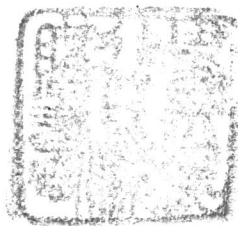


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BUSINESS BEHAVIOUR & MANAGEMENT STRUCTURE

A.L.MINKES AND C.S.NUTTALL



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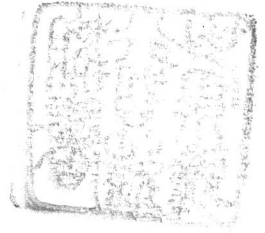
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For RUTH and JENNY



PREFACE

A book of this kind calls for more than the usual acknowledgements. It was only possible to write it because of the willingness of a number of busy executives to give their time and consideration to the two authors. To them is owed a first debt of gratitude and beyond them to the many industrialists who over the years at the Industrial Seminar at Birmingham University, took part in discussions from which the authors' interest in business strategy originally emerged. The University itself, with its encouragement of exchange of ideas and knowledge between the business and academic worlds, made the study possible. The late Professor Philip Sargent Florence was chairman of the Industrial Seminar and his boundless interest and enthusiasm were an inspiration.

Ruth Minkes and Jenny Nuttall contributed their advice and tolerance to two disputatious authors; Margaret Sheridan, Linda Williamson, and Jody Chan their skill and patience in typing successive drafts.

The book was mainly written during the authors' time at the University of Birmingham and partly during periods spent by one of them (ALM) visiting The Chinese University of Hong Kong. It faithfully presents the words of the businessmen who contributed to the discussions. For the selection of material, its analysis and interpretation, the authors are, of course, solely responsible.

ALM

CSN

PART ONE

MANAGERIAL INITIATIVE AND CONTROL

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Part One: Managerial Initiative and Control

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1 INTRODUCTION

This book sets out to examine some aspects of strategy formulation and the exercise of managerial initiative in a small number of British business enterprises. It employs as its medium, a form of reportage or commentary on the ideas, perceptions and actions of leading executives in those enterprises and in their subsidiaries and divisions. Its aim is, therefore, a specific one: it seeks to add to the evidence and insights which are needed for a better understanding of business behaviour. This, rather than establishing general propositions, is the primary purpose though some propositions are clearly suggested.

The main questions which led to this study have claimed increasing attention in recent decades, from academics and practitioners alike. What is business strategy? How does it emerge in the large and complex modern corporation with its network of hierarchical and lateral forms? The modern enterprise has been described as a system of governance: where in such a system is to be found the elusive but glittering spark of entrepreneurship?

These questions lead in turn towards other themes, particularly those of managerial initiative and control in large companies and the relationship between the centre and the constituent parts of decentralised organisations. The critical reality which is explored in the case study material which forms the greater part of this book is the way that the senior directors and executives see this relationship. This reality is as significant as the objective formal structures, rules and procedures, perhaps more significant. When, for example, Sir Adrian Cadbury describes the centre of the business as the only part able to take 'a wide enough view,' he is in effect specifying limits to decentralisation. Similarly, when he says that the centre and he himself can lay down only a few broad guidelines for senior management, he is indicating what he conceives as limits to control. In Thomas Tilling, both Sir Patrick Meaney as the chief executive of the group and Mr. Gordon Yardley at the head of the subsidiary company, Newey and Eyre, speak independently of 'trust' as the basis of the relationship between group and subsidiary. This expressed a genuine sense of the reality of the business relationship within the group.

Managerial perception, in other words, is a statement about reality. There is a real business environment outside and an organisational structure of persons inside, to which in the last analysis that perception has to correspond if the company is to survive. But neither the external nor internal environments are simply 'givens': they are shaped by the ways in which management sees and interprets them.

In the chapters which follow, therefore, the authors have been at pains to allow the businessmen to speak for themselves. Mr. Pountain, chief executive of Tarmac, remarked that it had been a useful experience to be able to stand back from current considerations and to think more extendedly and analytically about the strategy and corporate structure of his company. The authors may claim, perhaps, that their book presents businessmen in reflective mood but focusing their attention on pressing topics of their business enterprises.

Few investigators and research workers can be wholly 'barefoot empiricists' since it requires some conceptual framework even to begin asking questions of the businessmen. The initial approach was very much influenced by the development of behavioural and organisational theories of the firm and by the concept of decision-making as processual. It encompassed the view that decision-makers work in a world in which knowledge is incomplete, imperfect, and dispersed — in the world at large and within their own boundaries. They were envisaged as doing so in large businesses which were rather like constitutional systems of government in which the process of strategy formation was diffused throughout the organisation.

At the same time, in research of this character, an eclectic pragmatism is an essential ingredient and most of all, a willingness to allow the discussion to 'run' along courses dictated by the experience of the businessmen. Despite the greatly increased volume of work on organisation behaviour and empirical studies of business behaviour, surprisingly little is really known about decision-making in organisations. The means by which business strategy is formulated and the relationship between strategy and corporate structure, exhaustively explored by Chandler and others, still remain a battleground of debate. It is important, therefore, to add to the debate the element of managerial perception of managerial decision-making.

The basic methodology of the book is, therefore, to present case material interspersed with commentary. This material does not comprise case studies in quite the sense of the conventional workbook: it may better be described, perhaps, as case evidence. Its origin is an interesting example of the way in which ideas can be stimulated and

research generated by exchange between industrialists and academics.

Over a period of about twenty years, from the mid-1950s to the mid-1970s, the University of Birmingham conducted the Birmingham Industrial Seminar. The chairman was the late Professor Philip Sargant Florence. The seminar provided an occasion in which senior and middle managers in West Midlands industry and academic staff from a number of faculties in the University met for the purpose of discussing with the chief executive or a board director the development and organisation of his company.¹ The seminar was held on ten occasions every year and was attended by about sixty people, of whom two thirds were from industry.

The visitor from the company which was the subject of the evening's discussion, whether chairman or a main board director, submitted to the seminar in advance of the meeting a paper in which he described the development of his company, and this was the springboard for the ensuing discussion. Thus, over the two decades of its existence, the seminar had the advantage of acquaintance and conversation with some of the leading businessmen in the large companies in the UK. Some companies (Esso and Tarmac were examples) accepted an invitation to the seminar for a second or even a third time, and were represented over the years by the same chairman or chief executive.

In the course of time a body of papers was collected which traced the shifting interests, the attitudes and the problems which had engrossed the attention of the leaders of British industry who came to the seminar. These papers were a record of a changing period in industry and business, changes brought about in the increase of size and complexity of companies, in the external forces acting on them, in the sophistication of policy-making and in the developments in their management practice and purpose. The spread of the interests of the seminar and the unique nature of the contributions were good reasons for making a review of the collection of papers.

As a first step in the review it was decided to try to bring the map of changes up to date for a selected number of companies. Five of these companies are considered in detail in this book. The chief executives were asked to consider a range of questions about company matters of the type broadly defined above, and to do so in the course of informal conversation.

Part One is offered as a contribution to the study of the changes in management practice which have occurred over recent years. The statements which are made there by way of quotation have been extracted from recorded conversations of discussion with men in key

positions in the companies, and it is only that part of the discussion which bears on the question of management that appears here. Its direction is concerned with the way in which decisions are made, with the identification of the sources of change in policy or organisation and with the responsibility shown and the initiative exercised by managers at various levels. The parts of these discussions which deal with questions of policy, strategy, acquisition or with the action of market or environmental forces on the companies are the subject of Part Two of the book.

For these purposes, permission was asked of companies to pursue the questions at various points in the management hierarchy. The companies and the names of those who contributed to the discussions in Part One are:

Thomas Tilling²

Managing director and chief executive:	Sir Patrick Meaney
Newey & Eyre managing director and chief executive:	Gordon Yardley
Regional director (Midlands):	Peter Hickman
Branch manager (Birmingham):	Bob Wingate

Manganese Bronze

Vice-chairman and chief executive:	The late John Neville
BSA Guns managing director:	Alf Scott

Cadbury Schweppes

Chairman and chief executive:	Sir Adrian Cadbury
Managing director of Cadbury Typhoo: (the food division of Cadbury Schweppes)	Tony Slipper
Manager-development manager Cadbury Typhoo:	Michael Jolly

Tube Investments

Joint managing director:	Richard Bagnall
Director — commercial analysis: (TI group secretariat)	Charles Duff

In Part Two, there are two further contributors from these companies, and Tarmac was substituted for Tube Investments as follows:

Thomas Tilling

Newey & Eyre commercial director

Jon Brockett

Manganese Bronze

Chairman and chief executive

R.D. Poore

Tarmac

Former chairman and chief executive

R.G. Martin

Deputy chairman and chief executive

Eric Pountain³

Assistant managing director

Bryan Baker

Group finance director

Graham Odgers

Each of the two Parts is self-contained although, inevitably, there is overlap between them because the themes of strategy, initiative and control, are so closely intertwined. Because they differ in length and in content, the study of Tarmac, for example, being in two parts, there is some difference in the format in which they are presented. In both cases there is a general survey of the companies and an overall analysis: whereas in the first part, the dialogues form one chapter, in the second a chapter is devoted to each company. The basic treatment is, however, much the same.

The findings of this study are set down in the running commentary on each of the firms and the main ideas are summed-up in Chapters 4 and 11. Any attempt to establish general propositions about firms has been cautiously limited, but there is no doubt that there are recurring themes in one case after another. Different in important respects though these enterprises are from one another, some threads in the tapestry of their behaviour are commonly to be traced.

One such thread is the pre-occupation with the relationship between the centre and the separate parts of the organisation. In virtually every case it is recognised that the making of strategy cannot be located in one individual or one part of the business. It is a more generalised or diffused activity. But in all cases, there is a clear sense of the particular role of the centre in the determination of the parameters of policy and the choice of strategic options. Indeed, even where levels of management below the top play a significant part in strategic decision-making, the options to be considered are set by the values and decisions of the centre.

A second thread or element is to be found in the importance of propinquity and serendipity: ideas emerge not simply from elaborate planning processes, but from informal exchanges between executives

who are used to working together. The unexpected and the benefits of chance can to some extent be catered for: executives whose offices are along the same corridor and who exact no penalties for talking shop, can persistently push ideas to and fro. This is an important means of maintaining and developing the flow of innovative thinking within large enterprises. In turn, this may be enhanced by personal contact between top executives at the centre and other levels of management in divisions and subsidiaries.

This leads to a third conclusion which might easily be missed in the emphasis which is inevitably given to the place of the organisation and the heavy overlay of bureaucratic forms which are associated with great size. This conclusion is that entrepreneurship and the entrepreneur are not dead nor are they merely located in the ramifications of organisation. Individuals at the head of large enterprises play a powerful part in the setting of values, the selection of the limited number of options which the organisation at any one time will consider, and in determining the focus of attention among its members. These, it has been noted above, are essentially the prerogative of the centre: but the centre is no abstraction since it is the place in which the most senior executives of the organisation are based. The interplay of individual imagination and leadership with the rules and procedures of organisational form is one of the most inviting problems for continued research.

One striking characteristic of the various relationships discussed by the business executives is the blend of formal structure and informal conventions of behaviour in the development and implementation of strategy. Another, even more striking, is the inseparability of strategic choice of product-market scope and the creation of corporate structure. It is no doubt convenient to distinguish, as Ansoff⁴ has done, between strategic and administrative decisions. But there is certainly a level of administrative decision which is as much a strategic pre-occupation of top management as is the choice of products and markets.

In making business choices, the decision-makers in large enterprises are neither narrowly confined to their existing last nor, on the other hand, do they view the whole world of possibilities. The ultimate outcomes in decision-processes are themselves the consequences of cascades of individual decisions through time which set the framework within which the firm considers its opportunities. The number of guidelines and options which can be dealt with is limited, as Adrian Cadbury points out, and there are the further boundaries set by the

general outlook of the senior executives. Examples of this are to be found in R.G. Martin's emphasis on the need for what he termed 'compatibility' in acquisitions or in Sir Patrick Meaney's attitude towards excessive size in individual locations.

Professor Penrose⁵ has written that a firm may be regarded as a pool of assets and that the disposition of those assets at any one time may be regarded as an incident in the changing history of the business. The evidence which follows in the chapters of this book shows that the nature of the assets, including managerial views and expertise, governs the flexibility of choice. It also shows how in the firms considered, changes were made both in response to problems and as part of the entrepreneurial impulse towards innovation.

Notes

1. There were occasional variations to this rule. Some meetings were devoted to trade union matters, when the visitor would be a general secretary of a trade union. Occasionally a paper was submitted by a member of the University staff.

2. Since acquired by another company. The interviews took place, and this study deals, with periods prior to the acquisition.

3. Subsequently chairman. For details of this and other changes, see Chapter 10, note 1.

4. Ansoff H.I. *Corporate Strategy*
McGraw-Hill, New York, 1965.
See below, Chapter 11, note 6.

5. Penrose E.T. *The Theory of the Growth of the Firm*
Oxford University Press, Oxford, 1959.
See below, Chapter 7, note 6.

2 THE MANAGERMENTS

This chapter is intended to bring together and contrast the present management behaviour of the four companies as shown by the discussion of the views which are presented in Chapter 3. Tube Investments is a large international engineering company. Manganese Bronze, in the same area of manufacture, is a small-to-medium company and home-based. Both companies have diversified, the smaller company being more diversified, in the sense of unrelatedness of the separate parts. Thomas Tilling is probably one of the few true conglomerates anywhere — a pioneer in this field in the UK. Cadbury Schweppes is a food-and-drinks manufacturing company, with an international base but remaining, in the main, undiversified. In size, range, market and business experience, the four companies differ. But they have all been subject to the same environmental forces, the same social and political pressures, to which they all have had to respond. There are some marked similarities in the recent changes in management practice of these companies which may have to be attributed to the strength of the external forces acting upon them.

It has been a marked emphasis in management practice, certainly since the Second World War, that greater freedom is given to managers at the middle and lower levels. There is a general realisation of the need for autonomy at the point of operational decision-making and this has brought about a change in business behaviour and attitude which can be observed in practice and confirmed in discussion in any large company. Most companies now recognise that increased autonomy means more decentralisation of company organisation, so that there is a change in form which accompanies the change in attitude. Altogether this seems to be understood as a change from the experience of business as it was even fifteen or twenty years ago.

The new administrative and organisational form which is being evolved is a main subject of the discussions on which Chapter 2 is based. Some change of form was forced on companies as the way of managing complexity. Size itself is a cause of complexity but, even more, there is the complexity which is due to the almost unavoidable increase in operational diversity which comes with size. Since the