

# Unit 2

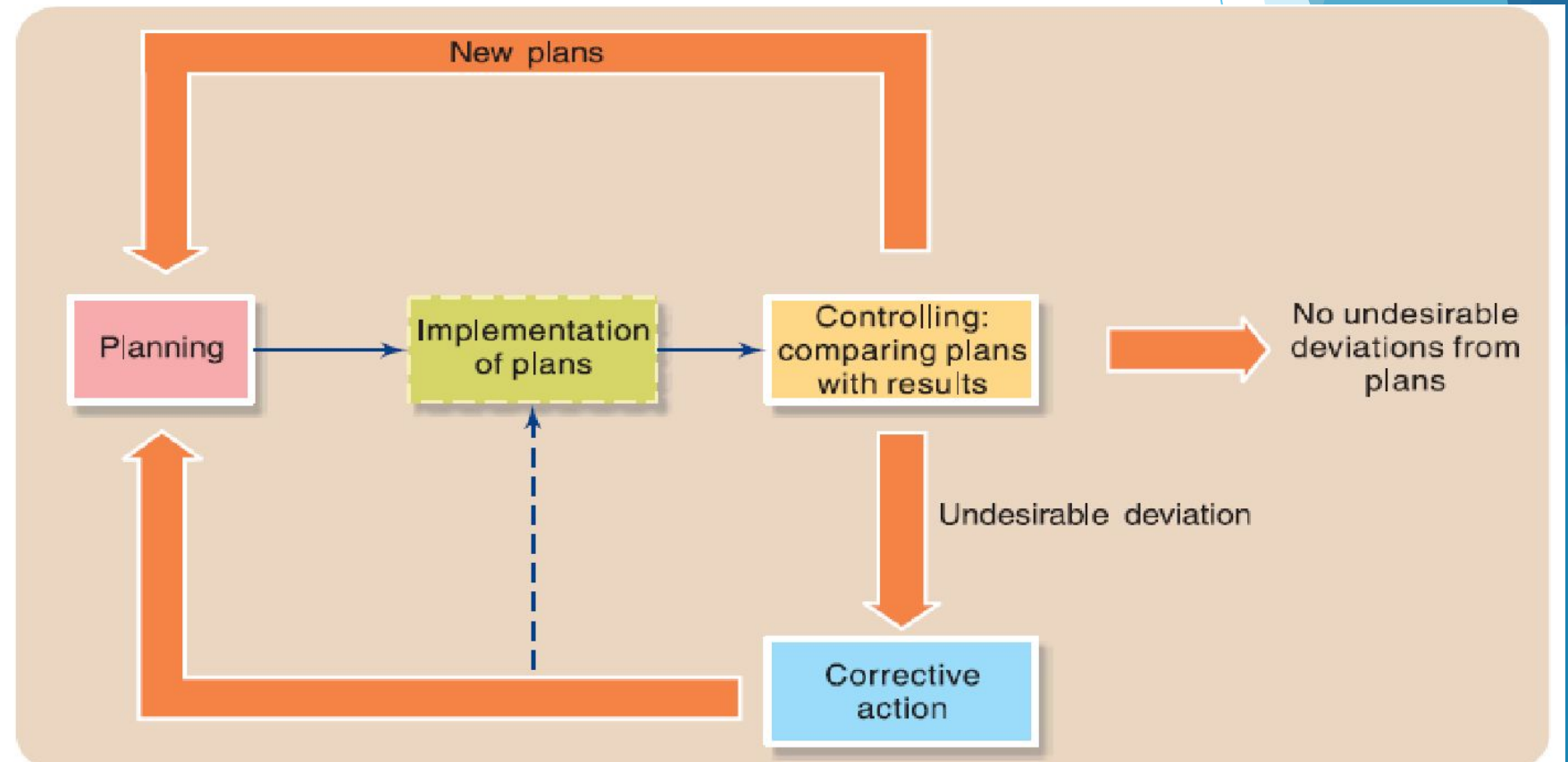
Chapter 4: Essentials of Planning and Managing by Objectives

# Content

- ▶ Types of Plans
- ▶ Steps in Planning
- ▶ Objectives
- ▶ Evolving Concepts in Management by Objectives

# Planning- Control

- ▶ Planning - **selecting missions and objectives** and **deciding on the actions**
- ▶ Requires **decision making**-choosing a course of action from among alternatives.
- ▶ It bridges the g



# Types of Plans

- ▶ (1) Missions or Purposes
- ▶ (2) Objectives or Goals
- ▶ (3) Strategies
- ▶ (4) Policies
- ▶ (5) Procedures
- ▶ (6) Rules
- ▶ (7) Programs
- ▶ (8) Budgets

# Mission or Purposes

- ▶ Identifies the basic function or tasks of an enterprise or agency or any part of it.
- ▶ Example: For Business production, education institution, Google
- ▶ While a business, for example, may have a social purpose of producing and distributing goods and services, it can accomplish this by fulfilling a mission of producing certain lines of products.
- ▶ Example: In the 1960's, the mission of the NASA was to get a person to the moon before the Russians.
- ▶ Example: Many conglomerates have regarded their mission as synergy, which is accomplished through the combination of a variety of companies.

# Examples

- ▶ Tata Motors: We innovate mobility solutions with **passion** to enhance quality of life.
- ▶ BMSCE: Accomplish Excellence in the field of Technical Education through Education, Research and Service needs of society.
- ▶ Infosys: To achieve our **objectives** in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors

# Objectives or Goals

- ▶ Are the ends toward which activity is aimed.
- ▶ They represent not only the end point of planning, but also the end toward which organizing, staffing, leading, and controlling are aimed.

# Examples - Objectives

- ▶ Career: To secure a challenging position in a reputable organization to expand my learnings, **knowledge**, and skills.
- ▶ Education: Passing an Exam



# Strategies

- ▶ Determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals.

# Examples - Strategies

- ▶ SWOT
- ▶ More Innovative product
- ▶ Improve customer service
- ▶ Pricing Strategies

# Policies

- ▶ Policies also are plans in that they are general statements or understandings that guide or channel thinking in decision-making
- ▶ Policies define an area within which a decision is to be made and ensure that the decision will be consistent with, and contribute to, an objective.

# Examples- Policies

- ▶ Google's Statements:
  - ▶ “Focus on the user and all else will follow.”
  - ▶ “It's best to do one thing really, really well.”
- ▶ Recruitment Policy
- ▶ Mobile phone policy

# Examples -Policies

- ▶ Policies of hiring only university-trained engineers, encouraging employee suggestions for improved cooperation, promoting from within, conforming strictly to a high standard of business ethics, setting competitive prices, and insisting on fixed, rather than cost-plus, pricing.
- ▶ Ford cars- Hike in fuel price- downsize car size- Opportunity in Asia – Though competitors are more-better than do-nothing

# Procedures

- ▶ Procedures are plans that establish a required method of handling future activities.
- ▶ They are chronological sequences of required actions.
- ▶ **For example:** Company policy may grant **employees vacations**; procedures established to implement this policy will provide for scheduling vacations to avoid disruption of work, setting rates of vacation pay and methods for calculating them, maintaining records to ensure each employee of a vacation, and spelling out the means for applying for leave.

# Rules

- ▶ Rules spell out specific required actions or nonactions, allowing no discretion.
- ▶ While policies are meant to guide decision-making by marking off areas in which managers can use their discretion, rules allow no discretion in their application.
- ▶ **Example:** Sign-in by 9.30am

# Programs

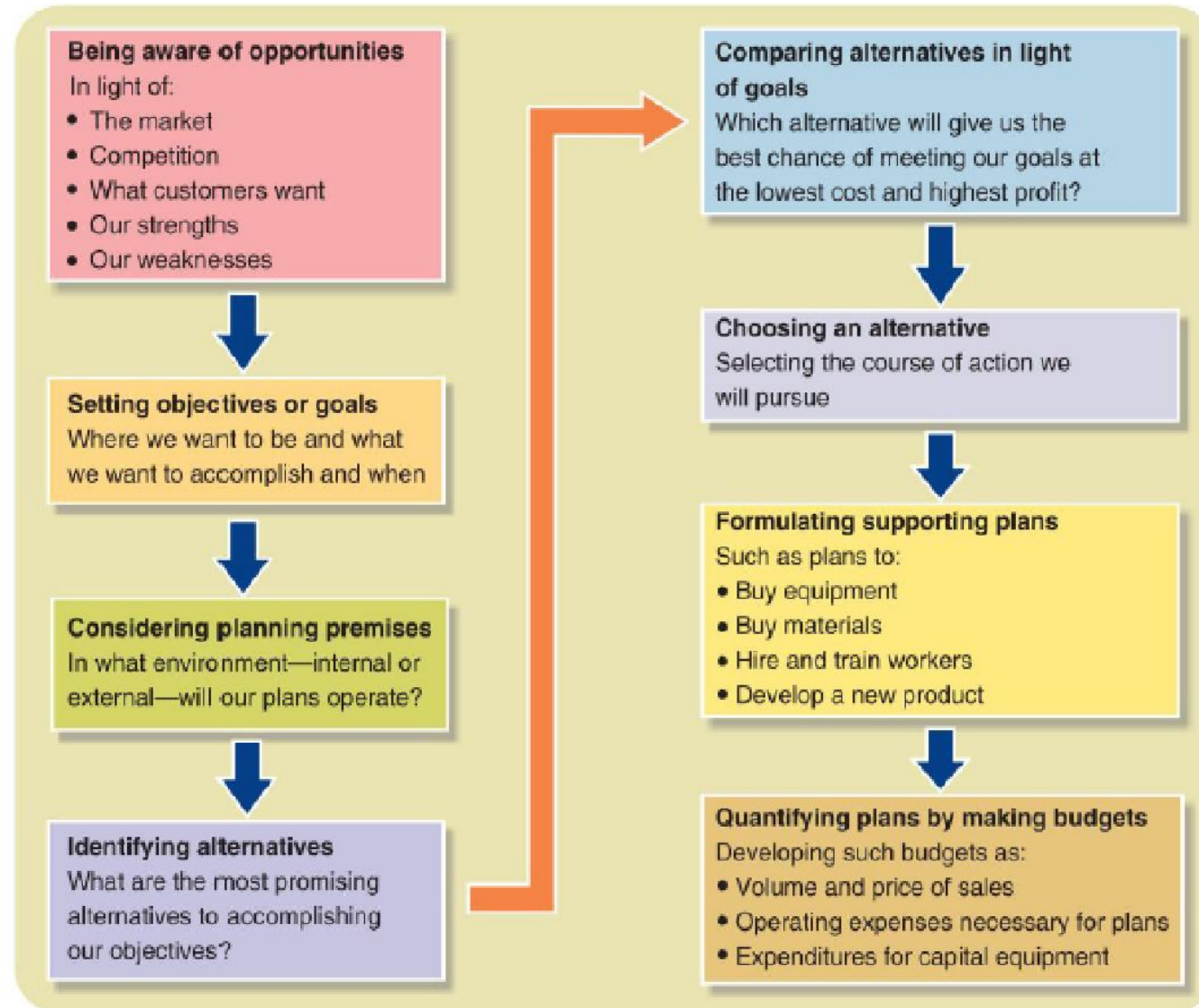
- ▶ Programs are a complex of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a given course of action; they are ordinarily supported by budgets.
- ▶ **Example:** Introduction of new branch in BMSCE-AI and ML Branch



# Budgets

- ▶ A budget is a statement of expected results expressed in numerical terms.
- ▶ Quantified Plan / Profit Plan
- ▶ The budget is necessary for control, but it cannot serve as a sensible standard of control unless it reflects plans.
- ▶ **Example:** Research Proposals, New equipment procurement

# Steps in Planning



# Being Aware of Opportunities

- ▶ Awareness of opportunities\* in the external environment as well as within the organization is the real starting point for planning.
- ▶ Setting realistic objectives depends on this awareness.
- ▶ Look at possible future opportunities and see them clearly and completely, know where their company stands in light of its strengths and weaknesses, understand what problems it has to solve and **why, and know what** it can expect to gain.

# Establishing Objectives

- ▶ Objectives for the **entire enterprise** and then **for each subordinate** work unit.
- ▶ This is to be done for the **long term** as well as for the **short range**.
- ▶ Enterprise objectives give direction to the **major plans**, which, by reflecting these objectives, define the objective of every major department.

# Developing Premises

- ▶ The next logical step in planning is to establish, circulate, and obtain agreement to utilize critical planning premises such as **forecasts, applicable basic policies, and existing company plans.**
- ▶ Premises are assumptions about the environment in which the plan is to be carried out.
- ▶ **Principle of planning premises is:** the more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.

# Importance of Forecasting

- ▶ What kinds of markets will there be?
- ▶ What volume of sales?
- ▶ What prices?
- ▶ What products? What technical developments? What costs? What wage rates? What tax rates and policies?
- ▶ What new plants? What policies with respect to dividends? What political or social environment? How will expansion be financed? What are the long-term trends?

# Determining Alternative courses

- ▶ Next step is to search for and examine alternative courses of action and those not immediately apparent.
- ▶ The more common problem is, not finding alternatives but reducing the number of alternatives so that the most promising may be analyzed.

# Evaluating alternative Courses

- ▶ One course may appear to be the most profitable but may require a large cash outlay and have a slow payback;
- ▶ Another may look less profitable but may involve less risk;
- ▶ Still another may better suit the company's long-range objectives.



# Example

- ▶ Hindustan Motors is known for its traditional Ambassador. But with the introduction of TATA's \$2,500 Nano, Indian auto industry got into the international limelight. Many car companies have entered India. For example, General Motors build its second plant in India in 2008. GM will compete with Maruti, Nano, and others. However, the car is expected to be more expensive than the advertised \$2,500 Nano by TATA Motors. Volkswagen, the biggest car company in Europe, entered the pre-owned auto market in India. With the high gasoline prices, companies **focusing on fuel efficiency and at the same time developing eco-friendly engines**. Toyota has been very successful with its Prius hybrid car. Honda is moving in the same direction and even luxury carmaker BMW plans to introduce later a hybrid vehicle. TATA Motors is working on an electric car and experimenting with **lithium ion batteries**.
- ▶ However, India's long-term goal is to develop **hydrogen fueled automobiles**. But at the outset, hybrid vehicles would have to be imported which could run into barriers. Still, Honda Sael Cars India has introduced already its very popular Civic model with **hybrid propulsion**. Government policy makers wonder what alternative courses should be pursued to minimize the environmental impact of the

# Selecting a Course

- ▶ The real point of decision-making.
- ▶ An analysis and evaluation of alternative courses will disclose that two or more are advisable, and the manager may decide to follow several courses rather than the one best course.

# Formulating derivative plans

- ▶ When a decision is made, planning is seldom complete
- ▶ Derivative plans are almost invariably required to support the basic plan.

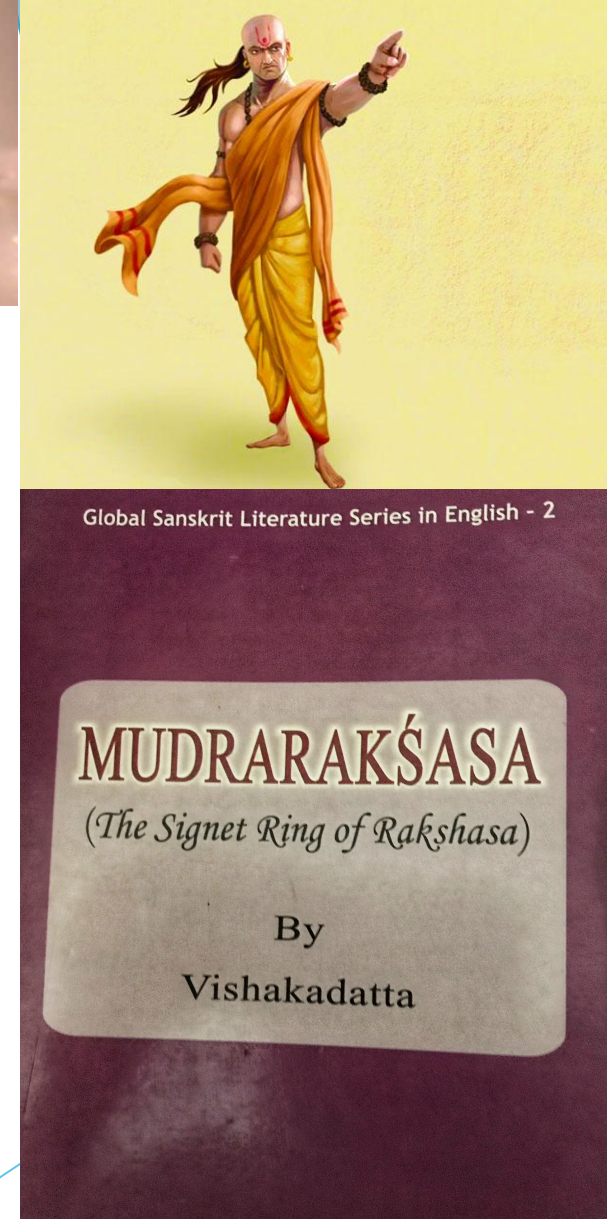
# Quantifying plans by budgeting

- ▶ After decisions are made and plans are set, then make decisions on types of plans, quantify them by converting them into budgets.
- ▶ The overall budget of an enterprise represents the sum total of income and expenses, with resultant profit or surplus, and the budgets of major balance sheet items such as cash and capital expenditures.
- ▶ Each department or program of a business or some other enterprise can have its own budgets, usually of expenses and capital expenditures, which tie into the overall budget.
- ▶ If done well, budgets become a means of adding the various plans and set important standards against which planning progress can be measured.

# Coordination of short and long range plans

- ▶ Long range plan must be formulated first and then short range
- ▶ Responsible managers should continually review and revise immediate decisions to determine whether they contribute to long-range programs, and subordinate managers should be regularly briefed on long-range plans so that they will make decisions consistent with the company's long-range goals.

# Example : Objective

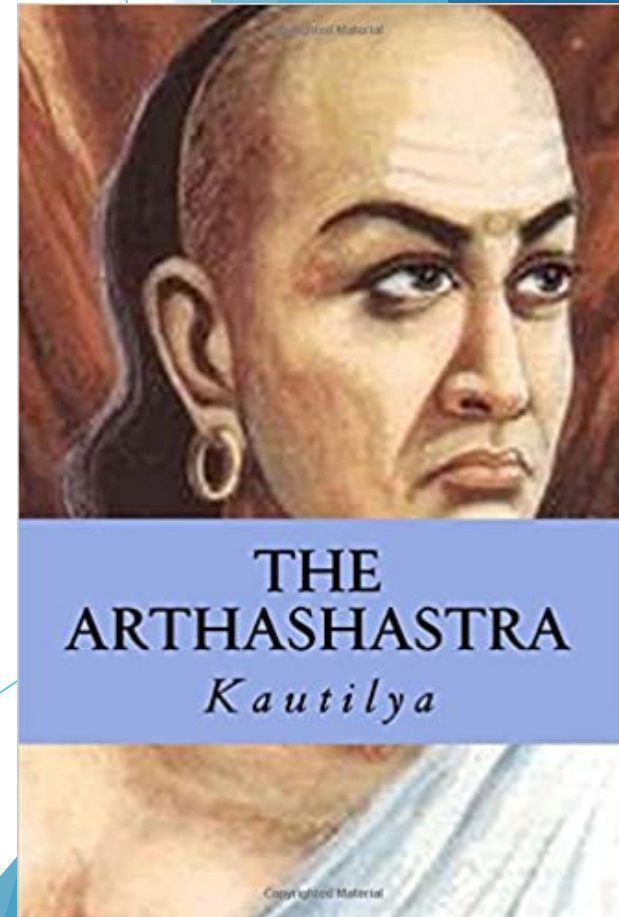


- ▶ Chanakya Guided Chandragupta Maurya
- ▶ Chanakya was known for his Politics and economics strategies
- ▶ Greek invasion to stop in India
- ▶ Nandas were Against Maurya- They had a great able, loyal minister Rakshasa - He worked for Malayaketu- had a good friend Chandanadasa
- ▶ Chanakya evil strategy- spied and got Rakshasa finger ring in which his name is inscribed
- ▶ Chanakya concocted a plan in believing that he and Chandragupta are no more in talking terms to mislead Rakshasa.
- ▶ Chanakya sent spy to poison Malayaketu's mind against Rakshasa that he was cheating on him.



# Example : Objective

- ▶ Malayaketu father was assassinated actually by Chanakya but blame was put on Rakshasa
- ▶ By fake execution Malayaketu had killed many kings who were against Chandragupta Maurya, and few kings captured Malayaketu
- ▶ Chandanadasa was also captured and was about to be executed, But Rakshasa came there to rescue him and Chanakya told the whole story why he did so.
- ▶ Rakshasa was made the Prime minister and Chanakya went to forest.
- ▶ Strategies given in Arthasashtra



## 4.3 Objectives

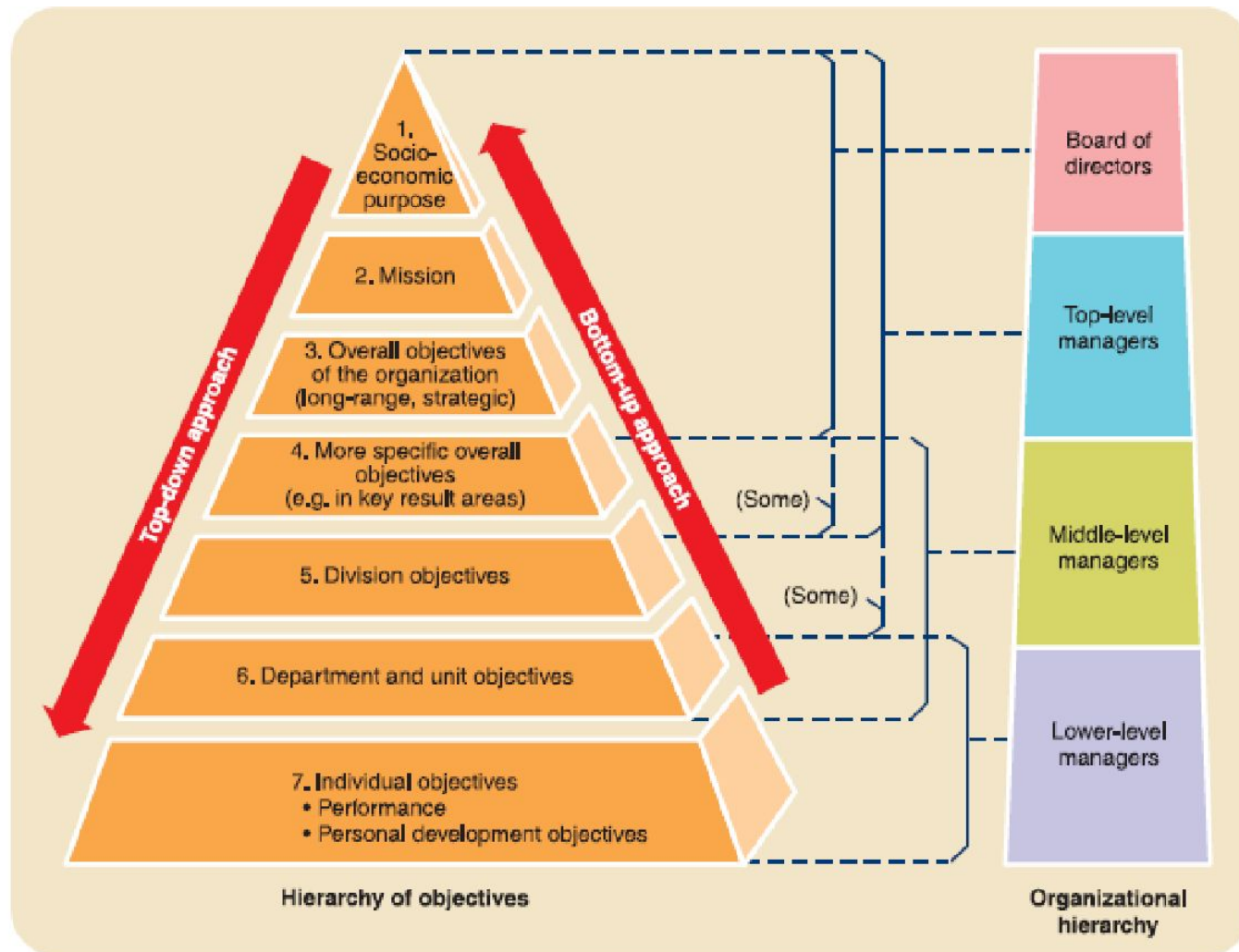
- ▶ Objectives were defined earlier as the important ends toward which organizational and individual activities are directed.
- ▶ Clear and verifiable objectives facilitate measurement of the surplus as well as the **effectiveness and efficiency** of managerial actions.



# The Nature of Objectives

- ▶ Objectives state end results, and overall objectives need to be **supported by sub-objectives**. Thus, objectives form a hierarchy as well as a network.
- ▶ A manager may have to choose between short-term and long-term performance, and personal interests may have to be subordinated to organizational objectives.

# Hierarchy of Objectives



# Hierarchy of objectives

- ▶ **Hierarchy** is the purpose or mission, which has **two dimensions**. First, there is the **social purpose**. Second, there is the mission or purpose of the business, which might be to **furnish convenient, low-cost transportation for the average person**.
- ▶ The next level of the hierarchy contains more specific objectives, such as those in the key result areas: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility
- ▶ The objectives have to be further translated into those of divisions, departments, and units down to the lowest level of the organization.

# Setting Objectives and the Organizational Hierarchy

- ▶ The board of directors and top-level managers are very much involved in determining the purpose, the mission, and the overall objectives of the firm, as well as the more specific overall objectives in the key result areas.
- ▶ Middle-level managers, such as the vice president or manager of marketing or the production manager, are involved in the setting of key-result-area objectives, division objectives, and departmental objectives.
- ▶ The primary concern of lower-level managers is setting the objectives of departments and units as well as of their subordinates.

# Setting Objectives and the Organizational Hierarchy

- ▶ Proponents of the top-down approach suggest that the total organization needs direction through corporate objectives provided by the chief executive officer (in conjunction with the board of directors).
- ▶ Proponents of the bottom-up approach, on the other hand, argue that top management needs to have information from lower levels in the form of objectives.

# Multiplicity of Objectives- Example University

- ▶ Attracting students of high quality
- ▶ Offering basic training in the liberal arts and sciences as well as in certain professional fields
- ▶ Granting postgraduate degrees to qualified candidates
- ▶ Attracting highly regarded professors
- ▶ Discovering and organizing new knowledge through research
- ▶ Operating as a private school supported principally through tuition and gifts of alumni and friends

# How to Set Objectives?

<i>Nonverifiable objective</i>	<i>Verifiable objective</i>
1. To make a reasonable profit	1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To improve communication	2. To issue a two-page monthly newsletter beginning July 1, 2011, involving not more than 40 working hours of preparation time (after the first issue)
3. To improve productivity of the production department	3. To increase production output by 5% by December 31, 2011, without additional costs while maintaining the current quality level
4. To develop better managers	4. To design and conduct a 40-hour in-house program on the “fundamentals of management,” to be completed by October 1, 2011, involving not more than 200 working hours of the management development staff and with at least 90% of the 100 managers passing the exam (specified)
5. To install a computer system	5. To install a computerized control system in the production department by December 31, 2011, requiring not more than 500 working hours of systems analysis and operating with not more than 10% downtime during the first three months or 2% thereafter



# Quantitative and Qualitative Objectives

- ▶ To be measurable, objectives must be verifiable. This means that one must be able to answer this question: At the end of the period, how do I know if the objective has been accomplished?
- ▶ **Bad example:** For example, installing a computer system is an important task, but “to install a computer system” is not a verifiable goal.
- ▶ **Quantitative:** Something which can be counted
- ▶ **Qualitative:** Data is Descriptive and conceptual



# Guidelines for Setting Objectives

If the objectives meet the criterion, write “+” in the box on the right of the statement. If they do not, mark “-” in the box.

1. Do the objectives cover the main features of my job? ☐
2. Is the list of objectives too long? If so, can I combine some objectives? ☐
3. Are the objectives verifiable, that is, will I know at the end of the period whether they have been achieved? ☐
4. Do the objectives indicate:
  - (a) quantity (how much)? ☐
  - (b) quality (how well, or specific characteristics)? ☐
  - (c) time (when)? ☐
  - (d) cost (at what cost)? ☐
5. Are the objectives challenging yet reasonable? ☐
6. Are priorities assigned to the objectives (ranking, weight, etc.)? ☐
7. Does the set of objectives also include:
  - (a) improvement objectives? ☐
  - (b) personal development objectives? ☐
8. Are the objectives coordinated with those of other managers and organizational units? ☐
- Are they consistent with the objectives of my superior, my department, and the company? ☐

# Guidelines for Setting Objectives

- 9. Have I communicated the objectives to all those who need to be informed? ☐
- 10. Are the short-term objectives consistent with the long-term aims? ☐
- 11. Are the assumptions underlying the objectives clearly identified? ☐
- 12. Are the objectives expressed clearly, and are they in writing? ☐
- 13. Do the objectives provide for timely feedback so that I can take any necessary corrective steps? ☐
- 14. Are my resources and authority sufficient for achieving the objectives? ☐
- 15. Have I given the individuals who are expected to accomplish the objectives a chance to suggest their objectives? ☐
- 16. Do my subordinates have control over the aspects for which they are assigned responsibility? ☐

# Management By Objectives

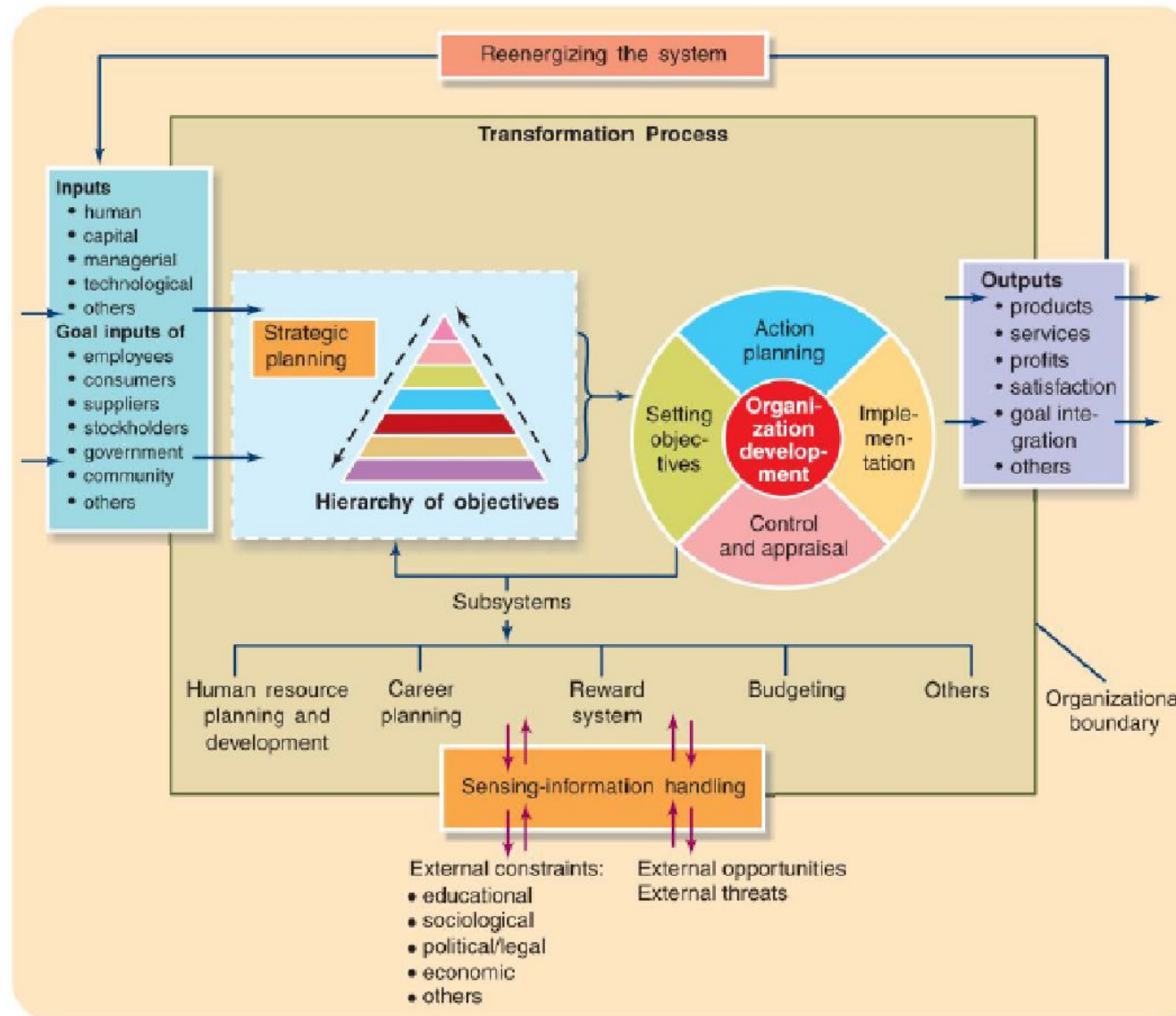
- ▶ Comprehensive managerial system that **integrates** many key managerial activities in a systematic manner and is consciously directed toward the effective and efficient achievement of **organizational and individual objectives.**

# Example

- ▶ Facebook-fanfare to public in May 2012.
- ▶ IPO (Initial Public offering) process and performance failed to meet expectations.
- ▶ Widely criticized for an inflated price and excessive release of shares, Facebook lost about half its market value over the ensuing months. Concerns over its ability to manage and innovate on its mobile platform were among some of the issues raised.
- ▶ on September 11, 2012, Zuckerberg spoke with the media and, after admitting to some strategic missteps in its mobile strategy, gave a cogent explanation of Facebook's plan to innovate upon and monetize (make significant revenue from) its mobile platform.
- ▶ **Clear communication** of a viable plan and **objectives** creates value as it reduces uncertainty and enhances confidence within and outside the organization.



# Systems approach to MBO



# Benefits

- ▶ Improvement of managing through **results-oriented** planning
- ▶ **Clarification of organizational roles and structures** as well as **delegation of authority** according to the results expected from the people occupying the roles
- ▶ Encouragement of **commitment** to personal and organizational goals
- ▶ Development of **effective controls that measure** results and lead to corrective actions

# Failures

- ▶ Shortcomings in **applying** the MBO concepts. As MBO is focused on goals and targets, it often ignores other parts of a company, such as the culture of conduct, a healthy work ethos, and areas for involvement and contribution. Strain is increased on employees to meet the goals in a specified time frame.
- ▶ **Failure to teach** the philosophy of MBO is one of the weaknesses of certain programs.
- ▶ Managers must explain to subordinates **what** it is, **how** it works, **why** it is being done, what part it will play in **appraising performance**, and, above all, how **participants can benefit**.
- ▶ The philosophy is built on the concepts of **self-control and self-direction**. (Analogy: Lakshman Rekha, Driving)

# Failures

- ▶ Failure to give **guidelines to goal setters**
- ▶ Difficulty of **setting verifiable goals** with the right degree of flexibility.
- ▶ Punishing **unethical activities** - high priority to ethical behavior
- ▶ **Overuse of quantitative goals** and the attempt to use numbers in areas where they are not applicable, or they may downgrade important goals that are difficult to state in terms of end results.
  - ▶ For Example: a favorable company image may be the key strength of an enterprise, yet stating this in quantitative terms is difficult.
- ▶ There is also the **danger of forgetting** that managing involves more than goal setting.



# Decision Making

## Chapter 6

# Content

- ▶ 1. Analyze decision-making as a rational process
- ▶ 2. Develop alternative courses of action with consideration of the limiting factor
- ▶ 3. Evaluate alternatives and select a course of action from them
- ▶ 4. Differentiate between programmed and nonprogrammed decisions
- ▶ 5. Understand the differences between decisions made under conditions of certainty, uncertainty, and risk
- ▶ 6. Recognize the importance of creativity and innovation in managing

# Decision Making

- ▶ The selection of a course of action from among alternatives;
- ▶ It is at the core of planning.
- ▶ A plan cannot be said to exist unless a decision—a commitment of resources, direction, or reputation—has been made.
- ▶ *Decision-making is, however, only a step in planning*

# Importance of rational decision Making

- ▶ (1) Premising
- ▶ (2) Identifying alternatives
- ▶ (3) Evaluating alternatives in terms of the goal sought
- ▶ (4) Choosing an alternative

# Rationality in Decision Making

- ▶ People acting or deciding rationally are attempting to reach some goal that **cannot be attained without action**.
- ▶ They must have a clear understanding of **alternative courses** by which a goal can be reached under existing circumstances and limitations.
- ▶ They also must have the information and the **ability to analyze and evaluate alternatives** in light of the goal sought.
- ▶ Come out with **best solution**

# 10-10-10 Decision Making

- ▶ To become a doctor or a professor requires forecasting and making many assumptions.
- ▶ For managers, the 10-10-10 rule can become a valuable strategic decision-making tool such as for resource allocation. The decision may have immediate consequences, intermediate consequences (let us say in ten months or a year), or long-term consequences such as a major investment in a new product or project.
- ▶ Raising the time perspective of the consequences may result in better short-term, immediate-term, and long-term personal as well as managerial decisions.

# Limited/Bonded Rationality

- ▶ Since **managers cannot be completely rational in practice**, they sometimes allow their dislike of risk—their desire to “play it safe”—to interfere with the desire to reach the best solution under the circumstances.
- ▶ Herbert Simon called this **satisficing**, that is, picking a course of action that is satisfactory or good enough under the circumstances.

# Development of Alternatives and the limiting factors

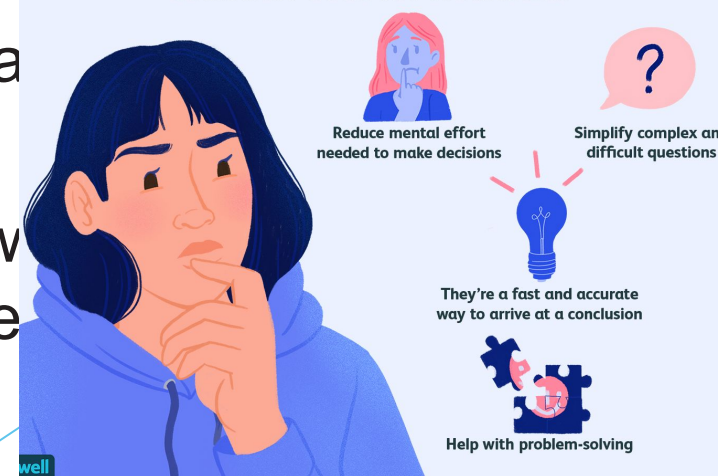
- ▶ The **ability to develop alternatives** is often as important as being able to select correctly from among them.
- ▶ A **limiting factor** is something that stands in the way of accomplishing a desired objective.
- ▶ **Recognizing the limiting factors** in a given situation makes it possible to narrow the search for alternatives to those that will overcome the limiting factors.



# Heuristics in Decision Making

- ▶ Too many alternatives to choose from, managers rely on their **own decision rules**. These decision rules are called heuristics
- ▶ **Values and cognitive biases** of the organization's top managers are seen in the organization's strategies and effectiveness.
- ▶ Simplifying heuristics may be necessary in entrepreneurial situations where there are many **unknown variables**.
- ▶ Managers should be **aware of their own heuristics**, how they may bias their decisions, and attempt to compensate for them through a comprehensive decision-process.

## Common Uses for Heuristics



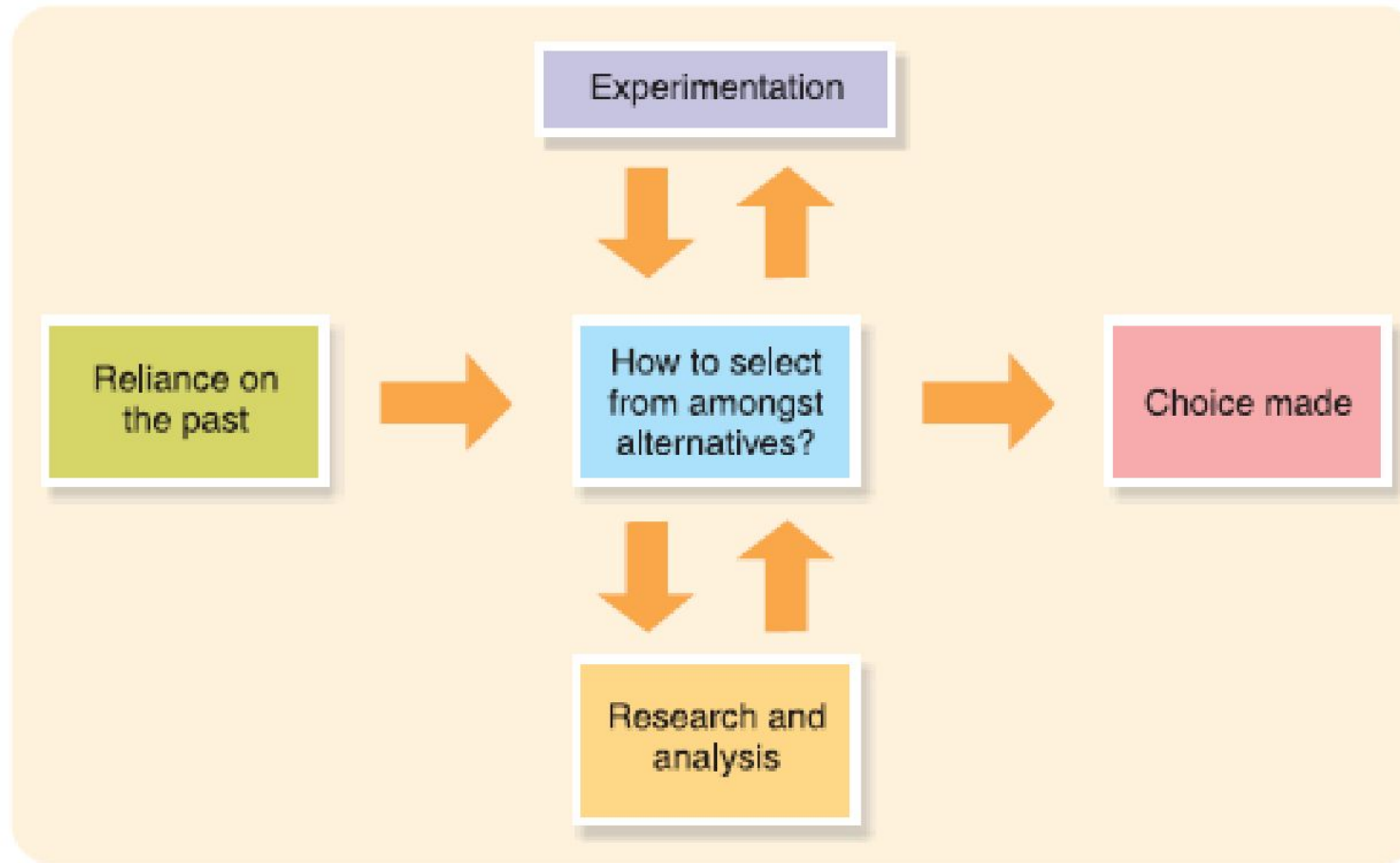
# Rational Decision Process -Janis and Mann

- 1. **Surveying a diversity of objectives** based upon a multiplicity of values derived from the collectivity of stakeholders
- 2. **Generating a wide range** of alternative courses of action
- 3. Systematically **acquiring relevant information** to evaluate alternatives
- 4. Objectively evaluating all **relevant** information
- 5. Reevaluating the **positive and negative** consequences of alternatives initially considered as unacceptable
- 6. Carefully **evaluating the costs and risks** of negative and positive consequences of the preferred alternative
- 7. **Developing detailed implementation plans** and control systems for the chosen alternative, as well as contingency plans for identified risks.”

# Evaluation of Alternatives

- ▶ Quantitative Factor (tangible factor) and Qualitative Factor (intangible Factor)
- ▶ Marginal Analysis- To compare the additional revenue and the additional cost arising from increasing output.
- ▶ Cost-effectiveness Analysis
  - ▶ Best ratio of benefit and cost
  - ▶ Finding the least costly way of reaching an objective or getting the greatest value for a given expenditure.

# Selecting an Alternative: 3 Approaches



# Experience

- ▶ Reliance on past experience
- ▶ Experienced managers usually believe, often without realizing it, that the things they have successfully accomplished and the mistakes
- ▶ Relying on past experience as a guide for future action can be dangerous.
  - ▶ Most people do not recognize the underlying reasons for their mistakes or failures.
  - ▶ The lessons of experience may be entirely inapplicable to new problems.
- ▶ If a person carefully analyzes experience, rather than blindly following it, then experience can be useful as a basis for decision-analysis.

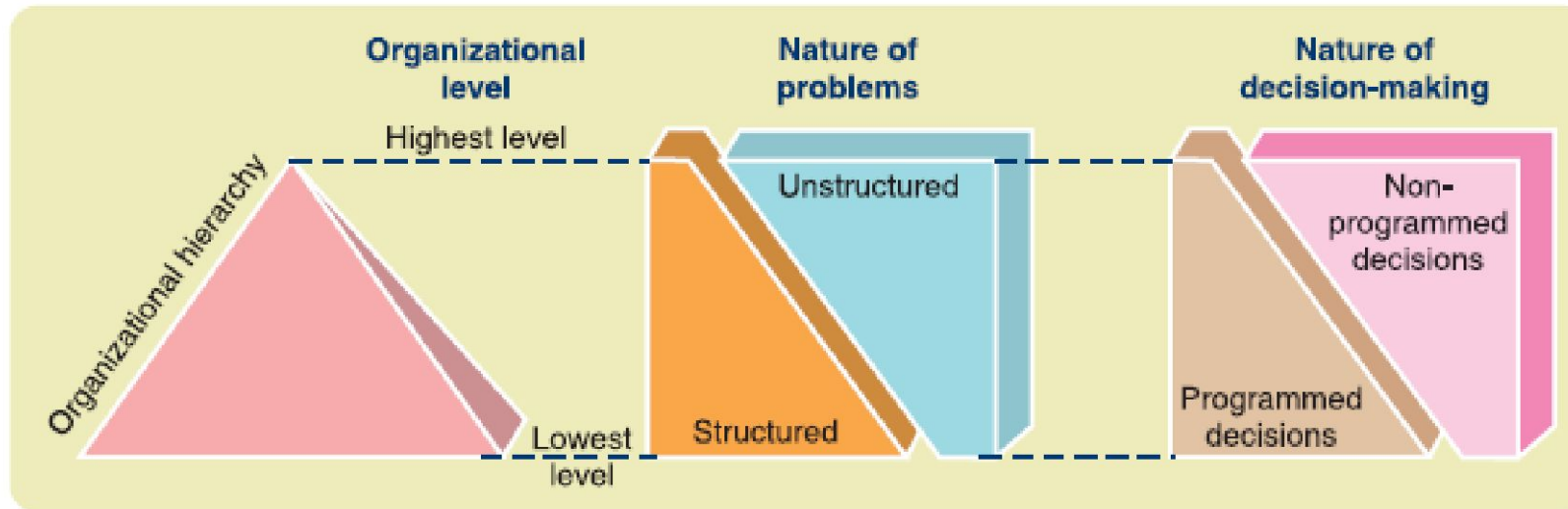
# Experimentation

- ▶ An obvious way to decide among alternatives is to try one of them and see what happens
- ▶ The experimental technique is likely to be the most expensive of all techniques, especially if a program requires heavy expenditures of capital and personnel and if the firm cannot afford to vigorously attempt several alternatives.
- ▶ On the other hand, there are many decisions that cannot be made until the best course of action can be ascertained by experiment. – Airplane
- ▶ An airplane manufacturer may draw from personal experience and that of other plane manufacturers and new plane users. Engineers and economists may make extensive studies of stress, vibration, fuel consumption, speed, space allocation, and other factors. A first-production, or prototype, airplane is constructed and tested

# Research and Analysis

- ▶ This approach means solving a problem by first comprehending it.
- ▶ It thus involves a search for relationships among the more critical of the variables, constraints, and premises that bear upon the goal sought. It is the pencil-and-paper approach to decision-making.
- ▶ Solving a planning problem requires breaking it into its component parts and studying the various quantitative and qualitative factors. Study and analysis is likely to be far cheaper than experimentation.
- ▶ The hours of time and reams of paper used for analyses usually cost much less than trying the various alternatives.
- ▶ A major step in the research-and-analysis approach is to **develop a model simulating the problem**

# Programmed and Non-programmed Decisions





# Programmed and Non-programmed Decisions

- ▶ A programmed decision is applied to structured or routine problems.
  - ▶ Example: Lathe operators, for instance, have specifications and rules that tell them whether the part they made is acceptable, has to be discarded, or should be reworked.
- ▶ Nonprogrammed decisions are used for unstructured, novel, and ill-defined situations of a nonrecurring nature.
  - ▶ Examples are the introduction of the Macintosh computer by Apple Computer or the development of the four-wheel-drive passenger car by Audi.

# Decision making under certainty, uncertainty and risk

- ▶ In a situation involving certainty, people are reasonably sure about what will happen when they make a decision.
- ▶ in a situation of uncertainty, people have only a meager database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change. Moreover, they cannot evaluate the interactions of the different variables.
- ▶ In a situation with risks, factual information may exist, but it may be incomplete. To improve decision-making, one may estimate the **objective probability** of an outcome by using, for example, mathematical models. On the other hand, **subjective probability**, based on judgment and experience, may be used.

# Creativity and Innovation

- ▶ Creativity -the ability and power to develop new ideas.
- ▶ Innovation- usually means the use of creativity ideas.

# Creativity and Innovation

- ▶ Creative Process
- ▶ Brain Storming
- ▶ Limitations of Traditional group discussion
- ▶ The Creative Manager
- ▶ Invention and Innovation

# The Creative Process

- ▶ (1) Unconscious scanning - premature decision
- ▶ (2) Intuition – requires time (give responsibility to manager and central control)
- ▶ (3) Insight – hard work
- ▶ (4) Logical formulation – continue work on an idea, invite critic

# Brainstorming

- ▶ No ideas are ever criticized
- ▶ The more radical the ideas are, the better
- ▶ The quantity of idea production is stressed
- ▶ The improvement of ideas by others is encouraged

# Limitations of Traditional group discussion

- ▶ Group members may pursue an idea to the exclusion of other alternatives.
- ▶ Experts on a topic may not be willing to express their ideas in a group for fear of being ridiculed.
- ▶ Also, lower-level managers may be inhibited in expressing their views in a group with higher-level managers.

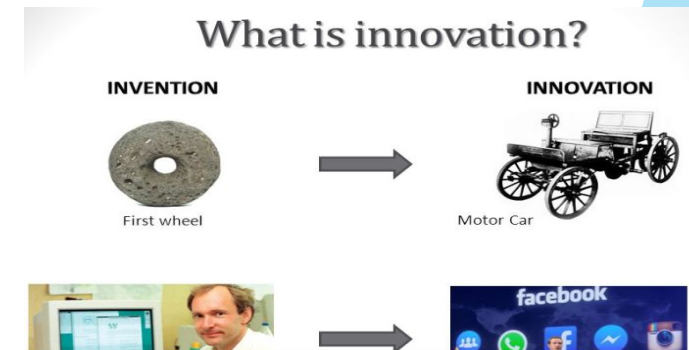
# The Creative Manager

- ▶ Creative people are inquisitive and come up with many new and unusual ideas; they are seldom satisfied with the status quo.
- ▶ Although intelligent, they not only rely on the rational process, but also involve the emotional aspects of their personality in problem solving.
- ▶ Creative individuals are aware of themselves and capable of independent judgment.
- ▶ They object to conformity and see themselves as being different.



# Invention and Innovation

- ▶ Invention alone is not sufficient for business success - it has to be followed by innovation.
- ▶ Invention pertains to the development or discovery of something new and innovation is the **enhancement, adaptation or commercialization of new products, services, or processes.**



# Organizing- Chapter 7

# Chapter 7: The Nature of Organizing, Entrepreneuring, and Reengineering

# What needs to be done if Organizational role has to exist?

- ▶ (1) Verifiable objectives;
- ▶ (2) A clear idea of the major duties or activities involved;
- ▶ (3) An understood area of discretion or authority so that the person filling the role knows what he or she can do to accomplish goals.

# Organizing can be thought as...

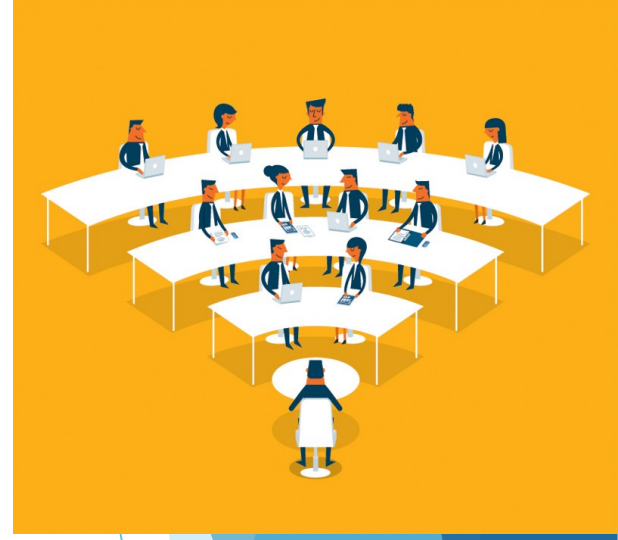


- ▶ The identification and classification of required activities
- ▶ The grouping of activities necessary for attaining objectives
- ▶ The assignment of each group to a manager with the authority (delegation) necessary to supervise it
- ▶ The provision for coordination **horizontally** (on the same or a similar organizational level) and **vertically** (e.g., between corporate headquarters, division, and department) in the organization structure

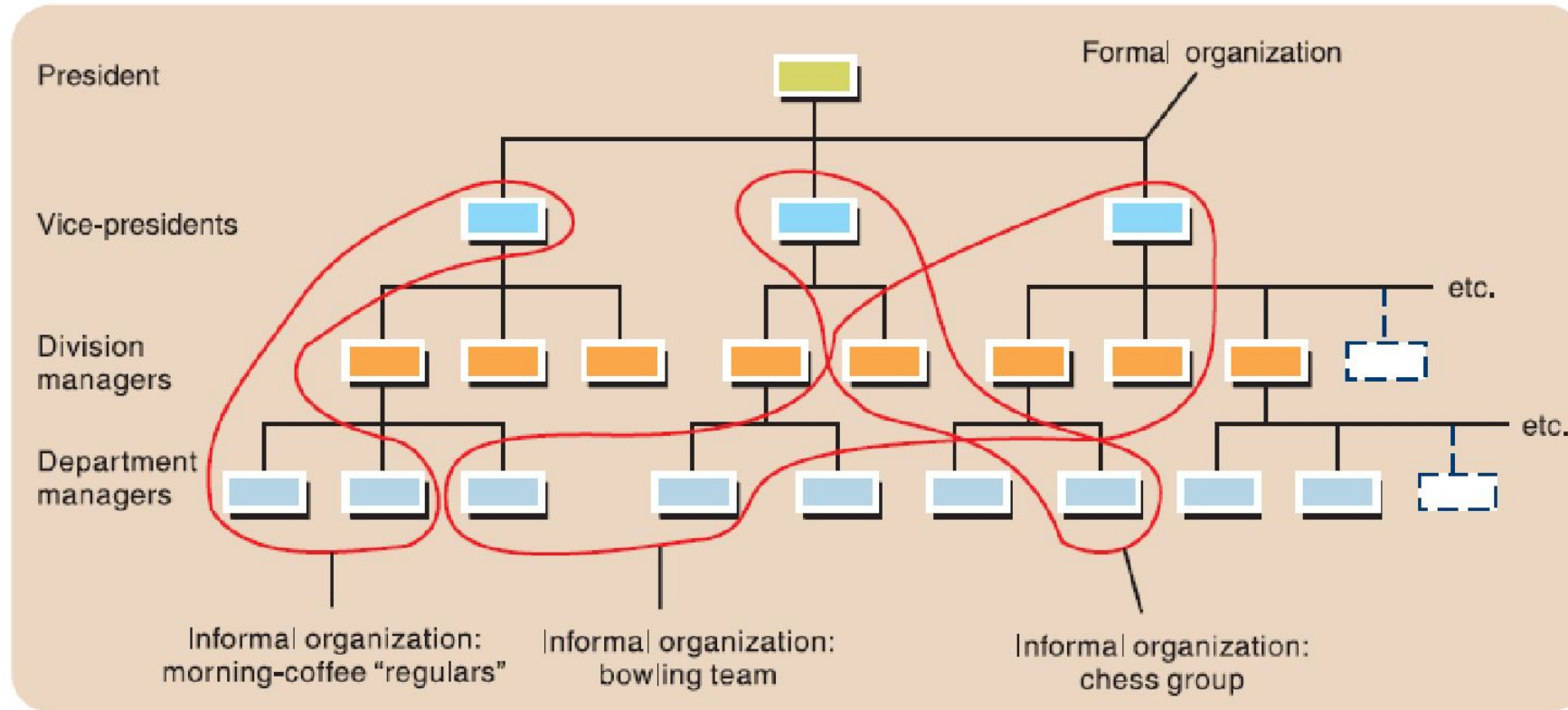
Compiled by Dr.M.Balasubramanian

# What is Organization?

- ▶ Organization implies a formalized intentional structure of roles or positions
  - ▶ Nature and content of organizational roles, people working together must fill certain roles
  - ▶ The roles people are asked to fill should be intentionally designed to ensure that required activities are done and that activities fit together so that people can work smoothly, effectively, and efficiently in groups.



# Formal and Informal Organization



# Formal Organization

- ▶ The intentional structure of roles in a formally organized enterprise
- ▶ A formal organization must be flexible.
- ▶ There should be room for discretion, for beneficial utilization of creative talents, and for recognition of individual likes and capacities in the most formal of organizations.
- ▶ Yet individual effort in a group situation must be channeled toward group and organizational goals.



# Informal Organizational

- ▶ A network of interpersonal relationships that arise when people associate with each other
- ▶ Relationships not appearing on an organization chart—might include the machine shop group, the sixth floor crowd, the Friday evening bowling gang, and the morning coffee “regulars.”

# Organizational Division: The Department

- ▶ A distinct area, division, or branch of an organization over which a manager has authority for the performance of specified activities.
- ▶ Example: production division, the sales department, the West Coast branch, the market research section, or the accounts receivable unit
- ▶ Department may be hierarchical relationships, Example: vice president may head a division; a director, a department;

# Organizational Levels and the Span of Management

## Problem with Organizational levels

- ▶ Levels are expensive. As they increase, more and more effort and money are devoted to managing because of the additional managers, the staff to assist them, and the necessity of coordinating departmental activities, as well as the cost of facilities for the personnel
- ▶ Departmental levels complicate communication
- ▶ Numerous departments and levels complicate planning and control. A plan that may be definite and complete at the top level loses coordination and clarity as it is subdivided at lower levels.

# The operational Management Position: A Situation Approach

- ▶ There is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend on the impact of underlying factors.

# Factors determining an effective span

- ▶ The number of subordinates a manager can effectively manage depends on the impact of underlying factors.

<i>Narrow spans (a great deal of time spent with subordinates)</i>	<i>Wide spans (very little time spent with subordinates)</i>
<ul style="list-style-type: none"><li>■ Little or no training of subordinates</li><li>■ Inadequate or unclear authority delegation</li><li>■ Unclear plans for nonrepetitive operations</li><li>■ Nonverifiable objectives and standards</li><li>■ Fast changes in external and internal environments</li><li>■ Use of poor or inappropriate communication techniques, including vague instructions</li><li>■ Ineffective interaction of superior and subordinate</li><li>■ Ineffective meetings</li><li>■ Greater number of specialties at lower and middle levels</li></ul>	<ul style="list-style-type: none"><li>■ Thorough training of subordinates</li><li>■ Clear delegation and well-defined tasks</li><li>■ Well-defined plans for repetitive operations</li><li>■ Verifiable objectives used as standards</li><li>■ Slow changes in external and internal environments</li><li>■ Use of appropriate techniques, such as proper organization structure and written and oral communication</li><li>■ Effective interaction between superior and subordinate</li><li>■ Effective meetings</li><li>■ Greater number of specialties at upper levels (top managers concerned with external environment)</li></ul>

# Contd...

- Incompetent and untrained manager
- Complex task
- Subordinates' unwillingness to assume responsibility and reasonable risks
- Immature subordinates

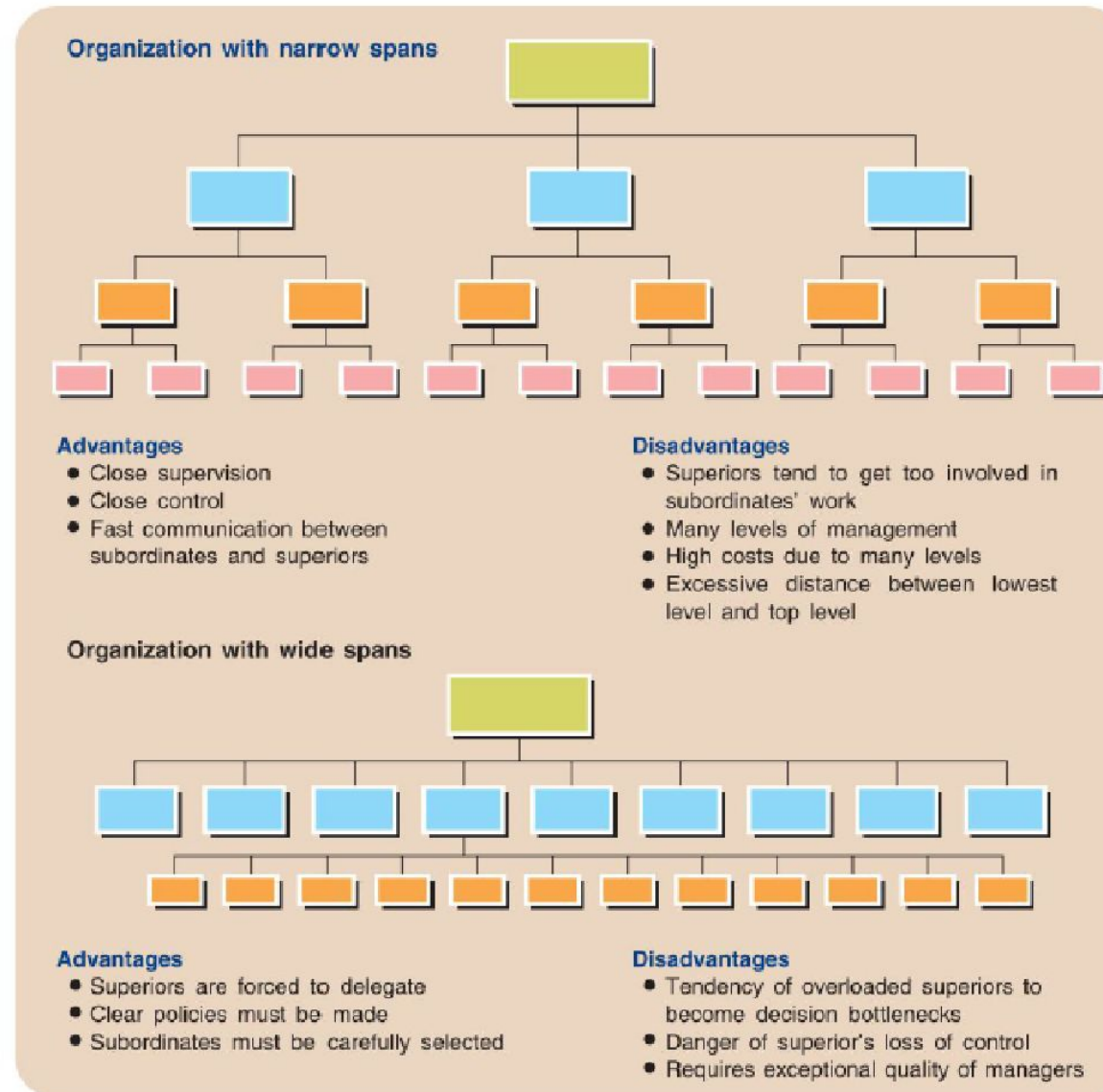
- Competent and trained manager
- Simple task
- Subordinates' willingness to assume responsibility and reasonable risks
- Mature subordinates

# Need for Balance

- ▶ **Managers may have more subordinates** than they can manage effectively, even though they delegate authority, conduct training, formulate clear plans and policies, and adopt efficient control and communication techniques.
- ▶ One must balance all the costs of adopting one course or the other, not only the **financial costs**, but also costs in **morale, personal development and attainment of enterprise objectives**.



# Organizational Levels and the Span of Management





# Reengineering the Organization

- ▶ Also called as Starting over
- ▶ Reengineering means....

“The fundamental **rethinking and radical redesign** of business processes to **achieve dramatic improvements** in **critical contemporary measures** of performance, such as cost, quality, service, and speed.”

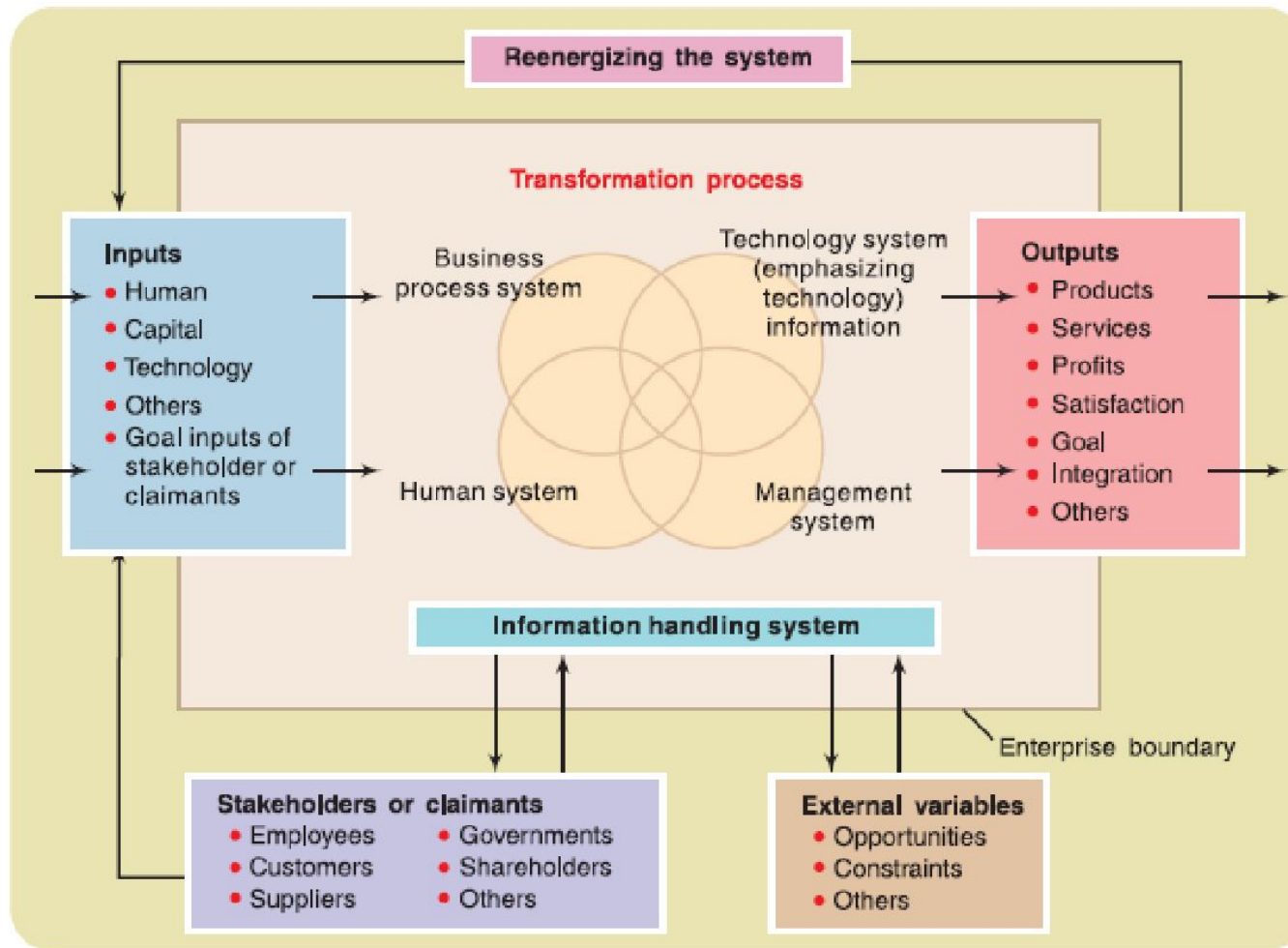
# Key aspects of reengineering

- ▶ Hardly anyone would disagree on the need for a fundamental rethinking of what the organization is doing and why.
- ▶ The second key aspect in the definition is radical redesign of the business processes. – Reinvention
  - ▶ Downsizing or “rightsizing” is not the primary purpose of reengineering.
  - ▶ Managers intent on reducing costs, without necessarily addressing customer needs and expectations.
  - ▶ But team efforts are built on trust, and trust has to be built over a long period of time. With radical redesign, trust can be destroyed.

# Key aspects of reengineering

- ▶ The third key term calls for dramatic results.
- ▶ The fourth key word in the reengineering definition is processes.

# Management by Process



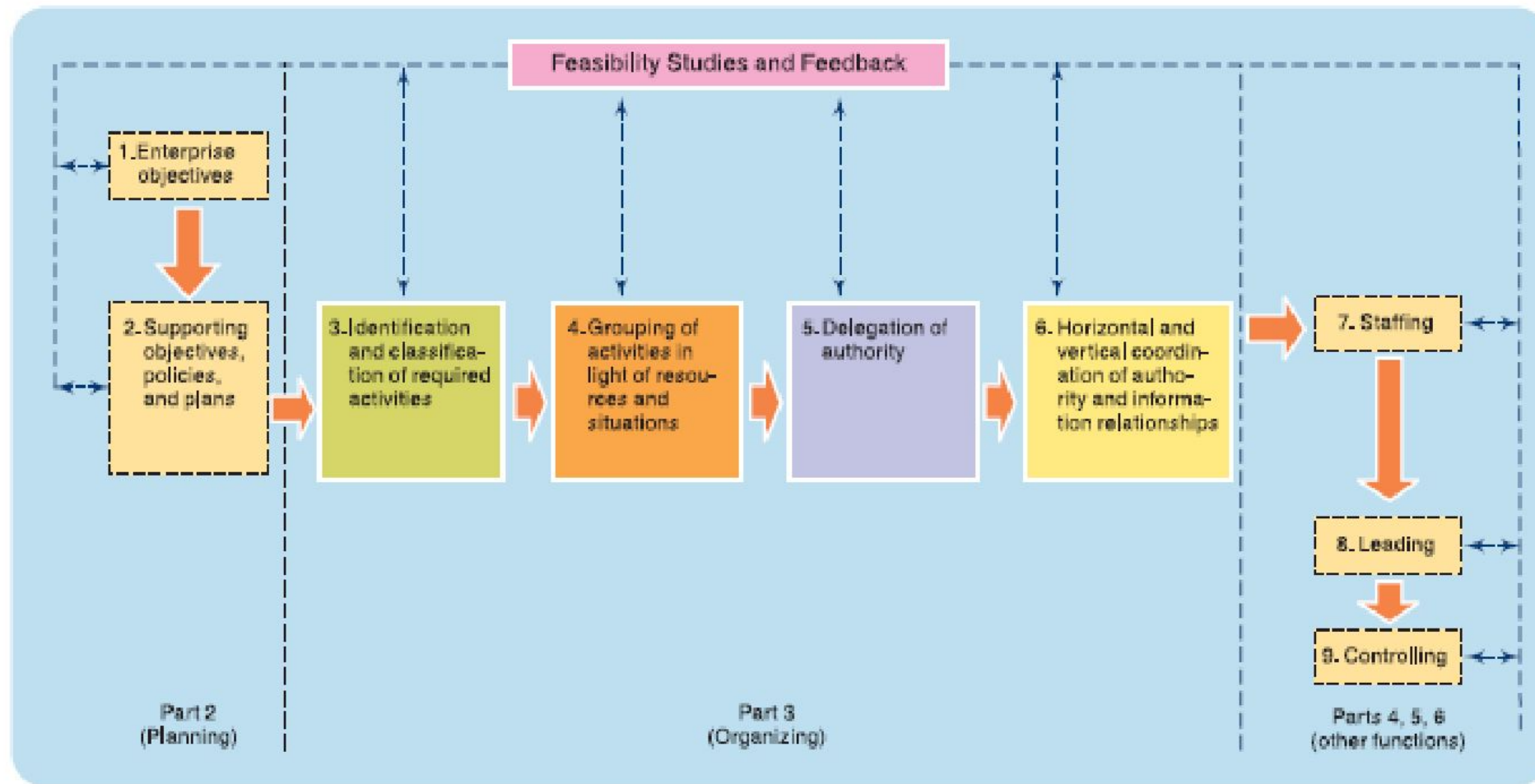
# The Structure and process of Organizing

- ▶ In first place, the structure must **reflect objectives and plans** because activities derive from them.
- ▶ In the second place, it must reflect the **authority available** to an enterprise's management.
- ▶ In third place, an organization structure, like any plan, must reflect its **environment**.
- ▶ In the fourth place, since the organization is staffed with people, the grouping of activities and the authority relationships of an organization structure must take into account **people's limitations and customs**.

# The Structure and process of Organizing

- ▶ The logic of Organizing - 6 steps
- ▶ Some Misconception
  - ▶ In many instances makes work uninteresting, tedious, and unduly restrictive.
  - ▶ There is no best way to organize and that the application of structural organization theory must take into account the situation.

# The Organizing Process



# Chapter 9

## Line/Staff Authority, Empowerment, and Decentralization



# Authority and power

- ▶ **Power**, is the ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.
- ▶ **Authority** in organization is the right in a position (and, through it, the right of the person occupying the position) to exercise discretion in making decisions affecting others.

# Types of power

- ▶ Legitimate power - arises from position and derives from our cultural system of rights, obligations, and duties whereby a “position” is accepted by people as being “legitimate.”
- ▶ Expertness - power of knowledge (teacher)
- ▶ Referent power - influence those people or groups may exercise because people believe in them and their ideas (Movie actor)
- ▶ Reward power
- ▶ Coercive power - Closely related to reward power and normally arising from legitimate power, it is the power to punish, whether by firing a subordinate or by withholding a merit pay increase

# Empowerment

- ▶ Empowerment means that employees, managers, or teams at all levels in the organization are given the **power to make decisions without asking their superiors for permission.**
- ▶ Relationship between Power and responsibility
- ▶ ■ Power should be equal to responsibility ( $P = R$ )
- ▶ ■ If power is greater than responsibility ( $P > R$ ), then this could result in autocratic behavior of the superior who is not held accountable for his or her actions
- ▶ ■ If responsibility is greater than power ( $R > P$ ), then this could result in frustration because the person has not the **necessary power to carry out the task for which he or she is responsible**

# Effective management by empowerment

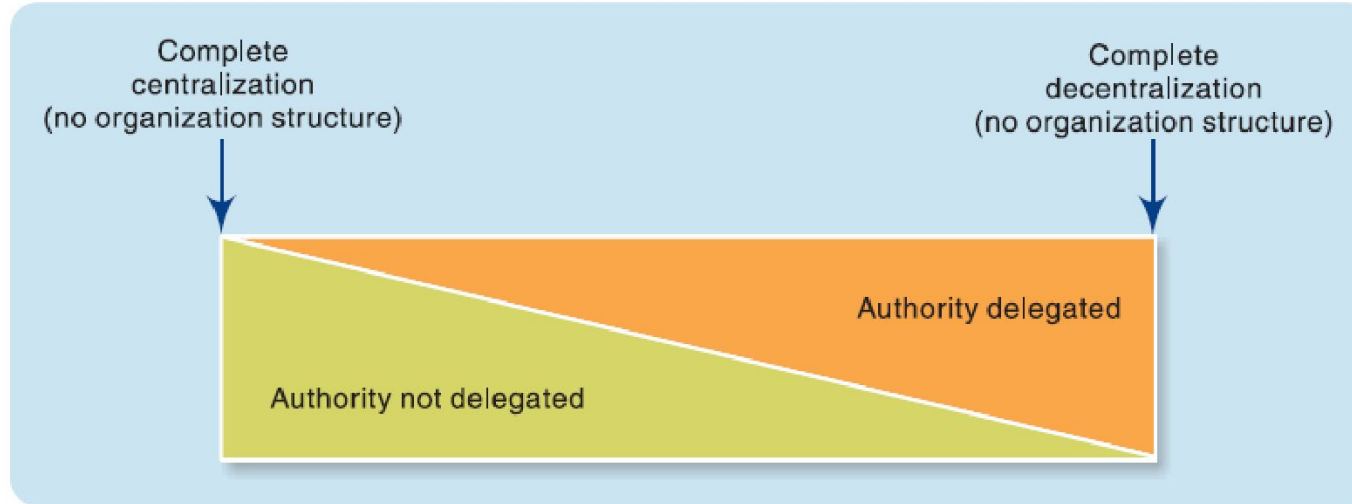
- ▶ Effective management requires that **empowerment be sincere, based on mutual trust**, accompanied by relevant information for the employees to carry out their tasks, and given to competent people.
- ▶ Moreover, employees **should be rewarded** for exercising their decision authority.

# Line/Staff Concepts and Functional Authority

- ▶ **Line Authority** gives a superior a line of authority over a subordinate
- ▶ **Scalar Principle** the clearer the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be the responsibility for decision-making and the more effective will be organizational communication.
- ▶ The nature of **staff relationship** is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers.
- ▶ **Functional authority** is the right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments.

# Decentralization of Authority

- ▶ The nature of Decentralization : Decentralization is the tendency to disperse decision-making authority in an organized structure.



- ▶ Different kind of Centralization : 3 types
- ▶ Decentralization as a philosophy and Policy : Decisions to push down the organization structure and which to hold near the top, specific policy-making to guide the decision-making, proper selection and training of people, and adequate controls.

# Different kind of Centralization

- ▶ ■ **Centralization of performance** pertains to geographic concentration; it characterizes, for example, a company operating in a single location
- ▶ ■ **Departmental centralization** refers to concentration of specialized activities, generally in one department. For example, maintenance for a whole plant may be carried out by a single department
- ▶ ■ **Centralization of management** is the tendency to restrict delegation of decision-making. A high degree of authority is held by managers at or near the top of the organizational hierarchy

# Decentralization as a Philosophy and Policy

- ▶ Decentralization implies more than delegation: it reflects a philosophy of organization and management.
- ▶ It requires careful selection of which decisions to push down the organization structure and which to hold near the top.
- ▶ A policy of decentralization affects all areas of management and can be looked upon as an essential element of managerial system.
- ▶ In fact, without it, managers could not use their discretion to handle the ever-changing situations they face.



# Delegation of Authority

- ▶ Authority is delegated when a superior gives a subordinate discretion to make decisions.
- ▶ The process of delegation involves :
  - ▶ (1) Determining the results expected from a position
  - ▶ (2) Assigning tasks to the position
  - ▶ (3) Delegating authority for accomplishing these tasks, and
  - ▶ (4) Holding the person in that position responsible for the accomplishment of the tasks.

# The Art of Delegation

- ▶ Personal attitudes towards delegation
  - ▶ Receptiveness : “NIH (not invented here) factor” and must be able not only to welcome the ideas of others but also to help others come up with ideas and to compliment them on their ingenuity.
  - ▶ Willingness to let go : Managers willing to release the right to make decisions to subordinates.
  - ▶ Willingness to allow mistakes by subordinates : Patient counseling, asking leading or discerning questions, and carefully explaining the objectives and policies
  - ▶ Willingness to trust subordinates : trustful attitude
  - ▶ Willingness to establish and use board controls : Willing to find means of getting feedback

## *The Art of Delegation*



# The Art of Delegation

- ▶ Overcoming weak delegation
  - ▶ Define assignments and delegate authority in light of results expected.
  - ▶ Select the person in light of the job to be done.
  - ▶ Maintain open lines of communication.
  - ▶ Establish proper controls.
  - ▶ Reward effective delegation and successful assumption of authority.
- ▶ **Failure** : Unable or unwilling to apply them and personal attitudes



# Recentralization of Authority and Balance as the key to Decentralization

- ▶ Recentralization is normally not a complete reversal of decentralization, as the authority delegation is **not wholly withdrawn** by the managers who made it.
- ▶ The process is a **centralization of authority over a certain type of activity or function**, wherever in the organization it may be found.

# Recentralization : Advantages

- ▶ 1. Relieves top management of some burden of decision-making and forces upper-level managers to let go
- ▶ 2. Encourages decision-making and assumption of authority and responsibility
- ▶ 3. Gives managers more freedom and independence in decision-making
- ▶ 4. Promotes establishment and use of broad controls that may increase motivation
- ▶ 5. Makes comparison of performance of different organizational units possible
- ▶ 6. Facilitates setting up of profit centers
- ▶ 7. Helps product diversification
- ▶ 8. Promotes development of general managers
- ▶ 9. Aids in adaptation to fast-changing environment

# Recentralization : Limitations

- ▶ 1. Makes it more difficult to have a uniform policy
- ▶ 2. Increases complexity of coordination of decentralized organizational units
- ▶ 3. May result in loss of some control by upper-level managers
- ▶ 4. May be limited by inadequate control techniques
- ▶ 5. May be constrained by inadequate planning and control systems
- ▶ 6. Can be limited by the lack of qualified managers
- ▶ 7. Involves considerable expenses for training managers
- ▶ 8. May be limited by external forces (national labor unions, governmental controls, tax policies)
- ▶ 9. May not be favored by economies of scale of some operations