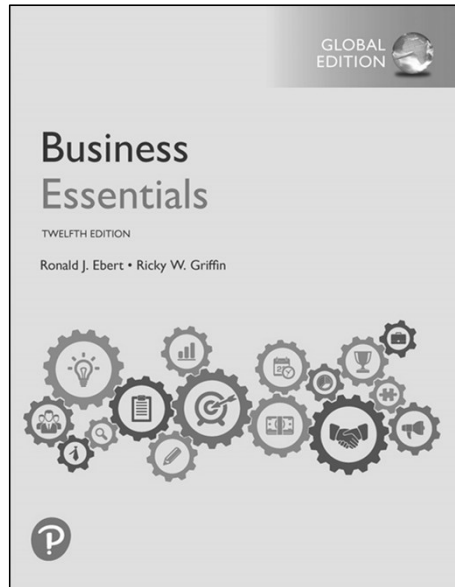


Business Essentials

Twelfth Edition, Global Edition



Chapter 5

Managing the Business

 Pearson

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- 1) MathType Plugin
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Introduction

- **In this chapter we**

- explore the importance of strategic management and effective goal setting to organizational success
- examine the functions that constitute the management process and identify different types of managers likely to be found in an organization by level and area
- look at basic management skills and roles and explain the importance of corporate culture

Learning Objectives (1 of 2)

1. **Describe** the nature of management and identify the four basic functions that constitute the management process.
2. **Identify** different types of managers likely to be found in an organization by level and area.
3. **Describe** the basic roles and skills required of managers.
4. **Explain** the importance of strategic management and effective goal setting in organizational success.

Learning Objectives (2 of 2)

- 5. Discuss** contingency planning and crisis management in today's business world.
- 6. Describe** the development and explain the importance of corporate culture.

The Management Process (1 of 2)

- **Management**

- process of planning, organizing, leading, and controlling an organization's resources to achieve its goals



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All corporations depend on effective management. Whether they run a multibillion-dollar business such as Google or a small local fashion boutique, managers perform many of the same functions and have many of the same responsibilities. These include analyzing their competitive environments and planning, organizing, directing, and controlling day-to-day operations of their business.

Management itself is the process of planning, organizing, leading, and controlling an organization's financial, physical, human, and information resources to achieve its goals.

Basic Management Functions (1 of 2)

- **Planning**

- management process of determining what an organization needs to do and how best to get it done

- **Organizing**

- management process of determining how best to arrange an organization's resources and activities into a coherent structure



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Determining what the organization needs to do and how best to get it done requires *planning*. Planning has three main components. It begins when managers determine the firm's goals. Next, they develop a comprehensive *strategy* for achieving those goals. After a strategy is developed, they design *tactical and operational plans* for implementing the strategy.

Managers must also organize people and resources. For example, some businesses prepare charts that diagram the various jobs within the company and how those jobs relate to one another. These *organization charts* help everyone understand roles and reporting relationships, key parts of the organizing function.

Basic Management Functions (2 of 2)

- **Leading**

- management process of guiding and motivating employees to meet an organization's objectives

- **Controlling**

- management process of monitoring an organization's performance to ensure that it is meeting its goals



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Managers have the power to give orders and demand results. Leading, however, involves more complex activities. When leading, a manager works to guide and motivate employees to meet the firm's objectives.

Controlling is the process of monitoring a firm's performance to make sure that it is meeting its goals. All CEOs must pay close attention to costs and performance.

The Management Process (2 of 2)

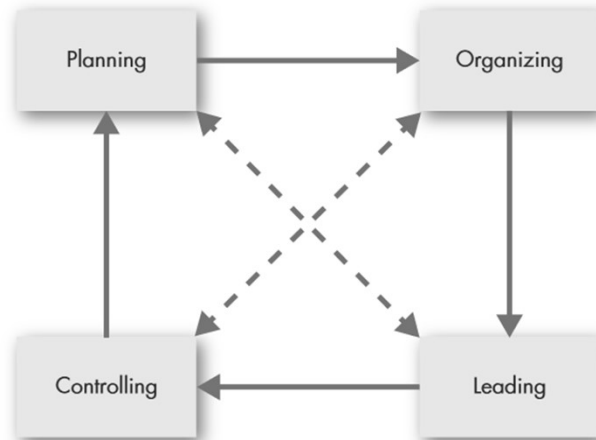


FIGURE 5.1 The Management Process

Figure 5.1 illustrates the management process.

The Control Process

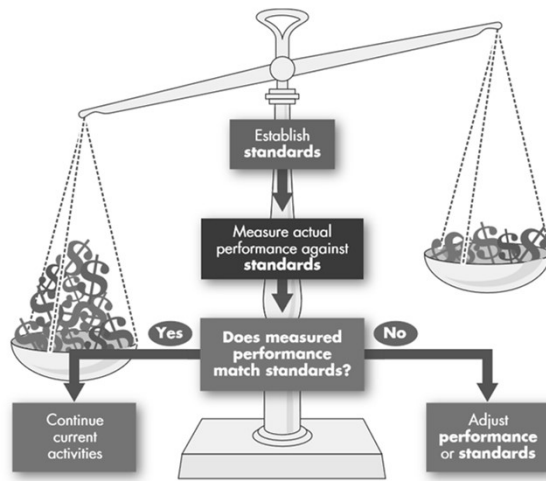


FIGURE 5.2 The Control Process

Figure 5.2 illustrates the control process that begins when management establishes standards, often for financial performance.

Types of Managers

- **Top Manager**

- manager responsible for a firm's overall performance and effectiveness

- **Middle Manager**

- manager responsible for implementing the strategies and working toward the goals set by top managers

- **First-Line Manager**

- manager responsible for supervising the work of employees



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Although all managers plan, organize, lead, and control, not all managers have the same degree of responsibility for these activities. It is helpful to classify managers according to levels and areas of responsibility.

Common titles for top managers include *president*, *vice-president*, *treasurer*, *chief executive officer (CEO)*, and *chief financial officer (CFO)*. Top managers are responsible for the overall performance and effectiveness of the firm.

Middle managers are responsible for implementing the strategies and working toward the goals set by top managers. Titles such as *plant manager*, *operations manager*, and *division manager* designate middle-management slots.

The Three Levels of Management

Table 5.1 The Three Levels of Management

Level	Examples	Responsibilities
Top managers	President, vice president, treasurer, CEO, chief financial officer (CFO)	<ul style="list-style-type: none">• Responsible for the overall performance and effectiveness of the firm• Set general policies, formulate strategies, and approve all significant decisions• Represent the company in dealings with other firms and with government bodies
Middle managers	Plant manager, operations manager, division manager, regional sales manager	<ul style="list-style-type: none">• Responsible for implementing the strategies and working toward the goals set by top managers
First-line managers	Supervisor, office manager, project manager, group leader, sales manager	<ul style="list-style-type: none">• Responsible for supervising the work of employees who report to them• Ensure employees understand and are properly trained in company policies and procedures

Areas of Management (1 of 2)

- **Human Resource Managers**

- hire and train employees, evaluate performance, and determine compensation

- **Operations Managers**

- responsible for production, inventory, and quality control

- **Marketing Managers**

- responsible for getting products from producers to consumers



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Most companies have *human resource managers* who hire and train employees, evaluate performance, and determine compensation. At large firms, separate departments deal with recruiting and hiring, wage and salary levels, and labor relations.

The term *operations* refers to the systems by which a firm produces goods and services. Among other duties, *operations managers* are responsible for production, inventory, and quality control.

Marketing encompasses the development, pricing, promotion, and distribution of goods and services. *Marketing managers* are responsible for getting products from producers to consumers.

Areas of Management (2 of 2)

- **Information Managers**

- design and implement systems to gather, organize, and distribute information

- **Financial Managers**

- plan and oversee accounting functions and financial resources



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Occupying a fairly new managerial position in many firms, *information managers* design and implement systems to gather, organize, and distribute information. Huge increases in both the sheer volume of information and the ability to manage it have led to the emergence of this important function.

Nearly every company has *financial managers* to plan and oversee its accounting functions and financial resources. Levels of financial management may include *CFO* or *vice-president for finance* (top), a *division controller* (middle), and an *accounting supervisor* (first-line manager).

Management Roles and Skills

- **Interpersonal Roles**

- a category of managerial roles including figurehead, leader, and liaison

- **Informational Roles**

- a category of managerial roles including monitor, disseminator, and spokesperson

- **Decisional Roles**

- a category of managerial roles including entrepreneur, disturbance handler, resource allocator, and negotiator



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Regardless of their levels or areas within an organization, all managers must play certain roles and exhibit certain skills if they are to be successful. The concept of a role, in this sense, is similar to the role an actor plays in a theatrical production. A person does certain things, meets certain needs, and has certain responsibilities in the organization.

Basic Managerial Roles

Table 5.2 Basic Managerial Roles

Category	Role	Sample Activities
Interpersonal	Figurehead	Attending ribbon-cutting ceremony for new plant
	Leader	Encouraging employees to improve productivity
	Liaison	Coordinating activities of two project groups
Informational	Monitor	Scanning industry reports to stay abreast of developments
	Disseminator	Sending memos outlining new organizational initiatives
	Spokesperson	Making a speech to discuss growth plans
Decisional	Entrepreneur	Developing new ideas and fostering innovation
	Disturbance handler	Resolving conflict between two subordinates
	Resource allocator	Reviewing and revising budget requests
	Negotiator	Reaching agreement with a key supplier or labor union

Basic Management Skills (1 of 2)

- **Technical Skills**

- skills needed to perform specialized tasks

- **Human Relations Skills**

- skills in understanding and getting along with people

- **Conceptual Skills**

- abilities to think in the abstract, diagnose and analyze different situations, and see beyond the present situation



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In addition to fulfilling numerous roles, managers also need a number of specific skills if they are to succeed. The most fundamental management skills are *technical*, *interpersonal*, *conceptual*, *diagnostic*, *communication*, *decision-making*, and *time management* skills.

The skills needed to perform specialized tasks are called technical skills.

Effective managers also generally have good human relations skills, skills that enable them to understand and get along with other people. A manager with poor human relations skills may have trouble getting along with subordinates, cause valuable employees to quit or transfer, and contribute to poor morale.

Conceptual skills refer to a person's ability to think in the abstract, to diagnose and analyze different situations, and to see beyond the present situation. Conceptual skills help managers recognize new market opportunities and threats.

Basic Management Skills (2 of 2)

- **Decision-Making Skills**

- skills in defining problems and selecting the best courses of action

- **Time Management Skills**

- skills associated with the productive use of time

Leading Causes of Wasted Time

1. Paperwork
2. Telephone calls
3. Meetings
4. E-mail

Management Skills for the Twenty-First Century (1 of 2)

- **Global Management Skills**

- Managers will need to understand foreign markets, cultural differences, and the motives and practices of foreign rivals.
- Managers will also need to understand how to collaborate with others around the world on a real-time basis.

Tomorrow's managers must equip themselves with the special tools, techniques, and skills needed to compete in a global environment. They will need to understand foreign markets, cultural differences, and the motives and practices of foreign rivals. They also need to understand how to collaborate with others around the world on a real-time basis.

Management Skills for the Twenty-First Century (2 of 2)

- **Management and Technology Skills**

- New forms of technology have added to a manager's ability to process information while simultaneously making it even more important to organize and interpret an ever-increasing wealth of input.

Strategic Management: Setting Goals and Formulating Strategy

- **Strategic Management**
 - process of helping an organization maintain an effective alignment with its environment
- **Strategy**
 - broad set of organizational plans for implementing the decisions made for achieving organizational goals

Strategic management is the process of helping an organization maintain an effective alignment with its environment.

Setting Business Goals

- **Goals**

- the means by which organizations and their managers measure success or failure at every level
- objective that a business hopes and plans to achieve

Goals are performance targets, the means by which organizations and their managers measure success or failure at every level.

Purposes of Goal Setting

1. Provides direction and guidance for managers at all levels
2. Helps firms allocate resources
3. Helps to define corporate culture
4. Helps managers assess performance

An organization functions systematically when it sets goals and plans accordingly. An organization commits its resources on all levels to achieve its goals.

Kinds of Goals (1 of 2)

- **Mission Statement**

- organization's statement of how it will achieve its purpose in the environment in which it conducts its business

Many enterprises also have missions and mission statements, statements of how they will achieve their purposes in the environments in which they conduct their businesses.

Kinds of Goals (2 of 2)

- **Long-Term Goal**

- goal set for an extended time, typically five years or more into the future

- **Intermediate Goal**

- goal set for a period of one to five years into the future

- **Short-Term Goal**

- goal set for the very near future

In addition to its mission, every firm also has *long-term*, *intermediate*, and *short-term goals*.

Types of Strategy (1 of 2)

- **Corporate Strategy**

- strategy for determining the firm's overall attitude toward growth and the way it will manage its businesses or product lines

- **Business (or Competitive) Strategy**

- strategy, at the business-unit or product-line level, focusing on improving a firm's competitive position



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The purpose of corporate strategy is to determine what business or businesses a company will own and operate. Some corporations own and operate only a single business.

When a corporation owns and operates multiple businesses, it must develop strategies for each one. Business (or competitive) strategy, then, takes place at the level of the business unit or product line and focuses on improving the company's competitive position.

Types of Strategy (2 of 2)

- **Functional Strategy**

- strategy by which managers in specific areas decide how best to achieve corporate goals through productivity

At the level of functional strategy, managers in specific areas such as marketing, finance, and operations decide how best to achieve corporate goals by performing their functional activities most effectively.

Hierarchy of Strategy

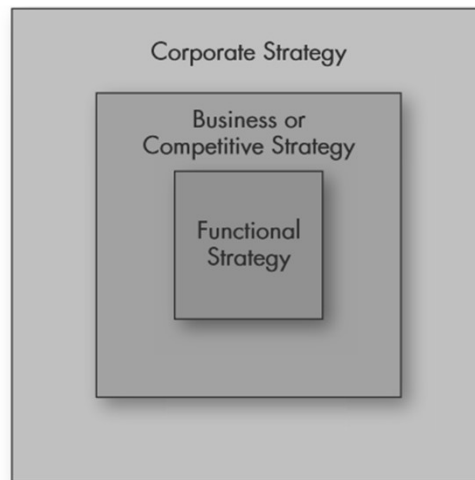


FIGURE 5.3 Hierarchy of Strategy



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As shown in Figure 5.3, the three types of strategy that are usually considered by a company are *corporate strategy*, *business (or competitive) strategy*, and *functional strategy*.

Formulating Strategy (1 of 3)

Step 1: Setting Strategic Goals

Step 2: Analyzing the Organization and the Environment: SWOT Analysis

Step 3: Matching the Organization and Its Environment

Strategy Formulation

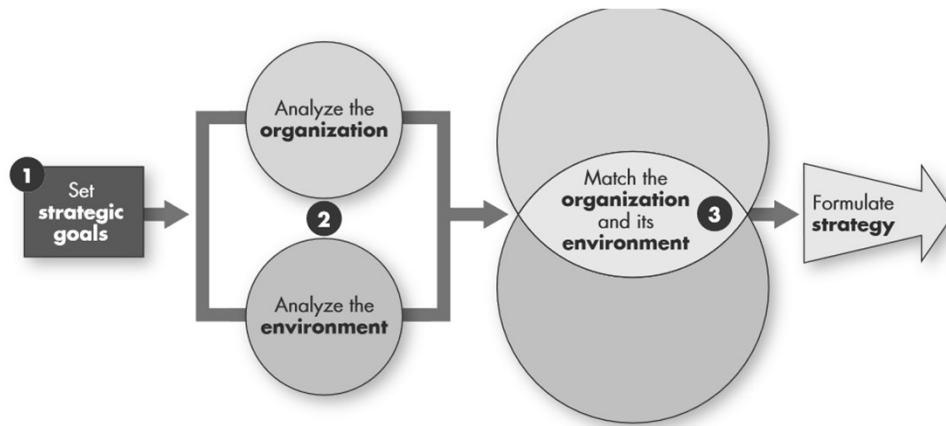


FIGURE 5.4 Strategy Formulation

Strategy formulation involves the three basic steps summarized in Figure 5.4.

Formulating Strategy (2 of 3)

- **SWOT Analysis**

- identification and analysis of organizational strengths and weaknesses and environmental opportunities and threats as part of strategy formulation

After strategic goals have been established, managers usually attempt to assess both their organization and its environment. A common framework for this assessment is called a SWOT analysis. This process involves assessing organizational strengths and weaknesses (the **S** and **W**) and environmental opportunities and threats (the **O** and **T**). In formulating strategy, managers attempt to capitalize on organizational strengths and take advantage of environmental opportunities.

Formulating Strategy (3 of 3)

- **Environmental Analysis**

- process of scanning the business environment for threats and opportunities

- **Organizational Analysis**

- process of analyzing a firm's strengths and weaknesses



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Scanning the business environment for threats and opportunities is often called environmental analysis. Changing consumer tastes and hostile takeover offers are threats, as are new government regulations that will limit a firm's opportunities.

In addition to analyzing external factors by performing an environmental analysis, managers must also examine internal factors. The purpose of such an organizational analysis is to better understand a company's strengths and weaknesses. Strengths might include surplus cash, a dedicated workforce, an ample supply of managerial talent, technical expertise, or little competition.

A Hierarchy of Plans

- **Strategic Plan**

- plan reflecting decisions about resource allocations, company priorities, and steps needed to meet strategic goals

- **Tactical Plan**

- generally short-term plan concerned with implementing specific aspects of a company's strategic plans

- **Operational Plan**

- plan setting short-term targets for daily, weekly, or monthly performance



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The final step in formulating strategy is translating the strategy into more operational language. This process generally involves the creation of actual plans.

Plans can be viewed on three levels: *strategic*, *tactical*, and *operational*. Managerial responsibilities are defined at each level. The levels constitute a hierarchy because implementing plans is practical only when there is a logical flow from one level to the next.

Contingency Planning and Crisis Management

- **Contingency Planning**
 - identifying aspects of a business or its environment that might entail changes in strategy
- **Crisis Management**
 - organization's methods for dealing with emergencies



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Contingency planning seeks to identify in advance important aspects of a business or its market that might change. It also identifies the ways in which a company will respond to changes.

A crisis is an unexpected emergency requiring immediate response. Crisis management involves an organization's methods for dealing with emergencies.

The Hierarchy of Plans



FIGURE 5.5 The Hierarchy of Plans

Management and the Corporate Culture

- **Corporate culture**

- the shared experiences, stories, beliefs, and norms that characterize an organization
- helps define the work and business climate that exists in an organization

Every organization—big or small, more successful or less successful—has an unmistakable “feel” to it. Just as every individual has a unique personality, every company has a unique identity or a corporate culture, the shared experiences, stories, beliefs, and norms that characterize an organization. This culture helps define the work and business climate that exists in an organization.

Communicating the Culture and Managing Change

- Managers themselves must have a clear understanding of the culture
- Must transmit the culture to others in the organization
- Should maintain the culture by rewarding and promoting those who understand it and work toward maintaining it

Managing Change – Three Stages

1. At the highest level, analysis of the company's environment highlights extensive change as the most effective response to its problems.
2. Top management begins to formulate a vision of a new company.
3. The firm sets up new systems for appraising and compensating employees who enforce the firm's new values.



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1 *At the highest level, analysis of the company's environment highlights extensive change as the most effective response to its problems.* This period is typically characterized by conflict and resistance.

2 *Top management begins to formulate a vision of a new company.* Whatever that vision, it must include renewed focus on the activities of competitors and the needs of customers.

3 *The firm sets up new systems for appraising and compensating employees who enforce the firm's new values.* The purpose is to give the new culture solid shape from within the firm.

Applying What You've Learned (1 of 2)

1. **Describe** the nature of management and identify the four basic functions that constitute the management process.
2. **Identify** different types of managers likely to be found in an organization by level and area.
3. **Describe** the basic roles and skills required of managers.
4. **Explain** the importance of strategic management and effective goal setting in organizational success.

Applying What You've Learned (2 of 2)

- 5. Discuss** contingency planning and crisis management in today's business world.
- 6. Describe** the development and explain the importance of corporate culture.

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