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Reading Review – Chapters 5, 6, and 7

Chapter 5: Planning

I. Planning?
   a. Why Not Plan?
      i. Requires taking the time to do it.
      ii. May have to make some decisions without enough time to plan.
   b. How Planning Helps You
      i. Gives a way to check progress.
      ii. Helps coordinate activities
      iii. Gives a glimpse of the future
      iv. Helps cope with uncertainty

II. Uncertainty
   a. Three Types
      i. State Uncertainty: What harmful events could occur?
      ii. Effect Uncertainty: What effects could an environmental change produce?
      iii. Response Uncertainty: What consequences could a decision have?
   b. Responses
      i. Defenders: Just stick with what we do best
      ii. Prospectors: Create our own opportunities, don't wait for others
      iii. Analyzers: Let others take the risks; we'll imitate the best ideas

III. Fundamentals of Planning
   a. Mission Statement: What is the purpose of the organization?
   b. Vision Statement: What do we want to become? Gives a sense of the future and how to get there.
   c. Types of Planning
      i. Strategic: 1 – 5 years (done by top management)
      ii. Tactical: 6 – 24 months (done by middle managers)
      iii. Operational: 1 – 52 weeks (done by first-line managers)
   d. Goals & Action Plans
      i. Strategic: Focus on objectives for the entire organization.
      ii. Tactical: Focus on actions needed to achieve strategic goals.
      iii. Operational Goals: Concerned with short-term matters associated with realizing tactical goals.
   e. SMART Goals: Specific, Measurable, Attainable, Results-Oriented, Target Dates.

IV. Planning / Control Cycle
   a. Make the Plan → Carry Out the Plan [Planning Steps]
   b. → Control the direction by comparing results with the plan → Control the Direction (correct deviations in the plan, improve future plans) [Controlling Steps]

V. Management by Objectives
   a. Four-Step Process
      i. Jointly Set Objectives (employee and manager)
      ii. Develop Action Plan
      iii. Periodically Review Performance
      iv. Give Performance Appraisal and Rewards
   b. For MBO Success:
      i. Commitment of top management is essential
      ii. Must be applied organization wide
      iii. Objectives must cascade through the organization

VI. Project Planning
   a. Types of Plan
      i. Task or Work Assignment: Simplest plan. "To Do" list.

        ii. Program: Most complex plan. Single-use plan encompassing a range of projects.
        iii. Project: Between Task and Program.
    b. Project Life Cycle
        i. Definition. Look at the big picture.
        ii. Planning. Consider details needed to achieve the big picture.
        iii. Execution. Do the work.
        iv. Closing. Project is accepted by client
    c. Deadlines are Important! Help one focus on what's important.
    d. Break-Even Analysis
        i. Identify how much revenue is needed to cover the total costs of developing and selling a product.
        ii. Benefits
            1. Great for doing "what-if" scenarios.
            2. Good for analyzing profitability of past projects
        iii. Limitations
            1. Oversimplification
            2. Assumptions made in the formula may be faulty.

Chapter 6: Strategic Management

I. Introduction
    a. Strategy: Large-scale action plan. Sets direction for organization.
    b. Strategic Management: Process involving managers from all parts of the organization in the formulation and implementation of strategies and strategic goals.
    c. Strategic Planning: Determines long-term goals and ways to achieve them.
    d. Why Strategic Management and Planning are Important
        i. Provide Direction and Momentum.
        ii. Encourage New Ideas
        iii. Develop a Sustainable Competitive Advantage
    e. May not be effective for smaller businesses.

II. Process
    a. Five Steps
        i. Establish the mission and vision
            1. Good mission statements answer all these questions:
                a. Who are our customers?
                b. What are our major products / services?
                c. In what geographical areas do we compete?
                d. What is our basic technology?
                e. What is our commitment to economic objectives?
                f. What are our basic beliefs, values, aspirations, and philosophical priorities?
                g. What are our major strengths and competitive advantages?
                h. What are our public responsibilities, and what image do we wish to project?
                i. What is our attitude toward our employees?
            2. Vision Statements
                a. Describes long-term vision
                b. Powerful visions answer "yes" to these questions:
                c. Is it appropriate for the organization and for the times?
                d. Does it set standards of excellence and reflect high ideals?
                e. Does it clarify purpose and direction?
                f. Does it inspire enthusiasm and encourage commitment?
                g. Is it well articulated and easily understood?
                h. Does it reflect the uniqueness of the organization, its distinctive competence, what it stands for, what it's able to achieve?

            i. Is it ambitious?
    - ii. Establish the Grand Strategy
        1. Growth Strategy: Expansion (in revenues, market share, number of customers, number of employees)
        2. Stability: Involves little change
        3. Defensive Strategy: Involves reductions in efforts (reduce costs, liquidate assets, phase out products, divest part of business, declare bankruptcy, do some retrenching)
    - iii. Formulate Strategic Plans (chose among different strategies)
    - iv. Carry Out the Strategic Plans (strategic implementation)
    - v. Maintain Strategic Control (monitor the implementation)

III. Establishing the Grand Strategy
  - a. SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)
    - i. Strengths & Weaknesses: Inside Matters.
    - ii. Opportunities & Threats: Outside Matters
  - b. Forecasting
    - i. Trend Analysis: Extension of past events into the future
    - ii. Contingency Planning: Predict alternative futures

IV. Formulating Strategy
  - a. Porter's Four Competitive Strategies
    - i. Cost-Leadership: Keep costs and prices low. Targets a wide market.
    - ii. Differentiation: Offer unique / superior value. Targets a wide market.
    - iii. Cost-Focus: Keep costs and prices low. Targets a narrow market.
    - iv. Focused-Differentiation: Offer unique / superior value. Narrow market.
  - b. Product Life Cycle
    - i. Stage 1: Introduction. Heavy startup costs.
    - ii. Stage 2: Growth. Most profitable. Customer demand increases.
    - iii. Stage 3: Maturity. Growth slows. Profits begin to fall off.
    - iv. Stage 4: Decline. Withdraw from the market.

V. Executing and Controlling Strategy
  - a. Balanced Scorecard
    - i. Fast, comprehensive view of the organization.
    - ii. Financial Perspective (shareholders)
    - iii. Innovation and Learning
    - iv. Customer Perspective
    - v. Internal Business Perspective (what must the company do internally to meet customer expectations
  - b. Measurement Management
    - i. Can't manage something you can't measure
    - ii. Why Measurement-Managed Firms Succeed
        1. Top executives agree on strategy
        2. Communication is clear
        3. There is better focus and alignments.
        4. The organizational culture emphasizes teamwork and allows risks.
    - iii. Barriers to Effective Measurement
        1. Objectives are fuzzy
        2. Managers put too much trust in informal feedback systems
        3. Employees resist new measurement systems
        4. Companies focus too much on measuring activities instead of results

Chapter 7: Individual and Group Decision Making

I. Decision-Making
  - a. Decision: A choice made among available alternatives.
  - b. Decision-making: The process of identifying and choosing alternative courses of action.
  - c. Types of Decisions

        i. Programmed: Repetitive and Routine. Made easy by established rules.
        ii. Nonprogrammed: Occur under unfamiliar circumstances. Important at high levels of organizational hierarchy.
    d. Decision-Making Styles
        i. How does the individual perceive and respond to information?
        ii. Value Orientation:
        iii. Directive: Low tolerance for ambiguity, oriented toward technical concerns. Efficient, logical, practical, systematic.
        iv. Analytical: Tendency to overanalyze the situation. Consider more information and alternatives than directive decision-makers. Take longer to decide, but respond better to new situations.
        v. Conceptual: Focus on people/social aspects of the situation. Willing to take risks. May foster an indecisive approach to decision making.
        vi. Behavioral: People-oriented. Avoid conflict, have a hard time saying no.
    e. Rational Decision-Making
        i. Classical Model
        ii. How managers *should* make decisions (prescriptive)
        iii. Must have complete, error-free information about all alternatives.
        iv. Must use unemotional, logical analysis.
        v. Must make the best decision for the organization.
    f. Nonrational Decision-Making
        i. How managers *do* make decisions (descriptive)
        ii. Five Models…
        iii. Bounded Rationality / The Satisficing Model
            1. “Satisfactory is Good Enough
            2. Ability to be rational is limited by some constraints (complexity, time, money, values, skills, unconscious reflexes, etc)
            3. Managers thus seek a *satisfactory* (not optimal) alternative.
            4. May even be good compared with delaying the decision while looking for more alternatives.
        iv. Incremental Model
            1. Take small, short-term steps to solve a problem.
            2. As opposed to seeking a long-term solution.
            3. The steps may impede a long-term solution
        v. Coalitional Model
            1. Managers bargain, negotiate, and compromise to reach a solution.
            2. Political. Groups of managers negotiate the outcome
        vi. Garbage-Can Model
            1. Virtually random decisions.
            2. May lead to a desirable outcome, but may lead to chaos.
        vii. Intuition Model
            1. Manager makes a quick decision based on experience
            2. May seem like a sixth sense.
            3. Not *irrational* because the experience is real.
II. Solving Problems
    a. Stage 1: Identify the Problem or Opportunity
        i. Need to identify the actual situation and the desirable future situation.
        ii. Make improvements to change conditions from present to desirable.
        iii. *Diagnosis!* Analyzing the underlying causes.
    b. Stage 2: Think Up Alternative Solutions
        i. “Creativity precedes innovation”
        ii. For programmed decisions alternatives are obvious. For nonprogrammed decisions, need create and innovative alternatives.
    c. Stage 3: Evaluate Alternatives & Select a Solution
        i. Is it Ethical?
        ii. Is it Feasible? (time, costs, technology availability, company policies)

        iii. Is it Ultimately Effective? Can't just satisfice
    d. Stage 4: Implement and Evaluate the Solution
        i. Even programmed decisions may not be easy to implement
        ii. Successful Implementation
            1. Plan Carefully. May require written plans.
            2. Be sensitive to those affected. Give employees and customers latitude when changing business practices or working arrangements.
        iii. Evaluation
            1. "Things happen that weren't foreseen." Requires evaluation.
            2. What to do if the implementation isn't working?
            3. Give it more time (let employees & customers get used to it)
            4. Change it slightly ("tweaking")
            5. Try another alternative
            6. Start Over (back to Stage 1)

III. Group Decision-Making
    a. Advantages
        i. Greater pool of knowledge
        ii. Different perspectives (marketing, production, legal, etc)
        iii. Intellectual Stimulation
        iv. Better understanding of decision rationale
        v. Deeper commitment to the decision
    b. Disadvantages
        i. A few people may dominate / intimidate (exert disproportional influence)
        ii. Groupthink
        iii. Satisficing (try to cut the meeting short)
        iv. Goal displacement (other issues may arise in the meeting, subsuming the primary goal)
    c. What Managers Need to Know
        i. Groups are less efficient. If time is important, make the decision alone.
        ii. Size of the group affects quality of the decision (larger = lower quality)
        iii. Groups may be too confident. May lead to Groupthink.
        iv. Knowledge Counts
            1. Members need to be informed about the relevant issues.
            2. When members know one another, each member should have unique information to share.
            3. When members are unfamiliar with one another, members need common knowledge.
        v. Participative Management
            1. Involve employees in setting goals, making decisions, solving problems, and making changes in the organization.
            2. Making it Work: Need the following factors:
                a. Top management is continually involved
                b. Middle and supervisory managers are supportive
                c. Employees trust managers
                d. Employees are ready (properly trained and prepared)
                e. Employees don't work in interdependent jobs (need understanding of the entire production process)
                f. PM is implemented with TQM.
        vi. Group Problem-Solving Techniques
            1. Group should reach a consensus
            2. Some members may not agree with the decision, but will work toward its success anyway.
            3. Do: Use active listening skills, involve everyone, seek reasons behind arguments, dig for the facts.
            4. Don't: Make trades, agree just to stay amicable, don't use voting to reach consensus.

5. Three Problem Solving Techniques
    a. Interacting Group: Most common. Members interact and deliberate with one another.
    b. Nominal Group: Generate as many ideas as possible, then discuss them and vote anonymously.
    c. Delphi Group
        i. Physically dispersed experts generate ideas anonymously.
        ii. Not good when disagreement may hinder communication, when some individuals may dominate discussion, or when there is a high risk of Groupthink.
6. Computer-Aided Decision Making
    a. Chauffeur Driven: "Push-button consensus". Answer questions via keypad to tabulate responses.
    b. "Group-driven systems". Type comments anonymously to keep anyone from dominating. Greater quality in ideas.

IV. Overcoming Barriers to Decision-Making
- a. Ineffective Responses to Decision Situations
    - i. Relaxed Avoidance: "Nothing bad will happen." Take no action.
    - ii. Relaxed Change: Take the easiest way out (first low-risk alternative).
    - iii. Defensive Avoidance: Manager can't find good solutions, so procrastinates, passes the buck, or denies the risk of negative consequences.
    - iv. Panic: Manager is so frantic to get rid of the problem that s/he can't respond realistically.
- b. Effective Reactions to Decision Situations
    - i. (Three ways to decide whether to make the decision or not)
    - ii. Importance. How extensive are the potential gains or losses?
    - iii. Credibility. Is there credible evidence to support the possible threat?
    - iv. Urgency. How long will the window of opportunity stay open?
- c. Common Biases
    - i. Availability Bias: Using readily available information only.
    - ii. Representativeness Bias: Generalizing from a small sample.
    - iii. Anchoring and Adjustment Bias: Making decisions based on an initial figure.
    - iv. Escalation of Commitment Bias: Increasing commitment despite negative information about the situation.