Why Organizational Behavior Matters
WHAT IS ORGANIZATIONAL BEHAVIOR AND WHY IS IT IMPORTANT?

Explain the basic concept of organizational behavior (OB) and its value in organizations

Today’s continually changing economic world needs managers who can understand, anticipate, and direct people in a fast-paced competitive market. In the past, organizations focused on numbers and how to achieve those numbers without paying too much attention to motivating and understanding their staff. However, fast-paced organizations need the right people with the right skills to achieve success. This is why organizational behavior has taken on a new level of importance; people with organizational behavior skills are now regarded as a valuable and essential commodity. In an environment in which competition is fiercer than ever, people will differentiate your business from anyone else’s. No matter what area of business you work in, people are the cornerstone of success.

We define organizational behavior (OB) as a field of study focused on understanding, explaining, and improving attitudes of individuals and groups in organizations. An organization is a structured arrangement of people working together to accomplish specific goals. In short, OB focuses on figuring out how and why individual employees and groups of employees behave the way they do within an organizational setting. Researchers carry out studies in OB, and managers or consultants establish whether this research can be applied in a real-world organization.

How will studying organizational behavior benefit you in the workplace? Understanding the ways people act and interact within organizations provides three key advantages:

1. You can explain behavior. You can explain why your boss, coworkers, or subordinates are doing what they are doing.
2. You can predict behavior. You can anticipate what your boss, coworkers, or subordinates will do in certain circumstances and situations.

The success of your organization doesn’t depend on your understanding of economics, or organizational development, or marketing. It depends, quite simply, on your understanding of human psychology: how each individual employee connects with your company and how each individual employee connects with your customers.

—Curt Coffman and Gabriela Gonzalez-Molina, authors of Follow This Path: How the World’s Greatest Organizations Drive Growth by Unleashing Human Potential

LEARNING OBJECTIVES

By the end of this chapter, you will be able to:

1.1 Explain the basic concept of organizational behavior (OB) and its value in organizations

1.2 Describe the key role of managing human capital in creating a sustainable competitive advantage for organizations

1.3 Identify the major behavioral science disciplines that contribute to OB

1.4 Demonstrate the value of critical thinking in the context of OB

1.5 Identify the major challenges and opportunities in the field of OB

1.6 Describe the importance of ethical behavior in global organizations

1.7 Differentiate the three basic levels of analysis at which OB may be examined

1.8 Outline the benefits of positive OB and high-involvement management
3. You can *influence* behavior. You can shape the actions of your subordinates, as well as your boss and coworkers in order to help them accomplish their goals and achieve organizational objectives.

Although explaining and predicting behavior are undoubtedly useful skills, *influencing* behavior is probably of the greatest interest to a practicing manager. Once you are equipped with knowledge about your employees’ work behaviors, you can use it to optimize performance by providing effective direction and guidance. This explains why managing organizational behavior (i.e. focusing on the behavior and actions of employees and how they apply their knowledge and skills to achieve organizational objectives) is so important in today’s organizations.

Let’s remind ourselves what a manager actually does in the workplace. Typically, managers carry out four main functions: planning, organizing, leading, and controlling. (See Figure 1.1.)

In *planning*, a manager evaluates an organization’s current position and where it wants to be in the future, and sets goals, designs strategies, and identifies actions and resources needed to achieve success. *Organizing* means arranging resources such as people and functions to implement the strategy made during the planning stage. Managers ensure goals are achieved by *leading* teams and individuals effectively, which means motivating and communicating with people to achieve goals. The *controlling* function allows managers to monitor employee performance, ensure milestones are being reached, and take corrective or preventative action where necessary.

Managers need to be equipped with specific skills to carry out their roles effectively. First, they must have technical skills. A *technical skill* is an aptitude for performing and applying specialized tasks. Today’s managers need to be proficient in using the latest technologies, including databases, spreadsheets, email, and social networking tools.
Although technical skills are important, they can be learned on the job; to be really effective, managers need to possess human skills or the ability to relate to other people. People with effective human skills take the feelings of others into account and are adept at dealing with conflict. A key facet of human skills is emotional intelligence (EI), which is an awareness of how your actions and emotions affect those around you and the ability to understand and empathize with the feelings of others.

Managers need to be technically proficient and know how to get along with people, but what about dealing with the complexities of the organization itself? Managers also need conceptual skills in order to see the organization as a whole, visualize how it fits into its overall environment, and understand how each part relates to the others. Conceptual skills help managers solve problems, identify opportunities and challenges, and think creatively when making decisions.

Managers who embrace organizational behavior principles understand that the success of an organization lies with its people, and without people, there would be no companies, businesses, or industries. You may have a business that produces the highest-quality, most competitively priced product in the market or that prides itself on excellent customer service. However, if you don’t have the right people in place to manufacture, market, and sell your product and take care of your customers, the business will suffer. Similarly, if some of your coworkers lose motivation and provide lower levels of customer service, the company will lose business, and perhaps even its reputation. Either of these problems can bring about a decrease in profits, reduced employee wages and bonuses, staff layoffs, and in extreme cases, bankruptcy.

How do managers achieve the best outcomes for their organizations? A strategic OB approach is based on the idea that people are the key to productivity, competitive edge, and financial success. This means that managers must place a high value on human capital, which is the sum of people’s skills, knowledge, experience, and general attributes. Let’s take a closer look at where human capital fits into organizations, and how it is managed.
THINKING CRITICALLY

1. OB helps managers explain, predict, and influence behavior in the workplace. Identify the types of behavior you are most interested in explaining, understanding, and predicting in the workplace.

2. Of the four main functions managers fulfill (planning, organizing, leading, and controlling), which do you think is most likely to be enhanced by an understanding of organizational behavior? Why?

3. Managers need technical, human, and conceptual skills in order to succeed. Which of these skills are least likely to be learned on the job? Explain your position.

4. Compare the book’s argument that the success of an organization lies with its people with the argument that every employee is replaceable and expendable. Which argument do you consider more compelling? Why?

MANAGING HUMAN CAPITAL

Describe the key role of managing human capital in creating a sustainable competitive advantage for organizations

Human Capital and Change

Organizations have two kinds of resources: tangible and intangible. Physical assets such as equipment, property, and inventory are examples of tangible resources. Intangible resources include an organization’s reputation and culture, its relationships with customers, and the trust between managers and coworkers. Although it is difficult to measure intangible resources because of their subtle nature, they remain crucial for organizations competing in a global economy.

Human capital falls into the category of critical intangible resources. Today’s managers focus on enriching their human capital by nurturing and enhancing their employees’ knowledge and skills. The possibilities of building on human capital are endless—empowered, satisfied, knowledgeable employees can achieve so much for the organization and its customers. Human capital is essential for gaining competitive advantage, the edge that gives organizations a more beneficial position than their competitors and allows them to generate more profits and retain more customers. Three main aspects of human capital enhance true competitive advantage: value, rarity, and inimitability.

Value

Employees can add value in many different ways, but there is a difference between merely fulfilling the requirements of your job and working with an eye on company
strategy. **Human capital value** accumulates when employees work toward the strategic goals of an organization to achieve competitive advantage. Although it is essential that employees have the skills and the abilities to execute a company strategy, they must also have a genuine willingness to contribute to the performance and success of an organization. Therefore, it is critical that managers make every effort to continuously nurture their high-performing employees, because regardless of labor market conditions, outstanding employees are always in short supply.

**Rareness**

Not everyone has the right skillset to further the progress of an organization. **Human capital rareness** is the level of exceptional skills and talents employees possess in an industry. For example, you may be an excellent computer programmer with an outstanding eye for detail, or you could have a gift for dealing with customer complaints and creating resolutions to resolve dilemmas. These are rare skills that employees may bring with them into an organization, but they can also be learned given the right training and encouragement.

**Inimitability**

Employees may be able to add real value and possess rare and important skills, but these attributes must be inimitable (i.e., unique and difficult to copy or replicate) for an organization to achieve success. **Human capital inimitability** is the degree to which the skills and talents of employees can be emulated by other organizations. The higher the level of inimitability, the more competitive an organization will be. For example, what’s to prevent an excellent computer programmer from going to a competitor that offers the same services and opportunities? Successful organizations ensure that their talented employees possess skills and talents that are difficult to imitate. This means employees have a degree of tacit knowledge: they have a feel or an instinct for a method or a process but can’t easily articulate it; they just know it is right. An organization’s culture or values are also difficult to imitate and often determine why employees choose to work for one company over another that offers similar produces and services. Usually, this comes down to the organization’s shared values, attitudes, and type of culture.

Take a look at how former Human Resources (HR) Director Meredith Soleau managed human capital at Ed Schmidt Auto, a car dealership in Ohio, to address high turnover within the company, in the OB in the Real World feature.

**THINKING CRITICALLY**

1. Compare the relative importance of tangible and intangible resources. Can an organization succeed without adequate resourcing in both areas? Why or why not? **[Apply]**
2. Explain in your own words how value, rareness, and inimitability in human capital contribute to an organization’s competitive advantage. **[Understand]**

**BEHAVIORAL SCIENCE DISCIPLINES THAT CONTRIBUTE TO OB**

**1.3** Identify the major behavioral science disciplines that contribute to OB

In the early days of management theory, studies focused on how workers could perform manual labor more efficiently (on a factory assembly line, for example), and how physical working conditions could be improved for better employee performance. There

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**Human capital value:** The way employees work toward the strategic goals of an organization to achieve competitive advantage

**Human capital rareness:** The skills and talents of an organization’s people that are unique in the industry

**Human capital inimitability:** The degree to which the skills and talents of employees can be emulated by other organizations
In volume and growth, Ed Schmidt Auto is one of the leading car dealerships in northwest Ohio. It has been in business since 1937 and currently has nearly 200 employees. When Meredith started working in the human resources (HR) department in 2006, her biggest concern was the high employee turnover, which had reached a rate of 66 percent annually.

Not only was high turnover costing the company a lot of money in recruiting and training, but it was affecting the experience their customers were having. “In order to keep customers happy we needed to have the best employees working for us and we needed to treat them well. We weren’t hiring the best people. That was our first mistake.”

Meredith quickly changed the company’s recruiting practices. Many car dealerships hire a high percentage of employees who don’t have a college education, but CEO Ed Schmidt started recruiting from community colleges and local universities. This change increased the caliber of employees coming in the door and resulted in a high number of employees who viewed their time at the company as a career rather than just another job. This change in employee attitude allowed managers to focus more of their time on helping outstanding employees move up the ladder and contributed to the development of a strong company culture. Leadership has taken full advantage of this opportunity by continuously soliciting feedback from employees, managers, and customers about ways they can make their organization even stronger.

“It’s important for leaders to know when someone is struggling and, more importantly, why they are struggling. It’s equally important to know when someone is happy and why they are happy. This information helps drive positive changes within an organization.”

At Ed Schmidt Auto, management works hard to engage employees from all over the company in projects that employees are passionate about. “We realized that we have a lot of employees who love to write, so we started a blog and let any interested employee contribute to it. There is an employee who loves Pinterest so we’ve made her our Pinterest employee.”

A few years ago the company discovered that one of its service technicians “souped-up” Volkswagens in his spare time. Leadership, including HR, called him into the office for a meeting.

He thought he was going to get in trouble for doing side-work and was shocked when we asked him if he wanted to help us create a completely new performance division within Ed Schmidt Auto. We knew that if we offered our customers the ability to have their cars “souped up” we’d be able to increase sales of our specialty car parts. Since Joe loved doing this kind of work, the new division just made sense. Today, sales of our specialty car parts and accessories are booming. Joe is happy, and our customers can’t stop talking about their fast and furious cars.

When you know what makes your employees tick, you can find all kinds of projects for them to work on within your business. People love working here because they know that when they have an idea they can tell their manager, and their manager will say, “Cool, we can do this together.”

Today, the turnover rate at Ed Schmidt Auto has dropped from 66 percent to 8 percent. Meredith has attributed the decline to the company’s strong new focus on the type of people hired, the way managers interact with their employees, and the CEO’s dedication to understanding the needs of everyone on the team.

Critical-Thinking Questions
1. What aspect(s) of human capital did Ed Schmidt Auto capitalize on to reduce turnover?
2. What else could Ed Schmidt have done to influence employee turnover behavior?

SOURCE: Interview with Meredith Soleau, May 15, 2013.
Meredith is currently founder and CEO of online digital marketing and recruitment agency, 424 Degrees.
was little focus on the human element (i.e. how individual characteristics, communication, and interpersonal relationships effect organizations.). Over the past one hundred years, however, researchers have carried out a host of studies on the practice and application of OB, taking full advantage of its strong links to five main behavioral science disciplines: psychology, sociology, social psychology, political science, and anthropology (see Figure 1.3).

![Figure 1.3: Disciplines Contributing to the Field of Organizational Behavior]

**Psychology**

*Psychology* is the scientific study of the human mind that seeks to measure and explain behavioral characteristics. Early organizational psychological research and theory focused on the factors affecting work performance and efficiency, such as lethargy and boredom. More recently, psychologists have focused on the mental health and well-being of employees in relationship to their work performance and created methods to help employees deal with challenges such as job stress. Psychologists have also helped design performance appraisals, decision-making processes, recruitment techniques, and training programs.

**Sociology**

While psychology focuses on the individual, *sociology* looks at the way groups behave and they communicate and exchange information in a social setting. Sociologists have made valuable contributions to OB within areas such as group dynamics, communication, power, organizational culture, and conflict.

**Social Psychology**

*Social psychology* mixes concepts from sociology and psychology and focuses on the way people influence each other in a social setting. Social psychologists look at behaviors, feelings, actions, beliefs, and intentions and how they are constructed and influenced by others. They have made significant contributions to reducing the level of prejudice, discrimination, and stereotyping by designing processes to change attitudes, build communication, and improve the way groups work together.

**Political Science**

*Political science* studies the behavior of individuals and groups within a political environment. Political scientists focus particularly on how conflict is managed and
structured, how power is distributed, and how power is abused or manipulated for
the purposes of self-interest. Their studies have helped improve our understanding of
how different interests, motivations, and preferences can lead to conflict and power
struggles between individuals and groups.

**Anthropology**

*Anthropology* is the study of people and their activities in relation to societal, environmental,
and cultural influences. In a global organizational environment, anthropological research
has become even more significant because it increases our understanding of other cultures
and the types of values and attitudes held by others from other countries and organizations.

**THINKING CRITICALLY**

1. What factors are likely to have played a role in early management theory’s
   emphasis on physical tasks and working conditions? [Understand]

2. Of the five behavioral science disciplines listed, which one do you consider to be
   the most relevant to the field of management today? Explain your answer. [Analyze]

**A CRITICAL-THINKING APPROACH TO OB**

In the section “What Is Organizational Behavior and Why Is It Important?” we out-
lined the four main functions of management (planning, organizing, leading, and con-
trolling) and the skills (technical, human, and conceptual) managers need to be effective
in an organization. However, another skill is becoming increasingly important for man-
agers in the workplace: critical thinking. *Critical thinking* is the use of your intelligence,
knowledge, and skills to question and carefully explore situations and arrive at thoughtful
conclusions based on evidence and reason. Increasingly used in business as a
problem-solving tool, the critical-thinking approach is a powerful analytical method
that helps managers consider intended and unintended consequences of individual
behaviors on their teams and within their organizations and communities.

Organizations need managers who think independently without judgment and bias,
predict patterns of behaviors and processes, and ask the right questions—“How?” and
“Why?” and not just “What?”—in order to make effective and thoughtful decisions.

At the moment, there is a skilled labor shortage in the United States, yet unemploy-
ment is still on the rise. How can this be? Surely, if there are enough people available
for work, then companies should be able to fill their vacancies. However, as the busi-
ness environment changes, so do the types of skills expected from employees. New and
recent graduates may find that their educational backgrounds do not fulfill the require-
ments of organizations and may be forced to change, adapt, or learn new skillsets to
secure a job. Furthermore, many organizations are becoming more selective; for some
positions a degree is not enough.

Your ability to think critically will differentiate you from other job applicants. In an
interview situation, critical thinkers take the time to think carefully about the questions
they are asked, base their responses on facts or experience rather than emotion or bias,
consider different viewpoints or perspectives equally, and compare their responses with
similar examples that have occurred in the past. Once hired, critical thinkers are more likely
to succeed. After all, most companies do not employ graduates to simply go through the
motions or to be a mere cog in the wheel. They expect their employees to play a pivotal role
in helping the company achieve its organizational goals. And when a company does well,
everyone benefits. You don't need to be an expert in critical thinking to get a job. Many of these skills can be learned in the workplace. However, employers look for candidates who have a questioning mind, a willingness to embrace change, and a keen desire to learn.

Indeed, as research shows, businesses are desperate to attract employees with critical-thinking skills. Why? Because organizations are undergoing such rapid change that they need their employees to consistently introduce new, fresh ideas to stay ahead of the competition. Consider the following:

1. When more than 400 senior HR professionals were asked in a survey to name the most important skill their employees will need in the next five years, critical thinking ranked the highest—beating out innovation and information technology (see Table 1.1).  
2. Senior executive development professionals report that future leaders are lacking chiefly in strategic thinking skills—which are closely related to critical-thinking skills.  
3. A 2009 study by Ones and Dilchert found that the most successful senior executives scored higher on critical-thinking skills than did the less successful ones.  
4. Forbes recently analyzed data from online databases of occupations and necessary skills in order to identify the skills most in-demand in 2013. Then the magazine went further and analyzed the key skills necessary for success in those roles. The number one skill should be no surprise at all: it was critical thinking.

Business leaders use critical thinking when making decisions, solving problems, gathering information, and asking questions. Time and again, research has shown the effectiveness of critical thinking in the workplace. A recent article published in the journal *Current Directions in Psychological Science* reports that “cognitive ability tests, including critical-thinking tests . . . are among the strongest and most consistent predictors of performance across academic and work settings.”

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<th>Rank</th>
<th>Basic Knowledge and Applied Skills</th>
<th>Percentage</th>
<th>Rank</th>
<th>Basic Knowledge and Applied Skills</th>
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<td>1</td>
<td>Critical Thinking/Problem Solving*</td>
<td>77.8%</td>
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<td>Lifelong Learning/Self-Direction*</td>
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<td>2</td>
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<td>Foreign Language</td>
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<td>14</td>
<td>Writing in English</td>
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<td>20</td>
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* INDICATES AN APPLIED SKILL.

**TABLE 1.1** Ranking of the Most Important Skill for Employees by HR Professionals


NOTE: Number of respondents varied for each question, ranging from 398 to 424. Percentages calculated out of total number of respondents electing “increase” in importance over the next five years.
Entrepreneur Daniel Ek, founder of Spotify, is a good example of a critical thinker. Launched in 2008, Spotify is a digital music service that allows people legal paid access to millions of songs streamed directly from major and independent record labels. As a child, Daniel was fascinated by computers and computer games: “When he asked his mother what to do when one of his computer games broke, she told him, ‘I don’t know, why don’t you figure it out?’ So he did. ‘And that was basically my life story,’ says Mr. Ek.” By using critical thinking and asking “How?” and “Why?” Ek has managed to build a cutting-edge company worth $3 billion with more than 24 million active users.

The process of critical thinking provides you with the tools to make better decisions as a manager and help you to predict the effects and consequences of those decisions. Most important, you will be better able to manage the complexities of human behavior and initiate behavioral changes by following the critical-thinking process. There are five steps to applying critical thinking in order to manage and change behavior (Figure 1.4): observe (recognize the behavior), interpret (understand the cause and effects of behavior), analyze (investigate the causes and effects of behavior), evaluate (assess the consequences of changing behavior), and explain (justify a change to behavior).

Let’s use an example to illustrate the five steps of critical-thinking methodology. Suppose you are the manager of a restaurant owned by a local businesswoman. Samir, one of your wait staff, has failed to show up for several shifts without giving any meaningful reason. Since Samir is usually reliable, you are puzzled by his absenteeism. Because you don’t have all the facts, you decide to use critical-thinking skills to investigate the real source of the problem.

The next time Samir comes to work, you observe the situation objectively, suspending all bias and judgment. You notice that he is abrupt with customers, doesn’t attempt to communicate with his fellow colleagues, and walks across the restaurant with a heavy gait. This helps you to interpret the situation better, giving you enough evidence to deduce that your employee is not happy. You might analyze these effects and think of a way to deal with the behavior. What should you do? You decide to evaluate the situation and assess the consequences of trying to change his behavior. Based on his performance, your boss, Jessica, the restaurant owner, tells you to fire Samir but you explain to your boss why you believe an attempt to change his behavior might be justified and she agrees to give Samir another chance.
You set up a meeting with Samir to discover the reasons behind his unexplained absences and unmotivated behavior at work. Samir apologizes and tells you he has become dissatisfied with his job and would much rather work on the front desk of the restaurant, greeting customers and taking reservations. He says he has been afraid to tell you because he has been worried he would be letting you down by switching roles. You explain that his absences have already disappointed you but that you are willing to give him a second chance. Following a trial period at the front desk, Samir immediately becomes more motivated, and his attendance is impeccable.

Of course, there could be many ways to handle this dilemma, but it is clear that critical thinking can help to find the best solution for each situation when dealing with the complexities of real-life challenges.

In the next section, we explore how managers use OB research findings to enhance their critical-thinking skills.

**The Scientific Method**

Researchers use the scientific method to conduct research that managers can use to understand their employees and enhance critical thinking in OB. Researchers often begin with a *theory*, a set of principles intended to explain behavioral phenomena in organizations.20 OB researchers may also use *models*, simplified snapshots of reality, to summarize and illustrate the reasons behind certain behaviors such as absenteeism or employee turnover. Connecting the elements of these models are *independent variables*, which are factors that remain unchanged, and *dependent variables*, factors affected by independent variables. Researchers then write a prediction called a *hypothesis*, a statement that specifies the relationships between the two variables. For example, much OB research has been carried out on the *correlation*, or the reciprocal relationship between two or more factors, between job satisfaction (independent variable) and absenteeism (dependent variable).

Researchers discovered that employees who were more satisfied in their jobs had higher attendance at work than those who had lower levels of job satisfaction. At first
One of the strongest proponents of applying research evidence to management practice, Denise M. Rousseau, H. J. Heinz II University Professor of Organizational Behavior at Carnegie Mellon University, defines evidence-based management (EBMgt) as “the systematic, evidence-informed practice of management, incorporating scientific knowledge in the content and processes of making decisions.”* EBMgt employs valid scientific findings in the context of critical thinking, decision making, and judgment to help managers obtain and use the best and most reliable information available to increase managerial and organizational effectiveness.*

But why is it important for managers to think critically about and incorporate current research findings into their management practices and decision making? A good parallel comes from the field of medicine. You may naturally assume that medical doctors and health care practitioners use the latest and best research evidence available in the field of medicine to make their decisions. Yet despite the thousands of studies conducted and published in the field of medicine each year, studies suggest that only about 15 percent of doctors make evidence-based decisions.^ Instead, they rely on obsolete information they learned in school, unproven traditions, personal experiences, and information provided by vendors selling medical products and services.^ During the past two decades, however, evidence-based medicine has begun to revolutionize the way medical practitioners make decisions and prescribe treatments.

Stanford Professors Jeffrey Pfeffer and Robert I. Sutton argue that managers should take a similar evidence-based approach in making decisions, taking actions, and prescribing cures for organizational ills: “Managers are actually much more ignorant than doctors about which prescriptions are reliable—and they’re less eager to find out. If doctors practiced medicine like many companies practice management, there would be more unnecessarily sick or dead patients and many more doctors in jail or suffering other penalties for malpractice.”^

Professor Rousseau suggests that EBMgt consists of four basic activities:* (1) obtaining the best scientific information available, (2) systematically assessing organizational facts, (3) using critical thinking and reflective judgment to apply the research evidence, and (4) considering key ethical issues. Throughout the remainder of the text, you will be presented with current research evidence from the field of OB and asked to think critically about how you might apply these findings in your current or future career as a management practitioner.

Critical-Thinking Questions

1. What are some of the primary advantages of evidence-based management practices?

2. What makes it difficult for managers to be evidence-based in their actions and decision making?


Similarly, we could apply the same critical-thinking method to the issue of work/life balance (independent variable) and its relationship to stress (dependent variable), which is one of the main issues facing today’s organizations. Employees who sacrifice their personal lives for too many hours in the office may be subject to higher levels of stress. Conversely, workers who achieve a balance between their personal and working lives may have lower levels of stress. We may conclude from this that an acceptable work/life balance leads to higher levels of job satisfaction. Using critical thinking, managers explore how they can help their employees achieve a balance between work and play.

Yet, for all the research that exists on OB and the debates it continues to inspire, it is still universally agreed that there is no one best way of managing people. In fact, there is a theory for that too. It’s called **contingency thinking**, and it states that our actions must be dependent on the nature of the situation. In other words, one size does not fit all. Every single circumstance brings about a whole new set of questions and solutions—this is where critical thinking comes into play. By asking the right questions to fit each scenario, managers have a better chance of resolving problems. Related to contingency thinking is **evidence-based management**, which relies on research-based facts to make decisions. Successful OB managers use this wealth of research findings as a basis for understanding different situations.

**Open Systems Theory**

A key OB research finding that has had a significant impact on the use of critical thinking by managers is called **open systems theory**. According to this theory, organizations are systems that interact with (are open to) their environments and use their environments to obtain resources, or inputs, and transform those inputs into outputs that are returned to the environment for consumption. Open systems theory maintains that all organizations are unique and subject to internal and external environmental influences that can affect their efficiency. To ensure the smooth running of an organization, a defined structure should be in place that can accommodate problems and opportunities as they arise. Let’s take a look at how a car manufacturing company might operate, according to this theory (see Figure 1.5).

In this example, a car manufacturing company takes inputs from suppliers of certain goods or materials and then uses these resources to manufacture cars within the organization itself (“throughput” in the figure), before exporting them back into the environment as outputs. Put into a general context, this means organizations use input from their resources, such as technology, people, money, raw materials, information, and processes, and transform them into the finished product or output, which they sell.

When open systems work well, they create a **value chain**, the sequence of activities carried out by organizations to create valued goods and services to consumers. In the car example, if every link in the chain is working efficiently, suppliers are satisfied with the way they have been treated by the car company and continue to meet its specifications, employees are productive and manufacture the car in good time and within budget, and consumers are gratified with their new purchase. However, a poorly managed value chain can have disastrous consequences. Suppliers that go out of business, high employee turnover, and a dissatisfied consumer base can all lead to the decline of an organization.

Open systems strive to find a balance between themselves and their environment and to remain harmonious, especially in the face of environmental changes. A strong open system can be crucial to organizational survival, especially in today’s organizations that are continually adjusting to meet the demands of global challenges and opportunities.
1. Explain in your own words how critical thinking can be used as a problem-solving tool in the workplace. [Understand]

2. Create a list of behaviors and skills that contribute to a manager’s ability to think critically. [Apply/Create]

3. Imagine that you manage two employees who dislike each other and have engaged in heated arguments in front of customers. What specific steps could you take, following the 5-step critical-thinking model (observe, interpret, analyze, evaluate, and explain), to resolve the situation? [Apply/Analyze]

4. Identify the inputs, throughput, and outputs of a fast food chain according to Open Systems Theory. [Apply]

5. Explain the meaning of “value chain” and provide an example of one way that a value chain may be enhanced and one way a value chain may be harmed. [Apply]

**OB CHALLENGES AND OPPORTUNITIES**

1.5

Identify the major challenges and opportunities in the field of OB

Organizations are in a continual state of flux and transformation. In addition, within the past decade, the financial world has been in turmoil because of a lingering recession and high unemployment. The resulting uncertainty has immeasurably influenced the behavior of people and organizations. So what can you expect when you enter
the workforce? Next we discuss some of the main challenges and opportunities facing organizations today (see Figure 1.6).

**Globalization**

Globalization is a process by which the world has become increasingly interconnected through trade, culture, technology, and politics. It has had a huge influence on OB. Many organizations now have offices all over the world, and it’s not uncommon for employees to move between them. For example, you may be placed on a foreign assignment where you are expected to learn a different language and work with people from different cultures and backgrounds. Even at home, you are very likely to be working with people from abroad or from backgrounds different from yours. It is essential to...
be able to work well with others regardless of their location or cultural background. Communicating effectively across time zones and via the latest technological methods is equally important.

**Economic Factors**

Economic events have had a significant effect on the workplace. Recessions and financial crises have led to layoffs, reduced wages, unemployment, bankruptcy, and labor shortages. Organizations are continuously strategizing to overcome economic stumbling blocks by seeking out talent and focusing on the skill set of their workforce to find innovative ways to differentiate themselves from the competition. To flourish in a work environment that is continually in flux, you will need to be agile, adaptable, and open to learning new skills when required.

**Workforce Diversity**

The demographic profile of the United States is changing, and the resulting diversity in the workforce is encouraging organizations to foster inclusive working environments that do not discriminate against employees regardless of gender, race, ethnicity, age, sexual orientation, or disability. In most large organizations, employees are educated about diversity and taught the importance of respecting individual differences. Forming and building good working relationships is central to achieving professional success. You will need to respect others and accept people without prejudice if you want to get ahead in the workplace.

**Customer Service**

Organizations are creating customer-responsive cultures to meet the increasing needs and changing demands of their customer bases. Companies are striving to understand the customers’ needs first and then tailor the product to customer requirements. In most businesses, you will carry out some level of customer service, whether you are dealing with external clients (customers) or internal ones (coworkers). In doing so, you will need to develop a customer-focused attitude and think creatively about how to satisfy customers’ needs.

**People Skills**

Managers and employees must have excellent people skills, such as the ability to communicate and interact with others, in order to work harmoniously with their colleagues. Being able to relate to other people has just as much impact on success as your technical skills, especially when you are leading and managing teams.

**Innovation and Change**

Organizations need to simulate innovation and change by becoming faster and more agile than the competition. Tangible resources such as physical equipment are no longer the mainstay of an organization. The organization’s most important assets are its people and their ability to continuously create, strategize, innovate, and convert their ideas into quality products and processes. Critical thinking is imperative in innovation; you will need to question, analyze, and create to come up with new, original ideas that will appeal to your customers to secure a competitive advantage.
Sustainability

Many organizations are striving to build a more sustainable and responsible global marketplace by taking environmental factors into consideration during decision making and goal setting. Whatever role you play, you will need to take into account the effects your decisions and the decisions of others may have on the environment, your community, and the organization itself.

Throughout this book, we explore these and other factors that influence OB, including leadership, and the effects of a new generation of workers on the workplace. In the next section, we analyze one of the most important elements of global OB: ethical behavior in organizations.

THINKING CRITICALLY

1. Of the seven challenges discussed in this section, which do you consider the most difficult to address? Which do you consider the easiest to address? Why? [Understand]

2. Based on your own work or volunteer experience, have you ever experienced any of these seven challenges? Describe your experience and brainstorm ways for overcoming these challenges. [Apply]

3. Select a company and research online to learn more about their sustainable business practices. Do they have a sustainability plan? What are some recommendations you might make that would benefit the organization as well as the environment and society? [Apply/Analyze]

GLOBAL ETHICS

Describe the importance of ethical behavior in global organizations

Ethics are moral principles that guide our behavior. Although ethics are useful in helping us make decisions and come to certain conclusions, they don’t always give a clear answer to every moral question. For example, complex issues such as abortion and euthanasia have been the subject of strong debate over many years, yet people do not agree on a “right” or “wrong” moral answer to these issues. By following a code of ethics, however, we can make many decisions based on sound guiding principles.

More than a decade ago, the unethical behavior of some major US-based organizations hit the headlines worldwide. One of the most infamous cases brought about the fall of energy giant Enron. In 2001, it was discovered that Enron’s CEO Kenneth Lay had used unethical accounting practices and led his team to commit one of the largest corporate frauds in US history. One of the biggest corporate casualties of the Enron scandal was the company’s auditors, the accounting and consultancy firm Arthur Anderson, which until then had enjoyed a sterling reputation. Because of the unethical choices made by a few members of the Enron team, such as the decision to destroy evidence of wrongdoing, the company was eventually dissolved.

More recently in 2015 Volkswagen came under fire for developing software designed to ensure some cars meet emissions standards during emissions testing but not during normal operation. Consumers were led to believe they were making an environmentally responsible choice by choosing Volkswagen vehicles. As a result of this scandal, stock prices have fallen and consumer trust in the Volkswagen brand has weakened. This scandal illustrates the economic, reputational, and financial damages that unethical behavior can cause.

Ethics: Moral principles that guide our behavior
Company scandals have also made many people more aware and less tolerant of perceived unethical behavior. For example, Naked Juice, owned by PepsiCo, was sued in 2011 for deceptively labeling its products “all natural” despite their including some synthetic ingredients. PepsiCo refuted the claim but dropped the word *natural*; the firm has pledged to pay a total of $9 million in compensation to consumers who purchased the juice in the past.

As the Enron, Volkswagen, and other scandals prove, making unethical decisions can have huge consequences. Yet it is not only enormous organizations that deal with ethical problems. Breaches of ethics happen all over the world; in many countries corruption is prevalent, and instances of bribery to win business are commonplace. Similarly, some organizations exploit labor by hiring children, paying very low wages, and forcing employees to work in poor conditions. An organization is unethical if it violates the basic rights of its employees and ignores health, safety, and environmental standards.

One of the more recent ethical debates springs from the rapid development of artificial intelligence (AI) technology. With enhanced speech recognition available, robot dogs in development, and solar-powered drones and self-driving cars on the horizon, the risks associated with AI have quickly come to the fore. Tesla Motors founder Elon Musk and the noted physicist Stephen Hawking are among those who have expressed concern about the ethical consequences of advanced technology. Still to be answered are questions about the danger of building robots for military use, the safety of self-driving cars, the possibility that jobs will be lost to drones and robots, and the general risk of creating software designed to help computers think like humans. Google, owner of several robotics companies, has set up an ethics board to ensure that AI technology is not exploited.

However, Google is not the only company conscious of ethical risks. In many organizations, employees attend training programs, workshops, and seminars that present ethical dilemmas and how to overcome them. In most workplaces there is a growing intolerance for unethical behavior, and there is an expectation that employees will align their work practices with the organization’s code of ethics. Indeed, such is the demand for a better understanding of ethical organizational behavior that many business schools, including the Catholic University of America, have integrated ethics into their business and economics courses on a daily basis to teach students the importance of behaving ethically in the workplace.
One of the ways to ensure the practice of good ethical behavior in organizations is to understand the actions and behavior of people and how they work together. In the next section of the chapter, we explore the three underlying levels of analysis in the organizational behavior model.

THINKING CRITICALLY

1. Analyze the relationship between ethics and technology. How might technology lead to unethical behavior? How might technology help businesses develop more ethical and transparent business practices? [Apply/Analyze]

2. Recall a recent news story related to unethical behavior by a company. What were the effects of the ethical breach in terms of their reputation and profitability? [Analyze]

3. Research a company that is making a positive ethical impact in the business world. How is that company making a difference? How do you think this affects their reputation and profitability? [Analyze]

THREE LEVELS OF ANALYSIS IN OB

There are three main levels of analysis within the OB model: individuals, teams, and organizations. (See Figure 1.7.) Each level builds on the previous one. For example, individuals working well together lay the foundation for effective teams, which in turn work together to achieve organizational goals.

Individuals

Individuals are the foundation of organizations, and the way they work and behave makes or breaks a business. The role of managers is to integrate individuals into the organization, nurture their skills and attributes, and balance their needs and expectations accordingly. When managers do this successfully, individuals will achieve high levels of job satisfaction, motivating them to work toward attaining organizational goals.

Levels of Analysis in OB

**Individual Level**
- Diversity
- Personality
- Emotions
- Attitudes
- Perception
- Motivation

**Group Level**
- Teams
- Decision Making
- Creativity
- Conflict
- Leadership
- Power and Politics
- Communication

**Organizational Level**
- Organizational Culture
- Organizational Strategy
- Organizational Change
- Organizational Structure

![Figure 1.7 The Three Main Levels of Analysis](image-url)
instance, the management at Ed Schmidt Auto, featured in OB in the Real World, strives to engage employees from all over the company in projects they are passionate about.

Teams

Teams or groups exist in all organizations, large or small, and their effective functioning is essential to the success of any organization. Teams are complex because they consist of many different personalities and attitudes. Managers who understand the dynamics of a team and the way it is structured also better understand the underlying behaviors of individuals within the group. A good example is the British football team Manchester United, whose players continually cooperate with each other in pursuit of a common goal, in spite of well-documented personality differences and the occasional feud.

Organizations

Organizations provide individuals and groups with the tools and systems to achieve objectives and goals. The attitudes and behavior of employees are influenced by the way organizations are structured. For instance, Google’s organizational structure is centered around employees from all disciplines working together to meet goals and generate innovative ideas. Google employees derive job satisfaction from a flexible working structure that provides them the freedom to set their own goals and standards.

With organizations continually juggling market changes and customer demands, the success of a business depends on its workforce as never before. But how do managers get the best from individuals, teams, and the organization itself?

THINKING CRITICALLY

1. Discuss the relationship among the three levels of analysis in OB. How might individuals influence organizations? How might organizations influence individuals? [Understand/Apply]
2. Teams play a critical role in OB. What are some of the benefits of working in teams? What are some of the challenges? [Understand/Apply]

POSITIVE OB AND HIGH-INVOLVEMENT MANAGEMENT

Outline the benefits of positive OB and high-involvement management

Drawing from a range of organizational research and theories, scholarship on positive organizational behavior focuses on the strengths, virtues, vitality, and resilience of individuals and organizations. The idea is that nurturing the strengths of individuals rather than attempting to “fix” their weaknesses is far more beneficial to achieving organizational goals. Employees will gain more self-confidence and feel more positive about their skills and abilities, leading to better performance. Managers who practice positive OB value human capital as their most important resource.

Say you are the manager of a sales and marketing department. You need your sales team to reach a specific sales target by the end of each month. However, one of your new hires, a recent business graduate, is regularly failing to meet objectives, bringing down the department’s sales total. When you arrange a one-to-one meeting with him, he admits he is finding the role tougher than he thought it would be. He
knows the products and services inside out but finds it difficult to persuade people to meet with him to discuss a potential sale. As his manager, you arrange additional training to improve his sales technique and build his confidence in selling. Following extensive training, he succeeds in securing a couple of meetings with prospects but fails to sell anything. When you hired him, you felt he had potential. Do you fire him for not bringing in the business, or do you consider another position for him in the organization?

Managers who practice positive OB will choose the second option. This employee may not be a good fit for sales, but what else can he do that would benefit the organization? Perhaps he loves to write and feels more comfortable communicating through media rather than over the phone. As a Web content assistant, writing articles for the company website and working with project teams, designers, and developers to ensure information is presented in the best way, he can thrive.

This is just one example of how managers get the best from (and for) their employees using positive behavior. Most people are hired for a reason, but it is entirely possible that some may not be the best fit in the role for which they were hired. In such a case, managers who value their human capital should make every effort to match employees’ skill sets with a more appropriate position. Otherwise, organizations could face the dilemmas of low job satisfaction and reduced productivity, leading to an increase in absenteeism and high turnover.

Positive OB places the highest priority on the well-being of employees. This style of management is closely linked with high-involvement management, a strategy in which managers empower employees to make decisions, provide them with extensive training and opportunities to increase their knowledge base, share important information, and provide incentive compensation. Increasing employee involvement in this way is a very democratic approach to management, giving all employees, including those who carry out basic duties, a say in how the work is conducted. They are then more likely to work hard, and more willing to adapt to new processes and learn new tasks. Empowered, satisfied employees strive to achieve organizational goals.

Again, this type of approach works only when the right employees are selected to work in an organization. They must be the right cultural fit and believe in the values...
and mission of the company. Equally, managers must treat employees with respect, listen carefully to their ideas, and be willing to admit to themselves and their employees that they don’t have all the answers. When high-involvement management is effective, it helps to build strong relationships between employees and managers, fosters trust, and increases job satisfaction and productivity.

High-involvement managers have different ways of empowering their employees. Take Brandon Steiner, for instance. Steiner is the founder and CEO of Steiner Sports and a professional sports marketer, speaker, and author. He believes the well-being of his employees begins with the food they eat, and that there is a strong correlation between a healthy diet and work performance. When new hires join Steiner Sports, he tells them, “I don’t care about a lot of the things other managers do, but one thing you cannot do here is eat unhealthily.” How does Steiner encourage his employees to be healthy? The company pays for gym membership, ensures a continuous supply of fresh fruit is available in the break room, and makes personal side bets with heavily overweight employees to see who can lose the most weight in the healthiest way within a specified period of time. One of Steiner’s mottos is, “If you don’t feel your best, you can’t do your best work.” Would you like to work for a company like Steiner Sports that strongly promotes employee health and well-being? Do you think you would fit in and buy into the ethos of this type of organization? If you are not the type of person who places as high a value on healthy living as Steiner, then perhaps this might not be the right work culture for you. Remember, high-involvement management works best when employees are a good fit for the organization.

Throughout this text, we present a number of case studies and scenarios to demonstrate a critical-thinking perspective in relation to OB. Some of the characters you will meet in our OB stories include Laura Pierce, who is beginning her new role as marketing and development manager for the West Texas Regional Theatre (WTRT); Katie O’Donnell, a college MBA student working as a server at the Waterfront Grill restaurant in upstate New York; Brian Stevens, plant manager of a tractor assembly plant in the Midwest; and Langston Burrows, a recent college graduate working in the leadership development
program (LDP) in a mid-sized regional bank. Based on real-life scenarios, the stories illustrate the types of situations and people you may come across within organizations and to provide you with clear insights and strategies to deal with complexities as and when they arise.

We have structured this book to explore the challenges and opportunities facing OB on an individual, group, and organizational level. Throughout the text, we explore the complexities of human behavior, including individual behaviors, emotions, and attitudes. We also examine OB in the context of leadership, motivation, teamwork, and culture.

At the heart of every job, regardless of the industry, lies the need to get along with people and to fit in with the values and culture of the organization. However, in today’s organizations, fitting in does not mean agreeing with everything to maintain the status quo, nor does it mean laughing at your boss’s jokes (especially when you don’t think they are very funny!). Instead, applying critical thinking by asking questions, suspending bias, and providing creative solutions, all of which you’ll experience in this book, form the new norm. Understanding and gaining knowledge about OB is a lifelong learning process. Your career success depends on your ability to learn from your everyday experiences and on the way you conduct your relationships with others, behave, and communicate.

In a world where the only constant is change, it is more important than ever to manage our own behavior and understand the feelings, attitudes, and behaviors of others around us in order to work harmoniously and productively and succeed in a complex working environment.

**THINKING CRITICALLY**

1. Identify your top five strengths. Describe how each of these strengths might benefit an organization. \[\text{Understand/Apply}\]

2. Could there be a downside or unintended consequences for managers who focus primarily on the findings of positive organizational behavior research? Explain your answer. \[\text{Analyze}\]

3. List three concrete ways a high-involvement manager could empower employees. \[\text{Apply}\]

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has had a huge influence on OB. Organizations are continually strategizing to overcome economic stumbling blocks by hiring talent and focusing on the skill sets of their workforce to find new, innovative ways to differentiate themselves from the competition. Workforce diversity develops when organizations foster working environments that do not discriminate against others regardless of gender, race, ethnicity, age, sexual orientation, and disability. Organizations are creating customer-responsive cultures to meet the increasing needs and changing demands of their customer base. Managers and employees must have excellent people skills to use on the job to work harmoniously with their fellow colleagues. Organizations need to simulate innovation and change by becoming faster and more agile than the competition. There is a growing commitment to fostering an ethical culture and improving ethical behavior in the workplace. Many organizations are striving to build a more sustainable and responsible global marketplace by taking environmental factors into consideration during decision-making and goal-setting practices.

1.6 Describe the importance of ethical behavior in global organizations

Ethics are moral principles that guide our behavior. Ethical scandals in recent years have made many people more aware and less tolerant of perceived unethical behavior. An organization is unethical if it violates the basic rights of its employees and ignores health, safety, and environmental standards. In many organizations, employees attend training programs, workshops, and seminars that present ethical dilemmas and how to overcome them. In most workplaces there is a growing intolerance for unethical behavior and an expectation that employees will align their work practices with the organization’s code of ethics.

1.7 Differentiate the three basic levels of analysis at which OB may be examined

There are three main levels of analysis within the OB model: individuals, teams, and organizations. Individuals are the foundation of organizations: the way they work and behave either makes or breaks a business. The role of managers is to integrate individuals into the organization, nurture their skills and attributes, and balance their needs and expectations accordingly. Teams or groups exist in all organizations, large or small, and have a significant influence on the behavior of individual team members. Managers who understand the dynamics of a team and how it is structured gain more knowledge about the underlying behaviors of individuals within the group. Individuals and groups work within the formal structure of organizations. Organizations provide employees with the tools and systems to achieve objectives and goals. The attitudes and behavior of employees are influenced by the way organizations are structured.

1.8 Outline the benefits of positive OB and high-involvement management

Positive organizational behavior focuses on the strengths, virtues, vitality, and resilience of individuals and organizations. High-involvement management occurs when managers empower employees to make decisions, provide them with extensive training and the opportunities to increase their knowledge base, share important information, and provide incentive compensation. This type of approach works only when the right employees are selected to work in an organization. When high-involvement management is effective it helps to build strong relationships between individuals and teams, fosters trust, and increases job satisfaction and productivity.
KEY TERMS

Anthropology 10
Competitive advantage 6
Conceptual skill 5
Contingency thinking 15
Correlation 13
Critical thinking 10
Dependent variable 13
Emotional intelligence 5
Ethics 19
Evidence-based management 15
High-involvement management 23
Human capital 5
Human capital inimitability 7
Human capital rareness 7
Human capital value 7
Human skills 5
Hypothesis 13
Independent variables 13
Model 13
Open systems theory 15
Organization 3
Organizational behavior 3
Political science 9
Positive organizational behavior 22
Psychology 9
Social psychology 9
Sociology 9
Strategic OB approach 5
Technical skill 4
Theory 13
Value chain 15

EXERCISE 1.1: OB ON SCREEN

Think of at least two movies or television shows about the president or CEO of a large business. How does the leader treat his or her employees? What changes could be made to foster better employee relations?

EXERCISE 1.2: WHAT YOU WERE THEN

Morris Massey, a marketing professor at the University of Colorado, developed a video series expounding the concept “You Are What You Were When.” The idea behind this was that the culture, the significant world events, and your own personal life experiences during your youth contribute significantly to your identity. To better understand the differences in individuals with whom you work, it may be helpful to understand what was happening in the world when they were young.

Objective:
To better understand OB and practice understanding the individual differences that exist in people.

Instructions:
Interview two people who are from different generations than your self. You can interview family, friends, or acquaintances. Ask them the following questions about life when they were 8–14 years old:

1. Where did you grow up? (State or country)
2. How did your closest friendships develop?
3. What was happening in the world? How did these world events affect you?
4. What was the economic situation of your family?
5. What was the most important thing to you during that time of your life?

Now, ask yourself those same questions and write down your responses.

As a class or in groups, aggregate the responses and address the following questions.

Reflection Questions:
1. What patterns do you see in the aggregated responses?
2. What differences do you see based on where individuals grew up?
3. What types of world events had the most impact?
4. How might someone’s economic situation growing up influence the way she or he thinks about work and approach her or his job?
5. How can you use the knowledge of what people were experiencing in their youth to better work with them now?

Exercise contributed by Harriet Rojas, Professor of Business, Indiana Wesleyan University.

EXERCISE 1.3: YOUR EXPERIENCE WITH OB

Objective:
This exercise will help you to better understand organizational behavior, its concepts, and its uses by helping you to explain and discuss your organizational experiences in terms of Chapter 1 concepts.

Instructions:
Step 1 (10 minutes): Think about an organization that you are or have been a member of. This organization can be any type of organization as discussed in the first chapter of this text (i.e. a social, religious, charitable, or other type of organization). After selecting your organization, think about some problem that the organization has had. Write down a brief (no more than one half of a page) narrative describing this problem. Be sure to explain the problem using the concept terms from Chapter 1. Also, try to identify the level at which this problem existed: individual, group, organizational, or across multiple levels.

Step 2 (10 minutes): Find a partner and read each other the problem you each wrote about. Select the most interesting of the two write-ups. Together re-write the description so that it clarifies any points that are unclear and is more concrete in its use and application of chapter concepts.
Step 3 (10 minutes): Each pair should find another pair to form a quad. Each pair should read the situation write-up selected in step 2 to the other pair. Again, select the situation that is the most interesting, and work together as a group to improve the situation description. Clarify any misuse of terms, and be sure that as much of the situation as possible is described using chapter concepts.

Step 4 (10 to 30 minutes): Select one person from the quad to read the write-up chosen by the entire quad as the most interesting to the entire class. The person who reads the situation should be someone other than the person who initially wrote about the situation, but everyone should be prepared to help clarify any points about the write-up using chapter concepts.

Reflection Questions:
Think about the process of identifying organizational problems in terms of the organizational behavior concepts you are learning.

CASE STUDY 1.1: PFIZER PHARMACEUTICALS

Researchers at the Gallup-Healthways Well-Being Index estimate that employee unhappiness costs US businesses a mind-boggling $300 billion per year in lost productivity. And although worker productivity—what drives it, what quashes it—is a topic of some debate, certain correlations show up again and again: unhappy workers have high levels of absenteeism and produce less in both quality and quantity. According to a 2011 Harvard Business Review article, workers’ creativity, productivity, commitment, and collegiality are all affected by their level of happiness, and the corporate bottom line either suffers or flourishes as a result.

Discussions about the world’s “happiest places to work” might bring to mind some now-famous companies like Zappos, with its focus on hiring only the right employees, or any number of technology-based start-ups creating unusual workspaces to foster creativity. The seemingly cold and faceless world of pharmaceuticals is perhaps an unlikely candidate for a happy place to work. Yet for the second year in a row, 165-year-old New York City-based Pfizer Pharmaceuticals grabbed the number one spot on the 50 Happiest Companies in America list published on career website CareerBliss.com. With annual revenue exceeding $67 billion, driven by more than 110,000 employees, Pfizer—the maker of Advil, ChapStick, Zoloft, Viagra, Dimetapp, and hundreds of other drugstore products found both behind and over the counter—not only ranks as the world’s largest pharmaceutical company, it also employs the happiest workers.

Job satisfaction at Pfizer is the result of forward-thinking, innovative policies that seek to create a meaningful, engaging environment for colleagues (as Pfizer employees are called)—and one in which those colleagues enjoy working with each other. The most prominent strategy used in creating such an environment is ownership. Pfizer CEO Ian Read promoted the ownership culture in 2012 with the goal of engaging each employee in improving the company for all its stakeholders, from consumers to shareholders. The ultimate goal was the creation of a work environment that was a birthplace not only of new products, but of new pathways leading to those products. In turn, this environment would support the employees within it and foster in them a deep sense of responsibility to fellow colleagues and every company stakeholder.

The idea of the ownership model was born of candid research within the company among employees at every level. That led to the creation of a corporate culture that fosters independent and innovative thinking, provides opportunity for growth and movement within the company, gives meaningful feedback to employees, and encourages responsible risk taking while placing a high emphasis on personal responsibility. Failure is treated as an inevitability that provides an opportunity for learning or problem solving—and pharmaceutical research is no stranger to failure. By accepting failure and providing meaningful, constructive feedback, the company encourages employees to innovate, and innovation is something Pfizer considers an imperative for continued success in a crowded industry.

The ownership model isn’t the only aspect of Pfizer employment that leads to contented workers; the company has also taken great strides to ensure that its colleagues spend most of their time at work able to focus on what they were hired to do. Although at first glance this seems an obvious step, Pfizer’s own reviews of employee activity found that a significant chunk of valuable time was spent on “support tasks,” like creating Microsoft PowerPoint presentations or handling correspondence, instead of on the appropriate use of the employee’s talents and primary job roles. To address this issue, Pfizer turned to outsourcing, which is the practice of transferring work to other companies to save on costs. Pfizer employees can outsource presentations, data mining and analysis, document creation, scheduling, and other tasks so they can spend more time developing and implementing new research strategies, conducting research, and all the other tasks that allow Pfizer to remain a leading innovator in the industry. The result of this strategy is a tangible increase in productivity over shorter periods of time. This means a shorter path from idea to research to execution, not only for new products but for new business strategies as well.

Pfizer has worked hard to be an innovator, not only in the pharmaceutical development that sustains the bottom line but also in the creation of a corporate environment filled with happy, productive employees. The company’s own stated outlook is that even in an industry driven by patents and products, “Pfizer’s most important assets leave our building at the end of each
workday.” This company is a primary example of the value gained by having employees who believe in what they do and feel encouraged to produce high-quality, innovative work, not because they fear the consequences of underperforming but because they feel like a part of the company in a meaningful way. Pfizer’s corporate policy treats employees as people rather than numbers, and the success of this strategy is evident in its continued reign as the largest pharmaceutical company in the world—and now the happiest, too.

Case Questions
1. Describe how Pfizer enriches its human capital in value, rareness, and inimitability.
2. Show how Pfizer is utilizing three levels of analysis to its practice of strategic organizational behavior.
3. In what ways does Pfizer utilize positive organizational behavior?

Sources


SELF-ASSESSMENT 1.1

Follow the flow chart below to see what kind of a leader you are!