Principles of Business Administration

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Preface

This textbook is prepared to cover the main aspects of management to introduce the reader to the importance and functions of management in organizations. It is organized in six chapters.

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Introduction To Management

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Introduction To Management

Management is the act of engaging with an organization's human talent and its resources to accomplish desired goals and objectives.

To meet the many demands of performing their functions, managers assume multiple roles. A role is an organized set of behaviors

LEARNING OBJECTIVE

- Define management as it pertains to business functioning and organizational activities
- Outline the theoretical scope and basic function and managerial responsibilities within a company.
- Identify the main skills needed by managers.
- Outline the ten management roles under their three categorical headings, as devised by McGill University professor Henry Mintzberg.

- To define the levels of management.
- To compare the levels of management.
- To define the management functions.
- To link between managerial levels and functions

KEY POINTS

- Management comprises planning, organizing, staffing, l eading/directing,
  and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal.
- In for-profit work, the primary function of management is meeting the needs of various stakeholders of the organization, such as customers, debtors, and owners.
- In the public sector of countries that are representative democracies, voters elect politicians to public office, who then hire managers and administrators to oversee the everyday responsibilities that support those elected to office.
- Since an organization can be viewed as a type of system, managers provide the necessary human action,

so the organizational system produces planned outcomes or goals desired by the various stakeholders.

- Mintzberg characterizes management using three categories and ten roles, each of which exhibits critical managerial skill sets useful for business leaders in a variety of contexts.
- Interpersonal roles include: figurehead, leader, and liaison.
- Informational roles include: mentor, disseminator, and spokesman.
- Decisional roles include: entrepreneur, disturbance handler, resource allocator, and negotiator.
- It is important to recognize that no single manager can be all things to all people at once. Good management requires assessing which role is appropriate when and determining if new talent is required to complement a skill set.
- A manager needs to be a good leader. While a manager organizes and plans, s/he must also inspire employees with a vision for the organization.

- A manager needs to be an effective negotiator. When organizations are developing or undergoing change, the manager is often required to negotiate with competitors, contractors, suppliers, and employees.
- A manager must be a good figurehead who reinforces the mission and vision of an organization to employees, customers, and other stakeholders.
- A manager needs to be an effective communicator and liaison between employees, customers, and other managers of the organization.

- An organization can have many different managers, across a variety of titles, authority levels, and levels of the management hierarchy that we illustrated above. To properly assign roles and responsibilities to all managerial positions, it is important to recognize the key differences between low-level, middle-level, and top-level management.

- Top-level managers are responsible for controlling and overseeing the entire organization.

- Middle-level managers are responsible for executing organizational plans which comply with the company's policies. They act as an intermediary between top-level and low-level management.

- Low-level managers focus on the execution of tasks and deliverables, serving as role models for the employees they supervise.

TERMS

- Shareholder

Through owning stock, the real owner of a publicly traded business that is run by management.

- Stakeholders

Persons or organizations with a legitimate interest in a given situation, action, or enterprise.

- Theoretical

Of or relating to the underlying principles or methods of a given technical skill, art, etc., as opposed to its practice.

- Informational

Designed or able to impart information.

- Decisional

Having the power or authority to make decisions.

- Interpersonal

Between two or more people.

Overview of Management

Management is the act of engaging with an organization's human talent and its resources to accomplish desired goals and objectives efficiently and effectively.

Another perspective regards management as equivalent to "**business administration**" and thus excludes management in places outside commerce, for example in charities and in the public sector.

More realistically, however, every organization must manage its work, people, processes, technology, etc. to maximize effectiveness and accomplish its goals.

Management comprises planning, organizing, staffing, leading, directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal.

One of the most important duties for a manager is effectively **using an organization's resources**. This duty involves deploying and manipulating human resources (or human capital), as well as efficiently allocating the organization's financial, technological, and natural resources.

Since organizations can be viewed as systems, management can also be defined as human action, such as product design, that enables the system to produce useful outcomes. This view suggests that we must manage ourselves as a prerequisite to attempting to manage others.

Theoretical Scope

At first, **management** may be considered as **a type of function**, one which measures financial metrics, adjusts strategic plans, and meets organizational goals. This applies even in situations where planning does not take place. From this perspective, **Henri Fayol** (1841–1925) considers management to consist of six functions: forecasting, planning, organizing, commanding, coordinating, and controlling. He was one of the most influential contributors to modern concepts of management.

In another way of thinking, **Mary Parker Follett** (1868–1933) defined management as "the art of getting things done through people." She described management as philosophy. Some people, however, find this definition useful but far too narrow. The phrase "management is what managers do" occurs widely, suggesting the difficulty of defining management, the shifting nature of definitions, and the connection of managerial practices with the existence of a managerial cadre or class.

Another perspective regards management as equivalent to **"business administration"** and thus excludes management in places outside commerce, for example in charities and in the public sector. More realistically, however, every organization must manage its work, people, processes, technology, etc. to maximize effectiveness and accomplish its goals.

What is the nature of managerial Work?

In the **for-profit** environment, management is tasked primarily with meeting the needs of a range of stakeholders. This typically involves making a profit (for the shareholders), creating valued products at a reasonable cost (for customers), and providing rewarding employment opportunities (for employees). **Non-profit** management has the added importance of attracting and retaining donors.

In most models of management/governance, shareholders vote for the board of directors, and the board then hires senior management. Some organizations have experimented with other methods (such as employee-voting models) of selecting or reviewing managers, but this occurs only very rarely. In the public sector of countries that are representative democracies, voters elect politicians to public office. Such politicians hire managers and administrators.

Several historical shifts in management have occurred throughout the ages. Towards the end of the 20th century, business management came to consist of **six different branches, namely**:

- Human resource management
- Operations management or production management
- Strategic management
- Marketing management
- Purchasing and supply chain management
- Financial management
- Information technology management (responsible for the management information systems)

What are the Managers' responsibilities?

A manager's success in becoming one of the greatest managers ever depends on understanding the managerial duties and responsibilities and ensure the key managerial activities are done well and done right. It is vital for the manager to have an in depth understanding of the managerial duties and responsibilities in the scope of the Manager Job.

Given the fact that every organization philosophy is not the same, the nature and kind of people are not the same, it is even more challenging to identify those key common activities of a manager's duties that hold credible in every organization.

The modern manager coaches employees of the organization to develop teamwork, which effectively fulfills their needs and achieves organizational objectives.

The traditional autocratic organization with its hierarchical system of management and an overbearing "boss" that forces performance out of people is no longer needed.

The modern manager provides an atmosphere of **empowerment** by letting workers make decisions and inspiring people to increase productivity.

What a manager does

a) Motivates and works with others, helping them through coaching conversations to recognize approaches to take/identify solutions
b) Keeps their staff informed, gives explanations and reasons for actions/changes and asks for feedback and ideas sets priorities with staff, ensuring that they are clear on their responsibilities and the authority that they have to make decisions works not only with their employees, but also with peers and superiors, other employees and customers.
c) Looks outwards, considering the needs of the wider team, the department.
d) Creates an environment where team members are listened to and respected and deals with conflict when necessary.
e) Create a healthy and safe environment for their team.

What a manager does not do

a) Knows all the answers (and should not feel that they have to!)
b) Uses information as power (there may be occasions where discretion is necessary, but this power should not be abused)
c) Monitors each action staff take and ‘micro manage’ work in isolation.
d) Takes a narrow approach which means that they and their team members cannot understand the wider ‘fit’ across the organization.
e) Avoids issues in the team, in the hope that they will just go away.
f) Ignores or take unnecessary risks which endanger the health and safety of the team.

What are the Basic Functions of management?

Management operates through various functions, such as planning, organizing, staffing, leading/directing, controlling/monitoring, and motivating.

- Planning: Deciding what needs to happen in the future (today, next week, next month, next year, over the next five years, etc.) and generating plans for action.
- Organizing: Implementing a pattern of relationships among workers and making optimum use of the resources required to enable the successful carrying out of plans.
- Staffing: Job analysis, recruitment, and hiring of people with the necessary skills for appropriate jobs. Providing or facilitating ongoing training, if necessary, to keep skills current.
- Leading/directing: Determining what needs to be done in a situation and getting people to do it.
- Controlling/monitoring: Checking current outcomes against forecast plans and adjusting when necessary, so that goals are achieved.
- Motivating: Motivation is a basic function of management because without motivation, employees may feel disconnected from their work and the organization, which can lead to

ineffective performance. If managers do not motivate their employees, they may not feel their work is contributing to the overall goals of the organization (which are usually set by top-level management).

Hence managers create and maintain an internal environment, commonly called the organization, so that others can work efficiently in it. Common manager's job consists of planning, organizing, directing, and controlling the resources of the

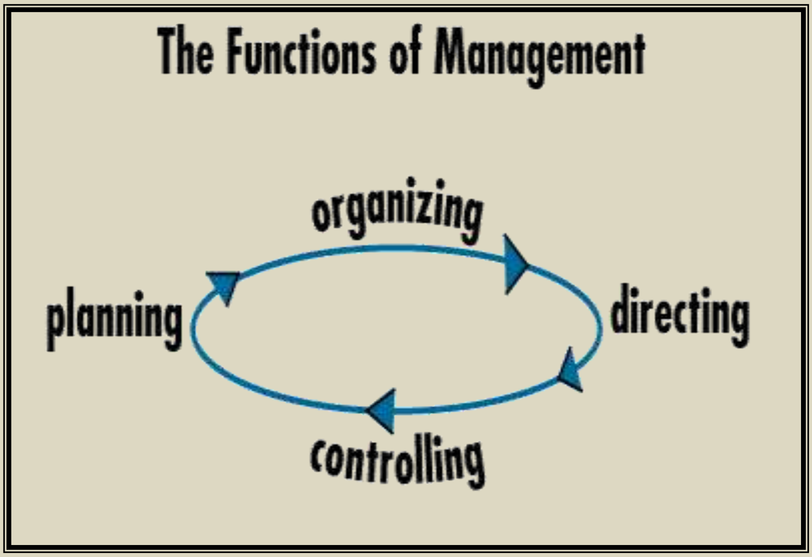


FIGURE 1 FUNCTIONS OF MANAGEMENT

organization. These resources include people, jobs or positions, technology, facilities and equipment, materials and supplies, information, and money.

- Planning involves devising a systematic process for attaining the goals of the organization. It prepares the organization for the future.

- Organizing involves arranging the necessary resources to carry out the plan. It is the process of creating structure, establishing relationships, and allocating resources to accomplish the goals of the organization.

- Directing involves the guiding, leading, and overseeing of employees to achieve organizational goals.

- Controlling involves verifying that actual performance matches the plan. If performance results do not match the pan, corrective action is taken.

Managerial Skills needed by Managers

Classical management theory structures organizational management into tiers, like a pyramid.

At the base of the pyramid are supervisors, or lower-level managers, working directly with workers to coordinate the daily tasks of the organization.

In the middle are middle managers. They oversee longer-term goals with the supervisors that align with strategic objectives of the organization. Who sets these strategic objectives? That's right; it's the folks at the tip of the pyramid, the top-level managers.

Regardless of the level of management, theorist and psychologist Daniel Katz identified three skills common to every manager. These are conceptual skills, human skills, and technical skills.

- **Conceptual skills** allow a manager to visualize the entire organization and work with ideas and the relationships between abstract concepts.
- **Human skills**, also called human relation skills, require communication and attention to relationships with others.
- **Technical skills** are needed to actually get the work done; they are the techniques, practices, tools, and processes needed by front-line employees in the manager's functional area.

While all managers have these skills, the ratio of each skill to the others varies based on the industry and level of management.

Do Management Skills differ by Management Level?

1. Top managers rely mostly on conceptual skills. They need conceptual skills in order to view the organization as a whole. Conceptual skills are used in planning and dealing with ideas and abstractions. They use significant human skills as well. Remember, though, they need technical skills to set a strategy that makes sense for the organization. Managers need technical skills to manage their area of specialty. Top managers have the most discretion, or choice, in how they exercise any of these skills.

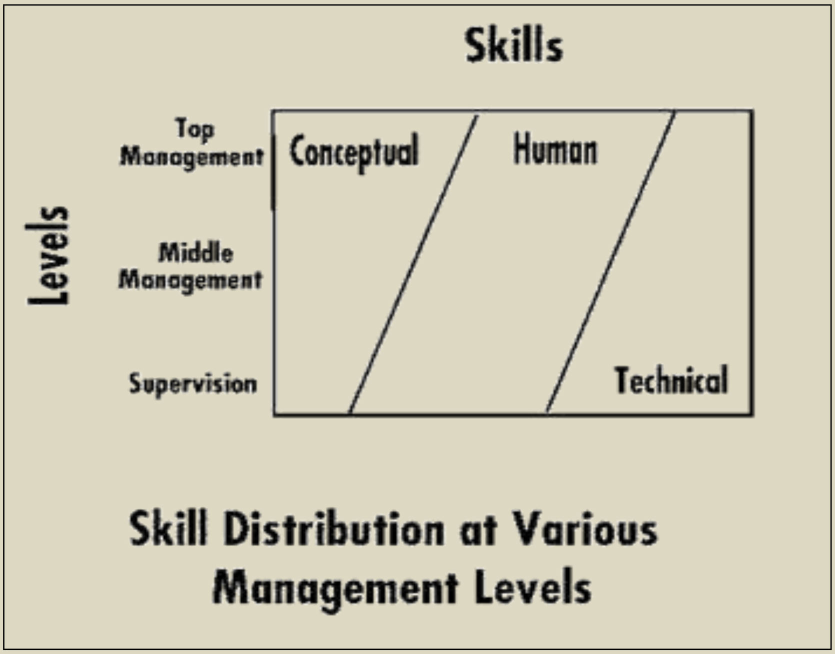


FIGURE 2 SKILLS DISTRIBUTION AT VARIOUS MANAGEMENT LEVELS

2. Human skills are needed by most middle managers because middle managers need to communicate up, down, and across the organization in order to do their work well, but they also need conceptual skills to set the goals and achieve strategic objectives. They are expected to have more technical skill and less conceptual skill than the managers above them because they are 'closer to the ground.'
3. Direct supervisors do not spend as much time doing work that requires conceptual skills - the day-to-day

operations of the organization are more task-minded than strategically oriented. Instead, they are the 'closest to the ground,' so they need more technical skills as the most hands-on and visible managers. They do need human relations skills.

The Roles of the Managers

Management is incorporated into every aspect of an organization and involves different roles and responsibilities.

A manager's job is never static; it is always dynamic. At any given time, a manager may carry out some combination of these roles to varying degrees, from none of the time to 100 percent of the time. Throughout an individual's working life, a person may hold various management positions that call upon different roles.

No one person can be all things to all people. While these ten roles are highly useful in framing organizational leadership, to expect one person to fill each role in a large organization is impractical. Instead, astute hiring managers will hire people with one or two specific roles in mind, thereby creating a team of managers capable of handling the wide variety of challenges in the business world today.

Managers play an integral part in an organization's growth and evolution. Organizational growth is a complex process, particularly in larger organizations with more inertia. Organizations are essentially a compilation of moving parts: motivating each individual, with her/his unique talents and motivation, to change direction simultaneously (and in the same direction) is extremely challenging and requires highly effective managers with highly developed communication skills.

Managers must do more than accept change: they must facilitate the evolutionary process. In these situations, organizations need a manager who can fulfill several roles, including leader, negotiator, figurehead, and communicator. In each of these roles, the manager's goal is to help employees through the change with the least possible number of conflicts and issues.

Henry Mintzberg (1973) has identified ten roles common to the work of all managers. The ten roles are divided into three groups:

- Interpersonal roles
- Informational roles
- Decisional roles

The performance of managerial roles and the requirements of these roles can be played at different times by the same manager and to different degrees depending on the level and function of management. The ten roles are described individually, but they form an integrated whole.

Each of the three categories embraces the different roles.

1. **The interpersonal roles**

The interpersonal roles ensure that information is provided. The three interpersonal roles are primarily concerned with interpersonal relationships.

- In the figurehead role, symbolic head; the manager performs a number of routine duties of a legal or social nature. He/She represents the organization in all matters of formality. The top level manager represents the company legally and socially to those outside of the organization. The supervisor represents the work group to higher management and higher management to the work group.
- In the liaison role, the manger interacts with peers and people outside the organization. The top level manager uses the liaison role to gain favors and information, while the supervisor uses it to maintain the routine flow of work. The manager maintains a self-developed network of outside contacts and informers who provide favors and information.
- The leader role defines the relationships between the manger and employees. He motivates and activates subordinates; performs staffing, training, and associated duties.

Table 1 The interpersonal roles of managers

Role	Activity	Example
Figurehead	Perform social and legal duties, act as symbolic leader	Greet visitors, sign legal documents, attend ribbon cutting ceremonies, host receptions, etc.
Leader	Direct and motivate subordinates, select and train employees	Includes almost all interactions with subordinates
Liaison	Establish and maintain contacts within and outside the organization	Business correspondence, participation in meetings with representatives of other divisions or organizations.

2. The informational roles

The informational roles link all managerial work together. The direct relationships with people in the interpersonal roles place the manager in a unique position to get information.

Thus, the three informational roles are primarily concerned with the information aspects of managerial work.

- Mentor: seeks and receives a wide variety of special information (much of it current) to develop a thorough understanding of the organization and environment; emerges as the nerve center of internal and external information for the organization.
- Disseminator: transmits information received from outsiders or from other subordinates to members of the organization. Some information is factual; some involves interpretation and integration of diverse value positions of organizational influences. Disseminating what is of value, and how, is a critical informational role. The top-level manager receives and transmits more information from people outside the organization than the supervisor.
- Spokesman: transmits information (plans, policies, results, etc.) within and outside of the organization; serves as an expert on the organization's industry.

Table 2 The informational roles of managers

Role	Activity	Examples
Monitor	Seek and acquire work-related information	Scan/read trade press, periodicals, reports; attend seminars and training; maintain personal contacts
Disseminator	Communicate/ disseminate information to others within the organization	Send memos and reports; inform staffers and subordinates of decisions
Spokesperson	Communicate/transmit information to outsiders	Pass on memos, reports and informational materials; participate in conferences/meetings and report progress

3. The decisional roles

The decisional roles make significant use of the information. The unique access to information places the manager at the center of organizational decision making. There are four decisional roles:

- Entrepreneur: the manager initiates change, searches the organization and its environment and initiates improvement projects to bring about change; supervises design of certain projects as well. In the entrepreneur role,
- Disturbance Handler: The manager takes corrective action when the organization faces important, unexpected disturbances. He or she deals with threats to the organization.
- Resource Allocator: the manager chooses where the organization will extend its efforts; allocates the organization's resources; makes or approves of all significant organizational decisions.
- Negotiator: represents the organization at major negotiations.

Table 3 The decisional roles of managers

Role	Activity	Example
Entrepreneur	Identify new ideas and initiate improvement projects	Implement innovations; Plan for the future
Disturbance Handler	Deals with disputes or problems and takes corrective action	Settle conflicts between subordinates; Choose strategic alternatives; Overcome crisis situations
Resource Allocator	Decide where to apply resources	Draft and approve of plans, schedules, budgets; Set priorities
Negotiator	Defends business interests	Participates in and directs negotiations within team, department, and organization

The top level manager makes the decisions about the organization as a whole, while the supervisor makes decisions about his or her particular work unit. The supervisor performs these managerial roles but with different emphasis than higher managers.

Supervisory management is more focused and short-term in outlook. Thus, the figurehead role becomes less significant, and the disturbance handler and negotiator roles increase in importance for the supervisor. Since leadership permeates all activities, the leader role is among the most important of all roles at all levels of management.

In the real world, these roles overlap, and a manager must learn to balance them in order to manage effectively. While a manager’s work can be analyzed by these individual roles, in practice they are intermixed and interdependent. In order to perform the functions of management and to assume multiple roles, managers must be skilled.

Managerial Levels

All businesses are comprised of a vast array of different managerial tasks. When these are coordinated properly, and there is a strong hierarchal manager system in place, an organization can be extremely efficient in creating value through the production of their products, services and overall workflow. Generally, there are Three Levels of Management:

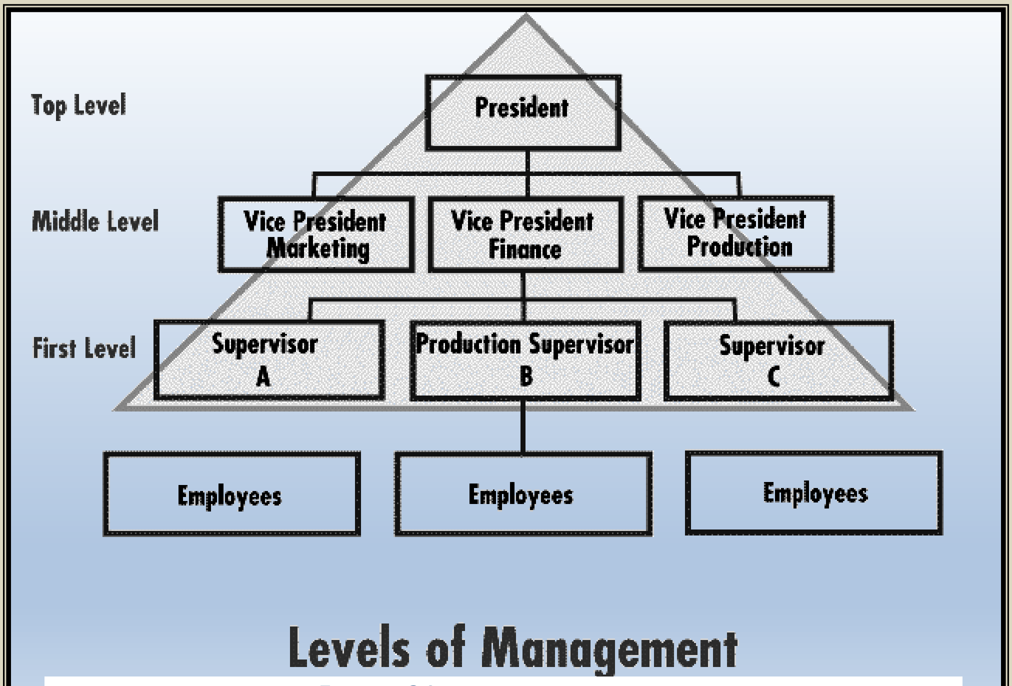


FIGURE 3 LEVELS OF MANAGEMENT

1. Administrative or Top Level of Management
2. Executive or Middle Level of Management.
3. Supervisory or Lower Level of Management.

At each level, individual manager must carry out different roles and functions.

Top Level of Management

The Top Level Management consists of the Board of Directors (BOD) and the Chief Executive Officer (CEO). The Chief Executive Officer is also called General Manager (GM) or Managing Director (MD) or President. The Board of Directors are the representatives of the Shareholders, i.e. they are selected by the Shareholders of the company. Similarly, the Chief Executive Officer is selected by the Board of Directors of an organization.

The main role of the top-level management is summarized as follows: -

a. The top-level management determines the objectives, policies and plans of the organization.
b. They mobilize (assemble and bring together) available resources.
c. The top-level management does mostly the work of thinking, planning and deciding. Therefore, they are also called as the Administrators and the Brain of the organization.
d. They spend more time in planning and organizing.
e. They prepare long-term plans of the organizing which are generally made for 5 to 20 years.

f. The top-level management has maximum authority and responsibility. They are the top or final authority in the organizing. They are directly responsible to the Shareholders, Government, and the General Public. The success or failure of the organizing largely depends on their efficiency and decision making.
g. They require more conceptual skills and less technical Skills.

Middle Level of Management

The Middle Level Management consists of the Departmental Heads (HOD), Branch Managers, and the Junior Executives. The Departmental heads are Finance Managers, Purchase Managers, etc. The Branch Managers are the head of a branch or local unit. The Junior Executives are Assistant Finance Managers, Assistant Purchase Managers, etc. The Middle level Management is selected by the Top-Level Management.

The middle level management emphasize more on the following tasks: -

a. Middle level management gives recommendations (advice) to the top-level management.

b. It executes (implements) the policies and plans which are made by the top-level management.
c. It co-ordinate the activities of all the departments.
d. They also have to communicate with the top-level Management and the lower-level management.
e. They spend more time in coordinating and communicating.
f. They prepare medium plans of their departments which are generally made for 1 to 5 years.
g. The middle Level Management has limited authority and responsibility. They are intermediary between top and lower management. They are directly responsible to the chief executive officer and board of directors.
h. Require more managerial and technical skills and less conceptual skills.

Lower Level of Management

The lower-level management consists of the Foremen and the Supervisors. They are selected by the middle level management. It is also called Operative/Supervisory level or First Line of Management.

The lower-level management performs following activities:

a. Lower-level management directs the workers / employees.
b. They develop morale in the workers.
c. It maintains a link between workers and the middle level management.
d. The lower-level management informs the workers about the decisions which are taken by the management. They also inform the management about the performance, difficulties, feelings, demands, etc., of the workers.
e. They spend more time in directing and controlling.
f. The lower-level managers make daily, weekly and monthly plans.
g. They have limited authority but important responsibility of getting the work done from the workers.
h. They regularly report and are directly responsible to the middle level management.
i. Along with the experience and basic management skills, they also require more technical and communication skills.

Stakeholders of organizations:

Who Are Stakeholders?

If we consider fully what a modern ethical organization is, we must inevitably take a far wider view in defining modern stakeholders. A modern definition of 'stakeholder' is broader than the conventional ideas about shareholders, investors, and partners, etc. A modern definition of a stakeholder is any group which has an interest in, involvement with, dependence on, contribution to, or is affected by, the organization.

Individuals are stakeholders too of course, but for practical reasons most organizations will necessarily view stakeholders as groups, and for the purposes of this explanation the term 'stakeholder' here also means a stakeholder group.

A stakeholder is any group of people who could lose or gain something because of the actions of the organization. This is especially relevant in the context of ethics, corporate responsibility, sustainability, etc.

It's not acceptable to dismiss or deny a group as a stakeholder on the basis that the relationship is too difficult to measure. If the group is affected by the organization, then it's a stakeholder and the group's needs must be considered. Thus, the organization acknowledges its full responsibilities.

The question is then one of type and degree - in other words the needs of each stakeholder, and the extent of the effect of the organization on each stakeholder.

So, a good modern stakeholder model or analysis would be one which recognizes all of the stakeholder and then identifies a relationship (needs and interests, etc), and also shows a degree of impact for each stakeholder. Such an analysis can be helpful in training and development and is arguably also essential in strategic planning and decision-making.

Some impacts might seem small, but if the size of the stakeholder group is very large then the overall impact might be considerable.

By accepting that stakeholders are represented by a far wider range of people and groups than conventionally applied, we effectively expand and liberate the appreciation of what organizational (and leadership and management) responsibility really is, and how far it extends.

For example, a villager in deepest Africa is a stakeholder in all UK organizations given their (our) effect on the world's natural shared resources and the natural world.

Failure to recognize these more distant and less obvious groupings as 'stakeholders' is what has enabled organizations to ignore their wider responsibilities both to local communities and to the rest of the world beyond.

Stakeholders can be found in any or all the following groups depending on the type of organization. Below are examples of stakeholder groups, including conventional 'investor' stakeholders, and more modern stakeholder ideas. Remember, a stakeholder is any group that is affected in one way or another by the activities of an organization.

- Shareholders
- Trustees

- Guarantors
- Investors
- Funding bodies
- Distribution partners
- Marketing partners
- Licensors
- Licensees
- Approving bodies
- Regulatory authorities
- Endorsers and 'recommenders'
- Advisors and consultants (yes, these people have something at stake too)
- Employees - staff, managers, directors, non-executive directors
- Customers

- Suppliers
- The local population (community)
- The regional general public
- National public
- International communities
- Humankind

Many of these groups would not conventionally be stakeholders but think about it: each of these groups could have an interest in and could be affected by the activities of an organization. If a connection is not easy to see and understand it doesn't mean the connection doesn't exist.

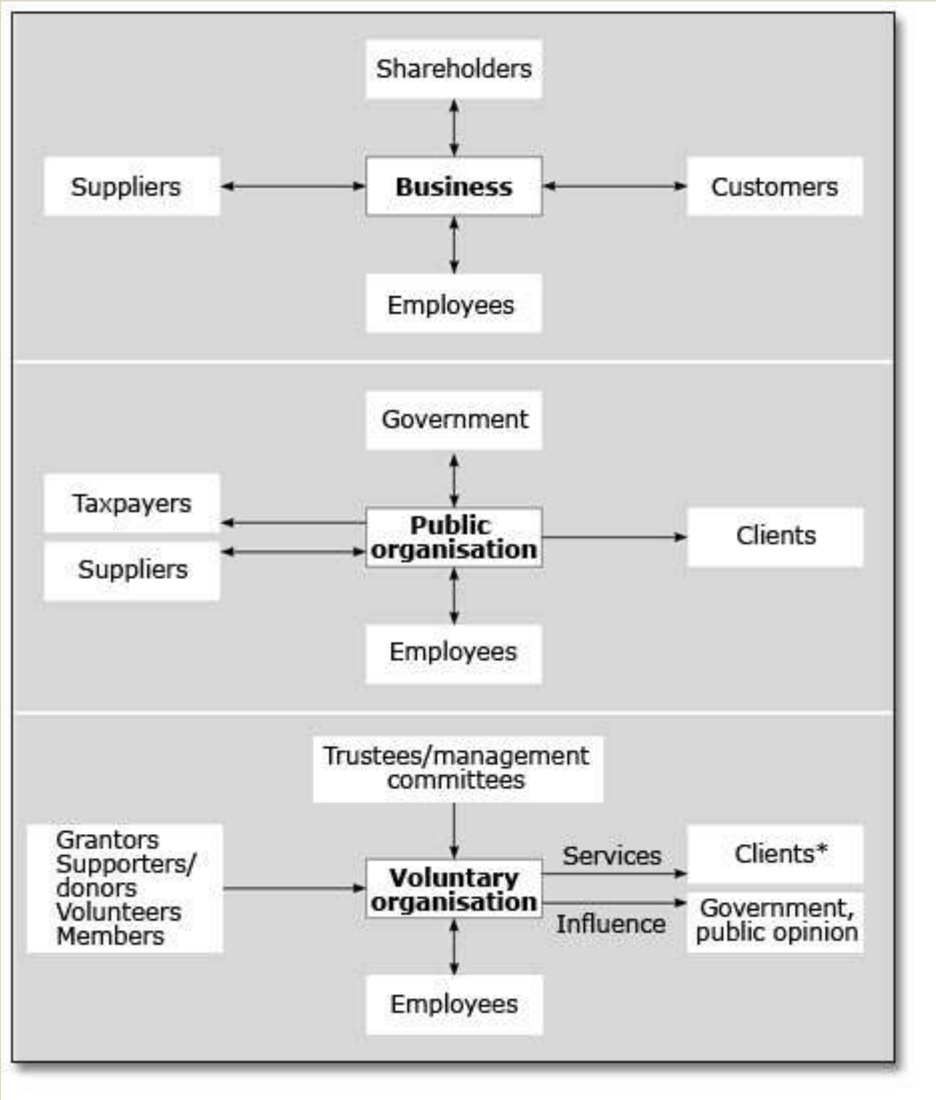


FIGURE 4 STAKEHOLDERS OF DIFFERENT ORGANIZATIONS

The term stakeholder (any person or group that has a legitimate interest in an organization and what it does, and the capacity to affect it. For example, staff, funders, volunteers, supporters and beneficiaries are all stakeholders) and may already think in terms of the different audiences this implies for your message. But have you thought about the implications of the differing stakeholder maps for different sectors?

We can notice the different flows of inputs and outputs as illustrated by the direction of the arrows in the previous figure. In private sector organizations there is a ‘bottom line’ of profitability. Organizations will only produce what can be sold profitably and generate returns for investors, whether individual owners or shareholders. Such organizations have a close relationship with their customers.

Given that this sort of modern stakeholder perspective produces such a wide-ranging and extensive list of stakeholder groups, it's essential to apply (for any given situation) some method of evaluating and expressing relative stakeholder interests and needs, and also to measure and show the varying significance of the stakeholder relationships, the degree of impact or dependence.

Logically, this can be achieved via some sort of 'weighted analysis', designed to assess, analyze, compile, and prioritize all stakeholder needs for any given organization and operating scenario. This is not a precise science, but again, the difficulty in measuring the impact is no excuse for denying the existence of the relationship, the stakeholding, and the organizational responsibility for the stakeholder group concerned. Below is a suggested basic template for this purpose, which you can adapt for your own situation.

Although Stakeholder Analysis (SA) originated from the business sciences, it has evolved into a field that now incorporates economics, political science, game and decision theory, and environmental sciences.

Current models of SA apply a variety of tools on both qualitative and quantitative data to understand stakeholders, their positions, influence with other groups, and their interest in a particular reform. In addition, it provides an idea of the impact of reform on political and social forces, illuminates the divergent viewpoints towards proposed reforms and the potential power struggles among groups and individuals, and helps identify potential strategies for negotiating with opposing stakeholders.

Major Attributes to Consider in Stakeholder Analysis

Four major attributes are important for Stakeholder Analysis:

1. The stakeholders' position on the reform issue,
2. The level of influence (power) they hold,
3. The level of interest they have in the specific reform,
4. The group/coalition to which they belong or can reasonably be associated with.

These attributes are identified through various data collection methods, including interviews with country experts knowledgeable about stakeholders or with the actual stakeholders directly.

The level of influence depends on the **quantity** and **type of resources** and **power** the stakeholder can marshal to promote its position on the reform. The level of interest or salience is the **priority** and **importance** the stakeholder attaches to the reform area.

Stakeholders Analysis therefore provides a detailed understanding of the political, economic, and social impact of reform on interested groups, the hierarchy of authority and power among different groups and the actual perceptions of the reform among different groups, all of which are important for reform advocates to consider.

Questions

Write short notes:

1. What is a business Organization?
2. Purpose of Firms?
3. The focus of management.
4. An effective manager is supposed to carry out four activities in any organization while handling people as team members.
5. Managers' Function.
6. Management Levels.
7. Managerial roles.
8. Managerial skills.
9. Relationship between managerial skills and management levels.
10. The relationship between managerial skills and management levels

11. The interpersonal roles.

12. The informational roles.

13. The decisional roles.

14. Nonprofit-Specific Management Skills.

Decide if true or false each of the following.

1. Business Organization can range in size from two people to ten thousand.
2. Profitability should be assumed to be dominant Objectives of all Organizations.
3. Profitability is the Overriding Objective for organizations.
4. Shareholder's objective is to maximize the value of their holdings.
5. Profitability, Growth, Shareholder objectives are interests of customer.
6. Shareholders are the owners of commercial Organization.
7. Stakeholders affect and affected by Policies, decision or action within a particular system.
8. The President or CEO is the same as top management.

9. Supervisor is the name for a first-line manager.

10. The Supervisor is Located at the top of the managerial hierarchy.

11. The Vice President is Located at the bottom of the managerial hierarchy.

12. Supervisory management is less focused and more long-term than higher management roles.

13. The Supervisor's monitor role involves receiving and collecting information.

14. Initiating Organizational change refers to a manager's figurehead role.

15. In disseminating Organizational information, the Supervisor is acting in the role of spokesperson.

16. The relationship between the manager and employees refers to the leader role.

17. Conceptual skills are used by most Supervisors.

18. Supervisors use human skills more than top managers.

19. Interpersonal relations are a type of human skills.

20. Managerial skills are classified as Conceptual, human and technical.

21. Technical skills are used most by middle managers.

22. The ability to effectively run a machine is classified as a technical skill.

23. Working effectively with a team to resolve conflicts describes a human skill.

24. Managerial skills are classified as conceptual, informational, and decisional.

25. All levels of management need the same level of technical skills to manage their area of specialty.

26. Top level managers spend more time on short-term plans.

27. A manager’s figurehead role is related to the informational role category.

28. A manager’s decisional role involves the giving, receiving, and analyzing of information that is available to him.

29. The managerial skills are classified as conceptual, human, and technical.

30. There are differences across the management levels as to what extent the types of functions each does.

31. At top level management, the greatest amount of time is spent on directing and controlling.

32. Conceptual skills are concerned with manager’s ability to apply specific methods and techniques.

33. Supervisory management is less focused and more long-term than higher management roles.

34. All levels of management need the same level of technical skills to manage their area of specialty.

Choose the right answer:

1. How would you classify a manager that's in charge of a department?

    a. Top-Level Manager
    b. Operational Manager
    c. Middle Manager
    d. Low-Level Manager

2. Name the function of management that involves monitoring how the business is performing.

    a. Leading

b. Controlling
c. Planning
d. Organizing

3. Which of the following is NOT part of Top Level Management?

   a. President
   b. Chief Executive Officer
   c. Chief financial officer
   d. Supervisor

4. Which of the following is responsible for tactical planning ?

   a. Top Level Management
   b. First Line/ Supervisory Management
   c. Sub Level Management
   d. Middle Level Management

5. What are the three levels of Management?

   a. Bottom Level, Low Level and Top/Senior
   b. Bottom level, middle level, top level
   c. Middle Managers, Top Managers and Senior Executives
   d. Operational, Middle Level and Top Level

35. For his fast-food restaurant, Salem recruits labor with different skills for different jobs. This approach is characteristic of

a) rationality c) division of labor

b) impersonality d) hierarchical structure.

36. The pioneer of scientific management was

a) Elton Mayo c) Henri Fayol

b) Frederick Taylor d) Mary Parket Follett

37. Which of the following sets of managerial roles classify Mintzberg's ten most common roles of managers?

a) Controlling, planning, and directing

b) Entrepreneurial, decisional, and logistical

c) Figurehead, monitor, and spokesperson

d) Interpersonal, informational, and decisional.

38. Susan periodically takes clients to lunch to reward them for being good customers. Her action exhibits what role of management?

a) Decisional c) Figurehead

b) Entrepreneur d) Leader

39. Corporate CEO Lew Williams had a vision that helped rally employees. His vision represented what role of management?

a) Leader c) Figurehead

b) Futurist d) Top manager

40. Dina manages a college bookstore. She feels that her greatest problem is related to employee motivation. This problem is related to her role as a ……

a) figurehead c) monitor b) negotiator d) leader

41. Ahmed promotes team decision making and welcomes employee free expression without fear of embarrassment. What skill is he primarily using?

a) Conceptual c) Interpersonal b) Functional d) Technical

42. Technical skills involve the ability to

a) solve complex problems

b) lead, motivate, and work with others.

c) apply scientific methods, processes, and techniques.

d) understand the interrelated parts of the organization.

43. Conceptual skills are concerned with a manager's ability to

a) apply specific methods and techniques.

b) view the organization as a whole.

c) lead and motivate employees.

d) send and receive information.

44. The characteristics of a work group, organization, specific market, or national population is called

a) culture c) collectivism

b) individualism d) demographics

45. At top level management, the greatest amount of time managers spend is on planning and organizing.

A) True B) False

46. All levels of management need different levels of technical skills to manage their area of specialty.

A) True B) False

47. The misfortune of competitors, who are not performing well, can be considered as a threat to the organization.

A) True B) False

48. Suppliers are classified as part of the external environment of an organization.

A) True B) False

49. Ahmed is a manager who communicates freely with employees and welcomes employee free expression without fear of embarrassment. Ahmed is primarily using conceptual

skills.

A) True B) False

50. When a manager works effectively with employees to resolve conflicts in the organization describes.

a) human skill b) technical skill c) conceptual skill

d) all the above e) none of the above

51. Conceptual skills involve the ability to.

a) Lead employees b) Motivate, and work with other.

c) Apply techniques. d) Understand the interrelated parts of the organization.

e) none of the above

52. An effective manager is supposed to carry out all activities as listed below in any organization while handling any amount of people as team members as a role of Catalyst except ………..

a. Selection of the person b. Motivate the team members

c. Develop and nurture the team members

d. Monitors each action staff take and 'micro manage' work in isolation.

e. none of the above

53. When managers set a mission statement for organization, they are mainly engaged in what managerial function?

a) planning b) organizing c) Directing d) controlling e) staffing

54. When managers schedule the work of employees and identifying needs for staff and resources to meet future changes, they practice………

a) Planning b) organizing c) Directing d) Controlling e) staffing

55. When a manager sets a goal for each division of the organization to be in the top two in the industry, he or she is mainly practicing what managerial function.

a. TQM b. planning c. organizing d. controlling e. controlling

Chapter Two

Planning Function

Chapter Two

Planning Function

OBJECTIVES

- Recognize the relationship between strategy and a company's mission and overall vision
- Understand the implications of the three key questions that define strategic planning.
- Define planning, strategic planning and strategic management.
- Summarize the steps of strategic planning
- Differentiate between types of strategies.
- Identify the critical benefits derived through utilizing business and marketing plans in strategic management

KEY POINTS

- Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business to achieve long-term organizational objectives.
- The initial task of strategic management is typically the compilation and dissemination of the vision and

the mission statement of organization. This outlines the purpose of an organization.

- Strategies are usually derived by the top-level management of the organization and presented to the board of directors in order to ensure they are in line with the expectations of the stakeholders.
- The implications of the selected strategy are highly important. These are illustrated through achieving high levels of strategic alignment and consistency relative to both the external and internal environment.
- All strategic planning deals with at least one of three key questions: First, "*What do we do?*" Second, "*For whom do we do it?*" and third, "*How do we excel?*" In business strategic planning, the third question refers more to defeating or avoiding competition.
- Planning is a management process concerned with defining goals for a company's future direction and determining the resources required to achieve those goals. Managers may develop a variety of plans (business plan, marketing plan, etc.) during the planning process.
- Achieving a vision requires coordinated efforts that adhere to a broader organizational plan. This is enabled through consistent strategies that are supported by staff at all levels.

- Planning enables increased focus on, and coordinated action toward, competitive strategies, while minimizing wasted time and ensuring there are benchmarks for the control process.
- Planning typically offers a unique opportunity for information-rich and productively focused discussions between the various managers involved. The plan and the discussions that arise from it provide an agreed context for subsequent management activities.

Planning

Planning is the process of thinking about and organizing the activities required to achieve a desired goal. Planning involves the creation and maintenance of organizational operations. This thought processes are essential to the refinement of objectives and their integration with other plans.

Planning combines forecasting of developments with preparing scenarios for how to react to those developments. An important, although often ignored, aspect of planning is the relationship it holds with forecasting.

Forecasting can be described as predicting what the future will look like, whereas planning predicts what the future should look like.

Planning is also a management process, concerned with defining goals for a company's future direction and determining the missions and resources to achieve those targets. To meet objectives, managers may develop plans, such as a business plan or a marketing plan. The purpose may be achievement of certain goals or targets. Planning revolves largely around identifying the resources available for a given project and utilizing optimally to achieve best scenario outcomes.

Strategy

A strategy is a plan of action designed to achieve a specific goal or series of goals within an organizational framework. Strategy involves the action plan of a company for building competitive advantage and increasing its triple bottom line over the long-term. The action plan relates to achieving the economic, social, and environmental performance objectives; in essence, it helps bridge the gap between the long-term vision and short-term decisions.

Strategic management

Strategic management is critical to the development and expansion of all organizations. It represents the science of crafting and formulating short-term and long-term initiatives directed at optimally achieving organizational objectives. Strategy is inherently linked to a company's mission statement and vision; these elements constitute the core concepts that allow a company to execute its goals. The company strategy must constantly be edited and improved to move in conjunction with the demands of the external environment.

Strategic management is the process of building capabilities that allow a firm to create value for customers, shareholders, and society while operating in competitive markets (Nag, Hambrick & Chen 2006). It entails the analysis of internal and external environments of firms to maximize the use of resources in relation to objectives (Bracker 1980). Strategic management can depend upon the size of an organization and the tendency to change the organization's business environment.

As an example, let's take a company that wants to expand its current operations to producing cars. The company's strategy may involve analyzing the cars along with other businesses producing cars. Through this analysis, the company can develop a goal for how to enter the market while differentiating from competitors' products. It could then establish a plan to determine if the approach is successful. The company then implement and monitor the plan.

Strategic planning

Strategic planning is an organization's process of defining its strategy or direction and making decisions about allocating its resources to pursue this strategy. To determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Generally, strategic planning deals with at least one of three key questions:

- What do we do?
- For whom do we do it?
- How do we excel?

The tasks of the strategic planning process include:

1. Define the vision, mission, and values.
2. Conduct a situation or SWOT analysis by assessing strengths and weaknesses and identifying opportunities and threats.
3. Set goals and objectives.
4. Develop related strategies (tactical and operational).
5. Monitor the plan.

1. Define the vision, mission, and values.

- The key components of strategic planning include an understanding of the firm's vision, mission, values, and strategies. (Often a "vision statement" and a "mission statement" may encapsulate the vision and mission)

1. *Vision*: This outlines what the organization wants to be or how it wants the world in which it operates to be (an "idealized" view of the world). It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. For example, a charity working with the poor might have a vision statement that reads "A World without Poverty."
2. *Mission*: It defines the fundamental purpose of an organization or an enterprise, briefly describing why it exists and what it does to achieve its vision. For example, the charity above might have a mission statement as "providing jobs for the homeless and unemployed."
3. *Values*: These are beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities and provide a framework in which decisions are made. For example, "knowledge and skills are the keys to success," or "give a man bread and feed him for a day but teach him to farm and

feed him for life." These example values place the priorities of self-sufficiency over shelter.

2. Conduct a situation or SWOT analysis:

A SWOT analysis allows businesses to assess internal strengths and weaknesses in relation to external opportunities and threats.

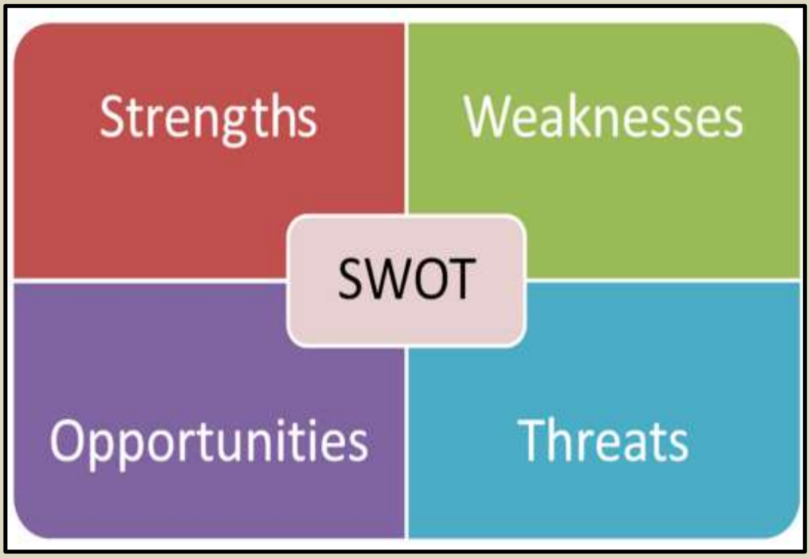


FIGURE 5 SWOT ANALYSIS

- A method of analyzing the environment in which businesses operate is referred to as a context analysis. One of the most recognized of these is the SWOT (strengths, weaknesses, opportunities, and threats) analysis. Performing a SWOT analysis allows a business to gain insights into its internal strengths and weaknesses and to relate these insights to the external opportunities and threats posed by the marketplace in which the business operates. The main goal of a context analysis, SWOT or otherwise, is to analyze the business environment in order to develop a strategic plan.

Components of SWOT

- *Strengths:* internal characteristics of the business that give it an advantage over competitors
- *Weaknesses:* internal characteristics that place the business at a disadvantage against competitors
- *Opportunities:* external chances to improve performance in the overall business environment
- *Threats:* external elements in the environment that could cause trouble for the business

3. Set goals and objectives.

Strategic goals and objectives are developed to bridge the gap between current capability and the mission. They are aligned with the mission and form the basis for the action plans.

A goal is an end that the organization strives to attain. An objective is the object or aim of an action. It implies an explicit direction for the action to take and a specific quality of work to be accomplished within a given period of time.

Objectives are the driver of planning processes. It is imperative that top managers safeguard the intention of their goals to facilitate middle and lower management's effective translation and implementation of them. Objectives guide managerial activities such as budgeting, the development of action plans, staffing, and the purchasing of equipment. The organization's success ultimately depends on the combined outcomes of its objectives.

Objectives reflect the desired outcomes for individuals, groups and organizations. They provide direction for decision-making and a criterion against which outcomes are measured. Thus, objectives are the foundation of planning.

Objectives are sometimes referred to as performance goals. Generally, organizations have long-term objectives for such factors as return on investment, earnings per share, or size. Furthermore, they set minimum acceptable standards or common-sense minimums. In addition, certain limitations, either explicit or implicit, such as "must provide jobs for existing employees" may exist.

Objectives elaborate on the mission statement and constitute a specific set of policy, programmatic, or management objectives for the programs and operations covered in the strategic plan. They are expressed in a manner that allows a future assessment of whether an objective has been achieved.

- **Writing Objectives**

Most managers set objectives, but not with equal skill. Few, who do not correctly write objectives, will reap MBO's full benefits. An objective is simply a statement of what is to be done and should be stated in terms of results. A mnemonic aid to write objectives is SMART (Specific, Measurable, Attainable, Result-oriented, Time-limited).

- ***Specific***

An objective must be specific with a single key result. If more than one result is to be accomplished, more than one objective should be written. Just knowing what is to be accomplished is a big step toward achieving it.

What is important to you? Once you clarify what you want to achieve, your attention will be focused on the objective that you deliberately set. You will be doing something important to you.

- ***Measurable***

An objective must be measurable. Only an objective that affects behavior in a measurable way can be optimally effective. If possible, state the objective as a quantity. Some objectives are more difficult to measure than others are. However, difficulty does not mean that they cannot be measured.

Treatment of salespeople might be measured by looking at the absenteeism and turnover rates among the sales force. Also, salespeople could be asked to fill out a behavioral questionnaire anonymously giving their observations of the supervision they receive. Customer service could be measured by such indices as the number of complaints received, by the number of customers lost, and by customer interviews or responses to questionnaires. Development of subordinates could be measured by determining the number of tasks the subordinate has mastered. Cooperation with other functions could be measured by length of delay in providing requested information, or by peer ratings of degree of cooperation.

Avoid statements of objectives in generalities. Infinitives to avoid include to know, to understand, to enjoy, and to believe. Action verbs are observable and better communicate the intent of what is to be attempted. They include to write, to apply, to recite, to revise, to contrast, to install, to select, to assemble, to compare, to investigate, and to develop.

How will you know you have progressed?

- ***Attainable***

An objective must be attainable with the resources that are available. It must be realistic. Many objectives are realistic. Yet, the time it takes to achieve them may be unrealistic. For example, it is realistic to want to lose ten pounds. However, it is unrealistic to want to lose ten pounds in one week.

What barriers stand between you and your objective? How will each barrier be overcome and within what time frame?

- ***Result-oriented***

The objective should be central to the goals of the organization. The successful completion of the objective should make a difference.

How will this objective help the organization move ahead? Is the objective aligned with the mission of the organization?

- ***Time-limited***

The objective should be traceable. Specific objectives enable time priorities to be set and time to be used on objectives that really matter.

Are the timelines you have established realistic? Will other competing demands cause delay? Will you be able to overcome those demands to accomplish the objective you've set in the time frame you've established?

4. Develop related strategies

Strategy: Strategy, narrowly defined, means "the art of the general"—a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. A strategy is sometimes called a roadmap, which is the path chosen to move towards the end vision. The most important part of implementing the strategy is ensuring the company is going in the right direction, which is towards the end vision.

In most corporations, there are several levels of management. Strategic management is the highest of these levels in the sense that it is the broadest—it applies to all parts of the firm and incorporates the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under the broad corporate strategy are business-level competitive strategies and functional unit strategies.

FIGURE 6 STRATEGY HIERARCHY

- *Corporate strategy* refers to the overarching strategy of the diversified firm.
- *Business strategy* refers to the aggregated strategies of a single business firm or a strategic business unit (SBU) in a diversified corporation.
- *Functional strategies* include marketing strategies, new-product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information-technology management strategies. The emphasis is on short-term and medium-term plans and is limited to the domain of each department's

functional responsibility. Each functional department attempts to do its part to meet overall corporate objectives, so to some extent their strategies are derived from broader corporate strategies.

Porter Competition Strategies

Porter simplified the scheme by reducing it to the three most effective strategies: cost leadership, differentiation, and market segmentation (or focus). He characterizes each as the following:

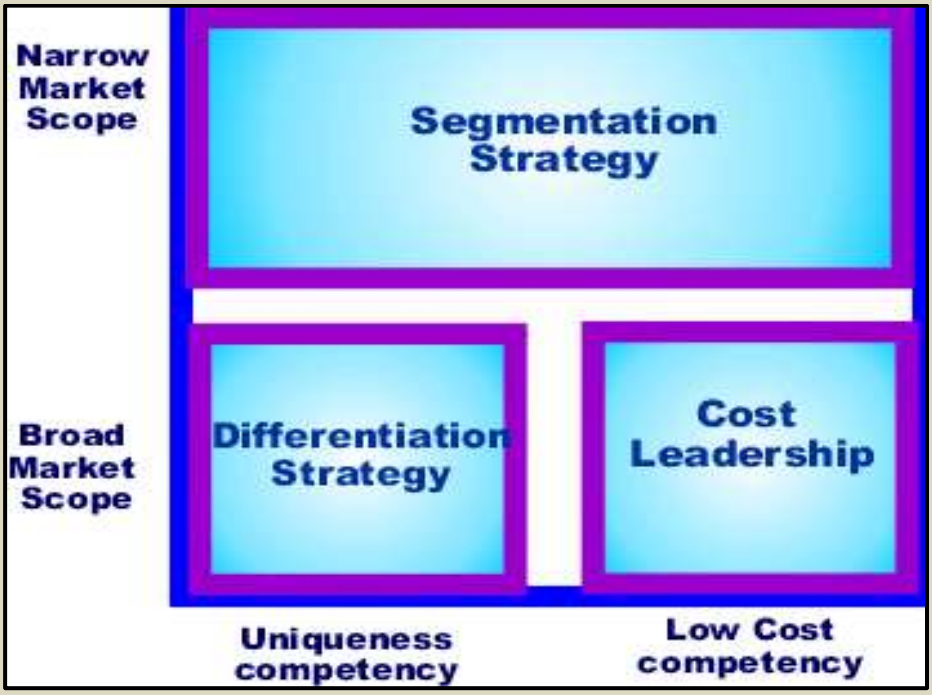


FIGURE 7 PORTER COMPETITION STRATEGIES

- *Cost leadership* pertains to a firm's ability to create economies of scale though extremely efficient operations that produce a large volume. Cost leaders include organizations like Procter & Gamble, Walmart, McDonald's and other large firms generating a high volume of goods that are distributed at a relatively low cost (compared to the competition).
- *Differentiation* is less tangible and easily defined, yet still represents an extremely effective strategy when properly executed. Differentiation refers to a firm's ability to create a good that is difficult to replicate, thereby fulfilling niche needs. This strategy can include creating a powerful brand image, which allows the organization to sell its products or services at a premium.

- *Market segmentation* is narrow in scope (both cost leadership and differentiation are relatively broad in scope) and is a cross between the two strategies. Segmentation targets finding specific segments of the market which are not otherwise tapped by larger firms.

5. Monitor the plan.

A systematic method of monitoring the environment must be adopted to continuously improve the strategic planning process. To develop an environmental monitoring procedure, short-term standards for key variables that will tend to validate the long-range estimates must be established. Although favorable long-range values have been estimated, short-term guidelines are needed to indicate if the plan is unfolding as hoped. Next, criteria must be set up to decide when the strategy must be changed. Feedback is encouraged and incorporated to determine if goals and objectives are feasible. This review is used for the next planning cycle and review.

Benefits of Strategic Planning

The planning process is concerned with defining a company's goals and determining the resources necessary to achieve those goals. Achieving a vision requires coordinated efforts that adhere to a broader organizational plan.

This is enabled through consistent strategies that are supported by staff at all levels. To meet business goals, managers develop business plans not only to reach targets but also to strengthen and change public perception of the company's brand.

Benefits of Planning

Since they have achieved defined goals through the planning process, managers and employees can focus and control their efforts and their resources, follow determined plans of action, coordinate activities between divisions, and use time management to meet specific goals. Planning helps to achieve these goals or targets by efficiently and effectively using available time and resources. In short, planning, if executed properly, should lead to the following benefits:

- *Focus*: There are a wide variety of activities an organization (or the individuals within the organization) might viably pursue. While there is value in the pursuit of many activities, understanding which ones the organization should focus on to leverage organizational competencies and align with market research requires careful planning and delegation. This is how planning achieves focus.
- *Coordinated action*: If department A is reliant on inputs from department B, department A cannot utilize department B's work without coordination. If department B

has too much work and department A too little, there is poor interdepartmental coordination. This is alleviated through detail-oriented planning processes.

- *Control*: The control process is based on benchmarks, which is to say that controlling requires a standard of comparison when viewing the actual operational results. Control relies on the planning process to set viable objectives, which can then be worked towards through controlling operations.
- *Time management*: Time management underlines the importance of maximizing the use of time to minimize the cost of production. If a full-time employee can accomplish their work within 32 hours, the planning process can find meaningful use for their remaining time. Costs can be lowered and productivity increased by ensuring that each element in the operational process functions according to ideal time constraints.
- *Benefits of the process*: Perhaps the most important benefit of developing business and marketing plans is the planning process itself. This typically offers a unique opportunity, a forum, for information-rich and productively focused discussions between the various managers involved. The plan and the discussions that arise from it provide an agreed

context for subsequent management activities, even those not described in the plan itself.

Questions

Write short notes

1. Definition of planning & strategic planning.
2. The strategic planning processes.
3. The difference between strategic plans, tactical plans and operational plans.

True or false?

1- Tactical plans have shorter time frames & narrower scope than operational plans.

2- In strategic planning, the company should diagnose threats and opportunities after implementing the company mission and goals.

3- A business plan is important for businesses seeking funding.

4- A business plan is a written document that describes all the steps necessary for opening and operating a successful business.

Choose the right answer

1- In what specific sequence do managers perform their functions to help achieve company goals?

a) controlling, planning, organizing, directing

b) directing, controlling, planning, organizing
c) organizing, directing, controlling, planning
d) planning, organizing, directing, controlling

2- Formulating Vision Statements is part of which managerial function?
a) Planning
b) Organizing
c) Directing
d) Controlling

3- Planning is a dynamic decision-making function that focus on
a) past performance
b) future performance
c) zero base budgeting
d) stock market performance

4- ………. is the process of developing and analyzing the organization's mission, overall goals, general strategies, and allocating resources?
a) Long term planning
b) Tactical planning
c) Operational planning
d) Strategic planning

5- When an organization CEO sets a goal for each division to be in the top two in the industry, she or he is mainly engaged in what managerial function

   a) TQM b) <u>planning</u> c) organizing d) controlling

6- A business plan…………

a. is useful once your business is operational but not much help during the startup phase
b. is not usually needed to secure financing in your business
c. can serve as a tool for managing your business to help it get up and running
d. All of the above

7- Devising Strategies is part of which managerial function?

a. Planning
b. Organizing
c. Staffing
d. Controlling

8- This plan outlines steps for achieving a goal over a year's time

   a. operational
   b. tactical
   c. strategic
   d. directing

9- Which function of management involves creating goals, objectives, and ways to achieve them?

a. Organizing
b. Planning
c. Controlling
d. Directing

10- This plan outlines steps for achieving short term goals

a. operational
b. tactical
c. strategic
d. directing

11- Which one of the following is not the step in the process of controlling?

a. Measurement of actual performance
b. Establishing reporting relationship
c. Setting performance standards
d. Taking corrective action

12- If deviations are minor, it should

a. Be taken seriously
b. Be ignored
c. Be reported to top level
d. None of the above

13- Planning provides

a. Direction to Controlling
b. Base of Controlling

c. Standard for Controlling

d. All of the above

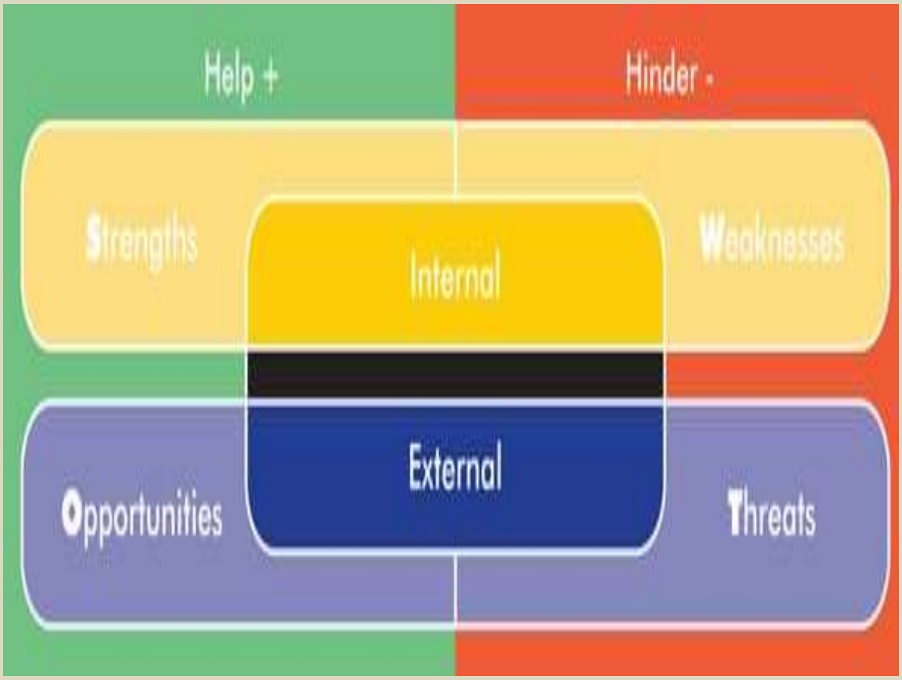
Case studies: Planning

Go to the webpage and answer the casses using the following link

https://studyresearch.in/2018/03/11/case-study-planning/

Case Study[1]

SWOT



[1] http://marketingteacher.com/

SWOT Case Study
Johnson & Johnson

Background

- Johnson & Johnson formed in 1886 and it released it's product of note in 1896
- The firm branched out in 1919, and was listed on the New York Stock Exchange in 1944
- Over the years Johnson & Johnson has grown substantially due to strategic acquisitions such as Neutrogena in 1994 and DePuy in 1998. From 1989 to 1999, the company made 45 such acquisitions of companies and product lines
- Today the firm can boast of revenues exceeding $ 61,897 million during the financial year ending in December 2009
- Johnson & Johnson products fall into three main categories: Pharmaceuticals, Medical Devices & Diagnostics, and Consumer Health care

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Johnson & Johnson's Strengths

- **A Substantial Marketing Arsenal** – Can call upon a network of subsidiaries with significant sales and marketing prowess, as well as expertise in a number of therapy areas. The company possesses a global sales force which serves to attract joint venture possibilities
- **Strategic Acquisitions** – Maintained a stable financial position by utilising cash reserves to finance corporate acquisitions
- **Product Diversification** – The pharmaceutical, Medical Devices & Diagnostics and Consumer Health divisions act to reduce dependence upon any one area and allows a wider range of choice when pursuing opportunities with the greatest growth prospects
- **Positive Revenue Growth Projections** – The potential of an impressive number of new product launches and the promise of achieving forecast sales is said to bode well for Johnson & Johnson

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Johnson & Johnson 's Weaknesses

- **Dependence upon the Success of Launch Products** – Many new launch products are vulnerable to the uncertainty of regulatory review
- **Reliance on Small Molecule Drugs** – Small molecules are more impacted by generic competition. Johnson & Johnson 's small molecule drug sales declined in 2008 and are forecast to fall further into 2012. The necessity of finding replacements for billion dollar products as they mature represents an daunting task

Johnson & Johnson 's Opportunities

- **Wide Range of Potential Cross-selling Opportunities** – Johnson & Johnson is in a position to strategically develop a myriad of cross selling opportunities. Maximizing its balance between pharmaceuticals, diagnostics, and medical devices could result in increased revenues
- **Potential to Exploit Biologics Market** – The addition of further biologics (e.g. therapeutic proteins, antibodies) to its portfolio can serve as a buffer as small molecule patents expire

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Johnson & Johnson's Threats

- **Dependence on the Success of Launch Products** – Many new launch products are vulnerable to the uncertainty of regulatory review, therefore, a reliance upon launch products potentially represents a threat to Johnson & Johnson's outlook.

- **Negative Impact of Recent Product Recalls** – Johnson and Johnson has had the misfortune of having to recall of more than 40 medicines recently. The company stands to take a hit to it's reputation, competence and integrity.

After analysing their SWOT, Johnson & Johnson now have to come up with an action plan to address/solve the problem they have been addressing

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Chapter Three

Organizing Function

Chapter Three

Organizing Function

OBJECTIVES

- To understand the concept of organizing.
- Differentiate between formal and informal organization
- Differentiate between bureaucratic and organic structure.
- To list and summarize the steps of organizing process.
- To differentiate between the types of departmentalization.

KEY POINTS

- The organizing function deals with all those activities that result in the formal assignment of tasks and authority and a coordination of effort.
- The manager staffs the work unit, trains employees, secures resources, and empowers the work group into a productive team.
- Organizational structure is the formal decision-making framework by which job tasks are divided, grouped, and coordinated.

- According to Max Weber, bureaucracy is a form of organization characterized by a rational, goal-directed hierarchy, impersonal decision making, formal controls, and subdivision into managerial positions and specialization of labor.
- The organic structure is more flexible, more adaptable to a participative form of management, and less concerned with a clearly defined structure.
- Organizational structure can be classified in different ways.
- Important characteristics of an organization's structure include span of control, departmentalization, centralization, and decentralization.

What is organizing?

Organizing involves arranging the necessary resources to carry out the plan. It is the process of creating structure, establishing relationships, and allocating resources to accomplish the goals of the organization.

A key issue in accomplishing the goals identified in the planning process is structuring the work of the organization. Organizations are groups of people, with ideas and resources, working toward common goals. The purpose of the organizing function is to make the best use of the organization's resources to achieve organizational goals.

Organizing essentially consists of establishing a division of labor. The managers divide the work among individuals and group of individuals. And then they coordinate the activities of such individuals and groups to extract the best outcome. Organizing also involves delegating responsibility to the employees along with the authority to successfully accomplish these tasks and responsibilities. One major aspect of organizing is delegating the correct amounts of responsibilities and authority.

Organizational structure

Organizational structure is the formal decision-making framework by which job tasks are divided, grouped, and coordinated.

Formalization is an important aspect of structure. It is the extent to which the units of the organization are explicitly defined, and its policies, procedures, and goals are clearly stated. It is the official organizational structure conceived and built by top management.

a) The formal and informal organization

The formal organization can be seen and represented in chart form. An organization chart displays the organizational structure and shows job titles, lines of authority, and relationships between departments.

The informal organization is the network, unrelated to the firm's formal authority structure, of social interactions among its employees. It is the personal and social relationships that arise spontaneously as people associate with one another in the work environment. Managers must realize that the informal organization affects the formal organization.

The informal organizations can pressure group members to conform to the expectations of the informal group that conflict with those of the formal organization. This can result in the generation of false information or rumors and resistance to change desired by management. Manager should recognize the existence of informal groups, identify the roles member play within these groups, and use knowledge of the groups to work effectively with them.

The informal organization can make the formal organization more effective by providing support to management, stability to the environment, and useful communication channels.

Even though the differences among organizations are enormous, there are many similarities that enable them to be classified. One widely used classification is the two-fold system (mechanistic versus organic forms of organizational structure) developed by Tom Burns and G. M. Stalker in their study of electronics firms in the United Kingdom.

b) Mechanistic structure:

The mechanistic structure is the traditional or classical design, common in many medium- and large-size organizations. Mechanistic organizations are somewhat rigid in that they consist of very clearly delineated jobs, have a well-defined hierarchical structure, and rely heavily on the formal chain of command for control.

Bureaucratic organizations, with their emphasis on formalization, are the primary form of mechanistic structures. According to Max Weber, bureaucracy is a form of organization characterized by a rational, goal-directed hierarchy, impersonal decision making, formal controls, and subdivision into managerial positions and specialization of labor.

- Bureaucratic organizations are tall consisting of hierarchies with many levels of management.

- In a tall structure, people become relatively confined to their own area of specialization.
- Bureaucracies are driven by a top-down or command and control approach in which managers provide considerable direction and have considerable control over others.
- Other features of the bureaucratic organization include functional division of labor and work specialization.

c) Organic structure:

On the other hand, the organic structure is more flexible, more adaptable to a participative form of management, and less concerned with a clearly defined structure. The organic organization is open to the environment in order to capitalize upon new opportunities.

- Organic organizations have a flat structure with only one or two levels of management.
- Flat organizations emphasize a decentralized approach to management that encourages high employee involvement in decisions.
- The purpose of this structure is to create independent small businesses or enterprises that can rapidly respond to customers' needs or changes in the business environment.

- Managers tends to have a more personal relationship with his or her employees.

The steps in the organizing process

1. Review plans and list all tasks to be accomplished

Organizational plans and their goals affect organizing and its outcome, the organization. The purposes and activities that organizations have at present or are likely to have in future are dictated by plans. Certain basic purposes and some general activities are likely to remain constant in the long run. For example, from its very inception a business firm will continue to seek profit, as a result, it will continue to employ human and non-human (material) resources

2. Divide tasks into groups one person can accomplish a job.

It is necessary to determine those work activities which are necessary to accomplish organizational objectives. Prima facie, it is essential to prepare a list of tasks to be done. Therefore, there is the need to classify the tasks into two categories: on-going tasks and once-for-all tasks. Examples of the former are hiring, training, and record-keeping. Such tasks may also include assembling, machining, shipping, storing, inspecting, selling, advertising etc.

3. Classifying and Grouping Activities:

This stage demands three processes to be performed by managers:

- Examine each activity identified to determine its general nature (marketing, production, finance, personnel, etc.).
- Grouping those activities into these interrelated functional areas.
- Establishing the basic department design for the organization structure.

In practice, the first two processes go hand in hand. True enough, selling, advertising, shipping and storing can be considered as marketing-related activities, and can be grouped under the broad heading ‘marketing’ without any loss of generality. Likewise, assembling, cutting, machining, welding, painting and inspecting are treated as manufacturing process and can thus be grouped as production. In a similar way, activities like hiring, training, developing, recruiting and compensat-ing can be grouped under personnel-related activities.

Classifying and grouping similar activities using the guidelines of homogeneity are based on the concept of division of labor and specialization.

For accomplishing works which are similar in nature different tasks, processes or skills required are to be placed together so as to achieve organizational objectives.

As soon as the tasks are classified and grouped into related work units (production, marketing, accounting and personnel) the third process, viz., departmentation, is being finalized, i.e., a decision is being made on the basic organizational format or departmental structure for the enterprise. Groups, departments and divisions are being formed on the basis of the objectives of the organization.

Management will choose a departmental type of organizational format from functional, geographic or territorial, customer, product line, or matrix options.

4. Assigning Work and Delegating Appropriate Authority:

After identifying activities necessary to achieve objectives, classifying and grouping these into major operational areas, and selecting a departmental structure, management has to assign the activities to individuals who are simultaneously given the appropriate authority to accomplish the task.

This step is a crucial one in both the initial and ongoing organizing processes. The foundation of this step lies in the principle of functional definition. The principle basically suggests that in estab-lishing departments, the nature, purpose, tasks, and performance of the department must first of all be determined as a basis for authority.

The strategic implication of this principle for business is that the activities determine the type and quantum of authority necessary.

5. Designing a Hierarchy of Relationships:

This final step necessitates the determination of both vertical and horizontal operating relationships of the organization as a whole. In effect this step is 'putting it all together'.

Vertical Structuring:

The vertical structuring of the organization results in a decision-making hierarchy specifying the respective roles of managers at different levels in the organizational hierarchy. It shows who is in charge of each task, of each specialty area, and of the organization as a whole.

Different levels of management (such as the lower level, middle level, and the top level) are established in the organization — from bottom to top. From these levels emerge the chain of command or hierarchy of decision-making levels, in the company.

Essentially the chain of command depicts the authority- responsibility relationships that establish links between supervisors and subordinates throughout the whole organization. It flows from the chief executive officer down to the lowest worker in the organization.

From the chain of command emerges a new principle, unity of command, originally advanced by Henri Fayol. According to this principle, each employee in an organization should report to and be accountable to only one immediate superior.

The implication of this principle is simple enough: the chain of command should be so clear that a subordinate will receive order from one superior and be accountable to him (her) only, hi this case also authority is delegated from the superior to the subordinate.

According to Fayol, unity of command is desirable because it simplifies communication and the assignment of responsibility. However, in today’s complex organizations, this principle is hardly followed. Instead, most employees receive instructions from several managers, especially when there is functional authority. This practice, although found necessary in large organizations, leads to certain undesirable consequences.

Horizontal Structure:

Two important effects of horizontal structuring are listed below: Firstly, it defines the working relationships among operating departments. Secondly, it makes the final decision on the span of control (the number of subordinates under the supervision and direction) of each manager.

Organizational Structure Types

Functional Structure

The organization is divided into segments based on the functions when managing. This allows the organization to enhance the efficiencies of these functional groups. As an example, take a software company.

Software engineers will only staff the entire software development department. This way, management of this functional group becomes easy and effective.

Functional structures appear to be successful in large organization that produces high volumes of products at low costs. The low cost can be achieved by such companies due to the efficiencies within functional groups.

In addition to such advantages, there can be disadvantage from an organizational perspective if the communication between the functional groups is not effective. In this case, organization may find it difficult to achieve some organizational objectives at the end.

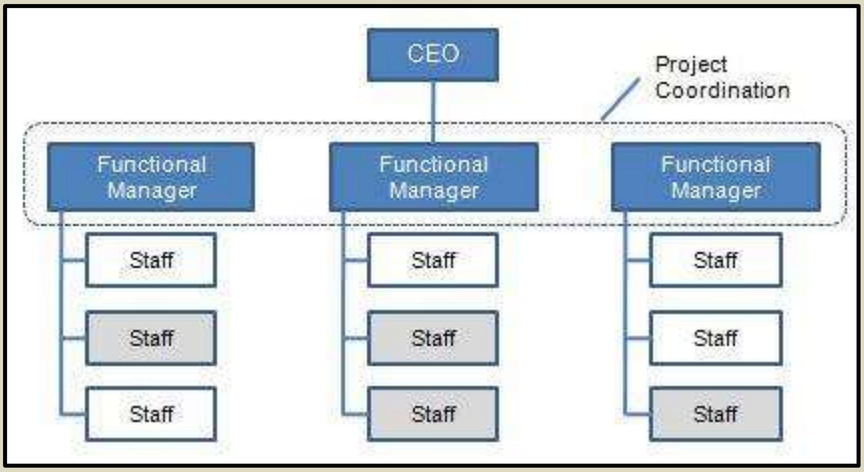

FIGURE 8 FUNCTIONAL STRUCTURE

Divisional Structure

These types of organizations divide the functional areas of the organization to divisions. Each division is equipped with its own resources in order to function independently. There can be many bases to define divisions.

Divisions can be defined based on the geographical basis, products/services basis, or any other measurement.

As an example, take a company such as General Electrics. It can have microwave division, turbine division, etc., and these divisions have their own marketing teams, finance teams, etc. In that sense, each division can be considered as a micro-company with the main organization.

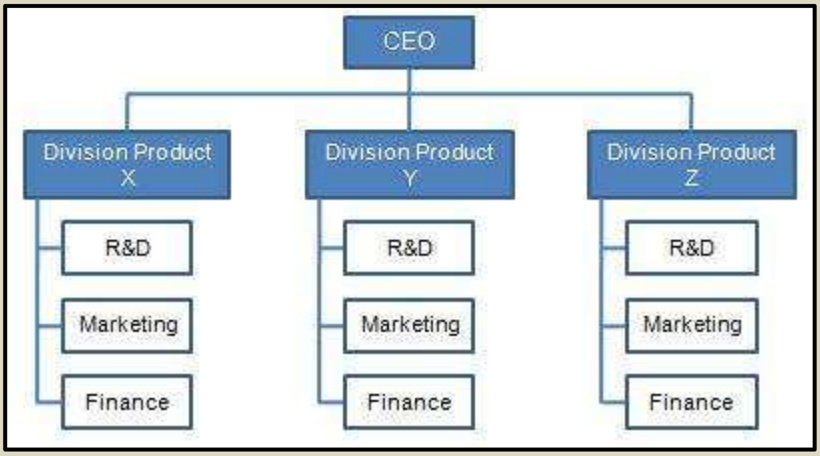

FIGURE 9 DIVISIONAL STRUCTURE

Matrix Structure

When it comes to matrix structure, the organization places the employees based on the function and the product.

The matrix structure gives the best of both worlds of functional and divisional structures.

In this type of an organization, the company uses teams to complete tasks. The teams are formed based on the functions they belong to (ex: software engineers) and product they are involved in (ex: Project A).

This way, there are many teams in this organization such as software engineers of project A, software engineers of project B, QA engineers of project A, etc.

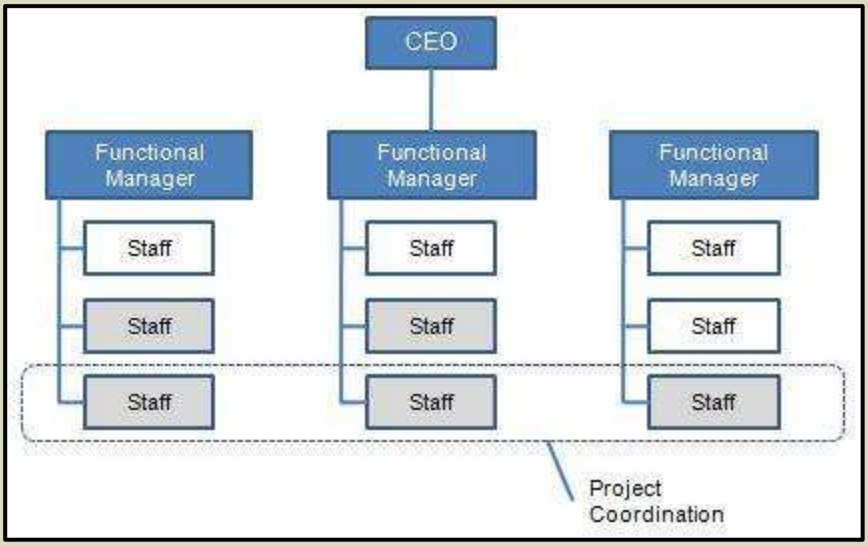

FIGURE 10 MATRIX STRUCTURE

Characteristics of an Organization's Structure

Important characteristics of an organization's structure include span of control, departmentalization, centralization, and decentralization.

Span of Control

Span of control—or the number of subordinates a supervisor has—is used as a mean of ensuring proper coordination and a sense of accountability among employees. It determines the number of levels of management an organization has as well as the number of employees a manager can efficiently and effectively manage. In the execution of a task, hierarchical organizations usually have different levels of task processes. Workers at various levels send reports on their progress to the next levels until the work is completed.

In the past it was not uncommon to see average spans of one to four (one manager supervising four employees). With the development of inexpensive information technology in the 1980s, corporate leaders flattened many organizational structures and caused average spans to move closer to one to ten. As this technology developed further and eased many middle-managerial tasks (such as collecting, manipulating, and presenting operational information), upper management found they could save money by hiring fewer middle managers.

Departmentalization

Departmentalization is the process of grouping individuals into departments and grouping departments into total organizations.

After reviewing the plans, usually the first step in the organizing process is departmentalization. Once jobs have been classified through work specialization, they are grouped so those common tasks can be coordinated. Departmentalization is the basis on which work, or individuals are grouped into manageable units. There are five traditional methods for grouping work activities (see the following figure).

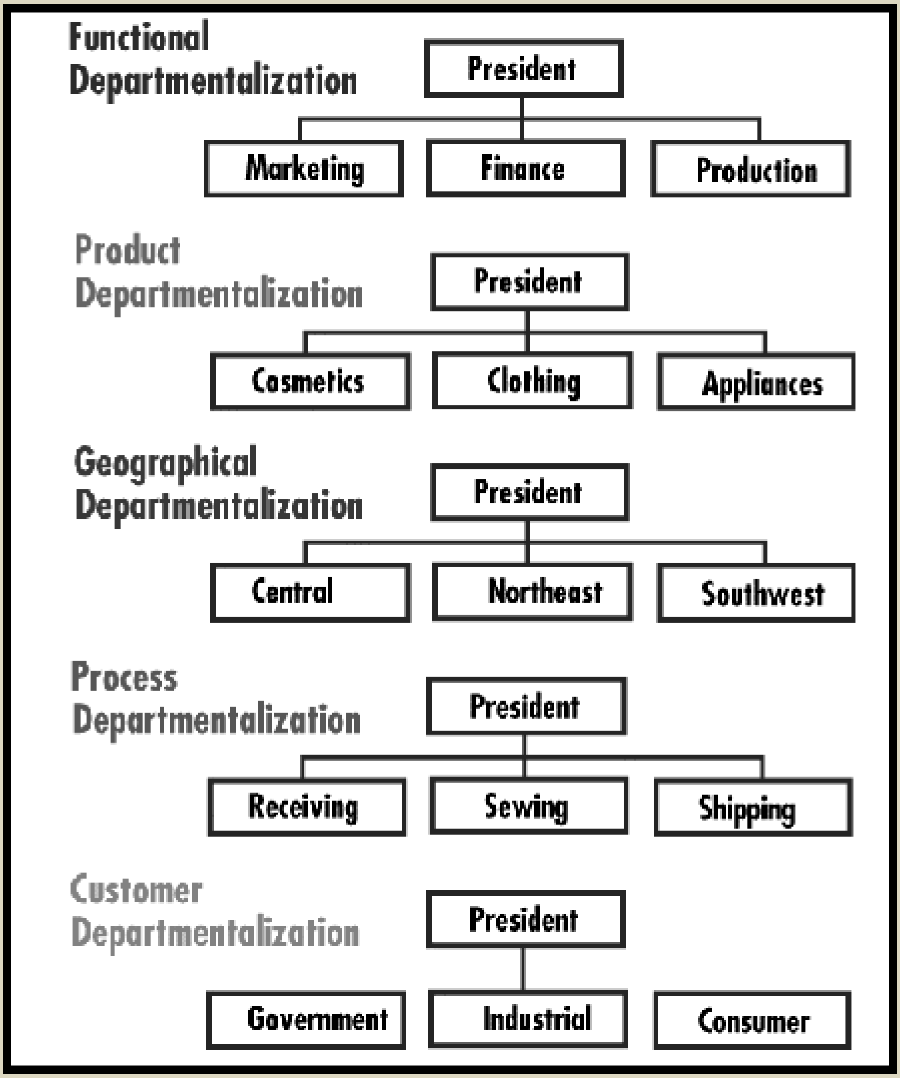

FIGURE 11 METHODS FOR GROUPING WORK ACTIVITIES

- **Departmentalization by function** organizes by the functions to be performed. The functions reflect the nature of the business. The advantage of this type of grouping is obtaining efficiencies from consolidating similar specialties and people with common skills, knowledge and orientations together in common units.

- **Departmentalization by product** assembles all functions needed to make and market a particular product are placed under one executive. For instance, major department stores are structured around product groups such as home accessories, appliances, women's clothing, men's clothing, and children's clothing.
- **Departmentalization by geographical regions** groups jobs on the basis of territory or geography. For example, Merck, a major pharmaceutical company, has its domestic sales departmentalized by regions such as Northeast, Southeast, Midwest, Southwest, and Northwest.
- **Departmentalization by process** groups jobs on the basis of product or customer flow. Each process requires particular skills and offers a basis for homogeneous categorizing of work activities. A patient preparing for an operation would first engage in preliminary diagnostic tests, then go through the admitting process, undergo a procedure in surgery, receive post-operative care, be discharged and

perhaps receive out-patient attention. These services are each administered by different departments.

- **Departmentalization by customer** groups jobs on the basis of a common set of needs or problems of specific customers. For instance, a plumbing firm may group its work according to whether it is serving private sector, public sector, government, or not-for-profit organizations. A current departmentalization trend is to structure work according to customer, using **cross-functional teams**. This group is chosen from different functions to work together across various departments to interdependently create new products or services. For example, a cross-functional team consisting of managers from accounting, finance, and marketing is created to prepare a technology plan.

Centralization

Centralization occurs when decision-making authority is located in the upper organizational levels. Centralization increases consistency in the processes and procedures that employees use in performing tasks. In this way, it promotes workplace harmony among workers and reduces the cost of production. Centralization is usually helpful when an organization is in crisis and/or faces the risk of failure.

Centralization allows for rapid, department-wide decision-making; there is also less duplication of work because fewer employees perform the same task. However, it can limit flexibility and natural synergies. Autonomy in decision-making is reserved for only a small number of individuals within the workforce, potentially limiting creativity.

Decentralization

Decentralization occurs when decision-making authority is dispersed among the lower organizational levels. With decentralized authority, important decisions are made by middle-level and supervisory-level managers. Because there are fewer hierarchical layers to navigate, this kind of structure helps to enable adaptability, quick reactions to lower-level issues, and more empowered employees. However, making organization-wide changes that are implemented homogeneously can become quite difficult in this system.

Questions

Question one: write short notes

1. The formal & informal organization
2. Steps in organizing process
3. Bureaucratic & organic organization
4. Functional & divisional organization
5. Centralization & decentralization

Question two choose the right answer:

1. Functional structure of organization groups the employees who work in the same product or process, serve similar customers and are located in the same area or geographic region.
   a) True b) False
2. Divisional structure of organization groups the employees who work in the same product or process, serve similar customers and are located in the same area or geographic region.
   a) True b) False
3. Management that emphasizes rules, procedures and division of labor is called administrative management.
   a) True b) False

4. A weakness of divisional structure is the tendency to duplicate activities among divisions.

   a) True b) False

5. The primary form of mechanistic structure is bureaucratic organization.

   a) True b) False

6. In functional organization, divisions operate as relatively autonomous business under the large corporate umbrella.

   a) True b) False

7. Once managers define future performance goals, they must translate these goals to reality via the function of

   a) Planning
   b) organizing
   c) controlling
   d) social responsibility

8. When a manager divides work into manageable components and coordinate results to serve a purpose, he is practicing

   a) Leadership
   b) organizing
   c) setting objectives
   d) forecasting

9. The system of communication and authority that lines people and groups together to accomplish the organizational purpose is

a) The organizational function
b) organization structure
c) integrated system
d) coordination

10. The structure of organization in its official state is called the organization's …………..
    a) Informal structure
    b) formal structure
    c) levels of management
    d) hierarchy of authority
11. An organization which relies on rules and has a set hierarchy of authority is using what type of management
    a) Bureaucratic
    b) contingency
    c) administrative
    d) scientific
12. An organization having a well-defined structure in which each person knows where he or she stands in relation to everyone else is a characteristic of
    a) Network design
    b) division of labor
    c) charismatic authority
    d) hierarchical structure

13. Which of the following characteristics is NOT related to bureaucratic management?

   a) Short-term career commitment
   b) Highly formal system of rules
   c) Division of labor
   d) Impersonality

14. ……… is more flexible, more adaptable to a participative form of management, and less concerned with a clearly defined structure

   a) Functional structure
   b) Formal structure
   c) Organic structure
   d) Bureaucratic structure

15. For his fast-food restaurant, Salem recruits labor with different skills for different jobs. This approach is characteristic of

   a) rationality c) division of labor

   b) impersonality d) hierarchical structure.

16. A regional vice president lets local store managers operate each store as if it were a separate business. In this effort to better coordinate company human and material resources, the VP was seeking to improve what managerial function?

   a) Controlling c) Organizing

b) Directing   d) Planning

17. Ordering Materials is part of which managerial function?

   a. Planning
   b. Organizing
   c. Directing
   d. Controlling

18. Allocating Staff to Tasks is part of which managerial function?

   a. Planning
   b. Organizing/staffing
   c. Directing
   d. Controlling

Go to the following webpage and answer the organizing case studies:

https://studyresearch.in/2018/03/11/organising/

Chapter Four

Directing Function

OBJECTIVES

- To define directing function.
- To summarize the component of directing function.
- To be aware of the importance of directing function for all organizations.

KEY POINTS

- Directing is influencing people's behavior through motivation, communication, group dynamics, leadership and discipline.
- The purpose of directing is to channel the behavior of all personnel to accomplish the organization's mission and objectives while simultaneously helping them accomplish their own career objectives.
- Highly motivated people perform better than unmotivated people. Motivation covers up ability and skill deficiencies in employees.

- The directing function includes motivation, communication, performance appraisal, discipline and conflict management.
- Three ways of looking at motivation are: needs, rewards, and effort.
- Communication is the process of passing information and understanding from one person to another. Communication plays a major role in organization.
- Communication requires a sender, a message, a form and channel, and a recipient.
- Barriers to effective communication distort, obscure, or misrepresent the message and fail to achieve the desired effect.

Definition of Directing

Directing is influencing people's behavior through motivation, communication, group dynamics, leadership, and discipline. Directing means giving instructions, guiding, counseling, motivating, and leading the staff in an organization in doing work to achieve Organizational goals.

Directing is a key managerial function to be performed by the manager along with planning, organizing, staffing and controlling. From top executive to supervisor performs the function of directing and it takes place accordingly wherever superior – subordinate relations exist. Directing is a continuous process initiated at top level and flows to the bottom through organizational hierarchy.

Importance of Directing:

The purpose of directing is to channel the behavior of all personnel to accomplish the organization's mission and objectives while simultaneously helping them accomplish their own career objectives. The importance of directing is identified below:

- Direction initiates actions to get the desired results in an organization.
- Direction attempts to get maximum out of employees by identifying their capabilities.
- Direction is essential to keep the elements like Supervision, Motivation, Leadership and Communication effective.
- It ensures that every employee work for organizational goals.

- Coping up with the changes in the organization is possible through effective direction.
- Stability and balance can be achieved through directing.

Directing Principles:

Direction is always a complicated task as it involves dealing with employees of different kind. A manager can become successful in the skill of efficient direction by learning and practicing the basics of direction. Nevertheless, observing the following principles is important for managers to guide his sub-ordinates.

- Direct supervision: Building a direct personal relationship between a manager and his employees enhances their self-esteem and dedication and makes direction much more efficient.
- Good managerial communications: Building a good rapport between the manager and his employees enhances their relationship by enabling them to know each other better.

- Comprehension: Managers must be able to efficiently convey their instructions to employees in order to evade pointless doubts and clarifications.
- Efficient leadership skills: Managers must be able to effectively lead and advice their subordinates in their personal and official problems in order to gain their confidence and loyalty.
- Principle of follow-up: Direction is an ongoing process that requires the manager to adjust his commands according to the problems faced by his employees while working for the organization.
- Management of personal and organizational objectives: Employees are expected to accomplish the goals of an organization even though they join it to fulfill their physiological and psychological requirements. Consequently, management must merge both personal and organizational goals of employees successfully.
- Unison in accountability: Every subordinate must be accountable to one manager only. There will be chaos

and disorderliness in the organization if he has to report to more than one manager or superior.

- Suitable techniques: The right methods used by managers for direction will guarantee its effectiveness and also its appropriateness to the situation, subordinates and the seniors.

- Highest input of individuals: Every individual's input towards the growth of the organization is vital for it to attain all the goals. Therefore, it becomes imperative for managers to bring out the best contribution of each employee.

Components of directing functions:

The directing function includes motivation, communication, performance appraisal, discipline and conflict management. The following part discusses the first two most important component of directing.

Motivation

Selection, training, evaluation, and discipline cannot guarantee a high level of employee performance. Motivation, the inner force that directs employee behavior, also plays an important role. Highly motivated people perform better than unmotivated people. Motivation covers up ability and skill deficiencies in employees.

Three ways of looking at motivation are: needs, rewards, and effort.

- The **needs** approach stems from the notion that peoples' unsatisfied needs drive their behavior. Figure out a person's needs, satisfy the needs and the person will be motivated. For example, a person with a high need to satisfy goals is motivated by production targets.

- The **rewards** approach is based on the expectation that rewarded behavior is repeated. Giving a person a bonus for excellent performance during a difficult harvest period encourages the person to make a special effort during the next difficult harvest.

- The **effort** approach to motivation is based on the expectation that effort brings the worker what he or she wants. The thought that working hard leads to advancement and new career opportunities is consistent with the effort approach. The effort approach includes a presumption that the employer is fair, i.e., effort is recognized and rewarded.

Communication

Communication is the process of passing information and understanding from one person to another. Communication plays a major role in organization. It affects the relationships among members on the management team and their relationships with employees. Although effective communication does not guarantee the success of an organization, its absence usually assures problems. A communication problem may soon become a crisis or it may linger on for years.

Communication Process

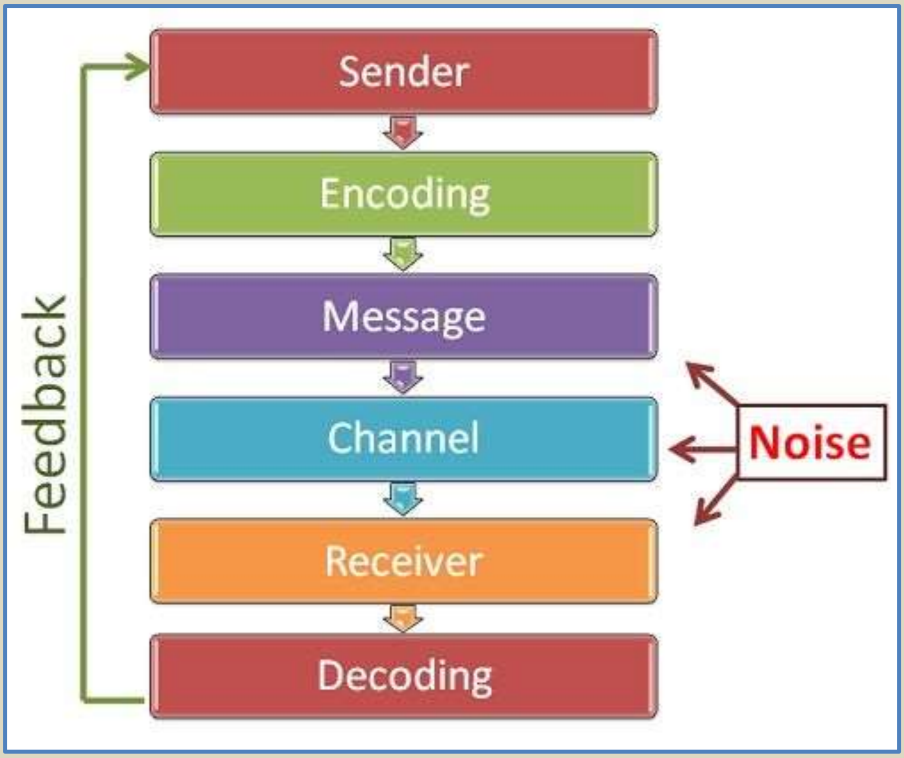

FIGURE 12 COMMUNICATION PROCESS

Lindsey is the supervisor of a team of employees in a research and development department for a small tech company that focuses its research on new apps. Her boss wants Lindsey to work on a new project. But Lindsey can't successfully manage her team to complete the project unless she is able to effectively communicate with them. **Communication** is the process of conveying information between two or more people.

The communication process is the steps we take to achieve a successful communication. The communication process consists of several components.

A sender is the party that sends a message. Lindsey, of course, will be the sender. She'll also need the message, which is the information to be conveyed. Lindsey will also need to encode her message, which is transforming her thoughts of the information to be conveyed into a form that can be sent, such as words.

A channel of communication must also be selected, which is the manner in which the message is sent. Channels of communication include speaking, writing, video transmission, audio transmission, electronic transmission through emails, text messages and faxes and even nonverbal communication, such as body language. Lindsey also needs to know the target of her communication. This party is called the receiver.

The receiver must be able to decode the message, which means mentally processing the message into understanding. If you can't decode, the message fails. For example, sending a message in a foreign language that is not understood by the receiver probably will result in decoding failure.

Sometimes, a receiver will give the sender feedback, which is a message sent by the receiver back to the sender. For example, a member of Lindsey's team may provide feedback in the form of a question to clarify some information received in Lindsey's message.

Let's put all these components together to build a model of the communication process:

a. A sender encodes information

b. The sender selects a channel of communication by which to send the message

c. The receiver receives the message

d. The receiver decodes the message

e. The receiver may provide feedback to the sender

Nose in the communication process

Noise is any type of disruption that interferes with the transmission or interpretation of information from the sender to the receiver. There are different types of noise, such as physical noise, psychological noise, semantic noise, and of course, physiological noise.

- **Semantic noise:**

In communication is a type of disturbance in the transmission of a message that interferes with the interpretation of the message due to ambiguity in words, sentences or symbols used in the transmission of the message.

Communication is the process of transmitting information from one person to another. Information is a pattern of data organized in a particular way. For example, a sentence consists of symbols that form words in a particular language with a particular meaning. The sentence also utilizes grammar, which is a recognized way to structure words forming a sentence. Noise is any type of disturbance that interferes with the interpretation of the information. Some argue that noise exists in all communication.

Semantic noise doesn't involve sound but rather ambiguity in words, sentences or other symbols used in communication. The ambiguity is caused because everybody sees a different meaning in the same words, phrases or sentences. The differences in interpretation can be quite small, even undetectable, in regular communication between people from the same culture, age, education and experience, or drastically different because of such things as culture, age or experience.

Physiological noise is a distraction caused by some physiological process that interferes with the communication process. Unlike many other forms of noise, physiological noise manifests from the inside of either the receiver or sender of the message and is caused by a physiological process. Physiological processes are the physical and chemical functions of your body. Examples of physiological processes include hunger, fatigue, headaches, pain, and physiological effects from medicine that affects the way you think or feel.

Types of Communication

Types of communication include:

- Verbal communication provides immediate feedback and so it is best for conveying emotions and maintaining interpersonal relationships; it can involve story-telling and crucial conversations.

- Written communication requires appropriate use of grammar, word choice, structure, and punctuation to be effective.
- Non-verbal communication is the process of sending and receiving wordless (mostly visual) cues.
- Downward communication is the flow of information and messages from a higher level inside an organization to a lower one. Effective downward communication is crucial to an organization's success. Creating concise communications and maintaining a respectful tone help ensure effective downward communication; making sure that employees clearly understand the information is also crucial. Differences in experience, knowledge, levels of authority, and status can lead to misunderstandings and misinterpretations.
- Upward communication is the transmission of information from lower levels of an organization to higher ones. Upward communication often comes in response to downwardly communicated requests for information, opinions, or actions. The channel used to share upward communication (e.g., face-to-face, over the telephone, writing) can influence its effectiveness. Upward communication can be an important source of information that informs management's decision-making.

- Informal communication occurs outside an organization's established channels of sending and receiving messages. Informal communication frequently crosses boundaries within an organization and is commonly separate from workflows. Informal communication has become increasingly important in maintaining the interpersonal relationships and networks that facilitate getting work done.
- Formal communications in traditional organizations are frequently "one-way": they are initiated by management and received by employees. Their content is perceived as authoritative because it originates from the highest levels of the company. Informal communication, on the other hand, can occur in any direction and take place between individuals of different status and roles.

Effective Communication

Effective communication takes place when information is shared accurately between two or more people or groups of people and provokes the desired response. Effective communication should generate and maintain the desired effect and offer the potential to increase the effect of the message. The goal of communication is usually to generate action, inform, create understanding, or communicate a certain idea or point of view.

Barriers to effective communication distort, obscure, or misrepresent the message and fail to achieve the desired effect.

Barriers to successful communication include:

- Message overload (when a person receives too many messages at the same time) and message complexity.
- "Knowledge-appropriate" communication–using ambiguous legal words or medical jargon with another person who doesn't understand them. Effective communication only happens when the words and symbols used create a common level of understanding for both parties.
- Physical barriers like distance, inferior technology, or staff shortages that reduce information processing capacity.
- System design faults like ambiguous definition of roles that can lead to confusion about message targets; lack of oral and written communication skills; and poor information technology infrastructure, including networks and applications.

- Attitudinal barriers presented by individuals. One person may want information compressed to bullet points; another may demand granular detail. Personality conflicts can lead people to delay or refuse to communicate, and dissatisfaction with the style of a message can result in its being ignored or misinterpreted.
- Ambiguous words/phrases that sound the same but have different meanings. Here the communicator must ensure that the receiver receives the intended meaning through careful word choice that avoids the possibility of multiple interpretations.
- Individual linguistic ability is important to consider: will intended targets understand industry-specific jargon, complex words, or colloquialisms? Using words that recipients can't understand is inappropriate and counter-productive, resulting in confusion and alienation.
- Physiological barriers like ill health, poor eyesight, or hearing difficulties. Even a common cold can impact someone's ability to compose or understand a message.

- The format and delivery of information is important. Communications must take the potential barriers of an audience into account and tailor the message to reach them.

Questions

Choose the right answer:

1. Directing is a continuous process initiated at top level and flows to the bottom through organizational hierarchy.

a) True b) False

2. When a manager uses his power to inspire others to work hard to accomplish important tasks, the manager is exercising.

a) Power b) Management

c) Leadership d) Charisma.

3. ……….. states that each person in an organization should take orders from and reports to only one person.

a) unity of command b) chain of command

c) span of control d) staff authority

Write short notes in each of the following:

1. The purpose of directing.

2. Directing principles.
3. Motivation as the most important component of directing.

Choose the right answer:

4. Planning, organizing, staffing, directing, and controlling are the five ___________ of management.

   a. Characteristics

   b. Functions

   c. Objectives

   d. Skills

5. Motivating Staff is part of which managerial function?

   a. Planning
   b. Organizing
   c. Directing
   d. Controlling

6. Inspiring Workers to Meet Targets is part of which managerial function?

   a. Planning
   b. Organizing
   c. Directing
   d. Controlling

7. Establishing Objectives is part of which managerial function?
    a. Planning
    b. Organizing
    c. Staffing
    d. Controlling
8. Why is encoding relevant for communication?
    a. It is the method by which a message is sent.
    b. It is the process of interpreting a message once it is received.
    c. It is a form of noise that disrupts the receiver from properly understanding the message.
    d. It is the process of transforming a thought into a message that can be sent.
9. Which of the following is the BEST explanation of a communication channel?
    a. A station that broadcasts different ideas and views.
    b. The process of encoding.
    c. The verbal communication process.
    d. The medium by which a message is transmitted.

10. Johny is a second-year freshman. He is having some difficulties in understanding his professor because he did not have enough sleep. Why is this an example of noise?

    a. He cannot properly encode the message due to his fatigue.
    b. He is obviously being disrupted by his fellow classmates.
    c. He is unable to listen to the message physically.
    d. His fatigue is preventing him from decoding the message.
    e. Which one of the following is the best explanation of internal organizational communication?

11. Communications between the organization and its environment

    a. Transmission of information between organizational members and the public
    b. Communications between the organization and its suppliers
    c. Transmission of information between different people or parts of an organization

12. If you receive a company memo from your supervisor, what's the best description of this communication?

    a. Informal vertical communication

b. Informal horizontal communication
c. Formal vertical communication
d. Formal horizontal communication

13. You are a department head of the marketing department having a conference with the department heads from the financial department and production department about budgeting for a special project. What type of internal communication is being used in this situation?

a. Horizontal informal communication
b. Horizontal formal communication
c. Vertical informal communication
d. Vertical formal communication

Case studies: Organizing

Go to the webpage using the following link and answer the case studies on directing

https://studyresearch.in/2018/03/11/case-study-directing/

Chapter Five

Controlling Function

Chapter Five

Controlling Function

OBJECTIVES

1. To define the controlling function.
2. To Summarize the control process.
3. differentiate between the types of control.
4. Recognize the characteristics of effective control.

KEY POINTS

- Controlling is the process through which standards for performance of people and processes are set, communicated, and applied.
- There are four steps in the control process: establishing performance standards, measuring actual performance, comparing measured performance against established standards, and taking corrective action.

- Managers can implement controls before the process begins (feedforward), during the process (concurrent), or after it ceases (feedback).
- There are many controlling techniques which were also commonly known as controlling aids. They are traditional control techniques and modern techniques.

What is Controlling Function?

Controlling is directly related to planning. The controlling process ensures that plans are being implemented properly. In the functions of management cycle - planning, organizing, directing, and controlling - planning moves forward into all the other functions, and controlling reaches back.

Controlling is the final link in the functional chain of management activities and brings the functions of management cycle full circle. Controlling is the process through which standards for performance of people and processes are set, communicated, and applied. Effective control systems use mechanisms to monitor activities and take corrective action, if necessary.

Control Process

The control process is a continuous flow between measuring, comparing and action. There are four steps in the control process: establishing performance standards, measuring actual performance, comparing measured performance against established standards, and taking corrective action.

Step 1. Establish Performance Standards.

Standards are created when objectives are set during the planning process. A **standard** is any guideline established as the basis for measurement. It is a precise, explicit statement of expected results from a product, service, machine, individual, or organizational unit. It is usually expressed numerically and is set for quality, quantity, and time.

Step 2. Measure Actual Performance.

Managers collect data to measure actual performance to determine variation from standard. Written data might include time cards, production records, inspection reports, and sales tickets. Personal observation, statistical reports, oral reports and written reports can be used to measure performance.

Step 3. Compare Measured Performance Against Established Standards.

Comparing results with standards determines variation. Some variation can be expected in all activities and the range of variation - the acceptable variance - has to be established.

Step 4. Take Corrective Action.

Managers must find the cause of deviation from standard. Then, he or she takes action to remove or minimize the cause. If the source of variation in work performance is from a deficit in activity, then a manager can take immediate corrective action and get performance back on track.

Types of Control

Controls are most effective when they are applied at key places. Managers can implement controls before the process begins (feedforward), during the process (concurrent), or after it ceases (feedback).

- **Feed-forward controls** focus on operations before they begin. Their goal is to prevent anticipated problems. An example of feed-forward control is scheduled maintenance on automobiles and machinery. Regular maintenance feeds forward to prevent problems. Other examples include safety systems, training programs, and budgets.

- **Concurrent controls** apply to processes as they are happening. Concurrent controls enacted while work is being performed include any type of steering or guiding mechanism such as direct supervision, automated systems (such as computers programmed to inform the user when they have issued the wrong command), and organizational quality programs.

- **Feedback controls** focus on the results of operations. They guide future planning, inputs, and process designs. Examples of feedback controls include timely (weekly, monthly, quarterly, annual) reports so that almost instantaneous adjustments can be made.

Tools for controlling

There are many controlling techniques which were also commonly known as controlling aids. (Shika, 2021)

1. **Traditional Control Techniques:**

The essence of control function is to confirm whether the actions are going according to plans or not. If they are not accordance with the plans, then management should take a corrective action to overcome such deviations. For this purpose, management should determine standards so that they can easily be compared with them.

For this purpose, many techniques have been developed. Among them traditional such as Budgeting and Budgetary Control, Cost Control, Production Planning and Control, Inventory Control etc. are the best examples. Though modern techniques have been developed to improve the quality of controlling process but still today these techniques are being used extensively in the organizations.

Budgeting and Budgetary Control:

Budgeting:

A widely used tool for management control is budget. It is a quantitative expression of plan of action. It refers to the plan of an organization expressed in financial terms. It determines financial estimations relating to various activities of an organization for a fixed period of controlling actual performance.

The following are the important definitions of a budget: "A budget is pre-determined statement of management policy during a given period provided a standard for comparison with the results actually achieved". — J. L. Brown & L.R. Howard

From the above definition the following characteristics can be summarized:

(1) A budget generally relates to a given future period

(2) It differs from objectives or policies because it is set down in specific numerical terms

(3) It should be flexible

(4) It is fundamental to the organization and hence, it receives the attentions and support of the top management.

Importance of Budgeting:

(1) Budgeting involves drawing up budgets based on well-defined plans of action.

(2) It serves another important purpose i.e., coordinating plans and activities of various departments and sections.

(3) It facilitates control over expenses, income, costs and profits.

Types of Budgets:

There are many types of Budgets which are generally used in an organization.

They are:

a. Sales budget – It represents the plan of sales for a given period.

b. Purchase budget – It presents the quantities of raw materials and other consumable items to be purchased by a manufacturing company.
c. Cash budget – It is a statement of the anticipated receipts and payments for a given period along with the resulting surplus or deficit.
d. Expense budget – It lays down the estimates of the standard or norm of operating expenses of an enterprise for a given period.
e. Capital budget – This type of budget outlines the anticipated expenditure on plant, machinery, equipment and other items of a capital nature.
f. Revenue budget – It indicates the income or revenue expected to be earned from sale of goods produced or purchased for re-sale.
g. Production budget – It shows the volume of production to be undertaken for a given period together with the material, labor and machinery requirements sometimes production budgets also show the anticipated cost of production.
h. Labor budget – It indicates the types of skills of laborer and the numbers in each category estimated to be required in a given period along with the standard wages payable.

i. Master budget – This is prepared for the whole enterprise by compiling the different sectional budgets which is finally adopted and worked upon.

Budgetary Control:

It is the process of preparing various budgeted figures for the organization for the future period and then comparing with the actual performance for finding out variances. This enables management to find out deviations and take corrective measures at a proper time. Hence, a budget is a means and budgetary control is the end result.

“Budgetary control is system which uses budget as a means of planning and controlling all aspects of producing and or selling commodities or services”.

The following characteristics of budgetary control can be extracted:

(1) It implies the planning of activities for each department.

(2) It involves recording of actual performance for sake of comparison and control.

(3) It involves taking the necessary steps to improve the situation and to prevent further deviations.

(4) It involves the co-ordination among various department plans and budgets.

Advantages:

(1) The budgetary control aims at the maximization of profits of an organization.

(2) It provides the management with a means of control over planned programs.

(3) It facilitates co-ordination among various activities of an organization.

(4) Wastage is minimized and hence efficiency can be achieved.

(5) Budgetary control enables the introduction of incentives schemes of remuneration.

(6) It creates consciousness among the employees.

(7) The national resources will be used economically, and wastage will be eliminated.

(8) It provides an effective means by which top management can delegate authority and responsibility without disturbing overall control.

Limitations of Budgetary Control:

(1) The future uncertainties reduce the utility of budgetary control system.

(2) Budgetary control may lead to conflicts among functional departments.

(3) The lack of co-ordination among different departments results in poor performance.

(4) The cost of employing additional staff for budgeting increases the expenditure of an organization which generally cannot be afford by small enterprises.

II. Cost Control:

The cost of production is an important factor in calculating the income of an organization. Hence, every organization tries it level best to keep the cost within the reasonable limits. The techniques of cost control involve the setting of cost standards for various components of cost and making comparison of actual cost data with standard cost. This process is known as standard costing. This standard costing refers to a pre-determined estimate of cost with can be used as a standard.

This standard cost forms the basis of control under standard costing. Actual cost is compared with the standards, variations are analyzed and suitable action are taken to overcome such variations. Thus standard costing may be regarded essentially as a tool of cost control.

Advantages:

(1) It helps in discovering efficient and inefficient activities in an organization.

(2) It provides valuable information for submitting tenders or quoting prices of products and services.

(3) It reduces cost of an organization.

(4) Cost records become a basis for planning future production policies.

(5) The reasons for variations in profit can be ascertained.

Limitations:

(1) It is very expensive to apply.

(2) The success of this method depends on the reliability and accuracy of standards.

III. Production Planning and Control:

It is an important function of production manager. This is the function of looking ahead, estimating difficulties to be occurred and remedial steps to remove them. It guides and directs flow of production so that products are manufactured in a best way.

Following techniques are helpful in production planning and control:

(i) Routing – It is the determination of exact path which will be followed in production. It determines the cheapest and best sequence of activities to be followed.

(ii) Scheduling – It is the determining of time and date when each operational activity is to be started and completed.

(iii) Dispatching – It refers to the process of actually ordering the work to be done.

(iv) Follow up and Expediting – It is related to evaluation and appraisal of work performed.

(v) Inspection – It is to see whether the products manufactured are of requisite quality or not.

IV. Inventory Control:

It refers to the control of materials in an efficient manner, which ensures maximum return on working capital. It is very important for the smooth functioning of production department. Its main objective is to maintain a suitable supply of material at the lowest cost.

This control is exercised at three phases:

(i) Purchasing of materials

(ii) Storing of materials

(iii) Issuing of materials.

This can be exercised by establishing various criteria such as:

(i) Safety inventory level

(ii) Maximum inventory level

(iii) Reordering level

(iv) Danger level

V. Profit and Loss Control:

It is a simple and commonly used overall control tool to find out the immediate profit or cost factors responsible for either the success or failure of business. As a controlling device it enables the management to influence in advance revenues, the expenses and consequently even profits.

The sales, expenses and profit of different departments are compared. The department becomes a cost center. The in charge of the department is responsible for its performance. Even historical comparison is done to assess the performance. In case there are deviations in performance than immediate steps are taken to rectify them.

VI. Statistical Data Analysis:

It is an important control technique. This analysis is possible by means of comparison of ratios, percentages, averages, trends etc., of different periods with a view to find out deviations and causes. This method is applicable in case of inventory control, production control and quality control. The minimum and maximum control limits are fixed and deviations with in these limits are allowed.

It variations go beyond limitations then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits are plotted. This chart will give an idea whether everything is going as per the plans or not. Hence, analysis of data is important device of control.

2. Modern Techniques:

Besides the traditional techniques which were discussed above, there are many other techniques which have been evolved in modern times. These techniques are also called non-budgetary techniques.

The following are the modern techniques of control which are commonly modern times:

1. Return on Investment Control (ROI):

One of the most successfully used control technique of measuring both the absolute and the relative success of a company is by the ratio of net earnings to investment the company has made. This approach often referred to a ROI. If the rate of return on investment is satisfactory, it will be considered as good performance. The return on investment can be compared over a period of time as well as with that of other similar concerns.

The return on investment can be computed with the following formula:

$$\text{Return on investment} = \frac{\text{Net Profit before interest and tax}}{\text{Capital employed}}$$

Net Income Method	
Original Investment	
Value	$1,000,000
Net Income	$125,500
ROI	12.6%
Capital Gain Method	
Original Share Price	$12.50
Current Share Price	$15.20
ROI	21.6%

Total Return Method	
Original Share Price	$12.50
Total Dividends Received	$1.25
Current Share Price	$15.20
ROI	31.6%

2. Management Information System (MIS):

This system emphasizes on providing timely, adequate and accurate information to the right person in the organization which in turn helps in making right decisions. It is a planned technique for transferring of intelligence within an organization for better management. Under this method data from all possible sources are collected and properly processed for using in future. So this system should be designed in such a way that helps management in exercising effective control over all aspects of the organization.

MIS is of two types:

(1) Management operating system and

(2) Management reporting system.

The first one meant for meeting the information needs of the lower and middle level managements and second one is to supply information to top level management for decision-making.

3. Break Even Analysis:

A significant and popularly used control technique among the business enterprises and industries is the analysis of break-even point which explains the relationship between sales and expenses in such a way as to show at what volume revenue exactly covers expenses. This technique measures profit corresponding to the different levels of output. Hence, the study of cost- volume-profit relationship is frequently referred to as break even analysis.

In the words of Matz and Curry "Break-even analysis indicates at which level costs and revenue are in equilibrium". Thus, break-even analysis is associated with the calculation of break-even point. It is also known as no profit, no loss point. This point can be calculated mathematically and charted on graph paper also.

The method of calculating break-even point is as follows:

$$\text{Break even point} = \frac{\text{Fixed cost}}{\text{Selling price} - \text{variable cost}}$$

$$= \frac{\text{Fixed cost}}{\text{Contributing margin per unit}}$$

Assumption:

The break-even analysis is based on the following assumptions:

(i) All elements of cost i.e., production, administration and selling and distribution can be segregated into fixed and variable components.

(ii) Variable cost remains constant per unit of output and thus fluctuates directly in proportion to changes in the volume of output.

(iii) Fixed cost remains constant at all volumes of output.

(iv) Volume of production is the only factor that influences.

(v) There is a synchronization between production and sales.

Advantages:

The break even analysis renders many advantages for managerial guidance.

Some noteworthy advantages of this analysis are as follows:

(i) It helps in calculating of profit for different sales volumes.

(ii) Calculation of sales volume to produce desired profit can be possible.

(iii) It emphasizes on calculation of selling price per unit for a particular break-even point.

(iv) It helps in determination of margin of safety.

(v) It helps in calculating of sales required to offset price reduction.

(vi) It helps in choosing the most profitable alternatives.

(vii) It helps in determining the optimum sales mix.

(viii) It helps in calculation of sales volume required to meet proposed expenditures.

Limitations:

The break-even analysis is based on number of assumptions which are rarely found in real life. Hence, its managerial utility becomes limited.

Its main limitations are as follows:

(i) This analysis overlooks the time lag between production and sale.

(ii) The assumption of keeping factors like plant-size, technology and methodology of production constant in order to get an effective break-even chart is unrealistic in actual life.

(iii) The sales-mix is also not a constant variable.

(iv) The valuation and allocation of costs in an organization is usually arbitrary and hence it reduces the usefulness of this analysis.

(v) This analysis does not take into account the capital invested in the production and its costs which is very important factor in profitability decisions.

Questions

1. Monitoring Production Levels is part of which managerial function?

   a. Planning
   b. Organizing
   c. Directing
   d. Controlling

2. In Controlling, actual performance is compared with

   a. Performance of other employees
   b. Performance of previous year
   c. Planned Performance
   d. None of the above

3. Controlling and Planning are

   a. Independent functions
   b. Interdependent functions
   c. Both (a) and (b)
   d. None of the above

4. Controlling is
    a. Backward looking function
    b. Forward looking function
    c. Both backward as well as forward looking function
    d. None of the above
5. Controlling is performed at
    a. Top level
    b. Middle level
    c. Supervisory level
    d. All of the above
6. Management by exception refers to:
    a. Controlling significant deviations
    b. Focus on key result areas
    c. Check on each and every activity
    d. Keep a control on everything
7. Standards can be set in the following terms:
    a. Only Qualitative

b. Only Quantitative
c. Both Qualitative and Quantitative
d. Neither Qualitative nor Quantitative

8. Controlling function brings back the management cycle to which function?
a. Directing
b. Planning
c. Organizing
d. Staffing

9. Under critical point, control manager
a. Critically observes and takes action on every deviation
b. Ignores deviation
c. Gives more importance to deviations taking place in key areas
d. None of the above

10. An efficient control system helps to _____________.
a. accomplish organizational objectives

b. boost employee morale

c. judge accuracy of standards

d. All of these

11. This is the last step in the process of controlling.

a. Analyzing deviations

b. Taking corrective action

c. Setting performance standard

d. Measurement of performance

12. When the deviations go beyond the acceptable range, especially in the importance area, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

(a) Management by exception

(b) Critical point control

(c) Both (a) and (b)

(d) Analyzing deviations

13. Which of the following represents quantitative standards?

a. Improving goodwill
b. Time to be spent in performing a task
c. Improving the motivation level of employees
d. None of these

14. Which of the following is a benefit of using a budget?

a. Helps to keep track of the money you receive
b. Helps to prioritize your spending
c. Helps reach short- and long-term financial goals
d. All of the above

15. Which of the following is NOT a benefit of using a budget?
    a. A budget can help you purchase anything you want.
    b. A budget can help you keep track of your money.
    c. A budget can help you make plans to reach your financial goals.
    d. A budget can help you decide the importance of your expenses.
16. The level of attainment in the budget refers to:
    a. The extent to which actual cost differ from that budgeted.
    b. The performance of employees and management.
    c. The level of operating standard at which the budget is set.
    d. The volume of output achieved
17. common reason why a person may fail to attain a target set for him by his superior is because he
    a. Did not know he had a target.
    b. Felt the target was too difficult
    c. Has no respect for his superior
    d. Was not given enough time for the job.
18. Lack of goal congruence will usually result in:

a. Individual managers not attempting to profit maximize in their own departments
b. Coordination of effort between department.
c. Significant inflation of budgets through budget padding
d. The company's profitability being lower than anticipated.

19. Which of the following objectives is not a primary purpose of preparing a budget?
   a. To ensure that the company expends its operation.
   b. To provide a basis for comparison of actual performance.
   c. To communicate the company's plans throughout the organization
   d. To control income and expenditure in a given period.
20. Which of the following operations would normally be carried out first when preparing a master budget?
   a. Calculating overhead absorption rates.
   b. Determining the budget period
   c. Identifying the principal budget factor.
   d. Preparing a forecast profit and loss account.
21. The question of raw material in the purchases budget may be higher than the quantity of raw material in the production budget because:
   a. Stock level are being reduced
   b. Raw material prices are falling
   c. The company obtains discount for bulk purchases

d. Units sold will be higher than units sold.

22. A quantitative expression of management objectives is a(n)

    a. Organizational chart
    b. Management chart
    c. Budget
    d. Procedural chart

23. Operations budget normally cover a period of

    a. One year or less
    b. One to two years
    c. One to five years
    d. One to ten years

24. Use this formula to calculate your break-even point.

    a. Break-even point = fixed costs ÷ gross profit margin
    b. Fixed costs ($60,000)
    c. Gross profit margin (90%)
    d. Break-even point = $66,666

25. Use this formula to calculate your contribution margin.

- Contribution margin = sales price - variable costs
- Sales price (e.g. $40)
- $40
- Variable costs (e.g. $15)
- $15

26. ↓

- Contribution margin

$25

27.Use this formula to calculate your break-even point.

- Break-even point = fixed costs ÷ contribution margin
- Fixed costs (e.g. $38,500)
- $38,500
- Contribution margin
- $25 ↓
- Break-even point = 1540 units

28.An investor purchases property A, which is valued at $500,000. Two years later, the investor sells the property for $1,000,000. Calculate the return on investment.

ROI =

Case studies: Controlling

Go to the webpage using the following link and answer the case studies on controlling

https://studyresearch.in/2019/12/30/bscontrolling/

Chapter Six

Decision Making

Chapter Six
Decision Making

OBJECTIVES

- Discuss definitions and concepts related to decision making and problem-solving process to follow in decision making.
- Distinguish among decision making styles within the context of managerial decision-making

KEY POINTS

- Decision making is the mental processes (cognitive processes) resulting in the selection of a course of action from among several alternative scenarios.
- The style used depends on the decision maker's personality characteristics, the situation, and the nature of the decision in question.
- Three approaches to decision making are avoiding, problem solving and problem seeking.

Managers constantly make decisions that affect the work of others. Day-to-day situations involving supervisory decisions include employee morale, the allocation of effort, the materials used on the job, and the coordination of schedules and work areas. The manager must recognize problems, make a decision, initiate an action, and evaluate the results.

In order to make decisions that are consistent with the overall goals of the organization, managers use guidelines set by top management. Thus, it is difficult for managers to make good decisions without good planning.

Definitions

A decision is a solution chosen from among alternatives. Decisions must be made when the manager is faced with a problem.

Decision-making is the process of selecting an alternative course of action that will solve a problem. The first decision is whether or not to take corrective action. A simple solution might be to change the objective. Yet, the job of the manager is to achieve objectives. Thus, managers will attempt to solve most problems.

A problem exists whenever there is a difference between what actually happens and what the manager wants to have happen. Some of the problems faced by the manager may occur frequently. The solutions to these problems may be systematized by establishing policies that will provide a ready solution to them. In these repetitive situations, the problem-solving process is used once and then the solution (decision) can be used again in similar situations.

Exceptions to established routines or policies become the more difficult decisions that managers must make. When no previous policy exists, the manager must invent a solution.

Problem solving is the process of taking corrective action in order to meet objectives. Some of the more effective decisions involve creativity. To get better ideas, the manager follows the steps in the problem-solving process/ decision-making. The steps are built on a logical analysis.

Difference Between Problem Analysis and Decision Making

While they are related, problem analysis and decision making are distinct activities. Decisions are commonly focused on a problem or challenge. Decision makers must gather and consider data before making a choice. Problem analysis involves framing the issue by defining its boundaries, establishing criteria with which to select from alternatives, and developing conclusions based on available information. Analyzing a problem may not result in a decision, although the results are an important ingredient in all decision making.

The problem solving/decision-making process:

The steps in the decision-making process are:

(1) define the problem and establishing objectives,

(2) identify decision criteria,

(3) develop alternatives,

(4) decide,

(5) implement the decision, and

(6) evaluate the decision.

Step 1: Define the problem.

The problem solving/decision-making process begins when the manager recognizes the problem, experiences pressure to act on it, and has the resources to do something about it. This means that the manager must correctly define the problem.

Problem identification is not easy. The problem statement can be too broad or too narrow. Managers are easily swayed by a solution orientation that allows them to gloss over this first and most important step. Or, what is perceived, as the cause of a problem may actually be a symptom.

The manager must solve the right problem. In order to define the problem, the manager must describe the factors that are causing the problem. These are the symptoms, visible as circumstances or conditions that indicate the existence of the problem -- the difference between what is desired and what exists. By not clearly defining the problem, ineffective action will be taken.

Step 2: Identify decision criteria.

The manager determines what is relevant in making a decision by isolating the facts pertinent to the problem. Since there is no single best criterion for decision making where a perfect knowledge of all the facts is present, a set of criteria must be used for the problem at hand. These decision criteria identify what will guide the decision-making process. They are the important facts relevant to the problem as defined. It is important that decision criteria be established early in the problem-solving process because if the criteria are developed as analysis of data is taking place, the chances are good that the data will determine the criteria. Thus, setting the criteria early introduces objectivity. These facts can be tangible as well as intangible. Tangible facts might include the work assignments, the work schedules, or work orders. Intangible facts could include morale, motivation, and personal feelings and perceptions.

This process is somewhat subjective, because what serves as important criteria for one manager may be less important for another. For instance, the decision-making criteria used to hire employees differs across departments; the sales department uses the number of new store openings in different geographic areas, while the manufacturing department uses how many units of the product needs to be produced and how quickly.

Key uncertainties, the variables that result from simple chance, must be identified. Regardless of the solution chosen, key uncertainties are important because they can be plusses or minuses. What are the chance variables? Which way would these variables fall, relative to each of the workable solutions?

Not all criteria have the same importance. (Criteria weights can vary among different managers as well.) Assigning weights indicates the importance a manager places on each criterion for resolving the problem and helps establish priorities. Criteria that are extremely important can be given more weight, while those that are least important can be given less weight.

Step 3: Develop alternatives.

The manager must identify all workable alternative solutions for resolving the problem. The term workable prevents alternative solutions that are too expensive, too time-consuming, or too elaborate. The best approach in determining workable solutions is to state all possible alternatives, without evaluating any of the options. This helps to ensure that a thorough list of possibilities is created.

Generating alternative solutions requires divergent thinking (deviating from traditional.) Groups can be used to generate alternative solutions. Brainstorming is the process of suggesting as many alternatives as possible without evaluation. The group is presented with a problem and asked to develop as many solutions as possible. When brainstorming, employees should be encouraged to make wild, extreme suggestions. They build on suggestions made by others. None of the alternatives are evaluated until all possibilities are exhausted.

Managers must judge what would happen with each alternative and its effect on the problem. The strengths and weaknesses of each alternative are critically analyzed by comparing the weights assigned and then eliminating the alternatives that are not workable. Probability factors - such as risk, uncertainty, and ignorance - must be considered. Risk is a state of imperfect knowledge in which the decision-maker judges the different possible outcomes of each alternative and can determine the probabilities of success for each. Uncertainty is a state in which the decision-maker judges the different possible outcomes of each alternative but lacks any feeling for their probabilities of success. Ignorance is a state in which the decision-maker cannot judge the different possible outcomes of each alternative, let alone their probabilities. Investigating all the possible alternatives helps to prevent eliminating the most appropriate one, because a decision is only as good as the best alternative evaluated.

Step 4: Decide.

The manager must make a choice among the alternatives. The alternative that rates the highest score should be the preferred solution. The decision can be assisted by the manager's experience, past judgment, advice from others, or even a hunch (feeling).

Timing impacts the decision. The probable outcome and its advantages versus its disadvantages are affected at any given time. Which alternative is most appropriate at a given time?

Decisions are made by consensus when solutions are acceptable to everyone in the group, not just a majority. Everyone is included, and the decision is a win-win situation. Consensus does not include voting, averaging, compromising, negotiating, or trading (win-lose situations). Every member accepts the solution, even though some members may not be convinced that it is the best solution. The "right" decision is the best collective judgment of the group as a whole.

Consensus gives every person a chance to be heard and have their input weighed equally. All members accept responsibility for both listening and contributing. Disagreements are viewed as helpful rather than hindrances in reaching consensus. Each member monitors the decision-making process and initiates discussions about the process if it becomes ineffective. The smallest minority has a chance to change the collective mind if their input is keener.

Group members do not give in just to reach an agreement. They support only those solutions that they can truthfully accept. If people exercise this power to go against the majority, they must have listened to the collective wisdom in good conscience. A block should not be used to place an individual's will above the group's.

Consensus works in an environment of trust, where everyone suffers or gains alike from the decision. Everyone must listen, participate, get informed, be rational, and be part of the process from the beginning. Thus, consensus can be time consuming long and exhausting to the participants. Yet, consensus will result in synergism. Synergy is the combined action of the group, greater in total effect than the sum of their effects. The combined problem solving/decision making abilities of the group members produce a better decision than that of the individual member.

Taking action requires self-confidence or courage. Only a person who is willing to take risks is able to assume responsibility for a decision involving action. The fact remains that the manager is held accountable for the outcome of the decision. Thus, he or she must be confident that the right problem has been defined and the most workable solution has been chosen. Self-confidence is the best element for a manager to possess at this stage.

Step 5: Implement the decision.

Once the solution is chosen, the decision is shared with those whose work will be affected. Ultimately, human beings will determine whether or not a decision is effectively implemented. If this fact is neglected, the solution will fail. Thus, implementation is a crucial part of the decision-making process. Including employees who are directly involved in the implementation of a decision, or who are indirectly affected by that decision, will help foster their commitment. Without their commitment, gaining support and achieving outcomes becomes increasingly difficult. With this commitment, the manager has a reasonable degree of assurance that the decision will be accepted and have the necessary support.

In order to implement the decision, the manager must have a plan for communicating it to those directly and indirectly affected. Employees must understand how the decision will affect them. Communication is most effective when it precedes action and events. In this way, events conform to plans and events happen when, and in the way, they should happen. Thus, the manager should answer the vital questions before they are asked.

Communicating answers to these questions can overcome much of the resistance that otherwise might be encountered.

Step 6: Evaluate the decision.

Managers must follow up and appraise the outcomes from the decision to determine if desired results were achieved. If not, then the process needs to be reviewed from the beginning to determine where errors may have been made. Evaluation can take many forms, depending on the type of decision, the environment, working conditions, needs of managers and employees, and technical problems. Generally, feedback and reports are necessary to learn of the decision's outcome. Sometimes, corrections can be introduced for different steps. Other times, the entire decision-making process needs to start over.

The main function of the follow up is to determine whether or not the problem has been resolved. Usually follow up requires a manager visit to the work area affected by the decision. The manager may have to repeat the entire decision process if a new problem has been generated by the solution. It is better to discover this failure during the follow up period rather than remain unaware of a new problem provoked by the implemented solution.

Decision-Making Styles

Managers and leaders adopt different styles of decision making based on their personality, the situation they face, the culture of the organization, characteristics of the people they are working with, and the nature of the decision itself. There are five essential styles of decision making:

- Autocratic: The group leader solves the problem using the information he possesses. He does not consult with anyone else or seek information in any form. This style assumes that the leader has sufficient information to examine all the relevant options and make an effective decision.
- Information seeking: When a leader does not possess sufficient information to make an effective decision, she needs to obtain it from others. She may simply ask for the input she needs without telling the others what the problem is. The leader then evaluates the information and makes the decision.

- Consultation: The leader explains the situation and provides relevant information to a group or individual, and together they generate and evaluate many alternatives. Another possibility is that the leader asks the group or individual to conduct a survey or an investigation and make recommendations based on the results. Finally, the leader evaluates the solutions or recommendations the group or individual has put forward and then makes a decision, which may or may not take these views into account.
- Negotiation: The leader explains the situation to the group or individual and provides the relevant information. Together they attempt to reconcile differences and negotiate a solution that is acceptable to all parties. The leader may consult with others before the meeting in order to prepare his case and generate alternatives that are acceptable to everyone involved.
- Delegation: Responsibility and authority for making the decision are given to the group or individual. The leader provides all the relevant information that he possesses. The leader's role then becomes that of facilitator or guide, but he

does not attempt to force his opinions on the group. He should be prepared to accept and implement the proposed solution.

Questions

Identify if true or false

1- Decision is the process of selecting alternative course of action that will solve a problem.

2- The symptoms are circumstances or conditions that indicate the existence of the problem.

3- The term workable alternative solutions are these solutions that are not too expensive, too time consuming, or too complicated.

4- The best approach in determining workable solutions is to state all possible alternatives, without evaluating any of the options.

5- Decisions are made by consensus when solutions are acceptable to the majority in the group.

6- Corrections that result from the decision evaluation can be introduced for different steps in the decision-making process.

7- The use of consensus is the same as democratic decision-making.

8- The alternative that rates the highest score should be the preferred solution.

9- The use of consensus is the same as democratic decision-making.

10- It is important that decision criteria be established early in the problem-solving process.

11- An ethical decision is choosing what is wrong.

Choose the right answer

1. The process of making a choice or solving a problem.
   a. Decision Making
   b. Experience
   c. Integrity
   d. Values
2. The first step in making a decision is to:

   A. Brainstorm possible solution

   B. Describe the problem or situation

   C. Consider the consequences

   D. Evaluate the decision

3. A good decision is...
   a. well thought out
   b. made quickly
   c. always the easiest to make
   d. one that makes everyone happy

4. The first step of decision making is
    a. List your options
    b. Outline the consequences
    c. Identify the problem
    d. Make the decision
5. The decision-making model will help you to:
    a. make perfect decisions
    b. make more responsible decisions
    c. help you to make impulsive decisions
    d. avoid responsible decisions
6. Jake has a history test on Friday. On Thursday night Jake's friend asks him to go to the movies. Jake lists the positives and negative outcomes of each choice. Which step in the decision-making process is this?

    A. Evaluate the decision

    B. Describe the situation

    C. Weigh the options

    D. Make a decision

7. Jana finally decides which sport she is going to sign up for in the Spring. What step is this in the decision-making model?

A. consider your options

B. Consider the consequences

C. Identify your values

D. Decide and act

8. The best way to approach your career choice is to______.
A. choose the same career as someone you admire
B. follow a career decision-making process
C. wait and see what develops after high school
D. determine how to earn the most money

Complete each statement:

1. In order to define the …………., the manager must describe the factors that are causing the problem. These are the ………., visible as circumstances or conditions that indicate the existence of the ………….., the difference between what is ……… and what ………...

2. With employee ……………., the manager has a reasonable degree of assurance that the decision will be accepted and have the necessary support.

3. The main function of the ………..is to determine whether or not the problem has been resolved.

4. …………………. is the process of suggesting as many alternatives as possible without evaluation until all possibilities are exhausted.

5. Decisions are made by ……………… when solutions are acceptable to the majority in the group.

6. The best approach in determining workable solutions is to state all possible ………….. , without evaluating any of the options.

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