Chapter 2

The Seven Skills of Management

In This Chapter

- The importance of proper planning
- How to develop your decision-making skills
- The secrets of effective delegation
- How to communicate with your employees effectively

Management skills and tasks all have one purpose: to help you get things done through others. Management theories and fads come and go. Most of the theories (and even some of the fads) have something useful to say about management. But the skills and tasks we examine in this chapter have always been, and always will be, essential to managing others. They are how a manager should spend his or her time.

The seven main skills and tasks of management are:

- Planning
- Goal-setting
- Decision-making
- Delegation

- Support
- Communication
- Controlling to plan

In this chapter I'll show you how to use each of these skills to get things done.

Proper Planning Prevents Poor Performance

The Five-P Rule—Proper Planning Prevents Poor Performance—represents the starting point in management. A manager must have a plan. The pervasive need for planning underlies the many kinds of plans you'll find in large outfits: strategic plans, financial plans, marketing plans, and production plans, to name a few. (I'll talk about these plans in more detail in later chapters.)

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A *contingency plan* is a Plan B or a backup plan you can adopt if Plan A fails or conditions change.

The need for planning is equally important, although more often ignored, at smaller companies. The lack of a plan leads to reactive, "seat of the pants" management, which you find more often in small firms.

A plan must be in writing. At times you may hear someone say, "I have a plan. It's right here in my head," as they tap their noggin with a forefinger. They don't have a plan. They have an idea. An idea can be in one's head. A plan must be on paper.

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Planning is not just for companies and departments. As an individual, you need daily, weekly, monthly, and yearly plans for your success. A long-term study of college graduates revealed that the major determinant of their level of professional success was whether or not they had written plans for themselves.

Planning incorporates many of the other six managerial tasks discussed later in this chapter. Goal-setting and decision-making are integral to planning. A plan must consider delegation—who will do what—and, of course, a plan must be communicated to others. Controlling to plan, which is follow-up to monitor progress, assumes that you have a plan in the first place.

There are various plans in business, but they all share the goal of creating order and discipline. A plan does this by enabling you to bring the future into the present. This lets you imagine a certain future and then take steps to create that future. Those who dislike planning often cite the unpredictability of the future as the reason for not planning. Yet despite the murkiness of the future, planning—thinking about the future, getting resources in place, making certain moves, and developing *contingency plans*—has proven its worth.

Most plans also share these elements:

- A goal and a measure of the distance from the goal
- An assessment of the environment
- An assessment of the company's strengths and weaknesses
- As assessment of existing and needed resources
- A series of tasks that will move the company toward the goal
- A mechanism for measuring progress

I'll show you these steps in detail in Chapter 22, "Charting a Course With Strategic Planning," which concerns strategic planning (that is, planning for the entire company). At this point, you need only understand that planning—on paper—is essential to progress.

Goal-Setting: Where To?

I've always liked the saying, "Ready! Fire! Aim!" which humorously describes so many business situations where things go wrong. You have to have an aim, an objective, or a goal, before you act. Equally important, it has to be the right goal.

Goals can be stated in a variety of ways:

- *Business goal:* To be the world's largest exporter of automobiles to Canada by the year 2003.
- *Financial goal:* To increase our net profit to 8 percent of sales next year.
- *Marketing goal:* To increase our share of the soft-drink market by one percentage point in each of the next three years.
- *Individual goal:* To be head of the marketing department within five years.

Each of these examples exhibits the three characteristics of a good goal. Each one is:

- Specific
- Measurable
- Time-limited

A *specific* goal goes beyond shooting to be "the biggest," "the best," "the highest quality," or some other nice-sounding adjective. It is sharper and expressed more precisely. Even the size-related goal—to be "the largest exporter of autos to Canada"—is specific (and measurable).

A goal must be *measurable* so you can know whether or not you achieved it. Whenever possible, devise goals expressed in numbers; that is, in dollars, percentages, or a numerical increase or decrease. (Some goals cannot be measured numerically but they can still be clear, as in the case of "to be head of the marketing department.")

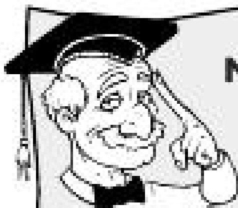
A *time-limited* goal has a deadline. Personally, I don't consider a goal to be a goal unless it has a deadline. A deadline motivates those who must reach the goal. It creates urgency and energy. Deadlines are also important because most plans specify that certain tasks must be completed by a certain date in order to reach the goal. These interim deadlines, often called *milestones*, help you measure progress toward the goal well before the final deadline.

These three characteristics add up to the one characteristic that any useful goal must have—clarity. The "Ready! Fire! Aim!" approach comes from having a fuzzy goal as often as it does from having no goal.

Case in Point

Harold Geneen, the former chief executive officer of ITT Corporation, once said, "More than one objectives is no objective." He was calling for clarity in goal-setting.

Too many goals create ambiguity and confusion in a company. People tend to lose focus or, worse, start warring with one another. For example, if the goals are to increase sales and cut costs, the sales department will fight for bigger advertising budgets, more money for travel and entertainment of clients, and perhaps expansion of the business. However, the accounting and production people will be trying to limit expenditures and expansion. This puts people at loggerheads. If you set multiple goals, either have people jointly responsible for them or be very clear about which is more important, if there is ever a conflict between the goals.



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A manager has to keep his or her people aware of company goals. This means breaking big goals into smaller ones that 1) relate to the employee's day-to-day job, and 2) can be completed in a relatively short time. To motivate your people, give them tasks related to the overall goal and short-term deadlines for completing them.

Goals should be the right size—meaning big enough to inspire people, but small enough to be achievable. Tiny goals won't inspire anyone, but big goals capture the imagination. Big goals create a sense of mission, and a sense of mission creates motivation. Motivation calls forth people's energy and commitment.

Keep in mind, though, that even large goals must be basically achievable or employees will see them as manipulative or just plain silly. A company that sets unattainable goals sets itself up for failure.

The right size goal will depend on your business. For a fast-growing company in a new industry it might make sense to try to grow sales volume at 25 or even 50 percent a year. For a company in a mature industry, growth at perhaps the rate of the industry's growth plus a few percentage points might make sense. One way to target ambitious goals for sales and profit growth is to pick a solid competitor and try to match or exceed their growth rate.

Be aware, however, that no goal can be permanent. In the 1970s, Citibank, an aggressive New York bank, targeted growth of fifteen percent a year. At that rate the giant bank would have doubled in size every 5 years and in 15 years would have had every deposit in New York City. So the goal was impossible to sustain for more than a few years, but did serve the bank well during that time.

A Professional Decision-Making Process

You've probably heard managers referred to as "decision-makers." A good manager is exactly that. There are, however, managers who dislike decision-making, which is sad since it's a key part of their job.

Most managers who "pass the buck" are afraid of being wrong. They see any mistake as major failure. Usually they are by nature either conservative (or spineless, if you prefer), or they work for superiors who can't tolerate failure.

However, some people simply don't know how to go about making a good decision. They lack a framework for decision-making. So here is a six-step process for making business decisions (and personal ones, for that matter) in a rational way:

1. *Define the problem.* Most decisions relate to a problem or can be framed as a problem. This means that making the right decision depends on first defining the problem correctly. If your sales are falling, the problem could be low quality, high prices, poor performance by the sales force, or new competition. Each problem would call for a different solution. So start by asking: "What's the problem?" This may require exploration.
2. *Gather information.* Good business decisions are based on good information. Once you define the problem, gather all relevant facts. This often requires research, such as studying competitors, talking with suppliers, searching an electronic database, or hiring a consultant to dig up facts. However you go about it, get the facts.
3. *Analyze the information.* Having information is not enough, because different people can draw different conclusions from the same facts. Therefore, you may need to apply analytical

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A *decision-support system* is a formal means of helping people make decisions. Usually these systems, which are often computerized, help in the analysis phase of the process. A decision-support system may consist of guidelines in a policy manual (for example, for employee discipline cases) or checklists (such as the ones bank employees use when making lending decisions) or computerized models that help forecast future business conditions. As the name indicates, these systems support, rather than replace, the decision-maker.

tools to the facts. These tools, formal ways of analyzing information, often involve making calculations or setting up charts showing the connections between facts. You may even have a *decision-support system*. However you go about it, analysis helps you understand the facts and what they mean.

4. *Develop options.* When you have a decision to make, you need to have choices. For example, to increase sales in the face of new competition, you could improve quality or cut prices. You could hire more salespeople or pay your current salespeople differently. Options like these give you a basis of comparison—and a choice. With options to choose from, you have a better chance of finding a real solution instead of doing what seemed like a good idea at the time. There may be instances in which you have only one option, but they should be rare if you openly consider all possible solutions.
5. *Choose and use the best option.* Now comes the moment of truth. You must decide. If you followed the first four steps, you will probably make a good decision. But be sure that you do make a decision. Avoid "analysis paralysis"—that is, analyzing a problem forever instead of acting. Decision-makers make decisions.
6. *Monitor the outcome.* You usually cannot just make a decision and then forget about it (much as you might like to). Generally, the only way to know whether your decision solved the problem is to follow up afterward. If your solution worked, great. If not, you may need to take corrective action, try another option, or even reexamine the problem to make sure you defined it correctly, got all the facts, and analyzed them properly.

With experience, this six-step process can become second nature. For small decisions you need not launch a major fact-finding effort. You may need to make one phone call. Nor will you always need a long list of options. Two may be enough. But even when you're making day-to-day decisions in a fast-paced environment, this process will help you. And major decisions always require information, analysis, and clear thinking about options.

In various forms, this framework for decision-making has stood the test of time. The process promotes rational business decisions that can be explained to others. (Meaning that even if you mess up, you'll at least be able to tell your boss what you were thinking at the time.)

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If you like to decide based on feelings rather than facts, this decision-making process will be especially useful for you. Look at the six steps as a supplement or an alternative to going with your gut. Either way, use it. Business people value facts. They like dealing with people who are comfortable with facts. This process will help you to avoid a reputation for being in denial or shooting from the hip. What's more, it generally yields better decisions.

Delegate All You Can

Delegation is the act of assigning tasks to subordinates for them to perform. This is actually how a manager gets things done through others. The assignment may be verbal or written, long- or short-term, phrased as a request (usually) or as an order (less often). Assigning tasks to others and ensuring that they perform them properly is essential to any manager's job.

Effective delegation goes well beyond merely telling people what to do. Good delegation calls for knowledge of the underlying principles: responsibility, accountability, and authority.

Responsibility means that every manager and employee has a specific function or activity to perform as their job. This is called their *area of responsibility*. The CEO is ultimately responsible for the entire company. He or she has a BIG area of responsibility. But the CEO delegates the actual work to everyone else in the company through the *chain-of-command*.

The principle of responsibility implies that a manager must respect the chain of command by delegating work only to people in her area and by not going over the head of the manager above or below her.

Accountability ensures that everyone in the organization answers to someone else. Everyone is held accountable for performing their responsibilities. The CEO is accountable to the board of directors (who, again, represent the business owners) and everyone else in the organization reports, directly or indirectly, to the CEO.

Authority means that someone has been empowered to do a job. If you have a budget, you have budgetary authority. If you can hire someone, you have hiring authority.

Essentially your responsibility is what you usually think of as your job. You are held accountable for doing your job by the manager above you. The organization, through the manager above you, gives you the authority necessary to do your job.

Ignoring these principles causes real trouble:

➤ When managers ignore the chain of command—when Bob, who manages Sue, goes over

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The *chain-of-command* refers to the system by which directives come from above and are transmitted downward in an orderly manner through layers of management. *Delegation* means passing responsibility for performing a task along to a subordinate, that is, to someone who reports to you, the manager. An *area of responsibility* refers to the scope of someone's job. This generally includes a set of functions (such as matters relating to finance or marketing), tasks (such as preparing budgets or advertising programs), goals (such as accuracy and timeliness or increased sales), and subordinates, if people report to you.

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Responsibility refers to the work that a member of an organization is supposed to do and the standards for that work to be considered properly accomplished. *Authority* is the power to do something. The company gives the president of the company the power to run the organization and he or she shares out that power to other managers lower in the organization. *Accountability* refers to the fact that people with certain responsibilities are held to account for performing them. Their superior will make certain that these responsibilities are properly handled.

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Effective delegation comes naturally to very few managers. It is a skill most of us must learn. As with most of the skills in this chapter, you can learn a lot by watching good role models. Delegating is easily observed. When you find people who are good at it, watch closely. Imitate them. Ask them for pointers.

Sue's head and tells Leo, who reports to Sue—what do to, Bob undermines Sue's authority.

- If Mary holds Jim accountable for expenses on a project when she did not give him authority over that spending, she's treating Jim unfairly.
- When someone is given two managers to report to, when someone is not given clear job responsibilities, or when a manager leaves the company and no one tells his people who they now report to, the outfit can't run properly.

Sadly, anyone who has been in business for several years has seen most of these things occur. Truly good delegation—orderly, sensible, consistent delegation—requires effort.

Everyone should have clear job responsibilities, be held accountable for them, and have enough authority to carry them out. Everyone should report to one, and only one, superior. Everyone should understand and respect the chain of command. When someone in the chain leaves, people should be informed about what happens next.

Here are proven guidelines for effective delegation:

- Carefully consider the task and its deadline and importance. Weigh the employee's strengths and weaknesses. Try to give your people a mix of assignments so they can capitalize on their strengths and overcome their weaknesses.
- When you give someone an assignment, be very clear about the results you expect and when you expect them. Clarify the assignment in a memo. If you give the assignment verbally, be sure to double-check that the employee understands your expectations.
- To the extent possible, let the person who is doing the work decide how to do it.
- Understand that even though someone may not do a job exactly as you would, it can still be done to a high standard. If the work is not up to your standards, have the employee do it correctly rather than correct it for him. That way he'll learn your standards.

- Delegate all of the responsibilities that you can and delegate them to the lowest level of employee who can accomplish them. Don't withhold responsibility *or* authority from your people.
- Understand that you are delegating the work and the authority needed to get it done, but you cannot actually delegate your accountability. If something goes wrong, you as the manager of that area are ultimately accountable. Blaming your subordinates is extremely bad form.

Support Your People

A manager's work doesn't end with effective delegation. In fact, the toughest work lies ahead. A big part of getting things done through others is supporting those others.

Why is support necessary? What kind works best?

Employees need support because barriers usually stand between them and the desired result. These barriers exist inside the company in the form of bureaucracy and limited resources, and outside the company in the form of competition and customer resistance.

Employees also need support because they're human. They need correction, pointers, encouragement, and humor, particularly when the going gets tough; for example, on a big push to meet a tight deadline or during a series of layoffs.

The best way to support your employees is to remove barriers to their success and to act as a good coach. Here are some ways to do that:

- Be an effective advocate for your employees with your superiors and the rest of the company. Lobby for their interests. Be loyal to them. Try as hard as you can to get them the resources—the equipment, staffing, money, and time—they need to do their jobs well.
- Take your employees' concerns and complaints seriously. The "stop whining" approach will get you only so far, and it can backfire horribly when employees have legitimate concerns.
- If your employees need correction, do it in private. When they deserve praise, give it in public.
- Keep your employees aware of how their efforts support the company's goals and benefit the entire outfit.

MBA Alert

Ignoring employee complaints can create financial and legal exposure for your firm. A manager I know ignored complaints from a worker, who claimed she had wrist problems from doing a heavy amount of word processing. The outfit wound up paying for the woman's wrist surgery and time off, plus compensatory damages to keep her from pursing the matter in court.

- Help your employees develop and advance. Most people want increased responsibilities and advancement and a chance to gain new skills. I've found this to be true even of employees who pretend otherwise. Give everyone ample opportunity to prove themselves—and allow for failures now and then.
- Don't play favorites. This should go without saying, but you are human and you are going to like some employees more than others. If you don't treat people with equal fairness, you will create serious morale problems.

I've seen many managers try what I call "wave-of-the-hand" management. They act as if they can merely assign a job with a wave of the hand and it will magically get done. Often these managers seem shocked or upset when it doesn't work out that way.

Think of management as a contact sport, which brings us to the next task.

Communication: Important Beyond Words

Communication skills consistently top of the list of desired qualities in a manager. This includes written and oral communication. Business demands that you communicate clearly, accurately, honestly, and persuasively. Several techniques encourage effective communication in business. (Here, I'm going to focus on oral communication. See my previous book, *The Complete Idiot's Almanac of Business Letters and Memos,* for more information on written communication.)

Listening skills are the starting point in good communication. So few people are used to someone who actually listens to them, with full attention and without interrupting, that the technique can be downright disarming. It's tempting, even natural, to use the time when someone is talking to think about your response or whether you agree.

Instead, try to listen with the goal of understanding the other person. Over time, that understanding forms a bond between two people. Not listening undermines that bond. People know whether or not someone is really listening to them. (You do, don't you?)

Whether you are talking or listening, be aware that the message sent may not be the one received. That's because each of us has his or her own *frame of reference* through which we filter what we say and hear.

In American culture, business people generally get the best results by speaking directly, rather than indirectly, and in concrete, rather than abstract, language. That way your message has the best chance of fitting your listener's frame of reference. In some other cultures, however, people tend to be less direct and less informal than in the United States. Being too direct or informal on the job can alienate people. With business becoming more international with each

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A person's *frame of reference* is the set of facts, ideas, and concerns that make up that person's viewpoint. For example, the word "charge" means different things to a foot soldier, a retail clerk, and a defense attorney, due to their different frames of reference.

passing year, every manager must be acutely aware of cultural differences and to allow for them when communicating.

However, it pays to be precise when managing others so that they know what you expect. Here are some examples of both vague and precise language for some common business situations. The statements are from a manager to a subordinate, and in general the more precise ones will get better results.

Too Vague	More Precise
"I'd like you to complete this project quickly."	"I'd like you to complete this project by noon this Friday."
"Please get in touch with somebody about that."	"Please call Jim in Marketing about those missing pages."
"I can't talk now. Please catch me later."	"I'm sorry I'm too busy to talk now. Please call back after four, or tomorrow morning."
"You've been arriving late to meetings a lot recently."	"I've noticed that you arrived late to our last three staff meetings. Is anything wrong?"
"I believe your performance is dropping off."	"Your analysis of our markets left out some key points, and you seemed poorly prepared for last Tuesday's meeting."
"You've been doing good work lately."	"Thanks for your good work on the Acme project and for staying late last Monday."

Much of the on-the-job communication between managers and subordinates aims to guide and assist the subordinate in getting her tasks accomplished on time and up to standards. Vague, imprecise language leaves room for misunderstanding regarding what is expected and when it is expected. However, being a manager and speaking precisely does not mean that you should issue orders or "boss people around." The best communicators view their subordinates and, for that matter their superiors, as colleagues focused on the same thing: getting the job done well.

Finally, be sure to share information with your employees to the greatest extent possible. Most employees resent it when they're not "in the loop." While you cannot usually tell every employee everything you know, and cannot compromise others' privacy, you should keep your people informed about anything that directly affects them.

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Cultivate an objective attitude toward people on the job. Think of them as you would fellow players on a team. The key is to work well together on your common goals. If you become friends, great. But it's more important to respect one another and work well together. Of course, truly thorny performance problems do arise. I discuss ways to address them in Chapter 4.

Don't practice "mushroom management," which says, "keep them in the dark and feed them fertilizer."

Controlling to Plan

There's a wonderful saying in business: "Plan your work and work your plan." In other words, have a plan and use it. This is more formally known as *controlling to plan*, which means managing your resources—your people, time, equipment, and money—as planned in order to reach the goal. A good plan will help you every step of the way toward a goal.

A plan is not a document to write and then throw into your drawer and forget. It's a road map, to be consulted as you move forward. Sometimes you'll need to change what you're doing or speed things up in order to keep to the plan. Other times you may find that the plan, rather than your activities, needs to be adjusted. That's fine. But to adjust your plan, you have to have a plan—and refer to it regularly.

Over time, success in business, as in any endeavor, comes from diligent, daily execution of the basics. In management "the basics" are the six managerial tasks of planning, goal-setting, decision-making, delegating, supporting, communicating, and controlling to plan. Master these and you will be a master of business administration.

The Least You Need to Know

- Management begins with planning and goal-setting and ends with controlling to plan. You must have a goal and a plan for reaching it, and use the plan to move toward the goal.
- Try to use a process for decision-making, rather than operating by the seat of your pants. Start by defining the problem, then gather related facts, analyze them properly, develop alternative courses of action, and choose the best one. Then follow up to see if it was the best choice.
- Good delegation is the only way to get things done through others. Pick the right person for a task, then let them do the job. Delegate all that you can and delegate it to the lowest level at which it will be properly done.
- Support your employees in the organization and remove barriers to their success.

Chapter 3

Anatomy of a Business

In This Chapter

- The major divisions of a business
- How finance and accounting control and track money
- How marketing and sales sell products and services
- The growing role of management information systems
- How support functions serve the rest of the business
- Understanding the org chart and company hierarchy

What is the purpose of a business? Stated in the most basic possible way, a business sells a product (anything from widgets to pizza pies to automobiles) or delivers a service (sending packages, giving massages, or catering parties) and—if things are working properly—makes a profit. All businesses use some combination of labor, equipment, and materials to produce products or services.

A business of any substantial size has to be divided into departments, each with its own job to do. For example, one department may oversee the company finances, another may handle marketing, and still another may head sales. The job of the *manager* is to run his or her department so that it makes its contribution to the entire company. This chapter

MBA Lingo

The *finance department* is responsible for controlling the funds that come into and go out of a company. The tools for control include financial and investment plans, sales and expense budgets, records supplied by the accounting department, and procedures regarding who can sign and cash checks for the company. Finance includes the treasury department, which works with the company's banks to control the actual cash.

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A *budget* is a set of estimates for sales or expenses, or both, for a specific period of time. These estimates represent limits or targets, and are thus key financial controls. In most businesses, every department has its own budget. Within those departments, individual projects may have budgets. One of a manager's main responsibilities is *making budget*, that is, hitting her sales targets or keeping expenditures for her department or project within budget.

will introduce you to the different parts of a business and the role managers play in running them. In this chapter you'll also examine some basic principles that apply to every business.

Note that in this chapter I will be dealing with businesses large enough to warrant having different functions and departments. This includes many small businesses, some with as few as 10 or 20 employees right up to those with 50 to 100 (still considered small businesses by most banks and larger companies) and on up to giant enterprises.

The Parts of a Business

Numerous activities must take place for a company to successfully create, sell, and profit from its products or services, and each activity is handled by a specific department. Each department has to be well managed for the company to succeed. In most large companies, the major departments are:

- Finance
- Accounting
- Operations
- Marketing
- Sales
- Management information systems
- Support functions

Let' s take a closer look at each of these departments and what they do.

Finance Controls the Money

A business generates a flow of money. Money flows into, out of, and through each department in the company. The *finance* department (or, more simply, *finance*) makes sure that the company has the money it needs in order to operate. This includes the money to buy or lease property (such as office space) and equipment, purchase raw materials, and pay employees. Finance also ensures that the company continually has good investment opportunities and the money to pursue them.

Finance helps the other departments in the company do their *budgets* and consolidates them into one company budget. Finance works with senior management to set the company's sales and profit goals for the following year and designs controls to keep the firm's finances in order.

In a large company, finance includes the treasury function, which manages the company's cash and deals with banks. Many of the people in finance and the Treasury are financial analysts, professionals who deal in budgets and investments and generate financial reports for the managers of other departments.

> **MBA Lingo**
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> The *accounting* department keeps the company's financial records, by tracking sales, expenses and receipts, and disbursements of cash. Accounting also calculates the taxes that the company owes. The *accounts receivable* department tracks money that is owed to the company for sales made on credit. The *accounts payable* department makes sure that the company pays its bills to suppliers. The *payroll* department tracks employee's wages and salaries.

Accounting Counts the Money

The *accounting* department works closely with finance, mainly by tracking the flow of money the company generates. For example, within accounting you'll find an *accounts receivable* department that tracks the money that the company is owed and paid. *Accounts payable* tracks expenditures and authorizes checks to be cut so the company can pay its bills to suppliers. The *payroll* department ensures that employees get paid.

Accounting also usually includes the *credit* department, which decides how much *credit* (also called *trade credit*) the company will extend to a customer. If you've ever groaned over a Visa bill, you are already familiar with the concept of credit. Customers (which may include other companies) with good payment records can buy thousands or even hundreds of thousands of dollars worth of goods on credit, meaning they are given an extended amount of time in which to pay the bill. This is done in most businesses that sell expensive goods (say, pricey automobiles) or services (extensive consulting work) because it makes it easy for customers to buy, and thus easier for the company to make sales.

> **MBA Lingo**
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> A company may extend *credit* (or *trade credit)* to a customer with a good payment record, which allows the customer a certain extended period of time—usually 30 days—to pay the bill. Customers who are denied credit usually must pay *COD* (cash on delivery). Credit decisions are made by the company's credit department.

Customers or companies that do not have good payment records must buy *COD*, meaning cash on delivery.

Finally, accounting includes the *tax* department, which calculates the company's taxes and manages the timing of its federal, state, local, and foreign tax payments.

MBA Lingo

In a very large company, the *tax* department calculates the company's federal, state and local taxes, as well as taxes on any foreign operations and works to find ways of minimizing the company's taxes. The complexities of tax law, especially the complexity added by foreign operations, demand that the company have specialists devoted to this work. For smaller company's this department isn't necessary.

MBA Lingo

A *manufacturing company* produces a product from raw materials or parts and components made by another manufacturer, or both, and sells it. A *service organization* delivers a service such as meals (restaurants), insurance and banking services (financial services), haircuts or massages (personal services), transportation (bus lines and trucking companies), or hotel accommodations (hospitality services), among many others. In any company, the term *operations* refers to the area that actually creates and delivers the product or service.

The accounting department is staffed mainly by accountants, logically enough. Accountants are trained in accounting practices and accounting and tax law. Since the practices and regulations are complex and change often, and because substantial amounts of money are at stake, these professionals spend a lot of time keeping up to date on practices and regulations. In most accounting departments, accountants are dedicated to a certain area, such as accounts receivable, accounts payable, tax and so on, and can move among these jobs to enrich their careers. Finally, a company's accountants work with any outside accounting firms that the company uses. (I talk about the accounting function in more detail in Part 3, "All About Money.")

Operations Makes What the Company Sells

In a manufacturing company (one that produces goods, such as widgets, rather than one that sells services, such as massages), *operations* includes the factory where the company makes its products. It also includes departments such as *shipping and receiving*, where the company ships products to its customers and receives materials from its suppliers. The *purchasing* department buys the company's materials and supplies. Operations is often called the *production* function.

In a service organization (one that sells services, such as a bank or a brokerage firm), operations includes the employees who serve the customers and the places where they work. For example, in a bank, operations would include the branch locations.

Operations also includes *back-office* functions in a service organization; that is, activities that the customers don't see but that relate to customer transactions. Let's take the bank example again. You may have no idea what happens when you write someone a check. In fact, once the bank gets it, that check travels through a series of steps before it is eventually deposited into someone else's account and deducted from yours. Those check-processing functions would be an example of a back office function.

The managers and employees in operations are directly responsible for employee productivity (how many widgets an employee can make in an hour), cost control (how much it costs to assemble a widget), and quality (assuring the correct form and function of the finished widget).

In most companies, people who work in operations are those who do what most of us think of as the actual work of the company. In a manufacturing outfit, they are the production workers and their managers. In a service firm they usually work directly with customers to deliver the service. Most people in operations are hourly employees as opposed to salaried managers.

I'll discuss operations in more detail in Part 2, "How It All Operates."

> **MBA Lingo**
> *Back-office functions* in a service organization are those operations that a customer doesn't see but that are integral to creating and delivering the service.

Marketing Sells to Groups

It's useful to think of marketing as selling to groups of people or businesses (as opposed to selling, which is done one-on-one). The *marketing* department works to get the story of the company's products and services out to customers and potential customers, known as *prospects*. Marketing does this through advertising, promotions, direct mail, special events, and other ways of creating awareness (I'll cover these terms in more detail in Part 3). Marketing's key job is to help the salespeople sell.

The marketing function often includes *market research*, which studies customers and prospects to learn about their needs, motivations, and buying behavior (for example, the age and educational level of the average widget buyer). Marketing can also include *product development*, which devises new ways of serving customer needs (for example, a faster, more powerful widget), and *public relations* (or *corporate communications*), which prepares written material on the company and its products.

> **MBA Lingo**
> The *marketing* department prepares strategies, plans, programs and messages that get the word of a company's products and services—and the benefits they deliver—out to customers and potential customers. *Prospects* are potential customer of a company.

> **MBA Lingo**
> *Market research* conducts surveys among a company's customers and prospects to learn about their attitudes and buying behavior. *Product development* conceives, plans, designs and develops new products and services for the company to sell. In firms that sell complex products, such as chemicals or medical instruments, R&D has scientists and engineer who work on new products.

Case in Point

As with Finance, a number of companies are famous for their marketing departments. Procter & Gamble, the maker of major brands such as Tide™ detergent, Crisco™ shortening, Comet™ cleanser, and Zest™ soap, is legendary for its marketing capabilities. In fact, P&G is the single largest advertiser in the United States, with expenditures of some $2.5 billion a year.

People in marketing either are specialists in a certain area within marketing or are marketing generalists. Specialists tend to work in market research, product development, public relations, direct mail, telemarketing, or writing product literature or other company literature. Specialists typically work for large companies with large marketing departments. Generalists tend to do a bit of everything (but generally not with the sophistication of a specialist in the area) and can work for either large or small companies.

In today's competitive environment, marketing can make or break a company. A firm can have a wonderful product, but unless it spreads the word, gets shelf space, prices its products properly, and induces customers to buy, the company won't generate sales and profits.

MBA Lingo

The *sales* department includes the men and women who sell the company's products or services. Salespeople may sell to individuals, to businesses, and/or to accounts. An *account* is a customer, usually a business, that repeatedly buys from the company. In most companies, a *national account* is a major account with a nationwide business. For example, Sears is a national account for the power-tool maker Black & Decker.

Sales Brings in the Money

The *sales* department includes the men and women who sell the company's products or services. Salespeople may work on the telephone, in person, or both. They may sell to distributors or retailers who re-sell the product. They may sell directly to customers. They may sell to individuals or to businesses, to one-time buyers or to *national accounts* (a major account with a nationwide business). However, wherever, and whatever they sell, salespeople sell.

In most companies, the sales force is the most critical part of the business. Salespeople persuade customers to actually pull out their wallets and checkbooks and pay for a product or service, which is not an easy thing to do.

In many companies, the sales function includes *customer service*, which works with customers after the sale is made. Customer service ensures that customers are truly satisfied with what they've bought, and helps with any problems that arise after the sale.

Many companies think of themselves as sales-driven. These outfits have a sales force that aggressively presents products to customers, does all it can to please customers, and thinks creatively and competitively about ways to make every potential sale. For all its technology, IBM has always been famous for its sales force, which views selling for IBM as a mission.

Sales departments are staffed mostly by salespeople, people who work to find new prospects and to turn prospects into customers buy selling them a product or service of the company. Customer service personnel usually work on the phone with customers and may be headed for sales jobs or use the experience to move into marketing.

MBA Lingo
After a sale is made *customer service* works with the company's customers to maintain a link between the company and the customer and to answer customer questions, resolve complaints and, for some products, provide instructions for proper use of the product.

I'll discuss sales in more detail in Part 4, "To Market, to Market, to Sell and Sell Big."

Management Information Keeps Everyone Informed

The *management information systems* function, or *MIS*, runs the company's computer systems. Computers have become so essential to running a business that the importance of this department has increased more than that of any other in the past 20 years. No longer does senior management view MIS, which used to be called *data processing*, as a backwater remote from the company's "real business." MIS is now integral to most businesses, especially large service businesses.

MIS deals with the purchase, programming, maintenance, and security of the company's computers. Recently, companies have focused on using information for competitive advantage, as opposed to just tracking things. (Competitive advantage was covered in detail in Chapter 1, "The Meaning of Management.") As the value of information has increased, so has the value, and status, of MIS.

MBA Lingo
The *management information systems*, or *MIS*, function defines the company's requirements for computers, software and related items, purchases, installs, programs, and maintains them, and uses the system to provide reports to managers throughout the company.

For example, for years the airlines issued tickets to their customers and tracked where the flights originated and ended. They also knew the mileage between those two points. However, in 1979 American Airlines introduced Frequent Flyer Miles. This program, the first of its kind, used the power of computerized record-keeping—data processing—to turn some very dull information into a very exciting marketing tool. This tool gave American Airlines an advantage over competitors for several years (that is, until they all copied it).

Management information systems is mainly staffed by computer systems analysts and designers and software programmers. Systems analysts work to define and meet the company's hardware needs while programmers work on the software needs. Programmers usually specialize in one or a few programming languages.

MBA Lingo

Support functions basically support all of the other departments that are making something, selling something, or dealing with money. One support function is the *legal* department (also known as *house counsel*), which consists of attorneys employed by the company to handle its legal affairs.

MBA Lingo

The *human resources* department (also known as HR) works with the managers of other departments to attract, hire, retain, and train employees and to ensure that the company is in compliance with government employment regulations. Human resources also sees the employee benefit programs are in place.

Support Functions Do the Rest

Any other area of a company not already discussed can be called a *support function*. The key support functions in a large company include:

- Human resources
- Legal department
- Investor relations
- Facilities management

The *legal* department, staffed mostly by attorneys, ensures that the company remains in compliance with laws and government regulations. Legal, as it is usually called, also deals with lawsuits, whether they are brought by the company or against the company. The legal department is also known as *house counsel* (as opposed to *outside counsel*, which refers to an independent law firm). Most large companies will use independent counsel for more complex legal situations.

Human resources (usually referred to as HR) works with managers in other departments to attract, hire, retain, and train employees. Because this department works closely with managers throughout the company, you'll examine human resources in detail in Chapter 4, "Managing People Effectively."

Investor relations will in many companies be part of Marketing or corporate communications or report directly to senior management. Investor relations communicates with the company's shareholders, the owners of the company, and organizes the annual meeting of shareholders.

Facilities management (or the *Facilities* department) may be part of operations, particularly in a service company. Facilities deals with real estate matters and the maintenance and upkeep of the company's buildings. For example, facilities maintains the heating, air conditioning, and other systems in buildings. Related functions which may be part of facilities include telecommunications, which runs the telephone system, and security, which prevents crime on the company's premises.

MBA Lingo
An *organization chart* (commonly called an "org chart") is a diagram that shows the major departments of a company or other organization and the relationship between the departments.

Putting It All Together: The Org Chart

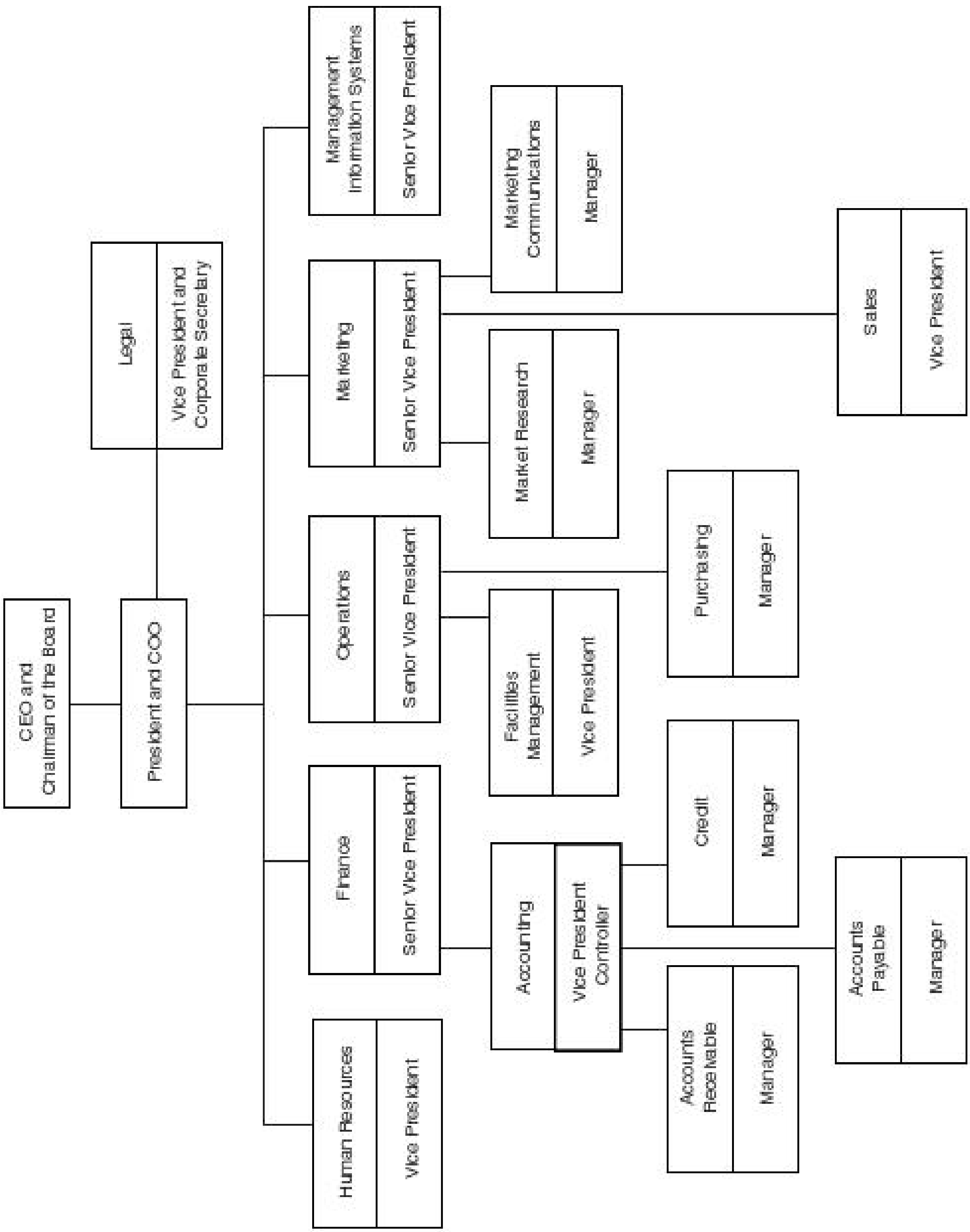
The following chart, an organization chart or *org chart*, shows how the departments I've just discussed would be organized in many companies.

As you can see, every department ultimately reports to the chief executive officer (CEO), usually the chairman of the board or the president. In many companies the titles of CEO and chairman of the board are both held by one person, who has ultimate responsibility for the company, whereas the president and chief operating officer (COO) oversee day-to-day actual operations.

Unless the chief executive officer owns the company, he or she reports to the owners, who are usually represented by the board of directors. The board oversees the operations and financial performance of the company and guards the interests of the shareholders.

Note that each division is run by managers, who in turn report to vice presidents, who in turn report to the president and chief operating officer (COO). This organization chart is representative because *reporting lines* in companies follow fairly standard patterns.

MBA Lingo
Reporting lines refer to the relationships among employees and their managers, and among managers and more senior managers. A *direct line* links a manager with his or her immediate, primary boss. In some outfits a *dotted line* in the org chart indicates a secondary, less formal reporting arrangement in addition to the primary one. For example, Accounting could report directly to the chief executive officer (CEO) but have a dotted line to the chief financial officer (CFO).



Organizational chart (or "org chart") for a large company.

What About Small Companies?

You will find the departments I've described above in some form in most large companies. While small companies may not have specific departments devoted to each activity, those activities are still performed in small companies. Every company, large and small, has to prepare budgets, keep financial records, pay taxes, and finance growth. Every company must have a product or service and market and sell it. Every company—except a one- or two-person shop—has to attract and hire good employees, whether or not it has a human resources department.

Small or new companies may do without certain (or most) of the departments discussed earlier, but as a company grows, once the need for a function becomes strong enough, it should be formalized. In practice, a company may eventually become large enough to warrant putting a person in charge of a specific activity (say, marketing or sales) and, later, starting an actual department to handle that activity..

MBA Lingo

For our purposes, a *large company* is one with $100 million or more in annual sales. Outfits with less than $100 million but more than $5–10 million are *middle market* companies; those under $5–10 million are *small businesses*. This classification system is also used by many banks.

The Least You Need to Know

- Each part of a business has a specific function to perform. It is the manager's job to make sure that it performs that function well.
- Finance and accounting control and count the money.
- Operations makes and delivers the products or services.
- Marketing and sales do the selling that brings in the money.
- The MIS function, management information systems, has become extremely important in most organizations. This reflects the fact that computer-generated information is now a key resource in most industries.
- The organizational chart, or org chart, reflects the company structure.