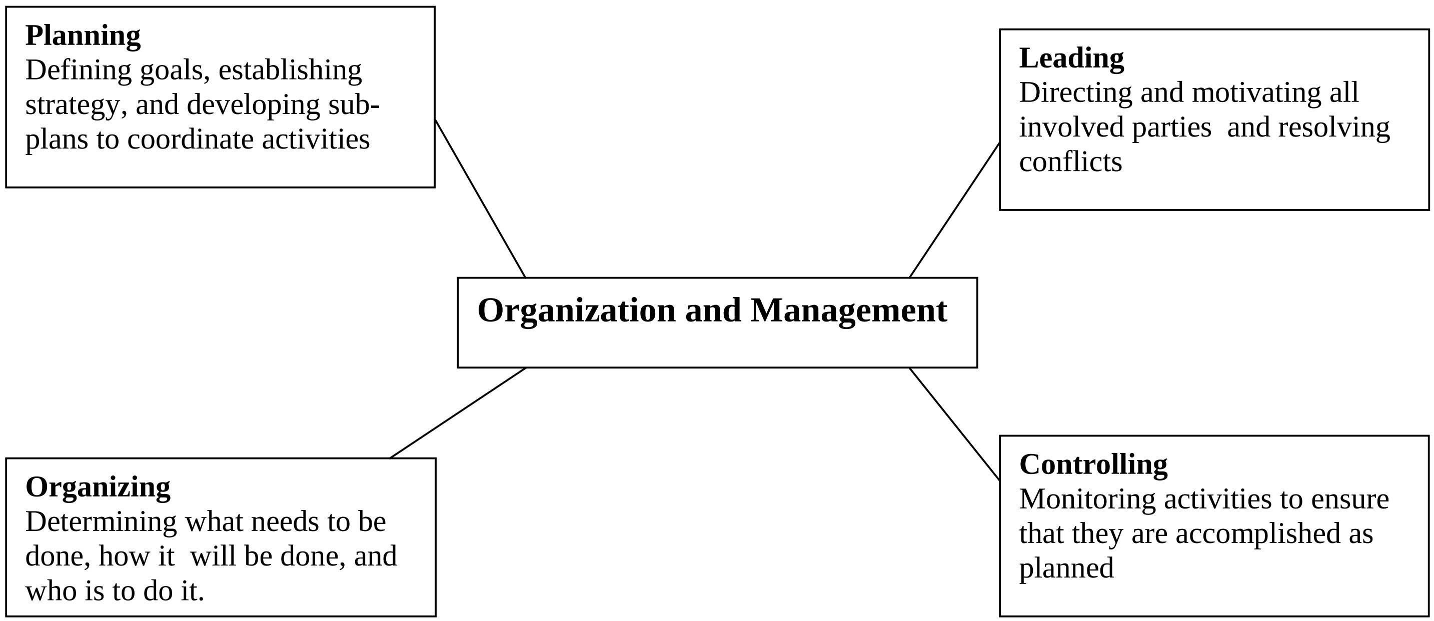
Organization and Management


Planning
Defining goals, establishing strategy, and developing sub-plans to coordinate activities
Leading
Directing and motivating all involved parties and resolving conflicts
Organization and Management
Organizing
Determining what needs to be done, how it will be done, and who is to do it.
Controlling
Monitoring activities to ensure that they are accomplished as planned

Chapter 1: Introduction to Management and Organization

What is Management?

- The Process of coordinating work activities so that they are completed efficiently and effectively with and through other people
  - Efficiency
    - doing things right
  - Effectiveness
    - doing the right things
- Management strives for:
  - Low resource waste (high efficiency)
  - High goal attainment (high effectiveness)

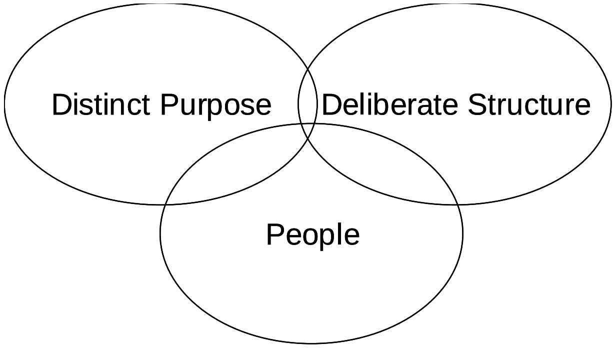
Mintzberg’s Managerial Roles

- Interpersonal
  - Figurehead: symbolic head (obliged to perform a number of routing duties of a legal or social nature) i.e greeting visitor, signing documents
  - Leader: Responsible for motivation of subordinators, staffing, training
  - Liaison: Maintains self-developed network of outside contacts & informers i.e acknowledge mail
- Informational
  - Monitor: seek & receive internal & external info. to develop thorough understanding of org. & envi.
  - Disseminator: transmits info. to members of org.
  - Spokesperson: transmits info. to outsider on org.’s plans, policies etc.
- Decisional
  - Entrepreneur: search org. & envi. for opportunities & initiates “improvement projects” to bring about changes (organizing strategy & review sessions for new program)
  - Disturbance handler: responsible for corrective action when facing important, unexpected disturbances
  - Resource allocator: responsible for allocation of organizational resources-making or approving significant org. decision
  - Negotiator: responsible for representing org. at major negotiation

Skills Needed @ Different Management Levels
- Top management: Conceptual skills
- Middle Management: Human skills (all level)
- Lower-level Management: Technical skills (specialize filed)

What is an Organization?

- A deliberate arrangement of people to accomplish some specific purpose
- Characteristics of Organization



The Changing Organization

• **Traditional** – Stable – Inflexible – Job-focused – Work is defined by job definition – Individual-oriented – Permanent jobs – Command-oriented – Managers always make decisions – Rule-oriented – Relatively homogeneous workforce – Workdays defined as 9 to 5 – Hierarchical relationships – Works at organizational facility during specific hours	• **New Organization** – Dynamic – Flexible – Skills-focused – Work is defined in terms of tasks to be done – Team-oriented – Temporary jobs – Involvement-oriented – Employees participate in decision making – Customer-oriented – Diverse workforce – Workdays have no time boundaries lateral & networked relationship – Work anywhere, anytime

Why Study Management?

- It's important to study management because it's universal, the reality of work is that you will either manage or be managed, and there are rewards and challenges in being a manager.

Chapter 2: Management Yesterday and Today

Management is connected to other fields of study including:

- anthropology (helps managers understand differences in fundamental values, attitudes, and behavior between people),
- economics (helps manager understand comparative advantage, free trade, & protectionist policy in a global marketplace),

  - philosophy (helps manager understand why organizations exist & what constitutes appropriate behavior in org.),
  - political science (helps manager understand conflicts, power, & govt. influence),
  - psychology (behavior of human),
  - sociology (helps manager understand people in relation to other.

- Globalization affects all sizes and types of org.
- Workforce diversity requires managers to recognize and acknowledge employee differences.
- Entrepreneurship is important to societies around the world and all types & sizes of organizations will need to be entrepreneurial to be successful.
- Managers need to recognize the realities of an e-business enabled, or total need to be innovative and flexible, and managers will need to encourage innovation and flexibility.
- Managers who emphasize quality management processes are committed to continuous improvement of work activities.
- Managers will need to foster the development of learning organizations and cultivate a knowledge management culture.
- Managers will have to recognize the impact that workplace spirituality is having on management practices.

Refer to Chapter Summary P. 51

Chapter 3: Organizational Culture and Environment: The Constraints

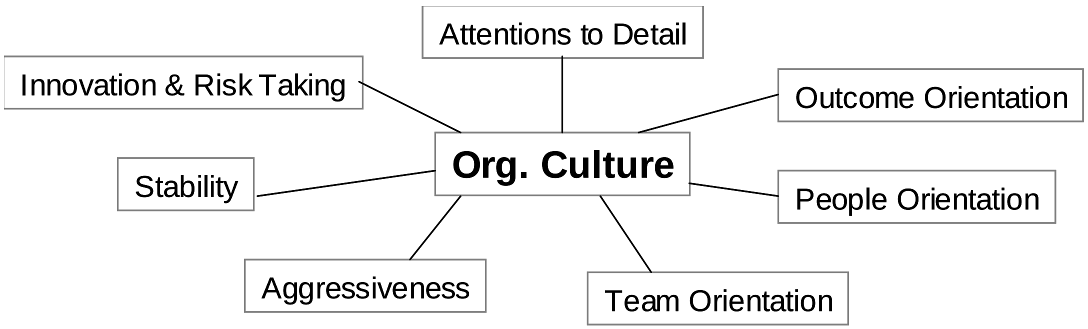
The Manager: Omnipotent or Symbolic

- Omnipotent
  - managers are directly responsible for an organization's success or failure.
- Symbolic
  - managers have only a limited effect on substantive organizational outcomes because of the large number of factors outside their control

The Organization's Culture

- A system of shared meaning within an organization that determines, in large degree, how employees act.

Dimensions of Organizational Culture



- **Attention to detail**: degree to which employees are expected to exhibit precision, analysis & attention to detail
- **Outcome Orientation**: degree to which managers focus on results or outcomes rather than on how these outcomes are achievement
- **People Orientation**: Degree to which management decisions take into account the effects on people in the organization
- **Team Orientation**: degree to which work is organized around teams rather than individuals
- **Aggressiveness**: degree to which employees are aggressive & competitive rather than cooperative
- **Stability**: degree to which organizational decisions & actions emphasize maintaining the status quo
- **Innovation & risk taking**: degree to which employees are encouraged to be innovative & to take risks
-

Managerial Decisions Affected by Culture

- Org.’s culture, especially a strong one (the key values are intensely held & widely shared), constrains a manager’s decision-making options in all management functions

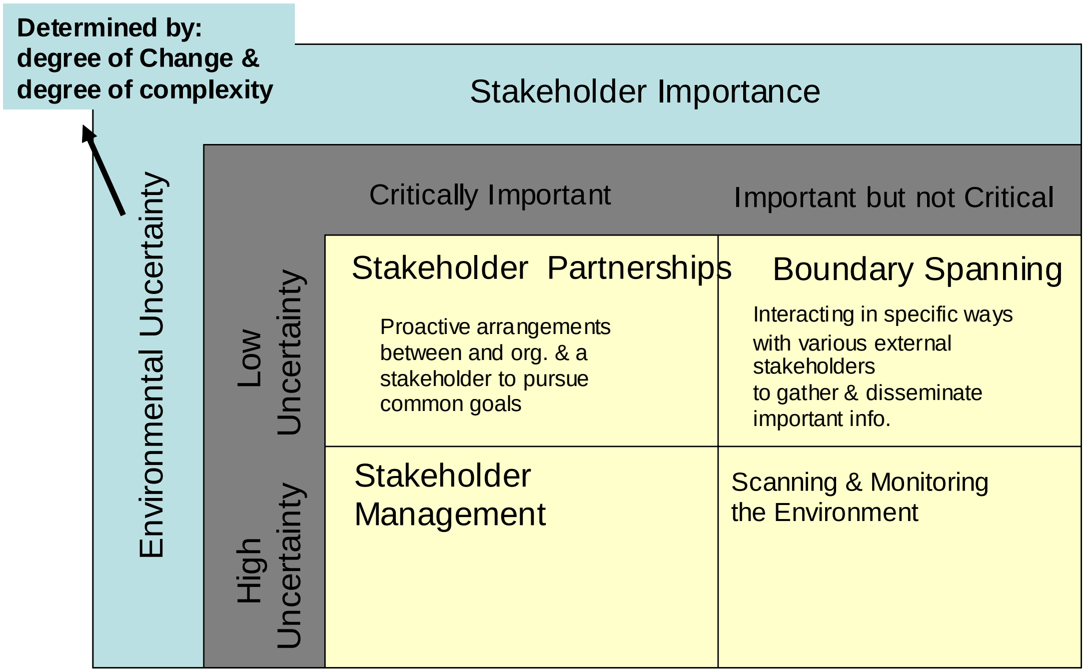
The Environment
Refer to Page 67

Environmental Uncertainty Matrix
Refer to Page 73

Organizational Stakeholders

- Customers
- Social & Political Action Groups
- Competitors
- Trade & Industry Associations
- Governments
- Media
- Suppliers
- Communities
- Shareholders
- *Unions* *(internal)*
- *Employees* *(internal)*

Managing Stakeholder Relationships



The more dynamic& complex the environments, the greater the uncertainty.

When stakeholder is critical & environment uncertainty is low, managers can use more direct stakeholder management efforts encouraging competitions initiating publishing govt. relations connections with public pressure groups.

Planning

Chapter 6: Decision Making: The Essence of the Manager's Job

Decision-Making Approach

- *Rationality*: fully objective & logical, no good conflict
- *Bounded rationality*: limited by individual's ability (bounded within parameter)
- *Intuition*: based on experience & accumulated judgement

Types of Problems and Decisions

- *Well Structured- Programmed* (Straightforward, easily defined & are solved using programmed design)
- *Poorly Structured-non-programmed* (involve ambiguous or uncompleted information)

The Decision Making Process

- Identification of a problem
- Identification of decision criteria
- Allocation of weights to criteria
- Development of alternatives
- Analysis of alternatives
- Selection of an alternative
- Implementation of the alternative
- *Evaluation of decision effectiveness*

Decision

- *Choosing best alternatives*
  - maximizing
  - satisfying
- *Implementing*
- *Evaluation*

Decision Making Conditions

- *Certainty*: Manager can make accurate decisions cos all outcomes are known
- *Risk*: decision maker is able to estimate the likelihood of certain outcomes
- *Uncertainty*: decision maker has neither certainty nor reasonable probability estimates available

Decision Maker's Style

- *Directive:* make fast decisions & focus on the short run
- *Analytic:* want more information before making a decision & consider more alternatives
- *Conceptual:* tend to be very broad outlook & will look @ many alternatives; focus on the long run & are very good at finding creative solutions to problems
- *Behavioral:* concern about the achievements of subordinates & are receptive to suggestions from others

Chapter 7: Foundation of Planning

Planning: A process that involves defining the organization's goal, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and co-ordinate organizational work.
Purposes: give direction, reduce the impact of change, minimize waste & redundancy, and set the standard used in controlling

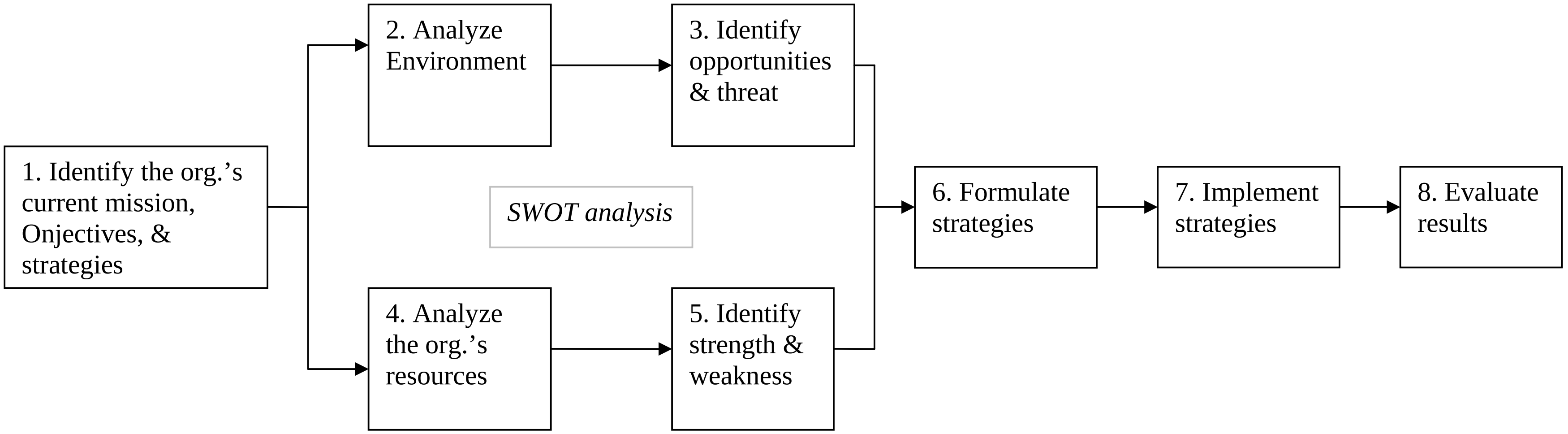
Goal : Desired outcome for individuals, groups or entire organization
-
- *Real goal:* goals that an org. actually pursues, as defined by the actions of its members.

Plan: Documents that outline how goals are going to be met including resource allocations schedules, and other necessary actions to accomplish goals
- strategic plans: apply to entire org., establish the org.'s overall goals, & seek to position the org. in terms of it environment
- operational plans: specify the details of how the overall goals are to be achievement
- long-term plan: plan with time frame beyond 3 years
- short-term plan: plan covering 1 year or less
- specific plan: plans that are clearly defined and that leave no room for interpretation
- directional plans: plans that are flexible and that set out general guidelines
- single-use plan: a one time plan specifically designed to meet the needs of a unique situation
- standing plan: ongoing plans that provide guidance for activities performed repeated

Contemporary issues in planning
- *Criticism of planning*
  - it may create rigidity in organizational decision & actions
  - plan cannot be developed for a dynamic environment
  - formal plan cannot replace intuition & creativity
  - planning focused managers' attention on today's competition, not on tomorrow's survival
  - formal planning reinforces success & ultimately may lead to failure
- *Effective planning in dynamic environments means*
  - developing plans that are specific but flexible;
  - being willing to change directions if environmental conditions warrants;
  - staying alert to environmental changes that could impact the effective implementation of plans and making changes as needed;
  - continuing formal planning efforts even when the environment is highly uncertain.

Chapter 8: Strategic Management

The Strategic Management Process



This process is most applicable to strategic management at the business unit level of the organization. For large corporations, strategy at the corporate level is more concerned with managing a portfolio of businesses. For example, corporate level strategy involves decisions about which business units to grow, resource allocation among the business units, taking advantage of synergies among the business units, and mergers and acquisitions. In the process outlined here, "company" or "firm" will be used to denote a single-business firm or a single business unit of a diversified firm.

Mission: A company's mission is its reason for being. The mission often is expressed in the form of a mission statement, which conveys a sense of purpose to employees and projects a company image to customers. In the strategy formulation process, the mission statement sets the mood of where the company should go.

Objectives: Objectives are concrete goals that the organization seeks to reach, for example, an earnings growth target. The objectives should be challenging but achievable. They also should be measurable so that the company can monitor its progress and make corrections as needed.

Situation Analysis: Once the firm has specified its objectives, it begins with its current situation to devise a strategic plan to reach those objectives. Changes in the external environment often present new opportunities and new ways to reach the objectives. An environmental scan is performed to identify the available opportunities. The firm also must know its own capabilities and limitations in order to select the opportunities that it can pursue with a higher probability of success. The situation analysis therefore involves an analysis of both the external and internal environment.

Strategy Formulation: Once a clear picture of the firm and its environment is in hand, specific strategic alternatives can be developed. While different firms have different alternatives depending on their situation, there also exist generic strategies that can be applied across a wide range of firms. Michael Porter identified cost leadership, differentiation, and focus as three generic strategies that may be considered when defining strategic alternatives. Porter

advised against implementing a combination of these strategies for a given product; rather, he argued that only one of the generic strategy alternatives should be pursued.
Implementation: The strategy likely will be expressed in high-level conceptual terms and priorities. For effective implementation, it needs to be translated into more detailed policies that can be understood at the functional level of the organization. The expression of the strategy in terms of functional policies also serves to highlight any practical issues that might not have been visible at a higher level. The strategy should be translated into specific policies for functional areas such as: Marketing, R&D, Procurement, Production, Human resources, and IS.
Evaluation result or Control: Once implemented, the results of the strategy need to be measured and evaluated, with changes made as required to keep the plan on track. Control systems should be developed and implemented to facilitate this monitoring. Standards of performance are set, the actual performance measured, and appropriate action taken to ensure success.

The strategic management process is dynamic and continuous. A change in one component can necessitate a change in the entire strategy. As such, the process must be repeated frequently in order to adapt the strategy to environmental changes. Throughout the process the firm may need to cycle back to a previous stage and make adjustments.

Type of Organization Strategies

1. Product Portfolio Strategy - introduction to the Boston Consulting Box

Introduction

The **business portfolio** is the collection of businesses and products that make up the company. The best business portfolio is one that fits the company's strengths and helps exploit the most attractive opportunities.

The company must:

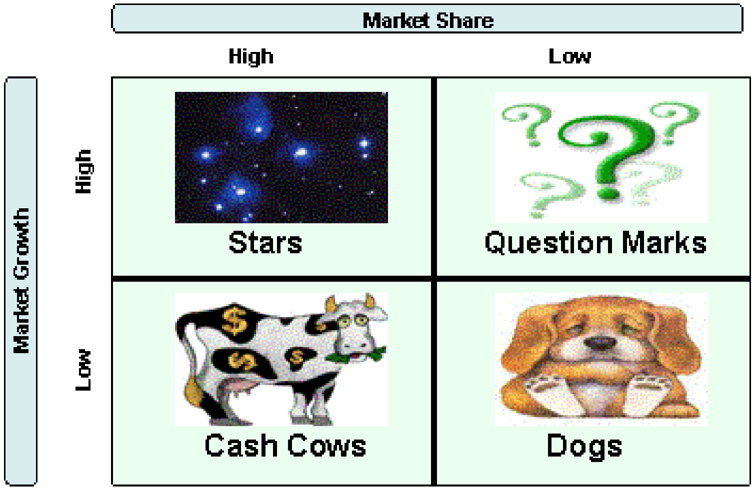
(1) Analyse its current business portfolio and decide which businesses should receive more or less investment, and

(2) Develop growth strategies for adding new products and businesses to the portfolio, whilst at the same time deciding when products and businesses should no longer be retained.

Methods of Portfolio Planning

The two best-known portfolio planning methods are from the Boston Consulting Group (the subject of this revision note) and by General Electric/Shell. In each method, the first step is to identify the various Strategic Business Units ("SBU's") in a company portfolio. An SBU is a unit of the company that has a separate mission and objectives and that can be planned independently from the other businesses. An SBU can be a company division, a product line or even individual brands - it all depends on how the company is organised.

The Boston Consulting Group Box ("BCG Box")



Using the BCG Box (an example is illustrated above) a company classifies all its SBU's according to two dimensions:

On the horizontal axis: relative market share - this serves as a measure of SBU strength in the market

On the vertical axis: market growth rate - this provides a measure of market attractiveness

By dividing the matrix into four areas, four types of SBU can be distinguished:

Stars - Stars are high growth businesses or products competing in markets where they are relatively strong compared with the competition. Often they need heavy investment to sustain their growth. Eventually their growth will slow and, assuming they maintain their relative market share, will become cash cows.

Cash Cows - Cash cows are low-growth businesses or products with a relatively high market share. These are mature, successful businesses with relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows that the company needs for its Stars.

Question marks - Question marks are businesses or products with low market share but which operate in higher growth markets. This suggests that they have potential, but may require substantial investment in order to grow market share at the expense of more powerful competitors. Management have to think hard about "question marks" - which ones should they invest in? Which ones should they allow to fail or shrink?

Dogs - Unsurprisingly, the term "dogs" refers to businesses or products that have low relative share in unattractive, low-growth markets. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in.

Using the BCG Box to determine strategy

Once a company has classified its SBU's, it must decide what to do with them. In the diagram above, the company has one large cash cow (the size of the circle is proportional to the SBU's sales), a large dog and two, smaller stars and question marks.

Conventional strategic thinking suggests there are four possible strategies for each SBU:

(1) Build Share: here the company can invest to increase market share (for example turning a "question mark" into a star)

(2) Hold: here the company invests just enough to keep the SBU in its present position

(3) Harvest: here the company reduces the amount of investment in order to maximise the short-term cash flows and profits from the SBU. This may have the effect of turning Stars into Cash Cows.

(4) Divest: the company can divest the SBU by phasing it out or selling it - in order to use the resources elsewhere (e.g. investing in the more promising "question marks").

2. Strategy - competitive advantage

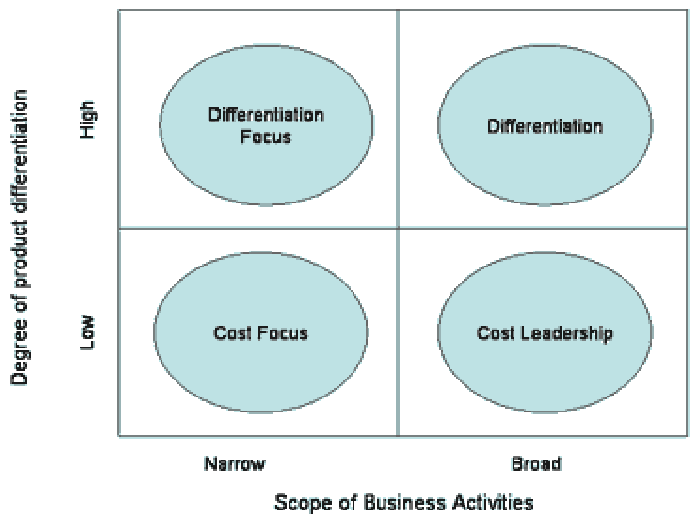
Competitive Advantage - Definition

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

Competitive Strategies

Following on from his work analyzing the competitive forces in an industry Michael Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of businesses' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarized in the figure below:



The **differentiation** and **cost leadership** strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the **differentiation focus** and **cost focus** strategies are adopted in a narrow market or industry.

Strategy - Differentiation

This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a **premium price** for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

Examples of Differentiation Strategy: Mercedes cars

Strategy - Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed minimizing costs. If the achieved selling price can at least equal (or near)the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Examples of Cost Leadership: Dell Computer

Strategy - Differentiation Focus

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a **valid basis for differentiation -** and that existing competitor products are not meeting those needs and wants.

Examples of Differentiation Focus: any successful niche retailers; or specialist holiday operator

Strategy - Cost Focus

Here a business seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".

Examples of Cost Focus: Many smaller retailers featuring own-label or discounted label products.

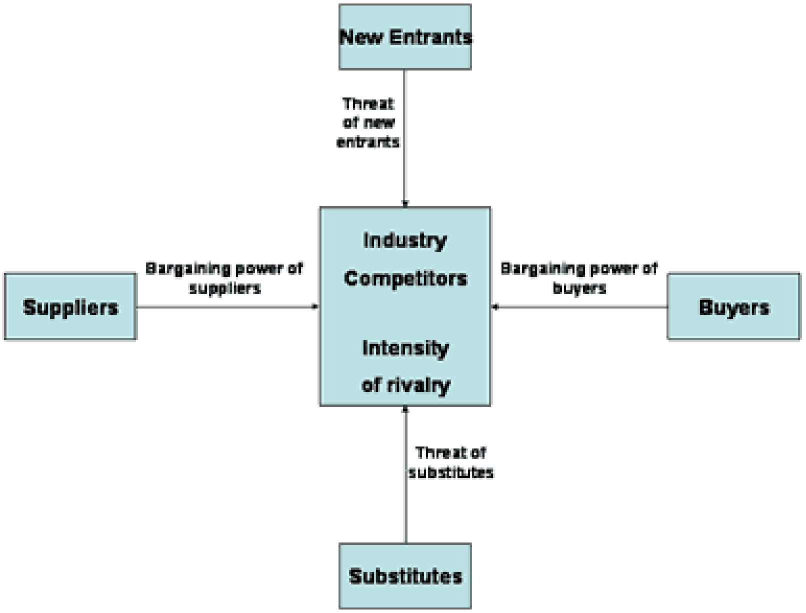
3. Competitive Strategy: Five Forces

Defining an industry

An industry is a group of firms that market products which are close substitutes for each other (e.g. the car industry, the travel industry).

Some industries are more profitable than others. Why? The answer lies in understanding the dynamics of competitive structure in an industry.

The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model, which is described below:



Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are

- The threat of entry of new competitors (new entrants)
- The threat of substitutes
- The bargaining power of buyers

- The bargaining power of suppliers
- The degree of rivalry between existing competitors

Threat of New Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). Key barriers to entry include

- Economies of scale
- Capital / investment requirements
- Customer switching costs
- Access to industry distribution channels
- The likelihood of retaliation from existing industry players.

Threat of Substitutes

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on:

- Buyers' willingness to substitute
- The relative price and performance of substitutes
- The costs of switching to substitutes

Bargaining Power of Suppliers (Suppliers are the businesses that supply materials & other products into the industry)

The cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when:

- There are many buyers and few dominant suppliers
- There are undifferentiated, highly valued products
- Suppliers threaten to integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets)
- Buyers do not threaten to integrate backwards into supply
- The industry is not a key customer group to the suppliers

Bargaining Power of Buyers

Buyers are the people / organizations who create demand in an industry

The bargaining power of buyers is greater when

- There are few dominant buyers and many sellers in the industry
- Products are standardized
- Buyers threaten to integrate backward into the industry
- Suppliers do not threaten to integrate forward into the buyer's industry
- The industry is not a key supplying group for buyers

Intensity of Rivalry

The intensity of rivalry between competitors in an industry will depend on:

- The structure of competition - for example, rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader

- The structure of industry costs - for example, industries with **high fixed costs** encourage competitors to fill unused capacity by price cutting

- Degree of differentiation - industries where products are commodities (e.g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry

- Switching costs - rivalry is reduced where buyers have high switching costs - i.e. there is a significant cost associated with the decision to buy a product from an alternative supplier

- Strategic objectives - when competitors are pursuing aggressive growth strategies, rivalry is more intense. Where competitors are "milking" profits in a mature industry, the degree of rivalry is less

- Exit barriers - when barriers to leaving an industry are high (e.g. the cost of closing down factories) - then competitors tend to exhibit greater rivalry.

Chapter 9: Planning Tools and Techniques

Techniques for assessing the environment

1. Environmental Scanning: the screening of large amounts of information to anticipate and interpret changes in the environment
2. Forecasting:
    a. Quantitative forecasting: forecasting that applied a set of mathematical rules to a series of past data to predict outcomes
        i. Time series analysis, Regression models, Econometric models, Economic indicators, Substitution effect
    b. Qualitative forecasting: forecasting that uses the judgment and opinion of knowledgeable individuals to predict outcome
        i. Jury of opinion, Sales force Composition, Customer Evaluation
3. Benchmarking

The Benchmarking Process

Benchmarking involves looking outward (outside a particular business, organization, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization or in key areas of the business environment.

Application of benchmarking involves four key steps:

(1) Understand in detail existing business processes

(2) Analyze the business processes of others

(3) Compare own business performance with that of others analyzed

(4) Implement the steps necessary to close the performance gap

Benchmarking should not be considered a one-off exercise. To be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.

Techniques for allocation resources

1. Budgeting: Cash budgeting, Revenue budgeting, Expense budgeting, Profit budgeting
2. Scheduling
    a. Gantt Chart, Load Chart, PERT Network Analysis, Breakeven Analysis, Linear Programming

Contemporary Planning Techniques

Project Management

- Define objectives
- Identify activities and resources
- Establish sequences
- Estimate time for activities
- Determine project completion date
- Compare with objectives
- Determine additional resources requirement

Scenario Planning

- A consistent view of what the future is likely to be. The intent of scenario planning is to come up with multiple scenarios that lead to different outcomes. Although scenarios planning cannot predict the future, it can reduce uncertainty by playing out potential situations under different specified conditions.

Organizing
Chapter 10: Organizational Structure and Design

Organizing: The process of creating an organization's structure
Organization Structure: the organization's formal framework by which job tasks are divided, grouped, and co-coordinated. When managers develop or change and organization's structure, they are engaged in organizational design.
Departmentalization: the basis by which jobs are grouped together

- Functional departmentalization: groups jobs by functions performed (refer to Exhibit 10.2)
- Product departmentalization: groups jobs by product lines
- Geographical departmentalization: groups jobs on the basis on territory or geography
- Process departmentalization: groups jobs on the basis of product or customer flow
- Customer departmentalization: groups jobs on the basis of common customers
- Cross-functional team: Groups of individuals who are experts in various specialties who work together

Chain of command: A continuous line of authority that extends from the upper levels of the organizations down to the lower level and clarification who reports to whom
Span of control: refer to how many subordinates a manager can effectively and efficiently supervise
Centralization: described the degree to which decision making is concentrated at a single point in the organization
Decentralization: described when lower levels employees provide input and actually make decision.
Formalization: refer to the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.
Mechanistic Organization: rigid & tightly controlled structured; characterized by high specialization, extensive departmentalization, narrow spans of control, high formalization, a limited information network, little participation in decision making by lower level employees
Organic Organization: highly adaptive and flexible; there is division of labor; jobs are not standardized. Formalization and tight managerial controls are unnecessary cos employees are highly trained.
Factors influencing an organization's design: **strategy, size, technology, and environment**
Simple Structure: an organization with low departmentalization, wide span of control, centralized in single person and little formalization (refer to strength and weakness of each structure in Exhibit 10.7)
Functional Structure: an organizational design that groups similar or related occupational specialties together
Divisional Structure: an organizational structure made up of separate units or divisions
Matrix Structure: assigns specialists from different functional departments to work on one or more projects being led by a project manager
Project Structure: employees continuously work on projects
Boundaryless organization: structure is not defined by, or limited to, boundaries imposed by traditional structure.

Chapter 11: Managerial Communication and Information Technology

Communication - introduction

The use of communication in business

Good communications are essential within a business if it is to prosper.

In any business, the communication of information is an essential part of three key business activities:

(1) Management decision-making (without relevant, timely and accurate information, decision-making at any level becomes quite tricky!)

(2) Co-ordination of departments, teams and groups - e.g. making sure that marketing, production and administration know what each other is doing, when and why

(3) Motivation of individuals

Examples of communication

To illustrate the all-pervasive nature of communication, consider the following list of communication examples:

- Exchanging ideas

- Announcing investment plans

- Producing a report with the monthly management accounts comparing actual results against budget

- Giving instructions to the production and purchasing departments about the new product plans for next year

- Delivering a presentation to the marketing department following the results of some quantitative, primary market research

- Announcing the annual trading results and future strategy to company investors and analysts

Directions of communication in a business

Communication flows in three main directions in a business:

(1) Vertical Communication

E.g. from managers to sub-ordinates; from shop floor workers to supervisors; from the Chief Executive to all other management and employees.

Vertical communication flows are mainly used for reporting information (e.g. results, plans) and obtaining feedback (e.g. an employee survey summarized for the Board of Directors

(2) Horizontal Communication

This is between people of the same "level" in a business - usually in the same department, but sometimes communication between departments. This is sometimes known as "peer communication". It is normally used to co-ordinate work. E.g. sales managers for different regions circulate details of potential customers to each other and allocate based on the customer location; or accounting staff in different departments share information to help prepare the annual budget on a consistent basis.

(3) Diagonal Communication

Less common; this involves interdepartmental communication by people at different levels. A good example would be a project team drawn from different grades and departments.

Barriers

Inevitably, most businesses (perhaps all) suffer from failures in communication. Poor businesses suffer from persistently poor communications.

Perhaps the best way to think about the way in which communication can go wrong is to think about what good communication would be like:

- It would use appropriate language (e.g. no poor use of jargon; written so that the intended recipient can understand)

- It would go only to who should receive it - not everyone

- It would use the right medium to communicate the information

- The information would get to the recipient in good time for it to be used

Taking the above list, it easy to produce a list of how communications go wrong:

- Information is omitted or distorted by the sender

- Information is misunderstood due to the use of inappropriate jargon or lack of clarity

- Information is presented using an inappropriate medium (e.g. via email rather than in a proper report, or via telephone when face-to-face is better)

- Information arrives too late, or incomplete

Barriers to good communication

Research suggests that, amongst the many reasons why information fails to be communicated, the following are the main barriers:

- **Different status of the sender and the receiver** (e.g. a senior manager sends a memo to a production supervisor - who is likely to pay close attention to the message. The same information, conveyed in the opposite direction might not get the attention it deserves)

- Use of jargon - employees who are "specialists" may fall for the trap of using specialist language for a non-specialist audience (e.g. the IT technician who cannot tries to explain how users should log onto a network, in language that sounds foreign to most users of the network)

- **Selective reporting -** where the reporter gives the recipient incorrect or incomplete information

- Poor timing - information that is not immediately relevant (e.g. notice of some deadline that seems a long way off) is not always actioned straightaway

- **Conflict -** where the communicator and recipient are in conflict; information tends to be ignored or distorted

- **Filtering** – the deliberate manipulation of information to make it appear more favorable to the receiver

- **Selective perception** – when people selectively interpret what they see or hear on the basis of their interests, background, experience, and attitudes

- **Information overload** – the information we have to work with exceeds our processing capacity

Overcoming the Barriers to effective interpersonal communication

- Use feedback
- Simplify language
- Active listening

Organizational Communication

1. Downward communication: from manager to employee
2. Upward communication: from employees to manager
3. Lateral communication: take place among employees on the same organizational level
4. Diagonal communication: cut across both work areas and organizational levels

Three commons organizational communication network:

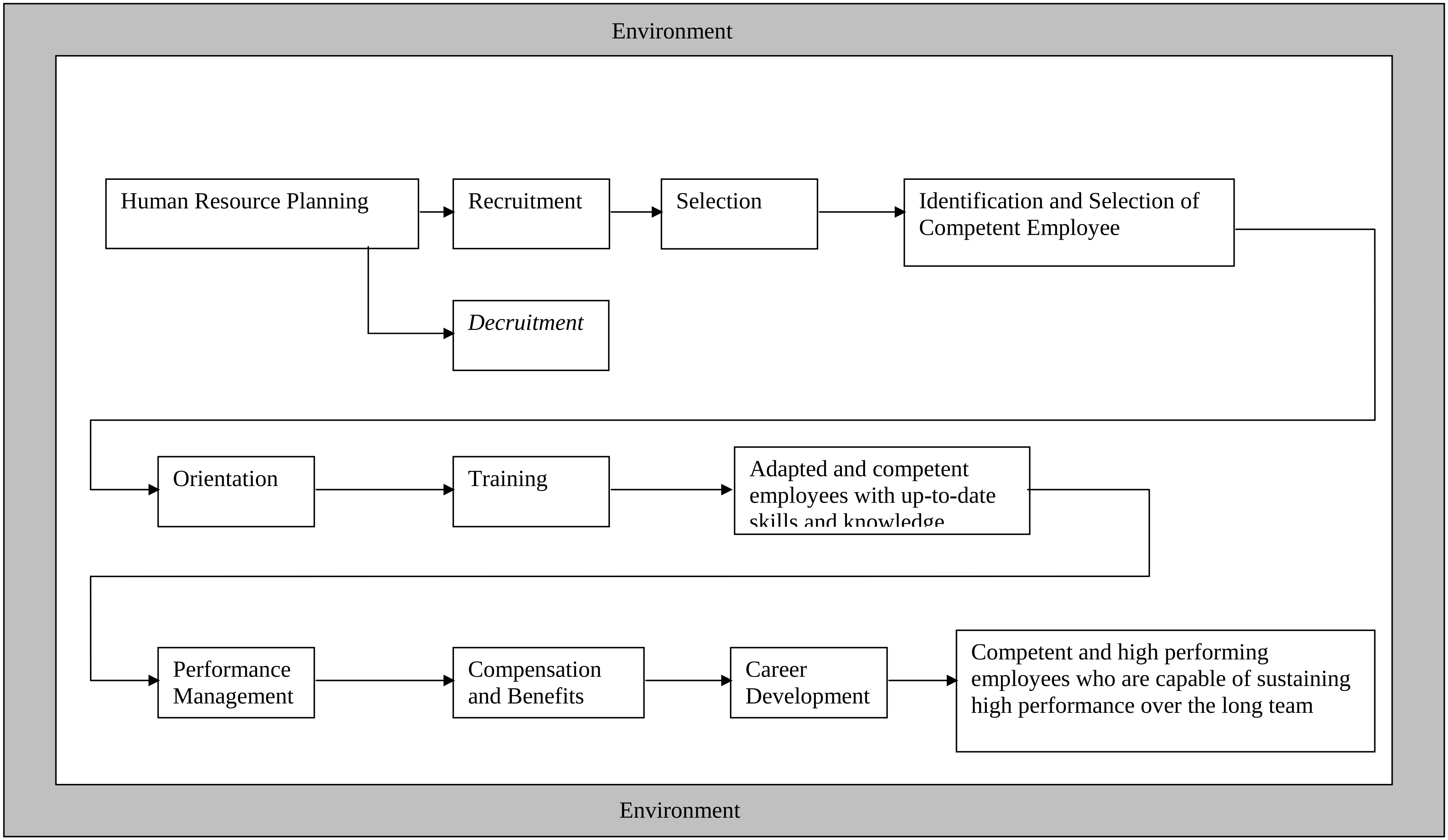
1. The Chain: communication: flows according to the formal chain of command, both downward and upward
2. The Wheel network: representing communication flowing between a clearly identifiable and strong leader and others in a work group or team. Leaders serve as a hub through whom all communication passes
3. All Channel network: communication flows freely among all members of a work team

The Grapevine – the informal organizational communication network

IT affects organizations through the way that organizational member communicate, share information, and do their work. Communication and the exchange of information among organizational members are no longer constrained by geography or time.

Chapter 12: Human Resource Management

The Human Resource Management Process



Employee Performance Management: *Performance Appraisal Method*

Employee appraisal - 360 degree feedback

In the revision note on appraisal and performance review we concentrated on the assessment of employees by managers. But how should management be assessed? After all, key management have a vital impact on the performance of a business – and they too will have development and training needs.

One increasingly popular method of managerial assessment is 360-degree feedback.

360-degree feedback is an assessment process used to improve managerial effectiveness by providing the manager with a more complete assessment of their effectiveness, and their performance and development needs.

The process involves obtaining feedback from the manager's key contacts. These would normally include:

• The manager him/herself
• Subordinates (employees who work for the manager)
• Peers (fellow managers)
• Manager (senior management)
• Customers
• Suppliers

Feedback is normally obtained by using a questionnaire which asks participants to rate the individual according to observed behaviours - usually managerial or business-specific competencies.

The 360-degree process will not suit all companies. You should assess how well it would fit with your current culture before launching a scheme and a pilot scheme is worth building into your program.

Communicating the scheme, it's purpose and benefits to all those involved will be a key factor in reducing the participants' fears and gaining their commitment to any new scheme.

Presenting the results of the appraisal to managers in a constructive way is critical to the success of the process. All feedback, positive and critical, should be presented, with the aim of highlighting and acting on areas for development.

Results can be aggregated to give you some feedback on organizational strengths and weaknesses in relation to your business objectives and training strategy.

Chapter 13: Managing Change and Innovation

Organizational Change: any alteration in people (attitudes, expectations, perception, behavior); structure(work specialization, departmentalization, chain of command, span of control, centralization, formalization, job redesign, actual structure design); or technology (work processes, methods & equipment) (refer to Exhibit 13.2)

Force of Change: External (marketplace, Governmental laws & regulations, technology, labor markets, economics), Internal (Organization's strategy, workforce, employees, equipment)

Six tactics reduces resistance to change: education & communication, participation, facilitation & support, negotiation, manipulation & cooptation, coercion (refer to Exhibit 13. 4)

Process reengineering involves in change in structure, technology, HR

Creativity: the ability to combine ideas in a unique way or to make unusual associations between ideas.

Innovation: the process of taking a creative idea and turning it into a useful product, service or work method.

Please refer to Organizational Development Techniques on Exhibit 13.3

Also good info of Legal forms of Business Organization Page 363-364 and HRM Issues in Entrepreneurial Ventures Page 365

Chapter 14: Foundations of Behavior

The organization as **an Iceberg**:

Visible Aspects: Strategies, Objectives, Policies & Procedures, Structure, Technology, Formal Authority, Chain of Command

Hidden Aspects: Attitudes, Perceptions, Group Norms, Informal Interactions, Interpersonal & Intergroup Conflicts

Perhaps the Summary at the end of the Chapter is enough to understand.

Chapter 15: Understanding Groups and Teams

Group Behavior Model (Exhibit 15.9)

Stages of Group Development (refer to Exhibit 15.2)

Conflict and Group Performance (Exhibit 15.5)

Why are works teams popular?

- Create esprit de corps
- Increase flexibility
- Allow manager to do more strategic management
- Takes advantages of workforce diversity
- Increase performance

Effective Team

- Clear Goals
- Relevant skills
- Mutual trust
- Unified Commitment
- Good Communication
- Negotiation skills
- Appropriate leadership
- Internal support
- External support

Some other successful teamwork relies on 7 keys ingredients:

- A clear mission, positive thinking, unselfish effort, mutual respect, trust, small size, strong management

"Never tell people how to do their jobs. Instead present them with a challenge, and then let them choose the best way to attack it. That way they feel like part of the team – and they usually come up with a better idea" 'Brevig (ILM)

Chapter 16: Motivation Employee

Early Theories of Motivation:

- Maslow's Hierarchy of Needs Theory
- Mcgregor's Theory X and They Theory Y
- Herzberg's Motivation – Hygiene Theory

Contemporary Theories of Motivation

- 3-Needs Theory:
  - Need of achievement (nAch)
  - Need for power (nPow)
  - Need of affiliation (nAff)
- Goal setting theory
- Reinforcement Theory

Design motivating jobs

Job enlargement: the horizontal expansion of a job that increase job scope, the number of different tasks required in a jobs, and the frequency with which those tasks are repeated.

Job enrichment: the vertical expansion of the job that increases job depth, which is the degree of control employees have over their works.

Jon characteristic model (JCM): a framework for analyzing and designing job that identifies five primary dimension – skill variety, task identity, task significant, autonomy, and feedback

Please reed more at the Chapter Summary page 453

Chapter 17: Leadership

Refer to Chapter Summary and I added more the concept

Introduction

Good leaders are made not born. If you have the desire and willpower, you can become an effective leader. Good leaders develop through a never-ending process of self-study, education, training, and experience. This guide will help you through that process.

To inspire your people into higher levels of teamwork, there are certain things you must be, know, and, do. These do not come naturally, but are acquired through continual work and study. The best leaders are continually working and studying to improve their leadership skills.

Before we get started, let's define leadership. Leadership is a complex process by which a person influences others to accomplish a mission, task, or objective and directs the organization in a way that makes it more cohesive and coherent. A person carries out this process by applying her leadership attributes (belief, values, ethics, character, knowledge, and skills). Although your position as a manager, supervisor, lead, etc. gives you the authority to accomplish certain tasks and objectives in the organization, this power does not make you a leader...it simply makes you the boss. Leadership makes people want to achieve high goals and objectives, while, on the other hand, bosses tell people to accomplish a task or objective.

Bass theory of leadership states that there are three basic ways to explain how people become leaders. The first two explain the leadership development for a small number of people. These theories are:

- Some personality traits may lead people naturally into leadership roles. This is the Trait Theory.
- A crisis or important event may cause a person to rise to the occasion, which brings out extraordinary leadership qualities in an ordinary person. This is the Great Events Theory.
- People can choose to become leaders. People can learn leadership skills. This is the Transformational Leadership Theory. It is the most widely accepted theory today and the premise on which this guide is based.

When a person is deciding if he respects you as a leader, he does not think about your attributes. He observes what you do so that he can know who you really are. He uses this observation to tell if you are a honorable and trusted leader, or a self serving person who misuses her authority to look good and get promoted. Self serving leaders are not as effective because their employees only obey them, not follow them. They succeed in many areas because they present a good image to their seniors at the expense of their people.

The basis of good leadership is honorable character and selfless service to your organization. In your employees' eyes, your leadership is everything you do that effects the organization's objectives and their well being. A respected leader concentrates on what she is [be] (beliefs and character), what she knows (job, tasks, human nature), and what she does (implement, motivate, provide direction).

What makes a person want to follow a leader? People want to be guided by those they respect and who have a clear sense of direction. To gain respect, they must be ethical. A sense of direction is achieved by conveying a strong vision of the future.

Two Most Important Keys of Leadership

A Hay's study examined over 75 key components of employee satisfaction. They found that:

- Trust and confidence in top leadership was the single most reliable predictor of employee satisfaction in an organization.
- Effective communication by leadership in three critical areas was the key to winning organizational trust and confidence:
    - Helping employees understand the company's overall business strategy.
    - Helping employees understand how they contribute to achieving key business objectives.
    - Sharing information with employees on both how the company is doing and how an employee's own division is doing - relative to strategic business objectives.

So basically, you must be **trustworthy** and you have to be able to **communicate a vision** of where you are going. Notice how the "Principles of Leadership" in the next section closely ties in with this.

Principles of Leadership

To help you *be, know,* and *do,* follow these eleven principles of leadership (later sections will expand on gaining an insight into these principles and providing tools to perform them):

- **Know yourself and seek self-improvement.** In order to know yourself, you have to understand your *be, know,* and *do,* attributes. Seeking self-improvement means continually strengthening your attributes. This can be accomplished through reading, self-study, classes, etc.
- **Be technically proficient.** As a leader, you must know your job and have a solid familiarity with your employees' jobs.
- **Seek responsibility and take responsibility for your actions.** Search for ways to guide your organization to new heights. And when things go wrong, they will sooner or later, do not blame others. Analyze the situation, take corrective action, and move on to the next challenge.
- **Make sound and timely decisions.** Use good problem solving, decision making, and planning tools.
- **Set the example.** Be a good role model for you employees. They must not only hear what they are expected to do, but also see.
- **Know your people and look out for their well-being.** Know human nature and the importance of sincerely caring for your workers.
- **Keep your people informed.** Know how to communicate with your people, seniors, and other key people within the organization.
- **Develop a sense of responsibility in your people.** Develop good character traits within your people that will help them carry out their professional responsibilities.
- **Ensure that tasks are understood, supervised, and accomplished.** Communication is the key to this responsibility.
- **Train your people as a team.** Although many so called leaders call their organization, department, section, etc. a team; they are not really teams...they are just a group of people doing their jobs.

- **Use the full capabilities of your organization.** By developing a team spirit, you will be able to employ your organization, department, section, etc. to its fullest capabilities.

Factors of leadership

The four major factors of leadership are the:

- **Follower -** Different people require different styles of leadership. For example, a new hire requires more supervision than an experienced employee. A person with a poor attitude requires a different approach than one with a high degree of motivation. You must know your people! The fundamental starting point is having a good understanding of human nature: needs, emotions, and motivation. You must know your employees' *be, know,* and *do* attributes.
- **Leader -** You must have a honest understanding of who you are, what you know, and what you can do. Also, note that it is the followers, not the leader who determines if a leader is successful. If a follower does not trust or lacks confidence in her leader, then she will be uninspired. To be successful you have to convince your followers, not yourself or your superiors, that you are worthy of being followed.
- **Communication -** You lead through two-way communication. Much of it is nonverbal. For instance, when you "set the example," that communicates to your people that you would not ask them to perform anything that you would not be willing to do. What and how you communicate either builds or harms the relationship between you and your employees.
- **Situation -** All situations are different. What you do in one leadership situation will not always work in another situation. You must use your judgment to decide the best course of action and the leadership style needed for each situation. For example, you may need to confront a employee for inappropriate behavior, but if the confrontation is too late or too early, too harsh or too weak, then the results may prove ineffective.

Various forces will affect these factors. Examples of forces are your relationship with your seniors, the skill of your people, the informal leaders within your organization, and how w your company is organized.

Attributes

If you are a leader that can be trusted, then the people around you will learn to respect you. To be a good leader, there are things that you must *be, know,* and *do.* These fall under the **Leadership Framework:**

- **BE** a professional. Examples: Be loyal to the organization, perform selfless service, and take personal responsibility.
- **BE** a professional who possess good character traits. Examples: Honesty, competence, candor, commitment, integrity, courage, straightforward, imagination.
- **KNOW** the four factors of leadership - follower, leader, communication, and situation.
- **KNOW** yourself. Examples: strengths and weakness of your character, knowledge, and skills.
- **KNOW** human nature. Examples: Human needs and emotions, and how people respond to stress.
- **KNOW** your job. Examples: be proficient and be able to train others in their tasks.

- **KNOW** your organization. Examples: where to go for help, its climate and culture, who the unofficial leaders are.
- **DO** provide direction. Examples: goal setting, problem solving, decision making, planning
- **DO** implement. Examples: communicating, coordinating, supervising, evaluating.
- **DO** motivate. Examples: develop moral and esprit in the organization, train, coach, counsel.

Leadership Models

Leadership models help us to understand what makes leaders act the way they do in certain situations. The ideal is not to lock yourself in to a type of behavior discussed in the model, but to realize that every situation calls for a different approach or behavior to be taken. Two models will be discussed, the *Four Framework Approach* and the *Managerial Grid.*

In the *Four Framework Approach*, Bolman and Deal suggest that leaders display leadership behaviors in one of four types of frameworks: Structural, Human Resource, Political, or Symbolic. The style can either be effective or ineffective, depending upon the chosen behavior in certain situations.

- **Structural Framework -** In an effective leadership situation the leader is a social architect whose leadership style is analysis and design. In an ineffective leadership situation the leader is a petty tyrant whose leadership style is details. Structural Leaders focus on structure, strategy, environment, implementation, experimentation, and adaptation.
- **Human Resource Framework -** In an effective leadership situation the leader is a catalyst and servant whose leadership style is support, advocate, and empowerment. In an ineffective leadership situation the leader is a pushover, whose leadership style is abdication and fraud. Human Resource Leaders believe in people and communicate that belief; they are visible and accessible; they empower, increase participation, support, share information, and move decision making down into the organization.
- **Political Framework -** In an effective leadership situation the leader is an advocate, whose leadership style is coalition and building. In an ineffective leadership situation the leader is a hustler, whose leadership style is manipulation. Political leaders clarify what they want and what they can get; they assess the distribution of power and interests; they build linkages to other stakeholders; use persuasion first, then use negotiation and coercion only if necessary.
- **Symbolic Framework -** In an effective leadership situation the leader is a prophet, whose leadership style is inspiration. In an ineffective leadership situation the leader is a fanatic or fool, whose leadership style is smoke and mirrors. Symbolic leaders view organizations as a stage or theater to play certain roles and give impressions; these leaders use symbols to capture attention; they try to frame experience by providing plausible interpretations of experiences; they discover and communicate a vision.

This model suggests that leaders can be put into one of these four categories and there are times when one approach is appropriate and times when it would not be. Any one of these approaches alone would be inadequate. We should be conscious of all four approaches and not just rely on one. For example, during a major organization change, a structural leadership style may be more effective than a visionary leadership style; while during a period when strong growth is needed, the visionary approach may be better. We also need to understand ourselves as each of us tends to have a preferred approach. We need to be conscious of this at all time and be aware of the limitations of our favored approach.

Authoritarian Leader - high task, low relationship - 9,1: People who get this rating are very much task oriented and are hard on their workers (autocratic). There is little or no allowance for cooperation or collaboration. Heavily task oriented people display these characteristics: they are very strong on schedules; they expect people to do what they are told without question or debate; when something goes wrong they tend to focus on who is to blame rather than concentrate on exactly what is wrong and how to prevent it; they are intolerant of what they see as dissent (it may just be someone's creativity) so it is difficult for their subordinates to contribute or develop.

Team Leader - high task, high relationship - 9,9: This type of leader leads by positive example. She endeavors to foster a team environment in which all team members can reach their highest potential, both as team members and as people. She encourages the team to reach team goals as effectively as possible, while also working tirelessly to strengthen the bonds among the various members. They form and lead the most productive teams.

Country Club Leader - low task, high relationship - 1,9: This leader uses predominantly reward power to maintain discipline and to encourage the team to accomplish its goals. Conversely, she is almost incapable of employing the more punitive coercive and legitimate powers. This inability results from the leaders' fear that using such powers could jeopardize her relationships with the team members.

Impoverished Leader - low task, low relationship-1,1. This person uses a "delegate and disappear" management style. Since he is not committed to either task accomplishment or maintenance; he essentially allows the team to do what ever it wishes and prefers to detach himself from the team process by allowing the team to suffer from a series of power struggles.

The most desirable place for a leader to be along the two axis at most times would be a 9 on task and a 9 on people, the Team Leader. However, do not entirely dismiss the other three. Certain situations might call for one of the other three to be used at times. For example, by playing the Impoverished Leader, you allow your team to gain self-reliance. Be an Authoritarian Leader to instill a sense of discipline in an unmotivated worker. By carefully studying the situation and the forces affecting it, you will know at what points along the axis you need to be in order to achieve the desired result.

The Process of Great Leadership

The road to great leadership (common to successful leaders):

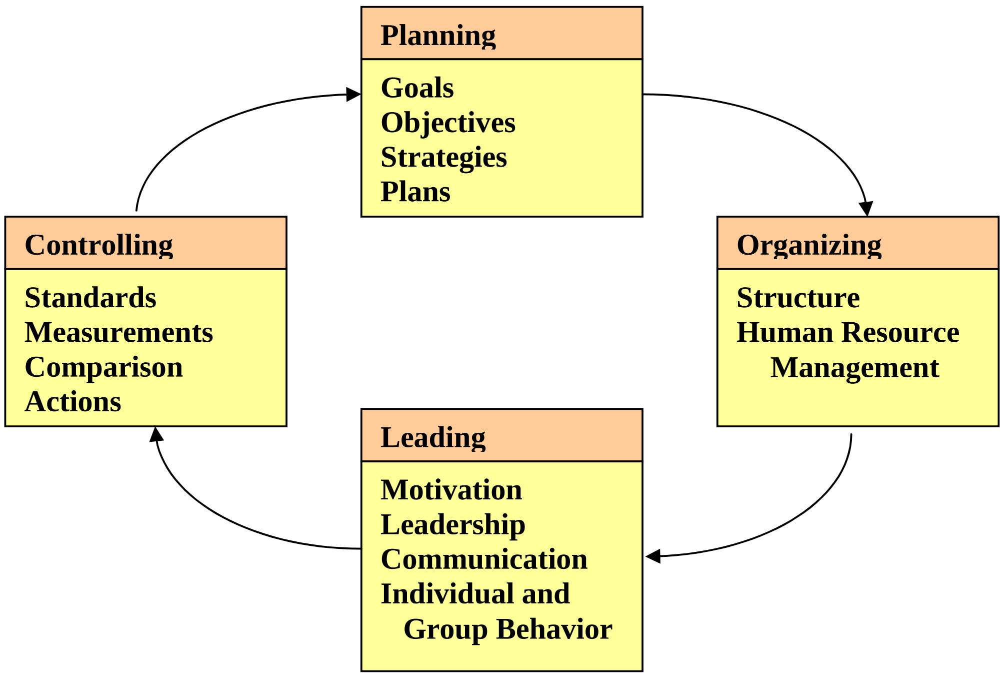
- Challenge the process - First, find a process that you believe needs to be improved the most.
- Inspire a shared vision - Next, share you vision in words that can be understood by your followers.
- Enable others to act - Give them the tools and methods to solve the problem.
- Model the way - When the process gets tough, get your hands dirty. A boss tells others what to do...a leader shows it can be done.
- Encourage the heart - Share the glory with your followers' heart, keep the pains in your heart.

(http://www.nwlink.com/~donclark/leader/leadcon.html)

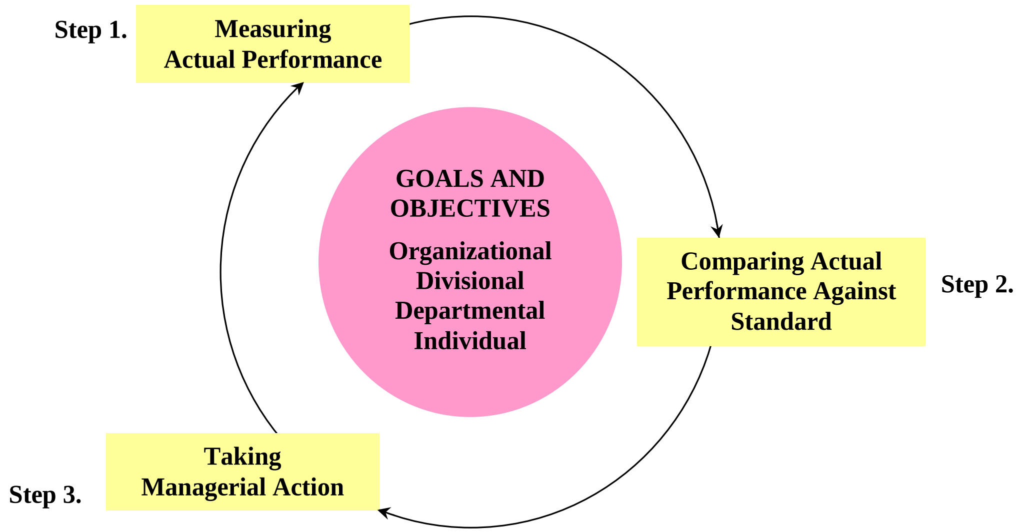
Chapter 18: Foundation of Control

Control: the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations
Market Control: an approach to control that emphasizes the use of external market mechanisms to establish the standards used in the control system.
Bureaucratic Control: an approach to control that emphasizes organizational authority and relies on administrative rules, regulations, procedures, an policy
Clan Control: an approach to control in which employee behavior is regulated by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture

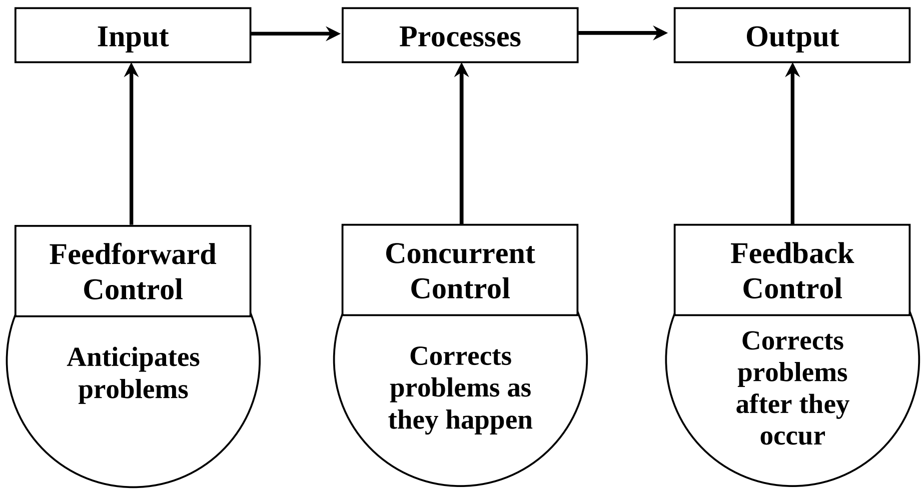
The Planning-Controlling Link



The Control process



Types of Control



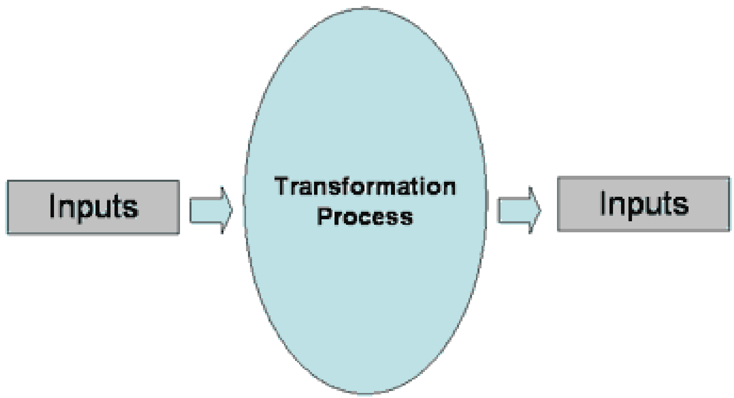
Qualities of an Effective Control System

Chapter 19: Operation and Value Chain Management

introduction to production and operations management

Definition

Production and Operations Management ("POM") is about the transformation of production and operational inputs into "outputs" that, when distributed, meet the needs of customers.



The process in the above diagram is often referred to as the **"Conversion Process".** There are several different methods of handling the conversion or production process **- Job, Batch, Flow and Group**

POM incorporates many tasks that are interdependent, but which can be grouped under five main headings:

PRODUCT

Marketers in a business must ensure that a business sells products that meet customer needs and wants. The role of Production and Operations is to ensure that the business actually makes the required products in accordance with the plan. The role of PRODUCT in POM therefore concerns areas such as:

- Performance
- Aesthetics
- Quality
- Reliability
- Quantity
- Production costs
- Delivery dates

PLANT

To make PRODUCT, PLANT of some kind is needed. This will comprise the bulk of the fixed assets of the business. In determining which PLANT to use, management must consider areas such as:

- Future demand (volume, timing)
- Design and layout of factory, equipment, offices
- Productivity and reliability of equipment
- Need for (and costs of) maintenance
- Heath and safety (particularly the operation of equipment)
- Environmental issues (e.g. creation of waste products)

PROCESSES

There are many different ways of producing a product. Management must choose the best process, or series of processes. They will consider:

- Available capacity
- Available skills
- Type of production
- Layout of plant and equipment
- Safety
- Production costs
- Maintenance requirements

PROGRAMMES

The production PROGRAMME concerns the dates and times of the products that are to be produced and supplied to customers. The decisions made about programme will be influenced by factors such as:

- Purchasing patterns (e.g. lead time)
- Cash flow
- Need for / availability of storage
- Transportation

PEOPLE

Production depends on PEOPLE, whose skills, experience and motivation vary. Key people-related decisions will consider the following areas:

- Wages and salaries
- Safety and training
- Work conditions
- Leadership and motivation
- Unionisation
- Communication

The Value Chain

To better understand the activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the value chain. In his 1985 book Competitive Advantage, Michael Porter introduced a generic value chain model that comprises a sequence of activities found to be common to a wide range of firms. Porter identified primary and support activities as shown in the following diagram:

Porter's Generic Value Chain

Inbound Logistics	>	Operations	>	Outbound Logistics	>	Marketing & Sales	>	Service	>	M A R G I N

Firm Infrastructure
HR Management
Technology Development
Procurement

The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

The primary value chain activities are:

Inbound Logistics: the receiving and warehousing of raw materials and their distribution to manufacturing as they are required.

Operations: the processes of transforming inputs into finished products and services.

Outbound Logistics: the warehousing and distribution of finished goods.

Marketing & Sales: the identification of customer needs and the generation of sales.

Service: the support of customers after the products and services are sold to them.

These primary activities are supported by:

The infrastructure of the firm: organizational structure, control systems, company culture, etc.

Human resource management: employee recruiting, hiring, training, development, and compensation.

Technology development: technologies to support value-creating activities.

Procurement: purchasing inputs such as materials, supplies, and equipment.

The firm's margin or profit then depends on its effectiveness in performing these activities efficiently, so that the amount that the customer is willing to pay for the products exceeds the cost of the activities in the value chain. It is in these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation.

The value chain model is a useful analysis tool for defining a firm's core competencies and the activities in which it can pursue a competitive advantage as follows:

Cost advantage: by better understanding costs and squeezing them out of the value-adding activities.

Differentiation: by focusing on those activities associated with core competencies and capabilities in order to perform them better than do competitors.

<u>Cost Advantage and the Value Chain</u>

A firm may create a cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain. Once the value chain is defined, a cost analysis can be performed by assigning costs to the value chain activities. The costs obtained from the accounting report may need to be modified in order to allocate them properly to the value creating activities.

Porter identified 10 cost drivers related to value chain activities:

Economies of scale
Learning
Capacity utilization
Linkages among activities
Interrelationships among business units
Degree of vertical integration
Timing of market entry
Firm's policy of cost or differentiation
Geographic location
Institutional factors (regulation, union activity, taxes, etc.)

A firm develops a cost advantage by controlling these drivers better than do the competitors.

A cost advantage also can be pursued by reconfiguring the value chain. Reconfiguration means structural changes such a new production process, new distribution channels, or a different sales approach. For example, FedEx structurally redefined express freight service by acquiring its own planes and implementing a hub and spoke system.

Differentiation and the Value Chain

A differentiation advantage can arise from any part of the value chain. For example, procurement of inputs that are unique and not widely available to competitors can create differentiation, as can distribution channels that offer high service levels. Differentiation stems from uniqueness. A differentiation advantage may be achieved either by changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain.

Porter identified several drivers of uniqueness:

Policies and decisions
Linkages among activities
Timing
Location
Interrelationships
Learning
Integration
Scale (e.g. better service as a result of large scale)
Institutional factors

Many of these also serve as cost drivers. Differentiation often results in greater costs, resulting in tradeoffs between cost and differentiation. There are several ways in which a firm can reconfigure its value chain in order to create uniqueness. It can forward integrate in order to perform functions that once were performed by its customers. It can backward integrate in order to have more control over its inputs. It may implement new process technologies or utilize new distribution channels. Ultimately, the firm may need to be creative in order to develop a novel value chain configuration that increases product differentiation.

Linkages Between Value Chain Activities

Value chain activities are not isolated from one another. Rather, one value chain activity often affects the cost or performance of other ones. Linkages may exist between primary activities and also between primary and support activities. Consider the case in which the design of a product is changed in order to reduce manufacturing costs. Suppose that inadvertently the new product design results in increased service costs; the cost reduction could be less than anticipated and even worse, there could be a net cost increase. Sometimes however, the firm may be able to reduce cost in one activity and consequently enjoy a cost reduction in another, such as when a design change simultaneously reduces manufacturing costs and improves reliability so that the service costs also are reduced. Through such improvements the firm has the potential to develop a competitive advantage. Unfortunately, attempts to achieve synergy from the interrelationships among different business units often fall short of expectations due to unanticipated drawbacks. The cost of coordination, the cost of reduced flexibility, and organizational practicalities should be analyzed when devising a strategy to reap the benefits of the synergies.

The Value Chain System

A firm's value chain is part of a larger system that includes the value chains of upstream suppliers and downstream channels and customers. Porter calls this series of value chains the value system, shown conceptually below:

The Value System > Supplier Value Chain > Firm Value Chain > Channel Value Chain > Buyer Value Chain

Linkages exist not only in a firm's value chain, but also between value chains. While a firm exhibiting a high degree of vertical integration is poised to better coordinate upstream and downstream activities, a firm having a lesser degree of vertical integration nonetheless can forge agreements with suppliers and channel partners to achieve better coordination. For example, an auto manufacturer may have its suppliers set up facilities in close proximity in order to minimize transport costs and reduce parts inventories. Clearly, a firm's success in developing and sustaining a competitive advantage depends not only on its own value chain, but on its ability to manage the value system of which it is a part.

Chapter 20: Controlling for Organizational Performance

Organizational Performance: the accumulated end results of all the organization's work processes and activities

Why Measure Organizational Performance?

- Better asset
- Increased ability to capture customer value
- Improved measures of organizational knowledge
- Impact on organizational reputation

Financial Control (read more in the Chapter Summary)

Benchmarking (go back to Chapter 9 in this paper)