UNIT-2

PLANNING

Definition:

Planning is concerned with both what an organization wants to accomplish (ends) and how it will achieve these aims (means). Formal planning involves:

- Defining specific goals that cover a certain time frame.
- Writing and sharing goals with all members of the organization to reduce ambiguity and promote a shared understanding of goals.
- Formulating plans for achieving the established goals.

Why Plan?

Goals are important for setting priorities, and a well-defined plan is crucial for achieving high objectives. Planning is vital in management due to several reasons:

Provides Direction

- Ensures everyone knows the goals and how to achieve them.
- Facilitates collaboration across departments and individuals.
  Example: A construction company aligns its teams (design, engineering, procurement) to meet deadlines.

Reduces Uncertainty

- Encourages managers to anticipate changes and develop strategies.
  Example: A tech company anticipates market trends, adapting products to changing customer needs.

Minimizes Waste and Redundancy

- Identifies inefficiencies, enabling managers to streamline processes.
  Example: A manufacturing plant adjusts workflows to reduce material wastage.

Establishes Control Standards

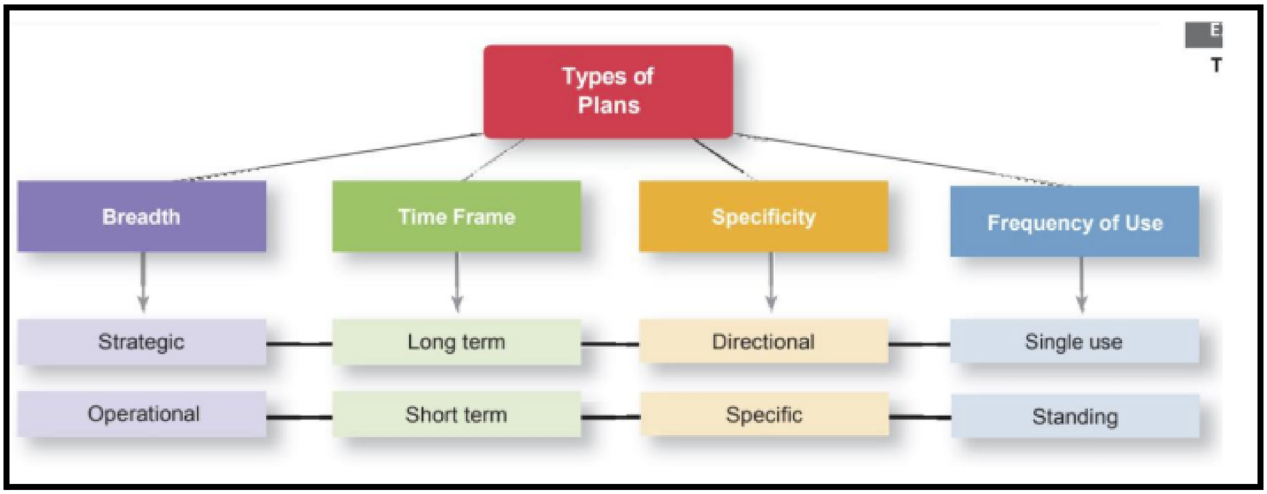
- Goals and plans serve as benchmarks for performance evaluation.
  Example: An airline sets a target for on-time flights, monitoring adherence to this metric.

Important Term: Means-Ends Chain

Effectively designed goals fit into a hierarchy so that lower-level goals contribute to high-level goals. This interconnected structure is the **means-ends chain**.
Example: A retailer aligns store-level sales targets to achieve company-wide revenue goals.

Is Planning Worth It?

- Formal planning is linked to positive financial outcomes.
- The quality of planning and execution is more important than the amount of planning.
- External factors can influence planning effectiveness.
- Planning's impact on performance becomes evident after at least four years.



FOUR MAJOR TYPES OF PLANS

1. Operational Planning

Definition: Focuses on how things need to happen, setting precise and measurable goals for routine activities. Operational Plan: An operational plan is one that a manager uses to accomplish his or her job responsibilities.

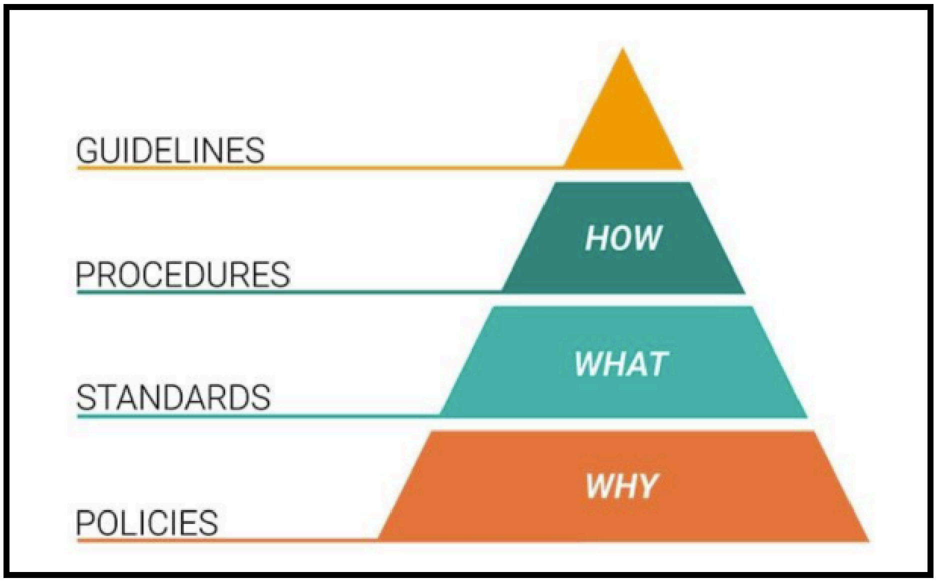
Types of Operational Plans:

- **Single-Use Plans:** Created for one-time activities.
  Example: A company's budget for a product launch event.
- **Ongoing Plans:** Provide long-term frameworks.
  - **Policies:** Guidelines for decision-making (e.g., hiring policies).
  - **Procedures:** Step-by-step instructions for tasks (e.g., safety drills).
  - **Rules:** "Do's and don'ts" for behavior (e.g., no smoking areas).

Purpose: Helps supervisors and team leaders execute responsibilities efficiently.

Key Features:

- Defines "who, what, where, how, and how much."
- Promotes fairness and consistency in recurring tasks.



2. Strategic Planning

Definition: Focuses on why things need to happen. It involves big-picture, long-term thinking and starts with defining the organization's mission, vision, and values.

Key Components:

- **Vision:** Future aspirations.
- **Mission:** Core purpose.
- **Values:** Principles guiding decisions.

Process:

- **Top-Level Management:** Defines the organization's overarching objectives and sets the
- direction.
- **Lower-Level Management**: Develops compatible plans and objectives aligned with the
- strategic goals.
- **Integration:** Ensures alignment between levels to create a cohesive plan.

Highlights:

- Strategic plans focus on the organization as a whole, not individual departments.
- Require multi level involvement to ensure harmony.
- Serve as a framework for tactical and operational planning.
- Drive long-term success by aligning efforts with the organization's mission and vision.

Example: A company planning to expand into new markets over five years develops a strategy to enhance brand recognition and enter three new countries.

3. Tactical Planning

Definition: Tactical planning focuses on what is going to happen. It breaks down high-level strategic plans into specific, focused, and short-term actions that support the broader strategy.

Purpose:

- Converts strategic goals into actionable steps.
- Provides direction for lower-level units within the organization.
- Ensures alignment with the organization’s strategic vision.

Scope:

- Covers a shorter time frame, typically less than one year.
- Addresses specific tasks or projects within a division or department.

Key Features:

- Specificity: Outlines detailed actions and tasks to achieve strategic objectives.
- Responsibility: Identifies who is in charge at various levels.
- Focus: Narrower scope compared to strategic planning, with clearly defined outcomes.

Process:

● Middle Management:

1. Translates the strategic plan into tactical actions.
2. Focuses on short-term, achievable goals.

● Coordination:

1. Ensures all tactical plans align with and support the strategic plan.

Example:

If the strategic plan aims to increase market share, a tactical plan could include specific actions like launching a targeted marketing campaign, expanding the sales team, or introducing promotional discounts in a particular region. Tactical planning bridges the gap between strategic goals and operational tasks, ensuring a smooth flow of activities toward organizational success.

Comparison of Strategy vs Tactical Planning

4. Contingency Planning

Purpose:

- Ensures adaptability and flexibility in unpredictable situations.
- Provides a backup plan to mitigate risks and minimize disruptions.
- Helps maintain progress toward organizational goals despite unforeseen challenges.

Key Features:

- Adaptability: Anticipates potential changes and prepares alternative actions.
- Flexibility: Keeps options open to quickly respond to unexpected developments.
- Proactive Approach: Identifies risks and outlines responses during the planning process.

Importance:

- Vital in a complex and dynamic business environment.
- Helps managers respond effectively to events beyond their control.
- Enhances the organization's resilience and ability to recover from setbacks.

Process:

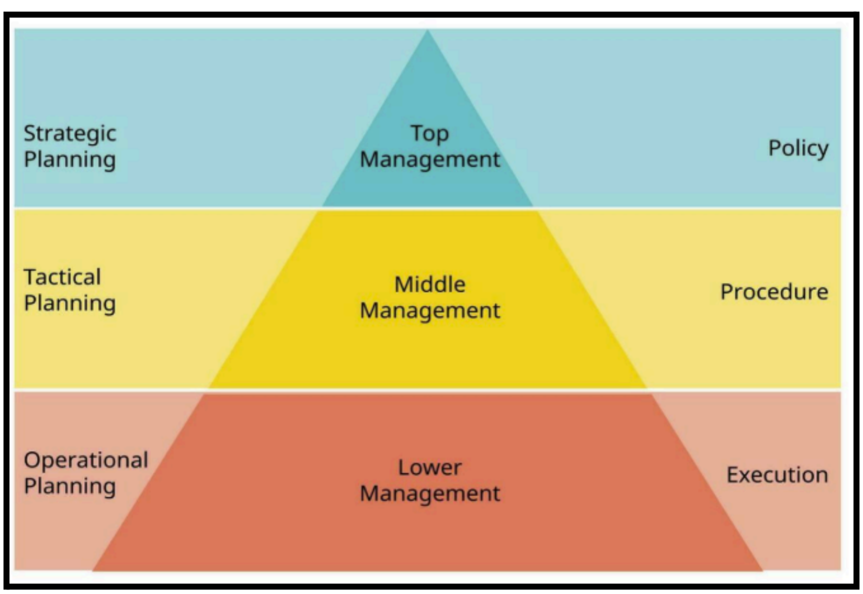
- Risk Identification: Assess potential risks or scenarios where plans might fail.
- Alternative Planning: Develop alternative strategies to address each identified risk.
- Implementation Readiness: Keep contingency plans updated and ready for deployment.

Key Principles:

- Always anticipate change and prepare for unexpected events.
- Incorporate flexibility into planning processes.
- Ensure alignment between contingency plans and overall organizational goals.

Example:

If a company's primary supplier fails to deliver raw materials due to unforeseen circumstances, a contingency plan could include using an alternate supplier or leveraging existing inventory to maintain operations.



THE EVOLUTION OF THE CONCEPT OF STRATEGY

Strategy as the Grand Plan

- **Origin:** Derived from the Greek word strategies, meaning "the art or science of being a General."
- **Military Context:**
  - Involved leading armies, securing territories, defending cities, and defeating enemies.
  - Required resource deployment based on objectives.
  - Strategy included planning and decision-making/action to respond effectively to the enemy.
- **Key Aspects of Military Strategy:**
  - Lines of supply.
  - Timing of battles (when to fight or retreat).
  - Managing relationships with citizens, politicians, and diplomats.
- **Core Idea:** Strategy integrates planning and action, forming a "grand strategy plan."

The Rise of Strategic Management

- **Post-World War II Development:**
  - Strategy evolved into a management process termed strategic management.
  - Involves both planning and implementing strategies within organizations.
- **Definition by Alfred D. Chandler (1962):**
  - Strategy is "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."
- **Key Focus:**
  - How an organization achieves its mission.
  - Competes successfully in the market.
  - Attracts and satisfies customers to accomplish its goals.

THE STRATEGIC MANAGEMENT PROCESS

Managers can use strategic management as a methodical approach to understand the environment in which their firm planned and then took action. A six-step framework for planning, implementing, and evaluating strategies effectively.

Strategic management offers a structured approach for managers to understand the environment in which their organization operates and then takes appropriate actions. In general, this process involves two main phases:
Strategic Planning: Refers to the process of making sense of the situation, which includes both goal setting and strategy formulation.
Strategy Implementation: Refers to the actions taken based on the planning. This phase encompasses both the administration of the strategy and the strategic control stages.

1. Identify Mission, Goals, and Strategies

- Define the organization's purpose and current objectives.
- Understand existing strategies to establish a starting point.

2. Perform SWOT Analysis

- **External Analysis:**

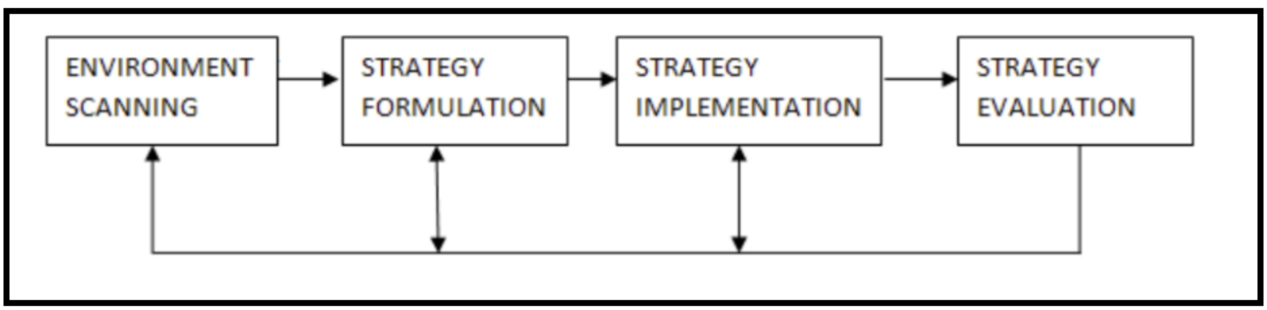
○ Opportunities: Factors to leverage (e.g., market trends).
○ Threats: Risks to address (e.g., competition).
● **Internal Analysis:**
○ Strengths: Assets that provide an advantage.
○ Weaknesses: Limitations to improve.

3. Formulate Strategies
● Develop actionable plans based on the SWOT analysis.
● Align goals with opportunities while mitigating threats and weaknesses.

4. Implement Strategies
● Allocate resources, assign responsibilities, and ensure team alignment.
● Translate plans into action across all levels.

5. Evaluate Results
● Measure outcomes against objectives.
● Identify deviations and adjust strategies as needed.

Hofer and Schendel's four essential aspects that form the core of the strategic management process:



1. Goal Setting
The first and foundational step in the strategic management process is goal setting. In this phase, the organization defines its long-term objectives, determining what it aims to achieve in the future. These goals should be clear, measurable, and aligned with the organization's mission and vision

2. Strategy Formulation
Once the goals are set, the next step is strategy formulation, which involves developing a set of actions or strategies that will help the organization achieve its goals. This phase requires managers to analyze internal and external factors (such as market trends, competitors, resources, and capabilities) and choose the best course of action.

3. Administration
After formulating the strategy, the focus shifts to strategy implementation, or administration, which is the process of putting the planned strategies into action. This phase moves from analysis to practical execution, where the organization's plans are turned into reality.

4. Feedback and Adjustment
The final phase, strategic control, involves monitoring and evaluating the progress of the

strategy's implementation. It provides managers with feedback on how well the organization is performing relative to the goals and objectives.

TYPES OF ORGANIZATIONAL STRATEGIES

Organizational strategies are broad approaches designed to achieve specific goals and guide decision-making at various levels within an organization. Here's a breakdown of the types mentioned:

1. Corporate Strategy

Corporate strategy involves decisions that determine the overall scope and direction of an organization, it focuses on the overall scope and direction of an organization. It determines the industries and markets in which the organization will operate.
The major types of corporate strategies:

1.Growth Strategies:
Focus on increasing the organization's market share, revenue, or geographic reach.
Example: McDonald's focusing on expanding its number of outlets within the fast-food industry.

2.Stability Strategies:
Focus on maintaining the current business and operations to ensure consistent performance.
Example: A local bakery continuing to operate with the same product offerings and pricing in its community.

3. Retrenchment Strategies:
Focus on reducing the scope or scale of operations to improve financial stability or refocus resources.
Example: Ford restructuring its operations in the 2000s by closing unprofitable plants and focusing on popular vehicle lines like SUVs and trucks.

4. Portfolio Strategies:
Focus on managing a group of businesses to maximize overall performance
Example: General Electric evaluating its business units, such as healthcare and aviation, based on market attractiveness and competitive strength.

5. International/Global Strategies:
Focus on expanding operations across borders.
Example: Nestlé customizing its products (e.g., Maggi noodles with local flavors) to suit regional preferences in India and other markets.

Corporate portfolio matrix

The **Corporate Portfolio Matrix** is a strategic tool that helps organizations analyze and manage their portfolio of business units, products, or investments to align with overall corporate objectives. It provides a framework for resource allocation and strategic decision-making based on the performance and strategic positioning of each unit.

One of the best--known examples of a corporate portfolio matrix is the portfolio framework advocated by the Boston consulting Group. This framework is known as the **BCG Matrix**. The BCG approach to analyzing a corporate portfolio of businesses focuses on three aspects of each particular businesses unit: its sales, the growth of its market, and whether it absorbs or produces cash in its operations

BCG Matrix

● Helps prioritize investments and resource allocation.
● Identifies products or units to grow, maintain, or phase out.
● Balances the portfolio by ensuring a mix of growth (Stars), stability (Cash Cows), and experimentation (Question Marks).

The matrix is divided into four quadrants based on two factors:

1. Market Growth Rate (vertical axis): Indicates the growth potential of the industry or market.
2. Market Share Rate(horizontal axis): Measures the unit's share of the market relative to its largest competitor.

The quadrants are:

1. Stars

● Stars represent products or business units with a **high market growth rate** and a **high relative market share**.
● These are market leaders in fast-growing industries and often require significant investment to sustain growth.
● The strategy for Stars is to invest in them to maintain or enhance their position, eventually transitioning them into Cash Cows as market growth slows.
Example: Apple's iPhone during its peak growth phase.

2. Cash Cows

● Cash Cows are products or business units with a **high relative market share** in a **low-growth market.**
● These are mature and established offerings that generate consistent, high profits with minimal investment.
● The strategy for Cash Cows is to "milk" their profits to fund Stars and Question Marks while maintaining operational efficiency.
Example: Coca-Cola's classic soda in the mature beverage market is an example of a Cash Cow.

3. Question Marks

● Question Marks are products or business units in **high-growth markets** but with a **low relative market share.**
● They have uncertain potential; with proper investment, they could become Stars, but without it, they may fail and turn into Dogs.
● The strategy for Question Marks is to assess their viability carefully and invest selectively in those with high potential, while divesting the rest.
Example: New electric vehicle model introduced by a lesser-known car manufacturer.

4. Dogs

● Dogs represent products or business units in markets with **low growth rates** and **low relative market shares.**
● They often have limited potential and generate minimal profits, making them non-essential to the organization's portfolio.
● The strategy for Dogs is typically to divest or phase them out unless they serve a specific strategic purpose.
Example: DVD players in the declining home entertainment market.

2. Competitive Strategy

Competitive strategies are approaches that businesses use to gain an advantage in the market and outperform competitors.It involves making deliberate choices about how to position the company, differentiate its offerings, and satisfy customer needs better than competitors.

Key Approaches

● Cost Leadership: Achieving lower costs to offer products/services at competitive prices.
● Differentiation: Offering unique products or services that command a premium price.
● Focus: Concentrating on a niche market and excelling in that segment.
Examples: A company differentiating its product by focusing on innovation or branding.

Porter's Five Forces Model

1. Threat of New Entrants

● The threat of new entrants evaluates how easily new competitors can enter the market and challenge existing businesses.

● Barriers to entry, such as economies of scale, brand loyalty, and regulatory requirements, influence the ease of market entry.
● If barriers to entry are low, companies often adopt a cost leadership strategy to deter new competitors by keeping prices low.
● Differentiation strategies can help businesses build strong brand loyalty, making it difficult for new entrants to capture market share.

2. Bargaining Power of Suppliers

● The bargaining power of suppliers measures their ability to influence the price, quality, or availability of inputs.
● Factors such as the number of suppliers, availability of substitute inputs, and uniqueness of supplies determine supplier power.
● Companies can counter strong supplier power by backward integration, taking control of their supply chain to reduce dependency.
● Alternatively, differentiation can enable businesses to absorb higher input costs by offering unique and high-value products.

3. Bargaining Power of Buyers

● The bargaining power of buyers refers to their ability to demand lower prices or higher quality products.
● It depends on factors such as the number of buyers, availability of alternatives, and customer price sensitivity.
● A cost leadership strategy can appeal to price-sensitive buyers by offering competitive pricing.
● Differentiation strategies attract buyers willing to pay a premium for unique or high-quality products, reducing price sensitivity.

4. Threat of Substitute Products or Services

● The threat of substitutes assesses the likelihood of customers switching to alternative products or services.
● Factors influencing this threat include the availability of substitutes, cost of switching, and the perceived value of alternatives.
● Differentiation reduces the risk of substitutes by emphasizing unique features, quality, or customer experience.
● Cost leadership can counter substitutes by offering competitive pricing, making alternatives less attractive.

5. Industry Rivalry

● Industry rivalry measures the intensity of competition among current players within the market.
● The level of rivalry is influenced by factors such as the number of competitors, market growth rate, and product differentiation.
● Cost leadership is effective in highly competitive industries, as it allows businesses to compete aggressively on price.
● Differentiation strategies help businesses stand out by offering unique products or services, reducing direct competition.

Types of Goal Setting:

Setting goals aids in a company's expansion and goal-achieving. They can be used to assist the firm articulate its goals and promote teamwork. Establishing objectives is a crucial component of any business plan.

Goal setting is a structured process of identifying and planning objectives that guide personal or organizational efforts. Different types of goals cater to various aspects of growth and achievement.

Below are six types of goal setting:

1. Strategic Goal Setting

- **Focus**: Long-term, big-picture objectives that align with the overall vision or mission.
- **Purpose**: Define a clear direction for success over an extended timeframe.
- **Example**: A company aiming to expand into three new international markets within five years.

2. Performance Goal Setting

- **Focus**: Measuring specific outcomes or results.
- **Purpose**: Track progress and performance through quantifiable metrics.
- **Example**: Increasing sales revenue by 20% in the next fiscal year.

3. Learning Goal Setting

- **Focus**: Developing new skills, knowledge, or competencies.
- **Purpose**: Enhance personal or professional growth.
- **Example**: Completing a certification course in digital marketing within six months.

4. Process Goal Setting

- **Focus**: The steps or actions required to achieve a larger goal.
- **Purpose**: Break down big goals into manageable, actionable tasks.
- **Example**: Conducting weekly team meetings to track the progress of a product launch.

5. Outcome Goal Setting

- **Focus**: Specific results or end achievements.
- **Purpose**: Define clear targets that represent success.
- **Example**: Winning a national industry award for innovation.

6. Social/Impact Goal Setting

- **Focus**: Goals that benefit society or create positive change.
- **Purpose**: Foster a sense of purpose and responsibility beyond individual or organizational interests.
- **Example**: Reducing company-wide carbon emissions by 30% within three years.

Things to Consider While Setting Business Goals

Setting business goals is a critical step in ensuring an organization's success. Thoughtful goal setting requires considering various factors to ensure that objectives are **realistic, achievable, and aligned** with the organization's mission.

1. Understanding Your True Motivations

When focusing on business expansion, it's easy to lose sight of **personal motivations**. While gaining more clients or increasing revenue are important objectives, they are just one part of the bigger picture.

Consider:

- Why did you start your business or freelancing career?
- Were you motivated by **flexibility, creativity, or personal fulfillment**?
- Did you want **more time for family, hobbies, or self-improvement**?

Example: A freelancer who started their business to have more time with their family should set a goal to limit working hours instead of just increasing income.

2. Balancing Business and Personal Life

When setting goals, go beyond just revenue and sales. Think about areas that contribute to your **overall well-being and life balance**.

Consider setting goals for:

- The **maximum number of hours** you want to work per week.
- Specific **days or time slots** you want to take off.
- Ensuring you **never miss family events** like your children's sports days or performances.
- Prioritizing **self-care activities** like yoga, meditation, or exercise.
- Pursuing **professional development**, such as gaining a new qualification.

Example: A small business owner who wants a healthier work-life balance might set a goal of working no more than **40 hours a week** and taking weekends off.

3. Long-term vs. short-term business goals

Maintaining a balance between short-term objectives and long-term vision ensures steady progress while keeping you motivated toward your ultimate goals.

Understanding the Timeline for Goals

- **Long-term goals** provide direction and motivation.
- **Short-term goals** help break down large objectives into actionable steps.
- A lack of deadlines can lead to procrastination, while overly focusing on short-term goals may cause you to lose sight of the bigger picture.

Balancing Long-Term and Short-Term Goals

- Start with a **broad vision** that excites and motivates you.
- Break that vision into **long-term goals** (1-year, 3-year, 5-year, or 10-year plans).
- Further, divide long-term goals into **short-term objectives** (weekly, monthly, and quarterly targets).

Examples of Long-Term Goals:

- Achieving a specific income level
- Establishing a passive income stream
- Retiring early and traveling the world
- Buying your dream house
- Relocating to a new country

Example of Goal Breakdown:

Big Picture Goal: Retire early and travel the world.
Long-Term Goal: Save $500,000 in 10 years.
Short-Term Goal: Save $5,000 every three months by cutting unnecessary expenses and increasing investment contributions.

A **three-month deadline** for short-term goals is long enough to see results while keeping you focused. Weekly and monthly milestones make goals more attainable.

4. Outcome vs. process business goals

Effective goal-setting requires considering both the **desired outcome** and the **process** needed to achieve it.

Outcome Goals (Results-Oriented)

- Focus on the end result.
- Not always within your control.
- Example: **Increase business revenue by 50% in a year.**

Process Goals (Action-Oriented)

- Focus on actions within your control.
- Increase the likelihood of achieving outcome goals.
- Example: **Send five client proposals per week.**

Example of Combining Both:

Outcome Goal: Gain five new clients in three months.
Process Goals:

- Send five proposals per week.
- Follow up with prospects daily.
- Post content regularly on social media.

By combining **outcome** and **process** goals, you ensure both long-term direction and immediate action steps.

3. Quantitative vs. Qualitative business goals

While financial and measurable goals help track progress, qualitative goals focus on intangible yet important aspects of business success.

Quantitative Goals (Measurable with Numbers)
These goals are **specific, measurable, achievable, relevant, and time-bound (SMART).**

Examples:

- Earn **$10,000 in the next three months.**
- Gain **three new clients by the end of the month.**
- Work **no more than 30 hours per week.**

Qualitative Goals (Subjective and Experience-Based)
These goals enhance personal and professional growth but are harder to measure directly.
Examples:

- **Feel more confident** in business decisions.
- **Reduce stress** by managing workload effectively.
- **Enjoy work more** by taking on meaningful projects.
- **Improve communication skills**, such as public speaking or writing.
- **Achieve a better work-life balance** by spending more time with family.

Measuring Qualitative Goals:

- Use a **scale-based system** for self-assessment.
    - Example: Rate confidence on a scale of **1-10** today.
    - Set a target to improve from **6/10 to 8/10 in three months.**

Balancing Both Types of Goals:

- **Quantitative goals** ensure financial success and measurable progress.
- **Qualitative goals** improve overall well-being and job satisfaction.
- A combination of both leads to sustainable and meaningful success.

ORGANIZATIONAL STRUCTURE AND DESIGN

Introduction

For an organization to be successful, its management structure should be **simple and clear**. The way an organization is structured impacts how efficiently and effectively work gets done.

Example:

- A **military bomb manufacturing plant** in Oklahoma operates with a highly structured and disciplined work environment due to the nature of its tasks.
- In contrast, **Cisco Systems** follows a more flexible work structure, where around 70% of employees work remotely at least 20% of the time.
- Despite their differences, both organizations achieve their goals, showing that different structures suit different industries.

Definition of Organizing

Organizing is the process of **arranging and structuring work** to accomplish an organization's goals.

Purpose of Organizing

1. **Divides** work into specific jobs and departments.
2. **Assigns** tasks and responsibilities to individuals.
3. **Coordinates** diverse tasks across the organization.
4. **Clusters** jobs into units or teams.
5. **Establishes** relationships among individuals, groups, and departments.
6. **Defines** formal lines of authority.
7. **Allocates** and **deploys** organizational resources efficiently.

Key Elements of Organizational Structure

1. Work Specialization

- Work specialization involves breaking down tasks into smaller, specific jobs assigned to individuals based on their skills.
- This **maximizes efficiency** and ensures that employees use their skills appropriately.
- It helps organizations optimize resources by not assigning high-skilled employees to low-skill tasks.

Example:

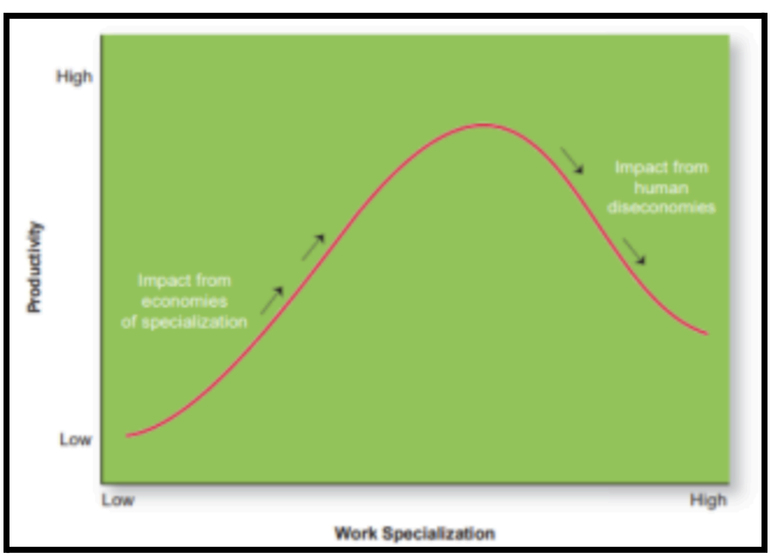
- A **cardiac surgeon** performs heart surgery but does not stitch or close the patient after surgery. Instead, a **junior doctor** or **resident** completes that task to optimize efficiency and resource utilization.

Pros of Work Specialization:

✔️ Increased productivity
✔️ Efficient use of employees' skills
✔️ Cost savings by matching tasks to skill levels

Cons of Work Specialization (Human Diseconomies):

❌ Boredom and job dissatisfaction
❌ Fatigue and stress
❌ Increased absenteeism and high turnover rates



2. Departmentalization

- Once job tasks are assigned, similar jobs are grouped together to **streamline coordination**.
- The way jobs are grouped is called **departmentalization**.

Types of Departmentalization

Type	Description	Example
Functional	Grouping based on functions like Marketing, HR, Finance, etc.	A company with departments for HR, Sales, IT, and Operations.
Product-Based	Grouping based on product lines.	Samsung's departments for TVs, Smartphones, and Home Appliances.
Geographical	Grouping based on location.	McDonald's operates in different countries with regional headquarters.
Process-Based	Grouping based on workflow or production stages.	A factory with separate teams for Assembly, Quality Control, and Packaging.
Customer-Based	Grouping based on customer types.	A bank with separate services for Retail, Corporate, and Wealth Management clients.

Example:

- **Black & Decker** organizes its divisions using multiple types of departmentalization:
  - **Functional** for its core teams (Finance, HR, etc.).
  - **Process-Based** for its manufacturing units.
  - **Geographical** for sales distribution.
  - **Customer-Based** for different consumer segments.

Trends in Departmentalization

- **Customer-Centric Departmentalization:** More organizations focus on customer-based structures to adapt to changing consumer needs.
- **Cross-Functional Teams:** Teams composed of employees from different departments working together.
  - Example: At **Ford**, a cross-functional team with employees from **finance, purchasing, engineering, and quality control** collaborates with external suppliers to improve logistics.

Conclusion

- Organizational structure should be designed to **balance efficiency and flexibility**.
- Work specialization helps improve productivity but should not lead to burnout.
- Departmentalization ensures structured work distribution and can be adapted based on organizational needs.
- Companies today are adopting **customer-oriented and team-based** structures to stay competitive.

CHAIN OF COMMAND

Introduction

The **chain of command** is the **line of authority** that extends from the upper levels of an organization to the lower levels. It clarifies **who reports to whom** and ensures that employees know their reporting structure.

Importance of the Chain of Command

- Helps employees understand **who their boss is**.
- Provides **clarity in reporting and decision-making**.
- Ensures a **structured flow of authority and responsibility**.
- Helps employees answer important questions like:
    - *"Who do I report to?"*
    - *"Who do I approach if I have a problem?"*

To fully understand the chain of command, three important **concepts** must be understood:

1. **Authority**
2. **Responsibility**
3. **Unity of Command**

1. Authority

Authority is the **right of managers** to give orders and expect them to be obeyed. It is **inherent in a managerial position** and ensures coordination in an organization.

Types of Authority

1. **Line Authority**
    - Entitles a manager to **direct** the work of employees.
    - Follow the **chain of command** from top to bottom.
    - Example:
        - A **hospital administrator** has line authority over department heads.
        - The **department heads** have line authority over their respective staff.
2. **Staff Authority**
    - Created to **support, assist, and advise** line managers.
    - Used when line managers do not have enough time or expertise.
    - Example:
        - A **hospital purchasing department** supports the administrator by handling supplies.
        - The head of purchasing has **line authority** over purchasing agents but **staff authority** in the overall hospital hierarchy.

Acceptance Theory of Authority (Chester Barnard)

Barnard proposed that **authority is not absolute**; it depends on the **willingness of subordinates to accept it**. Employees accept an order **only if** these four conditions are met:

1. They **understand** the order.
2. The order aligns with the **organization's goals**.
3. The order **does not conflict** with their personal beliefs.
4. They are **capable** of completing the task.

Example:

- If a **manager** instructs an employee to complete an illegal task, the employee is unlikely to accept the authority.
- If an **employee is assigned an unclear task**, they may not follow it due to lack of understanding.

2. Responsibility

- Responsibility is the **obligation to perform assigned tasks**.
- When a manager assigns work, employees become **accountable** for completing it.
- There must be a **balance** between authority and responsibility:
    - If employees are **given authority** but **no responsibility**, they may **misuse their power**.
    - If employees **lack authority** but **have responsibility**, they may be **unable to complete tasks effectively**.

Example:

- A **project manager** is given authority to oversee a team.
- If they **lack authority** to make decisions, the team's performance may suffer.
- If they **have authority but no responsibility**, they may **misuse power** without being accountable.

3. Unity of Command

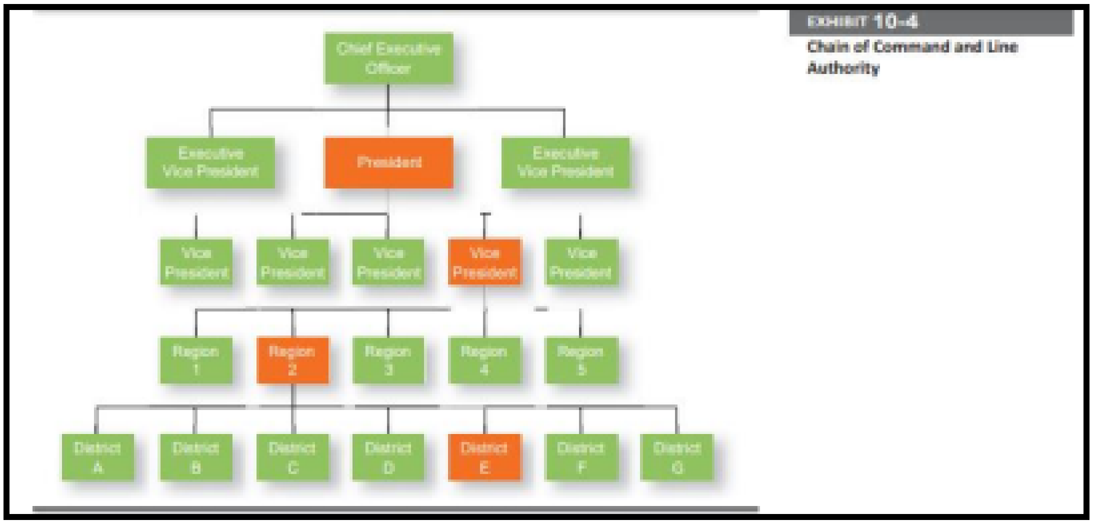
- A **fundamental management principle** (part of **Henri Fayol's 14 Principles of Management**).
- States that an **employee should report to only one manager**.
- Avoids confusion, conflicting instructions, and inefficiency.

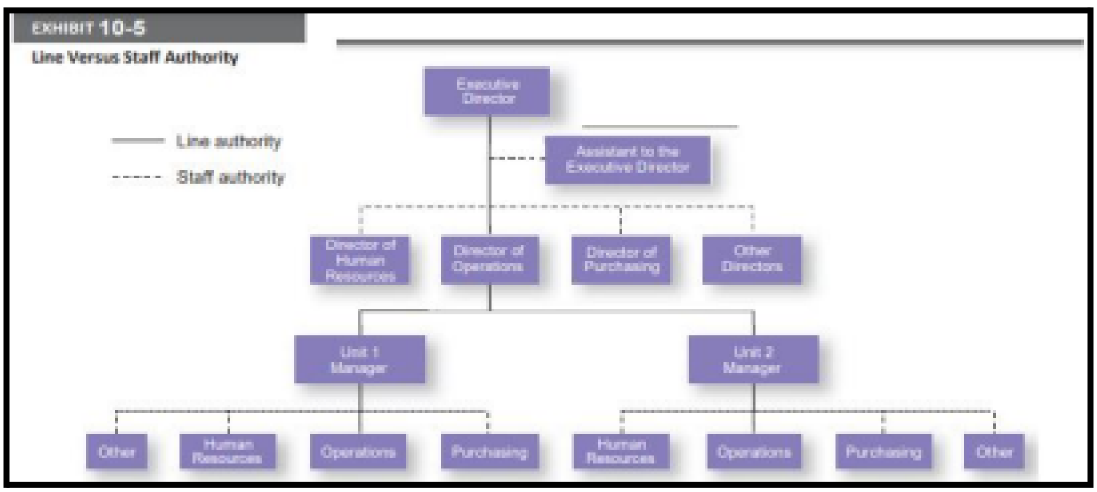
Example:

- **Damian Birkel**, a merchandising manager at CPAC, Inc., reported to **two bosses**—one for **department stores** and another for **discount chains**.
- This **caused conflicts** and inefficiency.
- To manage this, he created a **combined to-do list** to track priorities from both managers.

Conclusion

- The **chain of command** ensures clarity in **reporting relationships**.
- **Authority** enables managers to delegate tasks, but **employees must accept it**.
- **Responsibility** ensures accountability for assigned duties.
- **Unity of command** prevents confusion by ensuring an **employee reports to only one boss**.





SPAN OF CONTROL

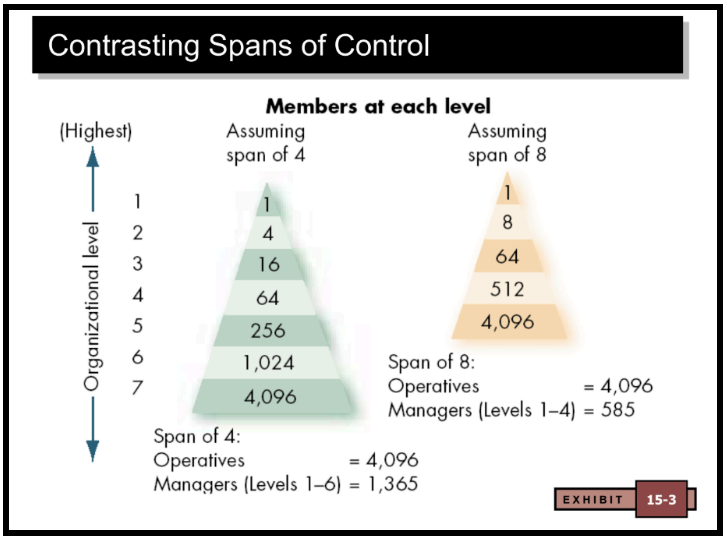
The **span of control** refers to the **number of employees a manager can effectively supervise**.

Contemporary View on Span of Control

- Recognizes that **many factors** influence the ideal number of subordinates per manager.
- Includes factors such as:
    1. **Skills and abilities** of the manager and employees.
    2. **Nature of tasks** (complex vs. simple).
    3. **Employee experience and training** (more experienced employees need less supervision).
    4. **Proximity** of employees (closer employees are easier to manage).
    5. **Use of standardized procedures** (more standardization allows a wider span of control).
    6. **Technology** (enhances communication, making wider spans of control feasible).

Example:

- A **call center manager** can oversee **many employees** because calls are standardized, and employees follow scripts.
- A **research team leader** supervises **fewer employees** because tasks are complex and require expertise.



CENTRALIZATION AND DECENTRALIZATION

A key question in structuring an organization is **where decision-making power is concentrated**.

Centralization

- **Top managers** make key decisions with **little input** from lower levels.
- Used in **traditional hierarchical organizations** with **strict control**.
- **Pros:** Ensures consistency, efficiency, and a unified strategy.
- **Cons:** Can slow decision-making and reduce flexibility.

Example:

- **McDonald's** follows a centralized structure, where policies on menu items, branding, and pricing are set at the headquarters.

Decentralization

- Decision-making power is **distributed** to lower levels of the organization.
- **More flexible** and responsive to local needs.
- Employees are **empowered** to make decisions, improving motivation and efficiency.

Example:

- **Amazon** decentralizes warehouse operations, allowing managers to **adjust inventory** and shipping based on **regional demands**.

Trend Toward Decentralization

- Many modern organizations are shifting toward **decentralization** to be **more responsive to changes**.
- **Employee empowerment** is a key trend, giving employees more authority to make decisions.

Example:

- **Google** allows teams autonomy to decide on projects and strategies, fostering innovation.

EXHIBIT 10-7 Centralization or Decentralization	More Centralization	More Decentralization
	Environment is stable.	Environment is complex, uncertain.
	Lower-level managers are not as capable or experienced at making decisions as upper-level managers.	Lower-level managers are capable and experienced at making decisions.
	Lower-level managers do not want a say in decisions.	Lower-level managers want a voice in decisions.
	Decisions are relatively minor.	Decisions are significant.
	Organization is facing a crisis or the risk of company failure.	Corporate culture is open to allowing managers a say in what happens.
	Company is large.	Company is geographically dispersed.
	Effective implementation of company strategies depends on managers retaining say over what happens.	Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

FORMALIZATION

Formalization refers to the **degree to which jobs are standardized** and **employee behavior is guided by rules and procedures**.

Highly Formalized Organizations

- **Strict rules, policies, and procedures** dictate employee behavior.
- Employees **have little discretion** over how they perform their work.

Example:

- A **bank teller** follows a strict set of guidelines for handling transactions to ensure security and consistency.

Low Formalization

- Employees **have greater autonomy** and flexibility in decision-making.
- Encourages **creativity and adaptability**.

Example:

- A **customer service rep** at a high-end hotel can go beyond standard rules to satisfy guests (e.g., upgrading a room if an issue arises).

Modern Perspective on Formalization

- Many companies are reducing formalization to allow employees **more flexibility**.
- Some rules are still necessary, but **too many restrictions can hinder customer service and innovation**.

Example:

- A **retail employee** at a drugstore may accept film for developing even after the policy cutoff time, improving customer satisfaction.

MECHANISTIC VS. ORGANIC STRUCTURES

Organizations are structured in different ways, depending on **their needs, stability, and adaptability**.

Mechanistic Structure (Bureaucracy)

- **Rigid and highly structured**.
- **Strict chain of command** with a formal hierarchy.
- **Small span of control** and multiple layers of management.
- **Standardized procedures** to maintain consistency.
- Best for **stable environments** that require **efficiency and predictability**.

Example:

- **Government agencies** (e.g., the IRS or DMV) operate in a mechanistic way, with strict rules and regulations.

Organic Structure

- **Flexible and adaptive** with a **looser hierarchy**.
- Employees **have more autonomy** and can **make decisions** based on expertise.
- Encourages **collaboration** rather than formal reporting.
- Best for **dynamic industries** that require **innovation and fast decision-making**.

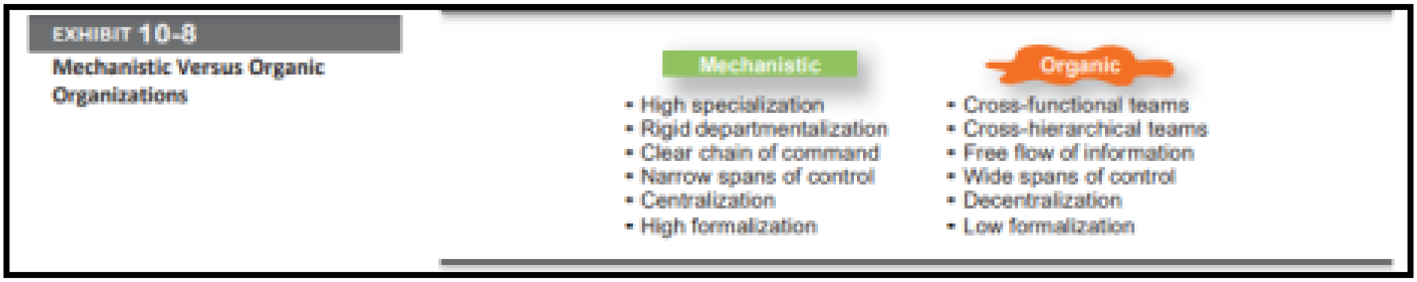
Example:

- **Tech startups** like **Spotify** use an organic structure where teams self-organize and have the flexibility to work on different projects.

Case Study: Macy's Hybrid Approach

- **CEO Terry Lundgren** restructured Macy's by **centralizing purchasing** while **decentralizing decision-making** in local stores.

- Result: A **balance** between **efficient purchasing** and **local market responsiveness**.



Conclusion

- **Span of control** depends on various factors like training, complexity, and technology.
- **Centralization** offers control and consistency, while **decentralization** promotes flexibility and empowerment.
- **Formalization** provides structure, but too many rules can hinder adaptability.
- **Mechanistic structures** work well in stable environments, while **organic structures** suit dynamic and fast-changing industries.
