that might affect it and contains the general environment and the task environment. The *general environment* consists of broad dimensions and forces in an organization's context, while the *task environment* is the specific organizations or groups that have a direct impact on a firm.

The *internal environment* consists of conditions and forces within the organization.

- **Teaching Tip:** Stress the fact that an organization's boundaries are not always clear and precise. As a result, it may not always be clear whether a particular individual or group is part of an organization or part of its environment.

- **Discussion Question:** As a follow-up, ask students whether they think alumni, campus recruiters, and bookstores are part of the organization or part of its environment.

A. The General Environment

The general environment of a business has three dimensions: economic, technological, and political-legal.

1. The *economic dimension* includes the overall health of the economic system in which the organization operates, which is related to inflation, interest rates, unemployment, demand, and so on.

- **Extra Example:** Note how economic conditions have affected your college or university. Specific points can be made regarding state revenues, alumni contributions, government grants, and endowment earnings.

2. The *technological dimension* refers to the methods available for converting resources into products or services.

- **Extra Example:** Note that Federal Express has been hurt by new technology such as facsimile machines and e-mail. For example, companies now find it more cost-efficient to fax shorter documents than to send them by express delivery. And many managers find e-mail more efficient than distributing memos and letters through printed "hard copy."

3. The *political-legal dimension* refers to government regulation of business and the relationship between business and government.

- **Extra Example:** The Small Business Administration (SBA) Office of Advocacy reports that the regulatory costs for small businesses amount to roughly $7,000 per person employed. These costs have mainly to do with regulations concerning OSHA and compliance with the Sarbanes-Oxley Act. (www. Bizjournal.com)

- **Management Update:** While Microsoft has resolved most of its legal problems in the United States, it still faces a number of antitrust lawsuits in Europe.

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B. The Task Environment

- **Group Exercise:** Divide your class into small groups and have each group develop a diagram similar to Figure 2.1 for an organization in a different task environment. Good examples include Google, IBM, ExxonMobil, and UPS.

1. *Competitors* consist of other organizations that compete for the same resources.

- **Discussion Starter:** Ask students to identify the primary competitors of your college or university.

2. *Customers* are those who pay money to acquire an organization's products or services.
3. *Suppliers* include organizations that provide resources for other organizations.

- **Discussion Starter:** Ask students to identify the various suppliers that your college or university might use.

4. *Regulators* have the potential to control, regulate, or influence an organization's policies and practices.
   a) *Regulatory agencies* are created by the government to protect the public from certain business practices or to protect organizations from one another. Examples include the Environmental Protection Agency (EPA) and the Food and Drug Administration (FDA).

- **Extra Example:** Point out to students the various regulatory agencies that most directly affect your college or university (e.g., state coordinating boards, etc.).

   b) *Interest groups* are groups organized by their members to attempt to influence organizations. Examples include the National Organization for Women (NOW) and Mothers Against Drunk Driving (MADD).

- **Extra Example:** The American Association of Retired Persons (AARP) is an interest group for members 50 and older. It has over 40 million members, making it one of the most powerful interest groups in the country. It has influenced legislation on many issues, including Social Security reform and government policy on medical research.

5. *Strategic partners* (also called *strategic allies*) occur when two or more companies work together in joint ventures.

- **Extra Example:** Microsoft Corporation has formed alliances with many other organizations, including hardware manufacturers, small software development firms, TV and appliance makers, automakers, cell phone and long distance providers, Internet service providers, and universities. The firm hopes to gain access to customers, resources, and information through its joint ventures.

C. The Internal Environment

1. *Owners* are whoever can claim property rights on an organization. In smaller businesses, the owner is likely to also be the manager. In a larger business, however, managers are more likely to be professional employees of the firm. Stockholders are the owners of publicly traded corporations.

- **Teaching Tip:** Point out again the "fuzziness" that may exist regarding boundaries. For example, while this book treats owners as part of the internal environment, it could also be argued that owners are part of the external environment as well.

- **Teaching Tip:** Stress to students the significance of institutional owners and investors in corporations today. Such owners and investors can exert enormous power over a corporation.

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2. A *board of directors*, elected by stockholders, is required of organizations that are incorporated; however, many other firms also have them. The board of directors is responsible for corporate governance and charged with overseeing the management of the firm to ensure that it is being run in a way that best serves the stockholders' interests.

- **Group Exercise:** Assign groups of students one or more corporations. Have them identify the members who serve on its board of directors.

3. *Employees* are another significant element of the internal environment. The composition of the workforce is changing, employees are asking for increased job participation and ownership, and organizations are increasingly relying on temporary workers.

- **Global Connection:** Note that many Japanese firms used to offer guaranteed lifetime employment to some employees. In recent years, however, this practice has been abandoned by many firms.

4. A firm's *physical work environment*—where facilities are located and how they are furnished and arranged—is also important. The layout of an office or factory can be a strong influence on the way in which people interact with equipment and with each other.

- **Extra Example:** Walmart is known for having a very spartan headquarters office, in keeping with the cost-cutting philosophy of founder Sam Walton. The building contains plain metal desks and uncarpeted floors, even in executive office areas. This physical environment serves as a constant reminder to employees of the firm's culture and values.

II. The Ethical and Social Environment of Management

- **Discussion Starter:** A debate that has plagued some business programs is the extent to which colleges can teach ethics. Some experts believe that ethics can indeed be taught, while other experts believe that ethics are formed much earlier and thus cannot be taught to people as they get older. Ask students for their opinions.

A. Individual Ethics in Organizations

Ethics are an individual's personal beliefs regarding right and wrong behavior. *Ethical behavior* is behavior that conforms to generally accepted social norms. *Unethical behavior* is behavior that does not conform to generally accepted social norms.

- **Interesting Quote:** "Moral character is shaped by family, church, and education long before an individual joins a company to make a living." (See Kenneth R. Andrews, *Harvard Business Review*, October 1989, p. 99.)

- **Discussion Starter:** Ask students if they can identify personal examples or events that shaped their ethics or the ethics of someone they know.

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1. *Managerial ethics* are standards for behavior that guide individual managers in their work. Unethical behavior by management and other employees sometimes occurs because the firm has an organizational context that is conducive to such behavior. Employees who work for firms that support and encourage unethical acts, though they are in the best interests of the firm, may find themselves in a conflict-of-interest situation.

• **Discussion Starter:** Ask students to provide examples in which an organization they worked for treated them or others in an ethical or an unethical fashion.

• **Teaching Tip:** Note that as organizations enter a period of cutbacks and downsizing, the potential for unethical treatment of employees tends to increase.

• **Extra Example:** Many recent ethical concerns focus on financial disclosure and transparency. Whereas companies that consistently met their profitability targets were considered to be the most desirable investments, today the business practices and reporting methods used to reach those targets are under heavy scrutiny. General Electric, which has long-term consistent profitability, is now under suspicion for that very consistency.

2. Effective management of ethical behavior includes the following:
   a) Top managers should set ethical standards for the organization.
   b) Committees can investigate possible unethical activities internally.
   c) Employees can attend training sessions to learn to act more ethically when faced with certain situations.
   d) A *code of ethics* is a formal written statement of the values and ethical standards that guide the firm's actions.

• **Teaching Tip:** If your school has a code of ethical conduct for students, it might be interesting to discuss it here. Note, for example, the similarities and differences that might exist between a university code and a business code.

• **Extra Example:** Other firms that use codes of ethics include Coca-Cola and Texas Instruments.

• **Group Exercise:** Ask students to identify common themes and ideas that are likely to be reflected in all corporate codes of ethics.

3. A number of ethical issues are receiving widespread attention today.
   a) A challenge for CEOs is to display ethical leadership and to establish an ethical culture for the entire organization. The Sarbanes-Oxley Act of 2002 requires CEOs to be held personally responsible for their firm's financial disclosures.
   b) Corporate governance is another area with many ethical concerns. Boards of directors are under increased pressure to provide effective oversight.
   c) Information technology poses new ethical issues in the area of privacy.

B. Social Responsibility in Organizations

Social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions.

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- **Extra Example:** One firm that has an exemplary record of social responsibility is Target. The firm gives $2 million each week to local community and charitable groups.

- **Global Connection:** Concerns for the environment are given low priority in some parts of the world. The clearing of the rain forests in the Amazon basin is one significant example. Another is the continued destruction of animals facing extinction in parts of Africa. The United States is the world's largest creator of the pollution that is destroying the Earth's ozone layer and is unwilling to consider international limits on the polluting gases.

1. Arguments for social responsibility:
   a) Business creates problems and should therefore help solve them.
   b) Corporations are citizens in our society too and should not avoid their obligations as citizens.
   c) Businesses often have the resources to help.
   d) Business should be a partner in society along with the government and the general population.
2. Arguments against social responsibility:
   a) Businesses have the responsibility to focus on making a profit for their owners.
   b) Involvement in social programs gives business too much power.
   c) There is a potential for conflict of interest.
   d) Organizations lack the expertise to manage social programs.

- **Discussion Starter:** Ask students to help identify other specific examples of how socially responsible behavior has had a positive impact.

C. Managing Social Responsibility
   1. Firms can adopt a number of different formal organizational stances regarding social responsibility.
      a) *Legal compliance* is the extent to which the organization and its members comply with local, state, federal, and international laws.

- **Discussion Starter:** Ask students whether they believe tobacco will ever be outlawed. Ask their thoughts on whether or not it should be banned.

- **Teaching Tip:** Describe how your local community regulates business through its own zoning procedures. If relevant, describe a recent controversial zoning decision.

- **Teaching Tip:** Emphasize the point that an organization's approach to social responsibility may be inconsistent and/or contradictory.

      b) *Ethical compliance* is the extent to which the firm and its members follow ethical standards of behavior.

- **Teaching Tip:** Point out to students that, with the escalating diversity of viewpoints on ethical standards, organizations have increased difficulty in demonstrating ethical compliance. Every industry, from energy to bioengineering to education, is swamped with a complex and thorny set of ethical issues today.

      c) *Philanthropic giving* occurs through the awarding of funds or gifts to charities and social programs.

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• **Global Connection:** As noted, international businesses have become frequent contributors in different countries where they do business. For example, UPS supports national Olympic teams in dozens of different countries.

2. Informal organizational dimensions, including the culture and leadership practices of an organization, can define the social responsibility stance adopted by the organization and its members. *Whistle-blowing* occurs when an employee discloses illegal or unethical conduct by others within the organization.

• **Discussion Starter:** Solicit student opinions regarding whistle-blowing. In particular, ask how many of them would, in fact, "blow the whistle" themselves if it meant the possible loss of a job.

• **Extra Example:** Sherron Watkins, an Enron accounting manager, was a whistleblower for some of the firm's unethical and illegal practices. Her actions were instrumental in uncovering the alleged extensive fraud occurring at that firm.

III. The International Environment of Management

A. Trends in International Business

• **Extra Example:** Based on sales revenues, only two of the world's largest ten businesses are U.S. firms (Walmart and ExxonMobil). Four are European, three Chinese, and one is Japanese. (For details, see Fortune.com.)

• **Teaching Tip:** Note the diverse set of countries represented on the list of the world's largest firms.

1. After World War II, U.S. firms dominated most industrial and consumer markets. From the 1950s to 1970s, Europe and Japan rebuilt their factories and gained market power.
2. Today, U.S. firms dominate in some industries, including auto making and fast food, but many other industries are dominated by non-U.S. firms, including chemicals, steel, banking, and electronics.
3. To be competitive, firms must think globally. International business touches every sector of the economy and every business and every consumer in the world.

• **Group Exercise:** Have students generate a list of the ten products they use most frequently. Then have them research the national origin of the companies that make them.

B. Levels of International Business Activity

Firms that plan to increase their international business activity must plan their expansion into foreign markets very carefully. Several alternative approaches are possible.

1. Importing and exporting are the easiest ways to enter a market with a small outlay of capital. *Exporting* is making the product in the firm's domestic marketplace and selling it in another country. *Importing* means a good, service, or capital is brought into the home country from abroad.

• **Teaching Tip:** Most small businesses begin international activity by importing or exporting. A good source of information about international business opportunities for small business is the Small Business Administration's Office of International Trade website. For more information, see the SBA website at http://www.sba.gov/OIT/.

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- **Teaching Tip:** Stress for students that the difference in exporting versus importing is point of view. When Rolex markets its watches and ships them to U.S. jewelers, Rolex is exporting, but the stores that buy the watches for sale in the United States are importing them.

2. *Licensing* is an arrangement whereby one company allows another to use its brand name, trademark, technology, patent, copyright, or other assets in exchange for a royalty based on sales. *Franchising* is a special form of licensing.

- **Extra Example:** Some of the most successful international franchisers include The Athlete's Foot, Subway, and Century 21 Real Estate.

3. *Strategic alliances* occur when two or more firms jointly cooperate for mutual gain. A *joint venture* is a special type of strategic alliance in which the partners actually share ownership of a new enterprise.

- **Extra Example:** One of the most successful strategic alliances is Cereal Partners Worldwide, between General Mills and Nestlé. The firms entered into the partnership to compete with Kellogg, which dominated European markets. General Mills contributes its cereal names and technology, while Nestlé adds its recognized consumer brand name and handles distribution.

4. *Direct investment* occurs when a firm headquartered in one country builds or purchases operating facilities or subsidiaries in a foreign country. *Maquiladoras* are light assembly plants built by U.S. firms in northern Mexico close to the U.S. border. These plants receive tax breaks from the Mexican government. and the area is populated with workers willing to work for low wages.

- **Global Connection:** The passage of the North American Free Trade Agreement has increased the importance of the maquiladoras to firms doing business in Mexico.

- **Extra Example:** Disneyland Paris represents a combination of direct investment and strategic alliance. Disney contributed a portion of the park's construction costs from its own sources and oversaw construction of the park, while a French firm contributed the remainder of the investment capital. Disney shares both profits and losses with its European partner.

- **Teaching Tip:** Emphasize the fact that large firms use multiple methods of managing international business. For example, Ford ships cars made in the United States to Canada (exporting), contracts with Mazda to manufacture part of the Ford Probe (licensing), jointly developed the Mercury Villager minivan with Nissan (strategic alliance), and owns several manufacturing plants in other countries (direct investment).

- **Teaching Tip:** Use Table 2.1 to compare the advantages and disadvantages of the four levels of international business activity.

C. The Context of International Business

1. The cultural environment can create challenges for managers, when the countries in which a firm is manufacturing or selling a product or service have different cultures. Religious beliefs, time and schedules, language, and nonverbal communication can all pose problems for managers in a foreign country.

- **Discussion Starter:** Ask students to predict which products made in the United States are most and least likely to be successful abroad.

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• **Discussion Starter:** Ask students which countries in Europe and Asia they have visited. Then ask how similar or different each was from the United States.

• **Discussion Starter:** Ask students to think of common business practices in the United States that might seem odd or unusual in a foreign country. If you have any international students in class, you might ask them about business practices in their home countries that would seem odd or unusual in the United States.

2. A government can impose a variety of controls on international trade to protect its country.
   a) A *tariff* is a tax collected on goods shipped across national boundaries.
   b) *Quotas* are limits on the number or value of goods that can be traded.
   c) *Export restraint agreements* are agreements that convince other governments to voluntarily limit the volume or value of goods exported to a particular country.
   d) "Buy national" legislation gives preference to domestic producers through content or price restrictions.

• **Teaching Tip:** The stiff trade barriers employed by the government of Japan continue to be a point of contention between that country and the United States. U.S. firms, for example, argue that there are so many trade barriers in place in Japan that it results in unfair competition for them.

• **Extra Example:** In an interesting reversal of normal procedures, the government of China has played Ford and General Motors against each other. Rather than offer inducements to get the automakers to set up shop in its borders, China is getting the companies to make offers on what they will give in return for the right to be the only U.S. auto company to be allowed to build cars in one of the world's largest untapped markets.

3. *Economic communities* are sets of countries that have agreed to significantly reduce or eliminate trade barriers among its member nations.
   a) *The European Union*, the Latin American Integration Association (Bolivia, Brazil, Colombia, Chile, Argentina, and other South American countries), and the Caribbean Common Market (the Bahamas, Belize, Jamaica, Antigua, Barbados, and twelve other countries) are examples.
   b) The *North American Free Trade Agreement (NAFTA)* created an economic system between Canada, Mexico, and the United States.

• **Discussion Starter:** Ask students why they think Asian nations have not formed an economic community with the strength and identity of the EU or NAFTA.

4. *GATT*, the General Agreement on Trade and Tariffs, and the *WTO*, the World Trade Organization, both play significant roles in regulating international trade.
   a) GATT, first ratified in 1948, is an attempt to reduce trade barriers. One of its provisions, the granting of most favored nation status, specifies that a member country must extend equal treatment to all nations that sign the agreement.
   b) The World Trade Organization was begun in 1995 as a replacement for GATT. The WTO works to promote trade, reduce trade barriers, and resolve international trade disputes.

IV. The Organization's Culture

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Organization culture is the set of values, beliefs, behaviors, customs, and attitudes that helps the members of the organization understand what it stands for, how it does things, and what it considers important.

- **Extra Example:** Some experts would use the extent to which investors and other experts admire a company as an indication of its effectiveness. Each year *Fortune* conducts a survey of the most admired corporations in the world. Apple, Amazon, Google, and Starbucks were at the top of the list in 2014.

- **Extra Example:** Other firms with strong cultures include Disney, 3M, Coca-Cola, UPS, and IBM.

- **Discussion Starter:** Ask students to discuss the culture that exists in your college or university.

A. The Importance of Organization Culture
A strong organization culture can shape the firm's overall effectiveness and long-term success and help employees to be more productive.

B. Determinants of Organization Culture
Culture develops over a long period of time. It often starts with the organization's founder; however, corporate success and shared experiences also shape culture. Stories, heroes, and symbols have a powerful effect.

C. Managing Organization Culture
In order to manage corporate culture, managers must first understand the current culture.

1. If the culture is one that is in the best interest of the firm, managers can reward behavior that is consistent with the existing culture in order to enforce it.
2. If the culture needs to be changed, managers must know what it is they want the culture to be and then take actions that will help to change the culture into the type management wants. One effective action is to hire outsiders, who will change the existing culture.

END-OF-CHAPTER

Questions for Review

1. Identify and discuss each major dimension of the general environment and the task environment.

Because the environment provides the context in which a business operates, it determines the firm's eventual success or failure. The general environment consists of three dimensions: economic, technological, and political-legal. The economic dimension includes macroeconomic trends that impact all businesses, such as inflation and unemployment. The technological dimension includes advances in computing and communications. The political-legal dimension consists of legislation, legal proceedings, and the political climate.

The task environment of an organization consists of specific dimensions of the organization's surroundings that are very likely to influence the organization. Competitors, customers, suppliers, regulators, and strategic allies comprise the task environment. Competitors are firms that are competing for resources, and customers are those that purchase the firm's products. Suppliers include any organizations or individuals that supply resources to the firm. Regulators provide

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oversight to the firm and include regulatory agencies and interest groups. Strategic allies are partners with the firm in joint ventures.

2. Do organizations have ethics? Why or why not?

   As defined here, organizations do not have ethics—only individuals have ethics. However, the ethical norms and climate that exist within an organization can significantly affect the organization.

3. What are the arguments for and against social responsibility on the part of businesses? In your opinion, which set of arguments is more compelling?

   Arguments for social responsibility include: (a) organizations create problems and should be responsible for solving them; and (b) corporations are citizens in our society, too, and should not avoid their obligations as citizens. Arguments against include: (a) businesses should simply focus on making a profit, (b) there is the potential for a conflict of interest, and (c) businesses lack the expertise to understand how to assess and make decisions about worthy social programs.

4. Describe the basic levels of international business involvement. Why might a firm use more than one level at the same time?

   There are four levels of international business activity: (1) A domestic business has no international ties and buys and sells goods only in its own country. (2) An international business primarily resides in one country but purchases components from abroad or sells a substantial amount of finished products to other countries. (3) A multinational business has a worldwide marketplace from which it buys raw materials, borrows money, manufactures its products, and to which it sells its products. (4) A global business transcends national boundaries and is not committed to a single home country.

   Many organizations use more than one level at the same time. This is done in order to adapt to the needs of different countries or regions, or to implement different strategies for different countries.

5. Describe various barriers to international trade. Why do such barriers exist?

   The economic environment, the political-legal environment, and the cultural environment are three areas of challenge to international managers. Numerous specific instances of each can be identified. They exist for a variety of reasons including the interests of the host government in protecting home businesses and simply the differences across countries.

Questions for Analysis

1. Can you think of dimensions of the task environment that are not discussed in the text? Indicate their linkages to those that are discussed.

   Student responses will vary, but one environmental dimension that was not discussed in the text was climate and weather. The climate and weather may have a great impact on the farming industry. A late frost in Florida may hurt the orange crop, or a drought in the Midwest may be responsible for poor grain yields. For the downhill skiing industry, sustained low temperatures and snow are prerequisites, so climate in this instance may dictate the location of the industry. Climate and weather are also important to surgeons specializing in skin cancer and orthopedic surgeons who specialize in broken limbs.

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2. What is the relationship between the law and ethical behavior? Can a behavior be ethical but illegal at the same time?

   The law mandates or prohibits certain behaviors, with relatively little flexibility or subjectivity. Ethics suggests desired behaviors, but is equally concerned with the intention and reasons behind a behavior as with the behavior itself. Ethics is based on standards that are flexible and subjective.

   Individuals or organizations can act in what they feel is an ethical manner while also breaking the law. For example, some individuals try to block abortion clinics in an effort to stop actions that they believe are harmful. In their eyes, these actions are ethical, but to the police, who may arrest them for trespassing, the actions are illegal. In the news today are stories about pharmaceutical companies in China, Africa, and India that illegally produce patented drugs, which they feel is an ethical necessity to stop the spread of contagious diseases in countries where drugs produced in the United States are prohibitively expensive.

3. What is your opinion of whistle-blowing? If you were aware of a criminal activity in your organization but knew that reporting it would likely cost you your job, what would you do?

   Answers will vary. Some will say that it is their duty to society to report criminal activities, whereas others may feel it is their duty to protect the organization and not report criminal activity. Still others will feel that their primary responsibility is to themselves or their families, which would require them to protect their jobs.

4. What industries do you think will feel the greatest impact of international business in the future? Will some industries remain relatively unaffected by globalization? If so, which ones? If not, explain why not.

   International industries generally involve mass-produced consumer or industrial products such as automobiles, electronics, steel, chemicals, and so forth. In contrast, industries that would experience high costs for shipping or manufacturing goods in distant locations are somewhat sheltered from the effects of globalization, as are industries where local tastes and needs are very different from global tastes. Examples would include restaurants, home builders, and plant nurseries. However, you can point out to students that consumer preferences are becoming more global, with more Americans buying imported chocolates and more Latin Americans buying Nikes, for example.

5. What is the culture of your college, university, or place of employment? How clear is it? What are its most positive and its most negative characteristics?

   Students should recognize that all organizations have a culture, but they may differ in their perceptions of the existence of a culture and what that culture is. Generally, a majority will agree on a “party,” “athletics,” “research,” or “scholarly” culture. Words such as these will be used to describe the culture to outsiders. You can remind students that every culture has its positive and negative characteristics, encouraging them to think more deeply about culture’s effects.

Building Effective Interpersonal Skills Exercise

a. Purpose

   This exercise uses a fun, easy scenario-based exercise to help students understand the complexities of culture in various countries when it comes to communication.

b. Format

   This exercise is most effective if administered in class. That way, students can work individually and then share their responses with the class. This exercise takes about 15–20 minutes to administer, but the discussion could take much longer.

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c. Follow-up

In terms of difficulty (easiest first), the following is the likely rank order.

German and French colleagues exchanging emails about a new project

Young U.S. female manager meeting with older female manager from Mexico

Telephone conference call between a young Indian male manager and an older Chinese male manager

A face-to-face committee meeting with five people of the same gender from Indonesia, Russia, Canada, Pakistan, and Israel

Skype call involving a male Jordanian manager, a female Australian manager, and a male Israeli manager

This can then set up a class discussion to examine and assess the rankings.

Building Effective Communication Skills Exercise

a. Purpose

This exercise assigns students the difficult—but realistic—task of persuading a superior that his or her ideas may be inadequate. The task requires students to justify the need to gather more information about the customer segment of the environment.

b. Format

This exercise is best done outside of class by individual students, and it requires about 20–30 minutes.

c. Follow-up

(1) With this background in mind, compose a written proposal for your boss, outlining your position. Be sure to emphasize your fundamental concern—that the marketing department needs to better understand the needs of each customer segment in order to provide products that meet those needs. Consider ways to persuade your boss to change his or her mind. (*Hint:* Telling him or her bluntly that he or she is wrong is unlikely to be effective.)

Students' answers will focus on the importance of understanding the specific needs of various groups of consumers. Students are likely to describe the importance of consumers to the firm, the necessity of obtaining accurate and specific feedback, and the likely negative consequences if consumer feedback is not obtained. The challenge for students will be to present their position in a forceful yet tactful way.

(2) On the basis of what you wrote in response to Exercise Task 1 above, do you think your boss will change his or her mind? If yes, what persuaded him or her to change his or her mind? If no, what other actions could you take to attempt to have your ideas adopted by the firm?

Students' answers will vary. They will see that persuasion requires tact as well as strong logical arguments. For additional actions, students might suggest an appeal to a superior, gathering the feedback anyway without informing the boss, or simply dropping the idea. For each of these actions, ask students to consider what would happen then. For example, how would their boss respond to finding out that he had been deceived?

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Skills Self-Assessment Instrument

Global Awareness

a. Purpose

This self-assessment is designed to help students understand their readiness to respond to managing in a global context through assessing their knowledge of cultural differences among countries.

b. Format

Students should respond individually to the items in this self-assessment using the scale provided.

c. Interpretation

All of the statements are true, so a perfect score would be 40. The closer a student's score is to that, the more knowledge he or she has of cultural differences among countries and the more he or she understands the global context of organizational environments. The closer the score is to 10 (the minimum possible score), the less the student knows and the less prepared the student is for managing in a global context. Students should be encouraged to improve their knowledge for any area in which they had a low score. They should be encouraged to read Nancy Adler's *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991).

Experiential Exercise

Assessing Organizational Culture

Purpose: While organization culture is intangible, it is not difficult to observe. This activity will help to improve your skills in observing and interpreting organization culture, which can help to make you a more effective participant and leader in organizations.

Introduction: Clues to organization culture may be found by observing details that relate to member behavior, traditions or customs, stories, attitudes, values, communication patterns, organization structure, employee dress and appearance, and even office space arrangements. Do members address each other by first names? Are office doors left open or closed? What do members wear? How are achievements recognized? Does the workplace feel energized or laid-back? Do members smile and laugh often? Does seniority or expertise earn more respect?

Instructions: First, observe clues to organization behavior at your school, college, or university. To the extent possible, observe a diversity of members including students, teaching faculty, and non-teaching staff. Write down specific examples. For example, students typically wear blue jeans, while instructors usually wear suits. In the cafeteria, freshmen sit mainly with other freshmen. A professor may be referred to as "Doctor" by staff, while she may refer to staff by their first name.

It is possible that variations exist across schools within the same university. Students are likely to see a different set of norms in nonprofessional schools (where they are likely to have had classes) in comparison to those at professional schools.

Second, interpret the facts. Use your observations to describe the organization's core values. What does it value most? How did you come to that conclusion?

Do some schools value the end results and downplay the means leading to those results? Again, it is possible to see variations across programs.

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Third, with the class or in small groups, discuss your facts and interpretations. Focus especially on areas of disagreement. Where individuals disagree about the culture, try to understand why the disagreement occurs. If the facts differ, perhaps the individuals observed two different groups. For example, students majoring in business may be different than students in engineering or education. Or perhaps the organization culture tolerates or encourages lots of differences. If there is agreement on facts but interpretations differ, then perhaps the individuals making the interpretations can explore their differing perceptions.

It is also possible that traditional students in the class may have a different viewpoint as compared to nontraditional students. Older students returning to the classroom after years of work in the "real" world may have opinions about organization culture different from those of younger students.

MANAGEMENT AT WORK

IS FAIR TRADE A FAIR TRADE-OFF?

The case features the world market for cocoa. The world market for cocoa beans is highly volatile. Consequently, farmers in cocoa export-dependent nations such as Ivory Coast strive for any means to cut costs. One such measure is to employ child labor, who work long hours in poor conditions. The Fairtrade Labeling Organization (FLO) addresses this concern by promoting programs designed to ensure that export-dependent farmers in developing countries receive fair prices for their crops. The organization has its critics, though, who contend that the program enriches the middlemen and do not really benefit the farmers.

1. How does the environment affect fair trade?

   To help students with this answer, it may be a good idea to get students to think of the entire cocoa supply chain, from farmers in Africa to retailers of chocolates worldwide. Each is affected by various types of environmental changes. For example, everyone in the chain is affected by the global economic environment. In addition, farmers in Africa are affected by a changing social environment where views on child labor are changing.

2. What are the trade-offs in the fair-trade process? Do you think that fair trade promotes fair trade-offs? Why or why not?

   Fair trade protects suppliers. The trade-off, though, is that fair trade products cost more. This is a question that is likely to provide contrasting viewpoints among students as they look at the cost versus benefits of fair trade.

3. Do you pay attention to fair-trade products in your own purchasing behavior? For what kind of products might you be willing to pay premium prices?

   Responses will vary depending on how the student views fair trade.

4. Under what circumstances might fair trade actually cause harm? To whom? At what point would fair-trade trade-offs no longer be acceptable?

   If the price of fair trade products to consumer become so high that they are uncompetitive it may have an adverse effect on demand, which may, in turn, affect suppliers. Fair trade would be acceptable till such a point is reached.

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YOU MAKE THE CALL

Social Entrepreneurship at its Finest

1. What environmental events and forces have led to the existence of organizations such as Mercy Corps?

   A variety of environmental threats – economic, social, natural disasters – have led to the existence of an organization like Mercy Corps. When a disaster hits an area – such as the earthquake in Haiti – everything is in disarray and an organization like Mercy Corps. provides the infrastructure and support for regular life to go on.

2. In what ways does Mercy Corps interact with its environment in order to fulfill its mission?

   It is important to note that Mercy Corps believes communities that are affected must be the agents of their own change. This means that Mercy Corps interacts with the social, cultural, economic, and political environments of the place that it is providing relief in.

2. Discuss how economic, global, and ethical environments interact with respect to an organization like Mercy Corps.

   Take the Haiti earthquake as an example. When Mercy Corps landed in Haiti to address the effects of the disaster, it had to deal with the economic environment (providing a means of income to people by getting them to clear the debris, for example), the global environment (coordinating the worldwide response to the disaster) and the ethical aspects of its work.

3. If you were asked to critique Mercy Corps in terms of effectiveness, what factors would you focus on?

   While student responses will vary, they have to keep in mind that in measuring how well an organization like Mercy Corps function, one has to see what its mission is and judge it based on that. For example, Mercy Corps' mission says that the affected community must take ownership of the change. A Mercy Corps mission is effective if this actually happens.

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