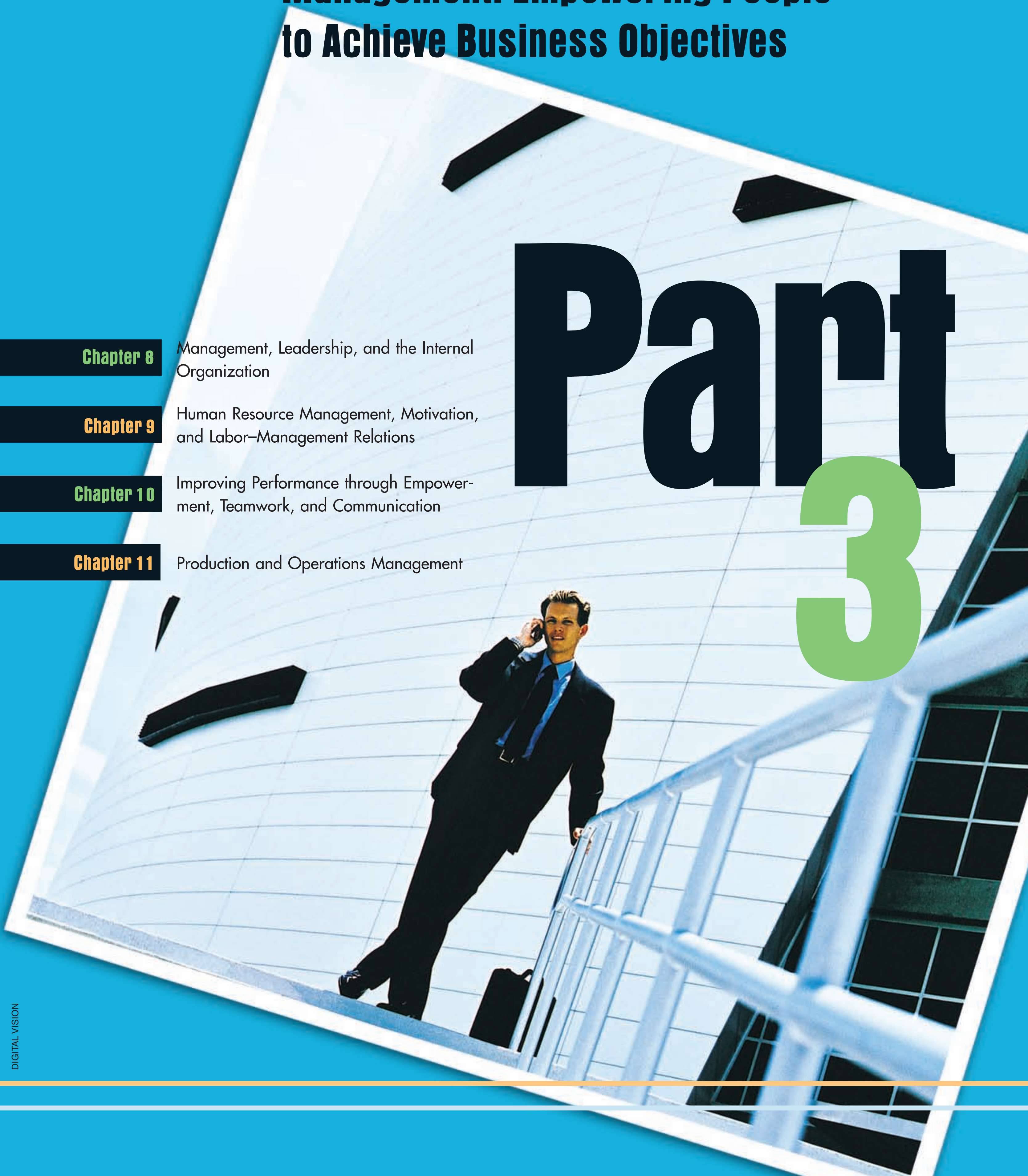
Management: Empowering People to Achieve Business Objectives

Part 3



DIGITAL VISION

Chapter 8

Management, Leadership, and the Internal Organization

© DIGITAL VISION/GETTY IMAGES

Learning Goals

1. Define *management* and the three types of skills necessary for managerial success.
2. Explain the role of vision and ethical standards in business success.
3. Summarize the major benefits of planning and distinguish among strategic planning, tactical planning, and operational planning.
4. Describe the strategic planning process.
5. Contrast the two major types of business decisions and list the steps in the decision-making process.
6. Define *leadership* and compare different leadership styles.
7. Discuss the meaning and importance of corporate culture.
8. Identify the five major forms of departmentalization and the four main types of organization structures.

How Does Bill Gates Plan Microsoft's Future?


© LOU DEMATTEIS/CORBIS

Microsoft is the world's most profitable technology company, with revenues of nearly $40 billion a year. Its reach is global, employing 60,000 people around the world, and the company receives almost that many job applications every month. Microsoft loses only about 9 percent of its employees a year, lower than the industry average, and of those lucky enough to be offered a job at the software giant, about 90 percent accept.

Yet the company has had its troubles, aside from the long-running legal battles stemming from antitrust charges in the United States and Europe. Its stock price has recently stagnated. And as it has grown, so has its internal bureaucracy, bringing new procedures and more meetings that some workers feel are stifling the creativity that made the company an unbeatable innovator in the past.

A couple of Microsoft researchers recently jotted down "Ten Crazy Ideas to Shake Up Microsoft," a twelve-page memo packed with suggestions to change the company. Some CEOs might not like receiving such advice, but at Microsoft, the memo made its way directly to the desk of founder and chairman Bill Gates.

Twice a year Gates leaves his headquarters office and heads for an undisclosed location in the Pacific Northwest, where he spends one week completely alone to read, think, and plan. His "Think Weeks" are legendary within the firm, and the general manager of the company's MapPoint group says Gates's open call for employee input at those times is "the world's coolest suggestion box." A few weeks before each Think Week, Gates's assistant sorts through papers submitted from every corner of the company and collects those that are priorities for his boss to consider. This year, "Ten Crazy Ideas" was one of them, even though breaking up the company was one of the ideas.

Gates pores over employees' submissions for new products and other input including books, articles, research papers, and industry reports. What began as a stack of paper when he first started his Think Weeks—at his grandmother's in the 1980s—has now been transformed into a computerized interactive library in which he can enter comments and link entries. Paper versions serve as backup. By the end of the week, Gates has begun firing off e-mails to employees around the world, green-lighting new Microsoft projects, rejecting others, reordering priorities, changing direction, or asking for follow-up or a meeting. The general manager of Microsoft's education group posted Gates's comments on the group's internal Web site to spark further discussion of the team's initiatives. The general manager of MapPoint called a brainstorming meeting to fine-tune plans in response to the chairman's reactions to his group's proposal. The Virtual Earth team was asked to meet with Gates and discuss security issues as a follow-up to its 62-page paper on mapping services.

Planning is, of course, an ongoing activity at Microsoft, as it is in all organizations. But Gates is a firm believer in the value of his Think Weeks for Microsoft. They consist of long days interrupted only by 5-minute breaks to play online bridge or 30-minute walks on the beach. Two meals a day are brought in, and by installing a bathroom and refrigerator in the upstairs office of his hideaway, Gates can save the time it would have taken him to go up and down the stairs and devote it to thinking and planning.

His technique does seem to produce results. A 1995 Think Week inspired Microsoft's famous decision to overtake Netscape and dominate the Internet with its Web browser, and later sessions led to the creation of the Tablet PC and to strategies designed to improve the security of Microsoft's software, better integrate the company's offerings, and enter the online video game market. Perhaps that's why another of the "Ten Crazy Ideas" submitted by the two researchers was that, like Gates, *every* employee should be given a slice of unscheduled time to think creatively about new ideas and innovations. After all, Google does it.[1]

ChapterOverview

A management career brings challenges that appeal to many students in introductory business courses. When asked about their professional objectives, many students say, "I want to be a manager." You may think that the role of a manager is basically being the boss. But in today's business world, companies are looking for much more than bosses. They want managers who understand technology, can adapt quickly to change, skillfully motivate subordinates, and realize the importance of satisfying customers. Managers who can master those skills will continue to be in great demand because their performance strongly affects their firms' performance.

This chapter begins by examining how successful organizations use management to turn visions into reality. It describes the levels of management, the skills that managers need, and the functions that managers perform. The chapter explains how the first of these functions, planning, helps managers such as Microsoft's Bill Gates meet the challenges of a rapidly changing business environment and develop strategies that guide a company's future. Other sections of the chapter explore the types of decisions that managers make, the role of managers as leaders, and the importance of corporate culture. The chapter concludes by examining the second function of management—organizing.

WHAT IS MANAGEMENT?

management process of achieving organizational objectives through people and other resources.

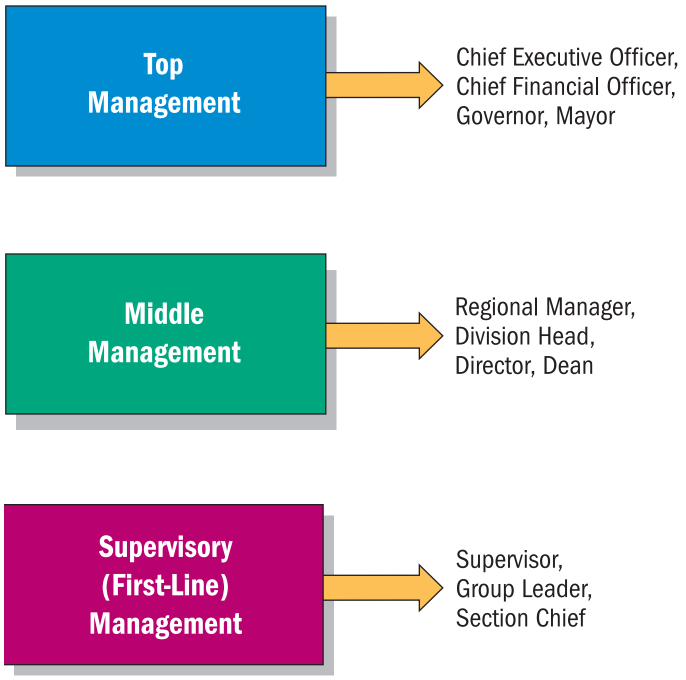
Management is the process of achieving organizational objectives through people and other resources. The manager's job is to combine human and technical resources in the best way possible to achieve the company's goals.

Management principles and concepts apply to not-for-profit organizations as well as profit-seeking firms. A city administrator, a Salvation Army major, and the CEO of your local United Way organization all perform the managerial functions described later in this chapter. Managers preside over organizations as diverse as Miami-Dade Community College, the New York Stock Exchange, and the Starbucks coffee shop down the street.

The Management Hierarchy

A local fast-food restaurant such as McDonald's typically works through a very simple organization that consists of an owner-manager and a few assistant managers. By contrast, large organizations develop more complex management structures. Southwest Airlines manages its activities through a chairperson of the board, a vice chairperson and chief executive officer, a president and chief operating officer, three executive vice presidents, a senior vice president, and 23 vice presidents, plus an array of managers and supervisors. All of these people are managers because they combine human and other resources to achieve company objectives. Their jobs differ, however, because they work at different levels of the organization.

Figure 8.1 The Management Hierarchy



A firm's management usually has three levels: top, middle, and supervisory. These levels of management form a management hierarchy, as shown in Figure 8.1. The hierarchy is the traditional structure found in most organizations. Managers at each level perform different activities.

The highest level of management is **top management.** Top managers include such positions as chief executive officer (CEO), chief financial officer (CFO), and executive vice president. Top managers devote most of their time to developing long-range plans for their organizations. They make decisions such as whether to introduce new products, purchase other companies, or enter new geographical markets. Top managers set a direction for their organization and inspire the company's executives and employees to achieve their vision for the company's future.

Michael Bloomberg once headed a media conglomerate—Bloomberg LP—that primarily sells financial data via leased computer terminals. This business made Bloomberg a billionaire. Then he decided to move on to a new CEO position. Today, Michael Bloomberg has what is often called the second toughest job in the United States—mayor of New York City. Instead of building wealth, as mayor he works at building the city's infrastructure, resolving budget problems, and keeping firms from fleeing to the suburbs or elsewhere. Bloomberg still follows the leadership style he used in the corporate world. At Bloomberg LP, he sat in the corner of his TV studio. Now in his second term as mayor, Bloomberg operates out of an open cubicle in a big hall resembling the brokerage trading room where he got his start. The official mayor's office is used only for interviews and similar events. Mayor Bloomberg is providing hands-on direction to his staff—situated in nearby cubicles. The leadership pattern that proved successful at Bloomberg LP is now at work in New York's City Hall.[2]

Middle management, the second tier in the management hierarchy, includes positions such as general managers, plant managers, division managers, and branch managers. Middle managers' attention focuses on specific operations, products, or customer groups within an organization. They are responsible for developing detailed plans and procedures to implement the firm's strategic plans. If top management decided to broaden the distribution of a product, a sales manager would be responsible for determining the number of salespeople required. Middle managers are responsible for targeting the products and customers who are the source of the sales and profit growth expected by their CEOs. To achieve these goals, middle managers might budget money for product development, identify new uses for existing products, and improve the ways they train and motivate salespeople. Middle managers are also responsible for solving unique company problems. After a hurricane destroyed five miles of railroad tracks outside New Orleans, Jeff McCracken of Norfolk Southern managed a team of 100 employees and dozens of engineers who rebuilt the tracks in less than a week. McCracken said, "It was a colossal job that took more than 400 moves with heavy equipment." But McCracken was happiest about "working with people from all parts of the company—and getting the job done without anyone getting hurt."[3]

GETTY IMAGES

Supervisory managers, such as Ozzie Guillen of the Chicago White Sox, are responsible for carrying out the day-to-day activities that help their organizations reach their goals. Guillen needs to assess each player's ability, determine who is available to play, and juggle lineups to compete against each day's opponents.

Supervisory management, or first-line management, includes positions such as supervisor, section chief, and team leader. These managers are directly responsible for assigning nonmanagerial employees to specific jobs and evaluating their performance. Managers at this first level of the hierarchy work directly with the employees who produce and sell the firm's goods and services. They are responsible for implementing middle managers' plans by motivating workers to accomplish daily, weekly, and monthly goals. For instance, Charles Lee, who is a production supervisor at an American Airlines' maintenance center in Fort Worth, is responsible for motivating employees such as Fred Amato to reduce the cost of replacement parts for planes. Amato did just that when he replaced a $146 part about the size of a quarter with a $5.24 part made in American's machine shop.[4]

Skills Needed for Managerial Success

Managers at every level in the management hierarchy must exercise three basic types of skills: technical, human, and conceptual. All managers must acquire these skills in varying proportions, although the importance of each skill changes at different management levels.

Technical skills are the manager's ability to understand and use the techniques, knowledge, and tools and equipment of a specific discipline or department. Technical skills become less important at higher levels of the management hierarchy, but most top executives started out as technical experts. The résumé of a vice president for information systems probably lists experience as a computer analyst, and that of a vice president for marketing usually shows a background in sales. And, as you read at the beginning of the chapter, Microsoft's founder, Bill Gates, is the company's chairman *and* chief software architect. During his weeklong "Think Weeks," Gates typically reads 100 papers and proposals, nearly all of which deal with technological products or strategies for Microsoft. Not surprisingly, 31 of the 100 papers at his last "Think Week" addressed technological issues related to Internet and computer security.[5]

© KRISTINE LARSEN

David Steinberg, CEO of InPhonic, a company that sells cell phone handsets over the Internet, succeeds in this business by using his human skills. Steinberg began his career as an insurance salesperson, where he mastered the art of give-and-take with clients. Then he moved into the new cell phone industry during its early growth stages, working with company managers to create 350 jobs.

Human skills are interpersonal skills that enable managers to work effectively with and through people. Human skills include the ability to communicate with, motivate, and lead employees to complete assigned activities. Managers need human skills to interact with people both inside and outside the organization. It would be tough for a manager to succeed without such skills, even though they must be adapted to different forms today—for instance, mastering and communicating effectively with staff through e-mail, cell phones, pagers, faxes, and even instant messaging, all of which are widely used in today's offices. And, as you'd expect, all that communication means many interruptions. See the "Business Etiquette" feature for steps managers can take to handle the constant interruptions that are a part of their jobs.

Conceptual skills determine a manager's ability to see the organization as a unified whole and to understand how each part of the overall organization interacts with other parts. These skills involve an ability to see the big picture by acquiring, analyzing, and interpreting information. Conceptual skills are especially important for top-level managers, who must develop long-range plans for the future direction of their organization. For three decades, Microsoft has made its money by building software that was purchased and then installed on people's personal computers. However, facing challenges from Internet companies such as Google and eBay, Microsoft will begin developing a "next-generation Internet services platform" to deliver products, such as Microsoft Office, via the Internet and, perhaps, Internet-based advertising. In terms of Microsoft's need to change its business model, chief technical officer Ray Ozzie said, "It's clear that if we fail to do so, our business as we know it is at risk. We must respond quickly and decisively."[6]

Managerial Functions

In the course of a typical day, managers spend time meeting and talking with people,

Handling Interruptions

Managers at all levels of an organization are interrupted every few minutes every day to deal with important—and sometimes not-so-important—issues. Interruptions are part of a manager's day, and they simply can't be avoided. So here are some suggestions for dealing with them tactfully.

1. If someone stops by just to chat, say something friendly but unmistakable such as, "I don't have time to talk right now. Can we catch up later?"
2. Discourage persistent visitors by getting up and moving away from your desk, by picking up some work or positioning yourself in front of your computer, or even by excusing yourself to go to the restroom.
3. Remove extra chairs from your office or cubicle to make it a less inviting place for others to kill time.
4. If you really need a block of time without interruptions, ask your staff and co-workers to respect that time, forward your phone calls, turn off your cell phone and pager, and, if you have a door, close it.
5. When unintentional interruptions such as the noise of others in the hallway interfere with a meeting or phone call, consider requesting the use of a conference room for a set period of time. Once there, turn off your cell phone and close the door.
6. When an interruption to a meeting or interview is expected and can't be avoided, explain in advance to those attending and arrange to make the break as short as possible.
7. If you can handle phone interruptions to a meeting only by answering the phone, answer promptly, thank the person for calling, get a call-back number, and say, "I'm meeting with someone now, but I'll get back to you right after the meeting," and be sure to do so.
8. Avoid letting interruptions make the person standing or sitting in front of you feel less important.
9. Keep your pager in "vibrate" mode and wear it. Noisy vibrations against a table or desktop defeat the purpose of silencing the device.
10. Avoid creating interruptions for others by asking yourself before phoning them whether they really need to hear from you right now. If not, call later.

Sources: Rebecca L. Morgan, "Handling Interruptions in a High-Tech Environment," iVillage, accessed June 27, 2006, http://www.ivillage.co.uk; "Business Etiquette," Newspaper Association of America, accessed June 27, 2006, http://www.naa.org; Bob Lang, "Proper Business Etiquette for Using Electronic Communicating Devices," accessed June 27, 2006, http://www.baltimoremd.com; "Peter Post," *Boston Globe*, accessed July 31, 2005, http://www.boston.com.

reading, thinking, and sending e-mail messages. As they perform these activities, managers are carrying out four basic functions: planning, organizing, directing, and controlling. Planning activities lay the groundwork, and the other functions are aimed at carrying out the plans.

planning process of anticipating future events and conditions and determining courses of action for achieving organizational objectives.

Planning

Planning is the process of anticipating future events and conditions and determining courses of action for achieving organizational objectives. Effective planning helps businesses crystallize their visions, which are described in the next section, avoid costly mistakes, and seize opportunities. Effective planning requires an evaluation of the business environment and a well-designed road map of the actions needed to lead a firm forward. For example, Alcoa, the world's largest aluminum company, has been hard hit by skyrocketing energy prices, which increased its costs by almost half a billion dollars in less than a year. Consequently, Alcoa is closing aluminum smelting plants in the United States, where energy costs are high. But, it is building plants in Iceland, Trinidad, and Brunei and buying plants in Russia, where energy costs are much cheaper.[7] In a later section of this chapter, we elaborate on the planning process.

Organizing

Once plans have been developed, the next step in the management process typically is **organizing**—the means by which managers blend human and material resources through a formal structure of tasks and authority. This activity involves classifying and dividing work into manageable units by determining specific tasks necessary to accomplish organizational objectives, grouping tasks into a logical pattern or structure, and assigning them to specific personnel. Managers also must staff the organization with competent employees capable of performing the necessary tasks and assigning authority and responsibility to these individuals. Often organizing involves studying a company's existing structure and determining whether to reorganize it so that the company can better meet its objectives. The organizing process is discussed in detail later in this chapter.

Directing

Once plans have been formulated and an organization has been created and staffed, the management task focuses on **directing,** or guiding and motivating employees to accomplish organizational objectives. Directing includes explaining procedures, issuing orders, and seeing that mistakes are corrected. Managers may also direct in other ways, such as getting employees to agree on how they will meet objectives and inspiring them to care about customer satisfaction or their contribution to the company.

The directing function is a vital responsibility of supervisory managers. To fulfill their responsibilities to get things done through people, supervisors must be effective leaders. In addition, middle and top managers must be good leaders and motivators, and they must create an environment that fosters such leadership. A later section of this chapter discusses leadership, and Chapter 9 discusses motivating employees and improving performance.

assessment check

1. What is management?
2. How do the jobs of top managers, middle managers, and supervisory managers differ?
3. What is the relationship between the manager's planning and controlling functions?

Controlling

Controlling is the function of evaluating an organization's performance to determine whether it is accomplishing its objectives. The basic purpose of controlling is to assess the success of the planning function. Controlling also provides feedback for future rounds of planning.

The four basic steps in controlling are to establish performance standards, monitor actual performance, compare actual performance with established standards, and take corrective action if required. Under the provisions of the Sarbanes-Oxley Act, for example, CEOs and CFOs must monitor the performance of the firm's accounting staff more closely. They must personally attest to the truth of financial reports filed with the Securities and Exchange Commission.

SETTING A VISION AND ETHICAL STANDARDS FOR THE FIRM

As Chapter 1 discusses, business success usually begins with a **vision,** a perception of marketplace needs and the methods an organization can use to satisfy them. Vision serves as the target for a firm's actions, helping direct the company toward opportunities and differentiating it from its competitors. Michael Dell's vision of selling custom-built computers directly to consumers helped distinguish Dell from many other computer industry start-ups. John Schnatter, founder of Papa John's Pizza, keeps his vision—and his menu—focused to satisfy his pizza-loving customers.

vision perception of marketplace needs and the methods an organization can use to satisfy them.

A company's vision must be focused and yet flexible enough to adapt to changes in the business environment. The vision for Merck, which develops and manufactures pharmaceuticals, is "to provide society with superior products and services by developing innovations and solutions that improve the quality of life and satisfy customer needs." In the long run, Merck's vision is the same, to develop drugs ("innovations and solutions") that improve people's health. However, it is adaptable to changes as Merck's managers and researchers can accomplish that vision using natural or synthetic chemical compounds or high-tech gene-splicing equipment or low-tech Petri dishes.

Also critical to a firm's long-term success are the ethical standards that top executives set. As we saw in Chapter 2, a company's top managers can take an organization down a slippery slope to bankruptcy—and even criminal—court if they operate unethically. Avoiding that path requires executives to focus on the organization's success, not merely personal gain, like Tyco's former CEO Dennis Kozlowski and Tyco's former chief financial officer, Mark Swartz, who were found guilty of taking at least $150 million for themselves from the company to finance their extravagant lifestyles. Kozlowski and Swartz were sentenced to between $8^1/_3$ and 25 years in prison and must pay $240 million in fines and restitution. Both men are awaiting their appeals in jail.[8] Holding the welfare of the company's constituencies—customers, employees, investors, and society in general—as the top priority can build lasting success for a firm. For more on a related issue, see the "Solving an Ethical Controversy" feature, which discusses whether CEOs should get "golden handshakes," that is, lucrative severance packages when they are fired by the company.

"They Said It"

"There's no long-term shareholder value if it isn't linked to building long-term values for your people."
—Howard Schultz (b. 1953) Chairman of Starbucks[9]

The ethical tone that a top management team establishes can also reap nonmonetary rewards. Setting a high ethical standard does not merely restrain employees from doing wrong, but it encourages, motivates, and inspires them to achieve goals they never thought possible. Such satisfaction creates a more productive, stable workforce—one that can create a long-term competitive advantage for the organization.

Still, a leader's vision and ethical conduct are only the first steps along an organization's path to success. Turning a business idea into reality takes careful planning and actions. The next sections take a closer look at the planning and implementation process.

assessment check

1. What is meant by a vision for the firm?
2. Why is it important for a top executive to set high ethical standards?

IMPORTANCE OF PLANNING

When you think of Wal-Mart, you think of low prices. But in a nod to Target, which is growing twice as fast by selling higher-quality products, Wal-Mart has created a new store prototype with a more attractive layout, with fake wood floors, wider aisles, lower shelves, more

SHOULD CEOS GET GOLDEN HANDSHAKES?

Executive compensation continues to raise eyebrows as departing CEOs walk away with massive financial rewards from companies that may be struggling.

Gary Rodkin, PepsiCo's former North American CEO, received $4.56 million for "consultancy services" on his resignation. Carly Fiorina, deposed CEO of Hewlett-Packard, took home a $21.2 million severance package. Eugene S. Kahn, former CEO of May Department Stores, which is now part of the Federated Department Stores chain, resigned with a payout worth almost $11 million. The average severance package for ex-CEOs is $4.5 million, and surprisingly, those who are dismissed are more likely to receive generous payouts than those who resign.

Should top executives receive multimillion-dollar severance packages when they leave or are fired from their jobs?

PRO

1. Such "golden handshakes" compensate executives for taking risks and encourage visionary leaders to accept these jobs—and the additional risk of losing them.
2. The scarcity of jobs at the top level means it is more difficult for an ex-CEO to find another job, and firings are more likely today than ever before.

CON

1. The size of these payouts is seldom linked to the CEO's actual performance, which means they can be generously rewarded for doing a poor job.
2. Large severance packages cost shareholders money and set unwelcome precedents throughout the corporate world.

Summary

Financial scandals and the passage of the Sarbanes-Oxley Act have focused more attention on internal corporate policies and forced some companies to reexamine their executive compensation practices. More corporate boards have stepped up to fire their CEOs for poor performance, wrongdoing, and even poor ethical decisions. On the other hand, because CEOs often sit on the compensation boards of other corporations, overall executive compensation is still on the rise.

Sources: Marcy Gordon, "SEC Moves for More Exec Pay Disclosure," Associated Press, accessed June 27, 2006, http://news.yahoo.com; Tim McLaughlin, "Golden Parachutes Are Soaring to Platinum Levels," *St. Louis Post-Dispatch*, accessed June 27, 2006, http://www.stltoday.com; Joanne S. Lublin, "CEO Compensation Survey," *Wall Street Journal*, accessed June 27, 2006, http://online.wsj.com; Gary Strauss and Barbara Hansen, "CEO Pay Packages 'Business as Usual'," *USA Today*, accessed June 27, 2006, http://www.usatoday.com.

solving an ETHICAL controversy

attractive product displays, and higher-quality goods that appeal to slightly more upscale shoppers. With that in mind, Wal-Mart is now focusing on fashion by spending $12 million to advertise in *Vogue* and opening a strategic planning office for apparel and home furnishings in New York City, not at Wal-Mart's Bentonville, Arkansas, headquarters.[10] Will Wal-Mart's plans work? Shopper Caroline Geppert's comments suggest it will be a challenge: "I've been surprised going to Target and seeing some things that I would buy and wear, whereas in Wal-Mart I usually wouldn't buy anything other than socks or underwear or a basic T-shirt." Let's take a closer look at the various types of planning that businesses do to achieve their goals.

Types of Planning

Planning can be categorized by scope and breadth. Some plans are very broad and long range, while others are short range and very narrow, affecting selected parts of the organization rather than all. Planning can be divided into the following categories: strategic, tactical, operational, and contingency, with each step including more specific information than the last. From the mission statement (described in the next section) to objectives to specific plans, each phase must fit into a comprehensive planning framework. The framework also must include narrow, functional plans aimed at individual employees and work areas relevant to individual

HIT & MISS

When Wal-Mart Was the Only Lifeline

Months and years will pass before the full story of Hurricane Katrina's devastation is told. But in the days immediately following the disaster, one thing was clear: Wal-Mart's emergency plans worked where others failed.

In the wake of the chaos of Hurricane Charlie, which had hit Florida the year before, Wal-Mart decided to prepare for emergencies and specifically for hurricanes in vulnerable states. With its disaster plans in place, the firm was able to act even before the pattern of Katrina's movements became clear. The chain's one-room Emergency Operations Center began moving trucks and supplies into position six days before the storm hit. That action enabled it to respond quickly with basic items that often reached victims before government agencies could and that sometimes made the difference between survival and disaster. Once managers were warned by the company's own meteorologists that the storm had unexpectedly shifted toward New Orleans, the giant retailer started shipping huge quantities of bottled water, packaged food, and other supplies to Louisiana. Fuel, generators, and dry ice were shipped to the stores in the path of the storm. Based on its research into buying patterns in hurricane-vulnerable areas, Wal-Mart's information systems division even knew that in addition to water, food, batteries, flashlights, tarps, chain saws, and mops, customers in stricken areas also bought Pop-Tarts. So employees loaded them up and shipped them with everything else. The company's headquarters also acts as an information clearinghouse in the early stages of emergencies, coordinating store evacuations and passing data among store managers.

When the magnitude of the emergency became clear, many employees made on-the-spot decisions that their communities will long remember. Jessica Lewis, co-manager of a Wal-Mart store in Georgia that was severely damaged by hurricane floodwaters, salvaged shoes, clothing, diapers, food, water, and even medicines from her store and handed them out free to her barefoot and homeless neighbors in the store's parking lot. "This is the right thing to do," she remembers thinking.

Questions for Critical Thinking

1. How effective do you think set plans can be when it comes to natural disasters?
2. What elements of Wal-Mart's plans could not be set ahead of time? How do you think an organization can ensure that on-the-spot decisions are appropriate in emergencies?

Sources: "Wal-Mart Support of the Hurricane Relief Efforts," accessed June 27, 2006, http://www.walmartfacts.com; Thomas Sowell, "Observe Private Businesses' Quick Response to Katrina," *Deseret Morning News,* accessed June 27, 2006, http://deseretnews.com; Devin Leonard, "After Katrina: Crisis Management," *Fortune,* accessed June 27, 2006, http://www.fortune.com; Christopher Leonard, "Katrina Puts Wal-Mart on Alert," *Arkansas Democrat Gazette,* acessed August 30, 2005, http://www.ardemgaz.com.

tasks. These plans must fit within the firm's overall planning framework, and help it reach objectives and achieve its mission.

Strategic Planning The most far-reaching level of planning is **strategic planning**—the process of determining the primary objectives of an organization and then acting and allocating resources to achieve those objectives. At Dell, managers maintain this long-range view. "You may have a great day today and the stock goes down, and you may have a horrible day tomorrow and the stock goes up," says CEO Michael Dell. "But over a long period of time you build a great company."[11]

Tactical Planning **Tactical planning** involves implementing the activities specified by strategic plans. Tactical plans guide the current and near-term activities required to implement overall strategies. Craig Knouf, CEO of Associated Business Systems, which sells office equipment in Portland, Oregon, examines his company's 30-page business plan every month, with additional semiannual and annual reviews, making tactical changes when needed. After one of

"They Said It"

"If you chase two rabbits, both will escape."
—Anonymous

those reviews, he noticed an unexpected increase in sales of high-volume document scanners. So he changed his business plan to put a greater emphasis on scanners and scanning software. As a result, sales of scanning products have doubled and now account for one-third of all sales. Working without his business plan, says Knouf, "would be like driving a car with no steering wheel."[12]

Operational Planning **Operational planning** creates the detailed standards that guide implementation of tactical plans. This activity involves choosing specific work targets and assigning employees and teams to carry out plans. Unlike strategic planning, which focuses on the organization as a whole, operational planning deals with developing and implementing tactics in specific functional areas. For example, as part of its larger strategy to sell more expensive, higher-quality goods, the electronics departments in Wal-Mart's new prototype stores are stocking 27-inch to 42-inch plasma HD TVs costing between $1,700 and $2,000. Brent Allen, who manages a new Wal-Mart in McKinney, Texas, is seeing "high-double-digit percentage" sales increases in flat-screen TVs, compared with sales in the old Wal-Mart store he operated across the street.[13]

"They Said It"

"Great crises produce great men and great deeds of courage."
—John F. Kennedy (1917–1963) 35th president of the United States

Contingency Planning Planning cannot foresee every possibility. Major accidents, natural disasters, and rapid economic downturns can throw even the best-laid plans into chaos. To handle the possibility of business disruption from events of this nature, many firms use **contingency planning,** which allows them to resume operations as quickly and as smoothly as possible after a crisis while openly communicating with the public about what happened. This planning activity involves two components: business continuation and public communication. Many firms have developed management strategies to speed recovery from accidents such as airline crashes, fires and explosions, chemical leaks, package tampering, and product failures.

A contingency plan usually designates a chain of command for crisis management, assigning specific functions to particular managers and employees in an emergency. Contingency planning also involves training workers to respond to emergencies, improving communications systems, and using advanced technology. As discussed in the "Hit & Miss" feature, companies with well-defined disaster recovery plans generally fared better in the aftermath of Hurricane Katrina than those that didn't develop and implement plans.

Planning at Different Organizational Levels

Although managers spend some time on planning virtually every day, the total time spent and the type of planning done differ according to the level of management. As Table 8.1 points

Table 8.1 Planning at Different Management Levels

Primary Type of Planning	Managerial Level	Examples
Strategic	Top management	Organizational objectives, fundamental strategies, long-term plans
Tactical	Middle management	Quarterly and semiannual plans, departmental policies and procedures
Operational	Supervisory management	Daily and weekly plans, rules, and procedures for each department
Contingency	Primarily top management, but all levels contribute	Ongoing plans for actions and communications in an emergency

out, top managers, including a firm's board of directors and CEO, spend a great deal of time on long-range planning, while middle-level managers and supervisors focus on short-term, tactical planning. Employees at all levels can benefit themselves and their company by making plans to meet their own specific goals.

assessment check

1. Outline the planning process.
2. Describe the purpose of tactical planning.
3. Compare the kinds of plans made by top managers and middle managers. How does their focus differ?

THE STRATEGIC PLANNING PROCESS

Strategic planning often makes the difference between an organization's success and failure. Strategic planning has formed the basis of many fundamental management decisions:

- Recognizing the devotion that TiVo-watching consumers had to their personal digital recorders, which record their favorite TV shows to be watched whenever they want at a cost of $10 to $15 a month, cable companies such as Comcast now provide similar on-demand services that let viewers watch TV shows whenever they want—all without purchasing a personal digital recorder.[14]
- With well-established women's beauty products, but a poor selection of men's grooming products, Procter & Gamble paid $54 million to buy Gillette and its market-leading razors and number-two-ranked men's deodorants.[15]

Successful strategic planners typically follow the six steps shown in Figure 8.2: defining a mission, assessing the organization's competitive position, setting organizational objectives, creating strategies for competitive differentiation, implementing the strategy, and evaluating the results and refining the plan.

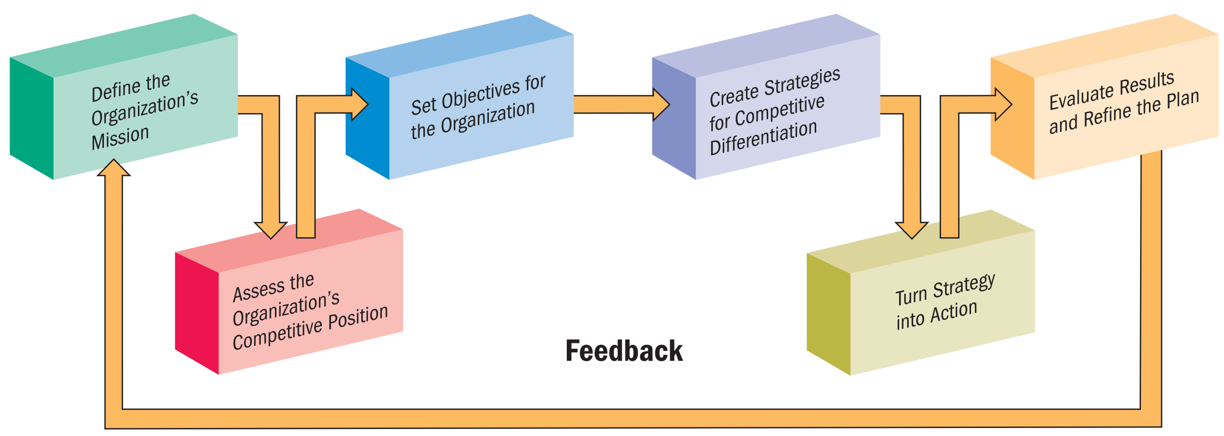
Defining the Organization's Mission

The first step in strategic planning is to translate the firm's vision into a **mission statement.** A mission statement is a written explanation of an organization's business intentions and aims. It is an enduring statement of a firm's purpose, possibly highlighting the scope of operations, the market it seeks to serve, and the ways it will attempt to set itself apart from competitors. A mission statement guides the actions of people inside the firm and informs customers and

mission statement written explanation of an organization's business intentions and aims.

Figure 8.2

Steps in the Strategic Planning Process



KEVIN P. CASEY/BLOOMBERG NEWS/LANDOV

Starbucks CEO Howard Schultz (above right) is involved in all details of his company's operations, including daily contact with employees and customers. Guiding his actions are his concerns for high ethical standards and for consistent quality in his products. Schultz says he refers to his heart and conscience to ensure that decisions are true to the company's mission and cause.

other stakeholders of the company's underlying reasons for existence. The mission statement should be widely publicized among employees, suppliers, partners, shareholders, customers, and the general public.

Merck's mission statement was outlined earlier in the section on establishing an organization's vision. Mission statements can vary in complexity and length.

- A Birmingham, Alabama, securities firm has a very straightforward mission statement: "The mission of Sterne, Agee, and Leach, Inc. is to build wealth for our clients."
- Google's mission is "to organize the world's information and make it universally accessible and useful."[16]
- German chemical company Bayer's mission statement is "Bayer: Science for a better life." According to Bayer's CEO, "We have set our course for the future. This new mission statement defines our future perspectives, our goals and our values, and guides our strategy at a time of sweeping change. It outlines to our stockholders, our customers, the public and especially our employees how we think and behave as a company."[17]

Developing a mission statement can be one of the most complex and difficult aspects of strategic planning. Completing these statements requires detailed considerations of a company's values and vision. Effective mission statements indicate specific, achievable, inspiring principles. They avoid unrealistic promises and statements.

Assessing Your Competitive Position

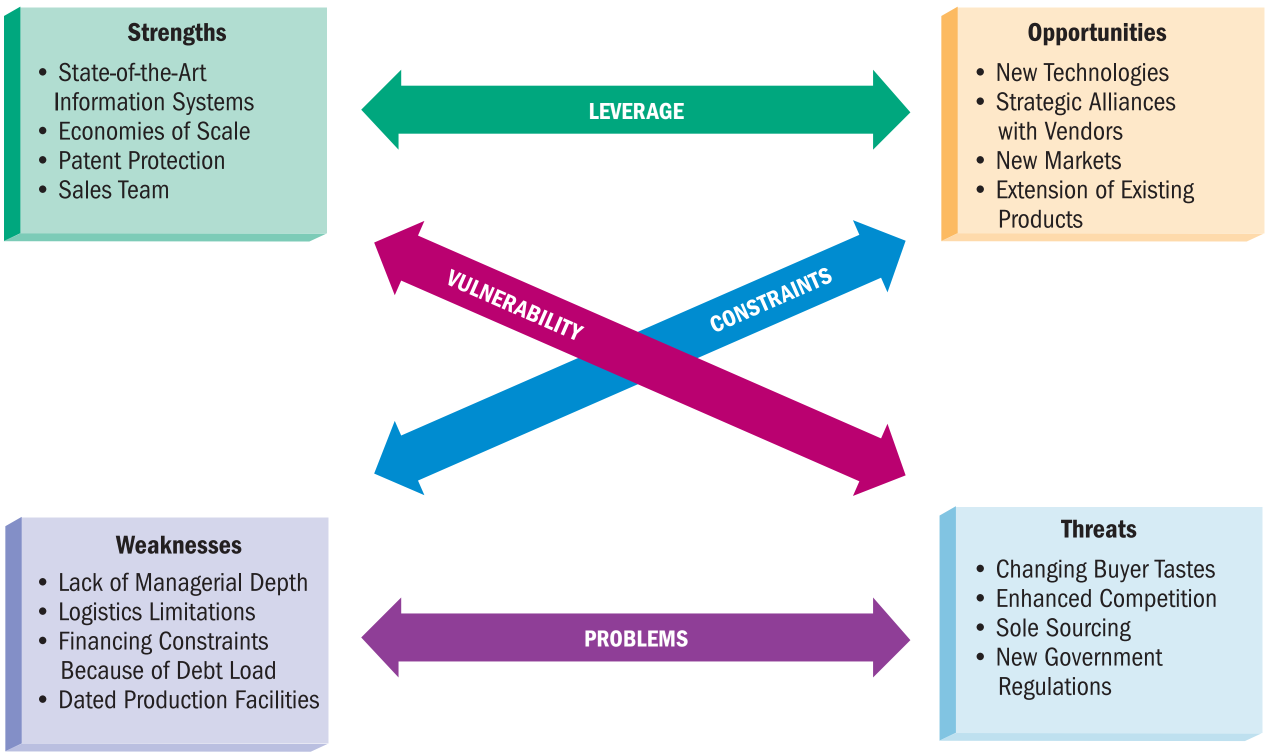
Once a mission statement has been created, the next step in the planning process is to assess the firm's current position in the marketplace. This phase also involves examining the factors that may help or hinder the organization in the future. A frequently used tool in this phase of strategic planning is SWOT analysis.

A **SWOT analysis** is an organized approach to assessing a company's internal strengths and weaknesses and its external opportunities and threats. SWOT is an acronym for *strengths, weaknesses, opportunities,* and *threats.* The basic premise of SWOT is that a critical internal and external reality check should lead managers to select the appropriate strategy to accomplish their organization's objectives. SWOT analysis encourages a practical approach to planning based on a realistic view of a firm's situation and scenarios of likely future events and conditions. When gas prices rose to more than $3 a gallon in some areas, sales of large sport-utility vehicles dropped by nearly 10 percent, and automakers immediately began designing family vehicles, which make up more than one-fourth of all car sales, that held five or six people rather than seven or eight and were more fuel efficient.[18] The framework for a SWOT analysis appears in Figure 8.3.

To evaluate a firm's strengths and weaknesses, the planners may examine each functional area such as finance, marketing, information technology, and human resources. Entrepreneurs may focus on the individual skills and experience they bring to a new business. Large firms may also examine strengths and weaknesses of individual decisions and geographical opera-

Figure 8.3

Elements of SWOT Analysis



tions. Usually, planners attempt to look at their strengths and weaknesses in relation to those of other firms in the industry.

For Starbucks, a key strength is consumers' positive image of the company's brand, which gets them to stand in line to pay premium prices for coffee. That positive image comes from Starbucks's being one of the best 100 companies to work for in the United States, according to *Fortune,* and from its socially responsible corporate policies. The company's strategic plans have included various ways to build on Starbucks' strong brand loyalty by attaching it to new products expanding into new markets. The expansion efforts have included creating a Web site, selling bottled Frappuccino iced coffee in supermarkets, and opening thousands of Starbucks outlets in Europe, Asia, and the Middle East.

SWOT analysis continues with an attempt to define the major opportunities and threats the firm is likely to face within the time frame of the plan. Possibilities include environmental factors such as market growth, regulatory changes, and increased competition. Starbucks saw an opportunity in the growth of the Internet and the interest in online shopping. Its Web site sells coffee and related accessories. In addition, Starbucks' experience in Japan, where its outlets' average sales top those in the United States, suggested that international expansion presented a solid opportunity. A threat is that consumers could tire of paying $3.50 or so for cappuccinos and lattés and switch to something else. The company has begun addressing that threat with the introduction of gourmet tea products.

Some aspects of Starbucks' strategy have succeeded better than others. Initially, Starbucks tried selling gourmet foods, music, and even furniture on its Web site. Sales were disappointing, and the firm quickly dropped the least successful offerings. Recently, Starbucks has shifted more of its attention to its retail units, where sales remain strong. Furthermore, Starbucks is now co-branding alcohol products with Jim Beam Brands to sell Starbucks Cream Liqueur and has moved aggressively into selling music, partnering with XM Satellite Radio, Sony BMG, and Virgin Records to sell music in its stores and online at http://www.starbucks.com/hearmusic.[19]

If a firm's strengths and opportunities mesh successfully, as at the Starbucks retail stores, it gains competitive leverage in the marketplace. On the other hand, if internal weaknesses prevent a firm from overcoming external threats, as in the case of the Starbucks Web site, it may face major difficulties. SWOT analysis is useful in the strategic planning process because it forces management to look at factors both inside and outside the organization and determine which steps it must take in the future to minimize external threats and take advantage of strategic opportunities.

Setting Objectives for the Organization

objectives guideposts by which managers define the organization's desired performance in such areas as profitability, customer service, growth, and employee satisfaction.

After defining the company's mission and examining factors that may affect its ability to fulfill that mission, the next step in planning is to develop objectives for the organization. **Objectives** set guideposts by which managers define the organization's desired performance in such areas as profitability, customer service, growth, and employee satisfaction. While the mission statement delineates a company's goals in general terms, objectives are more concrete statements. For instance, Toyota wants to sell 600,000 hybrid gas/electric cars in the United States by 2010. Today, however, out of the 1.1 million cars per year that Toyota sells in the United States, only 80,000, or roughly 7 percent, are hybrids. Because Toyota plans to sell 2 million cars in the United States by 2010, one of every three cars that it sells will have to be a hybrid to reach that goal. Today, while Toyota only offers three hybrid models—the Toyota Prius and Highlander and the Lexus RX400h SUV—it plans to reach its sales goal of 600,000 hybrids a year by eventually offering 50 different hybrid models.[20]

Also, more and more businesses are setting explicit objectives for performance standards other than profitability. As public concern about environmental issues mounts, many firms find that operating in an environmentally responsible manner pays off in good relations with customers. Others channel some of their profits into socially responsible causes, such as funding educational programs and scholarships.

"They Said It"

"Focus on the little things, and the big things will take care of themselves."
—Joe Paterno (b. 1926)
Head football coach of Penn State

Creating Strategies for Competitive Differentiation

Developing a mission statement and setting objectives point a business toward a specific destination. To get there, however, the firm needs to map the strategies it will follow to compete with other companies pursuing similar missions and objectives. The underlying goal of strategy development is **competitive differentiation,** the unique combination of a company's abilities and approaches that sets it apart from competitors. Common sources of competitive differentiation include product innovation, technology, and employee motivation.

Home Box Office (HBO), the subscription cable TV movie channel, uses a differentiation strategy to set itself apart from its competitors such as Starz and Showtime. Like its competitors, HBO spends half a billion dollars a year to acquire the rights to broadcast first-run movies. But it differentiates itself by spending an additional half billion dollars to develop its own programming, such as *Six Feet Under, Sex and the City,* and *The Sopranos,* among others. As a result, 90 percent of cable and satellite customers who pay for premium TV services subscribe to HBO. In turn, HBO is more profitable than the ABC, CBS, NBC, and Fox television networks put together. Chris Albrecht, HBO's chairman, said, "HBO is the most profitable network in the world and will continue to be as long as anybody can see."[21]

Implementing the Strategy

Once the first four phases of the strategic planning process are complete, managers face even bigger challenges. They must put strategic plans into action by identifying specific action stops and deploying the resources needed to implement the intended plans.

Capital One Financial—headquartered in Falls Church, Virginia—is a major player in the credit card industry. Capital One's "information strategy" is based on the idea that it can make more money and serve customers better when it has detailed data about customers, their finances, and their spending habits. For example, thanks to its extensive database, when customers phone Capital One, the person they talk to knows exactly how profitable each customer is to the bank, whether they are likely to accept or reject a particular credit card or banking product, and what types of concessions, such as lower rates or forgiving fees, they've received in the past. Also, Capital One constantly adds to its customer database, which is between 180 and 200 terabytes of information (a terabyte is the same as 500 million pages of single-spaced text), by running 65,000 different market tests a year (a test is a unique combination of credit card features, terms, and market promotions), with each test being sent to between 5,000 and 10,000 customers. Why conduct so many tests and collect so much information? Because, says vice president Mike Rowen, "We are the ultimate pack rats. You never know what's valuable. We like to keep things, and we go look at them."[22]

Monitoring and Adapting Strategic Plans

The final step in the strategic planning process, which naturally follows implementation, is to monitor and adapt plans when actual performance fails to match expectations. Monitoring involves establishing methods of securing feedback about actual performance. Common methods include comparing actual sales and market share data with forecasts, compiling information from supplier and customer surveys, monitoring complaints from the firm's customer hot line, and reviewing reports prepared by production, finance, marketing, and other company units.

Ongoing use of such tools as SWOT analysis and forecasting can help managers adapt objectives and functional plans as changes occur. An increase in the price of a key product component, for instance, could dramatically affect the firm's ability to maintain planned prices and still earn acceptable profits. An unexpected UPS strike may disrupt shipments of products to retail and business customers. In each instance, the original plan may require modification to continue to guide the firm toward achievement of its objectives.

assessment check

1. What is the purpose of a mission statement?
2. Which of the firm's characteristics does a SWOT analysis compare?
3. How do managers use objectives?

MANAGERS AS DECISION MAKERS

In carrying out planning and the other management functions, executives must make decisions every day. **Decision making** is the process of recognizing a problem or opportunity and then dealing with it. Managers make two basic kinds of decisions, programmed decisions and nonprogrammed decisions.

decision making process of recognizing a problem or opportunity, evaluating alternative solutions, selecting and implementing an alternative, and assessing the results.

Programmed and Nonprogrammed Decisions

A **programmed decision** involves simple, common, and frequently occurring problems for which solutions have already been determined. Examples of programmed decisions include assigning a starting salary for the new marketing assistant, reordering raw materials needed in


© STACY KRANITZ

Ed Weingartner's firm, Dynamic Restoration, specializes in repairs and reconstruction after disasters, such as the hurricanes that devastated the Gulf Coast. Making quick decisions is crucial so that buildings can be saved, dried out, and restored instead of being demolished. Weingartner must determine whether to hire additional staff to meet expected demand before he has signed contracts, decide where to position teams before storms hit so that they are in place when needed, and estimate the amount of equipment to move or rent for the teams to do their work.

the manufacturing process, and setting a discount schedule for large-volume customers. For these types of decisions, organizations develop rules, policies, and detailed procedures that managers apply to achieve consistent, quick, and inexpensive solutions to common problems. Because such solutions eliminate the time-consuming process of identifying and evaluating alternatives and making new decisions each time a situation occurs, managers can devote their time to the more complex problems associated with nonprogrammed decisions. For example, routine review of the inventory of fresh produce might allow the buyer at Whole Foods Market more time to seek other merchandising opportunities.

A **nonprogrammed decision** involves a complex and unique problem or opportunity with important consequences for the organization. Examples of nonprogrammed decisions include entering a new geographical market, acquiring another company, or introducing a new product. For example, when Microsoft introduced its new Xbox 360 game console, it was the responsibility of Todd Holmdahl, Microsoft's vice president of Xbox manufacturing, to coordinate the flow and manufacture of the Xbox's 1,700 different parts. Approximately 25,000 employees working for 250 suppliers make the parts in China, Japan, Korea, Taiwan, Canada, and La Crosse, Wisconsin, which are assembled in two key plants in China. Says Holmdahl, "With 1,700 components all it takes is one not being there and it's an issue." And not only was the number of parts and the number of suppliers an issue, so was the scale of production, as Microsoft expected to sell 3 million consoles within 90 days and 5.5 million within 8 months. Over time as the bugs were worked out of the production process, Holmdahl switched from making the thousands of unique, nonprogrammed decisions related to the start-up to making the programmed decisions needed to tweak and improve the Xbox manufacturing process. And when those decisions had to be made, said Holmdahl, "Everybody has my phone number here."[23]

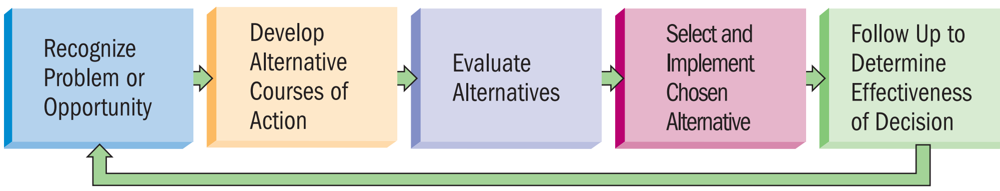
How Managers Make Decisions

In a narrow sense, decision making involves choosing among two or more alternatives with the chosen alternative becoming the decision. In a broader sense, decision making involves a systematic, step-by-step process that helps managers make effective choices. This process begins when someone recognizes a problem or opportunity; it proceeds by developing potential courses of action, evaluating the alternatives, selecting and implementing one of them, and assessing the outcome of the decision. The steps in the decision-making process are illustrated in Figure 8.4. This systematic approach can be applied to all decisions, with either programmed or nonprogrammed features.

The decision-making process can be applied in both for-profit and not-for-profit organizations. Consider how Michael Miller built the Portland, Oregon, Goodwill Industries retail business of selling donated items. Miller knew that he had to locate stores where Goodwill's donors and customers meshed. Surveys uncovered that the typical donor was female, age 35 to

Figure 8.4

Steps in the Decision-Making Process



44, with an income of $50,000. In contrast, Miller's customers were women age 25 to 54 with two kids. Their average income was roughly $30,000. Miller then got some help from the locally based Fred Meyer supermarket chain (part of Kroger). Fred Meyer's database contained gender and income demographics by neighborhood. Miller's decision to open stores was then based on where his two target clients intersected. To make customers more comfortable, Miller's 28 stores even feature bookstores and coffee bars.[24]

Making good decisions is never easy, however, because it involves taking risks that can influence a firm's success or failure. Managers' decisions often have complex legal and ethical dimensions. An executive research firm recently tested 1,400 managers to assess their integrity and found that one in eight "believe the rules do not apply to them" and they "rarely possess feelings of guilt."[25]

assessment check

1. Compare and contrast programmed and nonprogrammed decisions.
2. What are the steps in the decision-making process?

MANAGERS AS LEADERS

The most visible component of a manager's responsibilities is **leadership,** directing or inspiring people to attain organizational goals. Leadership is how former CEO Gordon Bethune turned around Continental Airlines and its previously poisonous labor-management relations. Bethune explained it this way: "When I was a mechanic, I knew how much faster I could fix an airplane when I wanted to fix it than when I didn't," he said. "I've tried to make it so our guys want to do it."[26] Because effective leadership is so important to organizational success, a large amount of research has focused on the characteristics of a good leader. Great leaders do not all share the same qualities, but three traits are often mentioned: empathy, which is the ability to imagine yourself in another's position; self-awareness; and objectivity in dealing with others. Many great leaders share other traits, including courage, ability to inspire others, passion, commitment, flexibility, innovation, and willingness to experiment.

leadership ability to direct or inspire people to attain organizational goals.

Leadership involves the use of influence or power. This influence may come from one or more sources. One source of power is the leader's position in the organization. A national sales manager has the authority to direct the activities of the sales force. Another source of power is a leader's expertise and experience. A first-line supervisor with expert machinist skills will most likely be respected by employees in the machining department. Some leaders derive power from their personalities. Employees may admire a leader because they recognize an exceptionally kind and fair, humorous, energetic, or enthusiastic person.

A well-known example is Herb Kelleher, the retired CEO and now chairman of Southwest Airlines. Kelleher's legendary ability to motivate employees to outperform those at rival airlines came from his dynamic personality, boundless energy, love of fun, and sincere concern for his employees. Kelleher led by example, modeling the behavior he wanted to see in his

"They Said It"

"A great leader is not one who does the greatest things. He's the one who gets the people to do the greatest things."

—Ronald Reagan (1911–2004) 40th president of the United States

employees. He pitched in to help serve snacks to passengers and load luggage. Employees, inspired by his example, now unload and reload a plane in 20 minutes—one-half of the average time for other airlines.

Leadership Styles

The way a person uses power to lead others determines his or her leadership style. Researchers have identified a continuum of leadership styles based on the amount of employee participation allowed or invited. At one end of the continuum, **autocratic leadership** is centered on the boss. Autocratic leaders make decisions on their own without consulting employees. They reach decisions, communicate them to subordinates, and expect prompt implementation of instructions. An autocratic sales manager might assign quotas to individual salespeople without consulting them.

Democratic leadership involves subordinates in making decisions. Located in the middle of the continuum, this leadership style centers on employees' contributions. Democratic leaders delegate assignments, ask employees for suggestions, and encourage participation. An important trend that has developed in business during the past decade is the concept of **empowerment,** a practice in which managers lead employees by sharing power, responsibility, and decision making with them.

Sometimes the sharing of power is institutionalized, as in a company like Southwest Airlines. Southwest has the highest proportion of union members among all U.S. air carriers and is the only one of the country's top eight airlines to consistently post a profit. Rules governing contract negotiations in unionized firms require labor and management to sit down together and discuss wages, hours, and benefits each time the contract is up for renewal. Typically, such negotiations are contentious, stressful, and difficult. At Southwest Airlines, however, they are much less so because of the positive way in which management treats workers. Colleen Barrett, who started as a legal secretary and is now company president, comments: "Our industry is unionized, and we are too. [Eighty-one percent of Southwest's employees belong to a union.] If you don't have the basic altruistic and caring attitude toward your employees at all times, then, when you have heavy-duty contract negotiations, people won't believe anything that you do if it is out of the norm when there wasn't a contract negotiation. It is so simple to me. We approach labor relations in a totally different way. We approach them as a team. We acknowledge we are going to have strong disagreements. But it is like politicians: We all have our constituents, but there should be common goals and behaviors and expectations that must be met."[27]

At the other end of the continuum from autocratic leadership is **free-rein leadership.** Free-rein leaders believe in minimal supervision. They leave most decisions to their subordinates. Free-rein leaders communicate with employees frequently, as the situation warrants.

Which Leadership Style Is Best?

The most appropriate leadership style depends on the function of the leader, the subordinates, and the situation. Some leaders cannot work comfortably with a high degree of subordinate participation in decision making. Some employees lack the ability or the desire to assume responsibility. In addition, the specific situation helps determine the most effective style of interactions. Sometimes managers must handle problems that require immediate solutions without consulting employees. When time pressure is less acute, participative decision making may work better for the same people.

Democratic leaders often ask for suggestions and advice from their employees but make the final decisions themselves. A manager who prefers the free-rein leadership style may be forced by circumstances to make a particular decision in an autocratic manner. A manager may involve employees in interviewing and hiring decisions but take complete responsibility for firing an employee.

After years of research intended to determine the best types of leaders, experts agree that they cannot identify any single best style of leadership. Instead, they contend that the most effective style depends on the leader's base of power, the difficulty of the tasks involved, and the characteristics of the employees. Both extremely easy and extremely difficult situations are best suited to leaders who emphasize the accomplishment of assigned tasks. Moderately difficult situations are best suited to leaders who emphasize participation and good working relationships with subordinates.

assessment check

1. How is leadership defined?
2. Identify the styles of leadership as they appear along a continuum of greater or lesser employee participation.

CORPORATE CULTURE

corporate culture organization's system of principles, beliefs, and values.

The best leadership style to adopt often depends on the organization's **corporate culture,** its system of principles, beliefs, and values. Managerial philosophies, communications networks, and workplace environments and practices all influence corporate culture. At Home Depot, the corporate culture is based on the belief that employees should fully understand and be enthusiastic about the core business of serving do-it-yourselfers. All newly hired employees, including top managers, must spend their first two weeks working on the sales floor of a Home Depot store. Even CEO Robert Nardelli spends time at an Atlanta-area store helping customers. By working at stores, all employees are exposed to the company's customers and, the company hopes, will soak up some of their can-do spirit. The company also encourages employees to get involved in service projects, such as building homes for Habitat for Humanity, which brings them closer to their community while seeing the stores' products in use. In addition, Home Depot gets employees excited about the business by granting them stock options. This benefit has made millionaires of many Home Depot employees. Stories like that of Franc Gambatse, who started as a sales clerk and less than a decade later was managing a Home Depot store and enjoying prosperity he "never could have imagined," inspire other employees to give their all. The retailer even has a company cheer: "Gimme an H!" and on through the store's name, as the troops reply, ready to support the company's continued growth in stores, sales, and profits.[28]

A corporate culture is typically shaped by the leaders who founded and developed the company and by those who have succeeded them. One generation of employees passes on a corporate culture to newer employees. Sometimes this transfer is part of formal training. New managers who attend sessions at McDonald's Hamburger University may learn skills in management, but they also acquire the basic values of the organization's corporate culture established by McDonald's founder Ray Kroc: quality, service, cleanliness, and value.[29] Employees can absorb corporate culture through informal contacts, as well as by talking with other workers and through their experiences on the job.

Managers use symbols, rituals, ceremonies, and stories to reinforce corporate culture. San Antonio–based Valero Energy Corporation, an oil refining company, has a tough corporate culture—dress codes for managers and regular drug testing to ensure employee safety—but it also puts employees first with its no-layoff policy and by firing managers for cursing at subordinates. When Hurricane Katrina hit, the dedication of Valero's staff shone through—they repaired its severely damaged facilities weeks and months faster than its competitors did. The company had stationed a 50-person "ride-out" crew at its St. Charles refinery, which is near New Orleans. One maintenance supervisor used his personal credit card to stock food for the crew before the storm hit and then stayed up round the clock to cook gumbo for them afterward as they completed their repairs. CEO Bill Greehey praised his employees' extra efforts, saying, "We got this refinery running, [and] it will be weeks before the refinery across the street is running. . . . How you jump-started and got this thing done—I guarantee it, no one else could do what you did. No one."[30]

Corporate cultures can be changed. When Paul Pressler became the CEO of Gap Inc. several years ago, one of his goals was to change what his managers thought and valued, in other words, the culture. In particular, Pressler wanted his managers and workers to stop thinking and caring just about their business units, such as Gap, Banana Republic, Old Navy, and Forth & Towne and to begin working together across units, functions, brands, and international borders. Pressler began this cultural change by introducing Gap's Purposes, Values, and Behaviors (PVBs), which described what was important in the new culture. The first step was to introduce the PVBs to Gap's 2,000 top managers at numerous full-day meetings called "Leadership Summits." Only then did Gap roll out the PVBs to its 150,000 employees, along with posters, coffee cups, an internal employee-only Gap Web site, and a newsletter, all of which were used to highlight stories and examples critical to Gap's new cooperative, company-wide culture.[31]

assessment check

1. What is the relationship between leadership style and corporate culture?
2. What is a strong corporate culture?

In an organization with strong culture, everyone knows and supports the same principles, beliefs, and values. A company with weak or constantly shifting culture lacks a clear sense of purpose. To achieve goals, a business must also provide a framework that defines how employees should accomplish their tasks. This framework is the organization structure, which results from the management function of organizing.

organization structured grouping of people working together to achieve common goals.

ORGANIZATIONAL STRUCTURES

The management function of organizing is the process of blending human and material resources through a formal structure of tasks and authority. It involves arranging work, dividing tasks among employees, and coordinating them to ensure implementation of plans and accomplishment of objectives. The result of this process is an **organization,** a structured grouping of people working together to achieve common goals. An organization features three key elements: human interaction, goal-directed activities, and structure. The organizing process should result in an overall structure that permits interactions among individuals and departments needed to achieve company goals.

The steps involved in the organizing process are shown in Figure 8.5. Managers first determine the specific activities needed to implement plans and achieve goals. Next, they group these work activities into a logical structure. Then they assign work to specific employees and give the people the resources they need to complete it. Managers coordinate the work of different groups and employees within the firm. Finally, they evaluate the results of the organizing process to ensure effective and efficient progress toward planned goals. Evaluation often results in changes to the way work is organized.

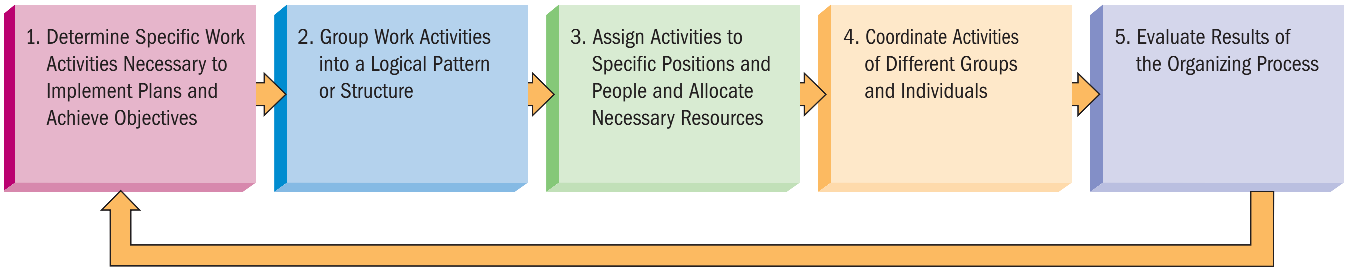
Many factors influence the results of organizing. The list includes a firm's goals and competitive strategy, the type of product it offers, the way it uses tech-

UPI PHOTO/D. VAN/LANDOV

Oprah Winfrey's success is legendary. But she learned the hard way that she couldn't rely on an informal structure for her business—employees didn't have the same assumptions that she had about the company's direction. So she developed a formal communication system and structure to let all employees know her expectations for their performance.

Figure 8.5

Steps in the Organizing Process



nology to accomplish work, and its size. Small firms typically create very simple structures. The owner of a dry-cleaning business generally is the top manager, who hires several employees to process orders, clean the clothing, and make deliveries. The owner handles the functions of purchasing supplies such as detergents and hangers, hiring and training employees and coordinating their work, preparing advertisements for the local newspaper, and keeping accounting records.

As a company grows, its structure increases in complexity. With increased size comes specialization and growing numbers of employees. A larger firm may employ many salespeople, along with a sales manager to direct and coordinate their work, or organize an accounting department and hire employees to work as payroll clerks and cost accountants.

The organizing process should result in a well-defined structure so that employees know what expectations their jobs involve, to whom they report, and how their work contributes to the company's effort to meet its goals. To help employees understand how their work fits within the overall operation of the firm, managers prepare an **organization chart,** which is a visual representation of a firm's structure that illustrates job positions and functions. Figure 8.6 illustrates a sample organization chart. Each box in the chart would show a specific position. An organization chart depicts the division of a firm into departments that meet organizational needs.

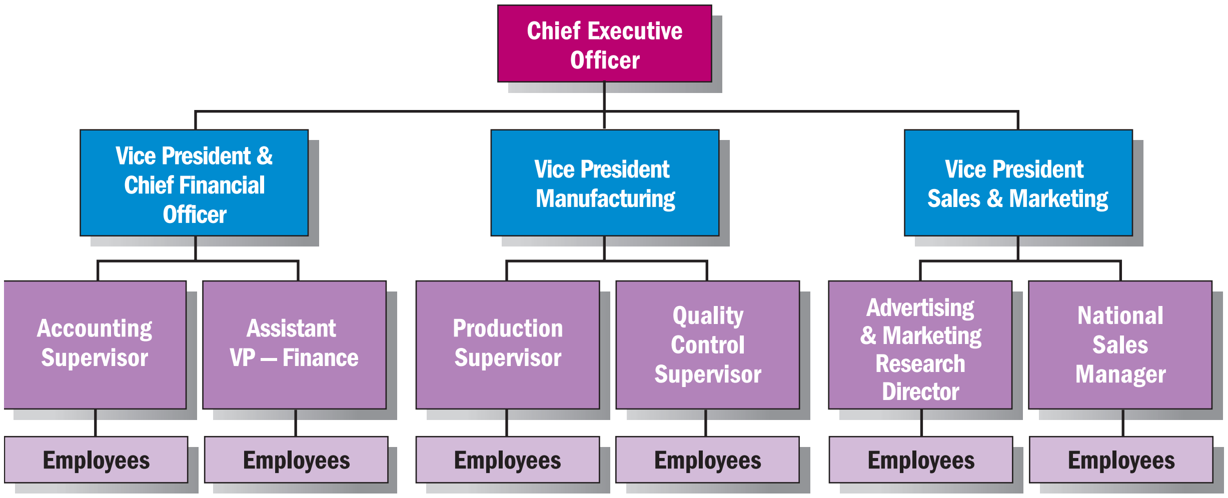
"They Said It"

"Reduce the layers of management. They put distance between the top of an organization and its customers."

—Donald Rumsfeld (b. 1933) U.S. secretary of defense

Figure 8.6

Sample Organization Chart



Not-for-profit organizations also have specific structures. The Catholic Church, for example, is a hierarchy with clearly defined levels and a strict reporting structure. The head of the church is the pope, based at the Vatican in Rome. The pope is held to be preeminent in matters of church doctrine, but responsibility for administering the church's many other functions is dispersed downward in the hierarchy. Looking only at the U.S. church, we find 13 cardinals appointed by the pope. The cardinals advise the pope and are responsible for electing a new pope when the current one dies. Reporting to the U.S. cardinals are 45 archbishops, who preside over major dioceses or congregational areas. Next in rank are 290 bishops, about half of whom head the country's dioceses. Bishops are teachers of doctrine and ministers of the church's government. Priests are the final level of the church hierarchy.[32]

Departmentalization

departmentalization process of dividing work activities into units within the organization.

Departmentalization is the process of dividing work activities into units within the organization. This arrangement lets employees specialize in certain jobs to promote efficient performance. The marketing effort may be headed by a sales and marketing vice president, who directs the work of salespeople, marketing researchers, and advertising and promotion personnel. A human resources manager may head a department made up of people with special skills in such areas as recruiting and hiring, employee benefits, and labor relations. The five major forms of departmentalization subdivide work by product, geographical area, customer, function, and process:

- *Product departmentalization.* This approach organizes work units based on the goods and services a company offers. The "Hit & Miss" feature explains how IBM, which once struggled to turn its research and development ideas into competitive products, is now using independent divisions, called "emerging business opportunities" or EBOs, to take ideas from the research lab to the marketplace. EBOs are a special kind of product departmentalization.
- *Geographical departmentalization.* This form organizes units by geographical regions within a country or, for a multinational firm, by region throughout the world. Some retailers, such as Dillard's, are organized by divisions that serve different parts of the country. Railroads and gas and oil distributors also favor geographical departmentalization.
- *Customer departmentalization.* A firm that offers a variety of goods and services targeted at different types of customers might structure itself based on customer departmentalization. Management of 3M's 50,000 products is divided among seven business units: consumer and office; display and graphics; electro and communications; healthcare; industrial; safety, security, and protection services; and transportation.[33]
- *Functional departmentalization.* Some firms organize work units according to business functions such as finance, marketing, human resources, and production. An advertising agency may create departments for creatives (say, copywriters), media buyers, and account executives.
- *Process departmentalization.* Some goods and services require multiple work processes to complete their production. A manufacturer may set up separate departments for cutting material, heat-treating it, forming it into its final shape, and painting it.

As Figure 8.7 on page 276 illustrates, a single company may implement several different departmentalization schemes. The departments initially are organized by functions and then subdivided by geographical areas, which are further organized according to customer types. In deciding on a form of departmentalization, managers take into account the type of product they produce, the size of their company, their customer base, and the locations of their customers.

HIT & MISS

IBM Refocuses on Emerging Business Opportunities

Sometimes it's difficult for a large organization to move quickly. With 300,000 people creating $80 billion in annual revenue, IBM is among the world's largest and most successful companies. Yet a few years ago, it watched nimble start-up companies such as Cisco and Oracle turn its own innovations, such as the relationship database and the router, into profitable real-world applications.

Lou Gerstner Jr., then chairman and CEO, decided to change the pattern. IBM's researchers won record-breaking numbers of awards and patents every year, but the company's short-term focus on cutting department costs hampered them in developing their concepts. "Everything was based on the current period, not on the future," says one of the company's strategic planners. Another problem was that inexperienced employees were put in charge of developing risky new ideas. "We were not putting the best and brightest talent on this," says the company's senior vice president for strategy.

Now, however, star performers such as Ron Adkins, who once ran the $4 billion Unix computing division, are given the job of growing specific new ideas into businesses in what IBM calls "emerging business opportunities," or EBOs. Begun in 2000 with the goal of creating about $2 billion of new revenue a year, the EBO program has launched 22 successful projects out of 25 started, with combined annual revenues of $15 billion. Growing at about 40 percent a year, the program is not only attracting talented managers but also changing the company's culture. "Through EBOs, IBM has become more of a learning organization," says one EBO leader. "We've become more willing to experiment, more willing to accept failure, learn from it, and move on. It's more a part of our culture and our official processes. Now being an EBO leader is a really desirable job at IBM."

That's quite a change from Ron Adkins's reaction to being placed in charge of the pilot EBO in 2000. His operation now earns $2.4 billion a year in sales of wireless technology applications. But stripped of his 35,000 Unix employees and his operating budget, Adkins at first thought he'd been fired. "Geez," he recalls thinking. "What do I tell my mom?"

Questions for Critical Thinking

1. Do you think the creation of the EBO program shifted IBM's corporate strategy? Why or why not?
2. How would you characterize the relationship between corporate strategy and corporate culture, using IBM as an example?

Sources: "Background," accessed June 27, 2006, IBM http://www.ibm.com/us; Alan Deutschman, "Building a Better Skunk Works," *Fast Company,* accessed June 27, 2006, http://www.fastcompany.com; Martin LaMonica, "Does IBM's Success Herald a Software Comeback?" CNet News.com, accessed June 27, 2006, http://news.com.com; Michael Kanellos, "Research: From Lab to Market," CNet News.com, accessed June 27, 2006, http://news.com.com.

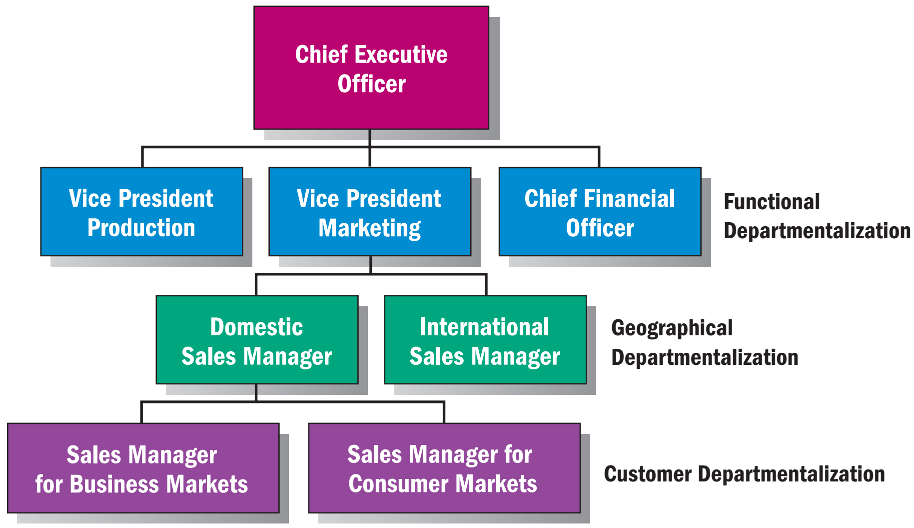
Delegating Work Assignments

After grouping activities into departments, managers assign this work to employees. The act of assigning activities to employees is called **delegation.** Managers delegate work to free their own time for planning and decision making. Subordinates to whom managers assign tasks thus receive responsibility, or obligations to perform those tasks. Along with responsibilities, employees also receive authority, or the power to make decisions and to act on them so they can carry out their responsibilities. Delegation of responsibility and authority makes employees accountable to their supervisor or manager. *Accountability* means that employees are responsible for the results of the ways they perform their assignments; they must accept the consequences of their actions.

delegation act of assigning work activities to subordinates.

Authority and responsibility tend to move downward in organizations, as managers and supervisors delegate work to subordinates. However, accountability moves upward, as managers assume final accountability for performance by the people they manage.

Figure 8.7 Different Forms of Departmentalization within One Company



Span of Management The **span of management,** or *span of control,* is the number of subordinates a manager supervises. The subordinates are often referred to as *direct reports.* First-line managers have wider spans of management, monitoring the work of many employees. The span of management varies considerably depending on many factors, including the type of work performed and employees' training. In recent years, a growing trend has brought ever wider spans of control, as companies have reduced their layers of management to flatten their organizational structures, in the process increasing the decision-making responsibility they give employees.

span of management number of subordinates a manager can supervise effectively.

Centralization and Decentralization How widely should managers disperse decision-making authority throughout an organization? A company that emphasizes **centralization** retains decision making at the top of the management hierarchy. A company that emphasizes **decentralization** locates decision making at lower levels. A trend toward decentralization has pushed decision making down to operating employees in many cases. Firms that have decentralized believe that the change can enhance their flexibility and responsiveness in serving customers. Christine Poon is executive vice chairman at Johnson & Johnson in charge of pharmaceuticals and biotechnology. With more than 220 different business units worldwide, Johnson & Johnson has to rely on decentralization. Says Poon, "The most important thing a leader can do is find good people and match them with what they like to do and what they're good at." Why this employee focus? Because "you can't run a company of more than 100,000 people waiting for the [people at the] top to tell them what to do."[34]

AFP/GETTY IMAGES

Kip Stone founded his T-shirt design and production business, Artforms, in Westbrook, Maine, and worked for fifteen years to build it into a first-class company. Once Artforms was on stable footing, he decided to pursue his other passion—competitive ocean sailing. So instead of hiring hard workers that he would manage, he focused on hiring managers with expertise in accounting, production, inventory, and sales to whom he could delegate daily decision-making authority. Both Artforms and Stone have thrived as a result.

Types of Organization Structures

The four primary types of organization structures are line, line-and-staff, committee, and matrix structures. These terms do not specify mutually exclusive categories, though. In fact, most modern organizations combine elements of one or more of these structures.

Line Organizations A **line organization,** the oldest and simplest organization structure, establishes a direct flow of authority from the chief executive to subordinates. The line orga-

40523_08_c08_p251-285.qxd 9/13/06 7:44 AM Page 277

nization defines a simple, clear **chain of command**—a set of relationships that indicates who gives direction to whom and who reports to whom. This arrangement helps prevent buck passing. Decisions can be made quickly because the manager has authority to control subordinates' actions.

A line organization has an obvious defect, though. Each manager must accept complete responsibility for a number of activities and cannot possibly be an expert in all of them. This defect is apparent in midsize and large firms, where the pure line structure fails to take advantage of the specialized skills that are so vital to business today. Managers become overburdened with details and paperwork, leaving them little time for planning.

As a result, the line organization is an ineffective model in any but the smallest organizations. Hair-styling salons, so-called mom-and-pop grocery stores, and small law firms can operate effectively with simple line structures. The Coca-Cola Company, General Electric, and ExxonMobil cannot.

chain of command set of relationships that indicates who directs which activities and who reports to whom.

"They Said It"

"The university is incapable of ordering blackboard erasers in quantities of more than six without a committee."

—Lawrence H. Summers (b. 1954) Former President, Harvard University

Line-and-Staff Organizations A **line-and-staff organization** combines the direct flow of authority of a line organization with staff departments that support the line departments. Line departments participate directly in decisions that affect the core operations of the organization. Staff departments lend specialized technical support. Examples of staff departments include labor relations, legal counsel, and information technology. Figure 8.8 illustrates a line-and-staff organization. Accounting, engineering, and human resources are staff departments that support the line authority extending from the plant manager to the production manager and supervisors.

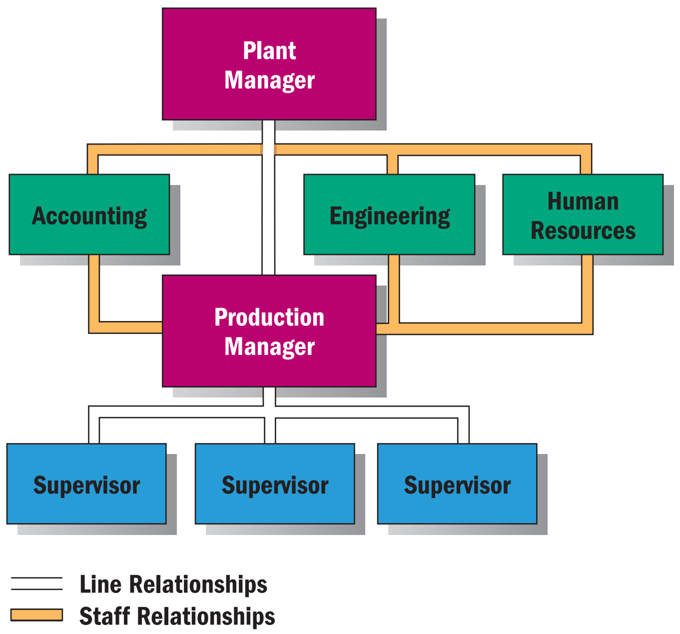
A line manager and a staff manager differ significantly in their authority relationships. A **line manager** forms part of the primary line of authority that flows throughout the organization. Line managers interact directly with the functions of production, financing, or marketing—the functions needed to produce and sell goods and services. A **staff manager** provides information, advice, or technical assistance to aid line managers. Staff managers do not have authority to give orders outside their own departments or to compel line managers to take action.

The line-and-staff organization is common in midsize and large organizations. It is an effective structure because it combines the line organization's capabilities for rapid decision making and direct communication with the expert knowledge of staff specialists.

Committee Organizations A **committee organization** is a structure that places authority and responsibility jointly in the hands of a group of individuals rather than a single manager. This model typically appears as part of a regular line-and-staff structure. Examples of the committee structure emerge throughout organizations at one point in time. Nordstrom, the department store chain, once had an "office of the co-presidency" in which six members of the Nordstrom family shared the top job.

Committees also work in areas such as new-product development. A new-product committee may include managers from such areas as accounting, engineering, finance, manufacturing, marketing, and technical research. By including representatives from all areas involved in creating and marketing products, such a committee generally improves planning and employee morale because decisions reflect diverse perspectives.

Figure 8.8 Line-and-Staff Organization

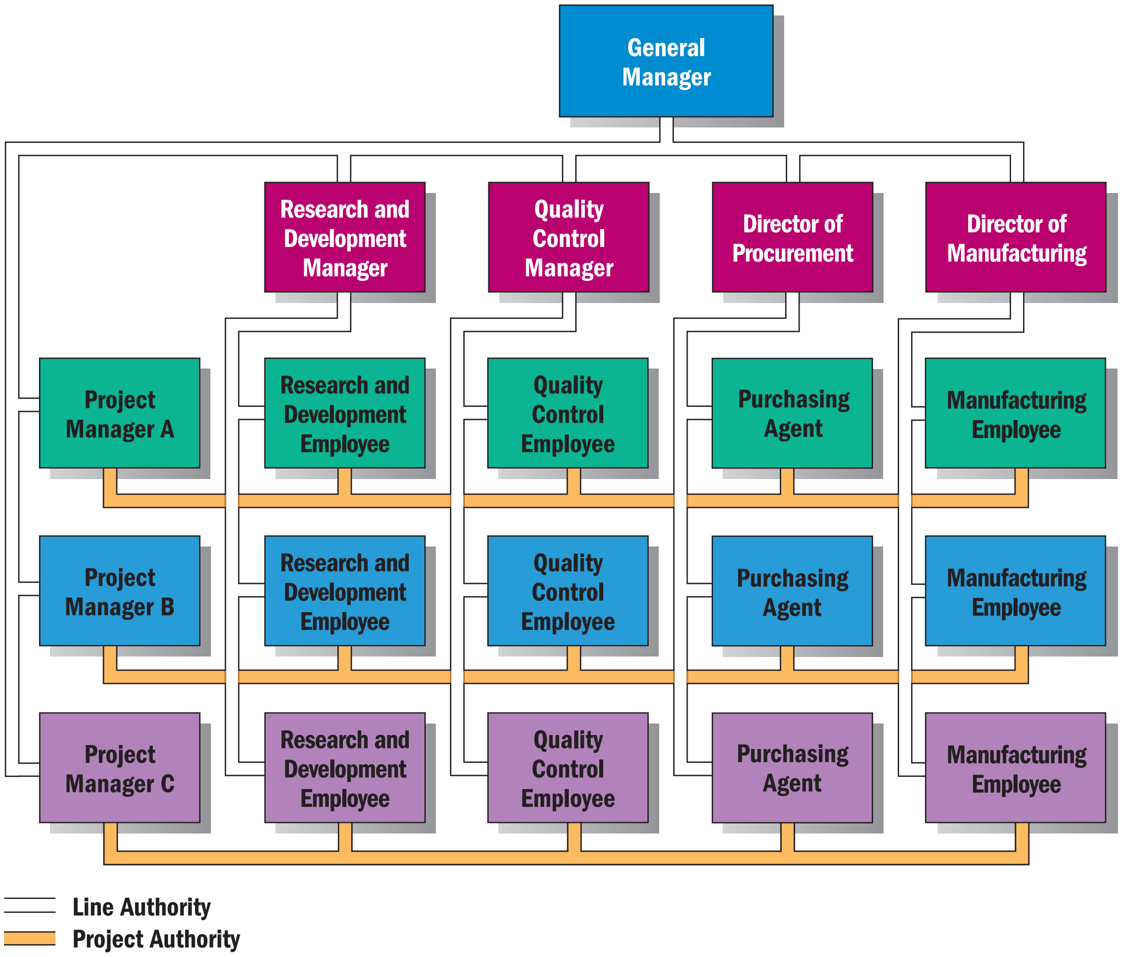


Committees tend to act slowly and conservatively, however, and they often make decisions by compromising conflicting interests rather than by choosing the best alternative. The definition of a camel as "a racehorse designed by committee" provides an apt description of some limitations of committee decisions. At Nordstrom, the six-person office of the co-presidency was eventually abandoned for a more traditional structure.

Matrix Organizations Some organizations use the **matrix,** or project management, **structure.** This structure links employees from different parts of the organization to work together on specific projects. Figure 8.9 diagrams a matrix structure. For a specific project, a project manager assembles a group of employees from different functional areas. The employees retain their ties to the line-and-staff structure, as shown in the vertical white lines. As the horizontal gold lines indicate, however, employees are also members of project teams. Upon completion of a project, employees return to their "regular" jobs.

In the matrix structure, each employee reports to two managers: one line manager and one project manager. Employees who are selected to work on a special project, such as development of a new product, receive instructions from the project manager (horizontal authority), but they continue as employees in their permanent functional departments (vertical authority). The term *matrix* comes from the intersecting grid of horizontal and vertical lines of authority.

Figure 8.9 Matrix Organization



The matrix structure has become popular at high-technology and multinational corporations, as well as hospitals, consulting firms, and aerospace firms. Dow Chemical and Procter & Gamble have both used matrix structures. The National Aeronautics and Space Administration used the matrix structure for its Mercury and Apollo space missions.

The major benefits of the matrix structure come from its flexibility in adapting quickly to rapid changes in the environment and its capability of focusing resources on major problems or products. It also provides an outlet for employees' creativity and initiative, giving them opportunities that their functional jobs may deny them. However, it challenges the project manager to integrate the skills of specialists from many departments into a coordinated team. Another disadvantage is that employees may be confused and frustrated in reporting to two bosses. Dick Nicholson, who worked for a packaging manufacturer that used a matrix design, found it frustrating. Nicholson said, "Everyone who could fog a mirror thought he was my boss." When asked whether that simplified who was in charge, he responded, "It didn't in my experience. Everyone just became a boss."[35]

assessment check

1. What is the purpose of an organization chart?
2. What are the five major forms of departmentalization?
3. What does span of management mean?

WHAT'S AHEAD

In the next chapter, we sharpen our focus on the importance of people—the human resource—in shaping the growth and profitability of the organization. We examine how firms recruit, select, train, evaluate, and compensate employees in their attempts to attract, retain, and motivate a high-quality workforce. The concept of motivation is examined, and we will discuss how managers apply theories of motivation in the modern workplace. The next chapter also looks at the important topic of labor–management relations.

Summary of Learning Goals

1 Define *management* and the three types of skills necessary for managerial success.

Management is the process of achieving organizational objectives through people and other resources. The management hierarchy depicts the levels of management in organizations: Top managers provide overall direction for company activities, middle managers implement the strategies of top managers and direct the activities of supervisors, and supervisors interact directly with workers. The three basic managerial skills are technical skills, or the ability to apply the techniques, tools, and knowledge of a specific discipline or department; human skills, which involve working effectively with and through people; and conceptual skills, or the capability to see an overall view of the organization and how each part contributes to its functioning.

Assessment Check Answers

1.1 What is management?
Management is the process of achieving organizational objectives through people and other resources. The manager's job is to combine human and technical resources in the best way possible to achieve the company's goals.

1.2 How do the jobs of top managers, middle managers, and supervisory managers differ?
Top managers develop long-range plans, set a direction for their organization, and inspire managers and employees to achieve the company's vision. Middle managers focus on specific operations, products, or customer groups and develop detailed plans and procedures to implement the firm's strategic plans. Supervisory managers are directly responsible for

evaluating the performance of nonmanagerial employees who produce and sell the firm's goods and services. They are responsible for implementing the plans developed by middle managers and motivating workers to accomplish daily, weekly, and monthly goals.

1.3 What is the relationship between the manager's planning and controlling functions?
Controlling is evaluating an organization's performance to determine whether it is accomplishing its objectives. The basic purpose of controlling is to assess the success of the planning function. Controlling also provides feedback for future rounds of planning.

2 Explain the role of vision and ethical standards in business success.

Vision is the ability to perceive the needs of the marketplace and develop methods for satisfying those needs. Vision helps new businesses pinpoint the actions needed to take advantage of opportunities. In an existing firm, a clear vision of company purpose helps unify the actions of far-flung divisions, keep customers satisfied, and sustain growth. Setting high ethical standards helps a firm survive and be successful over the long term. Behaving ethically places an organization's constituents—those to whom it is responsible—at the top of its priorities. It also goes beyond avoiding wrongdoing to encouraging, motivating, and inspiring employees.

Assessment Check Answers

2.1 What is meant by a vision for the firm?
A vision serves as the target for a firm's actions, helping direct the company toward opportunities and differentiating it from its competitors. Vision must be focused and yet flexible enough to adapt to changes in the business environment.

2.2 Why is it important for a top executive to set high ethical standards?
When top managers engage in unethical behavior, their actions encourage others to do the same. Legal charges, fines, prison time, financial losses, and bankruptcy can result. Because they set the standards for others, executives need to focus on achieving personal and organizational success in ethical ways.

3 Summarize the major benefits of planning and distinguish among strategic planning, tactical planning, and operational planning.

The planning process identifies organizational goals and develops the actions necessary to reach them. Planning helps a company turn vision into action, take advantage of opportunities, and avoid costly mistakes. Strategic planning is a far-reaching process. It views the world through a wide-angle lens to determine the long-range focus and activities of the organization. Tactical planning focuses on the current and short-range activities required to implement the organization's strategies. Operational planning sets standards and work targets for functional areas such as production, human resources, and marketing.

Assessment Check Answers

3.1 Outline the planning process.
Some plans are very broad and long range, focusing on key organizational objectives; others are more detailed and specify how particular objectives will be achieved. From the mission statement to objectives to specific plans, each phase must fit into a comprehensive planning framework.

3.2 Describe the purpose of tactical planning.
The purpose of tactical planning is to determine which short-term activities should be implemented to accomplish the firm's overall strategy.

3.3 Compare the kinds of plans made by top managers and middle managers. How does their focus differ?
Top managers focus on long-range, strategic plans. In contrast, middle-level managers and supervisors focus on short-term, tactical planning.

4 Describe the strategic planning process.

The first step of strategic planning is to translate the firm's vision into a mission statement that explains its overall intentions and aims. Next, planners must assess the firm's current competitive position, using tools such as SWOT analysis—which weighs the firm's strengths, weaknesses, opportunities, and threats—and forecasting. Based on this information, managers set specific objectives that elaborate what the organization hopes to accomplish. The next step is to develop strategies for reaching objectives that will differentiate the firm from its competitors. Managers then develop an action plan that outlines the specific methods for implementing the strategy. Finally, the results achieved by the plan are evaluated, and the plan is adjusted as needed.

Assessment Check Answers

4.1 What is the purpose of a mission statement?
A mission statement is a public declaration of a firm's purpose, the reason it exists, the customers it will serve, and the way it is different from competitors. A mission statement guides the actions of company managers and employees.

4.2 Which of the firm's characteristics does a SWOT analysis compare?
A SWOT analysis determines a firm's strengths, weaknesses, opportunities, and threats relative to its competitors. In other words, SWOT analysis helps determine a firm's competitive position in the marketplace.

4.3 How do managers use objectives?
Objectives, which are derived from the firm's mission statement, are used to define desired performance levels in areas such as profitability, customer service, and employee satisfaction.

5 Contrast the two major types of business decisions and list the steps in the decision-making process.

A programmed decision applies a company rule or policy to solve a frequently occurring problem. A nonprogrammed decision forms a response to a complex and unique problem with important consequences for the organization. The five-step approach to decision making includes recognizing a problem or opportunity, developing alternative courses of action, evaluating the alternatives, selecting and implementing an alternative, and following up the decision to determine its effectiveness.

Assessment Check Answers

5.1 Compare and contrast programmed and nonprogrammed decisions.
Because programmed decisions are simple and common and recur frequently, rules and policies can be established to eliminate the time-consuming process of identifying and evaluating alternatives and making new decisions each time a programmed situation occurs. By using rules and procedures to save time with programmed decisions, managers can devote more of their time to more complex nonprogrammed decisions.

5.2 What are the steps in the decision-making process?
The decision-making process begins when someone recognizes a problem or opportunity, develops potential courses of action to solve the problem, evaluates the alternatives, selects and implements one of them, and assesses the outcome of the decision.

6 Define *leadership* and compare different leadership styles.

Leadership is the act of motivating others or causing them to perform activities designed to achieve specific objectives. The basic styles are autocratic, democratic, and free-rein leadership. The best leadership style depends on three elements: the leader, the followers, and the situation. Today's leaders tend increasingly to involve employees in making decisions about their work.

Assessment Check Answers

6.1 How is leadership defined?
Leadership means directing or inspiring people to attain organizational goals. Effective leaders share several traits, such as empathy, self-awareness, and objectivity in dealing with others. Leaders also use the power of their jobs, expertise, and experience to influence others.

6.2 Identify the styles of leadership as they appear along a continuum of greater or lesser employee participation.
At one end of the continuum, autocratic leaders make decisions without consulting employees. In the middle of the continuum, democratic leaders ask employees for suggestions and encourage participation. At the other end of the continuum, free-rein leaders leave most decisions to their subordinates.

7 Discuss the meaning and importance of corporate culture.

Corporate culture refers to an organization's principles, beliefs, and values. It is typically shaped by a firm's founder and perpetuated through formal programs such as training, rituals, and ceremonies, as well as through informal discussions among employees. Corporate culture can influence a firm's success by giving it a competitive advantage.

Assessment Check Answers

7.1 What is the relationship between leadership style and corporate culture?
The best leadership style to adopt often depends on the organization's corporate culture and its system of principles, beliefs, and values. Managerial philosophies, communications networks, and workplace environments and practices all influence corporate culture.

7.2 What is a strong corporate culture?
A corporate culture is an organization's system of principles, beliefs, and values. In an organization with a strong culture, everyone knows and supports the same principles, beliefs, and values. A company with weak or constantly shifting culture lacks a clear sense of purpose.

8 Identify the five major forms of departmentalization and the four main types of organization structures.
The subdivision of work activities into units within the organization is called *departmentalization.* It may be based on products, geographical locations, customers, functions, or processes. Most firms implement one or more of four structures: line, line-and-staff, committee, and matrix structures. Each structure has advantages and disadvantages.

Assessment Check Answers

8.1 What is the purpose of an organization chart?
An organization chart is a visual representation of a firm's structure that illustrates job positions and functions.

8.2 What are the five major forms of departmentalization?
Product departmentalization organizes units by the different goods and services a company offers. Geographical departmentalization organizes units by geographical regions within a country or, for a multinational firm, by regions throughout the world. Customer departmentalization organizes units by different types of customers. Functional departmentalization organizes units by business functions such as finance, marketing, human resources, and production. Process departmentalization organizes units by the steps or work processes it takes to complete production or provide a service.

8.3 What does *span of management* mean?
The span of management, or span of control, is the number of subordinates a manager supervises.

Business Terms You Need to Know

management 254
planning 258
vision 259
mission statement 263
objectives 266
decision making 267
leadership 269
corporate culture 271
organization 272
departmentalization 274
delegation 275
span of management 276
chain of command 277

Other Important Business Terms

top management 255
middle management 255
supervisory management 256
technical skills 256
human skills 257
conceptual skills 257
organizing 258
directing 258
controlling 258
strategic planning 261
tactical planning 261
operational planning 261
contingency planning 261
SWOT analysis 264
competitive differentiation 266
programmed decision 267
nonprogrammed decision 268
autocratic leadership 270
democratic leadership 270
empowerment 270
free-rein leadership 270
organization chart 273
centralization 276
decentralization 276
line organization 276
line-and-staff organization 277
line manager 277
staff manager 277
committee organization 277
matrix structure 278

Review Questions

1. What is a management hierarchy? In what ways does it help organizations develop structure? In what ways could it be considered obsolete?
2. What are the three basic types of skills that managers must possess? Which type of skill is most important at each management level?
3. Identify and describe the four basic functions of managers.
4. Why is a clear vision particularly important for companies that have numerous operations around the country or around the world? Cite an example.
5. Which type of planning is most far-reaching? How does this type of planning affect other types of planning?
6. Suppose you planned a large cookout for your friends, but when you woke up on the morning of the party, it was pouring rain. What type of plan would allow you to cope with this situation? Specifically, what could you do?
7. As a student, you have a mission in school. Write your own mission statement for your education and program, including your goals and the ways you plan to accomplish them.
8. Identify each of the following as a programmed or nonprogrammed decision:
   a. reordering printer cartridges
   b. selecting a cell phone provider
   c. buying your favorite toothpaste and shampoo at the supermarket
   d. selecting a college to attend
   e. filling your car with gasoline
9. Identify the traits that are most often associated with great leaders. Which trait would be most important in the leader of a large corporation? A small company? Why?
10. Why is a strong corporate culture important to a company's success? Relate your answer to a specific firm.

Projects and Teamwork Applications

1. Create a résumé for yourself, identifying your technical skills, human skills, and conceptual skills. Which set of skills do you think is your strongest? Why?
2. Think of a company with which you are familiar—either one you work for or one with whom you conduct business as a customer. Consider ways in which the organization can meet the needs of its marketplace. Then write a sentence or two describing what you think the organization's vision is—or should be.
3. Conduct your own SWOT analysis for a company with which you are familiar. Visit the organization's Web site to learn as much about the company as you can before stating your conclusions. Be as specific as possible in identifying your perceptions of the company's strengths, weaknesses, opportunities, and threats.
4. Identify a classmate or college friend who you think is a good leader. Describe the traits that you think are most important in making this person an effective leader.
5. Your school has its own organizational culture. Describe what you perceive to be its characteristics. Is the culture strong or weak? How does the culture affect you as a student?

Case 8.1

Kraft's Recipe for Success

Imitation is said to be the sincerest form of flattery, but when copycats undercut your prices and take business away, it's hard to feel complimented. Frustration over market losses to competitors who "borrow" ideas and create cheaper products is one reason Kraft Foods has doubled the number of patent lawyers on its staff. The company is fighting private-label food manufacturers that copy its popular products and sell them for less. Kraft figures that it takes competitors only six to twelve months to copy its new ideas, and part of its drive to nurture its development process and creative packaging ideas is to stem the flow of imitators.

New ideas are the lifeblood of any company, and for Northfield, Illinois–based Kraft, they are a key component of its strategy to be number one in every business it is in. The biggest food company in North America, second in the world only to Nestlé, Kraft has recently been reshaping itself to meet its ambitious goal, following a restructuring plan it calls the Sustainable Growth Plan. Although earnings increases have not been steady, so far the plan seems to be working. The company spent $19 billion to acquire ten competitors in the last few years. But it divested noncore businesses such as Life Savers candies and Altoid mints, selling them to Wrigley for a cool $12.5 billion.

In its new, streamlined form, the company plans to focus on powdered beverages, including those using proprietary technologies that are designed to address vitamin, mineral, and protein deficiencies; cracker chips, led by Ritz Chips in a single-serve package and a new BBQ flavor; a new microwave frozen pizza debuting in several flavors under the DiGiorno Thin Crust brand name; health and wellness products such as the new South Beach Diet line, which is introducing 27 items; and its proprietary Tassimo hot-beverage system, which makes coffee-shop-quality cappuccinos, lattes, and hot tea and hot chocolate at home. Says CEO Roger K. Deromedi, "We want the products that consumers and retailers are more excited about." In other words, Kraft wants to concentrate on the blockbuster brands that can rise to the top of their categories worldwide.

Because consolidation in the retail market has left manufacturers such as Kraft with fewer customers to sell to, Kraft also wants what giant retailers such as Wal-Mart want, which increasingly means fast-selling products that dominate their market. For instance, weight-conscious shoppers are expected to appreciate innovations such as the 100-calorie packages of favorite brands Chips Ahoy, Cheese Nips, Honey Maid Cinnamon Grahams, Ritz crackers, and Wheat Thins. Not merely repackaged snacks in single servings, these products feature reduced sugar and fat content that makes them more like crackers than cookies. Kraft also hopes the new DiGiorno pizza line will hit it big and bring in $75 million in sales, and its South Beach brand has a goal of reaping another $100 million. To reach those numbers, Kraft has increased its marketing budget by about $550 million and has committed to continue increasing its outlays for advertising and product development.

One potential stumbling block to Kraft's new strategy is that in the past it has risked saturating stores with too many variations of existing products, such as multiple varieties of Oreo cookies, instead of delivering truly new products as other consumer goods companies such as Procter & Gamble consistently manage to do. And, like all food producers, Kraft struggles with rising costs, driven by increased prices for raw materials such as coffee and nuts and for essentials such as energy and packaging materials. Hikes here could cost the company $600 million a year and force it to raise its own prices. Meanwhile, competitor Procter & Gamble is introducing reduced-fat Pringles chips in 100-calorie packs, and Kraft's drive to differentiate itself and reach number one in every category continues.

Questions for Critical Thinking

1. What strategies can Kraft adopt that will allow it to succeed in the market for calorie-controlled foods such as its 100-calorie packs and South Beach Diet products? How can the company ensure that they do not undercut sales of its traditional snack products or lose out to competitors' efforts?
2. What are some of the possible downsides of the company's restructuring plan of selling off marginal or secondary businesses and acquiring competitors? What are some of the immediate and long-term advantages?

Sources: Melanie Warner, "Goodies in Small Packages Prove to Be a Big Hit," *New York Times,* accessed June 27, 2006, http://www.nytimes.com; "Brand Close-Ups," Kraft Foods, accessed January 17, 2006, http://www.kraft.com; Shirley A. Lazo, "The Big Cheese: Kraft Foods Slices Costs and Serves a Payout Hike," *Barron's,* August 29, 2005, http://online.barrons.com; "Kraft to Double Patent Lawyers," *Food & Drug Packaging,* accessed June 1, 2005, http://www.fdp.com; Michael Arndt, "Why Kraft Is on a Crash Diet," *BusinessWeek,* November 29, 2004, http://www.businessweek.com.

VIDEO

Case 8.2

Made in the U.S.A.: American Apparel

This video case appears on page 616. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.