

ESSENTIALS OF MANAGEMENT

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*Third
Edition*



McGRAW-HILL SERIES IN MANAGEMENT

ESSENTIALS OF MANAGEMENT

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The late CYRIL O'DONNELL was educated at the University of Alberta and University of Chicago, where he received a Ph.D. in management. His last position was Professor of Business Organization and Policy and Director, Case Development Program, at the Graduate School of Business Administration (later, Graduate School of Management), University of California, Los Angeles. He was previously chairman of the Department of Economics at DePaul University. He had extensive business and professional experience, having been affiliated with the War Labor Board and private business enterprises. Professor O'Donnell was a consultant to several domestic and foreign firms and government agencies and was an active director of several business corporations. In addition to contributing to numerous professional journals, he was the author of *Business Management*, *Cases in General Management*, and *The Strategy of Corporate Research*.

HEINZ WEIHRICH received his Ph.D. from the University of California at Los Angeles. Currently Professor of Management at the University of San Francisco, he has also taught at Arizona State University, at the University of California at Los Angeles, at INSEAD—the European Institute of Business Administration in France—and at universities in Germany and Austria. His numerous articles on management and behavioral science topics have been published in the United States and abroad. Professor Weihrich conducted the first comprehensive research study of management by objectives (MBO) as a total system of managing and coauthored *Management: An MBO Approach*. In addition to pursuing his academic interests, Professor Weihrich is active in management consulting as well as in executive and organizational development in the United States and abroad. He has more than fourteen years of business and consulting experience in the United States and Europe, working with such companies as Volkswagen, Hughes Aircraft Company, and others.

ABOUT THE AUTHORS

HAROLD KOONTZ has been active as a business and government executive, university professor, company board chairman and director, management consultant, worldwide lecturer to top management groups, and author of many books and articles. Since 1950 he has been Professor of Management at the University of California, Los Angeles, and since 1978, World Chancellor of The International Academy of Management. He is an author or coauthor of seventeen books and eighty-five journal articles, and his *Principles of Management* (now in the seventh edition as *Management*) has been translated into fifteen languages. His *Board of Directors and Effective Management* was given the Academy of Management Book Award in 1968. After taking his doctorate at Yale, Professor Koontz served as Assistant to the Trustees of the New Haven Railroad, Chief of the Traffic Branch of the War Production Board, Assistant to the Vice President of the Association of American Railroads, Assistant to the President of Trans World Airlines, and Director of Sales for Convair. He has acted as management consultant for, among others, Hughes Tool Company, Hughes Aircraft Company, Purex Corporation, KLM Royal Dutch Airlines, Metropolitan Life Insurance Company, Occidental Petroleum Corporation, and General Telephone Company. Professor Koontz's honors include being elected a Fellow of the American and the International Academies of Management, and serving as President of the American Academy of Management. He received the Mead Johnson Award in 1962 and the Society for Advancement of Management Taylor Key Award in 1974 and is listed in *Who's Who in America*, *Who's Who in Finance and Industry*, and *Who's Who in the World*.

PREFACE

This book is a concise version of the seventh edition of our *Management*, whose many prior editions and translations under the title of *Principles of Management* have been well accepted by readers for more than a quarter century. Responding to a demand for a shorter book dealing only with the essentials of management, we have written this version of the parent text.

Essentials of Management has been prepared by eliminating certain chapters not required to comprehend the basics of management, by excluding certain more advanced concepts and techniques as well as many references to research in the field, and by carefully editing and revising to shorten and simplify the book. While we cannot pretend that this version has the comprehensiveness of the larger book, we do believe that this book deals concisely with the basics of management.

As in the larger edition, we have attempted here to furnish a framework of basic knowledge organized and presented in a useful way. We have long chosen to deal with this knowledge by first classifying it under the functions of planning, organizing, staffing, leading, and controlling. Then the components of each function are further classified. Experience has proved that any new knowledge, whether from behavioral or quantitative sciences or from innovations of practice, can be placed within this framework. The goal is to make management as much as possible a science—organized knowledge—and to make this science useful to those who must apply it, as practitioners, to reality.

It should be emphasized that even though the knowledge is organized by a first-order classification of function, this does not overlook a systems approach. The functions of managers represent an interlocking system. Each

functional area has within it a number of systems and subsystems. Moreover, it should be emphasized that this book does not look at the enterprise and the manager's role within it as a closed social system. Even though the emphasis is largely on the manager's role in creating and maintaining an internal environment, we must also, and do, consider the manager's interaction with the entire external environment—economic, technological, social, political, and ethical.

FORMULATING BASIC PRINCIPLES OF MANAGEMENT

In order to accomplish some distillation and organization of knowledge, we have utilized the device of formulating major principles found in managing. In undertaking this task, we have drawn freely upon the discoveries, formulations, and researches of many managers and scholars who have studied various aspects of the subject. While attempting to formulate additional principles from our years of managerial experience, observation, and research, we readily acknowledge a heavy debt to the many who have made contributions to this important field of human endeavor.

We have long made certain aspects of our position clear. While we have always recognized that managers seldom, if ever, spend all their time and talents in managing, it is our conviction that the functions of a manager, as a manager, are essentially the same whether he or she is a first-line supervisor or the top executive of an enterprise. The reader will find, therefore, no basic distinction made among managers, executives, administrators, or supervisors. To be sure, the environment of each may differ, the scope of authority held may vary, and the types of problems dealt with may be considerably different—and a person in a managerial role often also acts as a salesperson, engineer, or financier. But the fact remains that managers who obtain results by establishing an environment for effective and efficient performance of individuals operating in groups undertake the same basic functions.

Moreover, the essentials related to the task of managing apply to any kind of enterprise in any kind of culture. The purposes of different enterprises may vary, but all organized enterprises rely on effective group operation for efficient attainment of whatever goals they may have. It is true that many of the case examples and techniques used in this book are drawn from business enterprises. In doing so, however, the authors do not overlook the fact that the same principles are applicable in nonbusiness enterprises.

As used here, the term "principles" means "fundamental truths applicable to a given set of circumstances which have value in predicting results." Principles are thus descriptive and predictive and not prescriptive as so many erroneously have believed. Recognizing the indisputable fact that clear concepts are the initial requirement of science and understanding, we have attempted to present most of these fundamental truths in the form of propositions with independent and dependent variables. The structure of

major principles emphasized, to the extent that these principles reflect fundamentals in a given area, may be referred to as “theory”—a body of related principles dealing systematically with a subject. Even though principles and theory are referred to throughout the book, the reader must not get the impression that they are impractical. If accurately formulated and properly used, principles and theory should be eminently practical. The real test of their validity is in the crucible of practice. Do they describe and predict?

There are those who object to using the term “principles” for fundamental truths not supported by elaborate and complete statistical verification of their validity. We are completely aware that many principles noted here represent essentially a preliminary attempt to codify a number of basic truths and, by placing them in a framework believed to be logical, an attempt to move toward a theory of management. But we believe that they are a convenient and useful way of packaging some of the major truths that experience and research have found to have a high degree of credibility and predictability.

FEATURES OF THIS EDITION

In developing the earlier editions of *Essentials* and preparing this third edition, we have tried to respond to two major influences. One is the continuing help from a comprehensive survey of teachers and scholars; the other is the burgeoning volume of research, new ideas, and techniques, particularly those being applied to management from the behavioral and physical sciences.

There have been a number of revisions in this edition of *Essentials* to update the book and to improve it as a learning device. Some chapters have been largely rewritten. Among these are Chapter 2, “Patterns of Management Analysis,” in which the original “Management Theory Jungle” paper has been updated to reflect the current eleven instead of six approaches to management. Despite the great increase in management approaches, there are some developments tending to coalesce many of these approaches.

Chapter 3, “The External Environment and International Management,” has been largely rewritten, and the area of international management included. Chapter 7, “Strategies and Policies,” has been considerably rewritten to expand upon and clarify the area of strategic planning. Completely new chapters may be found in Part IV, “Staffing,” to reflect the new chapters in this area in the seventh edition of *Management*. Of special note are new Chapters 14, “Nature and Purpose of Staffing,” 15, “Selection of Managers,” and 17, “Manager and Organization Development.” Much rewriting has also been done in Part V, “Leading,” including a new Chapter 18, “Managing and the Human Factor,” and a new Chapter 21, “Communication.”

The revisions in this edition often have to do with clarifying the concepts and discussions and making the book an improved means for learning. Cases have been placed at the ends of chapters rather than after the parts.

Each chapter also includes a brief chapter summary. Systems models have been introduced and discussed at many places in this version. Moreover, through the conscientious, thorough, and intelligent assistance of Ms. Elisa Adams, who acted as developmental editor for this edition, the language and sentence structure have been carefully revised, and the authors have been forced to look at the book from the standpoint of students just being introduced to management. Ms. Adams's considerable editing has unquestionably improved the book, and we believe that our writing level has been substantially improved by her assistance.

ACKNOWLEDGMENTS

It is with deep regret that we note the death of our respected colleague and coauthor for more than two decades, Dr. Cyril O'Donnell, who passed away in February 1976. But the senior author is grateful that a former doctoral student, practitioner, and colleague, Dr. Heinz Weihrich of the University of San Francisco, was willing to join as the new coauthor of *Management* as well as *Management: A Book of Readings* and this edition of *Essentials of Management*.

As might be expected in a book of this kind, we are indebted to so many persons that a complete acknowledgment would be encyclopedic. Some managers and scholars are acknowledged through references in the text to their contributions. Many managers with whom we have served in business, government, education, and other enterprises have contributed by word and by precept. Thousands of managers at all levels and in all kinds of enterprises have honored us over the years by allowing us to test our ideas in executive training classes and lectures. To the executives of the various companies with whom we have been privileged to work as directors or consultants, we are grateful for the opportunity to continue the clinical practice of management.

Since this book is a streamlined, edited, and revised version of our *Management* text, the expression of appreciation for help given in the many editions of that book would apply equally here. But because this is a different book, it hardly seems wise or necessary to give these many contributors of their time and knowledge special attention. Indeed, it is possible that some would not approve this version.

Many able teachers and scholars have given us freely their time and intelligence and the benefit of their teaching experience. For this third edition, we are especially indebted to those who made many suggestions and carefully reviewed both the second edition and the manuscript for this edition. They include Professors Keith Davis of Arizona State University and Richard D. Babcock of the University of San Francisco, Professor David E. Blevins of the University of Mississippi, Professor Jimmie Lee Burrows of Florida Junior College at Jacksonville, Dr. Steve R. Jennings of Jennings

and Associates, Professor John W. Lloyd of Monroe Community College, Professor Vernon Metzger of California State University, Dr. Joseph O. Pacenka of Northern Illinois University, Professor Thomas Shaughnessy of Illinois Central College, and Professor Leete Thompson of Sacramento State University. In the preparation of this revision we would also like to express our appreciation to Professor Sheila Adams of Arizona State University, Dr. Bernard L. Martin, Dean of the McLaren College of Business Administration at the University of San Francisco, for his support, Jacob A. Varela of the School of Economics and Management, Oakland University, and Sumner M. White of Massachusetts Bay Community College.

We also wish to record our lasting gratitude to certain top-notch teachers who, in their careful review of the plans and manuscript for the first edition of *Essentials*, spared no criticisms and were, therefore, considerably helpful. These were Professors Keith Davis and Jack Mendleson of Arizona State University, Professor Ronald G. Greenwood of the University of Wisconsin-La Crosse, Professor Harold L. Goldman of Pierce College, Professor H. Nicholas Windeshausen of the Sacramento State University, and Professor Ted Valvoda of Lakeland Community College.

This book clearly owes much to the intelligent criticisms and suggestions offered by so many teachers. However, none of those who helped us by their evaluations and suggestions can be blamed for any shortcomings this book might have.

Harold Koontz
Heinz Weihrich

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PART I

THE BASIS OF MANAGEMENT THEORY AND SCIENCE

Chapter 1 Management: Science, Theory, and Practice

Chapter 2 Patterns of Management Analysis

Chapter 3 The External Environment and International Management

Perhaps there is no more important human activity than managing, for all managers at all levels and in all kinds of enterprise have the basic task of designing and maintaining an environment in which individuals, working together in groups, can accomplish selected missions and objectives. In other words, managers are charged with the responsibility of taking actions that will make it possible for individuals to make their best contributions to group objectives. Although we emphasize the managers' tasks in designing an internal environment for performance, it can never be overlooked that managers must operate both in the external environment of an enterprise and in the internal environment of the various departments within an enterprise. As for interactions with the external environment, clearly managers cannot perform their tasks well unless they have an understanding of, and are responsive to, the many elements of the external environment—economic, technological, social, political, and ethical factors that affect their areas of operations.

The way managers perform their tasks and the available basic knowledge that underlies their performance are the focus of this book. As many scholars and managers in all kinds of organizations have found, we can more easily study management by breaking the area down into the primary

functions of managing and then organizing basic knowledge—concepts, theory, principles, and techniques—around these functions.

We have used the **functions of managers**—planning, organizing, staffing, leading, and controlling—as a first step in studying management. Although others may prefer a slightly different classification, this one is comprehensive in that all significant knowledge can be placed within it; it is divisible into enough parts to permit logical analysis; and it is practical in the sense that it portrays functions as managers themselves see them. Moreover, this classification sharply distinguishes managerial tasks from nonmanagerial ones and allows us to concentrate on what managers do as managers.

Part I is an introduction to the science, theory, and practice of management. Chapter 1 lays the groundwork for your understanding of the nature and importance of managing as an art and of management as a science.

The varying patterns of management analysis are treated in Chapter 2. The growing interest in management in recent years has given rise to a mixture of approaches by a variety of specialists seeking to explain the basics of management. Some of these approaches have been extremely varied and often confusing. To help you understand the many different approaches and the way they fit into a scheme of an operational theory of management, Chapter 2 outlines these approaches and concentrates on the operational one. In this approach, knowledge believed to be useful for managers is drawn from the other approaches, and other management knowledge found only in the field of managing is combined with it. This approach uses the functions of managers—planning, organizing, staffing, leading, and controlling—as the primary classifications to organize available knowledge. We make the point that while there are many approaches to the study and analysis of management, there has been a tendency in recent years for these various approaches to merge in the operational approach. This chapter also emphasizes the fact that managerial practice must apply available knowledge in the light of real-life situations.

Chapter 3 is about the external environment in which managers operate and about international management.

The essential elements of the external environment are classified according to economic, technological, social, political-legal, and ethical factors. We will additionally discuss the social responsibility of business and nonbusiness enterprises.

This chapter also deals with international management. Multinational companies have different orientations in managing their enterprises. Moreover, they have certain advantages over national firms, but they also face great challenges.