5 Business Management

Google Keeps Growing

After reading this chapter, you should be able to:

1. Describe the nature of management and identify the four basic functions that constitute the management process.
2. Identify different types of managers likely to be found in an organization by level and area.
3. Describe the basic skills required of managers.
4. Explain the importance of strategic management and effective goal setting in organizational success.
5. Discuss contingency planning and crisis management in today's business world.
6. Describe the development and explain the importance of corporate culture.

Sergey Brin and Larry Page met at Stanford University in 1995, when both were graduate students in computer science. At the time, Page was working on a software-development project designed to create an index of websites by scouring sites for key words and other linkages. Brin joined him on the project, and when they were satisfied that they'd developed something with commercial value, they tried to license the technology to other search companies. As luck would have it, they couldn't find a buyer and settled instead for procuring enough investment capital to keep refining and testing their product.

In 2000, Brin and Page ran across the description of a business model based on the concept of selling advertising in the form of sponsored links and search-specific ads. They adapted it to their own concept and went into business for themselves, eventually building Google into the world's largest search engine, with an index of more than 10 billion web pages and a user base of 380 million people per month in 112 different countries. Following an IPO in 2004, the company's market capitalization rose steadily; it stood at more than $157 billion by 2008, when Google controlled 61.5 percent of the U.S. search market (compared to Yahoo!'s 29.9 percent and Microsoft's 9.2 percent). Google, however, is much more than a mere search engine. Services include searches for news, shopping, local businesses, interactive maps, and discussion groups, as well as blogs, web-based e-mail and voice mail, and a digital photo-management system. You can access the results of any Google search from the Google website, from your own user's toolbar, from your

Windows taskbar, and from wireless devices such as phones and PDAs.

How did two young computer scientists build this astoundingly successful company, and where will they take it in the future? For one thing, Brin and Page remain in the forefront of Google's search for technological innovations. They believe in the power of mathematics and have developed unique algorithms for just about every form of activity in the firm. One of the most successful is an algorithm for auctioning advertising placements that ensures the highest possible prices.

Brin and Page have also been remarkably successful in attracting talented and creative employees and providing them with a work environment and culture that foster the kind of productivity and innovation for which they were hired. Finally, although the founders avoid formal strategic planning, they've managed to diversify

WHAT'S IN IT FOR ME?

Sergey Brin and Larry Page are clearly effective managers, and they understand what it takes to build a business and then keep it at the forefront of its industry. After reading this chapter, you'll be better positioned to carry out various management responsibilities yourself. And from the perspective of a consumer or investor, you'll be able to more effectively assess and appreciate the quality of management in various companies.

In this chapter, we explore the importance of strategic management and effective goal setting to organizational success. We also examine the functions that constitute the management process and identify different types of managers likely to be found in an organization by level and area. Along the way, we look at basic management skills and explain the importance of corporate culture.

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extensively through acquisitions and key alliances. Typically, Google absorbs an acquired firm and then improves on its technology, thereby adding variety to its own online offerings. Recent acquisitions include YouTube, a leader in online video sharing (2006), Postini, a leader in communications-security products (2007), and Double Click, a leader in online advertising services (2008). Strategic alliances include those with foreign online service providers that offer Google searches on their sites.[1]

Our opening story continues on page 132.

1 Describe the nature of management and identify the four basic functions that constitute the management process.

The Management Process

All corporations depend on effective management. Whether they run a multibillion-dollar business like Google or a small local fashion boutique, managers perform many of the same functions and have many of the same responsibilities. These include analyzing their competitive environments and planning, organizing, directing, and controlling day-to-day operations of their business. Ultimately, they are also responsible for the performance and effectiveness of the teams, divisions, or companies that they head.

Although our focus is on managers in business settings, remember that the principles of management apply to all kinds of organizations. Managers work in charities, churches, social organizations, educational institutions, and government agencies. The prime minister of Canada, curators at the Museum of Modern Art, the dean of your college, and the chief administrator of your local hospital are all managers. Remember, too, that managers bring to small organizations much the same kinds of skills—the ability to make decisions and respond to a variety of challenges—that they bring to large ones. Regardless of the nature and size of an organization, managers are among its most important resources.

Management itself is the process of planning, organizing, leading, and controlling an organization's financial, physical, human, and information resources to achieve its goals. Managers oversee the use of all these resources in their respective firms. All aspects of a manager's job are interrelated. Any given manager is likely to be engaged in each of these activities during the course of any given day.

Planning

Determining what the organization needs to do and how best to get it done requires planning. **Planning** has three main components. It begins when managers determine the firm's goals. Next, they develop a comprehensive *strategy* for achieving those goals. After a strategy is developed, they design *tactical and operational plans* for implementing the strategy. We discuss these three components in more detail later in this chapter.

When Yahoo! was created, for example, the firm's top managers set a strategic goal of becoming a top firm in the then-emerging market for Internet search engines. But then came the hard part—figuring out how to do it. The company started by assessing the ways in which people actually use the web and concluded that users wanted to be able to satisfy a wide array of needs, preferences, and priorities by going to as few sites as possible to find what they were looking for. One key component of Yahoo!'s strategy was to foster partnerships and relationships with other companies so that potential web surfers could draw upon several sources through a single site, or portal—which would be Yahoo!. The goal of partnering emerged as one set of *tactical plans* for moving forward.

Yahoo! managers then began fashioning alliances with such diverse partners as Reuters, Standard & Poor's, and the Associated Press (for news coverage), RE/Max

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Kenneth Chenault, CEO of American Express; Indra Nooyi, Chairman and CEO of PepsiCo; and Jeffrey Smisek, President and CEO of United Airlines, are all senior managers responsible for overseeing the planning, organizing, leading, and control functions in their businesses.

(for real estate information), and a wide array of information providers specializing in sports, weather, entertainment, shopping, and travel. The creation of individual partnership agreements with each of these partners represents a form of *operational planning*.

Organizing

Managers must also organize people and resources. For example, some businesses prepare charts that diagram the various jobs within the company and how those jobs relate to one another. These so-called *organization charts* help everyone understand roles and reporting relationships, key parts of the organizing function. Some businesses go so far as to post their organization chart on an office wall. But in most larger businesses, roles and reporting relationships, while important, may be too complex to draw as a simple box-and-line diagram. To better appreciate the complexities and importance of organizing in a big business, let's consider the following example.

Once one of the leading-edge, high-tech firms in the world, Hewlett-Packard (HP) began to lose some of its luster a few years ago. Ironically, one of the major reasons for its slide could be traced back to what had once been a major strength. Specifically, HP had long prided itself on being little more than a corporate confederation of individual businesses. Sometimes, these businesses even ended up competing among themselves. 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.

Enter Ann Livermore, then head of the firm's software and services business. Livermore realized that the structure that had served so well in the past was now holding the firm back. To regain its competitive edge, HP needed an integrated, organization-wide strategy. Unfortunately, the company's highly decentralized

Management process of planning, organizing, leading, and controlling an organization's resources to achieve its goals

Planning management process of determining what an organization needs to do and how best to get it done organization made that impossible. Livermore led the charge to create one organization united behind one strategic plan. "I felt we could be the most powerful company in the industry," she said, "if we could get our hardware, software, and services aligned." Eventually, a new team of top managers was handed control of the company, and every major component of the firm's structure was reorganized. As a result, while the firm still has a long way to go, it appears to be back on solid footing and set to regain its place as one of the world's preeminent technology businesses.[2] The process that was used to revive HP—determining the best way to arrange a business's resources and activities into a coherent structure—is called **organizing.** We explore organizing in more detail in Chapter 6.

Leading

Managers have the power to give orders and demand results. Leading, however, involves more complex activities. When **leading,** a manager works to guide and motivate employees to meet the firm's objectives. Legendary management figures like Walt Disney, Sam Walton (of Wal-Mart), and Herb Kelleher (of Southwest Airlines) had the capacity to unite their employees in a clear and targeted manner and motivate them to work in the best interests of their employer. Their employees respected them, trusted them, and believed that by working together, both the firm and themselves as individuals would benefit.

Until his recent death, Steve Jobs was one of the most widely recognized business leaders today. As head of both Pixar Animation Studios and Apple Computer, Jobs was responsible for some astonishing developments. Jobs helped produce the first mass-market personal computer, mouse, and graphical user interface (which uses icons rather than commands to send instructions to the computer). More recently, of course, Jobs led the introduction of the iPod, iPhone, and iPad. Pixar also holds numerous awards for its revolutionary animation technology, including several Oscars for Best Animated Feature. Apple has won eighteen International Design Excellence Awards (IDEA), more than any other company except Sony.

Jobs's leadership was more about vision than about technical proficiency. "On the technical side, there are people here with skills I can't possibly match," claimed Jobs. How then did Jobs create an environment in which engineers, computer scientists, and designers can produce cutting-edge products over and over again? According to Jobs, a leader must establish a strategic vision, hire a great group of people, provide a supportive atmosphere, and then get out of their way. We discuss leadership and decision making 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. All CEOs must pay close attention to costs and performance. Managers at United Airlines, for example, focus almost relentlessly on numerous indicators of performance that they can constantly measure and adjust. Everything from on-time arrivals to baggage-handling 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. If customers complain too much about the food, catering managers figure out how to improve. As a result, no single element of the firm's performance can slip too far before it's noticed and fixed.

Figure 5.1 illustrates the control process that 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 10 years, an appropriate standard to assess progress toward the 20-percent goal might be an increase of about 2 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 2.1 percent by the end of the first year, things are probably fine. If sales have dropped 1

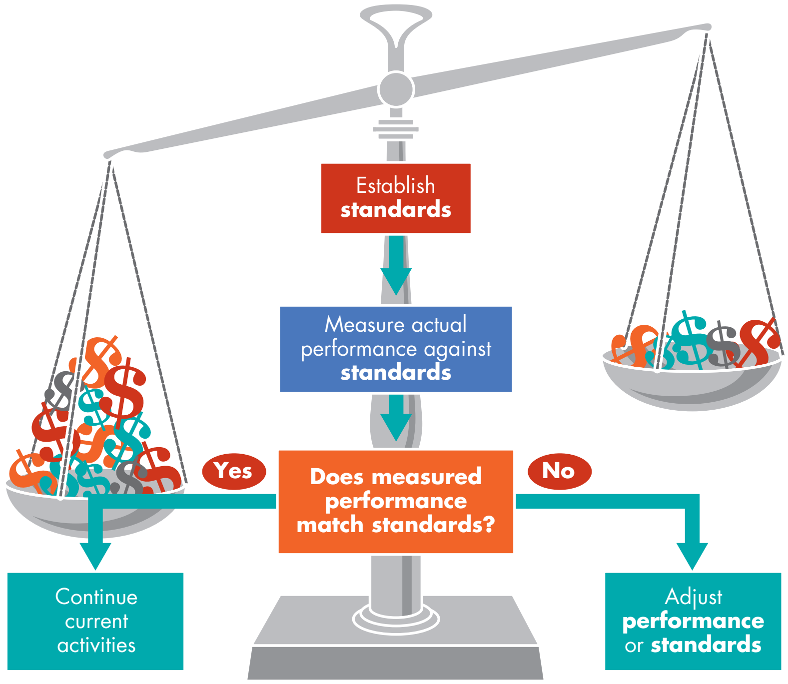

Figure 5.1 The Control Process

percent, some revision in plans may be needed. Perhaps the original goal should be lowered or more money should be spent on advertising.

Control can also show where performance is running better than expected and can serve as a basis for providing rewards or reducing costs. For example, when Chevrolet introduced the Super Sport Roadster (a classic, late-1940s pickup-style vehicle with a two-seat roadster design), the firm thought it had a major hit on its hands. But poor sales led to Chevrolet's decision to suspend production of the vehicle. On the other hand, Apple's iPad has been so successful that the firm has not been forced to discount or offer incentives for people to buy the device.

Types of Managers

2 Identify different types of managers likely to be found in an organization by level and area.

Although all managers plan, organize, lead, and control, not all managers have the same degree of responsibility for these activities. It is helpful to classify managers according to levels and areas of responsibility.

Levels of Management

The three basic levels of management are *top*, *middle*, and *first-line* management. As summarized in Table 5.1, most firms have more middle managers than top managers and more first-line managers than middle managers. Both the power of managers and the complexity of their duties increase as they move up the ladder.

Organizing management process of determining how best to arrange an organization's resources and activities into a coherent structure

Leading management process of guiding and motivating employees to meet an organization's objectives

Controlling management process of monitoring an organization's performance to ensure that it is meeting its goals

TABLE 5.1 The Three Levels of Management

Level	Examples	Responsibilities
Top managers	President, vice president, treasurer, chief executive officer (CEO), chief financial officer (CFO)	• 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	• 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	• Responsible for supervising the work of employees who report to them • Ensure employees understand and are properly trained in company policies and procedures

Top Managers Like Sergey Brin, Larry Page, and the late Steve Jobs, the fairly small number of executives who get the chance to guide the fortunes of most companies are top managers. Common titles for top managers include *president*, *vice president*, *treasurer*, *chief executive officer* (*CEO*), and *chief financial officer* (*CFO*). **Top managers** are responsible for the overall performance and effectiveness of the firm. They set general policies, formulate strategies, approve all significant decisions, and represent the company in dealings with other firms and with government bodies.

Middle Managers Just below the ranks of top managers is another group of managers who also occupy positions of considerable autonomy and importance and who are called middle managers. Titles such as *plant manager*, *operations manager*, and *division manager* designate middle-management slots. In general, **middle managers** are responsible for implementing the strategies and working toward the goals set by top managers.[3] For example, if top management decides to introduce a new product in 12 months or to cut costs by 5 percent in the next quarter, middle management are primarily responsible for determining how to meet these goals. The manager of an American Express service center or a regional sales manager of Frito-Lay snack products will likely be a middle manager.

First-Line Managers Those who hold such titles as *supervisor*, *office manager*, *project 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 that arena. 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 upper-level managers at the home office. The supervisor of delivery drivers for Frito-Lay products in a city would be considered to be a first-line manager.

Areas of Management

In any large company, top, middle, and first-line managers work in a variety of areas, including human resources, operations, marketing, information, and finance. For the most part, these areas correspond to the types of basic management skills described later in this chapter and to the wide range of business principles and activities discussed in the rest of this book.

Human Resource Managers Most companies have *human resource managers* who hire and train employees, evaluate performance, and determine compensation. At large firms, separate departments deal with recruiting and hiring, wage and salary levels, and labor relations. A smaller firm may have a single department—or a single person—responsible for all human resource activities. (We discuss some key issues in human resource management in Chapter 10.)

Operations Managers As we will see in Chapter 7, the term *operations* refers to the systems by which a firm produces goods and services. Among other duties, *operations managers* are responsible for production, inventory, and quality control. Manufacturing companies such as Texas Instruments, Ford, and Caterpillar have a strong need for operations managers at many levels. Such firms typically have a *vice president for operations* (top manager), *plant managers* (middle managers), and *production supervisors* (first-line managers). In recent years, sound operations management practices have become increasingly important to a variety of service organizations.

Marketing Managers As we will see in Chapter 11, marketing encompasses the development, pricing, promotion, and distribution of goods and services. *Marketing managers* are responsible for getting products from producers to consumers. Marketing is especially important for firms that manufacture consumer products, such as Nike, Coca-Cola, and Apple. Such firms often have large numbers of marketing managers at several levels. For example, a large consumer products firm is likely to have a *vice president for marketing* (top manager), several *regional marketing managers* (middle managers), and several *district sales managers* (first-line managers).

Information Managers Occupying a fairly new managerial position in many firms, *information managers* design and implement systems to gather, organize, and distribute information. Huge increases in both the sheer volume of information and the ability to manage it have led to the emergence of this important function. Although still relatively few in number, the ranks of information managers are growing at all levels. Some firms have a top-management position for a *chief information officer* (*CIO*). Middle managers help design information systems for divisions or plants. Computer systems managers within smaller businesses are usually first-line managers. We'll discuss information management in more detail in Chapter 13.

Financial Managers Nearly every company has *financial managers* to plan and oversee its accounting functions and financial resources. Levels of financial management may include *CFO* or *vice president for finance* (top), a *division controller* (middle), and an *accounting supervisor* (first-line manager). Some financial institutions—NationsBank and Prudential, for example—have even made effective financial management the company's reason for being. We'll discuss financial management in more detail in Chapters 14 and 15.

Other Managers Some firms also employ other specialized managers. Many companies, for example, have public relations managers. Chemical and pharmaceutical companies such as Monsanto and Merck have research and development managers. The range of possibilities is wide, and the areas of management are limited only by the needs and imagination of the firm.

Top Manager manager responsible for a firm's overall performance and effectiveness

Middle Manager manager responsible for implementing the strategies and working toward the goals set by top managers

First-Line Manager manager responsible for supervising the work of employees

3 Describe the basic skills required of managers.

Basic Management Skills

Although the range of managerial positions is almost limitless, the success that people enjoy in those positions is often limited by their skills and abilities. Effective managers must develop *technical*, *human relations*, *conceptual*, *decision-making*, and *time management skills*. Unfortunately, these skills are quite complex, and it is the rare manager who excels in every area.

Technical Skills

The skills needed to perform specialized tasks are called **technical skills.** A programmer's ability to write code, an animator's ability to draw, and an accountant's ability to audit a company's records are all examples of technical skills. People develop technical skills through a combination of education and experience. Technical skills are especially important for first-line managers. Many of these managers spend considerable time helping employees solve work-related problems, training them in more efficient procedures, and monitoring performance.

Human Relations Skills

Effective managers also generally have good **human relations skills**—skills that enable them to understand and get along with other people. A manager with poor human relations skills may have trouble getting along with subordinates, cause valuable employees to quit or transfer, and contribute to poor morale. Although human relations skills are important at all levels, they are probably most important for middle managers, who must often act as bridges between top managers, first-line managers, and managers from other areas of the organization. Managers should possess good communication skills. Many managers have found that being able both to understand others and to get others to understand them can go a long way toward maintaining good relations in an organization.

Conceptual Skills

Conceptual skills refer to a person's ability to think in the abstract, to diagnose and analyze different situations, and to see beyond the present situation. Conceptual skills help managers recognize new market opportunities and threats. They can also help managers analyze the probable outcomes of their decisions. The need for conceptual skills differs at various management levels. Top managers depend most on conceptual skills, first-line managers least. Although the purposes and everyday needs of various jobs differ, conceptual skills are needed in almost any job-related activity. In many ways, conceptual skills may be the most important ingredient in the success of executives in e-commerce businesses. For example, the ability to foresee how a particular business application will be affected by or can be translated to the Internet is clearly conceptual in nature.

Decision-Making Skills

Decision-making skills include the ability to define problems and to select the best course of action. These skills involve gathering facts, identifying solutions, evaluating alternatives, and implementing the chosen alternative. Periodically following up and evaluating the effectiveness of the choice are also part of the decision-making process. These skills allow some managers to identify effective strategies for their firm, such as Michael Dell's commitment to direct marketing as the firm's distribution model. But poor decision-making skills can also lead to failure and ruin. Indeed, poor decision making played a major role in the downfall of such U.S. business stalwarts as Montgomery Ward, Studebaker, and Enron. We'll discuss decision making more fully in Chapter 9.

Time Management Skills

Time management skills refer to the productive use that managers make of their time. Suppose, for example, that a CEO is paid $2 million in base salary (this is not an especially large CEO salary, by the way!). Assuming that she works 50 hours a week and takes two weeks' vacation, our CEO earns $800 an hour—a little more than $13 per minute. Any amount of time that she wastes clearly represents a large cost to the firm and its stockholders. Most middle and lower-level managers receive much smaller salaries than this, of course, but their time is still very valuable, and poor use of it still translates into costs and wasted productivity.

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

1. *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.
2. *Telephone calls.* Experts estimate that managers get interrupted by the telephone every five minutes. To manage this time more effectively, they suggest having an assistant screen all calls and setting aside a certain block of time each day to return the important ones. Unfortunately, the explosive use of cell phones seems to be making this problem even worse for many managers.
3. *Meetings.* Many managers spend as much as four hours a 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.
4. *E-mail.* Increasingly, managers are relying heavily on e-mail and other forms of electronic communication. Time is wasted when managers have to sort through spam and a variety of electronic folders, in-boxes, and archives.

Management Skills for the Twenty-First Century

Although the skills discussed in this chapter have long been important parts of every successful manager's career, new skill requirements continue to emerge. Today, most experts point to the growing importance of skills involving *global management* and *technology*.

Global Management Skills Tomorrow's managers must equip themselves with the special tools, techniques, and skills needed to compete in a global environment. They will need to understand foreign markets, cultural differences, and the motives and practices of foreign rivals. They also need to understand how to collaborate with others around the world on a real-time basis.

On a more practical level, businesses will need more managers who are capable of understanding international operations. In the past, most U.S. businesses hired local managers to run their operations in the various countries in which they operated. More recently, however, the trend has been to transfer U.S. managers to foreign locations. This practice helps firms transfer their corporate cultures to foreign operations. In addition, foreign assignments help managers become better prepared for

Technical Skills skills needed to perform specialized tasks

Human Relations Skills skills in understanding and getting along with people

Conceptual Skills abilities to think in the abstract, diagnose and analyze different situations, and see beyond the present situation

Decision-Making Skills skills in defining problems and selecting the best courses of action

Time Management Skills skills associated with the productive use of time international competition as they advance within the organization. The top management teams of large corporations today are also likely to include directors from other countries.

Management and Technology Skills Another significant issue facing tomorrow's managers is technology, especially as it relates to communication. Managers have always had to deal with information. In today's world, however, the amount of information has reached staggering proportions. In the United States alone, people exchange hundreds of millions of e-mail messages every day. New forms of technology have added to a manager's ability to process information while simultaneously making it even more important to organize and interpret an ever-increasing wealth of input.

Technology has also begun to change the way the interaction of managers shapes corporate structures. Elaborate computer networks control the flow of a firm's lifeblood—information. This information no longer flows strictly up and down through hierarchies. It now flows to everyone simultaneously. As a result, decisions are made quicker, and more people are directly involved. With e-mail, videoconferencing, and other forms of communication, neither time nor distance—nor such corporate boundaries as departments and divisions—can prevent people from working more closely together. More than ever, bureaucracies are breaking down, while planning, decision making, and other activities are beginning to benefit from group building and teamwork. We discuss the effects technology has on business in more detail in Chapter 13.

4 Explain the importance of strategic management and effective goal setting in organizational success.

Strategic Management: Setting Goals and Formulating Strategy

As we noted earlier, planning is a critical part of the manager's job. Managers today are increasingly being called on to think and act strategically. **Strategic management** is the process of helping an organization maintain an effective alignment with its environment. For instance, if a firm's business environment is heading toward fiercer competition, the business may need to start cutting its costs and developing more products and services before the competition really starts to heat up. Likewise, if an industry is globalizing, a firm's managers may need to start entering new markets, developing international partnerships, and so forth during the early stages of globalization rather than waiting for its full effects.

The starting point in effective strategic management is setting **goals**—objectives that a business hopes and plans 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,** which is a broad set of organizational plans for implementing the decisions made for achieving organizational goals. Let's begin by examining business goals more closely.

Setting Business Goals

Goals are performance targets—the means by which organizations and their managers measure success or failure at every level. For example, Marjorie Scardino's goals at Pearson are currently tied to cost reductions and improved profitability; in the future, she will likely focus more on growth. At AmEx, however, Kenneth Chenault is focusing more on revenue growth and the firm's stock price. Indra Nooyi's goals at Pepsi include keeping abreast of changing consumer tastes and leveraging the firm's current products

ENTREPRENEURSHIP AND NEW VENTURES

Samuel Adams Makes Headway

In 1984 James Koch was a high-flying management consultant earning over $250,000 a year. To the surprise of his family and friends, however, he quit this job and invested his life's savings to start a business from scratch and go head-to-head with international competitors in a market that had not had a truly successful specialty product in decades. To everyone's even greater surprise, he succeeded.

Koch's company is Boston Beer, and its flagship product is a premium beer called Samuel Adams. James set up shop in an old warehouse in Boston, bought some surplus equipment from a large brewery, and started operations. Because he used only the highest-quality ingredients, Koch had to price his product at about $1 more per case than such premium imports as Heineken. Most distributors, doubting consumers would pay $6 per six-pack for an American beer, refused to carry it. So Koch began selling directly to retailers and bars.

His big break came when Samuel Adams Lager won the consumer preference poll at the Great American Beer Festival. Koch quickly turned this victory into an advertising mantra, proclaiming Samuel Adams "The Best Beer in America." As sales took off, national distributors came calling; to meet surging demand, Koch contracted parts of his brewing operations to facilities in Pittsburgh and Cincinnati.

During the early 1990s, annual sales of Samuel Adams products grew at a rate of over 50 percent and today exceed $340 million. The 2008 purchase of a brewery outside Philadelphia increased the firm's brewing capacity by over 1.6 million barrels per year. Boston Beer even exports Samuel Adams to Germany, where it's become popular among finicky beer drinkers. Koch, who retains controlling interest in the business, still oversees day-to-day brewing operations. Indeed, he claims to have sampled at least one of the firm's products every day.[4]

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Samuel Adams handout/MCT/Newscom

into new markets. And Jeffrey Smisek's goals at United are to continue the smooth integration of Continental and United into the world's largest airline.

Purposes of Goal Setting An organization functions systematically because it sets goals and plans accordingly. An organization commits its resources on all levels to achieve its goals. Specifically, we can identify four main purposes in organizational goal setting:

1 *Goal setting provides direction and guidance for managers at all levels.* If managers know precisely where the company is headed, there is less potential for error in the different units of the company. Starbucks, for example, has a goal of increasing capital spending by 10 percent, with all additional expenditures devoted to opening new stores. This goal clearly informs everyone in the firm that expansion into new territories is a high priority for the firm.

Strategic Management process of helping an organization maintain an effective alignment with its environment

Goal objective that a business hopes and plans to achieve

Strategy broad set of organizational plans for implementing the decisions made for achieving organizational goals

2 *Goal setting helps firms allocate resources.* Areas that are expected to grow will get first priority. The company allocates more resources to new projects with large sales potential than it allocates to mature products with established but stagnant sales potential. Thus, Starbucks is primarily emphasizing new store expansion, while its e-commerce initiatives are currently given a lower priority. "Our management team," says CEO Howard Schultz, "is 100 percent focused on growing our core business without distraction … from any other initiative."

3 *Goal setting helps to define corporate culture.* For years, the goal at General Electric has been to push each of its divisions to first or second in its industry. The result is a competitive (and often stressful) environment and a corporate culture that rewards success and has little tolerance for failure. At the same time, however, GE's appliance business, television network (NBC), aircraft engine unit, and financial services business are each among the very best in their respective industries. Eventually, the firm's CEO set an even higher companywide standard—to make the firm the most valuable in the world.

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. GE has a long-standing reputation for evaluating managerial performance, richly rewarding those who excel—and getting rid of those who do not. Each year, the lower 10 percent of GE's managerial force are informed that either they make dramatic improvements in performance or consider alternative directions for their careers.

Kinds of Goals Goals differ from company to company, depending on the firm's purpose and mission. Every enterprise has a purpose, or a reason for being. Businesses seek profits, universities seek to discover and transmit new knowledge, and government agencies seek to set and enforce public policy. Many enterprises also have missions and **mission statements**—statements of how they will achieve their purposes in the environments in which they conduct their businesses.

A company's mission is usually easy to identify, at least at a basic level. Starbucks sums up its mission very succinctly: the firm intends to "establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow." But businesses sometimes have to rethink their strategies and mission as the competitive environment changes. A few years ago, for example, Starbucks announced that Internet marketing and sales were going to become core business initiatives. Managers subsequently realized, however, that this initiative did not fit the firm as well as they first thought. As a result, they scaled back this effort and made a clear recommitment to their existing retail business. The demands of change force many companies to rethink their missions and revise their statements of what they are and what they do.

In addition to its mission, every firm also has long-term, intermediate, and short-term goals:

- **Long-term goals** relate to extended periods of time, typically five years or more. For example, AmEx might set a long-term goal of doubling the number of participating merchants during the next 10 years. Kodak might adopt a long-term goal of increasing its share of the digital picture processing market by 10 percent during the next eight years.

- **Intermediate goals** are set for a period of one to five years. Companies usually set 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 reduce 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.

- **Short-term goals** are set for perhaps one year and 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 examples of short-term goals.

After a firm has set its goals, it then focuses attention on strategies to accomplish them.

Types of Strategy

As shown in Figure 5.2, the three types of strategy that are usually considered by a company are *corporate strategy*, *business* (or *competitive*) *strategy*, and *functional strategy.*

Corporate Strategy The purpose of **corporate strategy** is to determine what business or businesses a company will own and operate. Some corporations own and operate only a single business. The makers of WD-40, for example, concentrate solely on that brand. Other corporations own and operate many businesses. A company may decide to *grow* by increasing its activities or investment or to *retrench* by reducing them.

Sometimes a corporation buys and operates multiple businesses in compatible industries as part of its corporate strategy. For example, the restaurant chains operated by YUM! (KFC, Pizza Hut, and Taco Bell) are clearly related to one another. This strategy is called *related diversification*. However, if the businesses are not similar, the strategy is called *unrelated diversification*. Samsung, which owns electronics, construction, chemicals, catering, and hotel businesses is following this approach. Under Kenneth Chenault, AmEx corporate strategy calls for strengthening operations through a principle of growth called *e-partnering*—buying shares of small companies that can provide technology that AmEx itself does not have.

Business (or Competitive) Strategy When a corporation owns and operates multiple businesses, it must develop strategies for each one. **Business (or competitive) strategy,** then, takes place at the level of the business unit or product line and focuses on improving the company's competitive position. For example, at this level, AmEx makes decisions about how best to compete in an industry that includes Visa,

Figure 5.2 Hierarchy of Strategy
Source: Based on Thomas L. Wheelen and J. David Hunger, *Strategic Management and Business Policy*, 8th ed. (Upper Saddle River, NJ: Prentice Hall, 2002), 14.

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

Long-Term Goal goal set for an extended time, typically five years or more into the future

Intermediate Goal goal set for a period of one to five years into the future

Short-Term Goal goal set for the very near future

Corporate Strategy strategy for determining the firm's overall attitude toward growth and the way it will manage its businesses or product lines

Business (or Competitive) Strategy strategy, at the business-unit or product-line level, focusing on improving a firm's competitive position

MasterCard, and other credit card companies. In this respect, the company has committed heavily to expanding its product offerings and serving customers through new technology. Pepsi, meanwhile, has one strategy for its soft drink business as it competes with Coca-Cola and a different strategy for its sports drink business and yet another strategy for its New Age beverage company. It has still other strategies for its snack foods businesses.

Functional Strategy At the level of **functional strategy,** managers in specific areas such as marketing, finance, and operations decide how best to achieve corporate goals by performing their functional activities most effectively. At AmEx, for example, each business unit has considerable autonomy in deciding how to use the single website at which the company has located its entire range of services. Pepsi, meanwhile, develops functional strategies for marketing its beverage and snack foods products and operations strategies for distributing them. The real challenges—and opportunities—lie in successfully creating these strategies. Therefore, we now turn our attention to the basic steps in strategy formulation.

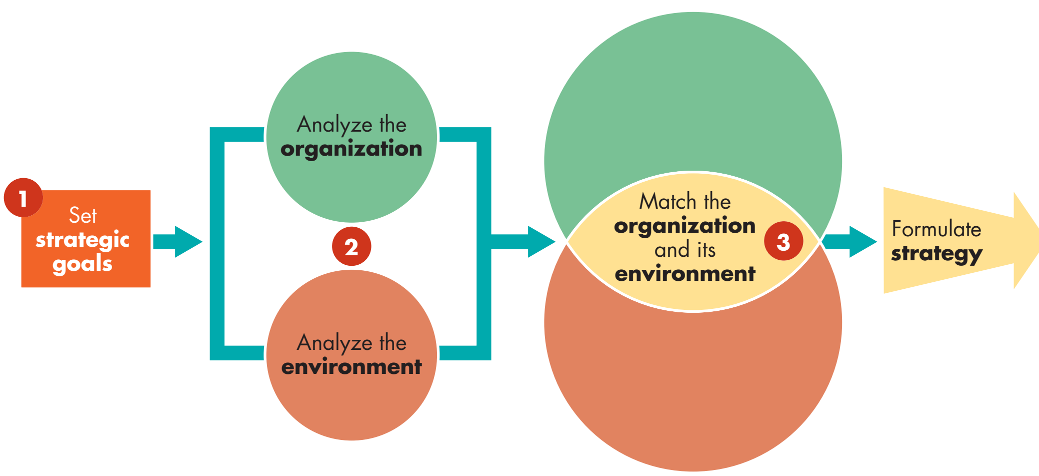
Formulating Strategy

Planning is often concerned with the nuts and bolts of setting goals, choosing tactics, and establishing schedules. In contrast, *strategy* tends to have a wider scope. By definition, it is a broad concept that describes an organization's intentions. Further, a strategy outlines how the business intends to meet its goals and includes the organization's responsiveness to new challenges and new needs. Because a well-formulated strategy is so vital to a business's success, most top managers devote substantial attention and creativity to this process. **Strategy formulation** involves the three basic steps summarized in Figure 5.3 and discussed next.

Step 1: *Setting Strategic Goals* **Strategic goals** are derived directly from a firm's mission statement. For example, Martin Winterkorn, CEO of Volkswagen, has clear strategic goals for the European carmaker. When he took over, Volkswagen was only marginally profitable, was regarded as an also-ran in the industry, and was thinking about pulling out of the U.S. market altogether because its sales were so poor. Over the next few years, however, Winterkorn totally revamped the firm, acquired Audi, Skoda, Scania, and Porsche, and is now making big profits. Volkswagen is also now a much more formidable force in the global automobile industry.

Step 2: *Analyzing the Organization and the Environment: SWOT Analysis* After strategic goals have been established, managers usually attempt to assess

Figure 5.3 **Strategy Formulation**
Source: Adapted from Stephen P. Robbins and Mary Coulter, *Management*, 9th ed. (Upper Saddle River, NJ: Prentice Hall, 2007), 199.



both their organization and its environment. A common framework for this assessment is called a **SWOT analysis.** This process involves assessing organizational strengths and weaknesses (the **S** and **W**) and environmental opportunities and threats (the **O** and **T**). In formulating strategy, managers attempt to capitalize on organizational strengths and take advantage of environmental opportunities. During this same process, they may seek ways to overcome or offset organizational weaknesses and avoid or counter environmental threats.

Scanning the business environment for threats and opportunities is often called **environmental analysis.** Changing consumer tastes and hostile takeover offers are threats, as are new government regulations that will limit a firm's opportunities. Even more important threats come from new products and new competitors. For example, online music services like iTunes are a major threat to manufacturers of CDs and CD players. Likewise, the emergence of digital photography has dramatically weakened companies tied to print photography. Opportunities, meanwhile, are areas in which the firm can potentially expand, grow, or take advantage of existing strengths. For example, when Pepsi managers recognized the growing market potential for bottled water, they moved quickly to launch their Aquafina brand and to position it for rapid growth.

In addition to analyzing external factors by performing an environmental analysis, managers must also examine internal factors. The purpose of such an **organizational analysis** is to better understand a company's strengths and weaknesses. Strengths might include surplus cash, a dedicated workforce, an ample supply of managerial talent, technical expertise, or little competition. For example, Pepsi's strength in beverage distribution through its network of soft drink distributors was successfully extended to distribution of bottled water. A cash shortage, aging factories, a heavily unionized workforce, and a poor public image can all be important weaknesses.

Step 3: *Matching the Organization and Its Environment* The final step in strategy formulation is matching environmental threats and opportunities against corporate strengths and weaknesses. This matching process is at the heart of strategy formulation. That is, a firm should attempt to leverage its strengths so as to capitalize on opportunities and counteract threats; it should also attempt to shield its weaknesses, or at least not allow them to derail other activities. For instance, knowing how to distribute consumer products (a strength) allows Pepsi to add new businesses and extend existing ones that use the same distribution models. But a firm that lacked a strong understanding of consumer product distribution would be foolish to add new products whose success relied heavily on efficient distribution.

Understanding strengths and weaknesses may also determine whether a firm typically takes risks or behaves more conservatively. Either approach can be successful. Blue Bell, for example, is one of the most profitable ice-cream makers in the world, even though it sells its products

Functional Strategy strategy by which managers in specific areas decide how best to achieve corporate goals through productivity

Strategy Formulation creation of a broad program for defining and meeting an organization's goals

Strategic Goal goal derived directly from a firm's mission statement

SWOT Analysis identification and analysis of organizational strengths and weaknesses and environmental opportunities and threats as part of strategy formulation

Environmental Analysis process of scanning the business environment for threats and opportunities

Organizational Analysis process of analyzing a firm's strengths and weaknesses

MANAGING IN TURBULENT TIMES

Best Buy—Built to Last

Kristoffer Tripplaar/Alamy

Recent times have seen the demise of retailing giants like Circuit City and Linens-N-Things, as well as the weakening of others like Ann Taylor and Sears. But one industry stalwart, Best Buy, continues to thrive. Down the hall from the CEO's office at the Best Buy headquarters in Minneapolis, there's a row of hospital beds, each containing the effigy of an ailing or deceased U.S. retailer. Bedside charts reveal dire financial results. A nearby sign reads: "This is where companies go when their strategies get sick."

What are the keys to success at Best Buy? Former CEO Brad Anderson saw his job as keeping the company in strategic good health. So, for one thing, he went to great lengths to stay in tune with customer tastes and preferences. He also decided that the company would stop paying commissions to its sales staff and put these employees on salary instead. The move didn't go over well with the big suppliers who expected a retailer's salespeople to push their premium products, but customers appreciated the break from high-pressure sales tactics, and revenues at Best Buy jumped by 25 percent a year in the early 1990s.

Anderson also made the decision to buy a Minneapolis start-up that specialized in installing and fixing PCs. And by 2005, there was a Geek Squad presence in every store in the chain. Whether working at the customer's home, in a Best Buy outlet, over the phone, or online, the Geeks constitute a first line of defense against the technological frustrations that can sap the value out of an electronics purchase and the goodwill out of a customer experience. Anderson was confident from the first that the technical-services market would continue to grow, but perhaps more importantly, he realized that competitors like Wal-Mart and Costco would never offer the kind of customer service that Best Buy could offer through the Geek Squad. On sales of $1 billion, the Geek Squad now generates about $280 million in profits annually.

By far, however, Anderson's most ambitious strategic gambit has been the "customer-centricity"—or just plain "centricity"—initiative. The keys to centricity are demographics and segmentation. From store to store, the most valuable customers—the ones whose patronage is most lucrative—don't necessarily belong to the same group of people. At one outlet, for example, the most profitable customers might be affluent tech enthusiasts; elsewhere, they may be suburban mothers, price-conscious family guys, or youthful gadget fiends. Beginning in 2003, Anderson started "centrizing" Best Buy stores—realigning them to cater to their most profitable segments (or combination of segments). A given location, for instance, may be geared toward young gadget fiends, another toward suburban mothers. The first will have a broader range of video games and special stations for trying out accessories; the second will have a staff of personal shopping assistants to help a homemaker find the right digital camera for recording family activities. If a store caters to affluent tech enthusiasts (as about 40 percent of them do), there will be a home theater expert on hand.

In a sign of the volatile times, Best Buy announced in November 2008 that it expected revenues for fiscal 2009 to fall short of projections. When the smoke had cleared, however, sales had gone up 4 percent, thanks in part to another Brad Anderson gamble that had paid off: Although comparable-store sales (sales in stores that have been open for at least a year) had declined 6.8 percent, the losses were offset by revenues from 138 new stores that had been opened in the preceding 12 months. "While the environment continues to be as challenging as we expected," said Anderson, "consumers are being drawn to brands that they trust, and they are responding to our customer-centric model. In this light, we believe that the market-share gains we've been making will be sustained."[5]

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in only about a dozen states. Based in Brenham, Texas, Blue Bell controls more than 50 percent of the market in each state where it does business. The firm, however, has resisted the temptation to expand too quickly. Its success is based on product freshness and frequent deliveries—strengths that may suffer if the company grows too large.

A Hierarchy of Plans

The final step in formulating strategy is translating the strategy into more operational language. This process generally involves the creation of actual plans. Plans can be viewed on three levels: strategic, tactical, and operational. Managerial responsibilities are defined at each level. The 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. They are usually created by the firm's top management team but, as noted earlier, often rely on input from others in the organization. So, the fundamental outcome of the strategic planning process is the creation of a strategic plan. General Electric's decision that viable businesses must rank first or second within their respective markets is a matter of strategic planning.
- **Tactical plans** are shorter-term plans for implementing specific aspects of the company's strategic plans. That is, after a strategic plan has been created, managers then develop shorter-term plans to guide decisions so they are consistent with the strategic plan. They typically involve upper and middle management. Dell's efforts to extend its distribution expertise into the markets for televisions and other home electronics is an example of tactical planning.
- **Operational plans,** which are developed by mid-level and lower-level managers, set short-term targets for daily, weekly, or monthly performance. Starbucks, for instance, has operational plans dealing with how its stores must buy, store, and brew coffee.

Contingency Planning and Crisis Management

5 Discuss contingency planning and crisis management in today's business world.

Because business environments are often difficult to predict and because the unexpected can create major problems, most managers recognize that even the best-laid plans sometimes simply do not work out. For instance, when Walt Disney announced plans to launch a cruise line replete with familiar Disney characters and themes, managers also began aggressively developing and marketing packages linking three- and four-day cruises with visits to Disney World in Florida. The inaugural sailing was sold out more than a year in advance, and the first year was booked solid six months before the ship was launched. Three months before the first sailing, however, 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. When similar problems befall other cruise lines, they can offer to rebook passengers on alternative itineraries. But because Disney had no other ship, it had no choice but to refund the money it had collected as prebooking deposits for its first 15 cruises.

The 20,000 displaced customers were offered big discounts if they rebooked on a later cruise. Many of them, however, could not rearrange their schedules and

Strategic Plan plan reflecting decisions about resource allocations, company priorities, and steps needed to meet strategic goals

Tactical Plan generally short-term plan concerned with implementing specific aspects of a company's strategic plans

Operational Plan plan setting short-term targets for daily, weekly, or monthly performance requested full refunds. Moreover, quite a few blamed Disney for the problem, and a few expressed outrage at what they saw as poor planning by the entertainment giant. Fortunately for Disney, however, the *Disney Magic* was eventually launched and has now become very popular and very profitable. Because managers know such things can happen, they often develop alternative plans in case things go awry. Two common methods of dealing with the unknown and unforeseen are *contingency planning* and *crisis management*.

Contingency Planning

Contingency planning seeks to identify in advance important aspects of a business or its market that might change. It also identifies the ways in which a company will respond to changes. Suppose, for example, that a company develops a plan to create a new division. It expects sales to increase at an annual rate of 10 percent for the next five years, and it develops a marketing strategy for maintaining that level. But suppose that sales have increased by only 5 percent by the end of the first year. Does the firm (1) abandon the venture, (2) invest more in advertising, or (3) wait to see what happens in the second year? Whichever choice the firm makes, its efforts will be more efficient if managers decide in advance what to do in case sales fall below planned levels.

Contingency planning helps them do exactly that. Disney learned from its mistake with its first ship—when the second ship was launched a year later, managers allowed for an extra two weeks between when the ship was supposed to be ready for sailing and its first scheduled cruise.

Crisis Management

A crisis is an unexpected emergency requiring immediate response. **Crisis management** involves an organization's methods for dealing with emergencies. Seeing the consequences of poor crisis management after the terrorist attacks of September 11, 2001, and the hurricanes that hit the Gulf Coast in 2005, many firms today are working to create new and better crisis management plans and procedures.

For example, both Reliant Energy and Duke Energy rely on computer trading centers where trading managers actively buy and sell energy-related commodities. If a terrorist attack or natural disaster were to strike their trading centers, they would essentially be out of business. Consequently, Reliant and Duke have created secondary trading centers at other locations. In the event of a shutdown at their main trading centers, these firms can quickly transfer virtually all their core trading activities to their secondary centers within 30 minutes or less.[6] Still, however many firms do not have comprehensive crisis management strategies. For example, as concerns grew about the outbreak of H1N1 (swine) flu in 2009 and some officials warned of a possible pandemic, a survey found that only about 57 percent of U.S. businesses had plans in place to deal with a flu pandemic.

6 Describe the development and explain the importance of corporate culture.

Management and the Corporate Culture

Every organization—big or small, more successful or less successful—has an unmistakable "feel" to it. Just as every individual has a unique personality, every company has a unique identity, a **corporate culture:** the shared experiences, stories, beliefs, and norms that characterize an organization. This culture helps define the work and business climate that exists in an organization.

A strong corporate culture serves several purposes. For one thing, it directs employees' efforts and helps everyone work toward the same goals. Some cultures, for example, stress financial success to the extreme, whereas others focus more on quality of life. In addition, corporate culture helps newcomers learn accepted behaviors. If financial success is the key to a culture, 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, newcomers learn that it's more acceptable to spend less time at work and that balancing work and nonwork is encouraged.

Where does a business's culture come from? In some cases, it emanates from the days of an organization's founder. Firms such as Walt Disney, Hewlett-Packard, Wal-Mart, and J. C. Penney, for example, still bear the imprint of their founders. In other cases, an organization's culture is forged over a long period of time by a constant and focused business strategy. Pepsi, for example, has an achievement-oriented culture tied to its long-standing goal of catching its biggest competitor, Coca-Cola. Similarly, Google has a sort of "work hard, play hard" culture stemming from its constant emphasis on innovation and growth coupled with lavish benefits and high pay.

Dennis MacDonald/Alamy

Sam Walton honed his craft as a retailer at Walton's five and dime. He then used his experience to create a unique corporate culture when he founded Wal-Mart.

Communicating the Culture and Managing Change

Corporate culture influences management philosophy, style, and behavior. Managers, therefore, must carefully consider the kind of culture they want for their organizations and then work to nourish that culture by communicating with everyone who works there.

Communicating the Culture To use a firm's culture to its 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. Thus, training and orientation for newcomers in an organization often includes information about the firm's culture. 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 Organizations must sometimes change their cultures. In such cases, they must also communicate the nature of the change to both employees and customers. According to the CEOs of several companies that have undergone radical change in the last decade or so, the process usually goes through three stages:

1. *At the highest level, analysis of the company's environment highlights extensive change as the most effective response to its problems.* This period is typically characterized by conflict and resistance.
2. *Top management begins to formulate a vision of a new company.* Whatever that vision, it must include renewed focus on the activities of competitors and the needs of customers.
3. *The firm sets up new systems for appraising and compensating employees who enforce the firm's new values.* The purpose is to give the new culture solid shape from within the firm.

Contingency Planning identifying aspects of a business or its environment that might entail changes in strategy

Crisis Management organization's methods for dealing with emergencies

Corporate Culture the shared experiences, stories, beliefs, and norms that characterize an organization

UPPA/Photoshot

Continued from page 114

Want to Know the Future? Just Google It…

For the immediate future, at least, Google plans on following its basic proven recipe for success, competing head to head with financial-service providers for stock information and with iTunes for music and videos. Also committed to the in-house development of new features and services, Google spent $2.4 billion on R&D in 2010 (up from $1.2 billion in 2006) and another $1 billion to acquire new IT assets. Innovations in the works include an automated universal language translator for translating documents in any language into any other language and personalized home pages that will allow users to design automatic searches and display the results in personal "newspapers."

Nobody knows for sure what else is on the drawing board. In fact, outsiders—notably potential investors—often criticize Google for being a "black box" when they want a few more details about such topics of investor interest as long-range strategy. "We don't talk about our strategy," explains Page, "… because it's strategic. I would rather have people think we're confused than let our competitors know what we're going to do."

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 Sergey Brin and Larry Page?
3 What role have goals and strategy played in the success of Google?
4 How would you describe the corporate culture at Google?

SUMMARY OF LEARNING OBJECTIVES MyBizLab

1. Describe the nature of management and identify the four basic functions that constitute the management process. (pp. 114–117)
Management is the process of planning, organizing, leading, and controlling all of a firm's resources to achieve its goals. *Planning* is determining what the organization needs to do and how best to get it done. The process of arranging resources and activities into a coherent structure is called *organizing*. When *leading*, a manager guides and motivates employees to meet the firm's objectives. *Controlling* is the process of monitoring performance to make sure that a firm is meeting its goals.

2. Identify different types of managers likely to be found in an organization by level and area. (pp. 117–119)
There are three levels of management. The few executives who are responsible for the overall performance of large companies are *top managers*. Just below top managers are *middle managers*, including plant, operations, and division managers, who implement strategies, policies, and decisions made by top managers. Supervisors and office managers are the *first-line managers* who work with and supervise the employees who report to them.

In any large company, most managers work in one of five areas. *Human resource managers* hire and train employees, assess performance, and fix compensation. *Operations managers* are responsible for production, inventory, and quality control. *Marketing managers* are responsible for getting products from producers to consumers. *Information managers* design and implement systems to gather, organize, and distribute information. Some firms have a top manager called a *chief information officer* (CIO). *Financial managers*, including the chief financial officer (top), division controllers (middle), and accounting supervisors (first-line), oversee accounting functions and financial resources.

3. Describe the basic skills required of managers. (pp. 120–122)
Effective managers must develop a number of important skills. *Technical skills* are skills needed to perform specialized tasks. *Human relations skills* are skills in understanding and getting along with other people. *Conceptual skills* refer to the ability to think abstractly as well as diagnose and analyze different situations. *Decision-making skills* include the ability to define problems and select the best courses of action. *Time management skills* refer to the productive use of time. *Global management skills* include understanding foreign markets, cultural differences, and the motives and practices of foreign rivals. *Technology management skills* include the ability to process, organize, and interpret an ever-increasing amount of information.

4. Explain the importance of strategic management and effective goal setting in organizational success. (pp. 122–129)
Strategic management is the process of helping an organization maintain an effective alignment with its environment. It starts with setting *goals*—objectives that a business hopes (and plans) to achieve. Determined by the board and top management, *strategies* reflect decisions about resource allocations, company priorities, and plans. The three types of strategy that are usually considered by a company are *corporate strategy*, *business* (or *competitive*) *strategy*, and *functional strategy*.

5. Discuss contingency planning and crisis management in today's business world. (pp. 129–130)
Companies often develop alternative plans in case things go awry. There are two common methods of dealing with the unforeseen, *contingency planning* and *crisis management*. Contingency planning is planning for change: It seeks to identify in advance important aspects of a business or its market that might change. It also identifies the ways in which a company will respond to changes. Crisis management involves an organization's methods for dealing with emergencies.

6. Describe the development and explain the importance of corporate culture. (pp. 130–131)
Every company has a unique identity called *corporate culture*: its shared experiences, stories, beliefs, and norms. It helps define the work and business climate of an organization. A strong corporate culture directs efforts and helps everyone work toward the same goals. If an organization must change its culture, it must communicate the nature of the change to both employees and customers.

KEY TERMS MyBizLab

business (or competitive) strategy (p. 125)
conceptual skills (p. 120)
contingency planning (p. 130)
controlling (p. 116)
corporate culture (p. 130)
corporate strategy (p. 125)
crisis management (p. 130)
decision-making skills (p. 120)
environmental analysis (p. 127)
first-line manager (p. 118)
functional strategy (p. 126)
goal (p. 122)
human relations skills (p. 120)
intermediate goal (p. 124)
leading (p. 116)
long-term goal (p. 124)
management (p. 114)
middle manager (p. 118)
mission statement (p. 124)
operational plan (p. 129)
organizational analysis (p. 127)
organizing (p. 116)
planning (p. 114)
short-term goal (p. 125)
strategic goal (p. 126)
strategic management (p. 122)
strategic plan (p. 129)
strategy (p. 122)
strategy formulation (p. 126)
SWOT analysis (p. 127)
tactical plan (p. 129)
technical skills (p. 120)
time management skills (p. 121)
top manager (p. 118)

QUESTIONS AND EXERCISES

QUESTIONS FOR REVIEW

1. Relate the five basic management skills (technical, human relations, conceptual, decision-making, and time management) to the four activities in the management process (planning, organizing, leading, and controlling). For example, which skills are most important in leading?
2. What are the four main purposes of setting goals in an organization?
3. Identify and explain the three basic steps in strategy formulation.
4. What is corporate culture? How is it formed? How is it sustained?

QUESTIONS FOR ANALYSIS

5. Select any group of which you are a member (your company, your family, or a club or organization, for example). Explain how planning, organizing, leading, and controlling are practiced in that group.
6. Identify managers by level and area at your school, college, or university.
7. In what kind of company would the technical skills of top managers be more important than human relations or conceptual skills? Are there organizations in which conceptual skills are not important?
8. What differences might you expect to find in the corporate cultures of a 100-year-old manufacturing firm based in the Northeast and a 1-year-old e-commerce firm based in Silicon Valley?

APPLICATION EXERCISES

9. Interview the manager at any level of a local company. Identify that manager's job according to level and area. Show how planning, organizing, leading, and controlling are part of this person's job. Inquire about the manager's education and work experience. Which management skills are most important for this manager's job?
10. Compare and contrast the corporate cultures of two companies that do business in your community. Be sure to choose two companies in the same industry—for example, a Sears department store and a Wal-Mart discount store.

BUILDING YOUR BUSINESS SKILLS

Speaking with Power

Goal

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

Background Information

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 interruptions
- 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 humor

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, "I recommend consolidating the medical and fitness functions," instead of, "As Emily stated in her report, 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. Finally,

- 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 e-mail, 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: INDIVIDUAL EXERCISE

Making Room for Alternative Actions

The Situation

Assume that you are the manager of a large hotel adjacent to a medical center in a major city. The medical center itself consists of 10 major hospitals and research institutes. Two of the hospitals are affiliated with large universities and two with churches. Three are public and three are private. The center has an international reputation and attracts patients from around the world.

Because so many patients and their families travel great distances to visit the medical center and often stay for days or weeks, there are also eight large hotels in the area, including three new ones. The hotel that you manage is one of the older ones and, frankly, is looking a bit shabby. Corporate headquarters has told you that the hotel will either be closed or undergo a major remodeling in about two years. In the meantime, you are expected to wring every last cent of profit out of the hotel.

The Dilemma

A tropical storm has just struck the area and brought with it major flooding and power outages. Three of the medical center hospitals have been shut down indefinitely, as have six of the nearby hotels. Fortunately, your hotel sustained only minor damage and is fully functional. You have just called a meeting with your two assistant managers to discuss what actions, if any, you should take.

One assistant manager has urged you to cut room rates immediately for humanitarian reasons. This manager also wants you to open the hotel kitchens 24 hours a day to prepare free food for rescue workers and meals to donate to the hospitals, whose own food-service operations have been disrupted. The other assistant manager, meanwhile, has urged just the opposite approach: raise room rates by at least 20 percent and sell food to rescue workers and hospitals at a premium price. You can also choose to follow the advice of neither and continue doing business as usual.

QUESTIONS TO ADDRESS

1 What are the ethical issues in this situation?
2 What do you think most managers would do in this situation?
3 What would you do?

EXERCISING YOUR ETHICS: TEAM EXERCISE

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 Environmental Protection Agency (EPA) 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, 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, do you think that 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, 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?

VIDEO EXERCISE MyBizLab

Pizza Hut

Learning Objectives

The purpose of this video is to help you:

1 Describe the four functions of management and differentiate between the three levels of management.

2 Discuss the five key skill areas for managers.

3 Explain how managers analyze the environment and create plans.

Synopsis

Pizza Hut began over 50 years ago as the first national pizza chain in the United States. Pizza Hut is part of a larger parent company, Yum! Brands, which also includes Taco Bell and KFC. Most individual Pizza Hut restaurants are franchises owned by a local businessperson who licenses the rights to operate from the parent company. Effective management at the corporate, brand, and franchise level has kept the company profitable. Although long established in the pizza industry, Pizza Hut has needed to continually evaluate their strategy in order to maintain their competitive position. On April 1, 2008, Pizza Hut launched an intensive promotional campaign, announcing that they were changing their name to Pasta Hut. While this was a clever April Fool's joke, it coincided with the launch of their Tuscani pasta line, targeted at the carry out and home delivery markets. While the campaign developed a lot of visibility in the media, the company hedged their position by creating contingency plans in the event of consumer backlash against the marketing ploy.

DISCUSSION QUESTIONS

1 Describe the three levels of management for Pizza Hut, as described in the video. Briefly discuss the types of decisions made by each level of manager.

2 What are the four functions of management? Give an example of each for a Pizza Hut restaurant manager.

3 The text and video identify five management skills. Give an example of each for a first-line manager at a Pizza Hut restaurant.

4 Pizza Hut conducted organizational or SWOT analysis, as described in the video. What did this analysis reveal and how did the company respond?

5 In order to launch the new Tuscani pasta line, Pizza Hut brand managers had to develop tactical and operational plans. Define and give an example of each.

Online Exploration

An organization's culture is its unique personality; it helps to define the work and business climate. Corporate culture can be reflected in the shared experiences, stories, beliefs, and norms that characterize an organization. Go the Pizza Hut's website (www.pizzahut.com) and look for signs of the company's culture. In particular, you may wish to look at the Careers and Diversity links. How would you characterize Pizza Hut's corporate culture?

END NOTES

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