

PART

2

The Business of Managing



Corporate culture, organizational structure, employee diversity, and motivation are four issues you will read about in the opening cases of Chapters 6 to 9. These and many other management issues must be dealt with if companies hope to grow and prosper. Managers in all business firms—indeed, in any kind of organization—must carry out the basic management functions of planning, organizing, leading, and controlling. These important functions are the focus of this section of the text.

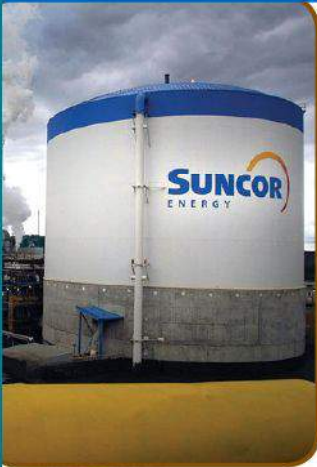
Part Summary

Part 2, The Business of Managing, provides an overview of business management today. It includes a look at the importance of managers in business firms, how businesses are structured to achieve their goals, the management of the firm's human resources, and the importance of motivating and leading employees.

- We begin in **Chapter 6, Managing the Business Enterprise**, by describing how managers set goals and choose corporate strategies. The basic functions of management—planning, organizing, leading, and controlling—are examined, as are the different types and levels of managers that are found in business firms, and the corporate culture that is created in each firm.
- In **Chapter 7, Organizing the Business Enterprise**, we look at the basic organizational structures that companies have adopted, and the different kinds of authority that managers can have. The impact of the informal organization is also examined.
- In **Chapter 8, Managing Human Resources and Labour Relations**, we explore the activities that are necessary to effectively manage employees, including assessing employee needs, training, promoting, and compensating employees. We also look at the union movement in Canada, why and how workers organize, how government legislation has affected workers' rights to organize into unions, and how management and labour interact.
- In **Chapter 9, Motivating, Satisfying, and Leading Employees**, we examine the important issues of motivation and leadership. We look at the reasons why firms should establish good relationships with their employees, how managers' attempts to maintain productivity can affect their relations with employees, and the approaches to leadership that have developed over time.

chapter

6



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Managing the Business Enterprise

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After reading this chapter, you should be able to:

- LO-1** Describe the four activities that constitute the *management process*.
- LO-2** Identify *types of managers* by level and area.
- LO-3** Describe the five basic *management skills*.
- LO-4** Explain the importance of *goal setting and strategic management* in organizational success.
- LO-5** Discuss *contingency planning and crisis management* in today's business world.
- LO-6** Explain the idea of *corporate culture* and why it is important.

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Corporate Culture

The term “corporate culture” refers to the shared experiences, values, norms, and ethical stance that characterize an organization. It is important for managers to understand the concept of corporate culture because culture influences the behaviour of employees, and that, in turn, influences corporate performance. Consider these examples of corporate culture:

- At WestJet, employees have a big stake in the company’s success because of profit-sharing, and they contribute ideas about how to best run the airline. For example, a group has formed that calls itself the WestJesters. They do things like develop the cornball jokes that WestJet flight attendants tell during flights.
- The culture of the Toronto Blue Jays Baseball Club is making employees feel like they are part of a family. To facilitate the culture, former CEO Paul Godfrey invited small groups of employees to have “snacks with the president” so they could talk about how the operation of the organization. Godfrey encouraged questions from employees on virtually any topic.
- The culture of Suncor is open and non-bureaucratic, and the company has a clear strategy that employees can relate to. The company hires many new people, so it must take steps to ensure that the new employees understand the “soul” of Suncor.
- At Wellington West Holdings Inc., the culture is simple, personal, and fun.

Companies that focus largely on one type of product (for example, Starbucks) may have a fairly homogeneous culture throughout the organization. But large companies with many different divisions and many different types of customers (for example, the Royal Bank of Canada) are likely to have several different subcultures because the various divisions pursue different goals, and because different types of people are found in the different divisions.

How Will This Help Me?

After reading this chapter, you will have a clearer understanding of how to effectively carry out various management responsibilities. From the perspective of a *consumer* or *investor*, you’ll be better able to assess and appreciate the quality of management in various companies.

Culture Surveys

Waterstone Human Capital is a Toronto-based executive search firm that publishes a 10 Most Admired Corporate Cultures list each year. Companies on the list in 2009 included Ceridian Canada, Acklands-Grainger Inc., Corus Entertainment, Starbucks Canada, and Walmart Canada. The 10 companies on the list had compound annual growth rates for the period 2005–2008 that were triple those of the TSX/S&P index.

Many companies do not systematically monitor their corporate culture, but Starbucks does. Once every 18 months, employees fill out a Partner View survey, which contains questions that are designed to help the company determine whether it is making progress toward one of its key values—providing a work environment where people treat one another with respect and dignity. The survey is voluntary, but about 90 percent of employees fill it out (on company time). One reason the participation rate is so high is that the company actually pays attention to what employees say in the survey. For example, when one survey showed that employees were not clear about career progression possibilities in the company, Starbucks held career fairs in several Canadian cities where company managers spoke with employees about management opportunities at Starbucks.

Some culture surveys assess the business culture of countries rather than individual businesses. In summarizing the perceptions of 4875 people from 22 countries, the 2010 Edelman Trust Barometer ranked Canada and Sweden as the most trusted business cultures, and Russia and China as the least trusted cultures. Survey respondents said that trust—being able to count on business to do the right thing—was even more important than the quality of goods that companies produce.

Cultural Change

Companies sometimes decide that they need to change their culture. A realization of the need for change usually comes after top management sees that changes in the company's external environment are going to require some sort of response from the company. But just because someone recognizes the need for change does not mean that the change will actually be implemented; changing an organization's culture can be very difficult.

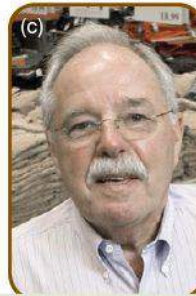
In 2007, several RCMP officers alleged that senior management was covering up mismanagement of the RCMP's pension and insurance plans. As a result of these charges, lawyer David Brown was appointed by the government to look into the matter. His report concluded that Commissioner Giuliano Zaccardelli had exercised absolute power, that no one questioned his management style, and that there was a "tone" at the top of the organization that resulted in little respect for employees and put pressure on them to not challenge authority. The report also said that whistleblowers within the RCMP were punished when they pointed out that there were problems. The report concluded that the culture and management structure at the RCMP was "horribly broken." These developments are discouraging, since a few years earlier the RCMP had completed a "visioning" process that resulted in a new mission statement, a new set of core values, and a commitment to the communities where it worked. At that time, it was reported that the culture of the RCMP was quite different from what it was in the days when military tradition dominated the organization, but subsequent events suggested that the culture had not actually changed.

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Who Are Managers?

All businesses depend on effective management. Regardless of the type of business they work in, managers perform many of the same basic functions, are responsible for many of the same tasks, and have many of the same responsibilities. All managers must make plans, organize their work, direct the work of subordinates, and control operations.

Although our focus is on managers in *business* settings, the principles of management apply to all kinds of organizations. Managers work in charities, churches, community organizations, educational institutions, and government agencies. The prime minister of Canada, the president of the University of Toronto, the executive director of the United Way, the dean of your business school, and the chief administrator of your local hospital are all managers. Remember, too, that managers bring to small



As top managers (a) Marjorie Scardino (CEO of Pearson PLC), (b) Calin Rovinescu (president and CEO of Air Canada), and (c) James Sinegal (co-founder and CEO of Costco) are important resources for their companies. They set the strategic direction for their companies and provide leadership to other managers. They are also accountable to shareholders, employees, customers, and other key constituents for the performance and effectiveness of their businesses.

MANAGEMENT
The process of planning, organizing, leading, and controlling a business's financial, physical, human, and information resources in order to achieve its goals.

EFFICIENCY
Achieving the greatest level of output with a given amount of input.

EFFECTIVENESS
Achieving set organizational goals.

PLANNING That portion of a manager's job concerned with determining what the business needs to do and the best way to achieve it.

organizations many of the skills that they bring to large ones. Regardless of the nature and size of an organization, managers are among its most important resources.

LO-1 The Management Process

Management is the process of planning, organizing, leading, and controlling an enterprise's financial, physical, human, and information resources to achieve the organization's goals. There are two important overall points to keep in mind when thinking about the management process. First, the planning, organizing, leading, and controlling aspects of a manager's job are interrelated. This means that a manager is likely to be engaged in all these activities during the course of any given business day.

Second, there is a difference between management effectiveness and management efficiency. **Efficiency** means achieving the greatest level of output with a given amount of input. **Effectiveness**, on the other hand, means achieving organizational goals that have been set. Thus, efficiency means doing things right, while effectiveness means doing the right things. A manager who focuses on being effective will likely also be efficient, but a manager who focuses on being efficient may or may not be effective. The box entitled "What Do Managers Actually Do?" explains the nature of managerial jobs.

Planning

Planning is the process of determining the firm's goals and developing a strategy for achieving those goals. The planning process involves five steps:

- In *step 1*, goals are established for the organization. A commercial airline, for example, may set a goal to fill

90 percent of the seats on each flight.

- In *step 2*, managers identify whether a gap exists between the company's desired and actual position. For example, the airline may analyze load data and find that only 73 percent of the seats on the average flight are filled.
- In *step 3*, managers develop plans to achieve the desired objectives. For example, the airline may reduce fares on heavily travelled routes in order to increase the percentage of the seats that are filled.
- In *step 4*, the plans that have been decided upon are implemented. For example, the fare from Toronto to Montreal may be reduced by 10 percent.
- In *step 5*, the effectiveness of the plan is assessed. The airline would measure the percentage of seats that were filled after the change was implemented to determine whether the goal was reached.

McDonald's experience in Canada over the past decade demonstrates the importance of planning. Until 2002, McDonald's was the largest fast-food chain in Canada. But then it was overtaken by Tim Hortons. In response to this development, McDonald's set a goal to reinvent itself and begin to grow again (*step 1*). The gap between where McDonald's was and where it wanted to be (*step 2*) was obvious, so McDonald's top managers developed a strategic plan (called "Plan to Win") in order to achieve the new objective (*step 3*). This involved developing many new menu items (like the Angus Burger, new salads, and snack wraps), renovating restaurants to look more like contemporary cafés or bistros (with polished stone tabletops and fireplaces), letting franchisees target local tastes with their menus (like the McLobster sandwich in the Maritimes), and

STRATEGIC PLANS

Plans that reflect decisions about resource allocations, company priorities, and steps needed to meet strategic goals.

staying open longer (60 percent of McDonald's restaurants are now open 24 hours a day). These plans were implemented beginning in 2003 and 2004 (step 4). The effectiveness of the plan has now been assessed (step 5). Sales were \$2.9 billion

in 2008 (a record) and \$3 billion in 2009 (another record). These sales levels were achieved in spite of the recession of 2008–2009. McDonald's was one of only two companies in the Dow Jones Industrial Average whose stock price rose during 2008 (the other was Walmart).¹

Because it may be difficult to predict which plans will be successful, some managers use *prediction markets* to help assess future possibilities. This approach involves creating a market where people can buy “shares” in various answers to important questions that need to be answered. At Cisco Systems, for example, 20 employees

in a chip-design unit bought shares based on how many defects they thought they would find in a new product (each share represented a range of possible number of defects). The winner of the game received an iPod. The actual number of defects found in the new chip was in the range that was predicted by the group. Other companies that use prediction markets include Microsoft, Best Buy, and Hewlett-Packard.²

A Hierarchy of Plans Plans can be made on three general levels, with each level reflecting plans for which managers at that level are responsible. These levels constitute a hierarchy because implementing plans is practical only when there is a logical flow from one level to the next. **Strategic plans** reflect decisions about resource allocations, company priorities, and the steps needed to meet strategic goals, and are usually set by top management. Procter & Gamble's strategy to have its products rank first or second in their category is an example of a

MANAGING IN TURBULENT TIMES

What Do Managers Actually Do?

Henry Mintzberg of McGill University conducted a detailed study of the work of five chief executive officers and found that managers work at an unrelenting pace; their activities are characterized by brevity, variety, and fragmentation; they have a preference for “live” action; they emphasize work activities that are current, specific, and well-defined; and they are attracted to verbal media.

Mintzberg says that a manager's formal authority and status give rise to three *interpersonal roles*: (1) *figurehead* (duties of a ceremonial nature, such as attending a subordinate's wedding); (2) *leader* (being responsible for the work of the unit); and (3) *liaison* (making contact outside the vertical chain of command). These interpersonal roles give rise to three *informational roles*: (1) *monitor* (scanning the environment for relevant information); (2) *disseminator* (passing information to subordinates); and (3) *spokesperson* (sending information to people outside the unit). The interpersonal and informational roles allow the manager to carry out four *decision-making roles*: (1) *entrepreneur* (improving the performance of the unit); (2) *disturbance handler* (responding to high-pressure disturbances, such as a strike at a supplier); (3) *resource allocator* (deciding who will get what in the unit); and (4) *negotiator* (working out

agreements on a wide variety of issues, such as the amount of authority an individual will be given).

Managers in a study conducted by Pace Productivity felt that they should have spent about half their time on activities such as managing staff, providing direction, and coaching, but that they actually were able to spend less than 20 percent of their time on “people management.” Managers also thought that they should have spent about 6 percent of their time on administrative tasks, but they actually spent 25 percent of their time on those activities. The amount of time managers thought they should spend on planning was about the same as what they actually spent. Consistent with Mintzberg's original findings, the Pace data also showed that managers' lives are very hectic, and their focus shifts rapidly from activity to activity. For example, Pace identified 43 different activities that lasted an average of just 16 minutes each.

Critical Thinking Questions

1. Why is the work of managers important?
2. Why do you think managers spend less time on “people management” than they think they should, and more time on administrative tasks than they think they should?

strategic plan. We look at strategic planning later in this chapter. **Tactical plans** are shorter-range plans concerned with implementing specific aspects of the company's strategic plans. They typically involve upper and middle management. Coca-Cola's decision to increase sales in Europe by building European bottling facilities is an example of tactical planning. **Operational plans**, which are developed by middle and lower-level managers, set short-term targets for daily, weekly, or monthly performance. McDonald's, for example, establishes operational plans when it explains precisely how Big Macs are to be cooked, warmed, and served.

Organizing

Organizing is the process of deciding which jobs must be performed, and how these jobs should be coordinated so that the company's goals are reached. Most businesses prepare organization charts that diagram the various jobs within the company and how those jobs relate to one another. These charts help everyone understand their job and to whom they report. In many larger businesses, roles and reporting relationships may be too complex to draw as a simple box-and-line diagram.

To help you appreciate the importance of the organizing function, consider the example of Hewlett-Packard (HP). The company was once one of the leading-edge, high-tech firms in the world, but it lost its lustre a few years ago. HP had long prided itself on being a corporate confederation of individual businesses, and sometimes these businesses ended up competing with each other. This approach had been beneficial for much of the firm's history. It was easier for each business to make its own decisions quickly and efficiently, and the competition kept each unit on its toes. By the late 1990s, however, problems had become apparent, and no one could quite figure out what was going on. Ann Livermore, then head of the firm's software and services business, realized that the structure that had worked so well in the past was now holding the company back. To regain its competitive edge, HP needed an integrated, organization-wide strategy. Livermore led the charge to create one organization united behind one strategic plan. Eventually, a new team of top managers was handed control of the company, and every major component of the firm's structure was reorganized. The firm is now back on solid footing and has regained its place as one of the world's top technology businesses.³ We explore the organizing function in more detail in Chapter 7.

Leading

When **leading**, managers guide and motivate workers to meet the company's objectives. Legendary leaders like

Sam Walton (Walmart) and Clive Beddoe (WestJet) were able to unite their employees in a clear and targeted manner, and motivate them to work in the best interests of their employer. While managers do have the power to give orders and demand results, leading goes beyond merely giving orders. Leaders must also have the ability to motivate their employees to set challenging goals and to work hard to achieve them. This is likely to lead to organizational success, which in turn means that employees will respect their leaders, trust them, and believe that by working together, both the firm and its employees will benefit. We discuss the important topic of leadership more fully in Chapter 9.

Controlling

Controlling is the process of monitoring a firm's performance to make sure that it is meeting its goals. Managers at WestJet and Air Canada, for example, focus relentlessly on numerous indicators of performance that they can measure and adjust. Everything from on-time arrivals to baggage-handling

TACTICAL PLANS

Generally, short-range plans concerned with implementing specific aspects of a company's strategic plans.

OPERATIONAL PLANS

Plans setting short-term targets for daily, weekly, or monthly performance.

ORGANIZING

That portion of a manager's job concerned with mobilizing the necessary resources to complete a particular task.

LEADING That portion of a manager's job concerned with guiding and motivating employees to meet the firm's objectives.

CONTROLLING

That portion of a manager's job concerned with monitoring the firm's performance and, if necessary, acting to bring it in line with the firm's goals.



Japanese organizations don't usually like radical restructuring, but when Senichi Hoshino took over the hapless Hanshin Tigers, he axed 24 of the team's 70 players and replaced them with free agents. He required everyone on the roster to compete for a position, tracked performance daily, and made individual coaches directly responsible for seeing that players executed certain skills. Soon after that, the Tigers won the pennant.

errors to the number of empty seats on an airplane to surveys of employee and customer satisfaction are regularly and routinely monitored. If on-time arrivals start to slip, managers focus on the problem and get it fixed. No single element of the firm's performance can slip too far before it's noticed and fixed.

Figure 6.1 illustrates the control process, which begins when management establishes standards (often for financial performance). If, for example, a company sets a goal of increasing its sales by 20 percent over the next five years, an appropriate standard to assess progress toward the 20 percent goal might be an increase of about 4 percent a year. Managers then measure actual performance each year against standards. If the two amounts agree, the organization continues along its present course. If they vary significantly, however, one or the other needs adjustment. If sales have increased 3.9 percent by the end of the first year, things are probably fine. But if sales have dropped 1 percent, some revision in plans is needed.

Controlling applies to many activities, including the college or university courses that you are now taking. The instructor first indicates the knowledge areas where you must show competence, and the level of competence you must show. Next, the instructor measures your performance, usually through assignments and exams. The instructor then determines whether your performance meets the standard. If your performance is satisfactory (or unsatisfactory), you receive feedback in the form of a passing (or failing) grade in the course.

Control can also show where performance is better (or worse) than expected, and can serve as a basis for

providing rewards or reducing costs. For example, when the distributor of the surprise hit movie *The March of the Penguins* saw how popular the movie was becoming, the firm was able to increase advertising and distribution, making the niche movie into a major commercial success. In contrast, when the sales of the Chevrolet Super Sport Roadster (a classic, late-1940s pickup-style vehicle with a two-seat roadster design) were much lower than expected, production of the vehicle was suspended.

LO-2 Types of Managers

Although all managers plan, organize, lead, and control, not all managers have the same degree of responsibility for each activity. Moreover, managers differ in the specific application of these activities. Thus we can differentiate between managers based on their *level* of responsibility and their *area* of responsibility.

Levels of Management

The three basic levels of management are top, middle, and first-line management. As Figure 6.2 shows, in most firms there are more middle managers than top managers and more first-line managers than middle managers. Moreover, as the categories imply, the authority of managers and the complexity of their duties increase as we move up the pyramid.

Figure 6.1
The control process.

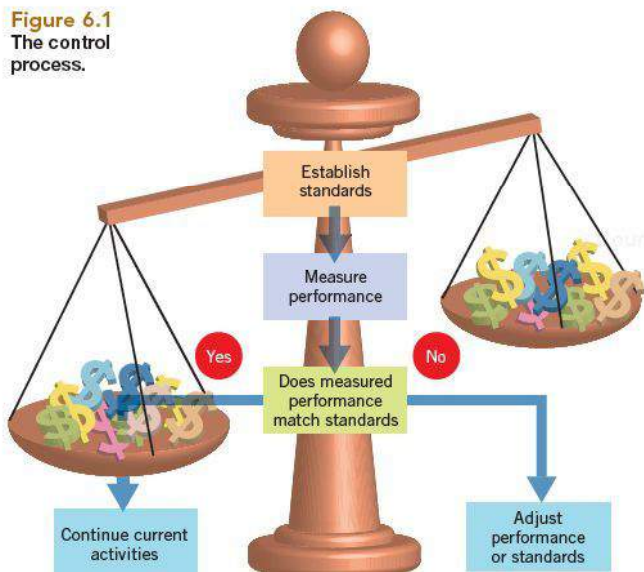
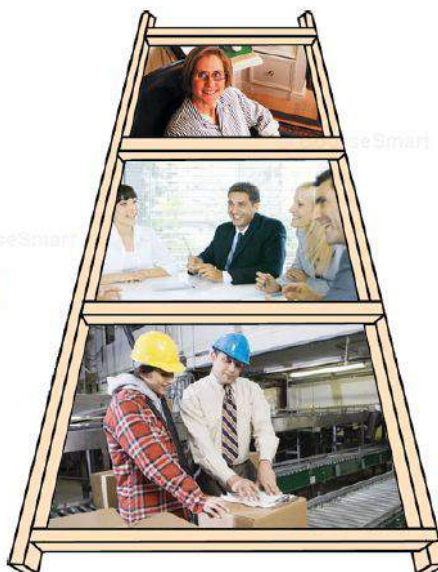


Figure 6.2
Most organizations have three basic levels of management.



Top Managers The managers who guide the fortunes of companies are **top managers**. Top managers set policies, formulate strategies, oversee significant decisions, and represent the company in its dealings with other businesses and government.⁴ Top managers are responsible to the board of directors and stockholders for the firm's overall performance and effectiveness. Common titles for top managers include president, vice-president, chief executive officer (CEO), chief operating officer (COO), and chief financial officer (CFO). CEOs are the link between the organization and its markets and customers.⁵

Each year, *Canadian Business* develops an All-Star Execs list by examining financial data of Canadian companies, and by consulting with a panel of business leaders to determine which executives performed unusually well. In 2009, the top managers were Mayo Schmidt (CEO of Viterro), Colleen Johnston (CFO of TD Bank Financial Group), and Larry Conlee (COO of Research In Motion).⁶

Middle Managers Although below the ranks of the top executives, **middle managers** still occupy positions of considerable autonomy and importance. Titles such as plant manager, operations manager, and division manager are typical of middle-management positions. The producer of a Lion's Gate film like *Precious* is a middle manager. In general, middle managers are responsible for implementing the strategies, policies, and decisions made by top managers. For example, if top management decides to bring out a new product in 12 months or to cut costs by 5 percent, middle management will have to decide to increase the pace of new product development or to reduce the plant's workforce.

First-Line Managers Individuals with titles such as *supervisor*, *office manager*, and *group leader* are **first-line managers**. Although they spend most of their time working with and supervising the employees who report to them, first-line managers' activities are not limited to those

activities. At a building site, for example, the project manager not only ensures that workers are carrying out construction as specified by the architect but also interacts extensively with materials suppliers, community officials, and middle and top managers at the home office. The manager of a Canadian Tire store and the flight-services manager for a specific Air Canada flight are first-line managers. Table 6.1 summarizes the duties of the three basic levels of management.

Areas of Management

Within any large company, the top, middle, and first-line managers work in a variety of areas, including human resources, operations, information, marketing, and finance.

Human Resource Managers Human resource managers can be found in most companies; they hire employees, train them, evaluate their performance, decide how they should be compensated, and deal with labour unions (if the workforce is unionized). Large firms may have several human resource departments, each dealing with specialized activities. Imperial Oil, for example, has separate departments to deal with recruiting and hiring, wage and salary levels, and labour relations. Smaller firms may have a single department, while very small organizations may have a single person responsible for all human resource activities. Chapters 8 and 9 address human resource management issues.

TOP MANAGERS

Those managers responsible for a firm's overall performance and effectiveness and for developing long-range plans for the company.

MIDDLE MANAGERS

Those managers responsible for implementing the decisions made by top managers.

FIRST-LINE MANAGERS

Those managers responsible for supervising the work of employees.

HUMAN RESOURCE MANAGERS

Those managers responsible for hiring, training, evaluating, and compensating employees.

Table 6.1 The Three Levels of Management

Level	Examples	Responsibilities
Top managers	President, vice president, treasurer, chief executive officer (CEO), chief financial officer (CFO)	<ul style="list-style-type: none"> Responsible for the overall performance and effectiveness of the firm Set general policies, formulate strategies, and approve all significant decisions Represent the company in dealings with other firms and with government bodies
Middle managers	Plant manager, operations manager, division manager, regional sales manager	<ul style="list-style-type: none"> Responsible for implementing the strategies and working toward the goals set by top managers
First-line managers	Supervisor, office manager, project manager, group leader, sales manager	<ul style="list-style-type: none"> Responsible for supervising the work of employees who report to them Ensure employees understand and are properly trained in company policies and procedures

OPERATIONS

MANAGERS Those managers responsible for controlling production, inventory, and quality of a firm's products.

INFORMATION

MANAGERS Those managers responsible for the design and implementation of systems to gather, process, and disseminate information.

MARKETING

MANAGERS Those managers responsible for developing, pricing, promoting, and distributing goods and services to buyers.

FINANCIAL

MANAGERS Those managers responsible for planning and overseeing the financial resources of a firm.

TECHNICAL SKILLS

Skills associated with performing specialized tasks within a firm.

Operations Managers **Operations managers** are responsible for a company's system for creating goods and services. This includes production control, inventory control, and quality control, among other duties. Manufacturing companies like Steelcase, Bristol Aerospace, and Sony need operations managers at many levels. Such firms typically have a vice-president for operations (top), plant managers (middle), and supervisors (first-line). In recent years, sound operations management practices have also become increasingly important to service-producing organizations like hospitals, the government, and colleges and universities. Operations management is the subject of Chapter 10.

Information Managers Dramatic increases in both the amount of information available to managers and the ability to manage it have led to the emergence of **information managers**.

These managers are responsible for designing and implementing various systems to gather, process, and disseminate information. Federal Express, for example, has a chief information officer. Middle managers engaged in information management help design information systems for divisions or plants. Computer systems managers within smaller businesses or operations are first-line managers. Information management is discussed in Appendix B.

Marketing Managers Marketing includes the development, pricing, promotion, and distribution of products and services. **Marketing managers** are responsible for getting these products and services to buyers. Marketing is especially important for firms producing consumer products, such as Procter & Gamble, Coca-Cola, and Sun Ice. These firms may have large numbers of marketing managers at various levels. For example, a large firm will probably have a vice-president for marketing (top manager), regional marketing managers (middle managers), and several district sales managers (first-line managers). We examine marketing in Chapters 12–14.

Financial Managers Management of a firm's finances is extremely important to its survival. Nearly every company

has **financial managers** to plan and oversee its financial resources. Levels of financial management may include a vice-president for finance (top), division controller (middle), and accounting supervisor (first-line). For large financial institutions, effective financial management is the company's reason for being. Chapters 15 and 16 describe financial management in detail.

Other Managers Some firms have more specialized managers. Chemical companies like CIL have research and development managers, for example, whereas companies like Petro-Canada and Apple have public relations managers. The range of possibilities is almost endless, and the areas of management are limited only by the needs and imagination of the company.

LO-3 Basic Management Skills

The degree of success that people achieve in management positions is determined by the skills and abilities they possess. Effective managers must have several skills: *technical, human relations, conceptual, time management, and decision-making skills*.

Technical Skills

Technical skills help people to perform specialized tasks. A secretary's ability to type, an animator's ability to draw a cartoon, and an accountant's ability to audit a company's records are all technical skills. People develop their technical skills through education and experience. The secretary, for example, probably took an office systems technology course and has had many hours of practice both on and off the job. The animator may have had training in an art school and probably learned a great deal from experienced animators on the job. The accountant earned a university degree and a professional certification.

As Figure 6.3 shows, technical skills are especially important for first-line managers. Most first-line managers spend considerable time helping employees solve work-related problems, monitoring their performance, and training them in more efficient work procedures. Such managers need a basic understanding of the jobs they supervise. As a manager moves up the corporate ladder, however, technical skills become less and less important. Top managers, for example, often need only a general familiarity with the mechanics of basic tasks performed within the company. A top manager at Disney, for example, probably can't draw Mickey Mouse or build a ride for Disney World.

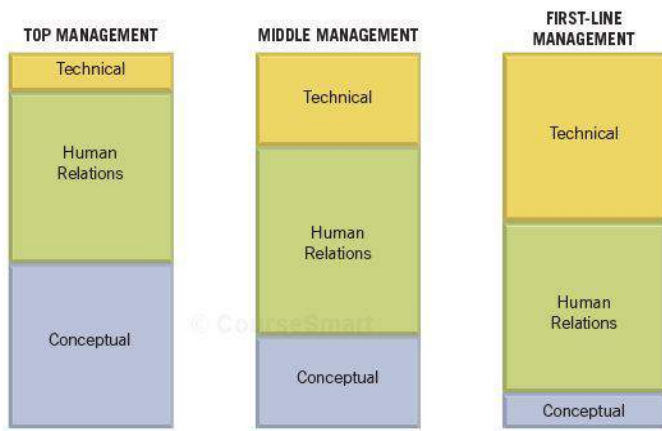


Figure 6.3
Different levels in an organization require different combinations of managerial skills.

Human Relations Skills

Human relations skills help managers to lead, motivate, communicate with, and get along with their subordinates. Managers with poor human relations skills will likely have conflicts with subordinates, cause valuable employees to quit or transfer, and contribute to poor morale. Figure 6.3 shows that human relations skills are important at all levels of management. This is true because all managers in the hierarchy act as “bridges” between their bosses, their subordinates, and other managers at the same level in the hierarchy. A study by DDI Canada found that the top reason for managerial failure was poor people skills.⁷

To improve their insights into employee needs and company operations, some managers have decided to work alongside entry-level employees on a temporary basis. When the CEO of 7-Eleven (Joseph De Pinto) worked undercover at a 7-Eleven outlet, he discovered how hard the people worked, and why the location was selling so much coffee. Larry O’Donnell, the CEO of Waste Management, did jobs like sorting trash, picking up paper at a landfill, and cleaning portable toilets. The experience taught him the pressure for production that employees had to cope with, and he introduced changes based on what he had learned on the job.⁸

Conceptual Skills

Conceptual skills refer to a person’s ability to think in the abstract, to diagnose and analyze various situations, and to see beyond the present situation. Conceptual skills help managers recognize new market opportunities and threats. For example, in e-commerce businesses, conceptual skills help managers foresee how a particular business application will be affected by, or can be translated to, the internet. Figure 6.3 shows that top managers depend most on conceptual skills, and first-line managers least, but at least some conceptual skills are needed in almost any management job.

Time Management Skills

Time management skills refer to the productive use that managers make of their time. In 2009, for example, the CEO of Thomson Reuters Corp., Thomas Glocer, was paid \$36.6 million.⁹ Assuming that he worked 50 hours a week and took two weeks’ vacation, Glocer earned about \$14 640 per hour, or about \$244 per minute. Any time that he wastes represents a large cost to Thomson Reuters and its stockholders.

To manage time effectively, managers must address four leading causes of wasted time:

- **Paperwork.** Some managers spend too much time deciding what to do with letters and reports. Most documents of this sort are routine and can be handled quickly. Managers must learn to recognize those documents that require more attention.
- **The telephone.** Experts estimate that managers are interrupted by the telephone every five minutes. To manage time more effectively, they suggest having a secretary screen all calls and setting aside a certain block of time each day to return the important ones.
- **Meetings.** Many managers spend as much as four hours per day in meetings. To help keep this time productive, the person handling the meeting should specify a clear agenda, start on time, keep everyone focused on the agenda, and end on time.
- **Email.** With the introduction of devices like the BlackBerry, managers are relying more heavily on email and other forms of electronic communication. But many email messages are not important, and some are

HUMAN RELATIONS SKILLS Skills in understanding and getting along with people.

CONCEPTUAL SKILLS Abilities to think in the abstract, diagnose and analyze various situations, and see beyond the present situation.

TIME MANAGEMENT SKILLS Skills associated with the productive use of time.

DECISION-MAKING SKILLS Skills in defining problems and selecting the best courses of action.

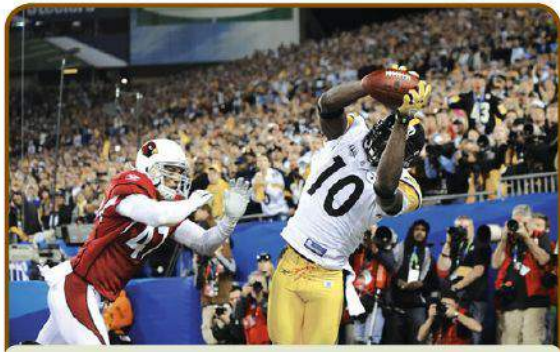
downright trivial. As the number of electronic messages grows, the potential time wasted also increases.

Decision-Making Skills
Decision-making skills

help managers define problems and select the best course of action. It is a critical management skill because decision making affects all the functions of management. The Alternative Board (TAB) is devoted to improving management decision making and has 1000 peer groups around North America. These peer groups—which are attended by managers who are looking for solutions to problems that they are experiencing—provide a forum for discussions among managers who have had similar problems.¹⁰

The Rational Decision-Making Process Figure 6.4 shows the steps in the rational decision-making process. The key elements of each step are described below.

Recognizing and Defining the Decision Situation The first step in rational decision making is recognizing that a decision is necessary. There must be some stimulus or



The Pittsburgh Steelers are one of the most successful franchises in the history of professional football. They have won more Super Bowls (six) than any other team. The Rooney family has owned and managed the team since 1933. They have demonstrated technical and decision-making skills in selecting and retaining the best players for the team. In 2009, the Steelers won another Super Bowl.

spark to initiate this process. For example, when equipment malfunctions, managers must decide whether to repair it or to replace it. The stimulus for a decision may

Figure 6.4
 Steps in the rational decision-making process.

Step	Detail	Example
1. Recognizing and defining the decision situation	Some stimulus indicates that a decision must be made. The stimulus may be positive or negative.	The plant manager sees that employee turnover has increased by 5 percent.
2. Identifying alternatives	Both obvious and creative alternatives are desired. In general, the more important the decision, the more alternatives should be generated.	The plant manager can increase wages, increase benefits, or change hiring standards.
3. Evaluating alternatives	Each alternative is evaluated to determine its feasibility, its satisfactoriness, and its consequences.	Increasing benefits may not be feasible. Increasing wages and changing hiring standards may satisfy all conditions.
4. Selecting the best alternative	Consider all situational factors and choose the alternative that best fits the manager's situation.	Changing hiring standards will take an extended period of time to cut turnover, so increase wages.
5. Implementing the chosen alternative	The chosen alternative is implemented into the organizational system.	The plant manager may need permission from corporate headquarters. The human resource department establishes a new wage structure.
6. Following up and evaluating the results	At some time in the future, the manager should ascertain the extent to which the alternative chosen in step 4 and implemented in step 5 has worked.	The plant manager notes that six months later, turnover dropped to its previous level.

be either a problem or an opportunity. A manager facing cost overruns on a project is faced with a problem decision, while a manager who is trying to decide how to invest surplus funds is faced with an opportunity decision.

Understanding precisely what the problem or opportunity is comes from careful analysis and thoughtful consideration of the situation. Consider the international air travel industry. Because of the growth of international travel related to business, education, and tourism, global carriers like Singapore Airlines, KLM, JAL, British Airways, and American Airlines need to increase their capacity for international travel. Because most major international airports are already operating at or near capacity, adding a significant number of new flights to existing schedules is not feasible. As a result, the most logical alternative is to increase capacity on existing flights. Thus, Boeing and Airbus, the world's only manufacturers of large commercial aircraft, recognized an important opportunity and defined their decision situation as how best to respond to the need for increased global travel capacity.¹¹

Identifying Alternatives Once the need for a decision has been recognized and defined, the second step is to identify possible alternative courses of effective action. In general, the more important the decision, the more attention is directed to developing alternatives. If the decision involves a multimillion-dollar relocation, a great deal of time and expertise should be devoted to identifying alternatives, but if the decision involves choosing a name for the company softball team, much less resources should be devoted to the task (although there may be a lot of arguing about what the name should be!).

Managers must accept that factors such as legal restrictions, moral and ethical norms, and available technology can limit their alternatives. For example, after assessing the question of how to increase international airline capacity, Boeing and Airbus identified three alternatives: They could independently develop new large planes, they could collaborate in a joint venture to create a single new large plane, or they could modify their largest existing planes to increase their capacity.

Evaluating Alternatives Once alternatives have been identified, they must be thoroughly evaluated to increase the chance that the alternative finally chosen will be successful. During its analysis

of alternatives, Airbus concluded that it would be at a disadvantage if it tried to simply enlarge its existing planes, because the competitive Boeing 747 is already the largest aircraft being made and could readily be expanded. Boeing, meanwhile, was seriously concerned about the risk inherent in building a new and even larger plane, even if it shared the risk with Airbus as a joint venture.

Selecting the Best Alternative Choosing the best available alternative is a key activity in decision making. Even though many situations do not lend themselves to objective mathematical analysis, managers and leaders can often develop subjective estimates for choosing an alternative. Decision makers should also remember that finding multiple acceptable alternatives may be possible, so selecting just one alternative and rejecting all the others might not be necessary. For example, Airbus proposed a joint venture with Boeing, but Boeing decided that its best course of action was to modify its existing 747 to increase its capacity. Airbus then decided to proceed on its own to develop and manufacture a new jumbo jet called the A380. Meanwhile, Boeing decided that in addition to modifying its 747, it would also develop a new plane (the 787).

Implementing the Chosen Alternative After an alternative has been selected, managers must implement it. In the case of an acquisition, for example, managers must decide how to integrate the activities of the new business into the firm's existing organizational framework. One of the key considerations during implementation is employee resistance to change. The reasons for such resistance include insecurity, inconvenience, and fear of the unknown. Managers must also recognize that even



After a long decision-making process, Airbus decided to design its own new jumbo jet. Boeing, meanwhile, went through a similar decision-making process but concluded that the risks were too great to gamble on such an enormous project. Instead, the company decided to modify its existing 747 design and develop a new fuel-efficient aircraft called the 787.

ORGANIZATIONAL POLITICS The actions that people take as they try to get what they want.

INTUITION An innate belief about something, often without conscious consideration.

ESCALATION OF COMMITMENT

Condition in which a decision maker becomes so committed to a course of action that he or she stays with it even when there is evidence that the decision was wrong.

RISK PROPENSITY

Extent to which a decision maker is willing to gamble when making a decision.

STRATEGIC MANAGEMENT

The process of helping an organization maintain an effective alignment with its environment.

when all alternatives have been evaluated as precisely as possible and the consequences of each alternative have been weighed, unanticipated consequences are still likely. For example, both Boeing and Airbus have experienced unexpected delays in bringing their new planes to market.

Following up and Evaluating the Results

The final step in the decision-making process requires managers to evaluate the effectiveness of their decision—that is, they should make sure that the chosen alternative has served its original purpose. If an implemented alternative appears not to be working, they can respond in several ways. One possibility is to adopt an alternative that had previously been discarded. Or they might recognize that the situation was not correctly defined to begin with and start the process all over again. In the Boeing/Airbus case, both companies are getting some

feedback about whether or not they made a good decision. For example, increasing fuel prices may mean that the 787 was the best decision because it is so fuel efficient.

Behavioural Aspects of Decision Making Most managers try to be logical when they make decisions. But even when they try, they may not succeed. When Starbucks opened its first coffee shops in New York, it relied on scientific marketing research, taste tests, and rational deliberation in making a decision to emphasize drip over espresso coffee. However, that decision proved wrong when it became clear that New Yorkers strongly preferred the same espresso-style coffees that were Starbucks' mainstays in the west. Hence, the firm had to reconfigure its stores hastily to meet customer preferences.

To complicate matters, non-logical and emotional factors often influence managerial decision making. These factors include *organizational politics*, *intuition*, *escalation of commitment*, and *risk propensity*.

Organizational Politics The term **organizational politics** refers to the actions that people take as they try to get what they want. These actions may or may not be beneficial to the organization, but they do influence decision making, particularly if the person taking the action is a powerful manager.

Intuition Managers sometimes decide to do something because it "feels right" or they have a "hunch." **Intuition** is usually based on years of experience and practice in making decisions in similar situations. Such an inner sense may actually help managers make an occasional decision without going through a rational sequence of steps. For example, the New York Yankees once contacted three major sneaker manufacturers—Nike, Reebok, and Adidas—and informed them that they were interested in signing a sponsorship deal. While Nike and Reebok were carefully and rationally assessing the possibilities, managers at Adidas quickly responded to the idea and ended up hammering out a contract while the competitors were still analyzing details.¹² These occasional successes can be very dramatic, but they should not cause managers to rely too heavily on intuition.

Escalation of Commitment When a manager makes a decision and then remains committed to its implementation in spite of clear evidence that it was a bad decision, **escalation of commitment** has occurred.¹³ A good example of this is Expo '86, the world's fair that was held in British Columbia. When the project was first conceived, the deficit was projected at about \$56 million. Over the next few years, the projected deficit kept rising until it was over \$300 million. In spite of that, the project went forward. Managers can avoid overcommitment by setting specific goals ahead of time that deal with how much time and money they are willing to spend on a given project. These goals make it harder for managers to interpret unfavourable news in a positive light.

Risk Propensity **Risk propensity** refers to how much a manager is willing to gamble when making decisions. Managers who are very cautious when making decisions are more likely to avoid mistakes, and they are unlikely to make decisions that lead to big losses (or big gains). Other managers are extremely aggressive in making decisions and are willing to take risks.¹⁴ They rely heavily on intuition, reach decisions quickly, and often risk big money on their decisions. These managers are more likely than their conservative counterparts to achieve big successes, but they are also more likely to incur greater losses.¹⁵ The organization's culture is a prime ingredient in fostering different levels of risk propensity.

LO-4 Strategic Management: Setting Goals and Formulating Strategy

Strategic management is the process of effectively aligning the organization with its external environment. The starting point in strategic management is setting

goals that a business wants to achieve. Every business needs goals. Remember, however, that deciding what it intends to do is only the first step for an organization. Managers must also make decisions about what actions will and will not achieve company goals. Decisions cannot be made on a problem-by-problem basis or merely to meet needs as they arise. In most companies, a broad program underlies those decisions. That program is called a **strategy**—the broad set of organizational plans for implementing the decisions made for achieving organizational goals.

Setting Business Goals

Goals are performance targets, the means by which organizations and their managers measure success or failure at every level. Managers must understand the purposes of goal setting and the kinds of goals that need to be set.

The Purposes of Goal Setting There are four main purposes in organizational goal setting:

- 1 **Goal setting provides direction, guidance, and motivation for all managers.** For example, each manager at Kanke Seafood Restaurants Ltd. is required to work through a goal-setting exercise each year. Setting and achieving goals is the most effective form of self-motivation.
- 2 **Goal setting helps firms allocate resources.** Areas that are expected to grow, for example, will get first priority. Thus, 3M allocates more resources to new projects with large sales potential than to projects with low growth potential.
- 3 **Goal setting helps to define corporate culture.** General Electric's goal, for instance, is to push each of its divisions to number one or number two in its industry. The result is a competitive (and often stressful) environment, and a culture that rewards success and has little tolerance for failure.
- 4 **Goal setting helps managers assess performance.** If a unit sets a goal of increasing sales by 10 percent in a given year, managers in that unit who attain or exceed the goal can be rewarded. Units failing to reach the goal will also be compensated accordingly.

Kinds of Goals Goals differ from company to company, depending on the firm's vision and mission. Every organization has a **vision (or purpose)** that indicates *why* it exists and what kind of organization it wants to be. For example, businesses seek profit, universities discover and transmit new knowledge, and government agencies provide services to the public. Most organizations also have a **mission statement**—a statement of *how* they will achieve their purpose. DaimlerChrysler's mission statement emphasizes

“delighted customers,” while Atco Ltd.'s mission is to provide products and services to the energy and resource industries, and to invest in energy-related assets in North America. Mission statements often include some statement about the company's core values and its commitment to ethical behaviour.

Two business firms can have the same vision—for example, to sell watches at a profit—yet have very different missions. Timex sells low-cost, reliable watches in outlets ranging from department stores to corner drugstores. Rolex, on the other hand, sells high-quality, high-priced fashion watches through selected jewellery stores. Regardless of a company's purpose and mission, it must set long-term, intermediate, and short-term goals.

- **Long-term goals** relate to extended periods of time—typically five years or more into the future. American Express, for example, might set a long-term goal of doubling the number of participating merchants during the next 10 years.
- **Intermediate goals** are set for a period of one to five years into the future. Companies usually have intermediate goals in several areas. For example, the marketing department's goal might be to increase sales by 3 percent in two years. The production department might want to decrease expenses by 6 percent in four years. Human resources might seek to cut turnover by 10 percent in two years. Finance might aim for a 3 percent increase in return on investment in three years.
- Like intermediate goals, **short-term goals**—which are set for perhaps one year—are developed for several different areas. Increasing sales by 2 percent this year, cutting costs by 1 percent next quarter, and reducing turnover by 4 percent over the next six months are all short-term goals.

Whatever the time frame of the goals that are set, research shows that managers who set **SMART goals** (goals that are Specific, Measurable, Achievable, Realistic,

STRATEGY The broad set of organizational plans for implementing the decisions made for achieving organizational goals.

VISION (OR PURPOSE)

A statement indicating why an organization exists and what kind of organization it wants to be.

MISSION STATEMENT

An organization's statement of how it will achieve its purpose in the environment in which it conducts its business.

LONG-TERM GOALS

Goals set for extended periods of time, typically five years or more into the future.

INTERMEDIATE GOALS

Goals set for a period of one to five years.

SHORT-TERM GOALS

Goals set for the very near future, typically less than one year.

SMART GOALS

Goals that are Specific, Measurable, Achievable, Realistic, and Time-framed.

STRATEGY FORMULATION

Creation of a broad program for defining and meeting an organization's goals.

STRATEGIC GOALS

Long-term goals derived directly from the firm's mission statement.

and Time-framed) have higher performance than managers who don't. The boxed insert entitled "Setting Green Goals" describes the importance of setting goals that take the environment into account.

Formulating Strategy

After a firm has set its goals, it must develop a strategy for achieving them. In contrast to

planning, strategy is wider in scope, and is a broad program that describes how a business intends to meet its goals, how it will respond to new challenges, and how it

will meet new needs. Developing a strategy may not be easy (see the boxed insert entitled "Print Media").

Strategy formulation involves three basic steps: (1) setting strategic goals, (2) analyzing the organization and its environment, and (3) matching the organization and its environment (see Figure 6.5).

Setting Strategic Goals Strategic goals are long-term goals derived directly from the firm's mission statement. General Electric, for example, is pursuing four strategic goals to ensure continued success for the company: an emphasis on quality control, an emphasis on selling services and not just products, concentrating on niche acquisitions, and global expansion.

THE GREENING OF BUSINESS

Setting Green Goals

The logic of goal setting is being applied to make businesses greener. Consider the following:

- Walmart set a goal to reduce the amount of packaging used by 5 percent throughout its huge supply chain; it wants to achieve that goal by 2013.
- The province of Ontario has set a goal to reduce plastic bag usage by 50 percent by 2012.
- Scotiabank has set a goal to be in the top 10 percent of the companies listed on the Dow Jones Sustainability World Index.
- Employees on different floors of the Air Miles building in Toronto compete to see who can reduce energy usage the most in a specific month.

For some organizations, the setting of green goals is closely tied to their success. For example, the CEO of Honda, Takeo Fukui, recognized that Toyota's popular Prius hybrid automobile outsold Honda's hybrid car by a wide margin during the last decade, so he set a goal to make Honda the greenest company in the automobile industry. Honda has set a goal to sell 500 000 hybrid automobiles each year (Toyota's goal is one million). In 2008, Honda introduced its Clarity FCX, which is the most advanced green vehicle ever made. It is powered by a hydrogen fuel cell that generates no pollution at all. Honda also launched a new gas-electric hybrid in 2009, and plans to launch several other hybrids by 2015.

Rona Inc., the home renovation chain, has set a goal of doing business only with suppliers who

address environmental sustainability, and who do not contribute to deforestation. The goal for 2009 was to have all the plywood panels Rona sells made only from lumber that comes from forests that have been certified as sustainable. In 2010, the same goal was applied to spruce, pine, and fir. By 2012, Rona's goal is to have 25 percent of its total wood sales come from forests that are certified by the Forest Stewardship Council.

Green goals may be imposed on companies by external groups. In 2007, for example, the federal government notified Canada's biggest industrial polluters that they had six months to provide emissions data that the government would use in setting new emission reduction targets. Discussions also continue at the international level about what the goal for emissions should be, but to date there has been no agreement. A spokesman for 77 developing nations says that unless there is a goal, there can be no progress.

Critical Thinking Questions

1. What are the advantages associated with setting green goals? Are there disadvantages? Explain.
2. What difficulties might Rona encounter as it tries to reach the goal of having 25 percent of its total wood sales come from forests that are certified by the Forest Stewardship Council?
3. What are the advantages of the government setting emission reduction targets? What are the disadvantages?

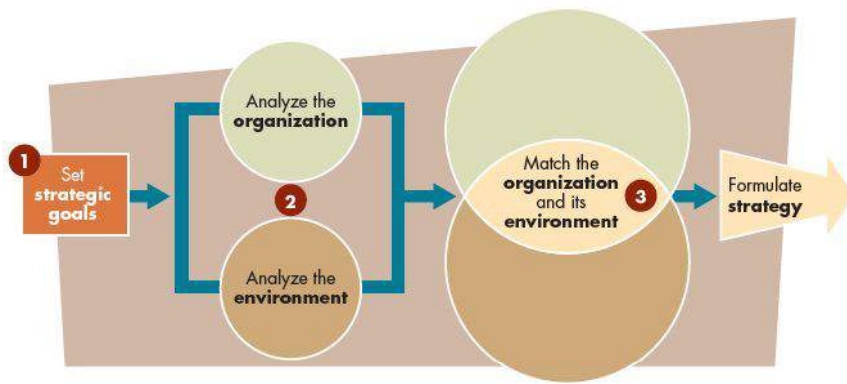


Figure 6.5
Strategy
formulation.

E-BUSINESS AND SOCIAL MEDIA SOLUTIONS

Print Media: Are E-Readers the Solution or a New Problem?

The publishing business is dealing with significant changes that will require serious strategic thinking. Consider these facts:

- According to the Audit Bureau of Circulations, which measures statistics for 57 Canadian and 472 American magazines, the industry is suffering. Newsstand sales were down and ad page revenues were down 21 percent in Canada in 2009.
- According to the Newspaper Association of America, readership has fallen by more than 700,000 per year since 2000. Classified ad revenue is down 40 percent in the last decade because of online competitors like Craigslist, Monster, and AutoTrader. Rupert Murdoch recently declared that news aggregator sites like Google and Digg.com are kleptomaniacs that steal content. As the owner of NewsCorp, a major media giant, his intention is to erect pay walls around his media sites.
- Book publishers and bookstore owners are also under pressure. According to Heather Reisman of Indigo Books, the e-reader threat may cause a 15 percent decline in book sales over the next five years. Others predict digital sales will comprise 25 percent of the market in three years and as high as 80 percent in 10 years.

There are several new electronic devices that are having a big impact on the publishing industry, including Kindle (with a grey and black screen can be read in direct sunlight), the iPad (which provides a colour touch screen and serves as a web surfer, video console, and iPod), Kobo (a Kindle-like competitor that undercut the

competition in 2010 with a price of \$150), the Sony Reader, Nook (Barnes and Noble), Eee Pad (AsusTek), and the Skiff. The EnTourage eDGe is an interesting dual screen reader that looks like a book. Imagine reading the newspaper on the bus without elbowing the person next to you each time you flip a page. Imagine packing one e-reader rather than three or four books on your next trip. Actually, you don't have to imagine it.

The online world has been having a negative impact on print media for some time, but the introduction of e-readers was a new tipping point. How will the print media providers and the technology device creators develop a strategic, sustainable model? The model must satisfy the needs of consumers, columnists, authors, and technology companies alike. Developing such a strategy is not easy. Major publishers like Macmillan used the iPad launch to negotiate higher prices on e-books than had previously been dictated by Amazon (because of its virtual monopoly). Five top publishers—including Penguin and HarperCollins—were on board for the launch of the iPad. Newspapers and magazine companies were even keener to form partnerships, since the iPad was seen as a way to display content in a new, exciting, and accessible fashion.

Critical Thinking Questions

1. How do you think e-readers will impact the print industry? In the short term? In the long term?
2. Which print media source (newspapers, magazines, or books) is more likely to benefit from the widespread adoption of e-readers? Why?

SWOT ANALYSIS

Identification and analysis of organizational strengths and weaknesses and environmental opportunities and threats as part of strategy formulation.

ORGANIZATIONAL ANALYSIS

The process of analyzing a firm's strengths and weaknesses.

ENVIRONMENTAL ANALYSIS

The process of scanning the environment for threats and opportunities.

CORPORATE-LEVEL STRATEGY

Identifies the various businesses that a company will be in, and how these businesses will relate to each other.

BUSINESS-LEVEL (COMPETITIVE) STRATEGY

Identifies the ways a business will compete in its chosen line of products or services.

FUNCTIONAL STRATEGIES

Identify the basic courses of action that each department in the firm will pursue so that it contributes to the attainment of the business's overall goals.

CONCENTRATION STRATEGY

Involves focusing the company on one product or product line.

Analyzing the Organization and Its Environment

After strategic goals have been set, managers assess both their organization and its environment using a **SWOT analysis**. This involves identifying organizational Strengths and Weaknesses, and identifying environmental Opportunities and Threats. Strengths and weaknesses are factors *internal* to the firm, and are assessed using **organizational analysis**. Strengths might include surplus cash, a dedicated workforce, an ample supply of managerial talent, technical expertise, or weak competitors. For example, Pepsi's strength in beverage distribution through its network of soft-drink distributors was successfully extended to distribution of its Aquafina brand of bottled water. Weaknesses might include a cash shortage, aging factories, and a poor public image. Garden.com's reliance on the internet-based e-tailing model became its downfall when the dot-com bubble burst.

Opportunities and threats are factors *external* to the firm, and are assessed using **environmental analysis**. *Opportunities* include things like market demand for new products, favourable government legislation, or shortages of raw materials that the company is good at producing. For example, when Pepsi managers recognized a market opportunity for bottled water, they moved quickly to launch their Aquafina brand and to position it for rapid growth.

Threats include new products developed by competitors, unfavourable government regulations, and changes in consumer tastes. For example, in 2010, the Province of Ontario proposed new legislation that sharply reduced the revenue that pharmacies would receive for dispensing prescription drugs. Some external threats are unpredictable, like the volcanic eruption in Iceland in 2010 that halted air travel in Europe for a week. Commercial airlines lost hundreds of millions of dollars of revenue, while alternative service providers like trains saw demand for their services soar.

Matching the Organization and Its Environment

The final step in strategy formulation is matching environmental threats and opportunities with corporate strengths and weaknesses. Matching companies with their environments lays the foundation for successfully planning and conducting business. Over the long term, this process may also determine whether a firm typically takes risks or behaves more conservatively. Just because two companies are in the same industry does not mean that they will use the same strategies. The Toronto-Dominion Bank, for example, aggressively expanded into the U.S. retail banking industry by acquiring U.S. banks, but the Royal Bank of Canada has been much less aggressive in this area.¹⁶

Levels of Strategy

There are three levels of strategy in a business firm (see Figure 6.6). A **corporate-level strategy** identifies the various businesses that a company will be in, and how these businesses will relate to each other. A **business-level (competitive) strategy** identifies the ways a business will compete in its chosen line of products or services. **Functional strategies** identify the basic courses of action that each department in the firm will pursue so that it contributes to the attainment of the business's overall goals.

Corporate-Level Strategies

There are several different corporate-level strategies that a company might pursue, including *concentration*, *growth*, *integration*, *diversification*, and *investment reduction*.

Concentration

A **concentration strategy** involves focusing the company on one product or product line that it knows very well. Organizations that have successfully pursued a concentration strategy include McDonald's and Canadian National Railway.

Figure 6.6
Hierarchy of strategy.



Growth Companies have several growth strategies available to them, including **market penetration** (boosting sales of present products by more aggressive selling in the firm's current markets), **geographic expansion** (expanding operations in new geographic areas), and **product development** (developing improved products for current markets). These three strategies focus on internal activities that will result in growth.

Integration There are two basic integration strategies. **Horizontal integration** means acquiring control of competitors in the same or similar markets with the same or similar products. For example, Hudson's Bay Company owns Zellers and Home Outfitters (Déco Découverte in Quebec). **Vertical integration** means owning or controlling the inputs to the firm's processes and/or the channels through which the products or services are distributed. Oil companies like Shell not only drill and produce their own oil but also sell it through company-controlled outlets across Canada. These two strategies focus on external activities that will result in growth.

Diversification **Diversification** helps the firm avoid the problem of having all of its eggs in one basket by spreading risk among several products or markets. *Related diversification* means adding new, but related, products or services to an existing business. For example, Maple Leaf Gardens Ltd., which already owned the Toronto Maple Leafs, acquired the Toronto Raptors basketball team. *Conglomerate diversification* means diversifying into products or markets that are not related to the firm's present businesses.

Investment Reduction **Investment reduction** means reducing the company's investment in one or more of its lines of business. One investment-reduction strategy is *retrenchment*, which means the reduction of activity or operations. For example, Federal Industries formerly was a conglomerate with interests in trucking, railways, metals, and other product lines, but it has now retrenched and focuses on a more limited set of products and customers. *Divestment* involves selling or liquidating one or more of a firm's businesses. For example, BCE sold its Yellow Pages and White Pages for \$4 billion.

Business-Level (Competitive) Strategies Whatever corporate-level strategy a firm decides on, it must also have a competitive strategy. A *competitive strategy* is a plan to establish a profitable and sustainable competitive position.¹⁷ Michael Porter identifies three competitive strategies. **Cost leadership** means becoming the low-cost leader in an industry. Walmart is the best-known industry cost leader. Montreal-based Gildan Activewear is dedicated to achieving the lowest possible costs in producing its T-shirts. The company has captured 29 percent of the U.S. imprinted T-shirt market with this strategy.¹⁸

A firm using a **differentiation strategy** tries to be unique in its industry along some dimension that is valued by buyers. For example, Caterpillar emphasizes durability, Volvo stresses safety, Apple stresses user-friendly products, and Mercedes-Benz emphasizes quality. A **focus strategy** means selecting a market segment and serving the customers in that market niche better than competitors. Before it was acquired by Nexfor, Fraser Inc. focused on producing high-quality, durable, lightweight paper that is used in bibles.

Functional Strategies Each business's choice of a competitive strategy (cost leadership, differentiation, or focus) is translated into supporting functional strategies for each of its departments to pursue. A *functional strategy* is the basic course of action that each department follows so that the business accomplishes its overall goals. To implement its cost-leadership strategy, for example, Walmart's distribution department pursued a functional strategy of satellite-based warehousing that ultimately drove distribution costs down below those of its competitors.

The strategy of one small business is described in the boxed insert entitled "From a Missouri Garage to Hollywood."

MARKET PENETRATION

Boosting sales of present products by more aggressive selling in the firm's current markets.

GEOGRAPHIC EXPANSION

Expanding operations in new geographic areas or countries.

PRODUCT DEVELOPMENT

Developing improved products for current markets.

HORIZONTAL INTEGRATION

Acquiring control of competitors in the same or similar markets with the same or similar products.

VERTICAL INTEGRATION

Owning or controlling the inputs to the firm's processes and/or the channels through which the products or services are distributed.

DIVERSIFICATION

Expanding into related or unrelated products or market segments.

INVESTMENT REDUCTION

Reducing the company's investment in one or more of its lines of business.

COST LEADERSHIP

Becoming the low-cost leader in an industry.

DIFFERENTIATION STRATEGY

A firm seeks to be unique in its industry along some dimension that is valued by buyers.

LO-5 Contingency Planning and Crisis Management

Most managers recognize that even the best-laid plans sometimes simply do not work out. When Walt Disney announced plans to launch a cruise line using Disney characters and themes, managers began aggressively developing and marketing packages linking three- and four-day cruises with visits to Disney World in Florida. The inaugural

FOCUS STRATEGY

Selecting a market segment and serving the customers in that market niche better than competitors.

CONTINGENCY PLANNING

Identifying aspects of a business or its environment that might require changes in strategy.

sailing was sold out more than a year in advance. But three months before the first sailing, the shipyard constructing Disney's first ship (the *Disney Magic*) notified the company that it was behind schedule and that delivery would be several weeks late. Because Disney had no other ship, it had no choice but to refund the money it had collected as pre-booking deposits for its first 15 cruises. The 20,000 displaced customers were offered big discounts if they rebooked on a later cruise, but many of them blamed Disney's poor planning for the problem. Fortunately for Disney, the *Disney Magic* was eventually launched and has now become very popular and very profitable.¹⁹

Two common methods of dealing with the unknown and unforeseen are *contingency planning* and *crisis management*.

Contingency Planning

Contingency planning tries to identify in advance the important aspects of a business or its markets that might change, and how the company will respond if such changes actually occur. Suppose, for example, that a



Commercial airlines have contingency plans to deal with problems like major snowstorms. These contingency plans involve making sure that planes are not stranded at airports that are experiencing snow delays.

ENTREPRENEURSHIP AND NEW VENTURES

From a Missouri Garage to Hollywood

The feature films *The Red Canvas* and *Way of the Guardian* were not developed by your typical Hollywood production team. For starters, one of the films' co-creators lives and works in Missouri. Adam Boster and his partner, Ken Chamitoff, started Photo-Kicks—a marketing company specializing in action photography—in their garages in 2002. From their beginnings as photographing students at local martial arts schools, Boster and Chamitoff built Photo-Kicks into a multimillion-dollar business employing photographers, graphic designers, and marketers throughout the United States and Canada. In 2007, Photo-Kicks came in at number 592 on *Inc.* magazine's list of the 500 fastest-growing private companies in America.

Just a quick glance at the many photographs on display at the Photo-Kicks website (www.photo-kicks.com) provides an eye-opening introduction to action photography. Athletes young and old punch, kick, and leap their way across the frames. But it's the countless other services that Photo-Kicks provides its customers that have allowed it to grow so rapidly.

Photo-Kicks bills itself as “a fully equipped graphic design and marketing organization,” creating such products as customized logos, brochures, websites, posters, and trading cards.

Then, of course, there are the movies. *Way of the Guardian* began as a card game and animated series also developed by Boster and Chamitoff. *The Red Canvas* is more personal. It tells the story of a struggling immigrant who finds success and redemption in the sport of mixed martial arts. Chamitoff acknowledges that the film could not have happened without the years he and Boster spent travelling the country photographing martial arts students. “I learned the stories of every person I encountered,” said Chamitoff. “Those stories shaped not only *The Red Canvas* but Photo-Kicks as well.”

Critical Thinking Question

1. What are the key differences between the various types of corporate and business-level strategies? Which strategies is Photo-Kicks pursuing?

company develops a plan to create a new division, and it expects sales of this new division to reach a level of \$1 million in sales revenue by the end of the first year. But suppose that sales revenues are only \$500 000 by the end of the first year. Does the company abandon the business, invest more in advertising, or wait to see what happens in the second year? Any of these alternatives is possible. However, things will go more smoothly if managers have decided *in advance* what to do in the event of lower-than-expected sales. Contingency planning can help them do exactly that.

In the summer of 2008, a strike at the Potash Corp. of Saskatchewan created a shortage of potassium acetate, which is the key ingredient in runway de-icer that airports use to prevent airplanes from sliding off runways in sub-freezing weather. The strike ended in November 2008, but by then airports were having trouble obtaining potassium acetate. The U.S. Federal Aviation Administration informed all airports that they should develop contingency plans to get their potassium acetate from alternate sources. Cryotech Technologies, the biggest supplier of potassium acetate to airports, responded by getting supplies of a corn-based de-icer instead.²⁰

Crisis Management

Crisis management involves an organization's plan for dealing with emergencies that require an immediate response. The listeria contamination problem at Maple Leaf Foods in 2008 is an example of a crisis that needed to be effectively managed. CEO Michael McCain acted quickly to handle the crisis and did not hide behind lawyers or let financial implications get in the way of his decisions. The company recalled 686 000 kilograms of tainted meat (which cost the company \$19 million). McCain publicly apologized at news conferences and in televi-

sion commercials, and assured consumers that the company would solve the problem.²¹ By January 1, 2009, a survey revealed that 78 percent of respondents had recently purchased a Maple Leaf product. That was up from only 20 percent in September 2008.²²

In 2010, Toyota faced a crisis when consumers began reporting that some models of its cars were accelerating out of control (see the opening case in Chapter 10 for details). Also in 2010, BP faced a crisis when an explosion and fire at a drilling rig in the Gulf of Mexico resulted in the death of 11 workers and a huge oil spill. The intense news coverage of the oil spill, as well as some poorly chosen remarks by BP's CEO, created significant public relations problems for BP. The company is likely facing many lawsuits with huge financial implications.

To prepare for emergencies better, many organizations maintain crisis plans. These plans—which are designed to help employees cope when disaster strikes—typically outline who will be in charge in different kinds of circumstances, how the organization will respond, and the plans that exist for assembling and deploying crisis-management teams.

CRISIS MANAGEMENT

An organization's methods for dealing with emergencies.

CORPORATE CULTURE

The shared experiences, stories, beliefs, and norms that characterize a firm.

LO-6 Management and the Corporate Culture

Just as every individual has a unique personality, every company has a unique identity. This is its **corporate culture**—the shared experiences, stories, beliefs, and norms that characterize it. The opening case provides several examples of corporate cultures. Here are some more:

- Magna International, a large Canadian producer of auto parts, is a firm with a strong culture. Its founder, Frank Stronach, is well known for his views about employees, working conditions, daycare centres, unions, the free enterprise system, and profit distribution.²³
- Four Seasons Hotels and Resorts has a different, but equally strong, culture. Managers are judged by deeds, not words, and act as role models; employees take their cues from the managers.²⁴
- At Toyota's Cambridge, Ontario, plant the corporate culture stresses values, principles, and trust. The culture is one of continuous improvement.²⁵



Crisis management involves an organization's methods for dealing with emergencies. Here, Red Cross volunteers organize and file paperwork submitted by Hurricane Katrina victims in Texas.

- At WestJet Airlines the corporate culture emphasizes profit maximization. Most of the employees own shares in the company, and all of them get to keep some of the profits. This is a powerful incentive for them to work productively.²⁶

In 2008, executives at 340 Canadian companies participated in the Waterstone Human Capital corporate culture survey and expressed the following views:²⁷

- Eighty-two percent said that culture has a strong or very strong impact on corporate performance (but only 36 percent of executives felt that the culture of their company was strong).
- Three-year average revenue growth for the top 10 firms on the list was 63 percent higher than that of the 60 largest public companies in Canada that are listed on the S&P/TSX.
- Fifty-three percent felt that a strong culture reduced turnover, and 57 percent felt that a strong culture gave employees a sense of belonging. This finding is important, since an online survey conducted by Ipsos-Reid found that many workers feel that they don't fit in well at work.²⁸

A strong corporate culture guides everyone to work toward the same goals and helps newcomers learn accepted behaviours. Cameron Herold—a Vancouver entrepreneur who has had a string of successes in franchising, including College Pro Painters, Boyd Autobody, and 1-800-GOT-JUNK—says that a cult-like culture is crucial for attracting great employees. He says what's



A business's founder or CEO plays a major role in shaping the company's culture. For example, Apple co-founder and CEO Steve Jobs helped establish an informal and laidback culture at the company. Casual business attire and an open-door policy help him maintain that same culture today. And that culture, in turn, helps Apple continue to attract and retain talented people.

needed is a culture that is "more than a business and slightly less than a religion."²⁹

In a strong culture where financial success is the key issue, newcomers quickly learn that they are expected to work long, hard hours and that the "winner" is the one who brings in the most revenue. But if quality of life is more fundamental to the culture, newcomers learn that it's acceptable to balance work and non-work activities.

Communicating the Culture and Managing Change

Managers must carefully consider the kind of culture they want for their organization, then work to nourish that culture by communicating with everyone who works there. Walmart, for example, assigns veteran managers to lead employees in new territories. As we saw in the opening case, Starbucks Coffee surveys employees every 18 months regarding several aspects of its culture. Royal Bank of Canada and Four Seasons Hotels and Resorts also survey their employees to determine how well they are progressing toward their corporate culture goals.³⁰

Communicating the Culture To use its culture to full advantage, managers must accomplish several tasks, all of which hinge on effective communication. First, managers themselves must have a clear understanding of the culture. Second, they must transmit the culture to others in the organization. Communication is thus one aim in training and orienting newcomers. A clear and meaningful statement of the organization's mission is also a valuable communication tool. Finally, managers can maintain the culture by rewarding and promoting those who understand it and work toward maintaining it.

Managing Change An organization may experience difficulty when trying to change its culture. For example, CIBC historically had an aggressive, deal-making culture that caused it to compete head to head with large Wall Street companies in the U.S. But after several major failures in the U.S., CIBC tried to become much more conservative.³¹ But as the commercial paper crisis unfolded in 2007 (see Chapter 16), it became clear that CIBC was going to incur billions of dollars of losses because of its exposure to subprime mortgages in the U.S. This happened in spite of CIBC's supposed shift to a low-risk culture.³²

In 2006, the Brazilian mining company Vale bought Inco, one of Canada's most famous companies. But frictions soon arose because the cultures of the two companies were quite different. Inco had a culture that encouraged the exchange of ideas and a decentralized decision-making structure, while Vale had a much more centralized decision-making structure. Vale executives imposed their culture on Inco executives, who were now expected to obey orders. One former Inco manager noted that many Inco managers left the company after Vale took charge.³³

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Summary of Learning Objectives

1. **Describe the four activities that constitute the *management process*.** *Management* is the process of planning, organizing, leading, and controlling an organization's financial, physical, human, and information resources to achieve the organization's goals. *Planning* means determining what the company needs to do and how best to get it done. *Organizing* means determining how best to arrange a business's resources and the necessary jobs into an overall structure. *Leading* means guiding and motivating employees to meet the firm's objectives. *Controlling* means monitoring the firm's performance to ensure that it is meeting its goals.
2. **Identify *types of managers* by level and area.** Managers can be differentiated in two ways: by level and by area. By level, *top managers* set policies, formulate strategies, and approve decisions. *Middle managers* implement policies, strategies, and decisions. *First-line managers* usually work with and supervise employees. By area, managers focus on marketing, finance, operations, human resource, and information. Managers at all levels may be found in every area of a company.
3. **Describe the *five basic management skills*.** Most managers agree that five basic management skills are necessary for success. *Technical skills* are needed to perform specialized tasks ranging from typing to auditing. *Human relations skills* are needed to understand and get along with other people. *Conceptual skills* allow managers to think in the abstract, to diagnose and analyze various situations, and to see beyond present circumstances. *Decision-making skills* allow managers to define problems and to select the best course of action. *Time management skills* refer to managers' ability to make productive use of the time available to them.
4. **Explain the importance of *goal setting and strategic management* in organizational success.** *Goals*—the performance targets of an organization—can be *long term*, *intermediate*, and *short term*. They provide direction for managers, they help managers decide how to allocate limited resources, they define the corporate culture, and they help managers assess performance. *Strategic management* involves three major activities: setting strategic goals, analyzing the organization and its environment, and matching the organization and its environment. The strategies that are decided upon are then translated into *strategic*, *tactical*, and *operational plans*.
5. **Discuss *contingency planning* and *crisis management* in today's business world.** To deal with crises or major environmental changes, companies develop *contingency plans* and plans for *crisis management*. *Contingency planning* tries to identify in advance the important aspects of a business or its markets that might change, and how the company will respond if such changes actually occur. *Crisis management* means developing methods and actions for dealing with an emergency that requires an immediate response. To prepare for such emergencies, organizations develop crisis plans.
6. **Explain the idea of *corporate culture* and why it is important.** *Corporate culture* is the shared experiences, stories, beliefs, and norms that characterize an organization. A strong, well-defined culture can help a business reach its goals and can influence management styles. Culture is determined by several factors, including top management, the organization's history, stories and legends, and behavioural norms. If carefully communicated and flexible enough to accommodate change, corporate culture can be managed for the betterment of the organization.

Questions and Exercises

Questions for Analysis

1. How are the five basic management *skills* related to the four *functions* of management? Give several specific examples.
2. What is the relationship between Mintzberg's *roles* of management and the more traditional *functions* of management? Use examples to clarify your answer.
3. Identify the managers by level and area at your college or university.
4. Can you identify any organizations where the technical skills of top managers are more important than human relations or conceptual skills? Can you identify organizations where conceptual skills are not important?
5. What differences might you expect to find in the corporate cultures of a 100-year-old manufacturing firm based in Winnipeg and a five-year-old e-commerce firm based in Ottawa?
6. Consider the various corporate-level strategies discussed in the text (concentration, growth, integration, diversification, investment reduction). What is the relationship between these various strategies? Are they mutually exclusive? Are they complementary? Defend your answer.

Application Exercises

7. Interview an administrator at your college or university. Ask the administrator to give his or her views on the college or university's strengths and weaknesses, and on the threats and opportunities the school is facing. Then use this information to write up a SWOT analysis for the school.
8. Review the example of the decisions made by Airbus and Boeing regarding new large aircraft. Then research the most current information on the status of the two planes. Which company seems to have made the better decision?
9. Choose two companies in the same industry—for example, fast food, electronics, retailing—and compare and contrast the corporate cultures of the two companies.
10. Select any group of which you are a member (your company, your family, your church, or a club). Explain the relevance of the management functions of planning, organizing, directing, and controlling for that group.

TEAM EXERCISES

CourseSmart

Building Your Business Skills

Speaking with Power

Goal

To encourage students to appreciate effective speaking as a critical human relations skill.

Background

A manager's ability to understand and get along with supervisors, peers, and subordinates is a critical human relations skill. At the heart of this skill, says Harvard University professor of education Sarah McGinty, is the ability to speak with power and control. McGinty defines "powerful speech" in terms of the following characteristics:

- The ability to speak at length and in complete sentences
- The ability to set a conversational agenda

- The ability to deter interruption
- The ability to argue openly and to express strong opinions about ideas, not people
- The ability to make statements that offer solutions rather than pose questions
- The ability to express humour

Taken together, says McGinty, "all this creates a sense of confidence in listeners."

Method

Step 1 Working alone, compare your own personal speaking style with McGinty's description of powerful speech by taping yourself as you speak during a meeting with classmates or during a phone conversation. (Tape both sides of the conversation only if the person to

whom you are speaking gives permission.) Listen for the following problems:

- Unfinished sentences
- An absence of solutions
- Too many disclaimers (“I’m not sure I have enough information to say this, but . . .”)
- The habit of seeking support from others instead of making definitive statements of personal conviction (saying, “As Emily stated in her report, I recommend consolidating the medical and fitness functions,” instead of, “I recommend consolidating the medical and fitness functions.”)
- Language fillers (saying, “you know,” “like,” and “um” when you are unsure of your facts or uneasy about expressing your opinion)

Step 2 Join with three or four other classmates to evaluate each other’s speaking styles.

- Have a 10-minute group discussion on the importance of human relations skills in business.
- Listen to other group members, and take notes on the “power” content of what you hear.
- Offer constructive criticism by focusing on what speakers say rather than on personal characteristics

(say, “Bob, you sympathized with Paul’s position, but I still don’t know what you think,” instead of, “Bob, you sounded like a weakling.”).

Follow-Up Questions

1. How do you think the power content of speech affects a manager’s ability to communicate? Evaluate some of the ways in which effects may differ among supervisors, peers, and subordinates.
2. How do you evaluate yourself and group members in terms of powerful and powerless speech? List the strengths and weaknesses of the group.
3. Do you agree or disagree with McGinty that business success depends on gaining insight into your own language habits? Explain your answer.
4. In our age of computers and email, why do you think personal presentation continues to be important in management?
5. McGinty believes that power language differs from company to company and that it is linked to the corporate culture. Do you agree, or do you believe that people express themselves in similar ways no matter where they are?

Exercising Your Ethics

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Clean Up Now, or Clean Up Later?

The Situation

The top management team of a medium-sized manufacturing company is on a strategic planning “retreat” where it is formulating ideas and plans for spurring new growth in the company. As one part of this activity, the team, working with the assistance of a consultant, has conducted a SWOT analysis. During this activity, an interesting and complex situation has been identified. Next year, the federal government will be issuing new—and much more stringent—pollution standards for the company’s industry. The management team sees this as a potential threat in that the company will have to buy new equipment and change some of its manufacturing methods in order to comply with the new standards.

The Dilemma

One member of the team, James Smith, has posed an interesting option—not complying. His logic can be summarized as follows:

1. The firm has already developed its capital budgets for the next two years. Any additional capital expenditures will cause major problems with the company’s cash flow and budget allocations.
2. The company has a large uncommitted capital budget entry available in three years; those funds could be used to upgrade pollution control systems at that time.
3. Because the company has a spotless environmental record so far, James Smith argues that if the company does not buy the equipment for three years, the most likely outcomes will be (a) a warning in year 1; (b) a small fine in year 2; and (c) a substantial fine in year 3. However, the total amounts of the years 2 and 3 fines will be much lower than the cost of redoing the company budgets and complying with the new law next year.

Team Activity

Assemble a group of four students and assign each group member to one of the following roles:

- Management team member
- Lower-level employee at the company
- Company customer
- Company investor

Action Steps

1. Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, decide whether James Smith's suggestion regarding ignoring pollution standards is a good one. Write down the reasons for your position.
2. Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, decide what are the underlying ethical issues in this situation. Write down the issues.
3. Gather your group together and reveal, in turn, each member's comments on James Smith's suggestion. Next, reveal the ethical issues listed by each member.
4. Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5. From an ethical standpoint, what does your group conclude is the most appropriate action that should be taken by the company in this situation?
6. Develop a group response to the following question: What are the respective roles of profits, obligations to customers, and obligations to the community for the firm in this situation?

BUSINESS CASE 6

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The Business of Bagging Customers

Coach Inc. started out in 1941 making virtually indestructible, high-quality handbags. In the 1970s it was bought by Sara Lee Corp., a big company that was pursuing a strategy of diversification. Because Coach was just one of literally dozens of businesses owned by Sara Lee, it suffered from the lack of focused management attention. Coach's CEO, Lew Frankfort, knew that his company's success depended on finding the right industry niche. In 2000, he convinced Sara Lee to spin off Coach as an independent company.

By 2007, Coach had sales of \$2.6 billion, and the company's net income growth had averaged 51 percent per year for the previous five years. In spite of the recession that started in 2008, the company planned to open many new stores in North America and in China. And it had big plans to compete with the best-known brand names in the industry. For example, just a few years ago in China, Louis Vuitton had the largest market share (33 percent), followed by Gucci and Prada (more than 10 percent each). Coach had only 2 percent. But by 2007, Coach's market share had increased to 12 percent, Louis Vuitton's share had dropped to 27 percent, and Gucci and Prada had less than 10 percent each.

These successes have come in the high-fashion business, where fickle customers and rapid changes make planning difficult. Most fashion designers—Ralph Lauren, Donna Karan, Prada, Gucci, Fendi—have adopted a design-driven business model, in which the designer dictates style to the customers. Coach, however, has taken a different approach. The company asks the customers what they want and then provides it. Coach's customer focus has created a competitive advantage for the firm, which annually sells \$865 of merchandise for every square



foot of store space, compared to an industry average of \$200–\$300.

Frankfort introduced many new analytical tools for tracking market trends, evaluating effectiveness, and managing risk. The firm's leaders look at sales data for each store and each product type on a daily basis (several times a day during busy seasons). But extensive and intensive customer research remains the cornerstone of his planning. Indeed, the company spends \$2 million per year on surveys. The surveys are supplemented with one-on-one interviews with customers from locations around the world, to quiz them on everything from appearance and quality to the correct length for a shoulder strap.

"The tremendous amount of testing they do differentiates them from a lot of other fashion companies," says industry analyst Robert Ohmes. Analyst Bob Drbul says, "Their execution and business planning is in the league of

a Walmart or a Target” (two much larger firms known for their effective business planning). To test new products, Coach shows them to selected buyers in 12 worldwide markets to gauge initial customer reaction. An initial demand forecast is then made, and six months before introduction, they are tested in another 12 markets. At launch time, sales are monitored closely and adjustments made quickly.

For example, when an unexpected spike in sales was investigated, managers found that buying by Hispanic customers was on the increase. Within a week, the firm had moved up the opening date of a South Miami store and began advertising in Spanish for the first time. Frankfort understands that, to be effective, plans must be translated into appropriate actions. “Not only do you need to know your business and your customers . . . you also need to be nimble to adapt,” he says.

A host of other changes have also aided Coach in its rapid rise. Lew Frankfort hired a former Tommy Hilfiger designer, Reed Krakoff, to update the firm’s classic but clunky styles. “Something was missing,” says Krakoff. “I had to take these ideas and make them fun—young in spirit.” Instead of introducing new products twice a year (which is a common practice in the fashion industry), Coach releases new styles monthly. Customers now have a reason to visit the stores more often. Outsourcing the production function allowed the company to increase

gross profit margins by 24 percent over five years. The firm has diversified into many other related lines of business, including shoes, jewellery, furniture, and more. There is even a Coach car, a co-branded Lexus, with a Coach leather interior.

Women’s Wear Daily, the bible of the fashion industry, recently named Coach as the “most splurge-worthy luxury brand.” Customers agree. Investors too like Coach. The firm’s share price rose an astonishing 900 percent during its first four years as an independent firm. Krakoff gives the credit for the firm’s achievements to Frankfort’s planning skills, saying, “The key to Lew’s success . . . is his ability to orchestrate a decision-making process that is both inclusive and incisive.”

Questions for Discussion

1. Describe examples of each of the management functions illustrated in this case.
2. Which management skills seem to be most exemplified in Lew Frankfort?
3. Explain the role of goals and strategy in the success of Coach.
4. What corporate culture issues might exist when a former division of a big company is spun off?

