SPARKCHARTS™

MANAGEMENT

SPARK CHARTS™

TRANSACTION COST APPROACH TO THE THEORY OF THE FIRM

TRANSACTION COSTS

- **Costs of providing for goods** or services through the marketplace rather than providing them within the firm.
  - The **transaction cost approach** to the theory of the firm was developed by **Ronald Coase**, who was awarded the Nobel Prize in Economics for his work.
  - Coase described the relevant transaction costs as those necessary to investigate potential providers of services, negotiate terms for the provision of such services, and ensure compliance with the agreed-upon terms.
- **Transaction costs** include:
  - Search and information costs
  - Bargaining and decision costs
  - Policing and enforcing costs
- **Economists typically treat transaction costs as negligible.** Coase argues that transaction costs are *not* negligible and that their very existence explains the necessity of organizations, and hence, management.

THE FUNCTION OF MANAGEMENT

Market prices dictate the relationships between companies.

Internal coordination governs the decisions made within firms.
- D. H. Robertson describes the internal coordinators (i.e., managers) as "islands of conscious power," or solid pillars overseeing the smooth functioning of a firm's complex internal interactions.
- **Seamless management:** Robertson's famous phrase describes his view of the management as nearly seamless and indistinguishable from the workers whose efforts they coordinate and integrate.
- **Flexible organization:** In some industries, the labor force may work on a day-to-day basis, which demands greater integration efforts by management. In other industries, the labor force may be permanent (tied to the firm by long-term contracts), which requires greater coordination efforts by management.
- A **firm** is a *nexus of long-term contracts* that comes into existence when short-term contracts are unsuitable. Short-term contracts may become unsuitable when the costs of collecting information and the costs of negotiating contracts become prohibitive.
- **Without a price system**, there must be an organization to subsume those transactions or to internalize those functions.

Market transactions
- If an organization exists to reduce costs by internalizing functions and thereby minimizing transaction costs, why are there any market transactions at all?
- **Coase's explanation for market transactions:**
  - The costs of handling additional transactions rise internally with scale and ultimately are in proportion to the costs of sourcing the transaction in the open market.
  - Larger firms may not reproduce the effects of market conditions.
- **Business organization's goal:** To reproduce the conditions of a competitive market for the factors of production within the firm at a lower cost than the actual market cost.

ROLE OF MANAGEMENT

COASE'S THEORY OF THE FIRM

- Managers **coordinate activities** that are internalized within the firm to reduce costs.
- Managers are the "**islands of conscious power** in this ocean of unconscious cooperation" (D.H. Robertson).

DEFINITION OF MANAGEMENT

- **Management:** Coordination of the resources of the firm to produce goods and services.
- **Firm:** This word refers to a business organization, according to Coase. The more general term "organization" is appropriate where management coordinates resources for production in organizations that are not commercial in nature, such as not-for-profit organizations and governmental agencies.
- Managers employ **resources**—physical, human, and financial—to accomplish their objectives.
- Managers produce nothing in and of themselves; rather, they **coordinate** the work of others.
- Within an organization, managers typically are arrayed in a hierarchy that includes line managers, middle managers, and senior managers.

CATEGORIES OF MANAGEMENT

- **Line managers** are responsible for the products and services of the organization that are delivered to the external clients of the organization.
- **Staff managers** are responsible for activities that support production activities, such as human resources, legal, and information technology. Staff managers produce services for clients—the line managers—who work within the organization.
- **Functional managers** are responsible for entire departments. Departments (e.g., legal, marketing) are groups of employees organized by function.
- **General managers** are responsible for all of the activities that constitute a profit center for the organization.

EVOLUTION OF MANAGEMENT

The Industrial Revolution
- **Shift from an agricultural to an industrial base.** As the labor force migrated from self-employed contract workers and sole proprietors to employees of large industrial corporations, managers became more prominent as the coordinators of different work functions within the organization.
- **Frederick Taylor** advanced time studies and formal systems of functional specialization and management control.

The Information Revolution
- **Shift from industrial to knowledge-based** products and services.
- Taylor's theories of management were partially discredited as incomplete, dated, and demeaning to workers.
- Japanese companies adopted **quality circles** and other techniques to engage and motivate their workers and increase productivity.
- Peter Drucker writes of the **knowledge worker**, a highly educated specialist who cannot be managed in the same hierarchical command and control organization that managed factory workers during the industrial revolution.

FUNCTIONS OF MANAGERS

- **Planning** and **forecasting**
- **Organizing** and **staffing**
- **Leading** and **motivating**
- **Coordinating** and **communicating**
- **Measuring** and **controlling**

PLANNING AND FORECASTING

Planning and forecasting yields two results:
- **Reduces costs** by coordinating objectives across the various functional groups of the organization.
- **Provides direction** and purpose to organizational activities.

Planning comprises four processes:
- **Establishing goals** and objectives.
- **Formulating strategies** to focus the resources of the organization to accomplish those objectives.
- **Implementing** the plan.
- **Evaluating** the success of the plan and adjusting it as necessary to reach the goals.

Categories of plans:
- **Strategic plans:** Outline actions necessary to accomplish longer-term organizational goals.
- **Tactical plans:** Identify steps to be taken by departments or divisions within the organization to support the overall strategic plan.
- **Operating plans:** Short-term plans that provide guidance for the management of day-to-day operations.

Advantages of planning and forecasting:
- **Identifies** the resources needed to execute the plan.
- **Integrates** the work of each of the divisions and departments within the organization such that they are not working at cross-purposes with each other.
- **Motivates** workers to achieve organizational goals.

Disadvantages of planning and forecasting:
- Introduces **rigidity** into the organization.
- **Handicaps** functioning in an environment of rapid, discontinuous change.
- **Costs** may be prohibitive.

ORGANIZING AND STAFFING

Organizing work comprises three management functions:
- **Allocate** the distribution of resources.
- **Assign** responsibility for the completion of tasks.
- **Ensure** that the resources are used responsibly and tasks are completed satisfactorily.

Excessive attention to organization, or **micromanagement** of tasks and resources, can result in an inflexible organization in which innovation is stifled.

Organization structure categories:
- **Line organization:** Simplest form of organization; employees report to a single manager. Line organization is prevalent among small, entrepreneurial, start-up organizations.
- **Functional organization:** Organization's structure is dictated by knowledge base or functional expertise. Employees may be assigned to report to multiple managers, each of whom has expertise in a specific area.
- **Line and staff organization:** Prevalent among large organizations.
  - **Line organization structure** (direct lines of reporting authority and communication) for employees involved in producing goods and services for external clients.
  - **Staff organization structure** (multiple lines of reporting authority and communication) for employees involved in specialized supporting functions, such as the legal or accounting departments.
- **Matrix organization:** A changing kaleidoscope in which workgroups or teams are formed to work on specific projects with specific managers responsible for those projects. When the projects are completed, the teams disband and reassemble in another form for another project. Project managers coordinate the efforts of the team and report to the general manager of the business line.
  - This is a more fluid form of organization requiring a high degree of communication and coordination skills.
- **Committee organization:** Consensus management style results in decision-making by committees whose members represent key departments within the organization. Lack of clear lines of authority often results in long decision-making processes.
  - Common among collegial professional services firms.
- **Vertical structure:** Hierarchical chain of command in which employees, departments, and divisions are linked through lines of reporting authority. Creates a division of labor in which employees specialize in specific functions and tasks.
  - Advantages of this structure include clearly delineated lines of authority and organizational efficiency in executing tasks; disadvantages include stifled innovation and tendency for *"group-think"* as employees are reluctant to challenge the status quo.
  - **Group-think:** The tendency of members of an organization to accept the norms of that organization unquestioningly. In its extreme form, the group-think phenomenon renders the organization vulnerable to external innovators with different frames of reference.
- **Lateral structure:** Flexible structure that emphasizes collegiality and collaboration across functional departments in the organization. Encourages innovation and prevents isolation. In lieu of formal organization authority, the coordination of tasks is accomplished by knowledge information systems and task forces.

LEADING AND MOTIVATING

Leading and motivating are functions of management.
- **Leadership** creates a vision for the future of the organization and stimulates the members of the organization to work to accomplish that vision.
- **Motivating** consists of the tasks necessary, such as planning, organizing, and communicating, to accomplish the vision articulated by the leadership.

Styles of leadership

Orientations of leadership
- **Task-oriented leadership** focuses on work processes.
- **People-oriented leadership** focuses on needs of the workers, assuming that work processes will be done if the workers' needs are satisfied.
- **Combined** task- and people-oriented leadership represents a hybrid of a focus on work processes and the needs of the workers, with people and processes receiving equivalent managerial attention.

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“O! THAT A MAN MIGHT KNOW / THE END OF THIS DAY’S BUSINESS / ERE IT COME.”

WILLIAM SHAKESPEARE

ROLE OF MANAGEMENT (continued)

Classifications of leadership

- **Autocratic leaders** dominate decision making and often are found in hierarchical **“command and control”** organizations.
- **Democratic leaders** encourage others to participate in the decision-making processes and often are found in collegial, professional services firms.
- **Charismatic leaders** motivate workers through the force of their personalities and their compelling visions for the organization.
- **Technocratic leaders** use their scientific management and technical expertise to control the processes of production.

Maslow’s approach to the motivation of workers

- **Maslow’s hierarchy of needs:** Social psychologist Abraham Maslow posited that humans have a hierarchy of needs.
  - **Lower-order needs**, such as the needs for security, food, and shelter, must be satisfied before higher-order needs, such as the need for creative expression, can be addressed.
  - **Higher-order needs**, according to Maslow, include the need for meaningful work, to leave a legacy, and to realize one’s innate talent.
- **Two types of motivating forces emerge:**
  - **Intrinsic motivation** refers to the desire to complete tasks to a standard of excellence regardless of the reward offered for task completion. Sources of intrinsic motivation include professional pride and satisfaction.
  - **Extrinsic motivation** refers to external rewards to motivate task completion. Sources of extrinsic motivation include salaries and benefits, promotions and bonuses.

COORDINATING AND COMMUNICATING

Coordinating the activities of the organization requires effective communication.

- The objective of communication is to **convey information**.
- Communication is essential to the internal workflow of the organization.
- Communication **links the components** of the organization together so it can function as a whole.
- All managerial functions require communicating information.
- Communication consumes managerial time.

Channels of communication

- **Formal communication** occurs through structured channels, such as written memoranda distributed throughout the organization, blast e-mail messages, annual reports, press releases, and advertisements.
- **Informal communication** occurs through unstructured, interpersonal means, such as nonverbal signs and signals, one-on-one conversations, and circulation of rumors through the “grapevine.”

Effective techniques of communicating

- **Engage** in conveying and understanding information.
- **Listen attentively and summarize** what was said to provide an opportunity to correct any misunderstanding.
- **Be sensitive to nonverbal signals**, including your own.
- **Tailor messages to the audience** to ensure that they will be received and interpreted correctly.
- **Be sensitive to differences** in language and custom, as they can give rise to misunderstandings.

Leading the adaptive enterprise requires that managers create a learning environment to encourage innovation. The community should be based on:

- **Inquisitiveness:** A spirit of curiosity that is not afraid to question the status quo.
- **Experimentation:** A readiness to innovate and accept an occasional failure.
- **Exchange:** An eagerness to share with colleagues any important lessons learned.
- **Trust:** Faith in colleagues and in the enterprise as a whole.

MEASURING AND CONTROLLING

Objectives of control

- **Maintaining the performance** of the organization and its human, physical, and financial resources to satisfy management goals.
- **Measuring the production** of the business and benchmarking it against a standard of performance.
- **Ensuring legitimate and proper usage** of organizational resources consistent with organizational objectives.
- **Ensuring compliance** with the appropriate legal and regulatory requirements of the organization.

Sources of control

- **Legitimacy** of managerial authority.
- **Legal** basis for fiduciary actions undertaken on behalf of the organization.

Means of control

- **Formal authority** of leaders and managers
- **Explicit communication** of organizational policies
- **Budget limits** to control resources
- **Communication** of organizational plans
- **Centralized** control in which all nonroutine matters are referred to senior management for decisions
- **Decentralized** control where middle managers are responsible for the actions of their departments
- **Self-management of teams** to correct one another for any perceived deviations
- **Objectives-based management** allows a measure of control by measuring performance against explicitly established objectives.
- **Corrective action** to assert control

Measures of control

Computer-based control systems

- **Open and closed loop systems** provide feedback for control and may identify where controls have been circumvented (e.g., a computerized procurement system).
- **Feedback control systems** are closed systems in which output is reintroduced to correct input. For instance, a company’s production output is linked by computer to a retailer’s purchase order input, thereby ensuring more rational production, lower inventory, and smoother deliveries.
- **Steering controls** correct anticipated errors before they occur (e.g., a piloting system).
- **Feed forward controls** forecast errors in the output and reintroduce a signal to change the input before errors appear (e.g., manufacturing measurement processes).

Quantitative measures of control

- **Quantitative standards** measure results and provide managerial control.
- **Manufacturing production controls:**
  - **Gantt charts**
  - **PERT** (Program Evaluation Review Technique)
  - **CPM** (Critical Path Method)
  - **Just-in-time inventory control**
- **Manufacturing quality controls:**
  - **Batch or lot** control by sampling methods
  - **Process quality** control
- **Quality control in customer service operations:**
  - **Six Sigma** is a rigorous statistical measurement process that controls the integrity of production processes, measures defects, identifies deviations, and suggests corrective measures. The goal of Six Sigma is to reduce defects to fewer than six per million components.

Financial control measures

- **Financial ratios:** Debt-to-equity, inventory turnover, receivables turnover, and other ratios provide measures of efficiency and leverage.
- **Budgetary control:** Operating budgets for the organization as a whole and the departments and divisions that comprise the organization provide a measure of control. Other techniques include flexible budgets, capital budgets, and zero-base budgeting.
- **Cash flow** measures
- **Pro forma** financial statements
- **EVA** (economic value added) is equal to a company’s net operating profit minus the opportunity cost of all of its invested capital. The difference is the economic value added to the organization by its management.
  - EVA can be positive or negative. A negative value for EVA is an indication of management incompetence.
- **Auditing,** by internal and external audit staff.
- **Total quality measurement** advocates continuous improvement of quality in all aspects of the organization. The *Malcolm Baldrige Award* recognizes excellence in total quality management based on a carefully defined grading system.

Human resources controls

Theory X and Theory Y by Douglas McGregor

- Leadership style is predicated on assumptions managers make about the motivations and behaviors of workers.
- **Theory X** is the autocratic management style that reflects a negative view of the workforce. Theory X assumes that:
  - Workers dislike work and must be forced and controlled to work.
  - Workers seek to avoid responsibility and need direction and oversight.
  - Workers lack ambition and motivation.
- **Theory Y** is the democratic management style that reflects a positive view of the workforce. Theory Y assumes that:
  - Workers are open to liking their work.
  - Committed workers are intrinsically motivated and will act responsibly.
  - Advocates of **Theory Y** assume that responsibility is learned through confidence and trust and unlearned through coercion and control. Further, they assume that humans desire to make creative contributions to their work. Thus, advocates of Theory Y seek to engage the intellect of the worker in even the most routine tasks.

Theory by Blake & Mouton

- Blake & Mouton ranked management concerns on a grid with a scale from 1 (low) to 9 (high), with concern for workers on the y-axis and concern for production on the x-axis.

Managerial Grid by Blake & Mouton

Style	Description
Country club management	Places a higher emphasis on employee satisfaction. Located at (1, 9) on the axis.
Team management	This is said to be the most effective management style. Places a strong emphasis on both employee satisfaction and production goals. Located at (9, 9) on the axis.
Middle-of-the-road management	Balances employee satisfaction with productive output. Located at (5, 5) on the axis.
Impoverished management	Characterized by minimal emphasis on employee satisfaction and output. Located at (1, 1) on the axis.
Task management	Places a high emphasis on operational efficiency and treats human concerns as negligible. Located at (9, 1) on the axis.

Management of human resources

Typical human resources management processes

- **Planning** for organizational needs by assessing current resources, forecasting future needs, and estimating future availability
- Preparing **job descriptions** for use in hiring new employees and evaluating current employees
- **Recruiting** candidates for employment
- Identifying best candidates for hire by verifying references and conducting pre-employment screening
- **Hiring** employees and negotiating offers of employment
- **Orienting new employees** to the workplace
- Developing **training programs** for employees to meet the changing demands of their jobs
- **Working with line managers** to promote and develop employees into increasing levels of organizational responsibility

New issues in the workplace

- Flexible **work hours** and the need for employees to achieve work-family balance
- Increasing use of **performance-based compensation**
- Increasing use of **computerized information technologies** on the job
- New forms of **management relations**, such as self-managing work teams
- Decline in the number of **unionized workers**
- Increase in the number of **women** in the workforce
- Increasingly **diverse population** of employees
- Rise of the **“knowledge worker”** who possesses highly developed skills and educational attainment and processes information instead of physical product
- Fewer guarantees about the **security and tenure** of employment

Legal issues in the workplace

- Legislation requiring reasonable accommodation of the needs of **disabled workers**
- **New stakeholders**, such as news media, regulators, and the general public, with an interest in workplace conditions
- **Aging workforce** and legislation to protect older workers
- **Equal Employment Opportunity Act** (EEOA) provisions, which protect workers against discrimination on account of gender or race
- Dramatic increase in employment-related **lawsuits**

Change in the value of human resources to managers

- **Old framework** for management activities:
  - **Information:** Scarce, expensive, and closely held
  - **Sources of wealth:** Physical assets such as land, raw materials, and factories
  - **Path to success:** Control over physical assets
- **New framework** for management activities:
  - **Information:** Cheap, abundant, and readily transferable
  - **Sources of wealth:** Knowledge and ideas
  - **Path to success:** Control over intellectual capital

CONTINUED ON OTHER SIDE

ENVIRONMENTAL CONTEXT

MANAGEMENT RESPONSES TO THE EXTERNAL ENVIRONMENT

An environment is external to a specific system.

- **Environments** are *nested* in other environments.
- **Stakeholders are constituents** that affect and are affected by the designated organization.
- **The organization is nested** in an industry environment, which is, in turn, nested in a political and economic environment, which is, in turn, nested in a global environment.

Characteristics of business environments

- **Proximate environment** is the environment closest to the business's operations and therefore immediately identified by managers as relevant to their organization.
- **Competitive environment (Porter's Five Forces):** Strategy professor Michael Porter identified five forces that characterize the environment in which managers work:
  - Existing and potential competitors
  - Buyers
  - Suppliers
  - Substitute products
  - Industry structure
- **Stakeholder environment:** Constituencies with an interest in the organization's performance.
  - Government agencies
  - Labor unions and trade associations
  - Financial intermediaries
  - Activist and special interest groups
  - News media
  - Non-governmental organizations
- **Remote environment:** Conditions far removed from the organization may have direct consequences for management decisions, such as the consequences of the greenhouse effect on the energy utilization of businesses.
  - Economic
  - Social
  - Technological
  - Political
  - Physical

Dynamics of change

- **Environmental change**
  - **Severity** of change refers to the magnitude or relative size of the change in the environment.
  - **Frequency** of change measures the stability of the environment, or the rate at which changes occur.
- **Complexity of change**
  - Increases with increasing numbers of environmental factors relevant to the organization.
  - Increases in heterogeneous environments.

Forecasting future environmental conditions

- **Delphi method**
  - An impartial and anonymous group compiles forecasts and sends them to independent experts for evaluation.
  - The experts may revise their initial predictions upon review of the collection of forecasts.
  - Several iterations of this process occur until the final group of predictions are integrated with one another.
- **Cross-impact matrices**
  - Evaluate the interaction of environmental forces and assess the implications for the business.
- **Scenario testing**
  - A scenario represents a vision of a future outcome.
  - Scenarios include 3–5 key factors that are extrapolated from trends and patterns and possibly management assumptions about the future.
  - Scenarios are evaluated (from the "most likely" to the "inconceivable") for their impact on the organization.
  - Insights are generated as to how the organization should prepare for the future scenarios that are likely to develop.

Effect of the environment on leadership development

- The **debate over whether leaders are born or made** (conditioned by their environment) continues to dominate the discussion of management.
- **Genetics and early family experiences** contribute to an individual's personality and interpersonal skills and may motivate him or her to lead.
- The environment plays a role in leadership development in that it affects work experiences, hardship, opportunity, education, role models, and mentors.
- **Environmental factors that develop leaders:**
  - Challenging assignments early in an individual's career
  - Visible leadership role models (either positive or negative role models)
  - Assignments that broaden knowledge and experience
  - Task force assignments and special projects
  - Mentoring or coaching from senior executives
  - Involvement in tasks outside the individual's primary area of responsibility
  - Formal training programs
- **Environmental factors that deter leaders:**
  - Crises that develop slowly (unlike explosive crises that evoke leadership)
  - Prestige of professional specialist training
  - Negative publicity or resentment associated with high visibility
  - Suppressive effects of large and complex organizations and communities

MANAGEMENT UNDER CONDITIONS OF UNCERTAINTY

Uncertainty, unpredictability, and volatility often characterize the environments in which managers operate.

- **Certainty** implies that the outcome of each possible decision is known.
- **Risk** implies that there is a range of possible outcomes for each possible decision, with a probability attached to each potential outcome. Risk arises from:
  - Lack of information
  - Quality of information
- **Uncertainty** implies that little or no reliable information is available about potential outcomes.

Decision-making

- **Programmed decisions** address routine, predictable events.
- **Nonprogrammed decisions** address unanticipated problems or problems that lack clearly defined boundaries.

Intuitive vs. Sensory Decision-Making Models

Intuitive	Sensory
Relies on unknown individual processes of "gut feelings" or "hunches." It often is the result of seasoned managers developing decisions based on criteria that they cannot articulate.	Relies on fact-based assessments (derived from the senses) that consider the goals to be attained and the environmental conditions under which those goals are to be achieved.
These processes frustrate management educators because they cannot be codified and taught. They are highly subjective and personal.	This decision-making model is concrete, assessing only those inputs that can be identified through the senses and taking into consideration only concrete alternatives.

INTERNATIONAL MANAGEMENT

INTERNATIONAL BUSINESS

Multinational companies are structured as parent organizations, with central power being communicated from the company's "home" base of operations to the international "children," or subsidiaries.

- **Subsidiaries** in host countries are fundamentally focused on distributing the home company's goods and services.

Global companies operate worldwide without concern for geographic boundaries.

- They **build plants**, **raise capital**, and **undertake marketing** and **production activities** wherever it is most advantageous to do so.

LEVELS OF PARTICIPATION IN INTERNATIONAL BUSINESS

- Remain a **domestic organization** and import and export goods and services as needed.
- Enter into a **licensing agreement** with a foreign company to produce goods.
- Enter into a **franchising agreement** to enter a foreign market with experienced local staff managing the franchise according to agreed-upon parameters.
- Enter into a **joint venture** with a foreign company to enter international markets, thereby reducing the risks associated with market entry.
- Establish a **foreign subsidiary**.
- Manage the business as a **global organization**.
- Enter into **global alliances** to mitigate costs and expand the array of goods and services provided to customers (e.g., airline code-sharing agreements among international carriers).

DIMENSIONS OF INTERNATIONAL COMMERCE

Economic systems

- **Degree of government control of commerce:** Three main types: market economy, centrally controlled economy, and mixed economy.
- **World Bank classification** of countries:
  - Low income
  - Lower-middle income
  - Upper-middle income
  - Severely indebted
  - Moderately indebted
  - Less indebted

Political systems

- **Legal system**, e.g., property rights, rule of law, contracts, and other legal issues that affect the conduct of business
- Scope of **governmental involvement** in commercial activities
- **Technological capabilities**
- **Infrastructure**, e.g., transportation, communications, healthcare, and distribution
- Level of development of products and processes
- Availability of research centers and trained technical staff for employment

Socio-cultural values

- **Demographic trends**, e.g., age of population and family structures
- Levels of **education**, access to **healthcare**, **roles of men and women** in society
- Social **mobility**
- Social **institutions**, e.g., religious institutions, fraternal and mutual societies
- **Values** and **belief systems**

HISTORY OF INTERNATIONAL BUSINESS

Mercantilism: Overseas business operations are an extension of domestic operations.

- Foreign operations obtain raw materials and other resources and sell them back, often at artificially depressed prices, to the home country for processing or manufacture.
- Time period: 17th century through World War II

Nationalism: Countries expropriate the assets of business organizations.

- Seek to protect their markets or natural resources
- Time period: Post-World War II

Multinationalism: Companies locate their operations in countries with access to distribution for markets.

- Companies locate operations in countries with low-cost labor
- Time period: 1960s to the present

Globalization: Business organizations become "stateless"

- Operate without regard to national borders
- Time period: Present

Factors Influencing Management's Decision to Conduct Business Internationally

Risks	
Economic policy risks: Price, tariff, and quota limits	Expropriation of business assets
State-subsidized competition	Lack of adequate insurance coverage
War and terrorism	Different consumer tastes and attitudes in host countries
Difficulty recruiting and retaining suitably qualified local staff	Volatile currency exchange rates
Currency controls	Quotas
High inflation erodes the value of earnings and raises the cost of raw materials	Less respect for human rights in host countries comparable to that of the home country
Inadequate protection for intellectual property	
Benefits	
Leverage foreign comparative advantage to increase profitability or market share	Increase returns on invested capital
Circumvent tariffs or import quotas	Increase global market share
Increase the size of the market for the organization's products and services	Access less expensive resources, such as labor and raw materials

MANAGEMENT STRATEGY

STRATEGY VS. TACTICS

Strategy is the process of setting the overall goals of the organization.

- Strategy is derived from the Greek word *strategos*, which refers to the art of the military general.
- The general is responsible for multiple units on multiple fronts of the battlefield, like a senior manager.
- Generals **think of the whole**, not of the pieces, and their value is in *orchestration and comprehensiveness*.

Strategy defines how the organization will engage with its environment.

- Internal choices, such as compensation schemes and training programs, support strategy.
- Managers must ensure a robust, reinforced consistency among the elements of strategy.

Tactics are the means employed to realize the organization's strategic goals.

STRATEGY FORMULATION

A means to evaluate the interdependence of strategic choices. Formulating a strategy requires clearly defining the following:

Current position
(Where do we stand now?)
- In which markets are we active?
- Who are our current customers?
- What are the company's core competencies?

Desired position
(Where do we want to be?)
- Same markets and customers or new/additional ones?
- Same product and technologies or new/additional ones?
- Economic logic of new position?

Means of arrival
(How will we get there?)
- How will we adapt our competencies?
- How will we differentiate ourselves from the competition?
  - Price?
  - Image?
  - Styling?
- What vehicles will we use?
  - Acquisitions?
  - New product development?
  - Joint ventures?
- How quickly will we move?
  - Allocation of finite resources?

Financial logic
(How will we make money?)
- Pricing?
- Through superior technology?
- Through superior service?
- Costs?
- Economies of scale or scope?
- Can we maintain control?

Example of strategy formulation applied to an Italian clothing manufacturer:

Current position:
- Italian market with limited European presence
- Large product line (high- and mid-end clothing)
- Wide variety of outlets (e.g., mass merchandisers, boutiques)
- Quality clothes; relatively expensive production

Desired position:
- Worldwide, including United States
- More focused product line (e.g., high-end only)
- Limit outlets to high-end shops (e.g., boutiques, high-end department stores)
- Outstanding quality and design

Means of arrival:
- Focus on high-quality design in new product development.
- Eliminate low-end products and distribution outlets.
- Differentiate using design superiority and brand image.
- Build international presence via carefully selected distribution partners, retail placement, and brand image advertising.
- Expand gradually, allocating limited resources where returns are highest.

Financial logic:
Pricing?
- Position at consistently mid-high price levels generating solid margins.
- Maintain position with exclusivity, quality, and design.

Costs?
- Maintain tight control over resources without sacrificing quality

CONGRUENCE MODEL

Another influential model of management cohesiveness is the congruence model, which is a framework for implementing strategy and for organizational problem-solving and learning.

- **Model requires alignment, or congruence**, among the strategy and four organizational building blocks:
  - Critical tasks and workflows
  - Formal organizational structure
  - People
  - Organizational culture (i.e., the informal organization)
- **Incongruities result in failure** to execute the organization's strategy

The congruence model suggests a process of organizational problem solving. When the strategy has failed, managers should take the following steps:

- **Identify** the unit to be analyzed and then identify its performance or opportunity gaps.
  - The manager doing the analysis accepts responsibility for the "gap" or deficiency in organizational performance.
  - Examples of gaps include loss of market share, shrinking profit margins, and high attrition of staff.
- **Describe** the unit's critical tasks and work processes.
  - Identify the critical tasks required to accomplish the objectives of the organization.
  - Consider how much interdependence is needed among the critical tasks.

Check for different types of organizational congruence:
- **Task-formal organization incongruence**, e.g., a highly intellectually demanding task (such as R&D) with a controlling and micromanaging organization that stifles innovation.
- **Task-people incongruence**, e.g., a highly intellectually demanding task with an unskilled and uneducated staff.
- **Task-culture incongruence**, e.g., a highly intellectually demanding task with an organizational culture that is intolerant of experimentation.

The manager should:
- **Develop** solutions and take action.
  - **Identify** the means to "close the gap" by eliminating the incongruence.
  - **Change** the tasks, the people, or the culture to align the organization.
- **Observe** the response and learn from the consequences.

4 KEY ELEMENTS OF MANAGEMENT STRATEGY

Clear vision
- Vision enables companies to maintain their focus on key objectives and opportunities.
- Mission, or having a clear vision of company purpose, is the single factor most closely correlated with superior financial performance.

Option selection
- Selection is a core part of strategy as companies must constantly make choices about their products, their markets, and their tools and resources.
- Options are not unlimited. Certain choices preclude others.

Comprehensive courage
- Courage requires a readiness to innovate and embrace change for the good of the the organization.
- Courage requires comprehension and openness to the beliefs and outlooks of others within the organization.
- Courage must not be without compassion. Workforce reductions, for example, can be devastating to organizational morale if not managed compassionately.

Adaptation
- Ability to adapt to a changing environment is a key part of management success.
- Managers must often look outside their own company and even industry to gain best practice insight. GE, for example, learned about supply chain management from Wal-Mart.

MANAGEMENT ETHICS

ETHICS

Ethics is the consideration of the moral consequences of decisions.

- **Professional ethics** are determined by professional associations.
  - **Medical ethics** instruct physicians to do no harm to the patient, among other things.
  - **Journalistic ethics** include dictates concerning the treatment of confidential sources of information.
- **Corporate ethics** are developed according to the values of the organization.
  - **Written codes of conduct** exist at certain companies.
  - **Personal ethics** reflect the values and morals of the individual manager.

CONSTRUCTS OF MORALITY

Social constructs of morality
- **Common morality** is a set of generally held moral values that are common to all, irrespective of religious or other beliefs.
  - Common morality was necessary for the development of societies in which neighbors could coexist.
  - In large part, it is predicated on the belief that it is better to do good acts than to commit bad acts.
- **Principle of promises:** People should endeavor to uphold their promises and commitments.
- **Principle of non-malevolence:** People should not inflict harm on others.
- **Principle of mutual aid:** People should help others if it is feasible to do so.
- **Principle of respect for persons:** People should treat one another as though they were entitled to respect and dignity and were not means to be used to achieve any ends.
- **Principle of respect for property:** People should respect the property of others.

Legal constructs of morality (legally enforced morality)
- **Antitrust legislation** aims to prevent large organizations from abusing market power.
- **Consumer protection legislation** aims to prevent large organizations from abusing consumers.
- **Truth-in-advertising laws** aim to limit organizations from abusing free-speech rights by making untrue or inaccurate claims to promote products or services.
- **Product safety laws** aim to protect consumers from unsafe products.
- **Environmental protection laws** aim to limit pollution of the natural environment by imposing sanctions on organizations that violate these laws.
- **Governmental codes of ethics** aim to limit the abuse of power by governmental officials in the conduct of their duties, such as procuring goods and services from the commercial sector by nepotism or any other improper means.

Social responsibility as corporate morality
- Social responsibility advocates believe that businesses have a **social obligation** that extends beyond that of minimal standards of compliance with the law.
- Advocates also believe that business decisions should take into consideration not just the profitability for the company, but also the **impact on other stakeholders**, such as employees of the company, residents of the surrounding community, or the natural environment.

MORAL REASONING FOR ETHICAL DECISIONS

Areas of ambiguity often confront managers when they must make ethical decisions without clear moral guidance. In such instances, managers should:

- **Summarize the ethical conflict.**
- **Develop alternatives** to the situation that has given rise to the conflict.
- **Identify each stakeholder** whose interests would be helped or harmed by each of the alternatives.
- Identify the nature of those **benefits or costs**.

Provide ethical rules or reasoning to make a decision
- The **greatest good** for the greatest number.
- Seek **input from the stakeholders** themselves.

SPARKCHARTS

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