

Chapter 5: Managing the Business

Chapter Overview

What makes a good manager? Think back to a favorite manager with whom you have worked. What made that manager effective? Perhaps the manager assigned special roles in setting organizational goals. Or perhaps he or she was an exceptional communicator, expressed empathy, or was an effective motivator.

Now think back to a “poor” manager you’ve worked with. What made that manager ineffective? Maybe he or she was too controlling, lacked communication skills, or showed favoritism toward subordinates. Whatever the reason, many people’s future managerial roles will be affected by their past experiences.

This chapter presents an introduction to the foundations of effective management. It describes the nature of management and identifies the four basic functions that constitute the management process and the different types of managers likely to be found in an organization. It discusses the basic skills required of managers, the importance of strategic management and effective goal setting in organizational success (as well as contingency planning and crisis management), and the importance of corporate culture.

Learning Objectives

- 5-1. Describe the nature of management and identify the four basic functions that constitute the management process.
- 5-2. Identify different types of managers likely to be found in an organization by level and area.
- 5-3. Describe the basic roles and skills required of managers.
- 5-4. Explain the importance of strategic management and effective goal setting in organizational success.
- 5-5. Discuss contingency planning and crisis management in today’s business world.
- 5-6. Describe the development and explain the importance of corporate culture.

CHAPTER OUTLINE

Learning Objective 5-1:

Describe the nature of management and identify the four basic functions that constitute the management process.

The Management Process

All corporations depend on effective management; the principles of management apply to all kinds and sizes of organizations. Managers are among an organization's most important resources.

A. Basic Management Functions

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

1. Planning

Determining what the organization needs to do and how best to get it done requires *planning*. Planning begins with determining the firm's goals, followed by development of a comprehensive *strategy* for achieving those goals, and designing *tactical and operational plans* for implementing the strategy.

2. Organizing

Organizing involves the arranging of a firm's people and resources into a coherent structure. *Organization charts* help everyone understand roles and reporting relationships, key parts of the organizing function.

3. Leading

When leading, a manager works to guide and motivate employees to meet the firm's objectives. The best managers have the capacity to unite their employees in a clear and targeted manner and motivate them to work in the best interests of their employer.

4. Controlling

Controlling is the process of monitoring a firm's performance to make sure that it is meeting its goals. Managers must establish standards and then measure actual performance against those standards, adjusting activities if needed.

B. The Science and the Art of Management

Effective management is a blend of both **science** and **art**.

1. The Science of Management

Many management problems and issues can be approached in ways that are rational, logical, objective, and systematic. Managers can gather data, facts, and objective information, and use quantitative models and decision-making techniques to arrive at "correct" decisions.

2. **The Art of Management**

Even though managers may try to be scientific as often as possible, they must frequently make decisions and solve problems on the basis of intuition, experience, instinct, and personal insights. Relying heavily on conceptual, communication, interpersonal, and time-management skills, a manager may have to decide among multiple courses of action that look equally attractive. Managers must blend intuition and personal insight with hard data and objective facts.

C. Becoming a Manager

Although there are as many variations as there are managers, the most common path involves combination of education and experience.

1. **The Role of Education**

A college degree has become almost a requirement for career advancement in business, and virtually all CEOs in the United States have a college degree; an MBA is common.

2. **The Role of Experience**

Management skills must also be learned through experience. Most managers advanced to their present positions from other jobs. Only by experiencing the day-to-day pressures a manager faces and by meeting a variety of managerial challenges can an individual develop insights into the real nature and character of managerial work.

Learning Objective 5-2:

Identify different types of managers likely to be found in an organization by level and area.

Types of Managers

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

A. Levels of Management

The three basic levels of management are top, middle, and first-line. The power of managers and the complexity of their duties increase as they move up the ladder.

1. **Top Managers.** This level is responsible for the firm's overall performance and effectiveness. Top managers set general policies and formulate strategies, approve all significant decisions, and represent the company in dealing with stockholders, the board of directors, other businesses, and government bodies. Common titles for top managers include *president*, *vice president*, *treasurer*, *chief executive officer (CEO)*, and *chief financial officer (CFO)*.
2. **Middle Managers.** This level is responsible for implementing the strategies, policies, decisions, and goals set by top managers. Titles such as *plant manager*, *operations manager*, and *division manager* designate middle-management slots.

3. **First-Line Managers.** Duties of managers at this level depend on the job, though first-line managers spend most of their time working with and supervising the employees who report to them. Those who hold such titles as *supervisor*, *office manager*, *project manager*, and *group leader* are first-line managers.

B. Areas of Management

In any large company, top, middle, and first-line managers work in a variety of areas.

1. **Human Resource Managers.** These managers hire and train employees, evaluate performance, and determine compensation.
2. **Operations Managers.** These managers are responsible for the production system in which a firm produces goods and/or services, inventory and inventory control, and quality control.
3. **Marketing Managers.** These managers are responsible for the development, pricing, promotion, and distribution of goods and services.
4. **Information Managers.** These managers design and implement systems to gather, organize, and distribute information.
5. **Financial Managers.** These managers are responsible for the firm's accounting functions and financial resources.
6. **Other Managers.** Some firms employ various types of specialized managers, such as public relations managers.

Learning Objective 5-3:

Describe the basic roles and skills required of managers.

Management Roles and Skills

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.

A. Managerial Roles

Research offers a number of interesting insights into the nature of managerial roles. Based on detailed observations of what executives do, it appears that many of their activities fall into 10 different roles.

1. There are **three interpersonal roles** inherent in the manager's job.
First, the manager is often expected to serve as a **figurehead**—taking visitors to dinner, attending ribbon-cutting ceremonies, and the like. The manager is also expected to serve as a **leader**—hiring, training, and motivating employees. Managers can have a **liaison** role. This role often involves serving as a coordinator or link among people, groups, or organizations.

2. **Informational Roles**

The three informational roles flow naturally from the interpersonal roles just discussed. The process of carrying out the interpersonal roles places the manager at a strategic point to gather and disseminate information. The first **informational role** is that of **monitor**, one who actively seeks information that may be of value. The manager is also a **disseminator** of information, transmitting relevant information back to others in the workplace. These two roles combined illustrate the manager's role as a vital link in the organization's chain of communication. The **spokesperson** formally relays information to people outside the unit or outside the organization.

3. **Decisional Roles**

The manager's informational roles typically lead to the decisional roles. First, the manager has the role of **entrepreneur**, the voluntary initiator of change. The manager is acting as a **disturbance handler** when handling such problems as strikes, copyright infringements, or problems in public relations or corporate image. As **resource allocator**, the manager decides how resources are distributed and with whom he or she will work most closely. Finally, as **negotiator**, the manager enters into negotiations with other groups or organizations as a representative of the company.

B. Basic Management Skills

Effectiveness in management results from the development of a variety of skills among managers.

1. **Technical Skills**

Technical skills are the skills needed to perform specialized tasks. These skills are developed through a combination of education and experience. Technical skills are especially important for first-line managers who spend most of their time with the day-to-day operations of the production system.

2. **Human Relations Skills**

Absolutely necessary for managerial success, human relations skills are skills in understanding and getting along with people. These skills are important at all management levels, though most important for middle managers. Good communications skills are key to understanding others and maintaining good relations.

3. **Conceptual Skills**

Especially prevalent among top managers, conceptual skills involve the ability to think in the abstract, to diagnose and analyze different situations and to see beyond the present situation.

4. **Decision-Making Skills**

Decision-making skills include the ability to define problems and to select the best course of action. These skills involve gathering facts, identifying solutions, evaluating alternatives, and implementing the chosen alternative.

5. **Time Management Skills**

Time management skills involve the productive use of managers' time. Leading causes of wasted time are paperwork, telephone calls, meetings, and e-mail.

Competing globally and managing technology are two major challenges facing managers today.

6. **Global Management Skills.** Businesses now demand managers who can understand foreign markets, cultural differences, and the motives and practices of foreign competitors. Managers must also understand how to collaborate with others around the world on a real-time basis, and understand international operations.
7. **Management and Technology Skills.** While new forms of technology have added to a manager's ability to process information, these new forms have also made it even more important to organize and interpret an ever-increasing wealth of input, by developing effective technology skills.

Learning Objective 5-4:

Explain the importance of strategic management and effective goal setting in organizational success.

Strategic Management: Setting Goals and Formulating Strategy

Strategic management is the process of helping an organization maintain an effective alignment with its environment. **Goals** are objectives that a business hopes and plans to achieve. A **strategy** is a broad set of organizational plans for implementing the decisions made for achieving organizational goals.

A. Setting Business Goals

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

1. **Purposes of Goal Setting.** An organization functions systematically because it sets goals and plans accordingly. The four main purposes of organizational goal setting include: (a) **providing direction** and guidance for managers at all levels; (b) helping firms **allocate resources**; (c) helping to **define corporate culture**; and (d) helping managers **assess performance**.
2. **Kinds of Goals.** Every firm has a purpose and a mission. A **mission statement** is a statement of how the firm will achieve its purpose in the environment in which it operates. In addition, every firm needs **long-term goals**, which look at five years or more into the future; **intermediate goals**, which focus on a period of one to five years; and **short-term goals**, which are set for one year.

B. Types of Strategy

A company usually considers three types of strategy:

1. **Corporate Strategy.** The purpose of corporate strategy is to determine the firm's overall

attitude toward growth and the way it will manage its businesses or product lines.

2. **Business (or Competitive) Strategy.** Business (or competitive) strategy focuses on improving the company's competitive position.
3. **Functional Strategy.** With functional strategy, managers in specific areas decide how best to achieve corporate goals by performing their functional activities as productively as possible.

C. Formulating Strategy

Strategy tends to be wider in scope than planning; strategy describes what an organization intends to do. **Strategy formulation** involves three basic steps.

1. **Step 1: Setting Strategic Goals.** Strategic goals are long-term goals derived from the firm's mission statement.
2. **Step 2: Analyzing the Organization and Its Environment: SWOT Analysis.** 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**). **Environmental analysis** involves scanning the external environment for threats and opportunities. Threats include changing consumer tastes, hostile takeovers, and some competitor actions. Opportunities are areas in which the firm can potentially expand, grow, or take advantage of existing strengths. **Organizational analysis** involves scanning the internal environment for strengths and weaknesses. Strengths include surplus cash, a dedicated workforce, technical expertise, or little competition. Weaknesses include a cash shortage, aging factories, a heavily unionized workforce, or a poor public image.
3. **Step 3: Matching the Organization and Its Environment.** This step in strategy formulation involves matching a firm's strengths and weaknesses to its opportunities and threats. This step is at the heart of strategy formulation. A firm should attempt to leverage its strengths so as to capitalize on opportunities and counteract threats. It should attempt to shield its weaknesses. Understanding strengths and weaknesses also impact whether a firm takes risks or behaves more conservatively.

D. A Hierarchy of 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. Usually set by the board of directors and top management with input from others in the organization, **strategic plans** focus on steps needed to meet strategic goals. Usually involving upper and middle managers, **tactical plans** are concerned with implementing certain aspects of the strategic plans; tactical plans are shorter-term plans. Middle and lower-level managers develop **operational plans**, geared toward short-term goals.

Learning Objective 5-5:

Discuss contingency planning and crisis management in today's business world.

Contingency Planning and Crisis Management

Because business environments are often difficult to predict and because the unexpected can create major problems, most managers recognize that even the best-laid plans sometimes simply do not work out. Two common methods of dealing with the unknown and unforeseen are *contingency planning* and *crisis management*.

A. Contingency Planning

Contingency planning is planning for change; it identifies ways in which a company will respond to change. It involves identifying aspects of a business or its environment that might entail changes in strategy and identifying alternatives.

B. Crisis Management

Crisis management involves an organization's methods for dealing with emergencies.

Learning Objective 5-6:

Describe the development and explain the importance of corporate culture.

Management and the Corporate Culture

Corporate culture is the shared experiences, stories, beliefs, and norms that characterize an organization. It helps to define the work and business climate in an organization. It is the unique identity of the company and helps to direct employees' efforts toward the company goals.

A. Building and Communicating Culture

This involves having an understanding of the culture, transmitting the culture to others in the organization, and maintaining the culture. Corporate culture influences management philosophy, style, and behavior. Managers, therefore, must carefully consider the kind of culture they want for their organizations and then work to nourish that culture by communicating with everyone who works there. Effective communication is a key task.

B. Changing Culture

Organizations must sometimes change their cultures. This involves analyzing the company's environment, formulating a vision of a new company, and setting up appraisal and compensation systems for employees who enforce the new values.