A Strategic Approach to Organizational Behavior

Knowledge Objectives

After reading this chapter, you should be able to:

1. Define organizational behavior and explain the strategic approach for handling it.
2. Provide a formal definition of organization.
3. Describe the nature of human capital.
4. Discuss the conditions under which human capital is a source of competitive advantage for an organization.
5. Describe positive organizational behavior and explain how it can contribute to associates' productivity.
6. Explain the five characteristics of high-involvement management and the importance of this approach to management.

Exploring Behavior in Action

Strategic Use of Human Capital: A Key Element of Success at P&G and The Container Store

High-involvement, high-commitment companies enjoy many advantages based on their approaches to managing people. Examples of such companies are Nucor, W.L. Gore & Associates, Whole Foods, Procter & Gamble, and The Container Store. In the case of Procter & Gamble (P&G), the company has adopted high-involvement work practices at many of its manufacturing facilities, including empowerment of work teams to allocate tasks among their members, establish their own work schedules, recruit new members to their teams, and even select the methods used to accomplish their tasks. In addition, P&G invests in building human capital, and much of the training is done by P&G managers instead of human resource management or training specialists. In fact, P&G views work life as a career-long learning and development process. P&G has a different “college” for educating its workforce in the knowledge and skills needed for its current and future jobs. The company also carefully screens all candidates in the hiring process, and this includes consideration of fit with company values. It receives hundreds of thousands of applications every year for just a few thousand openings.

The Container Store was started in 1978, and from the beginning, the founders and top executives stated that the top stakeholders were the employees (even ranked above shareholders and customers). For quite some time, The Container Store has enjoyed healthy gross margins of approximately 60 percent, with annual revenues now approaching $800 million. It is the top specialty retailer of containers in the country.
The Container Store has been listed as one of Fortune’s “100 Best Companies to Work For” 18 years in a row. The company has enjoyed this success in its markets and with its workforce because of adherence to its founding principles. These founding principles include the following key ideas:

1. Hire only great employees. One great person outproduces three good people.
2. Emphasize quality communication. Communication is leadership.
3. Focus on training and development. Intuition does not come to an unprepared mind.
4. Create a culture that provides an air of excitement. Employees should love their jobs and love helping customers.
5. Empower employees to make decisions. Empowerment helps in the realization of both the employee’s and the company’s potential.

The company invests many resources in recruiting, especially in selecting the best person to hire. In fact, based on 2016 data, it hires less than 6 percent of those who apply for jobs. People who are hired go through as many as eight interviews, many of them group interviews with other associates. Similar to P&G, fit with company values is an important consideration. Once hired, new employees are given more than 250 hours of training during their first year (the industry average is a small fraction of this). They also receive significant benefit packages, and are paid 50 to even 100 percent more than the average pay for retail employees. In addition, employees are empowered to make many decisions commonly made by the store managers in most retail organizations.

During the most recent economic recession, The Container Store experienced financial difficulties similar to other retailers. However, it refused to lay off any of its employees. Each year, it declares a “National We Love Our Employees Day,” and has taken out large ads in major newspapers such as The New York Times to promote it. This level of commitment by the company has been rewarded with strong employee loyalty; it has a voluntary turnover rate of approximately 10 percent annually. This compares to rates as high as 100 percent at other major retailers.

Executives at The Container Store claim the company’s focus on hiring great employees, giving them the knowledge they need, and providing them the authority to make decisions unleashes creativity to identify solutions that best serve customers. The results are obvious to those customers. One customer remarked that he found the staff in the store “radiated happiness and enthusiasm,” and that the excitement in the store was evident. This enthusiasm makes for happy customers, which in return produces a successful business.

The success of The Container Store and P&G should promote frequent attempts to imitate their practices, but this has not been the case. Instead, confronted with difficult industry conditions, managers in many firms attempt to minimize costs through low compensation and little training. They implement supervision and surveillance systems designed to tightly control employees. Many companies make negative assumptions about their workforces, and their actions do not allow the human potential in their workforces to be realized.

Yet some of the highest-performing companies treat their associates in a different way. The leaders of these companies believe that valuing people is crucial for business success, and that they get more out of their employees by providing them power and autonomy. The results support this belief. These companies generally continue to grow, have low labor costs, and achieve strong profits while paying high compensation because of the productivity of their workforces. For example, Starbucks provides a much larger and more costly benefits package to its workforce than most other retailers.

Starbucks can do this not just because of the “premium” it charges for its products, but also because of its productive associates, who produce a premium for the company. The bottom line is that companies that allow associates to participate in major decisions, invest heavily in training, and provide profit-sharing programs have much more productive workforces and enjoy many benefits. They are often among Fortune’s “Best 100 Companies to Work For,” and are among the top financial performers in their industries. They perform well because they gain the most value from their human capital.

Basic Elements of Organizational Behavior

Organizational behavior (OB) encompasses the actions of individuals and groups in an organizational context. The process of managing organizational behavior is focused on acquiring, developing, and applying the knowledge and skills of people. Importantly, the strategic OB approach rests on the premise that people make up the foundation of an organization’s competitive advantages. An organization might have exceptionally high-quality products and services, excellent customer service, best-in-class cost structure, or some other advantage, but all of these rest on the capabilities of the organization’s people—its human capital. If organized and managed effectively, the knowledge and skills of the people in the organization drive sustainable competitive advantage and long-term financial performance. Thus, the strategic approach to OB involves organizing and managing people’s knowledge and skills effectively to implement the organization’s strategy and gain a competitive advantage.

Individual, interpersonal, and organizational factors determine the behavior and the ultimate value of people in an organization; these factors are shown in Exhibit 1-1. For individuals, factors such as the ability to learn, personality characteristics, and personal attitudes are important. These elements represent or are related to important capabilities. At the interpersonal level, factors such as quality of leadership, communication within and between groups, and conflict within and between groups are noteworthy. These elements influence the degree to which the capabilities of individuals are unleashed and fully utilized within an organization. Finally, at the organizational level, the structure and culture of the organization are among the most important factors, as they influence whether the talents and attitudes of individuals are effectively leveraged to create positive outcomes.

The factors discussed above interact to produce the outcomes of productivity, satisfaction, and organizational success. Productivity refers to the outputs of individuals and groups, whereas satisfaction relates to the feelings that individuals and groups have about their work and the workplace. Organizational success is defined in terms of competitive advantage and, ultimately, financial performance. In essence, then, a strategic approach to organizational behavior and explain how to view it through a strategic lens to enhance organizational performance.

To introduce the strategic approach to organizational behavior, or OB, we address several issues. First, we define organizational behavior and discuss its strategic importance for organizational performance. Next, we explore the concept of human capital and its role in organizations. We then discuss how human capital most likely contributes to a competitive advantage for an organization. An explanation of high-involvement management follows. This form of management is helpful in developing and using human capital, and is becoming increasingly important as firms search for ways to maximize the potential of all of their people (managers and nonmanagers). In the final section of the chapter, we describe the model and plan for the concepts explained in this book.
organizational behavior requires understanding how individual, interpersonal, and organizational factors influence the behavior and value of the people in an organization, where value is reflected in productivity, satisfaction, and ultimately the organization’s competitive advantages and financial success.

Importance of Using a Strategic Lens

Studying organizational behavior with a strategic lens is valuable for managers and aspiring managers at all levels of the organization, as well as for the workers who complete the basic tasks. For example, effective senior managers spend much of their time talking with insiders and outsiders about vision, strategy, and other major issues crucial to the direction of the organization.3 Senior leaders make the strategic decisions for the firm.4 Skills in conceptualizing, communicating, and understanding the perspectives of others are critical for these discussions, and these skills are addressed by strategic OB. Senior managers also spend time helping middle managers define and redefine their roles and manage conflict, because middle managers are often central to the organization’s communication networks.5 Skills in listening, conflict management, negotiating, and motivating are crucial for these activities. Finally, senior managers invest effort in shaping the internal norms and informal practices of the organization (that is, creating and maintaining the culture). Skill in interpersonal influence is an important part of this work. The strategic approach to OB addresses each of these issues.

In recent times, senior managers have commonly been referred to as strategic leaders.6 However, exercising strategic leadership is not a function of one’s level in the organization; rather, it is a matter of focus and behavior. Strategic leaders think and act strategically, and use these skills to motivate people and build trusting relationships to help implement the organization’s strategy. Although their primary tasks differ from senior managers, middle and lower-level managers also can act as strategic leaders in the accomplishment of their tasks.7

Effective middle managers spend much of their time championing strategic ideas with senior managers and helping the firm remain adaptive.8 They also play an important role
in implementing the organization’s strategy. They serve as champions of the strategy, and work with other middle managers and lower-level managers to build and set in motion the processes to implement the strategy. Skills in networking, communicating, and influencing are important for these aspects of their work. Middle managers also spend time processing data and information for use by individuals at all levels of the firm, requiring skills in analysis and communication. When delivering the strategic initiatives to lower-level managers, skills in communicating, motivating, understanding values, and managing stress are among the most important. A strategic approach to OB addresses each of these aspects of managerial work.

Effective lower-level managers spend a great deal of their time coaching the firm’s associates—our term for the workers who carry out the basic tasks. Skills in teaching, listening, understanding personalities, and managing stress are among the most important for performing these activities. Lower-level managers also remove obstacles for associates and deal with personal problems that affect their work. Skills in negotiating and influencing others are critical for removing obstacles, whereas skills in counseling and understanding personalities are important for dealing with personal problems. Finally, lower-level managers expend effort to design jobs, team structures, and reward systems. Skills in analysis, negotiating, and group dynamics are among the most important for these activities. The strategic approach to OB addresses each of these aspects of managerial work.

Lower-level managers are more effective when they understand the organization’s strategy, and how their work and that of their associates fit into the strategy. Much of what they do is related to implementing strategic emphases. It is also helpful for these managers to take a longer-term view. If they do not take a strategic approach, many of these managers are likely to focus on short-term problems. In fact, they may emphasize resolving problems without examining how they can prevent them in the future. Taking a strategic approach enables them to use their skills to prevent problems, implement the organization’s strategy effectively, and complete their current tasks efficiently while remaining focused on the future.

Despite the relevance of formal study in OB, some people believe managers can be successful solely on the basis of common sense. If this were true, fewer organizations would have difficulty unleashing the potential of people, and there would be less dissatisfaction and unhappiness with jobs. Absenteeism and turnover rates would also be lower. The truth is that fully leveraging the capabilities of people involves subtleties that are complex and difficult to manage. Common sense cannot be the only basis of action for managers. Effective managers deeply understand that knowledge about people and organizations is the true source of their success.

Without meaningful working knowledge of OB, managers’ efforts to be successful resemble those of the drunkard and his keys. According to this classic story, the drunkard dropped his keys by the car but could not find them because it was very dark there. So, instead of bringing light to the appropriate area, he looked under a nearby streetlight, where he could see better!10

Managers in today’s fast-paced organizations cannot afford to search in the wrong place for solutions when working with associates and each other. This is discussed further in the Experiencing Organizational Behavior feature that follows.

In closing our discussion regarding the importance of understanding organizational behavior through a strategic lens, we focus on the findings of two research studies. In both studies, the investigators examined the impact of formal business education on skills in information gathering, quantitative analysis, and dealing with people.11 Significantly, they found that business education had positive effects on these important skills, including the interpersonal skills of leadership and helping others grow. These findings suggest that understanding a strategic approach to OB can add value to our managerial knowledge and skills. There is no substitute for experience, but formal study can be very helpful in providing important insights, guidance, and a base on which to build knowledge gained from experience.
Nick Johnson and Susan Williams (not their real names) had superior technical skills, strong intelligence, and the ability to perform well as individual contributors. As managers, however, each had been handicapped by problems in working with people. Nick, for example, behaved in ways that seemed intolerant and self-promoting to both his peers and the associates who worked for him. Furthermore, he was not fully aware of his behavior, and when he was aware, he did not seem to care. In Susan’s case, she lacked patience, and sometimes lost her temper.

For a time, both had been able to work around or hide the problems created by their inappropriate behavior and poor working relationships. Ultimately, however, the problems became visible to others. Nick was a strategic and financial genius, but his job was in jeopardy. As a division manager at a manufacturing firm, he failed to understand that development and production delays were possible for a new product. Because of his lack of insight, he prematurely implemented an expensive national advertising campaign. The ill-timed campaign resulted in orders coming at the wrong time, leading to unhappy customers and shareholders. Had Nick been more approachable—had he developed and treated the people around him as respected colleagues—he probably would have known about the delays in advance, and could have postponed the ad campaign. Indeed, the delays may never have occurred had Nick utilized a more cooperative, developmental approach with his people.

Susan was an excellent salesperson; she could outsell anyone. However, as regional sales director, she experienced trouble. Her lack of patience and temper undermined relationships, particularly with people she saw as less focused on the future. As a result, Susan’s desire for a promotion to vice president was not realized. She was, however, provided developmental opportunities that were focused on patience, negotiation, and informal persuasion. The lengthy development efforts resulted in Susan being deemed more fit for advancement.

For Nick and Susan, reluctance or inability to properly value human capital harmed career progress, and caused problems for their respective firms. How could individuals so talented in their functional domains of finance and sales have been so poor at managing and working with others? How could individuals so valued by their firms for their technical expertise have been allowed to stumble as managers? The answers to these questions are simple: Excellence in individual work based on technical expertise does not guarantee effectiveness as a manager. Yet, firms often promote strong individual performers too quickly, and without proper training. When this occurs, problems inevitably develop.

As many organizations have learned, it is essential to delay or stop the upward ascent of talented individuals if they have not thoughtfully considered behavioral issues and have not been willing to learn how to properly manage and coach others. As just indicated, many other organizations have not learned this important lesson. Consider a recent survey of 1,000 people by LaSalle Network, a national staffing and recruiting firm:

- 84 percent of survey respondents said they had experienced a bad boss
- 43 percent had quit a company because of a bad boss
- 59 percent would have stayed if given the opportunity to report to someone else
- 55 percent never reported the bad boss’s behavior to leadership

At Gallup, the internationally renowned polling and research company, researchers reported a few years ago that companies fail to find the right talent for manager positions an astounding 82 percent of the time. In 2017, the head of the Bank of England estimated that bad management was costing the U.K. 20 billion pounds per year. Perhaps these data and observations explain why so many movies, television shows, and books have been focused on bad bosses. “Office Space,” “The Office,” “Horrible Bosses,” “Glengarry Glen Ross,” and “Fawlty Towers” are just a few of the many examples.

Clearly, some organizations need to upgrade their processes for selecting managers, in all functional areas and at all levels. The good news is this: many resources exist to help. World-class consulting firms such as Deloitte and The Hay Group are available, as are university-based training programs and classes. For those organizations that take advantage of evidence-based knowledge related to organizational behavior, the future is bright.

Foundations of a Strategic Approach to Organizational Behavior

Insights from several disciplines inform our understanding of OB. The field builds on behavioral science disciplines, including psychology, social psychology, sociology, economics, and cultural anthropology. A strategic approach to OB, however, differs from these disciplines in two important ways. First, it integrates knowledge from all these areas to understand behavior in organizations. It does not address organizational phenomena from the limited perspective of any one discipline. Second, it focuses on behaviors and processes that help create competitive advantages and financial success. Unlike basic social science disciplines, where the goal is often to understand human and group behavior, the goal of the strategic OB approach is to improve the performance of organizations.

One might ask the following questions: Can taking courses in psychology, social psychology, sociology, economics, and cultural anthropology provide the knowledge needed to be an effective manager or successfully accept the responsibility of working as a key member of an organization? Is it necessary to take a course in organizational behavior?

Acquiring knowledge directly from other disciplines can inform the study of organizational behavior and help with effectiveness in the workplace. Knowledge from other disciplines, however, is not a substitute for the unique understanding and insights that can be gained from studying OB from a strategic perspective. As noted earlier, a strategic approach to OB integrates useful concepts from other disciplines while emphasizing their application in organizations.

Gaining an effective working knowledge of organizational behavior helps those who want to become successful managers. The following points summarize this important field of study:

1. There are complexities and subtleties involved in fully leveraging the capabilities of people. Common sense alone does not equip the manager with sufficient understanding of how to leverage human capabilities.

2. Managers must avoid the allure of simple answers for resolving organizational issues. A working knowledge of OB helps managers gain the confidence required to empower associates and work with them to find creative solutions to problems that arise. The complexity of organizational life requires that managers and associates perform at high levels to contribute to organizational success and achieve personal growth.

3. The strategic approach to OB integrates important behavioral science knowledge within an organizational setting, and emphasizes effective applications. This knowledge cannot be obtained from information derived independently from other specialized fields, such as psychology, economics, and the like.

Definition of an Organization

As we have already emphasized, OB is focused on organizations and what happens inside them. This is important, because organizations play an important role in modern society. Several commentators from Harvard University expressed it this way: “Modern societies are not market economies; they are organizational economies in which companies are the chief actors in creating value and advancing economic progress.” But what is an organization? We provide a formal definition of this term below.
Although it is sometimes difficult to define the term *organization* precisely, most people agree that the following features are important:

- Network of individuals
- System
- Coordinated activities
- Division of labor
- Goal orientation
- Continuity over time, regardless of change in individual membership

Thus, we define an **organization** as a collection of individuals forming a coordinated system of specialized activities for the purpose of achieving specific goals over an extended period of time.

A prominent type of organization is the business organization, such as Intel, Microsoft, and Procter & Gamble. There are other important types of organizations as well. Public-sector organizations (e.g., government organizations) also have a major presence in most countries, as do not-for-profit organizations of various types. Although we focus primarily on business firms in this book, the strategic approach to OB also applies to the public sector and the not-for-profit sector. For example, we can discuss motivating associates in the context of business firms, but motivating people is important in all types of organizations. Some organizations may have more motivational problems than others, but the knowledge of how to motivate workers is critical for managers in all types of situations.

**The Role of Human Capital in Creating Competitive Advantage**

We have already noted the importance of human capital and competitive advantage to strategic OB. We now examine these concepts more closely.

**The Nature of Human Capital**

An organization's resource base includes both tangible and intangible resources. Property, factories, equipment, and inventory are examples of tangible resources. Historically, these types of resources have been the primary means of production and competition. This is less true today, because intangible resources have become critically important for organizations to successfully compete in the global economy. Intangible resources, including the reputation of the organization, trust between managers and associates, knowledge and skills of associates, organizational culture, brand name, and relationships with customers and suppliers, are the organization's nonphysical economic assets that provide value. Such assets are often deeply rooted in a company's history and experiences, for they tend to develop through day-to-day actions and accumulate over time.

Human capital is a critical intangible resource. Indeed, recent research from Korn Ferry, a global organizational development and talent management firm, indicates that human capital in the global economy is worth 2.33 times more than physical capital, $1,215 trillion vs. $521 trillion. This research also suggests that $1 invested in people results in $11.39 being added to Gross Domestic Product (GDP). As a successful business executive stated,
“Burn down my buildings and give me my people, and we will rebuild the company in a year. But leave my buildings and take away my people . . . and I’ll have a real problem.”

Overall, human capital is the sum of the skills, knowledge, and general attributes of the people in an organization. It represents capacity for today’s work and the potential to exploit tomorrow’s opportunities. Human capital encompasses not only easily observed skills such as those associated with operating machinery or selling products, but also the skills, knowledge, and capabilities of managers and associates for learning, communicating, motivating, building trust, and effectively working on teams. It also includes basic values, beliefs, and attitudes.

Human capital does not depreciate in value as it is used, but rather is commonly enhanced through use. Contrast this with tangible resources—for example, manufacturing equipment—whose productive capacity or value declines with use. In economic terms, we can say that human capital does not suffer from the law of diminishing returns. In fact, increasing returns are associated with applications of knowledge, because knowledge tends to expand with use. In other words, we learn more as we apply knowledge. Knowledge, then, is “infinitely expansible,” and grows more valuable as it is shared and used over time.

Knowledge has become a critical resource for many firms. Knowledge plays a key role in gaining and sustaining an advantage over competitors. Firms that have greater knowledge about their customers, markets, technologies, competitors, and themselves can use this knowledge to gain competitive advantage. Managers and associates hold the most knowledge in organizations, so it is important to acquire and hold onto a highly knowledgeable workforce to perform well. Because of the importance of knowledge and overall human capital, firms need to invest in continuous development of their people. The goal is to enhance organizational learning and build knowledge and skills in the firm. Indeed, firms with strong leadership at the top try to acquire and enrich what is most important.

The Concept of Competitive Advantage

A competitive advantage results when an organization can perform some aspect of its work better than competitors can, or when it can perform the work in a way that competitors cannot duplicate. By performing the work differently from and better than competitors, the organization offers products/services that are more valuable for the customers. For example, Apple developed and marketed the iPod, which took significant market share from Sony’s previously successful Walkman MP3 players. Its iPhone did the same in the wireless communications market. Human capital plays a major role in the development of innovations of this type.

Human Capital as a Source of Competitive Advantage

Although human capital is crucial for competitive advantage, not all organizations have the human resources needed for success. The degree to which human capital is useful for creating true competitive advantage is determined by its value, rareness, and difficulty to imitate.

Value In a general sense, the value of human capital can be defined as the extent to which individuals are capable of handling the basic work of an organization. Lawyers with poor legal training do not add value to a law firm, because they cannot provide high-quality legal services. Similarly, individuals with poor skills in painting and caulking do not add value to a house-painting company.
More directly, **human capital value** can be defined as the extent to which individuals are capable of producing work that supports an organization’s strategy for competing in the marketplace. In general, business firms emphasize one of two basic strategies. The first involves creating low-cost products or services for the customer while maintaining acceptable or good quality. Kia Motors Corp. follows a cost leadership strategy (so it prices its cars at the lower end of the market), but it also emphasizes attractive design and good quality. Some analysts have referred to its auto designs as “cheap chic,” because although the cars are positioned at the lower end of the market, they do not look like it. The second strategy involves differentiating products or services from those of competitors on the basis of special features or superior quality, and charging higher prices for the higher-value goods. Toyota’s Lexus designers, for example, create special features for which customers are willing to pay a premium. To create value, Kia and Lexus need people with different capabilities and attributes. Human capital plays an important role in the development and implementation of the firm’s strategies.

Top managers are generally very valuable resources for the firm. Their human capital as perceived by investors, coupled with the strategic decisions that they make, affect investors’ decisions about whether to invest in the firm. Yet, most senior managers’ insights and skills become obsolete very quickly because of the rapidly changing competitive landscape. Thus, these managers must invest time and effort to continuously enrich their capabilities in order to maintain their value to the firm. Overall, managers must expend considerable effort to acquire quality human capital and demonstrate to the firm’s external constituencies its value.

**Rareness**  
**Human capital rareness** is the extent to which the skills and talents of an organization’s people are unique in the industry. In some cases, individuals with rare skills are hired into the organization. Corporate lawyers with relatively rare abilities to reduce the tensions of disgruntled consumers, programmers with the unusual ability to produce thousands of lines of code per day with few errors, and house painters who are exceptionally gifted can be hired from the outside. In other cases, individuals develop rare skills inside the organization. Training and mentoring programs assist in these efforts.

Sales associates at Nordstrom, an upscale retailer, have several qualities that are relatively rare in the retailing industry. First, they tend to be highly educated. Nordstrom explicitly targets college graduates for its entry-level positions. College graduates are willing to accept these positions because of their interest in retailing as a career, because managers are commonly drawn from the ranks of successful salespeople, and because Nordstrom’s strong incentive-based compensation system provides financial rewards that are much higher than the industry average. Second, sales associates at Nordstrom have both the willingness and the ability to provide “heroic service.” This type of service at times extends to delivering merchandise to the homes of customers, changing customers’ flat tires, and paying for customers’ parking. Nordstrom’s culture, which is based on shared values that support exceptional customer service, is an important driver of heroic service. Some believe that Nordstrom’s culture is more important to the company’s performance than are strategy, structure, and compensation practices.

**Imitability**  
**Human capital imitability** is the extent to which the skills and talents of an organization’s people can be copied by other organizations. A competing retailer, for example, could target college graduates and use a promotion and compensation system similar to Nordstrom’s. If many retailers followed this approach, some of the skills and talents at Nordstrom would be attracted to its competitors in the industry.
The skills and talents most difficult to imitate are usually those that are complex and learned inside a particular organization. Typically, these skills involve *tacit knowledge*, a type of knowledge that people have but cannot articulate. Automobile designers at BMW, the German car manufacturer, cannot tell us exactly how they develop and decide on effective body designs. They can describe the basic process of styling with clay models and CAS (computer-aided styling), but they cannot fully explain why some curves added to the auto body are positive while others are not. They just know. They have a feel for what is right. As a result, firms that manage their knowledge effectively can make their skills and capabilities difficult to imitate by competitors.

The culture of an organization represents shared values, which in turn partially determine the skills and behaviors that associates and managers are expected to have. In some cases, organizational culture promotes the development and use of difficult-to-imitate skills and behavior. Southwest Airlines, for example, is thought to have a culture that encourages people to display spirit and positive attitudes that are valuable, rare, and difficult to duplicate at other airlines. Spirit and attitude result from complex interactions among people that are challenging to observe and virtually impossible to precisely describe. Associates and managers know the spirit and attitude are there. They cannot, however, fully explain how they work to create value for customers.

**Overall Potential for Competitive Advantage**

For human capital to be the basis for sustainable competitive advantage, it must satisfy all three conditions discussed earlier: it must be valuable for executing an organization’s strategy, it must be rare in the industry, and it must be difficult to imitate. An organization that hires individuals with valuable but common skills does not have a basis for competitive advantage, because any organization can easily acquire those same skills. As shown in Exhibit 1-2, the human capital in such an organization can contribute only to competitive parity; that is, it can make the organization only as good as other organizations, but not better. An organization that hires individuals with valuable and rare skills, or an organization

<table>
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<th>Valuable?</th>
<th>Rare?</th>
<th>Difficult to Imitate?</th>
<th>Supported by Effective Management?</th>
<th>Competitive Implications</th>
<th>Performance</th>
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<tr>
<td>No</td>
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<td>Competitive Disadvantage</td>
<td>Below Normal</td>
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<td>Competitive Parity</td>
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<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>supported by effective management?</td>
<td>Temporary Competitive Advantage</td>
<td>Above Normal</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Sustained Competitive Advantage</td>
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**EXHIBIT 1-2 Human Capital and Competitive Advantage**

that hires individuals with valuable skills and then helps them develop additional rare skills, has the foundation for competitive advantage, but perhaps only in the short run. The organization may not have the foundation for long-term competitive advantage, because other organizations may be able to copy what the organization has done. For long-term advantage through people, an organization needs human capital that is valuable, rare, and difficult to imitate.\(^\text{47}\)

Although the value, rareness, and low imitability of skills and talents are crucial for competitive advantage, alone they are not enough. These three factors determine the potential of human capital. To translate that potential into actual advantage, an organization must leverage its human capital effectively.\(^\text{48}\) An organization may have highly talented, uniquely skilled associates and managers, but if these individuals are not motivated or are not given proper support and resources, they will not make a positive contribution. Thus, sustainable competitive advantage through people depends not only on the skills and talents of those people, but also on how they are treated and deployed.\(^\text{49}\)

As suggested in the Managerial Advice feature, many companies are trying to harness the potential power of social networking tools to facilitate human capital and increase its productivity. Social networking tools can help in leveraging the skills and capabilities of the organization’s people.

### Managerial Advice

#### Leveraging Human Capital with Twitter, Workplace, and Other Social Networking Tools

Originally, businesses were worried about the explosion in social networking tools used by people inside their organizations (and externally as well). The concerns focused on staff members spending time on personal networking to the exclusion of completing tasks for their jobs. Thus, managers feared a loss of productivity. Yet over time, they began to realize the potential for networking tools such as Twitter, Instagram, and others. Now, social networking tools are being used extensively for business purposes.

Twitter has been promoted as a tool for developing a broad sense of community within an organization, and for enhancing internal relationships among those who need to coordinate their tasks. Twitter can help managers obtain broad inputs for making decisions, and also can help them gain associates’ commitment to decisions already made. It even can be used to support or change the organization’s culture. In addition, Twitter is often seen as a tool for reducing the heavy burden of internal organizational e-mail.

Twitter has also proven its value for building and maintaining relationships with customers/clients. It may even be useful in attracting new customers for the organizations’ products and services. Managers and associates can use Twitter to serve as brand ambassadors. Companies such as Whole Foods, Starbucks, and Google use Twitter to further business goals. For example, Whole Foods uses Twitter to communicate with customers and learn more about their tastes and interests, post news about new food podcasts, and invite people to company events. In addition, many companies monitor what is said about them on Twitter. This helps manage brand equity in the eyes of the public, especially with customers.

In response to increasing social networking needs by companies and to perceived limitations in platforms such as Twitter, Facebook recently introduced a new product called Workplace. This subscription-based product began its life as an internal system used by employees of Facebook to share work-related information. Workplace has the look and feel of Facebook’s flagship advertising-based platform, but is intended to be more business focused. In addition to receiving outside news feeds, associates and managers can communicate in real time and create groups for brainstorming. Groups can stretch across company boundaries as well, creating the capacity for external communication. Importantly, Workplace functions well on smartphones and other mobile devices, which is not the case for some dedicated enterprise communication products.

In describing the product, Nicola Mendelsohn, vice president for Facebook Europe, said this: “It is a voice for everybody in the organization, which is especially important if you want to make decisions quickly.” This message is
The previous arguments and research underscore the strategic value of human capital. Because of the potential value of this type of capital, the way it is managed is critical. Additionally, the way associates are managed influences their willingness to stay. The loss of valuable human capital can harm the organization’s performance. And there is significant competition for the most talented people. So firms need to manage in ways that create loyalty in their workforces and keep turnover low. In this regard, we next discuss positive organizational behavior.

Positive Organizational Behavior

Positive organizational behavior grew out of the positive organizational-psychology movement, a movement that was largely driven by a previous overemphasis on trying to “fix” what was wrong with people. Positive organizational behavior focuses on nurturing individuals’ greatest strengths and helping people use those strengths to their and the organization’s advantage. Positive OB suggests that people perform best when they have self-confidence, are optimistic, and are resilient.

People are healthier and more productive if they believe they can succeed with the work they are doing. Thus, managers should try to build associates’ self-efficacy for the tasks assigned to them. Interestingly, we know from research that the effects of self-efficacy are perhaps more important on average in the United States than in many other countries. In addition to the self-efficacy of individual associates, recent research suggests the importance of team efficacy. To the extent that a team believes it can accomplish its assigned tasks, the team’s performance is likely to be higher.

Leaders who practice positive organizational behavior are able to frame negative events such as organizational crises in more positive terms. They also build stronger ties with their associates and peers. Research suggests that many associates express distrust in their leaders. Rebuilding trust after it has dissolved represents a significant challenge. Alternatively, leaders are able to rebuild trust by developing positive psychological capital among their associates. And when positive psychological capital exists within units and organizations, individuals tend to be more highly motivated and persist longer in trying to achieve goals. Therefore, such units perform at higher levels.

Individuals who are managed in a positive manner and take a personally positive approach to outperforming other candidates often are healthier, both mentally and physically. These people are likely to have positive self-concepts, lead lives with purpose, and have quality relationships with other people. Such people tend to be healthier, happier, and more productive, and thus usually experience less stress on the job. As such, managers should help their associates develop positive emotions for themselves and others. This helps with development and success within the organization.

Providing leadership that encourages and nurtures positive emotions often requires the application of emotional intelligence (EI). Persons with strong EI have self-awareness, possess good social skills, display empathy, have strong motivation, and regulate their own behavior without the oversight of others (discussed in more depth in Chapter 5). Leaders using EI build trusting relationships with their associates, exhibit optimism, and build associates’ efficacy by providing the training needed and empowering them to complete tasks without direct oversight. The leadership approach using positive OB supports and complements high-involvement management, which we discuss next.

High-Involvement Management

High-involvement management requires that senior, middle, and lower-level managers all recognize human capital as the organization’s most important resource. Sometimes referred to as high-performance management or high-commitment management, the high-involvement management approach involves carefully selecting and training associates and giving them significant decision-making power, information, and incentive compensation. Combining decision power with important tactical and strategic information provides associates with the ability to make or influence decisions about how to complete tasks in ways that create value for the organization. Associates are closer to the day-to-day activities than are others in the organization, and empowering them through high-involvement management allows them to use their unique knowledge and skills.

In general, empowerment can increase the likelihood that associates will provide maximum effort in their work, including willingness to: (1) work hard to serve the organization’s best interests, (2) take on different tasks and gain skills needed to work in multiple capacities, and (3) work using their intellect as well as their hands.

Key Characteristics of High-Involvement Management

Five key characteristics of high-involvement management have been identified. We summarize these characteristics in Exhibit 1-3, and examine them further in the following discussion.

Selective Hiring Sound selection systems are the first crucial characteristic of the high-involvement approach. An organization must select the right people if managers are to delegate authority and information to associates. Efforts to generate a large pool of applicants and assess applicants through rigorous evaluations, including multiple rounds of interviews with managers and peers, are important in the selection process. These efforts help identify the most promising candidates while promoting the development of commitment on the part of the individuals chosen. Individuals selected in the course of thorough processes often respect the integrity of the organization. This thorough and highly selective hiring process ensures strong human capital in the organization.
Another important part of the selection process involves examining applicants’ fit with the organization’s culture and mission; selecting new hires solely on the basis of technical skills is a mistake. In situations where most or all of the required technical skills can be taught by the organization, it is quite acceptable to pay less attention to existing skills and more attention to cultural fit (along with the person’s ability to learn the needed skills). This is the approach taken by The Container Store, as discussed at the start of this chapter. A number of studies show the impact of cultural fit on satisfaction, intent to stay with the organization, and job performance. For example, a study of newly hired auditors in the largest accounting firms in the United States found that lack of fit with the organizational culture caused dissatisfaction and lower commitment among these auditors. Furthermore, work context can affect the creative output of individuals such that individuals wanting to use their creative capabilities are attracted to organizations with cultures that promote the expression of creativity in work. Finally, research suggests that careful selection of new associates leads to the provision of better customer service that in turn produces higher financial performance for the firm.

**Extensive Training** Training is the second vital component of high-involvement management. Without proper education and training, new hires cannot be expected to perform adequately. The Container Store, as we have seen, provides significant training for its newly hired associates with highly positive results. Furthermore, socialization into the norms of the organization is an important part of initial training. For existing associates, ongoing training in the latest tools and techniques is crucial. And even when people are well trained for their current positions, it is important to help them build skills and capabilities beyond those needed today.

Although calculations of return on investment for training are difficult to make, several studies reinforce the value of training. One study involving 143 Fortune 1000 companies reported that training significantly affected productivity, competitiveness, and employee satisfaction where such training emphasized job skills, social skills, quality/statistical analysis, and cross-training in different jobs.
Decision Power The third key dimension of high-involvement management is decision-making power—providing associates with the authority to make some important decisions while inviting them to influence other decisions. For example, in a mass-production firm, a single associate might have the authority to stop an entire production line to diagnose and address a quality problem. The associate might also have the authority, in conjunction with co-workers, to contact a supplier about quality problems, schedule vacation time, and discipline co-workers behaving in inappropriate ways. Beyond this decision-making authority, an associate might have significant influence on capital expenditure decisions made by managers, such as a decision to replace an aging piece of equipment.

In many cases, decision power is given to teams of associates. In fact, self-managed or self-directed teams are a central part of most high-involvement systems. With regard to our mass-production example, such a team might include the individuals working on a particular production line, or individuals who complete similar tasks in one part of a production line. The tellers in a particular branch bank can operate as a team, the nurses in a particular hospital unit on a particular shift could be a team, and junior brokers in an investment-banking firm might act as a formal team in a particular area. Teams working in high-involvement contexts often achieve the outcomes desired by the organization.

Many studies of decision-making power have been conducted over the years. In general, these studies support giving associates bounded authority and influence. The study of Fortune 1000 firms discussed earlier assessed the impact of associates holding significant decision power. As with training, the executives in the 143 firms reported a positive effect on productivity, competitiveness, and employee satisfaction. Another study of empowering associates found that it enhanced knowledge sharing and the efficacy of teams, which in turn increased performance.

Information Sharing The fourth characteristic of high-involvement management is information sharing. In order for associates to make effective decisions and provide useful inputs to decisions made by managers, they must be properly informed. Furthermore, sharing information among team members promotes collaboration, coordination, and high team performance. Examples of information that could be shared by the firm include operating results and business plans, costs of materials, costs of turnover and absenteeism, potential technologies for implementation, competitors’ initiatives, and results and roadblocks in supplier negotiations. At AES, a global power company, the amount of information that had been shared with associates in the years following the company’s initial public offering (IPO) led the Securities and Exchange Commission (SEC) to identify every employee of the firm as an insider for stock-trading purposes. This was unusual; typically, only those at the top of a firm have enough information to be considered insiders by the SEC.

Incentive Compensation The fifth and final dimension of high-involvement management is incentive compensation. This type of compensation can take many forms, including the following:

- Individual piece-rate systems, where associates are compensated based on the amount produced or sold
- Individual incentive systems, where associates receive bonuses based on short- or long-term performance
- Knowledge- or skill-based pay, where associates are paid based on the amount of knowledge or number of skills they acquire
• Profit sharing, where associates earn bonuses based on company profits
• Gain sharing, where associates share in a portion of savings generated from employee suggestions for improvement

In the study of Fortune 1000 firms mentioned earlier, executives indicated that incentive pay positively affected productivity and competitiveness.82

Evidence for the Effectiveness of High-Involvement Management

Considering the five aspects of high-involvement management as a coherent system, research evidence supports the effectiveness of the approach. One study, for example, found this approach to have a positive effect on the performance of steel mini-mills.83 In this study, 30 U.S. mini-mills were classified as having a control orientation or a commitment orientation. Under the control orientation, employees were forced to comply with detailed rules, had little decision-making authority or influence, received limited training and information, and had no incentive compensation. Under the commitment orientation, which closely resembled the high-involvement approach just described, employees had strong training; information on quality, costs, productivity, and usage rates of materials; incentive pay; the authority to make decisions regarding workflow scheduling and new equipment; and input into strategic decisions. The mills with commitment systems had lower rates of unused materials, higher productivity, and lower associate turnover.

In another study, 62 automobile plants around the world were classified as using traditional mass production or flexible production.84 Under the traditional mass-production system, employees did not participate in empowered teams, whereas employees under the flexible approach participated in such teams. Companies that used the flexible system also offered employees more cross-training in different jobs and opportunities for incentive compensation. Furthermore, these companies displayed fewer symbols of higher status for managers (no reserved parking, no separate eating areas, and so on). The plants with flexible production had 47.4 percent fewer defects and 42.9 percent greater productivity than those with traditional production systems.

In a third study, firms were drawn from many different industries, ranging from biotechnology to business services.85 Firms placing strong value on their people had a 79 percent probability of surviving for five years after the initial public offering, whereas firms placing low value on their people had a 60 percent probability of surviving five years.

Other studies also have supported the usefulness of high-involvement systems, revealing positive effects on the well-being of associates, with fewer accidents, lower absenteeism, and lower turnover.86 As such, associates have higher job satisfaction and productivity. In turn, they service the organization’s customers effectively to promote high customer satisfaction.87 Overall, the value of human resource management activities is strongly enhanced by high-involvement practices.88

Demands on Managers

When a high-involvement approach has all of the characteristics identified here, associates are fully and properly empowered. High-involvement managers place significant value on empowerment, because empowered associates have the tools and support required to create value for the organization. But managers implementing high-involvement approaches must take specific and calculated actions to promote empowerment. We turn now to a discussion of the demands a high-involvement approach places on managers.
Because they believe strongly in empowering associates, high-involvement managers constantly seek to identify situations in which responsibility can be delegated. The intent is to move decision making to the lowest organization level at which associates have the information and knowledge required to make an effective decision. Managing through encouragement and commitment rather than fear and threats, high-involvement managers respect and value each associate’s skills and knowledge. In addition, effective managers understand that cultural differences in a diverse workforce challenge them to empower people in ways that are consistent with their uniqueness as individuals.89

Listening carefully to associates and asking questions of them in a genuine attempt to understand their perspectives demonstrates managerial respect and facilitates attempts to be culturally sensitive. People who feel respected for their values as well as for their skills and knowledge are motivated to act in a prudent and forthright manner in completing their assigned work. Over time, empowered, respected associates gain confidence in their ability to help create value for the organization. Trust between managers and associates is critical in a high-involvement organization. Managers must trust associates not to abuse their decision power. For their part, associates must trust managers not to punish them for mistakes when they are trying to do the right thing for the organization. Furthermore, research has shown that trust between associates and those formally responsible for their behavior has a positive effect on the organization’s financial performance. Thus, effective managers invest effort in building and maintaining trust. In so doing, they dramatically increase their credibility with associates.90

Confident in their associates’ abilities, high-involvement managers recognize that they don’t have all the knowledge necessary for the organization to be successful. As a result, they work with their associates and their peer managers to find solutions when problems arise.91

Managers employing a high-involvement approach to management of their associates exhibit many of the characteristics of a transformational leader (this leadership approach is discussed in more depth in Chapter 8).92 In addition, servant leaders often approach the management of associates in ways that parallel high-involvement management.93

High-involvement managers think continuously about how human capital can be used as the foundation for competitive advantage. Is there another way to use our people’s skills and knowledge to further reduce costs or to more crisply differentiate the products we produce? How can the creativity of our empowered associates be used to create more value for the organization? How can we use information gathered by our associates through their relationships with people outside our organization (such as customers and suppliers) to make certain we are shaping the competitive advantages needed for success in the future? Finding answers to these questions can lead to long-term success.

As suggested in the next Experiencing Organizational Behavior feature, firms use their core strengths to provide value to customers. And core strengths are commonly based on human capital, which is clearly the case with Pixar. Pixar’s managers and associates have been critical to the production of highly successful animated films. Pixar largely exhibits the characteristics of a high-involvement organization. It empowers its associates with considerable authority for determining their work projects, schedules, and methods for completing most of the work. Pixar hires top talent, and gains the most from their capabilities. The freedom Pixar provides its associates, the efforts put into developing their skills, and the culture promoting a happy, trusting, and collaborative atmosphere help retain key talent at Pixar over the long term. The company has been described as the “corporation of the future.”94 Pixar’s success suggests why there is now global competition for the best human capital.95 The Pixar experience shows the importance of human capital in competing effectively in our highly complex and challenging global economy.
Pixar: An Organization of Happy, Innovative People

Pixar is one of the most successful and unique organizations in its industry—and perhaps anywhere. It has produced 17 major movies, all of which are highly creative and computer animated. The highly-acclaimed movies include Toy Story (including Toy Story 2 and Toy Story 3), A Bug’s Life, Monsters Inc., Finding Nemo, The Incredibles, Finding Dory, and Cars (including Cars 2 and Cars 3). In fact, Pixar’s movies have been very successful financially. No movie has grossed less than $334 million globally, with the average being over $600 million. Unlike most studios, there is a high correlation between the quality of the movies and their financial success. And the movies have been developed in a highly unique way (not in the tradition of Hollywood): Pixar has emphasized full development and production by its in-house staff.

Pixar has received numerous Academy Awards, Golden Globe awards, and Grammy awards. Pixar’s success is due to the incredible talent of its managers and associates, and how it manages its human capital. It begins with a thorough recruiting and careful selection process. According to one estimate, it receives 45,000 applications for every job opening, so it can be incredibly selective. The firm searches for people who are innovative and have good communication skills. And it has a thorough interview process in which many people participate. But identifying and hiring top human capital is only the first step on the road to success. Managing this talent in ways that allow people to reach their potential and be highly productive in their tasks is critical to Pixar’s success.

Pixar leaders build teams of people, and expect them to work together to produce their end products. Everyone is expected to participate. When people have problems to solve, they do it as a team. In fact, all members of a production group are encouraged and expected to offer their ideas. Essentially, the company produces team innovations. All members of the organization (artists, software programmers, accountants, security guards) are encouraged to take courses at Pixar University (PU). PU offers many different courses—essentially a complete curriculum on making films. In these courses, people also learn to collaborate and trust each other. The physical environment also promotes relationships and collaboration. The cafeteria, mailboxes, and restrooms are centrally located to encourage unplanned interactions.

The culture of Pixar emphasizes teamwork, honesty, communication, and collaboration in an environment where people can have fun and pursue their passions. Interdisciplinary learning is encouraged, creativity is rewarded, and intensity is prized. Taking risks is valued. The people are engaged and feel valued by the leaders. The end result of the top human capital and effective management of it has been a string of hit movies. And the success has been aided by the ability of Pixar not only to attract and develop highly talented staff but also to keep it. Turnover at Pixar is very low.

George Lucas, the legendary filmmaker (creator of Star Wars), founded Pixar in the 1970s. He sold it to Steve Jobs in the late 1980s for $10 million. Jobs sold Pixar to Walt Disney in 2006 for $7.4 billion. When one considers that the major physical assets of this company are a couple of buildings and some computer equipment, one can understand the potential value of excellent human capital and managing that talent to gain the most from it.

Organization of the Book

Our objective in this book is to provide managers, aspiring managers, and even individual contributors with the knowledge they need to perform effectively in organizations, especially in today’s high-involvement organizations. Essentially, the book offers readers a working knowledge of OB and its strategic importance. The book has 14 chapters divided into four parts. The titles of the parts and the topics of the chapters are presented in Exhibit 1-4, which graphically depicts the model for the book.

As suggested in the exhibit, the strategic approach to OB emphasizes how to manage behavior in organizations to achieve a competitive advantage. The book unfolds in a logical sequence. In Part I, *The Strategic Lens*, we explain the strategic approach to OB.
(Chapter 1), then discuss the importance of managing diversity in organizations (Chapter 2) and describe how organizations must operate in a global context (Chapter 3). In Part II, Individual Processes, we focus on the individual as the foundation of an organization’s human capital, emphasizing the development of a sound understanding of individuals and how they affect each other and the organization’s success. Topics considered include learning and perception (Chapter 4), personality (Chapter 5), motivation (Chapter 6), and stress (Chapter 7). In Part III, Groups, Teams, and Social Processes, we examine the effects of interpersonal processes on individual and organizational outcomes. Specific interpersonal processes include leadership (Chapter 8), communication (Chapter 9), decision making (Chapter 10), group dynamics (Chapter 11), and conflict (Chapter 12). Finally, in Part IV, The Organizational Context, we examine several organization-level processes and phenomena. Using insights from the book’s first three parts, we study organizational structure and culture (Chapter 13) and organizational change (Chapter 14). Overall, the book takes you on an exciting journey through managerial opportunities and problems related to behavior in organizations.

What This Chapter Adds to Your Knowledge Portfolio

In this chapter, we have examined the strategic importance of organizational behavior for the success of individuals and organizations. In addition, we have discussed the nature of human capital and the circumstances under which it can be the source of competitive advantage for an organization. Finally, we have explored the high-involvement approach to management. To summarize, we have covered the following points:

• The strategic approach to organizational behavior involves organizing and managing people’s knowledge and skills effectively to implement the organization’s strategy and gain a competitive advantage.

• A strategic approach to organizational behavior is important because it addresses key issues for managers at all levels of the organization. For senior managers, the strategic approach to OB provides guidance for activities such as shaping the internal norms and practices of the organization. For middle managers, it provides guidance on matters such as implementing the strategic initiatives designed by senior managers. For lower-level managers, taking a strategic approach to OB helps with coaching and negotiating, among other important activities necessary to effectively implement the organization’s strategy. Managers who lack an appreciation for the particulars of organizational behavior are likely to experience less successful careers.

• A strategic approach to organizational behavior builds on knowledge from the behavioral sciences. It differs from these fields, however, in two important ways. First, it integrates knowledge from these fields, rather than taking the narrow view of any one of them. Second, it focuses on behaviors and processes that help create competitive advantages and financial success for the organization. Other fields often adopt the goal of understanding individual and group behavior without also understanding how such knowledge can contribute to enhancing the performance of organizations.

• An organization is formally defined as a collection of individuals formed into a coordinated system of specialized activities for the purpose of achieving certain goals over some extended period of time.

• Human capital is an intangible resource of the organization. It represents capacity for current work and potential for future work. It includes the skills, knowledge, capabilities, values, beliefs, and attitudes of the people in the organization. Human capital is important because an organization’s ability to create something of value for customers comes largely from the know-how and intellect embodied in its people rather than from machinery and other tangible assets.

• Human capital can be a source of competitive advantage for an organization when it has value (it is relevant for the organization’s strategy), is rare (skills and knowledge are possessed by relatively few outside the organization), and has low imitability (other organizations cannot easily duplicate the skills and knowledge). These three characteristics provide the base for gaining an advantage. For human capital to
be a source of competitive advantage, it must be managed effectively.

- Positive organizational behavior focuses on nurturing individuals’ greatest strengths and helping people use them to their and the organization’s advantage. Positive OB suggests that people will likely perform best when they have self-confidence, are optimistic, and are resilient. People are healthier and more productive when they have strong self-efficacy with regard to the work that they are doing. Individuals who are managed in a positive manner and take a personally positive approach to outperforming others often are healthier mentally and physically.

- High-involvement management is an important method for developing and leveraging human capital. This approach has five key components: (1) selective hiring, (2) extensive training, (3) decision power, (4) information sharing, and (5) incentive compensation. Collectively, these five aspects of high-involvement management yield empowered workers.

- The effectiveness of high-involvement management is supported by strong evidence. In studies of many industries, high-involvement management has been found to lead to high productivity, satisfaction, financial success, and competitiveness.

**BACK TO THE KNOWLEDGE OBJECTIVES**

1. What is organizational behavior? Why is it important for managers and aspiring managers to study OB using a strategic approach? Can the study of a field such as psychology substitute for a strategic approach to organizational behavior? Why or why not?

2. What is an organization? What are the defining characteristics of an organization?

3. What is human capital? Be specific.

4. How does human capital provide the basis for competitive advantage?

5. What is positive organizational behavior, and how can it contribute to associates’ productivity?

6. What are the five characteristics of high-involvement management? What evidence exists to support the effectiveness of this approach?

**Human Resource Management Applications**

*Recruitment* and *selection* are critical human resource management (HRM) functions, because they provide the human capital necessary to accomplish the work in the organization. The examples of The Container Store and Pixar show the importance of human capital to an organization’s success. Organizations employing high-involvement management use selective hiring practices.

*Training* is an HRM function designed to help managers and associates increase their knowledge and develop new skills and abilities. Pixar University provides a good example of how extensive training contributes to organizational performance. Training is especially critical for full use of high-involvement management (e.g., empowering associates).

*Compensation* is an HRM function that is important to the high-involvement management approach. In high-involvement management, often some of the managers’ and associates’ compensation is based on their performance and that of the organization. They may also be paid to acquire additional knowledge and skills (incentive compensation).
Building Your Human Capital  |  Career Style Inventory

Different people approach their careers in different ways. Some, for example, attempt to obtain as much power as possible to control personal and organizational outcomes. Others emphasize hard work and cooperative attitudes. The questionnaire that follows is designed to assess your tendencies, as well as your beliefs about the approaches of most managers. Following the questionnaire, we describe four distinct approaches to careers, some of which are more useful in high-involvement organizations than are others.

Instructions

A number of descriptive paragraphs appear below. They describe sets of beliefs or perceptions that vary among individuals. The paragraphs are divided into four sections: Life Goals, Motivation, Self-Image, and Relations with Others. Please evaluate each paragraph as follows:

1. Read the paragraph. Taking the paragraph as a whole (using all of the information in the paragraph, not just one or two sentences), rate the paragraph on a scale from “not characteristic of me” (1) to “highly characteristic of me” (7). If you are currently a full-time student, rate each paragraph on the basis of how you believe you would feel if you were working full-time in an organization. If you are a part-time student with a career, rate each paragraph on the basis of how you actually feel.

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<td>Not characteristic of me</td>
<td>Somewhat characteristic of me</td>
<td>Generally characteristic of me</td>
<td>Highly characteristic of me</td>
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2. In addition, rate each paragraph in terms of the way you want to be, regardless of how you are now. Rate each on a scale from “do not want to be like this” (1) to “very strongly want to be like this” (7).

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<td>I very strongly want to be like this</td>
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3. Finally, rate each paragraph in terms of how descriptive it is of most managers, from “not at all characteristic of most managers” (1) to “very characteristic of most managers” (7). In providing this assessment, think about managers with whom you have worked, managers you have read about or heard about, and managers you have seen in videos.

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Questionnaire

Please be as honest, realistic, and candid as possible in your self-evaluations. Try to accurately describe yourself, not represent what you think others might want you to say or believe. In general, individuals do not have high scores on every question.

A. Life Goals

1. I equate my personal success in life with the development and success of the organization for which I work. I enjoy a sense of belonging, responsibility, and loyalty to an organization. If it were best for my organization, I would be satisfied with my career if I progressed no higher than a junior- or middle-management level.

   How characteristic is this of you (1–7)? _________

   How much do you want to be like this (1–7)? _________

   How characteristic is this of most managers (1–7)? _________

2. I have two major goals in life: to do my job well and to be committed to my family. I believe strongly in the work ethic and want to succeed by skillfully and creatively accomplishing goals and tasks. I also want to be a good family person. Work and family are equally important.

   How characteristic is this of you (1–7)? _________

   How much do you want to be like this (1–7)? _________

   How characteristic is this of most managers (1–7)? _________

3. My goal in life is to acquire power and prestige; success for me means being involved in a number of successful, diverse enterprises. I generally experience life and work as a jungle; like it or not, it’s a dog-eat-dog world, and there will always be winners and losers. I want to be one of the winners.

   How characteristic is this of you (1–7)? _________

   How much do you want to be like this (1–7)? _________

   How characteristic is this of most managers (1–7)? _________

4. I tend to view life and work as an important game. I see my work, my relations with others, and my career in terms of options and possibilities as if they were part of a strategic game that I am playing. My main goal in life is to be a winner at this game while helping others succeed as well.

   How characteristic is this of you (1–7)? _________

   How much do you want to be like this (1–7)? _________

   How characteristic is this of most managers (1–7)? _________

B. Motivation

1. My interest in work relates to the process of building something. I am motivated by problems that need to be solved; the challenge of work itself or the creation of a quality product gets me excited. I would prefer to miss a deadline rather than do something halfway—quality is more important to me than quantity.
C. Self-Image

1. I am competitive and innovative. My speech and thinking are dynamic, and come in quick flashes. I like to emphasize my strengths and don’t like to feel out of control. I have trouble realizing and living within my limitations. I pride myself on being fair with others; I have very few prejudices. I like to have limitless options to succeed; my biggest fears are being trapped or being labeled as a loser.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

2. My identity depends on being part of a stable, noteworthy organization. I see myself as a trustworthy, responsible, and reasonable person who can get along with almost anyone. I’m concerned about making a good impression on others and representing the organization well. I may not have as much toughness, aggressiveness, and risk-taking skills as some, but I make substantial contributions to my organization.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

D. Relations with Others

1. I tend to dominate other people because my ideas are better. I generally don’t like to work closely and cooperate with others; I would rather have other people working for me, following my directions. I don’t think anyone has ever really helped me freely; either I controlled and directed them, or they were expecting me to do something for them in return.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

2. My relations with others are generally good. I value highly those people who are trustworthy, who are committed to this organization, and who act with integrity in the things that they do. In my part of the organization, I attempt to sustain an atmosphere of cooperation, mild excitement, and mutuality. I get “turned off” by others in the organization who are out for themselves, who show no respect for others, or who get so involved with their own little problems that they lose sight of the “big picture.”

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

3. At times, I am tough and dominating, but I don’t think I am destructive. I tend to classify other people as winners and losers. I evaluate almost everyone in terms of what they can do for the team. I encourage people to share their knowledge with others, trying to get a work atmosphere that is both exciting and productive. I am impatient with those who are slower and more cautious, and I don’t like to see weakness in others.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

2. I like to take risks and am fascinated by new methods, techniques, and approaches. I want to motivate myself and others by pushing everyone to the limit. My interest is in challenge, or competitive activity, where I can prove myself to be a winner. The greatest sense of exhilaration for me comes from managing a team of people and gaining victories. When work is no longer challenging, I feel bored and slightly depressed.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

3. My sense of self-worth is based on my assessment of my skills, abilities, self-discipline, and self-reliance. I tend to be quiet, sincere, and practical. I like to stay with a project from conception to completion.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?

4. I tend to be brighter, more courageous, and stronger than most of the people with whom I work. I see myself as bold, innovative, and entrepreneurial. I can be exceptionally creative at times, particularly in seeing entrepreneurial possibilities and opportunities. I am willing to take major risks in order to succeed and willing to be secretive if it will further my own goals.

   How characteristic is this of you (1–7)?
   How much do you want to be like this (1–7)?
   How characteristic is this of most managers (1–7)?
4. My relations with others are generally determined by the work that we do. I feel more comfortable working in a small group or on a project with a defined and understandable structure. I tend to evaluate others (both peers and managers) in terms of whether they help or hinder me in doing a craftsman-like job. I do not compete against other people as much as I compete against my own standards of quality.

How characteristic is this of you (1–7)? __________
How much do you want to be like this (1–7)? __________
How characteristic is this of most managers (1–7) __________

When you have evaluated each paragraph, follow the instructions below and “score” the questionnaire.

<table>
<thead>
<tr>
<th>Craftsperson Orientation</th>
<th>Characteristic of me</th>
<th>Want to be like this</th>
<th>Characteristic of most managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Goals—Paragraph 2</td>
<td></td>
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</tr>
<tr>
<td>Motivation—Paragraph 1</td>
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<td>Self-Image—Paragraph 3</td>
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<tr>
<td>Relations with Others—Paragraph 4</td>
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<tr>
<td>TOTAL scores for Craftsperson</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Company Orientation</th>
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</thead>
<tbody>
<tr>
<td>Life Goals—Paragraph 1</td>
</tr>
<tr>
<td>Motivation—Paragraph 4</td>
</tr>
<tr>
<td>Self-Image—Paragraph 2</td>
</tr>
<tr>
<td>Relations with Others—Paragraph 2</td>
</tr>
<tr>
<td>TOTAL scores for Company Man/Woman</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jungle Fighter Orientation</th>
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<tbody>
<tr>
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<tr>
<td>Motivation—Paragraph 3</td>
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<td>Self-Image—Paragraph 4</td>
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<td>Relations with Others—Paragraph 1</td>
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<td>TOTAL scores for Jungle Fighter</td>
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<tr>
<th>Strategic Game Orientation</th>
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<tbody>
<tr>
<td>Life Goals—Paragraph 4</td>
</tr>
<tr>
<td>Motivation—Paragraph 2</td>
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<td>Self-Image—Paragraph 1</td>
</tr>
<tr>
<td>Relations with Others—Paragraph 3</td>
</tr>
<tr>
<td>TOTAL scores for Gamesman/Gameswoman</td>
</tr>
</tbody>
</table>

**Descriptions of the Four Primary Career Orientations**

- The **Craftsperson**, as the name implies, holds traditional values, including a strong work ethic, respect for people, concern for quality, and thrift. When talking about work, such a person tends to show an interest in specific projects that have a defined structure. He or she sees others, peers as well as managers, in terms of whether they help or hinder the completion of work in a craftsman-like way.

  The virtues of craftspersons are admired by almost everyone. In high-involvement organizations, craftspersons are valuable because they respect people and work hard and smart. On the downside, they can become overly absorbed in perfecting their projects, which can slow them down and harm their leadership on a broader stage.

- The **Company Man or Woman** bases personal identity on being part of a protective organization. He or she can be fearful and submissive, seeking security even more than success. These are not positive attributes for high-involvement organizations. On the other hand, the company man or woman is concerned with the human side of the company, interested in
the feelings of people, and committed to maintaining corporate integrity. The most creative company men and women sustain an atmosphere of cooperation and stimulation, but they tend to lack the daring to lead in competitive and innovative organizations.

- The **Jungle Fighter** lusts for power. He or she experiences life and work as a jungle where “eat or be eaten” is the rule, and the winners destroy the losers. A major part of his or her psychic resources is budgeted for a personal department of defense. Jungle fighters tend to see their peers as either accomplices or enemies, and their associates as objects to be used.

  There are two types of jungle fighters: lions and foxes. The lions are the conquerors who, when successful, may build an empire. The foxes make their nests in the corporate hierarchy and move ahead by stealth and politicking. The most gifted foxes rise rapidly by making use of their entrepreneurial skills. In high-involvement organizations, jungle fighters can cause many problems. They tend not to value people. Leveraging human capital may take place, but only in limited ways for the purpose of self-gain.

- The **Strategic Gamesman or Gameswoman** sees business life in general, and his or her career in particular, in terms of options and possibilities, as if he or she were playing a game. Such a person likes to take calculated risks, and is drawn to new techniques and methods. The contest is invigorating, and he or she communicates enthusiasm, energizing peers and associates like the quarterback on a U.S. football team. Unlike the jungle fighter, the gamesman or gameswoman competes not to build an empire or pile up riches, but to gain the exhilaration of victory. The main goal is to be known as a winner along with the rest of the team.

  The character of a strategic gamesman or gameswoman, which might seem to be a collection of near paradoxes, is very useful in a high-involvement organization. Such a person is cooperative but competitive; detached and playful but compulsively driven to succeed; a team player but a would-be superstar; a team leader but often a rebel against bureaucratic hierarchy; fair and unprejudiced but contemptuous of weakness; tough and dominating but not destructive. Balancing these issues is important in a team-oriented organization, where associates and managers at all levels are expected to work together for personal and organizational success.


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**An Organizational Behavior Moment | All in a Day’s Work**

After earning a business degree with a major in marketing, Ann Wood went to work for Norwich Enterprises as a research analyst in the Consumer Products Division. While working, she also attended graduate school at night, receiving her MBA in three years. Within a year of reaching that milestone, Ann was promoted to manager of market research. Ann became assistant director of marketing after another three years. After a stay of slightly less than 24 months in that position, Ann was appointed director of marketing for the Consumer Products Division. In this new role, she leads many more people than in her previous roles—85 in total across three different groups: market research, marketing strategy and administration, and advertising and public relations.

Ann felt good this morning, ready to continue working on several important projects that Anil Mathur, Norwich’s executive vice president for marketing, had assigned to her. Ann felt she was on a fast track to further career success, and wanted to continue performing well. With continuing success, she expected an appointment in Norwich’s international business operations in the near future. Ann was pleased about this prospect, as international experience was becoming a prerequisite at Norwich for senior-level managerial positions—her ultimate goal. Several problems, however, were brought to her attention on what she thought was going to be a good day at the office.

As Ann was entering the building, Joe Jackson, the manager of the market research group, stopped her in the hall and complained that the company’s intranet had been down for about half of the night. This technical problem had prevented timely access to data from a central server, resulting in a delay in the completion of an important market analysis. Ann thought that immediately jumping in to help with the analysis would be useful in dealing with this matter. She had promised Anil that the analysis would be available to him and other upper-level managers this morning. Now it would have to be finished on a special priority basis, delaying work on other important projects.

Joe also told Ann that two of his analysts had submitted their resignations over the last 24 hours. Ann asked, “Why are we having so much trouble with turnover?” The manager responded, “The market is tight for smart analysts who understand our product lines. We’ve been having problems hiring anyone with the skills we need, much less people who have any loyalty. Maybe we should offer higher starting salaries and more attractive stock options if we expect to have much hope of keeping the people we need.” Ann asked Joe to develop a concrete proposal about what could be done to reduce turnover, promising to work with him to resolve the issue.

Just as she reached her office, Ann’s phone rang. It was Brooke Carpenter, the manager of marketing strategy and
administration. “I’m glad you’re here, Ann. I need to talk to you now. I’m on my way.” As Brooke came through the door, Ann could tell that he was quite upset. He explained that two of his people had discovered through searches on the Internet that the average pay for their type of work was 7 percent higher than what they were currently earning. Sharing this information with co-workers created an unpleasant environment in which people were concentrating on pay instead of focusing on tasks to be completed. Ann had a conference call coming in a few minutes that prevented her from dealing with the matter further, but she asked Brooke to set up a time when the two of them could meet with his people to talk about their concerns.

After her conference call, Ann spent the rest of her morning dealing with e-mails that were primarily related to dissatisfaction with her department’s work. Most of these concerned the delays that other Norwich units were experiencing in receiving outputs from her department. The problem was complicated by the inability to retain workers.

Ann had just returned from lunch when her phone rang. “Ann, it’s Brooke. Can you meet with us at 2:30 this afternoon? I know that this is short notice, but we really do need to talk with my people.” Although the time was inconvenient, given that Anil expected his analysis today, Ann knew that dealing with issues concerning Brooke’s associates was also important. Plus, she believed that Anil’s report was about to be finished by the research group, taking that immediate problem off her plate.

The meeting with Brooke and his people lasted almost an hour. Not surprisingly, other concerns surfaced during the conversation. Ann thought that this was to be expected. Her managerial experience indicated that complaints about pay often masked concerns about other issues. She learned that people weren’t satisfied with the technology made available to them to do their work or with Norwich’s commitment to training and development. Young and eager to advance, Brooke’s associates wanted assurances from Ann that Norwich would spend more money and time to develop their skills. Ann agreed to the importance of skill development—both for associates and for Norwich. She said she would examine the matter and provide feedback to them. “It may take some time, but my commitment to you is that I’ll work hard to make this happen,” she said. “While I can’t promise much about the pay structure overnight, I’ll also investigate this matter to become more informed. Brooke and I will work on this together so you can have direct access to what is going on.” Ann wanted to deal with these issues, knowing that their resolution had the potential to help both associates and the company reach their goals.

Ann then spent a couple of hours dealing with still more e-mail messages, a few phone calls, and other requests that reached her desk during the day. Anil received the report he needed, and seemed to be satisfied. Although she had been busy, Ann felt good as she left for home around 8:30 that night. Nothing came easily, she thought.

Discussion Questions

1. Describe the people-related problems or issues Ann Wood faced during the day. Did she handle these effectively? If not, what do you believe she should have done?
2. Is Ann Wood a high-involvement manager? If so, provide evidence. If not, how well do you think she’ll perform in her new job as head of marketing?
3. Assume that Ann Wood wants her managers and associates to be the foundation for her department’s competitive advantages. Use the framework summarized in Exhibit 1-2 (in the chapter text) to assess the degree to which Ann’s people are a source of competitive advantage at this point in time.

Team Exercise McDonald’s: A High-Involvement Organization?

One experience most people have shared is that of dining in the hamburger establishment known as McDonald’s. In fact, someone has claimed that thirtieth-century archaeologists may dig into the ruins of our present civilization and conclude that twenty-first-century religion was devoted to the worship of golden arches.

Your group, Fastalk Consultants, is known as the shrewdest, most insightful, and most overpaid management consulting firm in the country. You have been hired by the president of McDonald’s to make recommendations for improving the motivation and performance of personnel in its franchise operations. Some of the key activities in franchise operations are food preparation, order-taking, customer management, and routine cleanup tasks.

The president of McDonald’s must always be concerned that his company’s competitors, such as Burger King, Wendy’s, Jack in the Box, and others, have the potential to make heavy inroads into McDonald’s market. Thus, he hired a separate market research firm to investigate and compare the relative merits of the sandwiches, french fries, and drinks served by McDonald’s, and to assess the advertising campaigns of the competitors. Hence, you will not be concerned with marketing issues, except as they may affect employee behavior. The president wants you to evaluate the organization’s franchises to determine their strengths and weaknesses with regards to how they manage their associates. He is very interested in how each restaurant’s management approach compares to the high-involvement system.

The president has established an unusual contract with you. He wants you and your colleagues in the firm to make recommendations based on your observations as customers. He does not want you to conduct a complete analysis with interviews, surveys, or behind-the-scenes observations.
**Endnotes**


32. Hitt, Ireland, and Hoskisson, *Strategic Management*.

33. Porter, *Competitive Strategy*.

34. Hitt, Ireland, and Hoskisson, *Strategic Management*.


Ployhart, Staffing in the 21st Century; Pfeffer, *The Human Equation*; Pfeffer and Veiga, *Putting People First for Organizational Success*.


Lawler, Mohrman, and Benson, *Organizing for High Performance*.


Lawler, Mohrman, and Benson, *Organizing for High Performance*.


MacDuffie, *Human Resource Bundles and Manufacturing Performance*.


91 J. Guaspari, “How To? Who Cares!” Across the Board (May/June 2001), 75–76.


