

## MGMT 309 Exam 2 Review- Ch. 6,7,8, & 20

**Administrative Model-** argues that decision makers (1) use incomplete and imperfect information, (2) are constrained by **bounded rationality**, and (3) tend to “**satisfice**” when making decisions.... And end up with a decision that may or may not serve interests of the organization.

- Instead of prescribing how decisions should be made, it focuses more on describing how they are made.

### **What is Satisficing? (Ch 8 - Decision making)**

- Searching for alternatives until one is found that meets some minimum standard of sufficiency
  - Ex: manager looking for a site for a new plant may select first site that meets the basic requirements, even though there probably is a better site out there.
  - People satisfy for a variety of reasons
    - Unwilling to ignore motives ( reluctant to spend time making a decision)
    - Unable to weigh large numbers of alternatives and criteria
    - Subjectivity interferes with decisions.
  - Side note: Always look for a better deal once you can make the first one

### **What is bounded rationality? (Ch 8 - Decision making)**

- Decision makers are limited by their values, and unconscious reflexes, skills, and habits
  - Limited by less than complete information and knowledge
  - concept of bounded rationality suggests that although people try to be rational decision makers, their rationality has limits.
  - Ex: partially explains how US auto executives allowed Japanese automakers to get such a strong foothold in the US domestic market. Only compared their companies' performances to each other and ignored foreign imports.
  - Rationality has limits

Know how groups are used in decision-making and what effective group decision-making is. (Chapter 8 - Decision Making)

- Interacting group and team:
  - Members openly discuss, argue about, and agree on the best alternative. **The most common form**
- Delphi groups:
  - A group is used to achieve a consensus of expert opinion.
- Nominal groups
  - A structured technique used to generate creative and innovative alternatives or ideas
- **The interaction between people often sparks new ideas and promotes understanding**
- **Political process can play too big a role**

## What are the decision-making models?

Classical Model (Rational) - A prescriptive approach to decision making that tells managers how they should make decisions; assumes that managers are logical and rational and that their decisions will be in the best interests of the organization

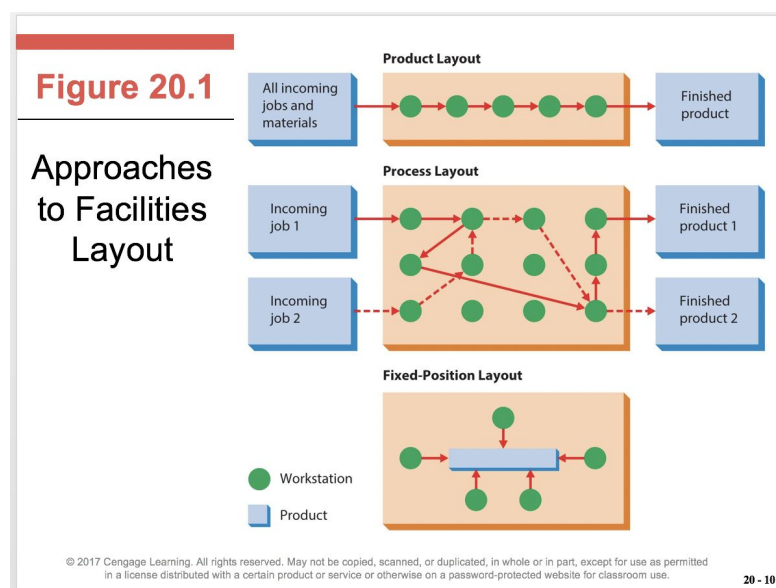
- Recognize and define the decision situation
- Identifying alternatives
- Evaluate Alternatives
- Selecting the best alternative
- Implementing the chosen Alternative
- Following up and evaluating the results
- Behavioral Aspects (more realistic) (ADMINISTRATIVE MODEL)
  - Assumes info is incomplete/imperfect
  - Constrained with bounded rationality (see above)
  - Tend to “satisfice” when making decisions (see above)

## Definition of coalition and what it means (Chapter 8 - Political Forces in Decision Making)

- Informal alliance to achieve a common goal
- Political Forces in Decision making
  - Contributes to the behavioral nature of decision making.
  - Common goal is often a preferred decision alternative
  - Ex: coalitions of stockholders often band together to force a board of directors to make a certain decision.
- Can be positive or negative
  - Help managers get organized on a path toward effectiveness and profitability
  - Or can strangle well-conceived strategies and decisions

## What is a product layout model?

- Facilities arranged around the product; used when large quantities of a single product are needed
- Ex: the assembly line (Ford)



### What are the various duties of the Chief Executive officer (CEO)?

- Has major role in the organizations planning process and responsible for implementing the strategy.
- Executive committee provide input to CEO.
- President or chair of the board of directors
- Single most important individual in any organization's planning process
- The board and CEO assume direct roles of planning

### What are the various types of goals (whole bunch of them like strategic, tactical, etc.) and how they work?

#### Level

- Mission Statement – a statement of an organization's fundamental unique purpose that sets it apart from other firms of its type and identifies the scope of business's operations in product and market terms.
  - Set by Top People - CEO
  - Example from book (Starbucks): Mission Statement: Provide great work environment and treat each other with respect and dignity while providing the finest coffee in the world
- Strategic Goal – Implemented by the CEO of company
  - focus on **broad, general** goals
  - Set by/for top management
  - Increase Retail outlets from 10,000 to 30,000
- Tactical Goal – Implemented by the VP of companies
  - Focus is on actions necessary to achieve strategic goals
  - Set by/for middle managers
  - Ex. Market Share goal – what do we do to get this (in class)
  - To accomplish the increase of retail outlets above, managers need to create goals that are related to company owned versus licensed stores and the global distribution of stores in different countries
- Operational goal – Implemented by managers
  - focus on short term issues associated with tactical goal
  - Set by/for lower level managers
  - To accomplish the above operational goal, managers need to create goals such as opening a target number of new stores each year for the next 5 years.a1

#### Area

- Organizations set goals for different areas like operations, marketing, finance, quality control, productivity, and HR.
- Ex: a regional fast food chain might develop goals at several different levels and for several different areas. In Figure 6.2- restaurant chain has goals for areas of operation, marketing, and development

### **Various classifications of strategic business units, what are they and how are they used?**

- Strategic Business Unit (SBU) -- a business w/in a firm, creates diversification (each business within a single firm)
  - Single-product strategy: manufactures one product/service and sells in a single geographic market (Red Bull, high-end products)
  - Related diversification: several businesses that are somehow linked to one another (Rolls Royce makes plane engines)
    - Reduces economic risk and overhead costs
    - Org can create synergy
  - Unrelated diversification: operates multiple businesses that are not associated with one another
    - Pros: stable performance, resource allocation advantages
    - Cons: lack of knowledge at corporate level (Jack Welsh CEO of GE doesn't know anything about jet engines), fail to employ synergies used by competitors

### **What are the steps in rational decision making model/process?**

- Recognizing and defining the decision situation
  - Recognize that a decision is necessary
  - Stimulus may occur without any prior warning
  - Define precisely what the problem is, its causes, and its relationship to other factors
- Identifying alternatives
  - Identify alternative courses of effective action
  - The more important the decision, the more attention is directed to developing alternatives
  - Managers must also recognize that various constraints often limit their alternatives
  - Common constraints include legal restriction, moral and ethical norms, authority constraints, or constraints imposed by the power and authority or the manager
- Evaluating alternatives
  - Each alternative should be evaluated in terms of its feasibility, its satisfactoriness and its consequences
  - Probable consequences must be assessed
  - To what extent will a particular alternative influence other parts of the organization
- Selecting an alternative
  - Choosing the best of two or more remaining alternatives is the real crux of decision making
  - Optimizing is also a frequent goal
- Implementing the chosen alternative
  - In some cases this can be fairly easy, in others difficult

- Managers must decide how to integrate all the activities of the new business, including purchasing, human resource practices, and distribution, into an ongoing organizational framework
- Following up and evaluating the results
  - Make sure that the chosen alternative has served its original purpose
  - Another previously identified alternative could be adopted
  - Manager might recognize that the situation was not correctly defined to start with and begin the process all over again
  - This is the step that is often overlooked

What is benchmarking and how is it used? (Chapter 20)

- is the process of learning how other firms do things in an exceptionally high quality manner.
- This may be direct, as in examining competing products, or indirect by examining competitors processes.
- Ex. BMW buying Mercedes cars and reverse engineer them to find the best qualities about them (ex. features most important to customers) and do something that is similar for their cars either better or equal way. (Direct)
- Ex. Some firms study other firms (how disney recruits and train employees) (Indirect)

What is escalation of commitment and how does it impact things? (Chapter 8)

- is when managers stay with a decision even if wrong
- Cause of it? = pride, invested in decision = horrible → cost you more money
- Must know when to change decision/must be rational (Lose market share from other airline carriers = pan am should sell airline operations but they didn't)
- Don't bail too soon (ex. adidas saw slow sales in athletic shoes and backed out but market took off again and nike was at the top)

What are the various dimensions of quality? (Chapter 20)

- **Performance**
- **Features**
- **Reliability**
- **Conformance**
- **Durability**
- **Serviceability**
- **Aesthetics**

- **Perceived quality**

Performance	A product's primary operating characteristic; examples are automobile acceleration and a television's picture clarity.
Features	Supplements to a product's basic functioning characteristics, such as power windows on a car.
Reliability	A probability of not malfunctioning during a specified period.
Conformance	The degree to which a product's design and operating characteristics meet established standards.
Durability	A measure of product life.
Serviceability	The speed and ease of repair.
Aesthetics	How a product looks, feels, tastes, and smells.
Perceived quality	As seen by a customer.

What is the delphi procedure?

- A group is used to achieve a consensus of expert opinion.
  - Need to obtain the cooperation of a panel of experts
  - Ask the experts for another prediction
  - The experts who provided unusual or extreme predictions may be asked to justify them
  - The average prediction is taken to represent the decision of the "group" of experts

How are strategies formed and used?

- Strategy formation
  - Set of processes involved in creating or determining the strategies of the organization
  - Focuses on the content of the strategy
- Strategy implementation
  - Methods by which strategies are operationalized or executed within the organization
  - Focuses on the process
- SWOT Analysis (strengths, weaknesses, opportunities, threats)
  - Organizational Strengths: are skills or capabilities enabling an organization to conceive of and implement its strategies
    - Busch Beer- has a shit ton of beers, advertising, big, powerful---- all strength oriented, makes them who they are
  - SWOT analysis divides strengths into common strengths and distinctive competencies.
    - A common strength is a skill or capability held by numerous competing firms.

- Competitive parity exists when large numbers of competing firms can implement the same strategy.

- How many firms can ACTUALLY afford to advertised on super bowl Sunday.

#### Evaluating Strengths

- Distinctive competence: strength possessed by a small number of units (make them special)
  - Chick-fil-a- great customer service and Christian (666)
  - Buc Ee's- cleanest restroom ever, tons of business, smart convenient store- very distinct
  - HEB- to a certain degree- he takes his parents to go see HEB cause they don't have anything like it
  - When companies have this distinction, you want to play it uppppp- market the shit out of it so you can have a **competitive advantage** (buckees does it great with billboards)
- Strategic Imitation- Duplicating another's competence into a valuable strategy
- Sustained competitive advantage: exists after all strategic imitation have ceased
- Organizational weaknesses: skills and capabilities that do not enable an organization to choose its mission
  - ALWAYS start with strengths: when focus on weakness upfront they have a lot harder time thinking of their strengths.
- Invest to Obtain Strengths or modify mission
  - A&M had resources with Kyle field and players, but not a good coach. Made a huge investment with Jimbo and payed him a shit ton of money to have a better coach
- Competitive Disadvantage: exists when a firm is not implementing valuable strategies in competing firms.
  - Ex: Ford saying you can have any color of car you want as long as its black- wouldn't have stayed long in business if that were actually true
- Evaluating opportunities and threats requires analyzing the environment
- Organizational opportunities - areas in the environment that, if exploited, may generate higher performance.
- Organizational threats - areas that increase the difficulty of an organization's achieving high performance.
  - EX: Venezuela is not a good place to be and businesses pull out because of it.
  - EX: Blockbuster didn't consider Netflix a threat and ya know....

#### **How is productivity measured and the various ways that is done?**

- Total factor productivity is measured by dividing outputs by inputs in raw dollar amounts

- Partial productivity ratios are calculated using only one category of resources
  - Ex. Labor productivity = output / labor costs

### What are diversification strategies that the book goes over?

- Describes the number of different businesses that an organization is engaged in and the extent to which these businesses are related to one another.
- Developing new products and services
- Replacing suppliers and customers
- Mergers and acquisitions

### What are various classifications strategies?

**Business-level Strategy-** The set of strategic alternatives from which an organization chooses as it conducts business in a particular industry or market.

- Let's say Texas, how we are going to implement strategies with Texas Ideology?

3 approaches to formulating business level strategy

#### 1. Porter's Generic Strategy-

- Differentiation strategy-** seeks to distinguish itself from competitors through the quality of its products and services
  - Class Ex: Rolls Royce- make customers believe they have the highest quality/value car. So if you have the money to spend 450k buy it. Worked their entire company around the fact their engine was so smooth they could balance a dollar on top of the hood
- Overall Cost Leadership Strategy-** seeks to gain a competitive advantage by reducing its costs below competing firms.
  - Class Ex: Amazon- exploited every advantage possible in order to have this strategy. Want to have people get everything from them because they are cheaper, fast, & better than everyone else. Saturating the market.
- Focus Strategy** -concentrates on a specific regional market, product line, or group of buyers.
  - Class Ex: HEB- all about Texas and its culture- everything is Texas based, food, products, etc. Haven't branched because strategy wouldn't work any other states. People don't beam with pride as a connecticut like Texans do

#### 2. Miles and Snow Typology

- Prospector Strategy**-encourages creativity and flexibility and is often decentralized.
  - almost identical to cost strategy except cost strategy is a LOT more opened minded
  - Class EX: 3M Company- 15% program- spend 85% time working on company projects and 15% doing whatever they wanted that could some way benefit the company...wanted to make the next big thing Google



copied 3M and lets employees have a day in the week to do that they want to push company forward

- iii. Class EX: Sticky note dude- Bible thumper at first; Tried to make a sticky bookmark for Bible, didn't work but made adhesive and realize it sticks to paper really well. Bossman wanted him to convince the company the idea of sticky notes could work. Snuck in to work at night and left it on their desks for two weeks, then took all the notes away and everyone went apeshit. Worked like a champ

- b. **Defender Strategy**-focuses on lowering costs and improving performance of current products.

- i. Ex: Auntie Anne's- committing to doing what they do really really well and doing it cheaper if they can

- c. **Analyzer Strategy**-maintains current businesses and is somewhat innovative in new businesses.

- i. Ex: IBM- really slow to innovate- poster child for this- do what they do well- everything they don't do well they sell off to other companies like dell- focused on a very target market (business) – for a tech company, they move really freaking slow

- d. **Reactor Strategy**- has no consistent approach to strategy.

- i. Ex: Office Depot (they suck)- Brad and his wife walked in and the place was a mess, everything was over priced, not just a local thing, it was everywhere. Company recognizes they are not competing and start to slow down and stop.

- Could be because of poor leadership

-make a huge commitment to how they structure their company from the start

Ex: Sears did this by making themselves associated with malls. In order to compete they would have to rebuild their whole model and build new stores which they couldn't afford

- 3. Product Life Cycle Strategies - is a model portraying how sales volume for products change over the life of the product- different stages call for different strategies

- a. Introduction stage

- i. Demand may be high
    - ii. Focus on increasing production, keeping quality high, and managing inventories and cash flow

- b. Growth Stage

- i. Sales grow
    - ii. Focus on quality/delivery and begin to differentiate

- c. Maturity Stage = Peak

- i. Demand begins to slow
    - ii. Focus on low costs and search for new product, pumping out last of inventory, need to find new strategy keep the company alive

- d. Decline stage - this is where you die
  - i. Total sales decline
  - ii. Firms may close, or differentiate and cut costs
  - iii.

**Corporate-level Strategy-** The set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and several markets.

- Decisions about which businesses, industries, and markets an organization will enter and how to manage these businesses.
- Diversification - number of different businesses an organization engages in and the extent to which these businesses are related to each other.
- **1. Single-Product Strategy = simplest**
  - Focus on one product
  - Ex. WD-40 successful
  - Ex. high end products like rolex do this
  - Strength: All focus on one = very successful in manufacturing and marketing
  - Weakness: Product is not accepted = firm fails
- **2. Related Diversification**
  - Similar Technology
    - Rolls royce airplane engines and car engines
  - Common Distribution and Marketing Goals
    - P&G distribution to grocery stores
  - Common Brand Name
    - Disney theme parks and toys
  - Common Customers
    - Merck sells to single set of customers: doctors, patients, drug stores.  
People related to medical industry
  - Advantages
    - Reduces dependence on one product
    - Reduce overhead cost
      - Cost per business is lower for more business
      - Cost comes from administrative cost like legal services and accounting
    - Capable of exploiting strengths and capabilities in more than one business
      - Synergy - complementary- set of businesses when the businesses' economic value together is greater than their economic value separately.
- **3. Unrelated Diversification**
  - Products have hardly/no relation to each other
  - Advantages: stability over time/resource allocation
  - Disadvantages: do not take advantage of synergy/lack of knowledge by executives
  - Ex. Yamaha: Lack of corporate level knowledge- can't be a master of everything

- Ex. Jack Welch- CEO of General Electric doesn't know how to make jet engines when asked in an interview

### **What is the relationship between productivity and quality?**

Typically inversely related. As quality goes up, production goes down.

- It is possible for them to both go up at the same time

### **What does entropy mean?**

- Normal process leading to system decline

### **What is a feasibility evaluation of a decision alternative? What does that term mean?**

- Feasibility evaluation is part evaluating alternatives in the decision making process. It is the process of asking whether or not the alternative is possible for the organization to carry out.

### **What are the constraints of purchasing agents?**

- Quality
- Reliability of supplier
- Getting the best financial terms

### **Bonfire example from class (on exam):**

- What are the strategic, tactical, and operational goals?

Chapter 7 examples from class:

-

Focus heavily on areas we can apply actual application of strategies (a lot of questions where he will give a scenario and then ask what is going on) KNOW THE INS AND OUTS OF THIS. review chapters, notes from class, powerpoints, etc

10 questions on examples from class

Pay attention to questions at the end of chapters and example sections in the book

Quizlet Links:

Ch. 6:

<https://quizlet.com/325805077/chapter-6-basic-elements-of-planning-and-decision-making-flash-cards/>

Ch. 7:

<https://quizlet.com/325736921/chapter-7-managing-strategy-and-strategic-planning-flash-cards/>

Ch. 8:

<https://quizlet.com/325823253/chapter-8-managing-decision-making-and-problem-solving-flash-cards/>

Ch. 20:

<https://quizlet.com/325837751/chapter-20-managing-operations-quality-and-productivity-flash-cards/>

EXAMPLES FROM CLASS