**CHAPTER #3**

# Strategy, Leadership and Strategy, Leadership and Culture

Who wants to be bored at work? Creating a positive and even fun organizational culture can be critical to engaging employees—and owners. As entrepreneur Tony Hsieh explains below, passion and excitement are key components of a strong organizational culture.

*“After college, a roommate and I started a company called Link-Exchange in 1996, and grew it to about a hundred or so people, and then we ended up selling the company to Microsoft in 1998. From the outside, it looked like it was a great acquisition, $265 million, but most people don’t know the real reason why we ended up selling the company. It was because the company culture just went completely downhill. When it was starting out, when it was just five or 10 of us, it was like your typical dot-com. We were all really excited, working around the clock, sleeping under our desks, had no idea what day of the week it was. But we didn’t know any better and didn’t pay attention to the company culture. By the time we got to a hundred people, even though we hired people with the right skill sets and experiences, I dreaded getting out of bed in the morning and was hitting the snooze button over and over again. I just didn’t look forward to going to the office. The passion and excitement were no longer there. That’s kind of a weird feeling for me because this was a company I cofounded, and if I was feeling that way, how must the other employees feel? That’s actually why we ended up selling the company. For me, I didn’t want to be a part of a company where I dreaded going into the office.*[**[1]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#eaf46d07255b49d59bbe4a402a2d20e8)*”*

In 1999, Hsieh paired up with the founder of Zappos, Nick Swinmurn. Both shared a passion for fun and adventure, which they integrated into Zappos’ corporate culture through hiring and training processes. Zappos defined its corporate culture with 10 core values, which include the following: “deliver WOW through customer service; embrace and drive change; be passionate and determined; create fun and a little weirdness; and be adventurous, creative and open-minded.[**[2]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#bb7102899d8f4fcdb5931d5e1bd0eddf)"

To become a Zappos’ employee, job candidates go through an extended and unusual courtship.[**[3]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#3682e7a2d49d4c93a65398d040428011) They may meet at bars and in other social settings with Zappos’ employees over four months before being invited to a formal interview. In the interview, job candidates are asked five or six behavioral-based questions designed to determine the job candidates’ congruence with Zappos’ core values. If hired, employees spend the next few weeks manning phones in the company’s call center, learning how to respond to company needs.[**[4]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#5be28e5b471b471da66a42282d83ad78) Once that’s complete, employees are offered $3,000 to leave the company.[**[5]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#41c53d011787441ba0cbcef96bd96922) Zappos’ managers figure that if employees aren’t wedded to the company at that point, they’d rather they leave. Many choose to stay, following Big Idea 8: People make decisions at the margin. They perceive that the benefit of staying exceeds the $3,000 they’d receive for leaving.35

While reflecting on Zappos’ history and remarkable success, Swinmurn recalled that Zappos was “a lot of fun. Everyone was young and flexible, so we could do whatever, and obviously we had a ton of fun. We always had a great culture. Always had low turnover. Socialized a lot inside and outside the office and obviously later on, that became the big PR angle for the company.[**[6]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#9741589dd3544297afa30208227bb983)”

To establish a strong [**organizational culture**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-d429a381ef8d444bb86a909580b45600), it’s important to establish a set of core values with input from employees and then to refer to the values as guiding principles for both large and small decisions. Sharon Napier, CEO of Partners + Napier, posts three values on the wall in her office: *courage, ingenuity and family*. Of the three, she notes that family is based on mutual respect with the idea that “I’ve got your back. We’re going to create a family. We’re going to cover for each other.[**[7]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#fef934f596cd4eb4a61f3efa70795bd8)”

Once company leaders have identified the core values of the organization, recruiting and selecting promising employees who embrace those values is critical. Patagonia, which manufactures and sells outdoor sports gear, focuses its mission and message on simplicity, utility and supporting the environment.[**[8]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#e30c19c6426d4f31bc3907df93ea8f62) The company hires rock climbers and surfers who embrace the same core values, helping to achieve company goals.

The Big Ideas for Business from [**Chapter 1**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import2-sn_0fda/page_1.xhtml) point to the importance of scanning the environment to recognize internal strengths and weaknesses and external opportunities and threats. Leaders capitalize on strengths, mitigate weaknesses and respond to opportunities and threats as they determine the mission, vision and goals of the organization. (The [**business mission**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-665f1994a5e44911a640207103ed8d88) is the purpose of the organization.) This chapter continues this discussion by focusing on the ways that business leaders and managers can create and sustain a competitive advantage by establishing organizational strategies and structures to guide their organizations in an increasingly complex global environment. It further highlights the importance of leadership in motivating a workforce to transform change, along with the importance of understanding cross-cultural variations in leadership preferences and values.

**DEVELOPING AN EFFECTIVE STRATEGY**

Each year in late November, the Florida State University Seminoles play football against the University of Florida Gators. Thousands of fans travel from near and far to rally in support of their teams. Floridians consider this one of the great college football rivalries. Expectations are high and much pressure is on the coaches, as they must develop an effective strategy to compete against one another. They prepare for the game months in advance by planning and executing their strategies, organizing players and positions and motivating and inspiring players to maximize their strengths and mitigate any weaknesses.

**Corporate Strategy**

Like football coaches, organizational leaders must develop an overall [**corporate strategy**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-afd0d4ff46694e02ab1a78bc5440941a) so the organization can achieve its mission and goals. A corporate strategy defines the business, market or industry in which the organization will operate. Strategy also informs the allocation of resources among entities to support the strategy.

When deciding on a strategy, business leaders consider the organization’s core competency. A core competency is the source of a firm’s competitive advantage: what the firm does best and how it differentiates itself from its competitors. As stated in [**Big Idea 2**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import2sn_0fda/reader_1.xhtml): SWOT analysis focuses business (i.e., developing an understanding of a firm’s strengths, weaknesses, opportunities and threats helps to pinpoint the firm’s core competency). As an example, Rolex’s core competency is to produce luxury watches, which it sells to select retailers worldwide.[**[9]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#510e818e6acd446aa164fd5cb19a2fbc) Rolex crafts strategies each year to capitalize on its unique watches and to compete with other luxury watch brands, such as TAG Heuer, Chanel, Movado and Gucci.36

There are four basic types of corporate strategies, varying from highly specialized to highly diverse: concentration, vertical integration, related diversification and unrelated (i.e., conglomerate) diversification. Companies that choose a [**concentration**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-0140103c2cd9458ab9baf23f5bf0fc5c) strategy focus on a single business and compete in a single industry. Grocery store chains Kroger, Safeway and Publix have adopted this approach. Many small businesses—“mom and pop” operations—also use a concentration strategy, such as small retail clothing stores, family-owned restaurants, law firms, pediatric healthcare groups and local real estate companies.

As organizations increase in size, many adopt a [**vertical integration**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-9cd9d8a1d22f4be4b1ef9bfbb80e040a) strategy by expanding *forward* and selling their products themselves in retail stores and/or *backward* by manufacturing their own products. For example, Apple uses forward vertical integration through its ownership of The Apple Store, a chain of retail stores. And, Rolex uses backward vertical integration by manufacturing its own watches.

The benefits to vertical integration include a reduction of costs, additional quality controls and a reduction of uncertainty. Yet sometimes, as organizations increase in size, tasks are dispersed across a larger group of people, resulting in less individual accountability. One disadvantage to large groups working within large organizations is the potential for “shirking” among employees as they seek to maximize their personal gains at the expense of their organizations. They may purposely reduce their productivity for a more leisurely workday. Students can sometimes relate to this trend when working on group projects. Those individuals who aren’t held individually accountable may do less work since they will receive the same grade regardless of their contributions. And they may choose to let their counterparts pick up the slack regardless of their personal contributions.

[**Related diversification**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-75ef6cdaf5b340539716fa8c4b111f60) occurs when organizations expand into businesses related to their core business. PepsiCo provides an example of an organization that has adopted this strategy. In 1965, Pepsi acquired Frito-Lay to become PepsiCo, and then it acquired Quaker Oats, Tropicana and Gatorade—all businesses in the food and beverage industry.[**[10]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#bf1b527431a347a4a42e8b8e0adc66f0) Another example in the fast-casual restaurant industry is the merger of Arby’s and Buffalo Wild Wings. Arby’s acquired Buffalo Wild Wings in 2017, forming a new company called Inspire Brands, Inc. The distribution synergies created through these mergers facilitate a reduction of costs.

When firms acquire or merge with firms unrelated to their core competency, they are using an [**unrelated diversification**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-171d26e91e9e446882cf09e9003781fe) strategy. This strategy is also known as a conglomerate strategy and is adopted to minimize the risks associated with remaining only in a single industry and effectively putting “all of your eggs into one basket.” General Electric has adopted this strategy as it has acquired companies in health, finance, transportation, insurance and media.[**[11]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#62c47dbbf8944f78ba5f50d9aee12472)

#### Business Strategy

Another strategy decision rests at the business level. There are two basic types of [**business strategy**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-340e247d948140a29697d1594771fee6): a low-cost strategy or a differentiation strategy. Firms that adopt a [**low-cost strategy**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-db8c8c9dd3244428bba6e4db4ba8dd63), such as Walmart, focus on reducing costs and carrying that value over to customers. Through “economies of scale,” Walmart can negotiate better prices on merchandise from suppliers than their smaller competitors. This focus is consistent with Walmart’s mission of “saving people money so they can live better.[**[12]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#500677bc988b44edb5563285ce6bf203)” Firms that adopt a [**differentiation strategy**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-92464d0d92a74d608e0643a90b720b7a), such as Rolex[**[13]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#a3c112acbf52454f8a8989a584579ba8) for watches and Boston Whaler[**[14]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#82b8a40f299f4be58126dbd92c28a18e) for boats, focus more on innovation and quality than on costs.37

Small firms that lack resources must pursue a differentiation strategy to compete, since they can’t compete on costs against firms with the ability to achieve economies of scale.[**[15]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#0c778f63e10c486099dd35079ba89d6d) For example, if a mom and pop store attempts to compete against a mass merchant such as The Home Depot to provide customers with flooring, kitchens, bathrooms, patio furniture or lighting, the store will need to make two realizations: the mass merchant will be able to negotiate better deals with suppliers on products due to its higher volume, and the mass merchant will be more visible through advertising to the public. Therefore, the small retailer will need to distinguish itself in other ways, including focusing on customer service and innovation. Otherwise, eventually, the small retailer will be gobbled up by the mass merchant.

# IMPLEMENTING STRATEGY

Once a strategy has been defined, organizational leaders need to take steps to ensure that the strategy is successfully implemented. Questions that should be addressed include the following:

1. What are the goals needed to achieve the strategy, and are these consistent with the organization’s mission? (**S.M.A.R.T. goals**are: specific, measurable, attainable, realistic and timely.)
2. What actions need to occur to ensure implementation?
3. Who is responsible and accountable for carrying out the strategy?
4. What is the timeline?

To better understand implementation from a student’s perspective, consider Jill Popp, who is a senior marketing major at The University of Tampa. Popp’s mission could be to “be successful in life and business.” Two goals she will set to help to achieve her mission are to graduate from college with a marketing degree by the end of the following spring semester and to get a job as a marketing manager within five years of graduation. Because her goals are S.M.A.R.T., she can measure her success by whether she successfully completes the courses she needs to graduate with a marketing degree by the end of the following spring and whether she gets the job as marketing manager within five years of graduation. If she fails to achieve her goal of becoming a marketing manager, then she can assess ways to close the gap between where she is at that point (e.g., marketing assistant) and where she wants to be (e.g., marketing manager).

Actions that Popp needs to take to ensure her goals are achieved include attending and participating in classes, preparing for classes, studying for exams, completing a resume and working with the college’s career services office to find a job and practice interview skills. Popp knows that she is solely accountable for the achievement of her goals, which she hopes will occur within five years of graduating from college. Once she achieves her goals, she’ll create new goals to achieve her lifelong mission—or she may consider revising her mission.

# FINDING THE RIGHT ORGANIZATIONAL STRUCTURE

To achieve goals in an effective and efficient way requires an appropriate [**organizational structure**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-2682e8cc6fa040d9837bbc692bc1470c). Structures vary in levels of bureaucracy, formalization, hierarchy, centralization and spans of control. The particular structure chosen by business leaders depends on factors such as size, location, technology and the need to respond quickly to market changes.38

Organizations may be more mechanistic, with bureaucratic and formalized structures (e.g., policies, rules and regulations) designed to maximize efficiency. Conversely, they may be more organic, designed to maximize flexibility through less rigid structures and more informal networks.[**[16]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#90482d1faa474995ba1a2b1e59cd47a1) Organizational startups and small firms, such as mom and pop stores, are organic by default and often become more mechanistic as they grow.

Furthermore, decision-making in organizations may vary as a function of the degree of [**centralization**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-f3c2c4fdebe247febdf8723eabad816f). In centralized organizations, decisions are made at the top by a defined group of firm leaders; in decentralized organizations, decision-making authority is pushed down to lower levels in the chain of command.

Firms with global operations often consider some level of decentralization, since effectively adapting to different cultures often requires localized decision-making. For example, top managers in a U.S.-based firm with locations in Sweden, the United Arab Emirates, Japan and South Africa may not completely grasp the challenges that managers in those locations face—and may not be able to respond to those challenges quickly. So, they may empower managers in those subsidiaries with the authority to make important decisions, instead of trying to make all-important decisions in the headquarters. Such decentralization enables managers in a subsidiary to profitably use local knowledge in real time. Decentralization is advantageous when departments or divisions have priorities and goals that are well aligned with the priorities and goals at headquarters. Decentralization is disadvantageous and costly to the firm when priorities and goals are misaligned.

A final distinction relates to the [**span of control**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-ba6e4365b4b04f9aa26d81527caeaa69) in an organization. Holding size constant, narrow spans of control, characterized by many reporting levels and layers of management, build hierarchical organizations ([**Figure 3-1**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import11-sn_0fda/page_4.xhtml?mobile=false&lstre685fix=true&epub=true#data-uuid-d719f448f1b748a9a1197b6572630515)). Wider spans, characterized by fewer reporting levels, build flat organizations ([**Figure 3-2**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import11-sn_0fda/page_4.xhtml?mobile=false&lstre685fix=true&epub=true#data-uuid-fc21f89604af450cbb36a0a0797e8676)). The optimal span of control depends on a number of factors. Flat structures with wide spans of control work well when the work is clearly defined, managers are capable and supportive, jobs are similar, performance measures across jobs are comparable, subordinates are highly trained and have access to information and subordinates prefer autonomy over close supervisory control. Hierarchical structures work best under the opposite conditions.[**[17]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#1036d1e35bb74a789437d74f388716a1)

Many world governments and large global organizations such as Nestlé, Siemens, IBM, Royal Dutch Shell, Caterpillar, Toyota, Walmart, Pfizer and Merck have more mechanistic organizational structures, due to their greater levels of hierarchy, formality and structure. High-technology organizations, such as Google, have more organic structures, with flatter organizational structures and fewer layers of management.39

**Figure 3-1**Traditional Hierarchical Organizational Structure



**Figure 3-2**Flat Organizational Structure



# MANAGEMENT FUNCTIONS AND ROLES

An organization’s management performs four critical functions, which are based on the functions identified by French industrialist Henri Fayol.[**[18]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#cd0bfec4ce284bb88cb8aa470769ee94) These are planning, organizing, leading and controlling. In the [**planning**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-4096ffb144b4437dbe3a2c8bc2fa9282) function, management defines goals, establishes strategy and develops plans to coordinate activities. In the [**organizing**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-9793f845056c48ec9c0c44243cdeee09) function, management determines organizational needs and coordinates resources to achieve those needs. In the [**leading**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-7197d164c74b4fccb17d381bacbfb7f0) function, management directs and coordinates the work activities of its human capital. In the [**controlling**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-2b72dde2d903410b96898dc114aa7027) function, management monitors activities to ensure goals and strategies are accomplished as planned.40

In the 1960s, Henry Mintzberg identified the 10 interrelated roles of managers, which are grouped around interpersonal relationships, the transfer of information and decision-making.[**[19]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#a9c08203f66f4b29a7c26146ce00cc17) [**Interpersonal roles**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-f8523010370b4434bf3e20cd064d5744) involve people and other duties that are ceremonial or symbolic in nature. Figurehead, leader and liaison are the three interpersonal roles. [**Informational roles**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-7b465588373b4ac3ac6dc8d3c82b7dff) involve collecting, receiving and disseminating information. Monitor, disseminator and spokesperson are the three informational roles. [**Decisional roles**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-a53f7964df3f413890fca79eaafd3cf6) involve making choices. The four decisional roles are entrepreneur, disturbance handler, resource allocator and negotiator. Management’s functions and roles help to explain what managers do.

# LEADING THE ORGANIZATION

Much of what has been mentioned in this chapter has focused on the decisions of organizational leaders and managers, yet all employees of an organization are critical to its successful functioning. Therefore, leaders have a duty to effectively and frequently communicate the organization’s mission, vision, goals and strategies to all employees. This can be accomplished in employee orientations, company meetings, annual reports and on the organization’s website (often on the “about us” page).

Leaders also need to get “buy-in” from their employees for any significant organizational changes so employees will continue to be motivated to work hard and carry out the mission. The difficulty for leaders can often be convincing employees that a new strategy is the right strategy for the company. In a high-performing organization, such as Apple, ExxonMobil or Microsoft, employees may be content with current strategies, so making significant changes may be difficult.

In a poorly performing organization, employees may be suspicious about and critical of any changes, since history portends failure. In a pharmaceutical company in which millions of dollars are spent annually on research and development, for example, changing the type of the investment (e.g., from cancer prevention to malaria drugs) or the amount of the investment may be unacceptable to some employees. In any of these cases, employees may protest against company leaders through blogs and other means of communication. Their dissatisfaction may lead to other negative outcomes, such as exiting the organization, performing poorly or rallying other employees to their cause. Effective leadership is critical at this point. As Ben Franklin said, “We must all hang together or, most assuredly, we shall all hang separately.[**[20]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#4ee6fd6490d242c1ae8033d494d8f46d)”

John Kotter identified eight principles of leading change ([**Figure 3-3**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import11-sn_0fda/page_6.xhtml?mobile=false&lstre685fix=true&epub=true#data-uuid-e46a8772b958485c8831d1bb6f6d6c12)),[**[21]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#26e0209f098242b29a232105b5e7d31b) also known as [**change management**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-791d2dbb4bab47029e50c7e0ab7511f0), which guide organizational leaders to initiate and implement important changes in their organizations.41

**Figure 3-3**Kotter’s Eight Principles of Leading Change

|  |  |  |
| --- | --- | --- |
| **Steps** | **Goals** | **Comments** |
| Step 1 | Create a sense of urgency | Engaging in honest and open dialogue with managers and employees is critical to instilling a desire to make changes in a timely manner. |
| Step 2 | Form a powerful coalition | To make changes, leaders need buy-in from at least 75 percent of their managers. Leaders should determine a list of key representatives in divisions and functions impacted by change and should meet frequently with these representatives to move forward with plans. |
| Step 3 | Create a vision for change | Leaders need to establish a vision of the future so managers and employees understand the direction the company is taking. |
| Step 4 | Communicate the vision | Everyone in an organization should be aware of its vision. |
| Step 5 | Remove obstacles | Barriers to change will always exist, so leaders need to identify those barriers (e.g., people who will resist change early) and create compensation and incentive systems and organizational structures to remove those barriers. |
| Step 6 | Create short-term wins | These help to promote and instill success early and often. |
| Step 7 | Build on the change | Build on changes through continuous improvement and momentum. |
| Step 8 | Anchor the changes in the corporate culture | The company’s mission, vision and goals should incorporate changes to ensure the continuation of buy-in from managers and employees. |

Given occasional employee disagreements, one might ask, “Why change at all? Why not maintain the status quo?” Change is disruptive; yet, transforming an organization to respond to changes in the environment can be critical to an organization’s success. Over the past two decades, new technologies have often forced organizational leaders to consider ways the organization can either embrace new technologies or die. We have seen multiple examples in which new technology has replaced old: smartphones have replaced many hand-held digital cameras; flash drives have replaced compact discs; and tablets and laptops have replaced desktop computers. The ability of leaders to recognize opportunities and threats and then to mobilize and motivate their workforces to adapt cannot be understated.

On leadership, Thornton May, Executive Director and Dean of the IT Leadership Academy, said:

*“Leaders are not crazy, but they see things with a different perspective. Leaders are shrewdly observant. Leaders are not silent. They are articulate about where, when and why they are going. Leaders do not define strategy as the optimization of the status quo. Leaders do not define strategy as following best practices. Leaders balance managing their core business with efforts to develop new enterprises. Leaders are not confused but ask great questions. Leaders come in all shapes and sizes. Leaders are originals. And leaders are all too rare today. A sadly large proportion of modern enterprises are well managed but poorly led,*42*which equates to going nowhere with great efficiency.”*

*“The mass of men lead lives of quiet desperation. Leaders unplug us from hopelessness, unshackle us from uncertainty, unchain us from fear and allow us to realize potential we didn’t know we had.”*[***[22]***](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#37b7f39700044a51808ddbcb58c2690d)

Leaders can use a number of varying personal approaches to motivate their employees: some leaders may be charismatic, engaging and relationship-oriented, while others may be more practical and task-oriented. Employee preferences for particular leaders may vary as a function of the society in which they work. In Anglo cultures, such as the United States and the United Kingdom, leaders who are considered “transformational” often inspire change.

#### Transformational and Transactional Leaders

Leaders can be distinguished from managers by being more transformational than transactional. [**Transformational leaders**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-d96c8c2f151747ba8106850706279e48) are those characterized by inspiration and charisma, while [**transactional leaders**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-5d472abc7dac483f866ece8ebc505565) are managers who ensure tasks are completed.[**[23]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#9bb093eb194641aea6feacfb378dcefa) Recent history has given us transformational world leaders, such as Mahatma Gandhi, Winston Churchill and Ronald Reagan; national leaders, such as Martin Luther King, Jr. and Eva Perón; and organizational leaders, such as Henry Ford and Lee Iacocca. Recent history is also littered with many more transactional leaders/managers, whose names are not as well known, because they didn’t inspire followers.

Transformational leaders come from all walks of life, whether serving as coaches on sports teams, teachers in the classroom, political leaders, celebrities, and leaders of businesses. Sheryl Sandberg is an example of the latter. Sandberg is the chief operating officer of Facebook, as well as an activist and an author. She made a significant impact for feminists (who advocate equal rights for women) when she published her book entitled “Lean In,” which encouraged women to seize leadership opportunities and promotions in the workplace. Bill Gates (founder of Microsoft), Michael Dell (founder of Dell Computers), Steve Jobs (founder of Apple), and Tony Hseih (CEO of Zappos) are examples of transformational leaders who transformed industries with product or service/delivery innovations. Barack Obama, the first United States president of African origin, served two terms in office and was awarded a Nobel Prize. Oprah Winfrey revolutionized daytime talk television shows. Consider people who have influenced positive changes that have transformed your life. Whether a parent, coach, mentor, or someone famous, positive examples abound.

#### Cultural Influences on Organizational Leadership

The types of leaders people prefer vary cross-culturally. People who live in individualistic Western cultures, such as the United States, Australia, Germany, Canada and France, tend to prefer participative leaders, yet such leaders’ effectiveness is considered questionable in the East.[**[27]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#50b49d2473d04442bbdbcba6275ed929) Indian leaders are expected to be proactive, morally principled, ideological, bold and assertive, in contrast to reactive, quiet and nurturing.[**[28]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#2a3d0487a99b407f9ad0db2ece45b2ec) Malaysian leaders are expected to be humble, modest and dignified,**[[29]](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml%22%20%5Cl%20%224cfb5a3b4663419e909901eb77cf962e)** while Arab leaders are expected to be authoritarian, father-like and bureaucratic.[**[30]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#d88dd36874b94e708097c3e12529777b)43

As part of the Global Leadership and Organizational Behavior Effectiveness (GLOBE) Research Project, 170 cross-cultural scholars developed a survey of culture and leadership, which they distributed to 17,300 managers in 951 organizations in 62 cultures.[**[31]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#df9eb0afead84339a90ae294f2040265) The authors identified two major dimensions of leadership: autonomous and self-protective. Autonomous leadership is characterized by a high degree of independence from superiors and a high degree of social distance from subordinates, a tendency to work alone and to be aloof. In Eastern Europe (except Hungary) and Germanic Europe (except the Netherlands), managers reported that autonomous leadership contributed slightly to organizational effectiveness.

In contrast, autonomous leadership is considered ineffective in Latin America (except Argentina), the Anglo countries and in Middle Eastern countries (except Egypt). Self-protective leadership is characterized by elitism, self-centeredness, narcissism and status consciousness. Managers in Iran, Egypt, Albania, Kuwait and Taiwan reported that self-protective leadership contributes to organizational effectiveness.

Why do people prefer particular leadership types, and why do these preferences vary cross-culturally? History, cultural heroes, norms and the dominant values of a society serve to influence people’s preferences about their leaders. While a discussion of history, heroes and norms is outside of the scope of this chapter, a discussion of cultural values follows.

# CONSIDERING CROSS-CULTURAL VALUES

In the late 1960s and early 1970s, Geert Hofstede assembled a survey of cross-cultural values, which he administered to thousands of IBM employees around the world.[**[32]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#d16a2df1032c41b196316bfa08548a81) His results suggested that societies vary in levels of the following four values: individualism/collectivism, power distance, uncertainty avoidance and masculinity/femininity. He later identified a fifth value, which he termed “long-term orientation/short-term normative orientation and a sixth value, which her termed indulgent/restraint.” The Hofstede societal cultural values further cluster together in different regions of the world. For example, countries in the northern part of Europe (Norway, Sweden and Denmark) cluster closely together and exhibit similar values at the regional level. Other clusters include the Arab region, the Latin American region and the African continent. Hofstede’s values are defined below.[**[33]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#3fe4ad577c3541eabfd0176c95ed67b9)

#### Individualism/Collectivism

[**Individualism**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-fb8babad8482489da3106dddacda5351)**/**[**Collectivism**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-a97e038d89674118b2c9d041f000d700) refers to the degree to which individuals look after themselves or prefer to operate in groups. Individualistic societies such as the United States, Great Britain and Australia attach more importance to freedom and challenges in jobs, individual achievement and initiative and individual decision-making when compared with their counterparts from collectivist societies. Collective societies in Latin America, Northern Europe and Southeast Asia tend to prefer working in groups, and thus prefer team-based pay and consensus-based group decision-making.

#### Power Distance

[**Power distance**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-34cf270f18e948008e2d6c372f75bafd) refers to the extent to which less powerful members of society accept an unequal distribution of power. These include Mexico, Nigeria, Venezuela, Panama, India and Malaysia. Such societies prefer hierarchical organization pyramids, a wide salary gap between the top and bottom of the organization and a large proportion of supervisory personnel.44

Societies with low levels of power distance, such as those in Israel, Denmark and Sweden tend to prefer flatter and more egalitarian organizational structures. With the exceptions of France (which is individualistic, yet high in power distance) and Israel (which is collective and low in power distance), individualist societies tend to have low levels of power distance, while collectivist societies tend to have high levels of power distance.

#### Uncertainty Avoidance

[**Uncertainty avoidance**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-ad3e206baf99453c968a3ba279879004) refers to a society that is comfortable in ambiguous, unstructured situations, with a high-risk tolerance. Societies with high levels of uncertainty avoidance, such as Finland, Germany, Greece, Guatemala and Portugal, tend to be more conservative. They also have a strong task-orientation; prefer stability, security and well-established rules and procedures; and tend to be more loyal to their employers. Societies with low levels of uncertainty avoidance, such as Denmark, Jamaica and Singapore are more focused on relationships (instead of tasks) and tend to be less loyal to their employers.

#### Masculinity/Femininity

[**Masculinity**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-ae9c4ff099584ba3be99e67d504b9bf5)**/**[**Femininity**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-5024c6257b4a4eea8336f496c348fff5) refers to the distribution of roles between the genders. In highly masculine societies, such as Austria, Japan, Saudi Arabia and Venezuela, fewer women hold managerial positions, a larger wage gap for similar jobs exists between men and women and job applicants oversell themselves. In less masculine societies, such as the Netherlands, Norway and Sweden, more women are in management, a smaller wage gap exists and job applicants undersell themselves. [**Figure 3-4**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import11sn_0fda/reader_8.xhtml?mobile=false&lstre685fix=true&epub=true#data-uuid-3ce4cbb52d204d62a7fc136e6d781489) presents the gender wage gap (unadjusted and defined as the difference between male and female median wages divided by the male median wages) in countries in which data were available to the Organisation of Economic Co-operation and Development (OECD). Larger wage gaps suggest a greater disparity in pay between men and women. The most recent OECD average (as of 2018) of 15 suggests that, globally, women are paid on average 85 percent of what men are paid (or 85 cents for every dollar of a man’s pay).

**Figure 3-4**Gender Wage Gap Comparison Between 2000 and 2019[**[34]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#18d4268ae21c4c2c8c7ef46408f9291c)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Country** | **2000** | **2019** |  | **Country** | **2000** | **2019** |
| **OECD Average** | **19** | **14** | **OECD Average** | **19** | **14** |
| Australia | 17 | 14 | Italy | 7 | 6 |
| Austria | 23 | 16 | Japan | 34 | 25 |
| Belgium | 14 | 4 | Korea | 40 | 35 |
| Canada | 24 | 18 | Netherlands | 21 | 14 |
| Czechia | 22 | 16 | New Zealand | 7 | 7 |
| Denmark | 15 | 6 | Norway | 10 | 7 |
| Finland | 20 | 16 | Poland | .. | 9 |
| France | 10 | 10 | Portugal | .. | 14 |
| Germany | 21 | 16 | Spain | .. | 12 |
| Greece | .. | 4 | Sweden | 15 | .. |
| Hungary | 14 | 9 | Switzerland | 22 | 15 |
| Ireland | 20 | 11 | United Kingdom | 23 | 17 |
| Israel | .. | 22 | United States | 23 | 18 |

#### Long-term OrientationVersus Short-term Normative Orientation

[**Long-term orientation**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-77005c466876479587d9030dc9f035fc) refers to the extent to which a society accepts virtues focused on future rewards, with specific attention to perseverance and thrift. Societies with a long-term orientation, such as China, Hong Kong and Taiwan, emphasize perseverance, relationships, personal adaptability and status. Societies with a short-term orientation, such as Canada, Nigeria and the Philippines are more focused on immediate results, personal steadiness and stability.

#### Indulgence Versus Restraint

[**Indulgence**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-8acad54bce304f8d950eb395e98cb5a0) refers to a society in which individuals are allowed relatively free gratification of basic and human needs. Restraint refers to a society in which those needs are suppressed. Indulgence represents the extent to which people control their desires and impulses.

In [**Figure 3-5**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/import11sn_0fda/4b360124a12f4cabaddb7d8651dbc93b) below, scores range between 0 and 112, with higher scores indicating stronger adherence to the value dimension for the country as a whole. These scores provide readers a first best guess into the relative levels of values within and between countries but shouldn’t be used to categorize or stereotype individuals within countries, since individual variation exists. Hofstede derived the scores for the first five dimensions based on factor analytic loadings at the country level. According to Hofstede, the rule of thumb is that scores below 50 indicate that a society is relatively low (when compared to other countries) on that dimension. As an example, a score of 38 on individualism for Brazil suggests that the Brazilian society as a whole is more collective than countries with higher scores.

**Figure 3-5**Sample of Country Scores on Hofstede Dimensions**[[35]](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml%22%20%5Cl%20%22e9941da87a6448ec87878bb96a9b2d22)**



Understanding and appreciating societal differences in values may be helpful to businesspeople in global transactions and interactions. Yet people need to be careful not to make assumptions or apply stereotypes about individuals in a society or region, since individual and regional variation isn’t captured in country averages. Northerners in one country may have different values than southerners; easterners may vary from westerners; and city dwellers may vary from their country counterparts.

Some scholars have argued that these cultural values may no longer offer an explanation of differences between societies since the data were collected more than 40 years ago, yet Hofstede has provided hundreds of more recent studies validating his early findings.[**[36]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#6465d08d926c4858aa9c1e867c1a4481) One recent meta-analysis compiled 598 of such studies representing more than 200,000 individuals.[**[37]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#d47ff39426e94132b2ca3731b5df8a2a) Findings indicated that Hofstede’s cultural values are as robust as certain personality traits and demographics in predicting outcomes such as organizational commitment and citizenship behavior.46

The GLOBE Research Project,**[[38]](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml%22%20%5Cl%20%220165fc2932df48db8f0efac69bb7d311)** referenced above, provides further elucidation of variations in values across cultures. Based on Hofstede’s dimensions and the work of other recognized scholars,**[[39]](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml%22%20%5Cl%20%229bd39b656e1542108d7dece847101236)** the GLOBE authors identified nine cross-cultural dimensions: performance orientation, future orientation, gender egalitarianism, assertiveness, institutional collectivism, in-group collectivism, power distance, humane orientation and uncertainty avoidance. The authors then developed a survey instrument and administered it to 17,300 managers from 951 organizations in 62 societies. They asked respondents to indicate the society’s current values (“as is”) and ideal values (“should be”) with respect to each of the dimensions.

The nine dimensions are defined by the GLOBE Research Project as follows. [**Performance orientation**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-602050ce016741ac9cde79dd02aa93ad) reflects the extent to which a society encourages and rewards innovation, high standards and performance improvement. [**Future orientation**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-de620ae1b196451e8b24ad5c32332629) refers to the degree to which a society encourages and rewards future-oriented behaviors such as planning and delaying gratification. [**Gender egalitarianism**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-1d2462033d074ed483298b1126628493) refers to the extent to which societies minimize gender role differences. [**Assertiveness**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-eeec8b5cdaa74250961ddb006c91c97c) refers to the extent to which society encourages aggression, assertiveness, and toughness. [**Institutional collectivism**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-f3fb4541729149bf9c49b5d27ceb4140) refers to the extent to which institutional practices at the societal level encourage and reward collective action. [**In-group collectivism**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-bffc9e263f684a538c9dd1aa98369ad4)refers to the extent to which individuals express pride, loyalty and interdependence in their families. [**Power distance**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-19ab59a7c8cf4e03bb1faa482ea3ab3d) refers to the extent to which a society accepts and endorses authority, power differences and status privileges. [**Humane orientation**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-c72c9bdae0cb4e4ba51a457cbc7f8af6) refers to the extent to which a society encourages sensitivity and benevolence toward people. [**Uncertainty avoidance**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/glossary.xhtml#key-830aeb72db8541298aaee718a898a51f) refers to the extent to which a society is threatened by ambiguous situations.

Why is it important to develop an awareness of variations in cross-cultural values? Understanding such variations gives individuals a first best guess about some of the values that may predominate within societies. When organizations do business in other countries, managers should understand that prevailing values, such as individualism/collectivism, gender egalitarianism, and power distance, may impact preferences for various employee programs. For example, managers should be cognizant of levels of individualism/collectivism when structuring compensation (at the individual or group level). They may want to be cognizant of gender egalitarianism when considering executive board composition, managerial promotions, and hiring practices. They may benefit from an awareness of performance orientation when structuring programs to motivate, recognize, compensate, and identify top talent. Such an awareness helps managers to better understand the factors driving job satisfaction, engagement, and commitment.

# TAKEAWAY

Effectively leading an organization requires capitalizing on organizational *strengths*, mitigating organizational *weaknesses* and responding to environmental *opportunities* and *threats*. Leaders concurrently must establish appropriate and effective organizational cultures and structures so they can motivate and mobilize their human capital to achieve their missions, goals and strategies. Those who operate across cultures should further develop an appreciation for and understanding of cross-cultural differences and leadership preferences, such as those identified by Hofstede and the GLOBE Research Project.

47

# KEY CONCEPTS

|  |  |  |  |
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| assertiveness | 47 | interpersonal roles | 41 |
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| concentration | 37 | organizational culture | 36 |
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|  |  | vertical integration | 37 |

**APPLICATIONS**

**Merck’s Servant Leadership: Doing Well By Doing Good.**

Are investors’ interests best served by focusing on the investors or by focusing on all stakeholders? This question was addressed by Michael Useem**[[40]](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml%22%20%5Cl%20%22bd69fb2709dc4b1fa65191390d7a0200)** through the story of Merck. Useem notes that the stated mission of Merck & Co. is “‘to provide society with superior products and services.’ The mission is also to render ‘investors with a superior rate of return,’ but that will come only on realization of the first. We are in the business of preserving and improving human life. All of our actions must be measured by our success in achieving this goal.”

In the years after World War II, tuberculosis had surged in Japan and the war’s devastation left few in a position to pay for streptomycin, which is a powerful antibiotic that fights tuberculosis. The company decided to donate a large supply to the Japanese public. Such generosity was not forgotten by the Japanese. When Merck sought access to Japan’s domestic market in 1983, Japanese authorities took the rare step of approving Merck’s $300 million purchase of 50.02 percent of Banyu Pharmaceutical, Japan’s tenth largest drug maker. At the time, it was the largest direct investment of a foreign company into the Japanese market, which was notoriously closed to foreign investments at that time. Today, Merck is the largest American pharmaceutical company in Japan.[**[41]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#28071bf89dfc4e609542295c2d3e315e)

1. Did Merck do the right thing by donating a large supply of streptomycin to the Japanese public?
2. Which Japanese cultural value explains why Japanese authorities approved Merck’s majority purchase of a Japanese competitor in 1983?

**Decision-making**

Kristi Chen has been leading a successful work team that conducts research to solve scientific problems. Since her team has been so successful, the company’s CEO asked her to nominate one member of the team to serve as the head of a new team that will work on other scientific problems.[**[42]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#1566c02fd0ae4887ad0a505de3e517a0) The other individuals in the new team have already been selected and represent a variety of research specializations.

As other members of her team would attest, the best person for the promotion is Craig Baines. Baines graduated from the Harvard Business School and also holds a degree in engineering from one of the best engineering schools in the United States. He has been an informal team leader and has contributed substantially to a number of successful product innovations. If Chen chooses Baines for the promotion, he would definitely be missed, but this move would be beneficial for his career.

A second possibility is the son of the CEO, Robert Anderson. Anderson is a graduate of engineering from a regionally-recognized university and is also a contributor of valuable ideas to the team, yet he can be difficult to work with. He complains often and frequently reminds others of the fact that he is the CEO’s son. The team wouldn’t miss him much if chosen to head up the new work team.

1. Should Chen choose Baines or Anderson to serve as the head of the new team?
2. What are the short-run and long-run implications of each choice?49

**Microsoft**

In 2009, Microsoft reported that it had more than 92,000 employees in more than 25 countries and a net revenue of more than $58.4 billion.[**[43]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#a63f1ee1c8ea4009a1a78ea0e40744bc) Microsoft uses a divisional structure, and each division focuses on a specific line of goods and services and has its own research and development, customer service and sales departments.[**[44]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#d7d3285a04f147bcaf98755a50023eec) While a divisional structure can be expensive, the structure achieves Microsoft’s goal of responding quickly to customers.[**[45]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#71113935b50c41f5accc00aabc6b71ff)

Yet some have argued that Microsoft has been too slow to respond to competitive threats, such as those posed by Google and Apple.[**[46]**](https://html1-cluster-e.mhlearnsmart.com/smartbook2/data/155453/highlighted_epub/OPS/s9ml/remarks.xhtml#0867fffc33fd40e5936b51bb976091d1) Google’s search engine and Apple’s iPad have proven themselves formidable in the quest to attract customers and grow market share.

1. How does Microsoft’s divisional structure impact its focus on new products and markets?
2. What strategy can Microsoft use to respond more quickly to its competitors with new products and markets?
3. How could Microsoft leaders apply John Kotter’s eight principles to manage organizational change?