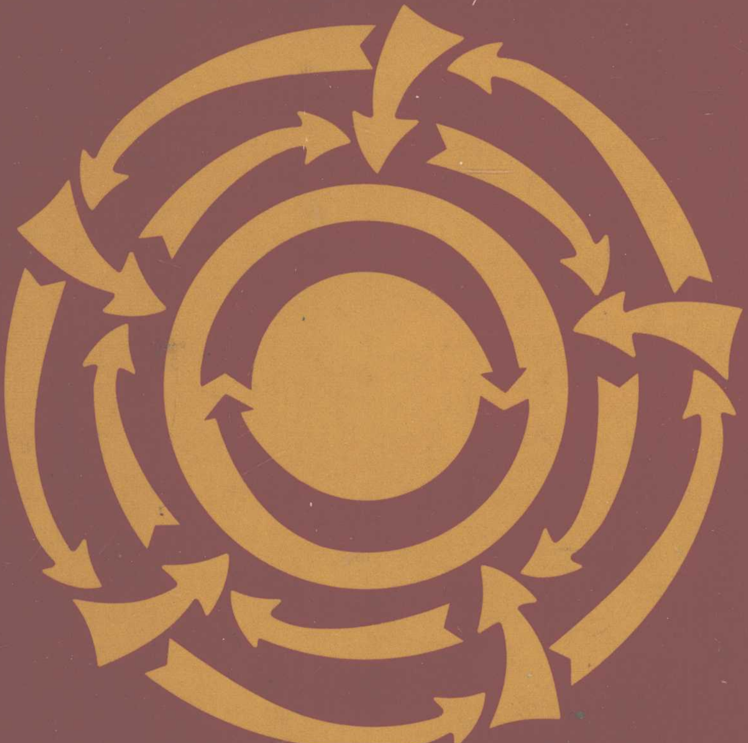
Dynamic Managing

principles, process, practice



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Preface

Organization presidents, football coaches, office and factory managers, or committee chair-persons, if asked to describe or explain what makes their jobs managerial, would probably find it difficult. Still, whether one is a manager in business or an administrator in a hospital, government office, or other non-business organization, the functions performed are strikingly similar. Despite differences in various organizations, managers in every organization do very much the same work and must deal with many of the same problems arising in the world around them. Regardless of the type of organization being managed, or the level within it, the process of managing is essentially the same.

College students, curious to learn the role of the manager in organizations, receive their early, and perhaps only, classroom exposure to the concept of managing when they enroll in business courses. Up to this point in their careers, having had little or no organization experience, they may have little idea of what managing actually is or of how it relates to the business enterprise. This book is intended to help students and practitioners understand the importance and dynamic nature of managing, which involves continuous action, interaction, and reaction.

A variety of disciplines have made significant contributions to the store of management knowledge. During the last two decades most of the textbooks and articles on management have been written by psychologists, sociologists, anthropologists, economists, engineers, mathematicians, professors, politicians, philosophers, and clergy. They have brought forth new perceptions of business and its mechanisms and have opened new vistas such as human relations in organizations, social influence and responsibility, and behavior-function-models concepts. Unfortunately, the vantage point of social scientists and philosophers has been that of outsiders looking in, not the perspective of those who have served in a managerial capacity and experienced many of the situations they are describing. Without discussing various schools of thought individually, this book integrates the contributions of the classical, behavioral, quantitative, contingency, and systems approaches. It is thus eclectic and synergistic, drawing important elements from these sources and combining them into a more meaningful whole from a manager's perspective.

These pages seek to develop an understanding of the principles, process, and practice of managing that apply to all organizations, large or small, and to all functional areas within them. Whether personnel management, production management, financial management, sales management, marketing management, organizational management, resources management, or management of information systems, the common denominator is management.

Incentives such as stock option plans, corporate objectives such as increasing return on investment, and controls designed to prevent shoplifting are but a few examples of activities and concepts that are identified solely with the business world. Thus, merely to deal with management in a very general way, as it applies to organizations of all kinds, is to deprive students of a degree of understanding that can only be gained by focusing primarily on business organizations and then applying the observations to other types of organizational life.

Merely possessing knowledge about managing is not sufficient for a real understanding of managing. In any discipline, knowing how each piece of information relates to, compares with, and dovetails with others helps us understand that discipline. This is equally true of managing. Thus it is the aim of this book to establish relationships between the various business and managing activities and thereby help the readers develop an understanding of managing as a process. The subject is presented in a direct, orderly, and logical fashion, challenging the readers' minds with ideas they will find stimulating even if they occasionally disagree with some. Pros and cons of different concepts are evaluated, and tenable positions to adopt are suggested.

Throughout the book, management principles are related to current practice. Realistic, practical examples are provided so students can quickly grasp the concept being discussed. Thus this text should be a tool for more effective teaching as well as learning. Its basic aim is to explain a fascinating and incredibly complex subject in a simple, understandable, and meaningful fashion. The students or practitioners will then understand the meaning of managing well enough to describe it in their own words, give examples of it, clearly see the connection between managing and other areas of the organization, and put it to practical use.

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Part I
Some Basic Concepts

To understand dynamic managing as it applies to any type of organization, it is appropriate at the outset to develop fundamental, sound concepts about business, to recognize its importance in the American way of life, and to dispel some distortions and misconceptions. In establishing the role of a manager in any organization, one must base one's premises largely on the way in which business has been managed, since modern management theory has its origin in the management of business enterprises.

In many ways, the business firm is one of the most important institutions in our society. Yet, the public in general and college students in particular are not well informed about the free enterprise system and how it operates. One executive describes it in the following terms:

> I genuinely believe that free enterprise is one of the most magnificent ideas ever conceived by man. The quality of life in our industrial, capitalistic society is so overwhelmingly superior to that of other societies that the time has come to put to rest the notion that it is not.
>
> In referring to the quality of life, I am speaking of the possibility of human dignity and personal development rather than the material realizations of our society. I would advise that we avoid the temptation to justify economic freedom on the basis of its material superiority to other systems.[1]

WHAT IS A BUSINESS ENTERPRISE?

The city-owned bus line, local hospital, university, and public library all provide goods or services, employ people, and require management, yet are not considered business organizations. What is there about a business that makes it different from other institutions? To qualify as a "business," an organization must possess *all* of the following characteristics: (1) it must be profit oriented; (2) it must assume risk; (3) it must be governed by a business philosophy; (4) it must take an accounting point of view; (5) it must be recognized as a business by other organizations and by the appropriate

[1] Z. D. Bonner, "How Industry Can Regain Public Trust," *New York Times*, Sunday, September 1, 1974.

government agencies; and (6) it must be privately owned, controlled, and managed. Let us examine these attributes.

Profit oriented. Although the end purpose of business is the production of goods or services, its immediate, motivating purpose is profit, or financial return in excess of cost. Thus profit orientation excludes such organizations as the Boy Scouts, churches, state highway patrols, public schools, city-owned power plants, NASA, and labor unions. The Supreme Court has ruled that labor unions are not businesses and not subject to the same laws and regulations as "profit-oriented" firms. In the eyes of the law, business involves commercial activity in search of a profit.

Risk of operations. Anyone who owns a business risks his own time, money, and effort. This risk is recognized and accepted as an ever-present ingredient in operating a business. It includes the ultimate risk of complete failure in which owners may lose their entire investment.

Business philosophy.[2] Business managers make decisions that deal with markets, costs, prices, competition, government regulations, economic conditions, and the community.

Business subscribes to the philosophy that it is better able than any other type of organization to produce most of the goods and services society needs. To make good this claim, businesses must not only prove their economic vitality, but also accept their responsibilities to consumers, employees, and the society as a whole. Organizations such as chambers of commerce and better business bureaus reflect business's concern for safeguarding the business philosophy.

Accounting point of view. Given the importance of price, markets, costs, and competition in the business philosophy, an accounting point of view is essential. In business, revenues and costs must be recorded, summarized, and analyzed. Balance sheets and operating statement concepts are employed: decisions are made in terms of current and fixed assets, long-term and short-term liabilities. Business managers think and act in terms of cash on hand, inventories, accounts receivable, accounts payable, bank loans, equity, net worth, working capital, good will, and other accounting concepts.

Costs in a business or accounting sense are measured exclusively as "money outlay." If the use of a resource does not involve an actual expenditure of money it is not considered a measurable business cost. Social costs and opportunity costs, for example, are important to economists, political scientists, sociologists, and biologists, but they are not accounting costs

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[2]The subject of business philosophy is examined in Chapter 1.

since money outlay is not involved. In recent years, however, various authorities have suggested that all organizations ought to recognize social costs. They view human resources as an asset, and human costs as part of the concept of "real" costs.

Recognition as a business. To call itself a business, an establishment must be recognized as such by similar establishments as well as by government agencies. A motel is a motel in part because it is recognized as such by other motel operators. On the other hand, the Girl Scouts, raising funds through the sale of cookies at a profit, would not be considered a business since regular cookie vendors do not recognize it as such.

Recognition by government agencies depends on conformance to government classifications of businesses. For example, the government defines "Manufacturing" as:

> . . . establishments engaged in the mechanical or chemical transformations of inorganic or organic substances into new products, and usually described as plants, factories or mills . . . establishments engaged in assembling components of manufacturing products are considered manufacturing if the new product isn't a structure nor fixed improvement.[3]

By this definition, a company making a product of wood and metal to be sold as a bookshelf would be considered a manufacturer, whereas a company using wood and metal for building construction would not be.

Private ownership and control. Most businesses in this country are owned by individuals who have invested personal funds in ventures of their own choosing. A person who starts a manufacturing plant not only owns it but controls its use. He can decide what to make or not to make and whether to buy machinery or lease it. In short, he determines how and when to use the factory he owns. He can also delegate to others, managers and workers, the right to use his property for a given lawful purpose. This owner-manager relationship is prevalent in small organizations typified by the proprietorship and the partnership forms.

In modern corporations, however, ownership and control have become separated into two distinct groups: stockholders and professional, or career, managers. Corporate ownership has become so widely dispersed among many stockholders that effective control has passed to non-owner managers. The principle of private ownership and control still prevails, however, in modified form. Professional managers act as trustees of the investors, representing their interests directly while remaining responsive to the interests of employees, consumers, suppliers, and society.

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[3] "Standard Industrial Classification," Executive Office of the President, Bureau of the Budget, 1967, p. 37.

THE UNIVERSAL GOAL OF MANAGERS

The goal of every manager or administrator in every organization—business, government, philanthropic, or church—is to ensure that the members will further group objectives with the least costs in money, time, effort, resources, and unsought consequences. Thus the goal of managers is fundamentally the same in business and non-profit enterprises. Corporation presidents, college deans, heads of government agencies, and coaches in athletics all have the same basic goal. We shall be able to demonstrate this in the chapters that follow.

Like a good athlete, a manager must possess both strength and agility—that is, both a solid understanding of managing principles and a quick grasp of changing realities. He must be able to analyze new problems and mobilize diverse talents to meet them. And he must do it better than his competitors. The dynamic nature of American business requires dynamic managing.

Chapter 1

Theory and Philosophy of Managing

Despite the stories about successful managers who never studied management, most modern managers look to management theory for an understanding of organizational structures and functions, which have become more and more complex. There is no one, integrated theory of managing that is universally accepted; but there are general managing principles that have become widely established.

Managing principles are derived for the most part from actual business practice. Most of what we know about managing comes from studies of the way businesses have been, and are being, managed. The basic assumption has been that their success depends on certain things that managers do. Of course, to say that a manager has achieved successful results presupposes an understanding of what constitutes success. Some indicators of success include longevity, or the length of time the organization has been in continuous operation; the consistency with which it produces a satisfactory return on investment; its prominence within its own industry; and the degree to which it is accepted by the community it serves. Obviously, objective criteria for success must be established before principles can be proposed to account for the achievement of that success.

A solid understanding of managing requires a systematized framework to build on. The framework employed in this book consists of managing *principles, process,* and *practice.* Process refers to the functions, or ongoing activities, of managing. Principles, process, and practice all interlock, continually reinforcing and reacting to each other so that managing is always a *dynamic* function. Thus theory is not something separate from practice; it is the basis for practice.

MANAGING PRINCIPLES

Principles are the building blocks with which a sound theory of management is constructed. For our purposes the term **managing principle** means a *generalization about managing that has widespread application based on the* *causal relationship between a managerial act and its perceived consequences.* A managing principle, therefore, is a working hypothesis. It is not a theory or a law, nor is it universally accepted. It simply reflects the fact that managers do or fail to do things that produce certain results and that this can be widely observed. Its soundness has been established for practical purposes.

If the statements are made that "increased incentives lead to increased productivity," and that "eliminating unnecessary motions increases efficiency and reduces work fatigue," can these be considered principles? Since both state cause and effect, if it can be demonstrated that these relationships hold for many types of work in various types of organizations then both statements qualify as managing principles. That does not mean there are no exceptions to these generalizations. It simply means that there is adequate indication that a given act or series of acts generally leads to observable results.

HOW MANAGING PRINCIPLES ARE DERIVED

There are two basic approaches to formulating managing principles: (1) the **empirical** approach, based on observation, and (2) the **rational** approach, based on deduction from other principles.

The Empirical Approach

The empirical approach involves assembling and analyzing data from actual observations, based on practical experience without reference to scientific investigation. It asks the question, "What methods have managers utilized that have worked successfully?" Through **inductive reasoning** it is possible to draw conclusions about cause and effect from accumulated observations. Such conclusions become principles of managing, statements which have widespread application and from which a store of knowledge can evolve. As an illustration, one might observe in a number of successful companies that the managers spent a considerable portion of their time planning. The hypothesis could then be made that all managers of successful businesses probably spend considerable portions of their time in planning. Should such a generalization become widely accepted, a principle is established.

Many of the early principles of managing were derived in this manner. Writers such as Frederick Taylor, Henri Fayol, and Elton Mayo—sometimes referred to as the classical theorists—described and generalized about their observations in the steel, mining, and electrical industries. Many basic principles of management resulted from observations of manufacturing and other "primary" production industries.

The criticism is often made that principles derived in this fashion are not valid since they have not been proved. On the other hand, they have not been disproved either! Proved or not, they provide useful models of cause and effect.

The Rational Approach

The rational approach to deriving managing principles involves reasoning. It asks the question, "What is the logical way of treating this problem?" Take, for example, the question, "At which level of management should certain problems be handled?" Reasoning **deductively** from principles of economy, one might reach the conclusion that the more limited the problems are in scope, the lower the level of management to which they should be referred. If this conclusion proves effective in practice and gains wide acceptance, it becomes a managing principle.

The rational approach is also used by managers in problem solving. In applying the rational approach to a problem, a manager (1) objectively defines the problem, (2) searches for a solution, and (3) tests the selected solution to see if it is reliable and valid. Let us examine the meaning of the terms we are using to describe the rational approach.

To define a problem *objectively* means to state the facts without personal bias or interpretation. To be objective is to be impersonal.

The **reliability** of a solution indicates its *internal consistency*. A reliable solution is dependable and not erratic. It is **efficient.** It will, therefore, produce consistent performance. A watch that does not vary by more than one second a month is certainly a reliable timepiece.

The **validity** of an action indicates how close the action comes to achieving the goal for which it was designed. Validity is a measure of feasibility, or **effectiveness.** It indicates the degree of successful achievement or the chances of success. If a technique or solution is valid, its effects in a similar situation can be predicted. It is thus said to have interpretive or predictive value.

Although a procedure or device may be internally consistent and very efficient, it may not be valid or effective at all for a particular purpose. For example, a shotgun fired repeatedly without a misfire can be said to be reliable. However, if only an occasional pellet strikes the target the shotgun is not a valid device for hitting a target at a distance. On the other hand, if a rifle is fired repeatedly at the same distant target and regularly strikes the center, it is both a reliable and valid instrument for that purpose. Should it misfire frequently or fire erratically, it would not be reliable and could not be a valid instrument for striking bull's-eyes. Thus a means may be reliable but not valid, but it cannot be valid unless it is reliable. Any managing procedure, technique, or device, therefore, will succeed in reaching a goal only if it possesses these dual characteristics of reliability *and* validity. This statement is another example of a managing principle. The concepts of reliability and validity are portrayed in Figure 1-1. In Figure 1-1,*A*, five shots

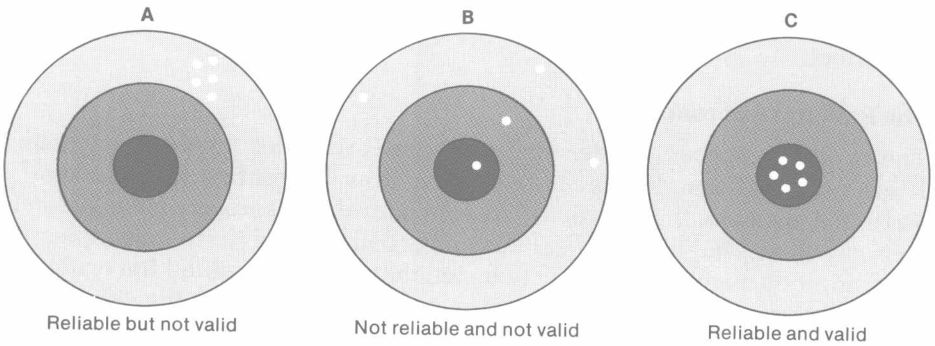

Figure 1-1. Targets illustrating reliability and validity.

are closely grouped together, yet none of them strikes the bull's-eye. The instrument that produced this result is said to be reliable but not valid. In Figure 1-1,*B*, the five shots are widely scattered, indicating that the instrument is neither reliable nor valid. The one shot that struck the bull's-eye may have been due to chance. In Figure 1-1,*C*, all five shots are grouped together and all have hit the bull's-eye. This drawing depicts valid results from a reliable mechanism—the ideal situation.

Organizations too may be efficient and yet not be effective. However, an effective organization is also an efficient one. In the latter case, it may be possible to further improve its effectiveness by improving its efficiency. It is advisable to bear in mind the meaning of these two terms and their relationship to each other, since they will be used frequently throughout this book. The importance of a manager's effectiveness is stressed by Peter Drucker when he states, "The executive's job is to be effective; and effectiveness can be learned."[1]

The search for a body of sound principles of management on which to base a sound theory of management must combine the empirical and rational approaches. Walter Gast called this "rational empiricism."[2]

Because managing principles indicate a cause and effect relationship, they have *interpretive* and *predictive* value. When a principle has stood the test of time and has not been disproved, it eventually evolves into a theory, or possibly a law, and becomes universally accepted, just as in the physical and social sciences. A **theory** has been defined as *a coherent system of propositions advanced to explain a phenomenon*. While the propositions on which a theory is based can be tested so that the theory can be shown to be a predictor of a phenomenon, the theory itself can never be *proved* correct.

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[1]Peter Drucker, *The Effective Executive* (New York: Harper & Row, 1967), p. 166.

[2]Walter F. Gast, *Principles of Business Management* (St. Louis: St. Louis University Press, 1953), p. 5.

Every theory is a simplified representation of reality—an abstraction of a complex phenomenon.[3]

IS MANAGING A SCIENCE OR AN ART?

The debate about whether or not managing is a science continues. Since a **science** is by definition *a body of knowledge obtained through the use of the method of science*, the answer to this question depends largely on the degree to which the scientific method is used to determine managing principles and solve managing problems.

Briefly, the **method of science** consists of the following steps:[4]

1. Facts or data are collected in an objective manner.
2. These facts are classified in some way, usually on the basis of similarities or dissimilarities, in an attempt to make the data more meaningful.
3. From the classifications, hypotheses are formulated.
4. The hypotheses are then tested to determine their reliability and validity.
5. After the hypotheses are verified and if they stand the test of time, they then have interpretive or predictive value when applied to similar phenomena.

Consequently, replication is possible; two researchers undertaking the same investigation, working independently, and treating the same data under the same conditions, should obtain identical results.

So far relatively few managing principles have been derived by the method of science. Recent additions to the store of management knowledge have been gained largely by means of techniques other than scientific. Only in a limited way, in specialized areas such as research, testing, and new product development, has management made use of the scientific method. Whether a science of management will ever evolve is highly improbable. In referring to the hope or dream that a true science of management may someday be achieved, Professor Mee states, "This hope probably will be realized in another chapter in another book in another century."[5] Perhaps the best that can be said is that a science of management is just beginning to emerge.

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[3]Henry Mintzberg, "Policy as a Field of Management Theory," *Institut D'Administration Des Entreprises*, April 1975, p. 12.

[4]Observe how closely the method of science parallels the rational approach which we have already described.

[5]John F. Mee, *Management Thought in a Dynamic Economy* (New York: New York University Press, 1963), p. 11.

It has often been stated that even when management attempts to use the method of science (from which managing principles are also derived), management is neither as precise nor as comprehensive as the natural and social sciences. There are several reasons why this is true:

1. The rational approach and the application of the method of science are relatively new in business and industry. As a result, managing has not developed the comprehensiveness found in other disciplines that have used the scientific approach for a much longer time. In fact, one of the more significant developments in the last seventy-five years in the field of management has been the tendency toward using the rational approach in solving management problems.

   Viewed as a panorama in historical perspective, management as a distinct discipline is relatively young and still growing. Before 1900 there were only five recognized schools of business in the United States. Textbooks in management for use in business curricula appeared between 1910 and 1915, and it was not until 1924 that the first management meeting was held at the Amos Tuck School at Dartmouth College.

2. Relatively few managers are trained or experienced in using the method of science. Those who are trained may find it too time-consuming and, because of this as well as other limiting factors, seek other ways to reach decisions and to solve problems.

3. Precision measuring instruments and tools are not always available in management. A manager is forced to use relative measurement where absolute measurement is not possible or feasible. To evaluate the performance of a group of supervisors, for example, he may have to use a relative measuring device such as a carefully prepared rating scale. For his purposes, however, the relative measuring technique is just as useful and effective.

4. In the physical sciences, the researcher works with a single variable, holding all other factors constant. Managers can seldom do this. They almost always deal with people, the human element with all its frailties. The human element can never be treated as a constant; hence precision is less than in the physical sciences, though equal to that of the social sciences. Businessmen are always dealing with the unpredictable: people, governments and nature.

5. Most important, managerial decision making, unlike problem solving in the sciences, *stresses action rather than truth.* A manager's decisions must have practical application. Managers strive for *reasonable* results under uncertain conditions rather than for perfection. A method, technique, or device only has to be "good enough" to get the job done.