The Management Quadrille

Douglas Foster

A Guide to Successful Management

THE MANAGEMENT QUADRILLE

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Preface

In the last three decades in particular, management has been inundated with a torrent of so-called new techniques. Each has been eulogised by some of its originators, often far beyond its true capabilities. Practitioners lacking perception, have rushed to apply these new concepts, often regardless of their suitability for the tasks in hand. The haste with which some persons applied these new ideas, without much thought, suggested perhaps incorrectly, that they were keen to cover up their own inadequacies, lack of intelligence, managerial ability or whatever. This usage regardless of their suitability was unfair to many of the new ideas. Properly applied they can be helpful or beneficial to executives struggling against an ever-increasing load of problems and complexities and of the basic knowledge needed for effective management in a growingly hostile business environment. It is not surprising, therefore, that management performance in most countries has declined since the end of the Second World War. This decline has been more pronounced in the last decade when economic, international and political matters have also become complex, defying understanding, never mind effective control.

So the need for this book arose. It developed from a series of informal discussions with executives of Pitman Publishing and academics and business people generally, over a period of nearly five years. The author has also been researching and studying the idea more formally for some years as part of his general interest in management problems and their solution. The common thread that ran throughout was the vital need for executives to return to the first principles of successful management and cut free from the bewildering plethora of management techniques on offer. They had also to refresh their memories on what good, effective management is all about and learn of the common failings or pitfalls met in business management. The book had to avoid detailed explanations of the techniques and concentrate instead on the correct approaches, mental processes and applications that were needed. Nor should it offer yet further complex theories which in time may prove to be just additions to the many gimmicks that already masquerade as important management concepts. The last do not offer harassed executives any workable solutions to their many, real problems and often just confuse the issues involved. In addition, academics saw the need for a book that would be a cautionary tale to students and graduates, one that stressed that the possession of theoretical or arcane knowledge was not enough if they wished to become effective and successful managers.

This book grew around the simple concept of the need for integrated management involving total and continuous cooperation between all facets of a business. It also recognises that this cooperation comes most of the time, through packages of four activities — hence 'the quadrille concept'. Understanding what the more usual foursomes are and how and why they work is essential for success. It was also necessary to show why management fails from time to time even with so-called cooperation, and to illustrate the main points by recalling some well-known case histories.

Considerations of length necessitated that readers already understood the basic concepts and principles of management. There was no room for a straightforward detailed text on these as well as an exhaustive discussion of the main purpose of the book. Readers would have to have recourse to formal textbooks on the various disciplines of management. Nonetheless the book is intended for students, graduates and executives and is relevant to most countries. With executives it will be appropriate for refreshing their memories and bringing their abilities up to scratch. For students it would be essential reading to keep the realities of management in their minds, saving them from being submerged in the ill-conceived belief that mastery of theory is all that is needed for effective management. For graduates moving on to their second degrees, it is an essential reminder about the keys to effective management.

Above all else, this is not a standard textbook giving glib, precise answers to stereotyped problems. It is meant to be a thought-provoking book, intended to show readers how to identify problems and the thought processes necessary if unique solutions that fit the individualised situations of a corporation are to be found. This is essential, since each corporate situation varies considerably from those operative in other companies. Standard textbook solutions can be irrelevant to the actual conditions facing executives. It is thus a work that aims to help people to *think about and through* the difficulties they will face in their work. If it does nothing more than start arguments or discussion between established and would-be executives and academics then it will have more than served its purpose.

Douglas Foster
London, 1979.

Acknowledgments

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To my dear wife Elizabeth, a constant and loving source of encouragement and support.

'It is one thing to show a man that he
is in error, and another to put him
in possession of the truth.'

John Locke (1632–1704)
Essay on the Human Understanding,
Book iv, chapter 7, section 11.

Contents

1 Management today

Once upon a time management of an enterprise was a relatively straightforward operation. Companies were of limited size, easily controlled by one, or a few, people. Competition was limited and occasionally non-existent. Labour and material costs were reasonably stable. Simple skills were required. Supply and demand were more or less in balance. Capital was, by current standards, cheap and generally available. Prices and profit margins did not fluctuate too much. Markets were easily identifiable and were supplied by a limited number of companies of which one or two were dominant. Most companies enjoyed viable market shares. Market and competitive conditions were usually known to all of reasonable intelligence and especially those with a flair for their business, i.e. the true entrepreneurs. Changes occurred at a decent pace, measured in years rather than months. It was a relatively simple task for the chief executive or proprietor of an enterprise to consider these facts and arrive at simplistic decisions about the management and conduct of the business.

By comparison with conditions by the mid-1970s, this early stage of modern business management reads like a fairy tale. Of course some companies were very successful. Others were successful to a degree sufficient for their own needs. Yet others got things wrong and paid the appropriate penalties. *Uncertainty* existed but not to the level of the *insecurity* that predominates today. Mistakes in management were not *necessarily* fatal and minor corrections to corporate action could contain most of them. Major upheavals were the exception rather than the rule. Management education and scientific methods of management engaged the attention of a few executives considered avant garde by the majority, and a few deep-thinking academics seen as being somewhat 'long-haired' (whatever that may mean!).

For the British, who gave the Industrial Revolution to the world, dominance in most industries and markets appeared to offer a secure present and future. Beneficial, general wealth was produced even if during the first three centuries of expanding trade and industry, this wealth was rather unevenly distributed. While large numbers of people were lifted from the primary poverty of the barest means of subsistence there were many more who did not at first benefit from this improvement. The numbers that remained depressed varied from country to country. In the leading industrial nations they tended to be a small percentage of the total working population. This small percentage nevertheless represented a substantial number of people. In undeveloped nations and the colonised regions the depressed represented a much greater proportion of the total population (e.g. 70–90 per cent). Yet this was considered a temporary impediment in a society moving steadily, if slowly, towards greater prosperity.

The expectation of life and its quality improved every decade. There were signs that material endowments seemed capable of infinite growth. The increase in wealth was manifested in the acquisition of material property. The income of the middle classes grew so that each household acquired the power equivalent of medieval kings and barons. The social consequences developing from these advances called for more growth and innovation and the continuing, if slow, abolition of squalor and poverty.

Until the First World War, Britain was the predominant industrial nation. After the Great Depression and the resurgence of economic activity Britain, the U.S.A., Western Europe (especially Germany) and Japan (in some activities) were the major industrial powers. However, in the main, competition was limited. It could perhaps be described as 'more gentlemanly' than the present cut-and-thrust approach.

1.1 The dream fades

It was *too* much like a fairy story or a dream. Like all dreams, it began to fade quite early, in fact some fifty years ago in the mid-1920s. The Great Depression did much to prove the concepts of that era were at best, naïve and at worst, dangerously misleading. Industry and services could not provide an endlessly increasing stream of goods and services. Education does not necessarily provide or create new wealth, nor solve social and economic problems. The benefits of growth do not necessarily benefit the majority of people, leaving only a minority still submerged in poverty. (In fact, the way things have developed by the mid-1970s it seems that increased wealth accrues mainly to those who already have a sufficiency of it!)

Finally, education does not lead naturally to a better understanding of the environment and the increasing complexity and problems of modern society by humanity at large. Ultimately in all human endeavour there is a finite limit to economic and technological growth. Wealth accrues to those who have it and is only lost by them through some unforeseen disaster, like the Great Depression. Education is effective only in so far as the innate capabilities of the individual can benefit from it.

By the late 1920s executives began to wish to learn from the mistakes that caused the Great Depression. It was clear that more scientific approaches to management were needed, though many were slow to accept this. Even more did not know which path to take. However, a business policy course was in existence at Harvard University in the U.S.A. as early as 1911. Others were not long in following. For the most part these early courses were down to earth attempts to instil the basics of good management practice into the students.

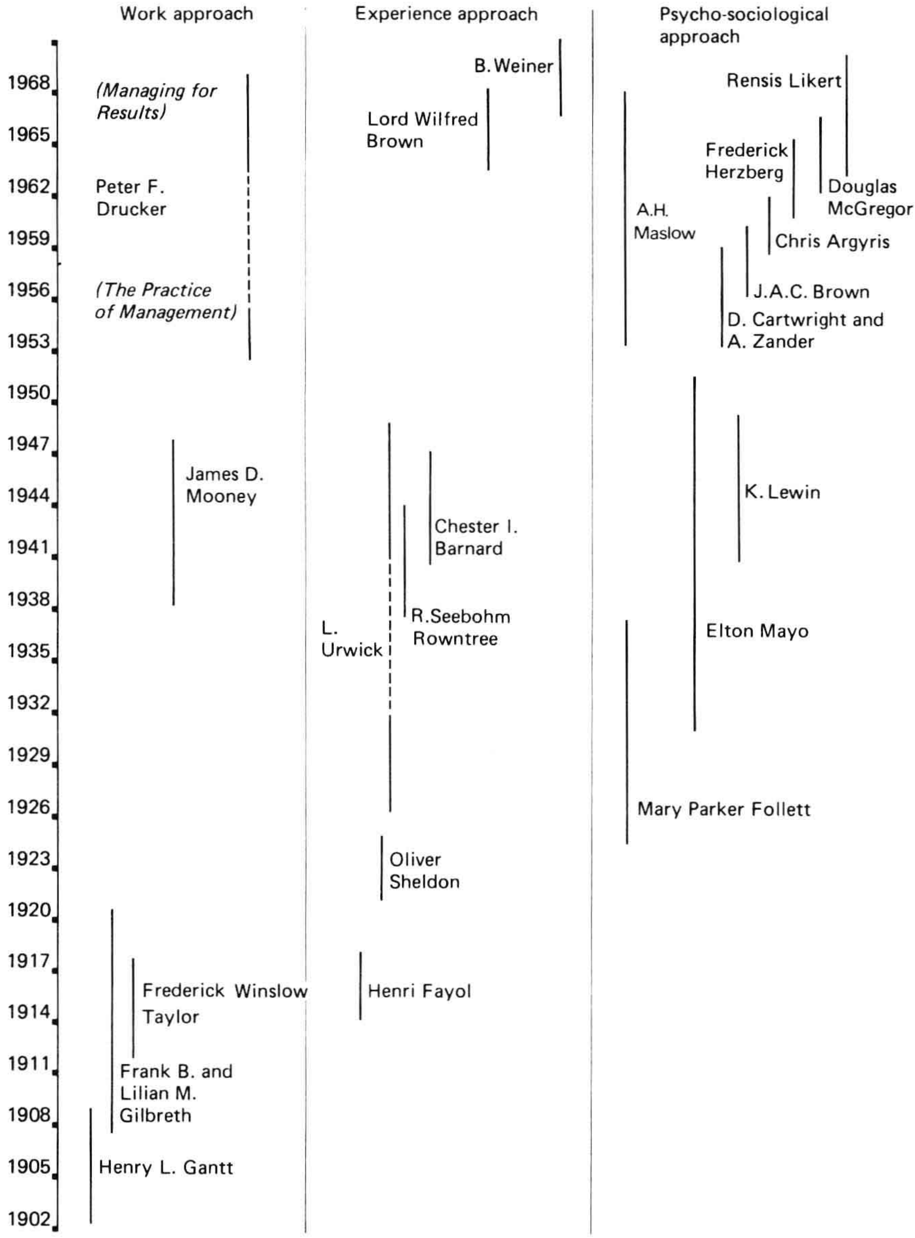

Fig 1.1

The early techniques were also very sensible basic aids to good management.

So-called 'modern management' can perhaps be traced back to about 1902 with the first efforts to improve the management and output of workshops or the factory floor. Henry L. Gantt, perhaps best known for his straight-line (Gantt) charts, worked on a bonus system for rewarding labour for improved output. However, he is considered less of a giant in management development thought than others who were operating in his time or after him. The latter included Frederick Winslow Taylor, Frank and Lilian Gilbreth and others. Figure 1.1 gives the names of some of the people who contributed most to the development of new concepts. The illustration itself is in the form of a Gantt chart.

The development of management ideas can be segregated into three distinct streams or approaches. First there was the 'work approach' of Taylor and others. These were attempts to improve the efficiency and performance of specific groups in their work situations. The earliest attempts were directed to shopfloor factory workers. Later ones were aimed at executives and management groups in marketing, financial and personnel activities. The second stream tried to apply the 'experience and knowledge' gained to devise a set of rules or guidelines for those coming along in later years. It tried to discover why some groups were successful and others were not. Finally, a more recent stream is the 'psycho-sociological', which attempts to apply developing psychological and sociological theories to work situations.

Readers who wish to refresh their memories on the work and achievements of the people shown in Figure 1.1 have two possible courses. They can either plough through the books by these people — a formidable task — or read the book by Harold R. Pollard, *Developments in Management Thought* even if the latter is one man's limited, subjective view of the subject. They will see that slowly at first and then more rapidly, after the Second World War, the techniques became more complicated as the size of a business enterprise itself increased and became more complex. The small proprietor-company was for the most part replaced by bigger, ever increasing in size, public corporations active in many countries and markets and often in several technologies. Nevertheless these corporations were based on fairly simple principles and were developed along reasonably logical lines.

1.2. The seeds of confusion

However, while the 'great names' were developing useful, constructive and practical concepts, others were sowing the seeds of confusion that would beset the 1970s. At first they were sown thinly but by the mid-1970s they had taken root and were multiplying fast. Management thought and actions were soon to become a veritable jungle of misconceptions and feeble thinking.

By the beginning of the First World War there had been a fairly drastic change in industrial organisation. The single entrepreneur and partnership enterprises, responsible to their creditors for literally every penny invested in them, had generally been replaced by the joint-stock company. Shares were being issued in ever smaller denominations. With companies requiring larger capital sums, this led often to the dissolution of the traditional controlling interest. As trading conditions worsened or became more competitive, further amalgamations and associations resulted. This aggravated the trend. Logical and necessary rationalisation, although needed, did not occur and the pursuit of self-interest led to increasing internal conflicts. Control of a business became less effective. The accusations of Adam Smith, John Stuart Mill and others, that directors of joint-stock companies were likely to pursue their own interests rather than those of the shareholders as a whole, gained credence. Enterprises that remained owner-controlled, especially by a dominant personality, were relatively more successful. Some cases of the latter existed even into the 1960s.

(It is perhaps worth noting here, however, that by the late 1970s the rapidly growing size and interest of the institutional investors (i.e. the pension funds, insurance companies etc.) has seen these occupy positions where they could exercise some control over the activities of businesses. They have been reluctant to exercise such control and thereby appear to have condoned the continuation of relatively inefficient management. Further, thought is being given to the benefits that could flow from the encouragement of smaller companies. 'Big' is no longer seen as being necessarily 'beautiful' especially as rising costs, inflation and the shortages of capital and other resources begin to bite. If present thoughts and studies continue, they may reverse the trend to large-scale operations.)

1.2.1 The early economists

In the 19th century a group of academics began to call themselves 'economists' and became involved in formulating theories about the behaviour of firms and the allocation of resources. Their chief concern seemed to be the refinement of the theory of competitive markets. With interest and support from outside their own circle, their doctrine of competition gained support. They believed that if all enterprises pursued their own self-interest, seen mainly as the maximisation of their profits, they would produce maximum satisfaction for the community. Competition between them would ensure that only those commodities that people wanted would be produced. Also, those that produced the right products but inefficiently, would not survive.

Such is the persuasive power of economists that this belief represents the view of many top managers, even today, of the role of business in society. However, for the greater part of the 19th century the economists concentrated their thoughts on the theory of *perfect competition*. Surprisingly, they ignored for the most part the possibility of *imperfect competition* arising. Commentators suggest this was simply because they saw no need to consider it. Nor did they see cause to differentiate between the different sorts of competition that could arise. Indeed, it was only towards the end of that century that definitions of competition were attempted. Yet it was the means whereby free enterprise was supposed to regulate itself in society's interest.

While a few economists in the early part of this century were aware that the basic concept mentioned above posed problems, it was not until 1926 that Piero Sraffa spelt it out (see 'The Laws of Returns under Competitive Conditions': *Economic Journal*, XXXVI). It seems obvious today, and it is one of the main reasons for mergers and acquisitions, that even with substantial internal economies of scale, each enterprise cannot continue to expand indefinitely. Ultimately it will encounter the limits of market demand. As that limit is approached so marketing expenses increase as the firm strives to attain further increases in sales. It will ultimately have to reduce unit sale prices to achieve further growth in unit sales. That is, it will be on the classic downward-sloping demand curve.

It came to be appreciated that if the main limit to growth, even with reducing unit costs, was the difficulty of selling the increased output, resolved only by increasing marketing effort and expenses and reducing unit sale prices, then the condition of *perfect competition* did not exist in the market place. An enterprise's products became differentiated from those of other firms. The market supply curve for a commodity had little relevance since each company would produce different commodities. The study of *monopolistic* and *oligopolistic* conditions gained slowly in popularity. Economists began to consider how far the theory of competition could be developed towards covering a monopolistic situation! Attempts were made to salvage some elements of competitive theory, mainly by Professor Joan Robinson (*Economics of Imperfect Competition*) and Edward Chamberlin (*Theory of Monopolistic Competition*). These works were both published in 1933, the worst year of the Great Depression!

Despite these books, economists failed to save their initial basic concept of the theory of the industry. Their studies were forced towards another concept, that of the firm. The emphasis swung away from the study of market behaviour. This appreciated the fact that the firm may operate in many kinds of markets and (especially in the 1960s and 1970s) find itself active simultaneously in more than one kind of market. The enterprise has to make individual decisions on the nature and the character of the products it will produce, the methods and means of producing them, the quantities to be produced and the prices that should be charged. The decisions are as complicated as the variety of markets selected for the company's operations. The managerial thought processes and the management methods required become increasingly complex also.

By the late 1930s industry in most developed countries was comprised substantially of the larger joint-stock companies. Their former association with inefficiency and mismanagement in the minds of economists had been overcome. They were seen now to be the more efficient brethren in industry. The larger companies were thought to be able to take advantage of economies of scale, leading to reduced unit costs as output increased. Thus most of the concept that the efficient working of the forces of supply and demand rested on the existence of perfect competition lay in ruins. In the larger companies the concept arose that managers handled the day-to-day problems and policy decisions. The shareholders (stockholders) who had put up the capital took little or no interest in management aspects of the business. Indeed they seldom bestirred themselves, even when crucial or major policy decisions affecting the whole future of the company arose.

Add to this the proliferation of new economic and other concepts, theories