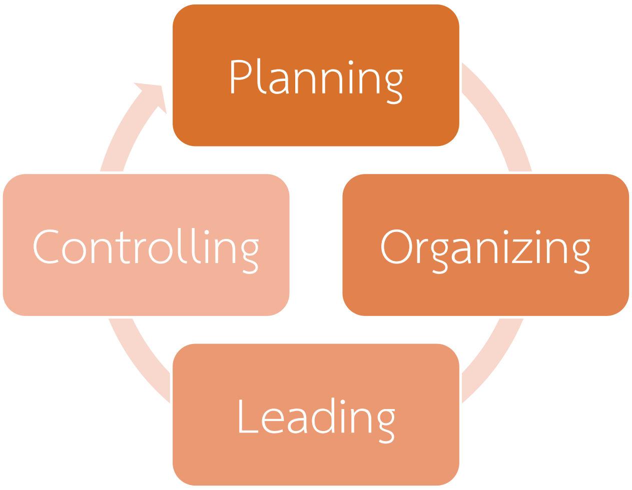
Chapter 2: Business management

The Management Process

The effective performance of your business will require solid management: the process of planning, organizing, leading, and controlling resources to achieve specific goals. A plan enables you to take your business concept beyond the idea stage. It does not, however, get the work done. For that to happen, you have to organize things effectively. You'll have to put people and other resources in place to make things happen. And because your note-taking venture is supposed to be better off with you in charge, you need to be a leader who can motivate your people to do well. Finally, to know whether things are in fact going well, you'll have to control your operations—that is, measure the results and compare them with the results that you laid out in your plan.



Planning

Without a plan, it's hard to succeed at anything. Successful managers decide where they want to be and then figure out how to get there; they set goals and determine the best way to achieve them. As a result of the planning process, everyone in the organization knows what should be done, who should do it, and how to do it.

Developing a Strategic Plan

Coming up with an idea—say, starting a note-taking business—is a good start, but it's only a start. Planning for it is a step forward. Planning begins at the highest level and works its way down through the organization. Step one is usually called strategic planning: the process of establishing an overall course of action. To begin this process, you should ask yourself a couple of very basic questions: why, for example, does the organization exist? What value does it create? Sam Walton posed these questions in the process of founding Wal-Mart: his new chain of stores would exist to offer customers the lowest prices with the best possible service.

Once you've identified the purpose of your company, you're ready to take the remaining steps in the strategic-planning process:

1. Write a mission statement that tells customers, employees, and others why your organization exists.
2. Identify core values or beliefs that will guide the behavior of members of the organization.
3. Assess the company's strengths, weaknesses, opportunities, and threats.
4. Establish goals and objectives, or performance targets, to direct all the activities that you'll perform to achieve your mission.
5. Develop and implement tactical and operational plans to achieve goals and objectives.

Mission Statement

The mission statement describes the purpose of your organization—the reason for its existence. It tells the reader what the organization is committed to doing. It can be very concise, like the one from Mary Kay Inc. (the cosmetics company): "To enrich the lives of women around the world."186 Or it can be as detailed as the one from Harley-Davidson: "We fulfill dreams inspired by the many roads of the world by providing extraordinary motorcycles and customer experiences. We fuel the passion for freedom in our customers to express their own individuality.

Core Values

Whether or not your company has defined a mission, it is important to identify what your organization stands for in terms of its values and the principles that will guide its actions. Core values affect the overall planning processes and operations. Core values should also guide the behavior of every individual in the organization. Companies communicate core values to employees and hold them accountable for putting them into practice by linking their values to performance evaluations and compensation.

Conduct a SWOT Analysis

The next step in the strategic-planning process is to assess your company's fit with its environment. A common approach to environmental analysis is matching the strengths of your business with the opportunities available to it. It's called SWOT analysis because it calls for analyzing an organization's Strengths, Weaknesses, Opportunities, and Threats.

It begins with an examination of external factors that could influence the company in either a positive or a negative way. These could include economic conditions, competition, emerging technologies, laws and regulations, and customers' expectations. One purpose of assessing the external environment is to identify both opportunities that could benefit the company and threats to its success.

The next step is to evaluate the company's strengths and weaknesses, internal factors that could influence company performance in either a positive or negative way. Strengths might include a motivated workforce, state-of-the-art technology, impressive managerial talent, or a desirable location. The opposite of any of these strengths could signal a potential weakness (poor workforce, obsolete technology, incompetent management, or poor location). Armed with a good idea of internal strengths and weaknesses, as well as external opportunities and threats, managers will be better positioned to capitalize on opportunities and strengths. Likewise, they want to improve on any weak areas and protect the organization from external threats.

Set Goals and Objectives

Your mission statement affirms what your organization is generally committed to doing, but it doesn't tell you how to do it. So the next step in the strategic-planning process is establishing goals and objectives. Goals are major accomplishments that the company wants to achieve over a long period. Objectives are shorter-term performance targets that direct the activities of the organization toward the attainment of a goal. They should be clearly stated, achievable, and measurable: they should give target dates for the completion of tasks and stipulate who's responsible for taking necessary actions.

An organization will have a number of goals and related objectives. Some will focus on financial measures, such as profit maximization and sales growth. Others will target operational efficiency or quality control. Still others will govern the company's relationships with its employees, its community, its environment, or all three.

Finally, goals and objectives change over time. As a firm reassesses its place in its business environment, it rethinks not only its mission but also its approach to fulfilling it. Your list of goals and objectives might look like this:

Goal 1: Achieve a 10 percent return on profits in your first five years.

Objective: Sales of $20,000 and profit of $2,000 for the first 12 months of operation.

Goal 2: Produce a high-quality product.

Objective: First-year satisfaction scores of 90 percent or higher on quality of notes (based on survey responses on understandability, readability, and completeness).

Goal 3: Attain 98 percent customer satisfaction by the end of your fifth year.

Objective: Making notes available within two days after class, 95 percent of the time.

Tactical Plans

The overall plan is broken down into more manageable, shorter-term components called tactical plans. These plans specify the activities and allocation of resources (people, equipment, money) needed to implement the strategic plan over a given period. Often, a long-range strategic plan is divided into several tactical plans; a five-year strategic plan, for instance, might be implemented as five one-year tactical plans.

Operational Plans

The tactical plan is then broken down into various operational components that provide detailed action steps to be taken by individuals or groups to implement the tactical and strategic plans. Operational plans cover only a brief period—say, a month or two.

Plan for Contingencies and Crisis

Even with great planning, things don't always turn out the way they're supposed to. Perhaps your plans were flawed, or maybe something in the environment shifted unexpectedly. Successful managers anticipate and plan for the unexpected. Dealing with uncertainty requires contingency planning and crisis management.

Contingency Planning

With contingency planning, managers identify those aspects of the business that are most likely to be adversely affected by change. Then, they develop alternative courses of action in case an anticipated change does occur. You engage in contingency planning any time you develop a backup or fallback plan.

Crisis Management

Organizations also face the risk of encountering crises that require immediate attention. Rather than waiting until such a crisis occurs and then scrambling to figure out what to do, many firms practice crisis management. Some, for instance, set up teams trained to deal with emergencies. Members gather information quickly and respond to the crisis while everyone else carries out his or her normal duties. The team also keeps the public, the employees, the press, and government officials informed about the situation and the company's response to it.

Organizing

A manager engaged in organizing allocates resources (people, equipment, and money) to achieve a company's objectives. Successful managers make sure that all the activities identified in the planning process are assigned to some person, department, or team and that everyone has the resources needed to perform assigned activities.

Levels of Management

A typical organization has several layers of management. Think of these layers as forming a pyramid with top managers occupying the narrow space at the peak, first-line managers the broad base, and middle-managers the levels in between. As you move up the pyramid, management positions get more demanding, but they carry more authority and responsibility (along with more power, prestige, and pay). Top managers spend most of their time in planning and decision making, while first-line managers focus on day-today operations. For obvious reasons, there are far more people with positions at the base of the pyramid than there are at the other two levels. Let's look at each management level in more detail.

Top Managers

Top managers are responsible for the health and performance of the organization. They set the objectives, or performance targets, designed to direct all the activities that must be performed if the company is going to fulfill its mission. Top-level executives routinely scan the external environment for opportunities and threats, and they redirect company efforts when needed. They spend a considerable portion of their time planning and making major decisions. They represent the company in important dealings with other businesses and government agencies, and they promote it to the public. Job titles at this level typically include chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), president, and vice president.

Middle Managers

Middle managers are in the center of the management hierarchy: they report to top management and oversee the activities of first-line managers. They're responsible for developing and implementing activities and allocating the resources needed to achieve the objectives set by top management. Common job titles include operations manager, division manager, plant manager, and branch manager.

First-Line Managers

First-line managers supervise employees and coordinate their activities to make sure that the work performed throughout the company is consistent with the plans of both top and middle management. It's at this level that most people acquire their first managerial experience. The job titles vary considerably but include such designations as manager, group leader, office manager, foreman, and supervisor.

Organizational Structure

Building an organizational structure engages managers in two activities: **job specialization** (dividing tasks into jobs) and **departmentalization** (grouping jobs into units). An organizational structure outlines the various roles within an organizational, which positions report to which, and how an organization will departmentalize its work. Take note than an organizational structure is an arrangement of positions that's most appropriate for your company at a specific point in time. Given the rapidly changing environment in which businesses operate, a structure that works today might be outdated tomorrow. That's why you hear so often about companies restructuring—altering existing organizational structures to become more competitive once conditions have changed. Let's now look at how the processes of specialization and departmentalization are accomplished.

Specialization

Organizing activities into clusters of related tasks that can be handled by certain individuals or groups is called specialization. This aspect of designing an organizational structure is twofold:

1) Identify the activities that need to be performed in order to achieve organizational goals.

2) Break down these activities into tasks that can be performed by individuals or groups of employees.

Specialization has several advantages. First and foremost, it leads to efficiency. Imagine a situation in which each department was responsible for paying its own invoices; a person handling this function a few times a week would likely be far less efficient than someone whose job was to pay the bills. In addition to increasing efficiency, specialization results in jobs that are easier to learn and roles that are clearer to employees. But the approach has disadvantages, too. Doing the same thing over and over sometimes leads to boredom and may eventually leave employees dissatisfied with their jobs. Before long, companies may notice decreased performance and increased absenteeism and turnover (the percentage of workers who leave an organization and must be replaced).

Departmentalization

The next step in designing an organizational structure is departmentalization—grouping specialized jobs into meaningful units. Depending on the organization and the size of the work units, they may be called divisions, departments, or just plain groups.

Traditional groupings of jobs result in different organizational structures, and for the sake of simplicity, we'll focus on two types—functional and divisional organizations.

Functional Organizations

A functional organization groups together people who have comparable skills and perform similar tasks. This form of organization is fairly typical for small to medium-size companies, which group their people by business functions: accountants are grouped together, as are people in finance, marketing and sales, human resources, production, and research and development. Each unit is headed by an individual with expertise in the unit's particular function. Examples of typical functions in a business enterprise include human resources, operations, marketing, and finance. Also, business colleges will often organize according to functions found in a business.

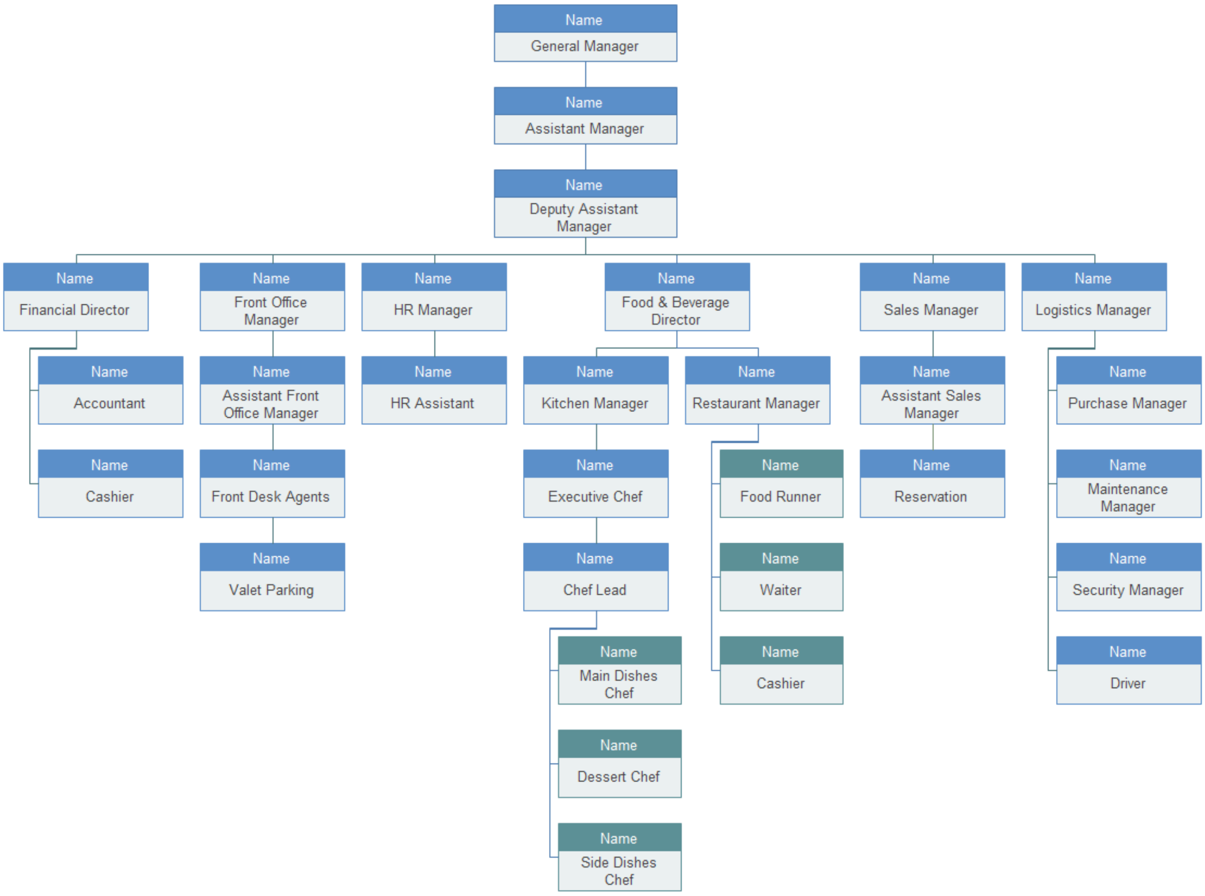
There are a number of advantages to the functional approach. The structure is simple to understand and enables the staff to specialize in particular areas; everyone in the marketing group would probably have similar interests and expertise. But homogeneity also has drawbacks: it can hinder communication and decision making between units and even promote interdepartmental conflict. The marketing department, for example, might butt heads with the accounting department because marketers want to spend as much as possible on advertising, while accountants want to control costs.

Divisional Organizations

Large companies often find it unruly to operate as one large unit under a functional organizational structure. Sheer size makes it difficult for managers to oversee operations and serve customers. To rectify this problem, most large companies are structured as divisional organizations. They are similar in many respects to stand-alone companies, except that certain common tasks, like legal work, tends to be centralized at the headquarters level. Each division functions relatively autonomously because it contains most of the functional expertise (production, marketing, accounting, finance, human resources) needed to meet its objectives. The challenge is to find the most appropriate way of structuring operations to achieve overall company goals. Toward this end, divisions can be formed according to products, customers, processes, or geography.

The Organization Chart

Once an organization has set its structure, it can represent that structure in an organization chart: a diagram delineating the interrelationships of positions within the organization. The lines between the positions on the chart indicate the reporting relationships.



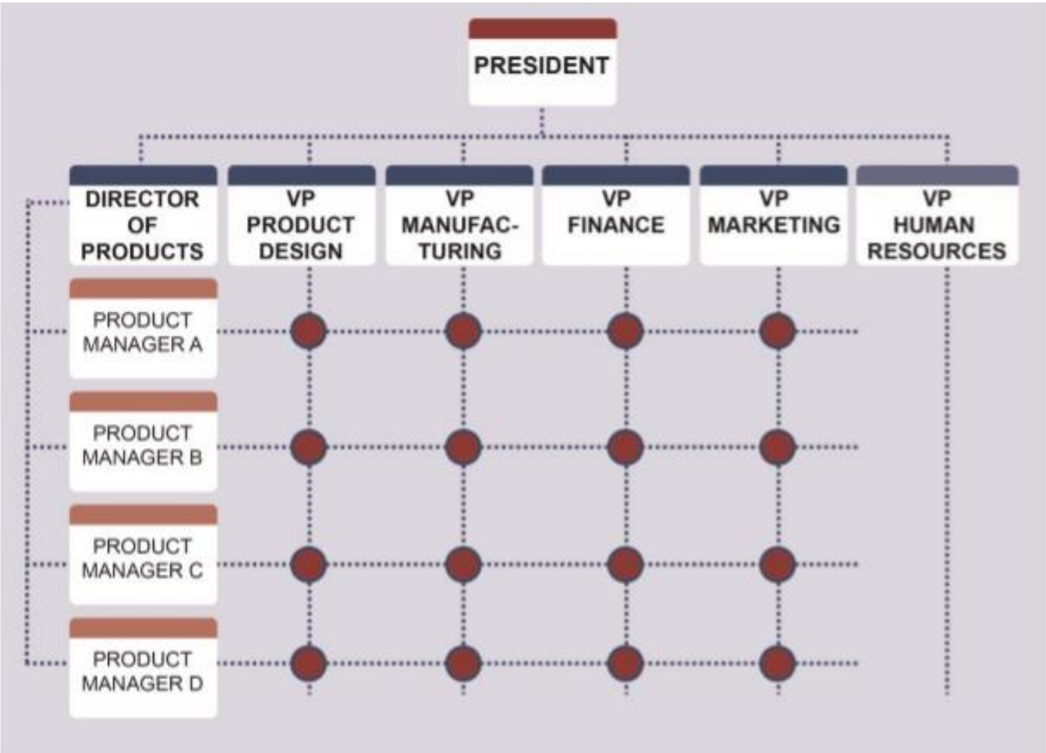
Although the structure suggests that you will communicate only with your four direct reports, this isn't the way things normally work in practice. Behind every formal communication network there lies a network of informal communications— unofficial relationships among members of an organization. You might find that over time, you receive communications directly from members of the sales staff; in fact, you might encourage this line of communication.

Over time, companies revise their organizational structures to accommodate growth and changes in the external environment. It's not uncommon, for example, for a firm to adopt a functional structure in its early years. Then, as it becomes bigger and more complex, it might move to a divisional structure—perhaps to accommodate new products or to become more responsive to certain customers or geographical areas. Some companies might ultimately rely on a combination of functional and divisional structures.

Chain of Command

The vertical connecting lines in the organization chart show the firm's chain of command: the authority relationships among people working at different levels of the organization. That is to say, they show who reports to whom. When you're examining an organization chart, you'll probably want to know whether each person reports to one or more supervisors: to what extent, in other words, is there unity of command? To understand why unity of command is an important organizational feature, think about it from a personal standpoint. Would you want to report to more than one boss? What happens if you get conflicting directions? Whose directions would you follow?

There are, however, conditions under which an organization and its employees can benefit by violating the unity-of-command principle. Under a matrix structure, for example, employees from various functional areas (product design, manufacturing, finance, marketing, human resources, etc.) form teams to combine their skills in working on a specific project or product.



Span of Control

Another thing to notice about a firm's chain of command is the number of layers between the top managerial position and the lowest managerial level. As a rule, new organizations have only a few layers of management—an organizational structure that's often called flat.

As a company grows, however, it tends to add more layers between the top and the bottom; that is, it gets taller. Added layers of management can slow down communication and decision making, causing the organization to become less efficient and productive. That's one reason why many of today's organizations are restructuring to become flatter.

There are trade-offs between the advantages and disadvantages of flat and tall organizations. Companies determine which trade-offs to make according to a principle called span of control, which measures the number of people reporting to a particular manager. If, for example, you remove layers of management to make your organization flatter, you end up increasing the number of people reporting to a particular supervisor. If you refer back to the organization chart under your present structure, four managers report to you as the president: the heads of accounting, marketing, operations, and human resources. In turn, two of these managers have positions reporting to them: the advertising manager and sales supervisor report to the marketing manager, while the note-takers supervisor and the copiers supervisor report to the operations manager. Let's say that you remove a layer of management by getting rid of the marketing and operations managers. Your organization would be flatter, but what would happen to your workload? As president, you'd now have six direct reports rather than four: accounting manager, advertising manager, sales manager, note-taker supervisor, copier supervisor, and human resources manager.

So what's better—a narrow span of control (with few direct reports) or a wide span of control (with many direct reports)? The answer to this question depends on a number of factors, including frequency and type of interaction, proximity of subordinates, competence of both supervisor and subordinates, and the nature of the work being supervised.

Delegating Authority

Given the tendency toward flatter organizations and wider spans of control, how do managers handle increased workloads? They must learn how to handle delegation—the process of entrusting work to subordinates. Unfortunately, many managers are reluctant to delegate. As a result, they not only overburden themselves with tasks that could be handled by others, but they also deny subordinates the opportunity to learn and develop new skills.

Responsibility and Authority

As owner, you'll probably want to control every aspect of your business, especially during the start-up stage. But as the organization grows, you'll have to assign responsibility for performing certain tasks to other people. You'll also have to accept the fact that responsibility alone—the duty to perform a task—won't be enough to get the job done. You'll need to grant subordinates the authority they require to complete a task—that is, the power to make the necessary decisions. (And they'll also need sufficient resources.) Ultimately, you'll also hold your subordinates accountable for their performance.

Centralization and Decentralization

If and when your company expands (say, by offering note-taking services at other schools), you'll have to decide whether most decisions should still be made by individuals at the top or delegated to lower-level employees. The first option, in which most decision making is concentrated at the top, is called centralization. The second option, which spreads decision making throughout the organization, is called decentralization.

Centralization has the advantage of consistency in decision-making. Since in a centralized model, key decisions are made by the same top managers, those decisions tend to be more uniform than if decisions were made by a variety of different people at lower levels in the organization. In most cases, decisions can also be made more quickly provided that top management does not try to control too many decisions. However, centralization has some important disadvantages. If top management makes virtually all key decisions, then lower-level managers will feel under-utilized and will not develop decision-making skills that would help them become promotable. An overly centralized model might also fail to consider information that only front-line employees have or might actually delay the decision-making process. Consider a case where the sales manager for an account is meeting with a customer representative who makes a request for a special sale price; the customer offers to buy 50% more product if the sales manager will reduce the price by 5% for one month. If the sales manager had to obtain approval from the head office, the opportunity might disappear before she could get approval – a competitor's sales manager might be the customer's next meeting.

An overly decentralized decision model has its risks as well. Imagine a case in which a company had adopted a geographically-based divisional structure and had greatly decentralized decision making. In order to expand its business, suppose one division decided to expand its territory into the geography of another division. If headquarters approval for such a move was not required, the divisions of the company might end up competing against each other, to the detriment of the organization as a whole. Companies that wish to maximize their potential must find the right balance between centralized and decentralized decision making.

Leading

The third management function is leading—providing focus and direction to others and motivating them to achieve organizational goals.

Leadership Styles

Leadership styles tend to reflect one of the following approaches to leading and motivating people: the autocratic, the democratic (also known as participative), or the free rein.

1. Autocratic style. Managers who have developed an autocratic leadership style tend to make decisions without soliciting input from subordinates. They exercise authority and expect subordinates to take responsibility for performing the required tasks without undue explanation.

2. Democratic style. Managers who favor a democratic leadership style generally seek input from subordinates while retaining the authority to make the final decisions. They're also more likely to keep subordinates informed about things that affect their work.

3. Free-rein style. In practicing a free rein leadership style, managers adopt a "hands - off" approach and provide relatively little direction to subordinates. They may advise employees but usually give them considerable freedom to solve problems and make decisions on their own.

At first glance, you'd probably not want to work for an autocratic leader. After all, most people don't like to be told what to do without having any input. Many like the idea of working for a democratic leader; it's flattering to be asked for your input. And though working in a free rein environment might seem a little unsettling at first, the opportunity to make your own decisions is appealing to many people. Each leadership style can be appropriate in certain situations.

To illustrate, let's say that you're leading a group of fellow staffs in a team project for your business. Are there times when it would be best for you to use an autocratic leadership style? What if your team was newly formed, unfamiliar with what needs to be done, under a tight deadline, and looking to you for direction? In this situation, you might find it appropriate to follow an autocratic leadership style (on a temporary basis) and assign tasks to each member of the group. In an emergency situation, such as a fire, or in the final seconds of a close ball game, there is generally not time for debate – the leader or coach must make a split second decision that demands an autocratic style.

But since most situations are non-emergency and most people prefer the chance to give input, the democratic leadership style is often favored. People are simply more motivated and feel more ownership of decisions (i.e., buy-in) when they have had a chance to offer input. Note that when using this style, the leader will still make the decision in most cases. As long as their input is heard, most people accept that it is the leader's role to decide in cases where not everyone agrees.

How about free rein leadership? Many people function most effectively when they can set their own schedules and do their work in the manner they prefer. It takes a great deal of trust for a manager to employ this style. Some managers start with an assumption of trust that is up to the employee to maintain through strong performance. In other cases, this trust must be earned over a period of time. Would this approach always work with your study group? Obviously not. It will work if your team members are willing and able to work independently and welcome the chance to make decisions. On the other hand, if people are not ready to work responsibly to their best of their abilities, using the free rein style could cause the team to miss deadlines or do poorly on the project.

The point being made here is that no one leadership style is effective all the time for all people or in all corporate cultures. While the democratic style is often viewed as the most appropriate (with the free rein style a close second), there are times when following an autocratic style is essential. Good leaders learn how to adjust their styles to fit both the situation and the individuals being directed.

Transformational Leadership

Theories on what constitutes effective leadership evolve over time. One theory that has received a lot of attention in the last decade contrasts two leadership styles: transactional and transformational. So-called transactional leaders exercise authority based on their rank in the organization. They let subordinates know what's expected of them and what they will receive if they meet stated objectives. They focus their attention on identifying mistakes and disciplining employees for poor performance. By contrast, transformational leaders mentor and develop subordinates, providing them with challenging opportunities, working one-on-one to help them meet their professional and personal needs, and encouraging people to approach problems from new perspectives. They stimulate employees to look beyond personal interests to those of the group.

So, which leadership style is more effective? You probably won't be surprised by the opinion of most experts. In today's organizations, in which team building and information sharing are important and projects are often collaborative in nature, transformational leadership has proven to be more effective. Modern organizations look for managers who can develop positive relationships with subordinates and motivate employees to focus on the interests of the organization. Leaders who can be both transactional and transformational are rare, and those few who have both capacities are very much in demand.

Controlling

In 1916, Henri Fayol formulated one of the first definitions of control as it pertains to management: "Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established. It's object is to point out weaknesses and errors in order to rectify [them] and prevent recurrence."

Management control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards. It is also used to determine if any remedial action is required to ensure that human and other corporate resources are being used in the most effective and efficient way possible to achieve corporate objectives.

Control can also be defined as "that function of the system that adjusts operations as needed to achieve the plan, or to maintain variations from system objectives within allowable limits." The control subsystem functions in close harmony with the operating system. The degree to which they interact depends on the nature of the operating system and its objectives. Stability concerns a system's ability to maintain a pattern of output without wide fluctuations. Rapidity of response pertains to the speed with which a system can correct variations and return to expected output.

From these definitions, the close link between planning and controlling can be seen. Planning is a process by which an organization's objectives and the methods to achieve the objectives are established, and controlling is a process that measures and directs the actual performance against the planned goals of the organization. Therefore, goals and objectives are often referred to as the siamese twins of management: the managerial function of management and the correction of performance in order to ensure that enterprise objectives and the goals devised to attain them are being accomplished.

Characteristics of Control

Control has several characteristics. It may be described as being:

1. A continuous process.
2. A management process.
3. Embedded in each level of organizational hierarchy.
4. Forward-looking.
5. Closely linked with planning.
6. A tool for achieving organizational activities.
7. An end process.

The Elements of Control

1. The characteristic or condition to be controlled – We select a specific characteristic because a correlation exists between it and how the system is performing. The characteristic may be the output of the system during any stage of processing or it may be a condition that is the result of the system. For example, in an elementary school system, the hours a teacher works or the gain in knowledge demonstrated by the students on a national examination are examples of characteristics that may be selected for measurement, or control.

2. The sensor – This is the means for measuring the characteristic or condition. For example, in a home-heating system, this device would be the thermostat; and in a quality - control system, this measurement might be performed by a visual inspection of the product.

3. The comparator – This determines the need for correction by comparing what is occurring with what has been planned. Some deviation from the plan is usual and expected, but when variations are beyond those considered acceptable, corrective action is required. It involves a sort of preventative action to indicate that good control is being achieved.

4. The activator – This is the corrective action taken to return the system to expected output. The actual person, device, or method used to direct corrective inputs into the operating system may take a variety of forms. It may be a hydraulic controller positioned by a solenoid or electric motor in response to an electronic error signal, an employee directed to rework the parts that failed to pass quality inspection, or a school principal who decides to buy additional books to provide for an increased number of students. As long as a plan is performed within allowable limits, corrective action is not necessary; however, this seldom occurs in practice.

The Control Process