Part 3
Management: Empowering People to Achieve Business Objectives

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Chapter 8
Management, Leadership, and the Internal Organization

Learning Goals

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

What kind of manager does it take to turn a company’s performance around in two short years? At Procter & Gamble, the largest U.S. household and consumer products company with more than 250 brands, it takes a leader who has the quiet manners of a college professor and the focused leadership skills of a military commander.

Alan G. Lafley has brought P&G out of a difficult period of declining sales and dropping share prices into a promising new beginning. Revitalized brands like Pampers, Tide, Crest, and Folgers; “new and improved” versions of familiar products like Bounty and Downy; marketing innovations; and acquisitions like the Clairol hair-care line and the powered-toothbrush start-up called SpinBrush are among the ways in which Lafley is helping bring in more revenue—enough to push sales past $40 billion and beat Wall Street’s expectations for eight financial quarters in a row. The company has also cut costs, shortened the time it takes to roll out new products, and entered partnerships and licensing agreements with other firms to pave its way into the market for upscale cosmetics and perfumes.

Lafley, a history major who has about 25 years with P&G and once considered a graduate degree in Renaissance studies, became the company’s chief executive in June 2000. He is now also president and chairman of the board. But his easy-going manner and relaxed management style downplay his impressive roles in the turnaround. Lafley dismantled the company’s executive suite, stripping away the oak panels and donating to museums the art that hung on the walls. Cubicles for him and his staff have taken their place. Lafley has also introduced a new accessibility into the firm’s formerly arrogant atmosphere. “You can tell him bad news or things you’d be afraid to tell other bosses,” says one of P&G’s vice presidents.

Gary Stibel, chief executive of the New England Consulting group that monitors P&G’s performance, agrees. Lafley “wants to hear any bad news—and as a result,” Stibel says, “he hears far less of it.”

Known as a hands-on manager, Lafley has kept his long-time habit of dropping in on stores all over the world where P&G products are sold. He’ll inspect the displays in each aisle, observe shoppers, and consult with store owners about what’s selling well and what isn’t. “I don’t think the answers are just in numbers,” he reveals. “You have to get out and look.” Lafley has also been known to do his own product research, calling on consumers in their homes and spending an hour going through the contents of their kitchen and bathroom cabinets with them. His much-admired listening skills complement his natural curiosity. “I am a broken record when it comes to saying, ‘We have to focus on the consumer,’” Lafley admits.

Lafley also knows how to get back to basics. He quickly reduced the number of product-development projects at P&G
Chapter Overview

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

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

What Is Management?

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

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

The Management Hierarchy

A local fast-food restaurant such as McDonald’s typically works through a very simple organization that consists of an owner-manager and a few assistant managers. By contrast, large organizations develop more complex management structures. Southwest Airlines manages its activities through a chairperson of the board, a vice chairperson and chief executive officer, a president and chief operating officer, 3 executive vice presidents, a senior vice president, and 23 vice presidents, plus an array of managers and supervisors. All of these people are managers because they combine human and other resources to achieve company objectives. Their jobs differ, however, because they work at different levels of the organization.

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

from over 50 to a mere dozen. “I think we got into a little trouble getting excited about the technologies before we thought through the consumer,” he says.

Under Lafley’s management, sales are up, costs are down, and the share price has never looked better. Strife within the company seems to have been resolved, and P&G is once again turning its sights on the competition. “What I’m trying to build into this organization,” he says, “is something that will last long after I’m gone. This is a company that aspires to be around for 1,000 years.”1
The highest level of management is **top management**. Top managers include such positions as chief executive officer (CEO), chief financial officer (CFO), and executive vice president. Top managers devote most of their time to developing long-range plans for their organizations. They make decisions such as whether to introduce new products, purchase other companies, or enter new geographical markets. Top managers set a direction for their organization and inspire the company’s executives and employees to achieve their vision for the company’s future.

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

**Middle management**, the second tier in the management hierarchy, includes positions such as general managers, plant managers, division managers, and branch managers. Middle managers’ attention focuses on specific operations, products, or customer groups within an organization. They are responsible for developing detailed plans and procedures to implement the firm’s strategic plans. If top management decided to broaden the distribution of a product, a sales manager would be responsible for determining the number of salespeople required. If top management decided to institute a company-wide total quality management program, a quality control manager in the customer service department might design a survey to gather feedback on customer satisfaction. For example, 3M’s CEO W. James McNerney has set a goal of double-digit earnings growth despite market uncertainties. Middle managers are responsible for targeting the products and customers to the source of the sales and profit.
growth expected by CEO McNerney. To achieve these goals, middle managers might budget money for product development, identify new uses for existing products, and improve the ways they train and motivate salespeople.

Supervisory management, or first-line management, includes positions such as supervisor, section chief, and team leader. These managers are directly responsible for assigning nonmanagerial employees to specific jobs and evaluating their performance. Managers at this first level of the hierarchy work in direct and continuing contact with the employees who produce and sell the firm's goods and services. They are responsible for implementing the plans developed by middle managers—motivating workers to accomplish daily, weekly, and monthly goals.

Sonic is the nation's biggest drive-in restaurant chain. It is also the fifth largest fast-food chain in the U.S. Pattye Moore, Sonic's president, outlines a unique Sonic plan to bring out new product ideas: “We encourage our employees to play with their food.” A supervisor at an Oklahoma City location created the firm’s grilled chicken wrap by experimenting in this way. Moore goes on to further describe how Sonic motivates managers and employees. “Our concept is fun. It is hard to be very serious when you’re selling cherry lemonade and strawberry cheesecake shakes.”

Skills Needed for Managerial Success

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

Technical skills are the manager’s ability to understand and use the techniques, knowledge, and tools and equipment of a specific discipline or department. Technical skills lose relative importance at higher levels of the management hierarchy, but most top executives started out as technical experts. The résumé of a vice president for information systems probably lists experience as a computer analyst, and that of a vice president for marketing usually shows a background in sales. At Microsoft, Bill Gates’s experience in developing a personal computer (PC) operating system helps him understand the challenges and opportunities for new kinds of software. He identified a need for an operating system that can turn cell phones into handheld computers. But the specifics of developing and marketing the software are primarily the responsibility of lower-level managers and employees.

Human skills are interpersonal skills that enable a manager to work effectively with and through people. Human skills include the ability to communicate with, motivate, and lead employees to accomplish assigned activities. Managers need human skills to interact with people both inside and outside the organization. It would be tough for a manager to succeed without such skills, even though they must be adapted to different forms today—for instance, ma-
tering and communicating effectively with staff through e-mail, cell phones, pagers, faxes, and even instant messaging, which are widespread in offices. Procter & Gamble’s A. G. Lafley is clearly a CEO possessing interpersonal skills critical to the ongoing management of his company.

**Conceptual skills** determine a manager’s ability to see the organization as a unified whole and to understand how each part of the overall organization interacts with other parts. These skills involve an ability to see the big picture by acquiring, analyzing, and interpreting information. Conceptual skills are especially important for top-level managers, who must develop long-range plans for the future direction of their organization. eBay was one of the few dot.com companies to survive the industry’s shakeout period. CEO Meg Whitman is now moving her business plan to the global marketplace. According to Whitman, “Our vision is to create a global online marketplace where practically anyone can trade anything with anyone in any location.”

**Managerial Functions**

In the course of a typical day, managers spend time meeting and talking with people, reading, thinking, and sending e-mail messages. As they perform these activities, managers are carrying out four basic functions: planning, organizing, directing, and controlling. Planning activities lay the groundwork, and the other functions are aimed at carrying out the plans.

**Planning** Planning is the process of anticipating future events and conditions and determining courses of action for achieving organizational objectives. Effective planning can help a business to crystallize its vision, described in the next section, as well as avoid costly mistakes and seize opportunities. Effective planning requires an evaluation of the business environment and a well-designed road map of the actions needed to lead a firm forward. For Michael Dell, founder and CEO of personal computer giant Dell, Inc., plans consist of answers to questions like these: “How many [new products] can you introduce at one time? Where are the big opportunities? What do customers most want us to do?” In a later section of this chapter, we elaborate on the planning process.

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

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

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

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

The four basic steps in controlling are to establish performance standards, monitor actual performance, compare actual performance with established standards, and take corrective action if required.
Under the provisions of the 2002 Sarbanes-Oxley Act, for example, CEOs and CFOs must monitor the performance of the firm’s accounting staff more closely. They must personally attest to the truth of financial reports filed with the Securities and Exchange Commission.

Setting a Vision and Ethical Standards for the Firm

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

Vision must be focused and yet flexible enough to adapt to changes in the business environment. When PCs became commonplace, Microsoft had to switch its vision of a PC on every desk and in every home. The company’s new vision refers to “great software, anytime, anyplace, and on any device.”

Also critical to a firm’s long-term success are the ethical standards that top executives set. As we saw in Chapter 2, a company’s top managers can take an organization down a slippery slope to bankruptcy—and even criminal—court if they operate unethically. Avoiding that path requires executives to focus on the organization’s success, not merely personal gain. Terry Hall, CEO of Sacramento-based GenCorp, put it this way: “Either you have honesty or you don’t. . . . My reputation is not for sale. It doesn’t matter what the executive compensation program is. It doesn’t help you if you get it one year and the next year you go to jail.” Holding the welfare of the company’s constituencies—customers, employees, investors, and society in general—as the top priority can build lasting success for a firm.

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

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

Importance of Planning

A Federal Appeals Court dealt Eli Lilly quite a blow when it ruled that Barr Laboratories could sell a generic Prozac-type drug two years earlier than expected. After all, Prozac, the firm’s blockbuster antidepressant, accounted for close to 30 percent of Lilly’s sales at the time and an even higher profit percentage. Despite the setback, Lilly CEO Sidney Taurel knew the importance of effective planning, and he was ready with a new strategy. During a conference call and various media interviews, he explained that Lilly had several new products in its late-stage drug pipeline. Taurel said that his company’s margin would drop briefly and then quickly return to double-digit levels. When Taurel was asked about whether he had expected the court decision, the CEO smiled and replied, “We were ready with strategies and communications plans under various scenarios. This was one of the worst we could expect, but we were ready for it.” Let’s take a closer look at the types of planning businesses do.
Types of Planning

Planning can be categorized by scope and breadth. Some plans are very broad and long range, focusing on key organizational objectives. Others specify how the organization will mobilize to achieve these objectives. Planning can be divided into the following categories: strategic, tactical, operational, and contingency. Each step in planning includes more specific information than the last. From the mission statement to objectives to specific plans, each phase must fit into a comprehensive planning framework. The framework also must include narrow, functional plans aimed at individual employees and work areas relevant to individual tasks. These plans fit within the firm's overall planning framework, allowing it to reach objectives and achieve its mission.

Strategic Planning  The most far-reaching level of planning is strategic planning—the process of determining the primary objectives of an organization and then adopting the courses of action and allocating resources to achieve those objectives. At Dell, Inc., managers recognize the importance of maintaining this long-range view as they lead the way out of the recent recession. “You may have a great day today and the stock goes down, and you may have a horrible day tomorrow and the stock goes up,” says CEO Michael Dell. “But over a long period of time you build a great company.”

Tactical Planning  Tactical planning involves implementing the activities specified by strategic plans. Tactical plans guide the current and near-term activities required to implement overall strategies. The Memphis Grizzlies' decision to hire Jerry West to run basketball operations was a tactical decision. West—a West Virginia University basketball great—was a longtime Los Angeles Laker as both a player and, more recently, as the team's general manager.

Operational Planning  Operational planning creates the detailed standards that guide implementation of tactical plans. This activity involves choosing specific work targets and assigning employees and teams to carry out plans. Unlike strategic planning, which focuses on the organization as a whole, operational planning deals with developing and implementing tactics in specific functional areas. Operational planning by Jerry West and others at the Memphis NBA franchise would be illustrated by their plans for an upcoming player draft.

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

A contingency plan usually designates a chain of command for crisis management, assigning specific functions to particular managers and employees in an emergency. Contingency planning also involves training workers to respond to emergencies, improving communications systems, and using advanced technology. Companies with well-defined disaster recovery plans generally fared better in the aftermath of the September 11 terrorist attacks than those that didn't develop and implement plans, as the Best Business Practices box describes.

Planning at Different Organizational Levels

Although managers spend some time on planning virtually every day, the total time spent and the type of planning done differ according to the level of management. As Table 8.1 points out, members
The lessons learned from 9/11 were as complex as any aspect of their aftermath. But one was obvious: Companies with disaster recovery plans fared far better than those without them.

Larger companies are more likely to have such plans in effect, partly because they have the resources to create them. These plans are both complex and expensive, even when done by a specialized outside firm. Despite this fact, the disaster recovery industry has been growing as businesses become more dependent on relatively fragile or vulnerable technology. Many larger firms routinely update their defenses against fire, explosions, accidents, power outages, air-conditioning failures, sabotage, hackers, and natural disasters such as hurricanes, floods, tornadoes, and earthquakes. Until recently, terrorism has been near the bottom of most managers’ lists of potential corporate threats.

Offsite storage of backup files, software, and even equipment is recommended for firms of any size. Ironically, while larger firms tend to be better prepared, smaller firms may have the most to lose because they lack the resources to easily duplicate destroyed or damaged information and equipment.

Most managers will tell you that their firm’s most valued asset is, of course, its employees. Many of them see a rise in telecommuting following the 9/11 attacks. “Maybe you want to give people the ability to work from home to distribute your human capital,” says Edward Moran of the Big Four public accounting company Deloitte & Touche. Though his firm’s World Trade Center offices were destroyed, all but one employee got out safely thanks to an evacuation plan that included a specific section on alternative escape routes.

Creating and rehearsing an evacuation plan, especially one that includes routes for the handicapped, can be invaluable. All 37 employees at the Children’s World Learning Center knew exactly what to do when the Pentagon was hit that same morning. Using a drill they practiced once a month, they calmly led all their charges to safety.

**QUESTIONS FOR CRITICAL THINKING**

1. Do you think practicing a safe escape plan or route would alarm employees, or do you think monthly repetition of the plan would encourage them to take it for granted? How would you combat each of the potential problems?

2. Should a company prepare broad recovery plans for all sorts of potential disasters, including the unexpected, or limit such preparations to specific plans for those that management believes are most likely? Explain your answer.

The Strategic Planning Process

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

- Hewlett-Packard’s decision to acquire Compaq to improve its competitive position. One million hours were devoted to planning the integration of the two companies.\textsuperscript{11}
- Altria’s decision to sell Miller Brewing to concentrate on its food and tobacco units.
- Chicken king Tyson Food’s decision to reenter the beef and pork markets. Tyson implemented this strategic decision by acquiring IBP Corp.

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

### Defining the Organization’s Mission

The first step in strategic planning is to translate the firm’s vision into a mission statement. A mission statement is a written explanation of an organization’s business intentions and aims. It is an enduring statement of a firm’s purpose, possibly highlighting the scope of operations, the market it seeks to serve, and the ways it will attempt to set itself apart from competitors. A mission statement guides the actions of people inside the firm and informs customers and other stakeholders of the company’s underlying reasons for existence. The mission statement should be widely publicized with employees, suppliers, partners, shareholders, customers, and the general public.

The evolution of Microsoft’s mission statement was outlined earlier in the section on establishing an organization’s vision. Mission statements can vary in complexity and length.

- A Birmingham, Alabama, securities firm has a very straightforward mission statement: “The mission of Sterne, Agee, and Leach, Inc. is to build wealth for our clients.”
- Software maker Adobe takes a somewhat different approach: “EVERYWHERE YOU LOOK Adobe is changing the way people do business, express their creativity, and connect with each other.”
- Walgreen has a longer, more detailed mission statement: “Walgreen’s mission is to offer customers the best drugstore service in America. We are guided by a century-old tradition of fairness, trust, and honesty as we continue to expand our store base and offer career opportunities to a fast-growing and diverse group of men and women. Our goal is to develop people who treat customers—and each other—with respect and dignity. We will support these efforts with the most innovative retail thinking, services, and technology. The success we achieve will allow us to reinvest in our future and build long-term financial security for our employees and our shareholders.”\textsuperscript{12}
Developing a mission statement can be one of the most complex and difficult aspects of strategic planning. Completing these statements requires detailed considerations of a company's values and vision. Effective mission statements indicate specific, achievable, inspiring principles. They avoid unrealistic promises and statements.

**Assessing Your Competitive Position**

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

A **SWOT analysis** is an organized approach to assessing a company’s internal strengths and weaknesses and its external opportunities and threats. SWOT is an acronym for strengths, weaknesses, opportunities, and threats. The basic premise of SWOT is that a critical internal and external reality check should lead managers to select the appropriate strategy to accomplish their organization’s objectives. SWOT analysis encourages a practical approach to planning based on a realistic view of a firm’s situation and scenarios of likely future events and conditions. Household Finance Corporation capitalized on its strengths and opportunities when it developed computer software to increase the efficiency with which it could process loan applications. The framework for a SWOT analysis appears in Figure 8.3.

To evaluate a firm’s strengths and weaknesses, the planners may examine each functional area such as finance, marketing, information technology, and human resources. Entrepreneurs may focus on the individual skills and experience they bring to a new business. Large firms may also examine strengths and weaknesses of individual decisions and geographical operations. Usually, planners attempt to look at their strengths and weaknesses in relation to those of other firms in the industry.

For Starbucks, a key strength is consumers’ positive image of the company’s brand, which gets them to stand in line to pay premium prices for coffee. The company’s strategic plans have included various ways to build on its strong brand loyalty by attaching it to new products expanding into new markets.
The expansion efforts have included a Web site, selling bottled Frappuccino iced coffee in supermarkets, and the opening of thousands of Starbucks outlets in Europe, Asia, and the Middle East.

SWOT analysis continues with an attempt to define the major opportunities and threats the firm is likely to face within the time frame of the plan. Possibilities include environmental factors such as market growth, regulatory changes, or increased competition. Starbucks saw an opportunity in the growth of the Internet and the interest in online shopping. Its Web site sells coffee and related accessories. In addition, Starbucks's experience in Japan, where its outlets’ average sales top those in the U.S., suggested that international expansion presented a solid opportunity. A threat is that consumers could tire of paying $3 or so for cappuccinos and lattes and switch to something else. The company has begun addressing that threat with the introduction of gourmet tea products.

Some aspects of Starbucks's strategy have succeeded better than others. Initially, Starbucks tried selling gourmet foods, music, and even furniture on its Web site. Sales were disappointing, and the firm quickly dropped the least successful offerings. Recently, Starbucks has shifted more of its attention to its retail units, where sales remain strong.14

If a firm's strengths and opportunities mesh successfully, as at the Starbucks retail stores, it gains competitive leverage in the marketplace. On the other hand, if internal weaknesses prevent a firm from overcoming external threats, as in the case of the Starbucks Web site, it may find itself facing major difficulties. A SWOT analysis is a useful tool in the strategic planning process because it forces management to look at factors both inside and outside the organization. SWOT analysis examines not only the current picture but also necessary current actions to prepare for likely future developments.

Establishing Objectives for the Organization

After defining the company’s mission and examining factors that may affect its ability to fulfill that mission, the next step in planning is to develop objectives for the organization. Objectives set guideposts by which managers define the organization's desired performance in such areas as profitability, customer service, and employee satisfaction. The mission statement delineates the company's goals in general terms, but objectives are more concrete statements. More and more businesses are setting explicit objectives for performance standards other than profitability. As public concern about environmental issues mounts, many firms find that operating in an environmentally responsible manner pays off in good relations with customers. Others channel some of their profits into socially responsible causes, such as funding educational programs and scholarships.

At Continental Airlines, objectives include satisfying customers. Each month, the Department of Transportation tracks such airline performance measures as customer satisfaction.
satisfaction, on-time performance, and frequency of lost luggage. Several years ago, Continental ranked last in most of those measures, and late and canceled flights were costing the company $6 million a month. Continental’s CEO Gordon Bethune declared that if Continental could achieve a ranking among the top three in any month, the company would split the $6 million with employees, amounting to about $65 per employee for the month. Employees began to collaborate on solutions to flight delays, and before long, they were earning the monthly bonuses. Today, Continental is usually ranked among the industry leaders in customer service.15

Creating Strategies for Competitive Differentiation

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

Product innovation, for instance, is a key part of the strategy at H. J. Heinz. The food giant recently introduced new variations of two of its most popular products—Ore-Ida french fries and ketchup. Funky Fries come in new flavors, shapes, and colors. John Carroll of Heinz describes the market for Funky Fries: “Kids will love new Funky Fries because they are a wild new way to enjoy french fries. . . . They can be enjoyed anytime—whether it’s after school, during mealtime or as an evening snack.” Heinz’s other new product innovation is called KICK’RS, a line of flavored ketchup aimed at adults who want bolder flavors with meals. It is offered in three varieties: Zesty Garlic, Hot & Spicy, and Smokey Mesquite.16

The Implementation Phase of Planning

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

Capital One Financial—headquartered in Falls Church, Virginia—is a major player in the credit card industry. CEO Richard Fairbank and cofounder and President Nigel Morris decided to build their business by implementing some then-unique concepts. They decided to offer attractive credit card packages and then use the information generated to target products to specific customer segments. Morris revealed that the duo started to view credit cards “not as a banking business but as an information-management business.” Capital One used Oracle software to build a huge database. The company offers lower interest rates to major borrowers, while giving riskier accounts lower credit limits and higher interest rates. Capital One was the first to offer balance transfers, teaser rates, and preapproved promotions. The implementation of Capital One’s plan was clearly based on their massive database.

In a recent year, Capital One ran 64,000 tests on everything from the size and color of envelopes to the wording of promotions. CEO Fairbank summarizes the implementation of Capital One’s planning this way: “Every customer takes a unique trip through Capital One. The product they’re offered, the price it’s offered at, the size of the credit lines, how we manage the account, what we do if you’re delinquent—all of that is entirely customized.”17

Monitoring and Adapting Strategic Plans

The final state in the strategic planning process, closely linked to implementation, consists of monitoring and adapting plans when actual performance fails to match expectations. Monitoring involves establishing methods of securing feedback about actual performance. Common methods include comparisons of actual sales and market share data with forecasts, information received from supplier and customer surveys, complaints received on the firm’s customer hot line, and reports prepared by production, finance, marketing, and other company units.
Ongoing use of such tools as SWOT analysis and forecasting can help managers adapt objectives and functional plans as changes occur. An increase in the price of a key product component, for instance, could dramatically affect the firm’s ability to maintain planned prices and still earn acceptable profits. An unexpected strike by UPS may disrupt shipments of products to retail and business customers. In each instance, the original plan may require modification to continue to guide the firm toward achievement of its objectives.

**Managers as Decision Makers**

In carrying out planning and the other management functions, executives must make decisions every day. **Decision making** is the process of recognizing a problem or opportunity and then dealing with it. The types of decisions that managers make can be classified as programmed and nonprogrammed.

**Programmed and Nonprogrammed Decisions**

Programmed and nonprogrammed decisions differ in whether they have unique elements. A **programmed decision** involves simple, common, and frequently occurring problems for which solutions have already been determined. Examples of programmed decisions include choosing the starting salary for a new marketing assistant, reordering raw materials needed in the manufacturing process, and setting a discount schedule for large-volume customers. For these types of decisions, organizations develop rules, policies, and detailed procedures that managers apply to achieve consistent, quick, and inexpensive solutions to common problems. Since such solutions eliminate the time-consuming process of identifying and evaluating alternatives and making new decisions each time a situation occurs, managers can devote their time to the more complex problems associated with nonprogrammed decisions. For example, satisfactory review of a staple item might allow the Wal-Mart buyer in this category more time to seek other merchandising opportunities.

A **nonprogrammed decision** involves a complex and unique problem or opportunity with important consequences for the organization. Examples of nonprogrammed decisions include entering a new geographical market, acquiring another company, or introducing a new product. Ted Waitt, whose computer company Gateway is engaged in costly market-share competitions with Dell and Apple, faces nonprogrammed decisions with major consequences. Waitt is waging a price war against Dell, and his company developed a product that Waitt hopes may compete against Apple’s iMac, but with fewer features. Some observers believe Gateway could rise or fall on the results of the decisions Waitt makes as his company reaches a crisis point. Waitt, in turn, is banking on the recovery of the PC market.²⁸

**How Managers Make Decisions**

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

The decision-making process can be applied in both

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**Concept Check**

1. What is the purpose of a mission statement?
2. Which of the firm’s characteristics does a SWOT analysis compare?
3. How do managers use objectives?
for-profit and not-for-profit organizations. Consider how Michael Miller built the Portland, Oregon, Goodwill Industries retail business of selling donated items. Miller knew that he had to locate stores where Goodwill’s donors and customers meshed. Surveys uncovered that the typical donor was a female, aged 35 to 44 with an income of $50,000. By contrast, Miller’s customers were women aged 25 to 54 with two kids. Their average income was roughly $30,000. Miller then got some help from the locally based Fred Meyer supermarket chain (part of Kroger’s). Fred Meyer’s database contained gender and income demographics by neighborhood. Miller’s decision to open stores was then based on where his two target clients intersected. To make customers more comfortable, Miller’s 28 stores even feature bookstores and coffee bars.19

Making good decisions is never easy, however, because it involves taking risks that can influence a firm’s success or failure. Often, decisions made by managers have complex legal and ethical dimensions. An executive research firm recently tested 1,400 managers to assess their integrity and found that one in eight “believe the rules do not apply to them” and they “rarely possess feelings of guilt.”20 The Solving an Ethical Controversy box describes another risky decision—the issue of managers who hire undocumented workers—which could be profitable in the short term but very costly in the end.

**SOLVING AN ETHICAL CONTROVERSY**

**Using Undocumented Immigrants as Employees**

Employers unconcerned about federal laws know that undocumented workers will work for less. Undocumented refers to individuals who are in the U.S. illegally or beyond the time limits of their visas. Since these workers do not have Social Security cards, they aren’t likely to complain if an employer fails to contribute its share to the Social Security Administration for them. They also don’t expect to receive retirement benefits, and they may be left off company rolls for health and life insurance benefits. They just want to stay under the radar, undetected by immigration officials who might deport them to their home country. In a recent case, Tyson Foods was accused of smuggling Mexican workers into some of its U.S. plants.

Is the practice of hiring illegal immigrants compatible with responsible business leadership?

**PRO**

1. Hiring illegal immigrants may be the only way some companies can staff certain undesirable jobs that many Americans will not perform.
2. The practice isn’t harmful if illegal workers receive the same pay and benefits that legal employees do. Tyson’s senior vice president of human resources Ken Kimbro said, “The individuals were paid above the minimum wage and provided with full benefits, including health insurance.”

**CON**

1. The practice is illegal and so represents poor leadership and decision making. “The bottom line on the corporate balance sheet is no excuse for criminal conduct,” says Michael Chertoff, assistant attorney general at the U.S. Department of Justice.
2. Hiring illegal workers could be exploitative because they are less likely to complain about poor working conditions. Exploitation is bad for employer-employee relations and damaging to corporate culture.

**SUMMARY**

Some employers may not be aware they are employing illegal immigrants because it is easy to obtain false identification. Tyson says it has terminated the managers named in the indictment and has taken corrective steps to prevent future problems, including special training for those who make its hiring decisions. But two former company managers pleaded guilty to conspiring to smuggle illegal immigrants into the U.S. from Mexico and Central America to work at Tyson poultry plants. The Department of Justice continues to come down hard on companies that hire illegal workers.


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

The most visible component of a manager’s responsibilities is leadership, directing or inspiring people to attain organizational goals. Worth magazine annually picks the nation’s best CEOs. A recent list included Meg Whitman of eBay, Henry McKinnell of Pfizer, David Pottruck of Charles Schwab, George David of United Technologies, and Steve Ballmer of Microsoft. All are demanding leaders, yet they inspire their associates to reach their full potential.

Because effective leadership is so important to organizational success, a large amount of research has focused on the characteristics of a good leader. Great leaders do not all share the same qualities, but three traits are often mentioned: empathy, which is the ability to imagine yourself in another’s position; self-awareness; and objectivity in dealing with others. Many great leaders share other traits, including courage, ability to inspire others, passion, commitment, flexibility, innovation, and willingness to experiment.

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

A well-known example is Herb Kelleher, the retired CEO of Southwest Airlines. Kelleher’s legendary ability to motivate employees to outperform those at rival airlines came from his dynamic personality, boundless energy, love of fun, and sincere concern for his employees. Kelleher led by example, modeling the behavior he wanted to see in his employees. He pitched in to help serve snacks to passengers and load luggage. Employees, inspired by his example, now unload and reload a plane in 20 minutes—one-third of the average time for other airlines.

Leadership Styles

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

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

Sometimes the sharing of power is institutionalized, as in a company like Southwest Airlines. Southwest has the highest proportion of union members among all U.S. air carriers and is also the only one of the country’s top eight airlines to post a profit coming out of the recent recession. Rules governing contract negotiations in unionized firms require labor and management to sit down together and discuss wages, hours, and benefits each time the contract is up for renewal. But Southwest’s new CEO, Jim Parker, takes management participation a step further by personally leading most of the negotiations. A defender of the flexible policies that helped Southwest succeed, Parker has been known to take representatives of both sides in a conflict out to dinner. Says one of the company’s pilots, “The biggest complaint in the industry is that management doesn’t listen to employees. But you can’t say that at Southwest. The top guy is in the room.”

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

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

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

After years of research intended to determine the best types of leaders, experts agree that they cannot identify any single best style of leadership. Instead, they contend that the most effective style depends on...
BOTH politicians were hoping for a better year than the previous one. The first person had endured a diagnosis of cancer, along with sensation-filled headlines about his personal life. Both situations influenced his decision not to run for the Senate once he left his job as mayor of one of the largest cities on earth. The second had emerged the winner in the closest presidential election in American history. Prior to September 11, 2001, New York Mayor Rudy Giuliani and President George W. Bush were not viewed as spectacular leaders by many people. But a crisis often brings out the best in a person. And the nation has faced few crises as great as the hours, days, and weeks following the carnage of September 11. How did these two men perform? Giuliani—who has since left office—was named Person of the Year by *Time* magazine and later knighted by Britain’s Queen Elizabeth II. George W. Bush ended the year with one of the highest presidential job approval ratings in history.

As word spread that international terrorists had struck American shores, and over 3,000 innocent people had lost their lives in less than two hours, traumatized Americans began looking to their elected officials for leadership. President Bush and Mayor Giuliani quickly became two of the brightest beacons on an otherwise dark horizon. Ironically, neither man had enjoyed huge popularity prior to the crisis. Both were considered adequate managers—Bush had governed Texas but hadn’t yet proved himself as a president, and Giuliani had served the maximum number of terms as New York’s mayor often mired in controversy. But within hours of the September attacks, they became the two leaders to which a nation and a city turned for guidance, comfort, and inspiration.

Less than an hour after two planes hit the World Trade Center, and even before the collapse of the twin towers, Mayor Giuliani had made his way to the site. Usually accompanied by New York Governor George Pataki, Giuliani held dozens of press conferences to update the public on rescue efforts, offering as much current information as he could. At appropriate times, he expressed his determination that the city would rebuild and his pride in the strength of his fellow New Yorkers. In the following days and weeks, Giuliani attended so many funerals for firefighters and police officers—as many as six every day—that reporters asked him why. His response: “I want these men’s children to grow up and be able to say, ‘My father was such an important man that the mayor of New York came to his funeral.’”

Meanwhile, President Bush took action to ensure the nation’s security. He shut down the nation’s air traffic to prevent additional hijackings and ordered the search for any living terrorists who might have been involved in the conspiracy. In a plain-spoken, emotional television address to the nation, Bush vowed that “terrorism against our nation will not stand.” With the backing of Congress, he secured funds for the damaged airlines and for New York City. He created a new Department of Homeland Security with former Pennsylvania Governor Tom Ridge as secretary. Bush also traveled to the site of the attacks on several occasions. And he urged Americans to try their best to live their lives normally, including traveling, eating at restaurants and attending theater events, and shopping. Americans responded strongly to his actions and his positive remarks.

Perhaps the most interesting thing about the story of these two men is that, prior to a major crisis, few would have considered either a great leader. Neither was particularly charismatic; neither seemed to express a compelling vision for the country or city. But a major crisis changed all that, catapulting each of them to a leadership role and a place in history. In fact, both men will be forever remembered for their actions in the aftermath of September 11, no matter what other accomplishments they may achieve later. Giuliani is already transferring his management skills to the private sector; after leaving office, he wrote a book on leadership and formed a management consulting company. One of his consulting assignments was dealing with the chaotic conditions in Mexico City. President Bush, of course, went on to rout the terrorist bases in Afghanistan. Later he toppled the regime of Iraq’s Saddam Hussein, despite a lack of support from several longtime European allies and numerous domestic and international protests against the war. Shortly after Baghdad had fallen, President Bush moved to find some common ground between traditional enemies Israel and the neighboring Palestinians.

**QUESTIONS FOR CRITICAL THINKING**

1. What leadership characteristics do Rudy Giuliani and George W. Bush have in common?

2. Do you think the success of Giuliani and Bush suggests that the best type of leadership might depend on the specific situation? Why or why not?

the leader’s base of power, the difficulty of the tasks involved, and the characteristics of the employees. Both extremely easy and extremely difficult situations are best suited to leaders who emphasize the accomplishment of assigned tasks. Moderately difficult situations are best suited to leaders who emphasize participation and good working relationships with subordinates. Two good examples of leaders rising to the challenge of a difficult situation occurred on September 11, 2001, as discussed in the Hits and Misses box.

Corporate Culture

The best leadership style to adopt often depends on the organization’s corporate culture, its system of principles, beliefs, and values. Managerial philosophies, communications networks, and workplace environments and practices all influence corporate culture. At Home Depot, the corporate culture is based on the belief that employees should fully understand and be enthusiastic about the core business of serving do-it-yourselfers. All newly hired employees, including top managers, must spend their first two weeks working on the sales floor of a Home Depot store. Even CEO Robert Nardelli spends time at an Atlanta area store helping customers. By working at stores, all employees are exposed to the company’s customers and, the company hopes, will soak up some of their can-do spirit. The company also encourages employees to get involved in service projects, like building homes for Habitat for Humanity, which brings them closer to their community while seeing the stores’ products in use. In addition, Home Depot gets employees excited about the business by granting them stock options. This benefit has made millionaires of many Home Depot employees. Stories like that of Franc Gambatse, who started as a sales clerk and less than a decade later was managing a Home Depot store and enjoying prosperity he “never could have imagined,” inspire other employees to give their all. The retailer even has a company cheer: “Gimme an H!” and on through the store’s name, as the troops reply, ready to support the company’s continued growth in stores, sales, and profits.\(^\text{23}\)

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

Managers use symbols, rituals, and ceremonies to reinforce corporate culture. Consider how the so-called “HP Way” got started. In
1957, Hewlett-Packard was a successful growing company about to sell its stock publicly. Still, cofounder David Packard worried that the firm would soon lose its “small company” atmosphere. Packard and his partner, Bill Hewlett, wanted to keep HP’s record of innovation. After all, HP originated in a garage. The duo decided to hold one of American industry’s first off-site company retreats. They took their top 20 employees to the California wine country. There at the Sonoma Mission Inn and Spa, Hewlett, Packard, and their associates decided to establish a corporate culture that would ensure innovation. By the end of the retreat, the participants had outlined values and objectives that became known as the HP Way. Today, HP’s corporate culture is carried on by CEO Carly Fiorina.24

Corporate cultures can be changed. UPS was once known for its rigid and rule-oriented culture. Rules were needed, and still are, to ensure that this company of 330,000 employees achieves its goal of delivering 13.5 million packages on time every day. But in recent years, nearly 1,200 middle managers, most of them white, have completed the company’s Community Internship Program (CIP), acquiring the flexibility they need to understand the needs of their increasingly diverse employees. Every summer, about 50 managers spend a month working on community service projects that help the urban poor. Assignments include building housing, collecting clothing for the Salvation Army, working in a drug rehab center, teaching business skills to prison inmates, and providing meals to the homeless. After participating in the Community Internship Program, manager Mark J. Colvard gave a valued employee two weeks off for a family illness, time to which the employee wasn’t entitled. Colvard had to defend his actions, but he was able to keep the employee on board.25

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

Organizational Structures

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

The steps involved in the organizing process are shown in Figure 8.5. Managers must first determine the specific activities needed to implement plans and achieve goals. Next, they group these work activities into a logical structure. Then they assign work to specific employees and give the people the resources they need to complete it. Managers must coordinate the work of different groups and

![FIGURE 8.5](image-url)

**Steps in the Organizing Process**
employees within the firm. Finally, they must evaluate the results of the organizing process to ensure effective and efficient progress toward planned goals. Evaluation often results in changes to the way work is organized.

Many factors influence the results of organizing. The list includes a firm’s goals and competitive strategy, the type of product it offers, the way it uses technology to accomplish work, and its size. Small firms typically create very simple structures. The owner of a dry-cleaning business generally is the top manager, who hires several employees to process orders, clean the clothing, and make deliveries. The owner handles the functions of purchasing supplies such as detergents and hangers, hiring and training employees and coordinating their work, preparing advertisements for the local newspaper, and keeping accounting records.

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

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

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

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

—Donald Rumsfeld (b. 1933)
U.S. secretary of defense and former corporate CEO

![Figure 8.6 Sample Organization Chart](image-url)
**Departmentalization**

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

- **Product departmentalization.** This approach organizes work units based on the goods and services a company offers. Chrysler Group recently revamped its Product and Component teams into new teams organized around vehicle brands. Managers for Jeep, Dodge, and Chrysler now will manage the marketing and production of their vehicles, overseeing everything from product planning to pricing and showroom placement.27
- **Geographical departmentalization.** This form organizes units by geographical regions within a country or, for a multinational firm, by region throughout the world. Some retailers, such as Dillard’s, are organized by divisions that serve different parts of the country. Railroads and gas and oil distributors also favor geographical departmentalization.
- **Customer departmentalization.** A firm that offers a variety of goods and services targeted at different types of customers might structure itself based on customer departmentalization. Management of 3M’s 50,000 products is divided among six business units: health care; transportation, graphics, and safety; consumer and office; industrial; electro and communications; and specialty materials.28
- **Functional departmentalization.** Some firms organize work units according to business functions such as finance, marketing, human resources, and production. An advertising agency may create departments for creatives (say, copywriters), media buyers, and account executives.
- **Process departmentalization.** Some goods and services require multiple work processes to complete their production. A manufacturer may set up separate departments for cutting material, heat-treating it, forming it into its final shape, and painting it.

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

George Schaefer leads a Cincinnati-based banking chain with the unique name: Fifth Third Bank. The name resulted from the original merger of Third National Bank and Fifth National Bank. On Schaefer’s decade-long watch, Fifth Third has made roughly 60 acquisitions. The bank now has 940 branches in seven states. Fifth Third has set up an organization structure with 16 regional affiliates. Each unit has its own CEO and president. The affiliates handle their own long-range planning as well as operational duties. Schaefer explains the rationale for Fifth Third’s organization simply: “These people know their markets.”29
Delegating Work Assignments

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

Accountability means that employees are responsible for the results of the ways they perform their assignments; they must accept the consequences of their actions.

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

Span of Management

The span of management, or span of control, is the number of subordinates a manager supervises. The subordinates are often referred to as direct reports. For instance, former Citigroup CEO Sandy Weill had nine people who reported directly to him. First-line managers have wider spans of management, monitoring the work of many employees. The span of management varies considerably depending on many factors, including the type of work performed and employees'
training. In recent years, a growing trend has brought ever wider spans of control, as companies have reduced their layers of management to flatten their organization structures, in the process increasing the decision-making responsibility they give employees.

**Centralization and Decentralization** How widely should managers disperse decision-making authority throughout an organization? A company that emphasizes **centralization** retains decision making at the top of the management hierarchy. A company that emphasizes **decentralization** locates decision making at lower levels. A trend toward decentralization has pushed decision making down to operating employees in many cases. Firms that have decentralized believe that the change can enhance their flexibility and responsiveness in serving customers. At SAS Institute, decentralization and delegation are logical, given the company’s high trust in its talented staff. Employee groups set project deadlines. Because of their input, project timetables and new-product announcements are usually on target.30

**Types of Organization Structures**

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

**Line Organizations** A **line organization**, the oldest and simplest organization structure, establishes a direct flow of authority from the chief executive to subordinates. The line organization defines a simple, clear **chain of command**—a set of relationships that indicates who gives direction to whom and who reports to whom. This arrangement helps to prevent buck passing. Decisions can be made quickly because the manager has authority to control subordinates’ actions.

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

As a result, the line organization is an ineffective model in any but the smallest organizations. Hair-styling salons, so-called mom-and-pop grocery stores, and small law firms can operate effectively with simple line structures. Ford, Citigroup, and EDS cannot.

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

A line manager and a staff manager differ significantly in their authority relationships. A **line manager** forms part of the primary line of authority that flows throughout the organization. Line managers interact directly with the functions of production, financing, or marketing—the functions needed to produce and sell goods and services. A **staff manager** provides information, advice, or technical assistance to aid line managers. Staff managers do not have authority to give orders outside their own departments or to compel line managers to take action.
The line-and-staff organization is common in midsize and large organizations. It is an effective structure because it combines the line organization’s capabilities for rapid decision making and direct communication with the expert knowledge of staff specialists.

**Committee Organizations**

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

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

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

**Matrix Organizations**

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

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

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

The major benefits of the matrix structure come from its flexibility in adapting quickly to rapid changes in the environment and its capability of focusing resources on major problems or products. It also provides an outlet for employees’ creativity and initiative, giving them opportunities that their functional jobs may deny them. However, it challenges the project manager to integrate the skills of specialists from many departments into a coordinated team. Another disadvantage is that employees may be confused and frustrated in reporting to two bosses.

**What’s Ahead**

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

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

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

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

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

Describe the strategic planning process.

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

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

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

Define leadership and compare different leadership styles.

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

Discuss the meaning and importance of corporate culture.

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

Identify the five major forms of departmentalization and the four main types of organization structures.

The subdivision of work activities into units within the organization is called departmentalization. It may be based on products, geographical locations, customers, functions, or processes. Most firms implement one or more of four structures: line, line and-staff, committee, and matrix structures. Each structure has advantages and disadvantages.
Business Terms You Need to Know

- management 266
- planning 269
- vision 270
- mission statement 273
- objectives 275
- decision making 277
- leadership 279
- corporate culture 282
- organization 283
- departmentalization 285
- delegation 286
- span of management 286
- chain of command 287
- top management 267
- middle management 267
- supervisory management 268
- technical skills 268
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- conceptual skills 269
- organizing 269
- directing 269

Other Important Business Terms

- controlling 269
- strategic planning 271
- tactical planning 271
- operational planning 271
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- competitive differentiation 276
- programmed decision 277
- nonprogrammed decision 277
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- decentralization 287
- line organization 287
- line-and-staff organization 287
- line manager 287
- staff manager 287
- committee organization 288
- matrix structure 288

Review Questions

1. What is a management hierarchy? In what ways does it help organizations to develop structure? In what ways could it be considered obsolete?

2. What are the three basic types of skills that managers must possess? Which type of skill is most important at each management level?

3. Identify and describe the four basic functions of managers.

4. Why is a clear vision particularly important for companies that have numerous operations around the country or around the world? Cite an example.

5. Which type of planning is most far-reaching? How does this type of planning affect other types of planning?

6. Suppose you planned a large cookout for your friends, but when you woke up on the morning of the party, it was pouring rain. What type of plan would allow you to cope with this situation? Specifically, what could you do?

7. As a student, you have a mission in school. Write your own mission statement for your education and program, including your goals and how you plan to accomplish them.

8. Identify each of the following as a programmed or non-programmed decision:
   a. reordering printer cartridges
   b. selecting a cell phone provider
   c. buying your favorite toothpaste and shampoo at the supermarket
   d. selecting a college to attend
   e. filling your car with gasoline

9. Identify the traits that are most often associated with great leaders. Which trait would be most important in the leader of a large corporation? A small company? Why?

10. Why is a strong corporate culture important to a company’s success? Relate your answer to a specific firm.

Projects and Applications

1. Create a résumé for yourself, identifying your technical skills, human skills, and conceptual skills. Which set of skills do you think is your strongest? Why?

2. Think of a company with which you are familiar—either one you work for or one with whom you conduct business as a customer. Consider ways in which the organization
Experiential Exercise

U.S. presidents are leaders of the free world. All have their own set of leadership traits. Interview five people and ask them their opinions of American presidents. Tell your respondents to ignore political opinion and concentrate on just leadership traits, both positive and negative. Develop a leadership profile modeled after the following chart.

<table>
<thead>
<tr>
<th>President</th>
<th>Positive Leadership Traits</th>
<th>Factors Hindering This President’s Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>George W. Bush</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bill Clinton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>George H. W. Bush</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ronald Reagan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jimmy Carter</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nothing But Net

1. Company mission statements. Most companies include their mission statements on their Web sites. Choose a company in which you have some interest and visit its Web site (if you can’t find the Internet address, use a search engine such as Google; http://www.google.com). Make a note of the company’s mission statement and strategic objectives. How do its strategic objectives relate to the company’s mission statement? After a company establishes its mission statement, what’s the next step in the strategic planning process?

2. Effectiveness of a company’s board of directors. One issue that has received greatly increased attention in recent years is the effectiveness of a company’s board of directors. Each year, BusinessWeek rates the effectiveness of boards of most major corporations. Visit the BusinessWeek Web site (http://www.businessweek.com) and review the most recent year’s rankings. Which five companies have the most effective and least effective boards? What criteria does BusinessWeek use to rate the effectiveness of a company’s board of directors?

3. Dealing with adversity. Often, one of the tests of a company’s management is how well it responds to a crisis. In the late 1990s, several companies—such as Nike and Wal-Mart—came under criticism for labor practices at some Asian and South American factories that made products the companies were selling. Both Nike and Wal-Mart responded with a series of actions, including establishing a set of minimum working condition standards. Visit the following Web sites and review the actions both companies took. Were you favorably or unfavorably impressed? Explain your answer.

http://www.nike.com/nikebiz (click the “Corporate Responsibility” and then “Manufacturing Practices” links to find information on its manufacturing practices)

http://www.walmart.com/cservice/aw_index.gsp (click “Supplier Information” and then “Supplier Standards”)

Note: Internet Web addresses change frequently. If you do not find the exact sites listed, you may need to access the organization’s or company’s home page and search from there.
Case 8.1

A New Generation of Women Makes It to the Top

More women fill the top ranks of corporations than ever before—chief financial officers, chief operations officers, chief information officers, and CEOs. Women held about 4 percent of the highest-paid jobs at 825 companies studied by BusinessWeek. While women are increasingly filling higher ranks, their numbers still lag behind males, and fewer than 1 percent of companies in the study had a female CEO.

One reason is that many women lack experience in operational positions that lead to CEO. Male-dominated social networks also still exclude them. “The more senior they get, the more subtle the barriers become, and the more profoundly they operate,” according to Debra Meyerson, a professor who studies gender issues. Six of the seven female CEOs in the study also led Old Economy companies, which pay less across the board than their high-tech counterparts. Says Mary C. Mattis of women’s business think tank Catalyst, “Generally speaking, the new industries are not level playing fields for women.”

A study analyzing routine performance evaluations found that when rated by their peers, bosses, and subordinates, women scored higher than men in skills from producing high-quality work to setting goals and mentoring. These findings are echoed in a growing number of studies that looked at a wide variety of manufacturing and service companies nationwide.

The scoring differences were often small, but women were ahead overall. They collaborate better, are less self-interested, and think decisions through with greater care. And more companies are recognizing that they want exactly the skills women typically bring to the job. So why are CEOs like Carly Fiorina (Hewlett-Packard), Betsy Holden (Kraft Foods), Meg Whitman (eBay), and Andrea Jung (Avon Products) still so exceptional?

Some observers think women become too easily trapped in middle management jobs, which they leave in frustration, or get pigeonholed in areas like human resources and public relations, traditionally female-dominated and not on track to the executive suite. Perhaps Carly Fiorina was on to something when she objected to being introduced to an audience as “*Fortune* magazine’s most powerful woman in American business for the fifth year in a row.” “Please don’t,” she said. “Business shouldn’t be like sports, separating the men from the women.”

QUESTIONS FOR CRITICAL THINKING
1. Why do you think more women are not rising to the top in high-tech companies, and what can be done to improve the situation?
2. Do you believe that women are better suited to top jobs than men, or vice versa? Or do you think they each bring unique but different skills to management? Explain your answer.


Video Case 8.2

Buffalo Zoo’s Leader Talks to the Animals—and People, Too

This video case appears on page 610. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.