

# Fundamentals of Management



Second Edition





Second Edition

# Fundamentals of Management

Mike Smith

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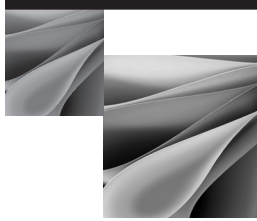
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## **Dedication**

To my valiant and wonderful wife, Pam



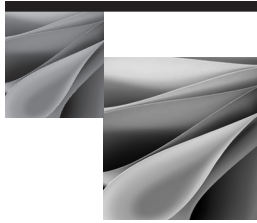


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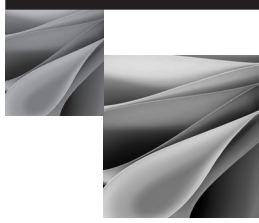
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# Preface

Over many years I have taught the fundamentals of management to more than 12000 students. They have taught me the importance of good information given in a straightforward way. Unusually for an academic and researcher, I have been fortunate to experience management at first hand: junior manager in a knitwear factory in Leicester, director of a quoted company in London and chairman of a small company in Manchester. This has taught me the need to focus on what is practical and relevant. Consultancy work in Europe, Australasia, South Africa and Asia have also taught me lessons. It has made me aware of the need for a clear and straightforward text which combines a broad, classic framework with a deeper treatment of contemporary management topics.

## Who is this book for?

This book is focused on three groups of readers.

- *First* are students embarking on a course of business studies and management at university or college. They face the danger that individual courses dealing with specific areas give a disjointed view that lacks perspective. This book aims to provide an integrating framework that places other specific courses within the context of management as a whole.
- *Second* are students of other subjects, perhaps engineering, IT or languages, who are taking one or two courses in management as subsidiary subjects. Even if they never become managers themselves they will need to interact with those who do. This book aims to give an understanding of management that will enable them to relate effectively with managers.
- The *third* group of readers are those already working in organisations who have started, or are thinking of starting, a managerial career. This book is designed to provide them with an authoritative, high-quality text which will help guide their decisions. This group also includes people who are about to embark on an in-company course or, perhaps, an MBA after many years away from education. This book aims to be pre-course reading that gives a head start.

## Explicit Knowledge, Tacit Knowledge and Critical Thinking

Knowledge can be divided into two types – explicit and tacit (this is explained further in Chapter 18). The much greater part of this book is devoted to the *explicit knowledge* about management that is formally set out in texts and academic writings. It contains many references to both classical writings and up-to-date papers. Each chapter ends with a short, annotated list of recommended readings so that readers can explore this explicit knowledge in more depth. Inevitably, a book presents information in a linear form. But, management knowledge is far from linear and parts of the same topic are often best placed in different



places. For example, “strategy” is clearly a part of the planning process but certain aspects of strategy are better placed within decision-making and marketing. A unique system of signposting cross-references has been developed to help readers navigate their way through the multidimensional nature of the explicit knowledge about management.

*Tacit knowledge* is the informal, less codified information that is held in “managers’ heads”. Many texts ignore tacit information. But readers find tacit knowledge very engaging. It also provides a background that makes it easier to understand and apply explicit knowledge. I have made a conscious effort to provide tacit knowledge of management by including many **cases and examples** which, appropriately, are written in a less formal, more accessible style. Each chapter contains an opening case study to help readers recognise instantly what sort of information the chapter is going to cover. Development of critical thinking is a major concern of all education and development. The **critical thinking boxes** included throughout the chapters are a distinctive feature of this book which aims to develop these skills. Hopefully, they are thought-provoking – they are often disputatious and divergent. If readers are prompted to criticise my critical thinking . . . wow! Job done!

### **The book’s structure**

There are significant differences from the first edition in terms of both the content and pedagogy: all sections of the book have been updated and many recent references have been included, while numerous cases and critical thinking boxes have been added throughout. The structure of the book has also been reinforced to reflect a coherent and logical picture of management.

It was tempting to structure the book by starting with chapters on popular topics (e.g. strategy, leadership and organisational change), and work down to less fashionable areas such as control, and even omitting important but less conducive topics such as budgeting. That assembly is flawed. It is incomplete. It fails to convey what is a clear and coherent structure for the fundamentals of management. Further, this scrapbook approach would ignore a basic psychological principle: material within a meaningful framework is easier to remember. The framework of this book is formed by four giant girders: definition, processes, functions and personal perspective.

### **Definition of management**

The starting point for a book on fundamentals of management is obvious – a definition of management with some idea of the types of managers (level, entrepreneurs, line managers, etc.) and the skills and characteristics managers need. But, managers do not exist in a vacuum. So, it is important to understand the contexts in which managers work (types of organisation plus the organisational, national and international cultures). Rightly or wrongly, the historical legacy, perhaps two centuries old, exerts an indelible influence on modern management. Further, history teaches an eternal lesson: social, economic, technical and intellectual zeitgeists shape the management methods of their era – but there is often a time lag. A knowledge of history may help managers identify trends that are shaping, and will shape future management practices. At a banal level a survey of the history of management also provides an excellent way to introduce key ideas such as “scientific management” or “contingency theory”.

There have been three major changes to Part 1 which aims to answer the question “What is Management?”.

- Management career pathways have been integrated into the first chapter, demonstrating the diversity of management.
- Sections on culture, both organisational and national, have been expanded significantly and now have their own chapter devoted to the organisational context of management (Chapter 2). Globalisation is now integrated into this chapter as an integral aspect of the context of modern management.
- Fordism is included

## Management Processes

All managers use processes to transform resources into more valuable outputs. The large number of management processes can be bewildering. So, our framework requires a subframe of lintels. Very early in my teaching, I found that Fayol’s subframe (planning, organising, staffing, etc.) is much better than most. It is widely known. The acronym (POSDCRB) is easy to remember. Above all else, it is very, very widely used and understood by practising managers throughout the world. Sure, it is an old subframe but it has proved its strength and it fully supports up-to-date topics. For example, strategy fits perfectly within Fayol’s process of planning and it benefits from being placed in this context: it can be seen as an important part of a larger chain of activities that includes, say, organisational visions and management by objectives (MBO). Fayol’s (updated) subframe gives a very comprehensive coverage of the processes that all managers must perform. In contrast, for example, some organisational behaviour frameworks give the impression that managers need pay little attention to, say, controlling or budgeting.

The new edition has changed to give greater emphasis to:

- organisational change, which now has its own chapter
- leadership, which also has its own chapter
- strategy – especially PESTLE
- teamworking

## Management Functions

Most organisations have functions that involve specialist cadres which deploy specialist knowledge and expertise. Most managers work within a specific function. But it is impossible for them to be successful without some awareness of others. There are at least 12 functions. It is impossible to describe all of them in a book of this kind. A good solution is to list all functions and place them within another substructure (line, facilitating and controlling). Substantive chapters then describe each of the “Big Five” functions: marketing, operations, human resources management (HRM), finance and the information function (IT). The distinction between management processes and management functions is clearly understood by practising managers but it can cause confusion for students. Sometimes, for example, staffing is wrongly equated with HRM while budgeting is wrongly equated with finance. In essence, *processes* are activities performed by almost all managers at an individual level. *Functions* are



specialist activities performed by groups or organisations (the management). The structure of this book makes this distinction clear and explicit.

The structure of Part 3 has changed significantly. It now starts with a short introduction which puts management functions into context and then deals with the *five* main management functions. The major change has been to devote a substantive chapter on the knowledge function which covers the IT(updated), e-commerce and knowledge management. The section describing knowledge management has been expanded significantly and moved to this part. Other important additions involve: marketing (marketing orientations, market planning and sales); operations (supply chain management, business process re-engineering) and HRM (employee engagement, the psychological contract).

### **Personal Perspective on Management**

Management processes and functions are the bread-and-butter of the fundamentals of management. But important issues are personally relevant to individual managers themselves. Some of these personal perspectives are covered in other chapters. For example, Chapter 1 has a section relevant to personal careers and Chapter 7 has a section on training and development which is relevant to personal improvement. Further, most chapters end with toolkits, development activities and recommended readings which an individual can use to extend their personal competencies. However, two major personal issues need chapters of their own: social and ethical responsibility plus scientific attitudes. These topics may not be a part of introductory courses on management but they are an essential background. It is very useful to be able to point students to a readily available source. The subjects of both chapters are inherently interesting. Some students will read them spontaneously.

Many management texts scatter aspects of *social responsibility and ethics* among several chapters. This demonstrates that ethics apply to most areas of management but the approach is unsatisfactory. It makes it difficult for students to form an integrated and coherent view. A separate chapter, on the other hand, allows social responsibility and ethics to be viewed as a whole. Many texts only cover the organisational perspective of ethics. However, practising managers also need to be ethical in their own job as well as ethical and socially responsible as consumers and members of society.

Chapter 20 “Management Fads, Gurus, and Research” is another distinctive feature and it was very enjoyable to write! It aims to encourage a scientific attitude to the study of management. There is a lot of bad management advice and research. Few texts give help in separating the wheat from the chaff. A prime responsibility of educationalists is to develop critical and evaluative abilities. I hope the final chapter enables readers to adopt a scientific approach so that they can recognise management fads, evaluate management research and differentiate between good and bad advice.

There have been major changes to Part 4. The material illustrating HR issues (diversity and bullying) has been moved to the website. This reluctant change liberated space that could be devoted to other topics such as organisational change, leadership and knowledge management. The material illustrating commercial issues has been shortened and moved to other chapters (“e-commerce” to information function and “globalisation” to management contexts).

## Pedagogical Features

A good text should always lead readers to extend their knowledge and abilities. The role of the critical thinking boxes in developing the ability to evaluate research and ideas has already been noted. Each chapter has up to five features to encourage students to broaden their understanding.

- **Toolkits** highlight the practical implications of the preceding chapter so that readers can apply the knowledge they have gained. Toolkits also have a half-hidden agenda: to provide models so that students will, themselves, learn to draw practical implications from academic writings.
- The main role of **Essay plans** is self-explanatory – to develop the ability to structure material to serve a given (academic) purpose. The website provides model answers for essay plans suggested for early chapters. Later chapters do not. They can be set as the title for assignments. Only a masochistic tutor who enjoys marking scores of near identical essays would set a title where a model answer is available!
- **Web activities** serve a number of pedagogical purposes. Early Web activities direct readers to structured exercises which are contained in the website that accompanies this book. Later activities generally aim to encourage students to search for additional information and specific examples of ideas or management practices.
- **Experiential activities** aim to give readers a personal, subtle and nuanced appreciation of the softer, subjective facets of management. Many Web activities require readers to relate a chapter's contents to their own lives. Some of the experiential activities can be tailored to provide the basis of good seminars or tutorials.
- **Annotated recommended readings** aim to lead students to study at a wider or deeper level. I hope that the annotations are sufficiently intriguing and informative to entice students to follow them up. Almost all recommended readings should be downloadable using a college or university's subscriptions to literature databases. The readings offer a wide range of difficulty – from easy magazine articles to difficult journal articles. The difficulty level is often flagged and a little guidance is often given in how to approach difficult articles.

There is lots more that I would like to include, but one of the key aims of this text is to avoid the mass of unwieldy and expensive detail that is seen in many introductory management texts. However, this disciplined approach resulted in a tighter focus on key aspects of management. Fortunately, extra material is available on the website associated with this book.

I hope that readers find the book is clearly written and logically structured. I hope that you find it adds value by being both interesting and “profitable”.

Good luck.

Mike Smith  
January 2011



# Guided Tour

## Learning objectives

Each chapter opens with a set of learning objectives clearly summarising what knowledge, skills and understanding readers should acquire from each chapter.

## Opening cases

Opening cases introduce readers to the chapter topic in an easily recognisable way, giving an instant lively insight into the issues.

## Cases

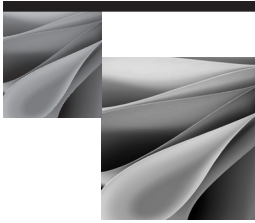
Each chapter includes numerous boxed examples illustrating how well-known organisations and real individuals tackle management issues in practice.

## Critical thinking boxes

New to this edition, this unique feature encourages readers to question “accepted wisdom”. Lively and thought provoking, these boxes help the reader to develop the skills of critical thinking.

## Toolkits

Many chapters end with a toolkit which provides succinct guidance to applying the ideas to practical situations.



**Case 1.1: Managing risks in a year?**

At the start of an insurance company's annual financial year, the Chief Executive is responsible for the work of eight departments who need to be allocated work such as broking or receiving the daily broking workload. As these three work weeks in to be completed clearly to ensure that the correct temperatures and budget standards are maintained in the workload. Some broking is seasonal, and the work needs to be planned carefully so that the team is fully utilised throughout the year. It also needs to plan the supply of 'season' which is a key part of the broking. The Chief Executive must be highly centrally involved and will be involved in the broking and other work and other work of the firm is seen to market.

Karen holds the team leader of a group of six computer programmers working for a software company based in Northampton, near Wetherby Castle. Every week she allocates the parts of a larger program to each programmer and checks the code they produce. The work needs careful planning to ensure that the parts fit together and the code they write the budget agreed with the client. Karen also needs to be highly involved and proactive in order to meet deadlines. A considerable amount of time is spent writing program reports and attending meetings so that the outside managers in her organisation can integrate the work of several teams like hers.

Managers play a very important role in our society but, unlike many other occupational groups, work in teams. Leaders of teams, managers do not work single independent groups. They work in more different ways, as more different kinds in many different forms of organisations. It is therefore important to understand both the conditions and the variables in management. This chapter aims to do this by answering the question 'What is management?' in five sections.

**1.1 Definition of management**

**The basic transformational role of management**

A simple definition of management is 'using resources in an efficient and effective way so that the end product is worth more than the total resources'. This definition has the advantage that it focuses upon the central role of management to transform inputs into outputs to produce a result that is greater than the sum of its parts.

The simple definition has a drawback: it is too inclusive. According to this definition, a manager could be the person who runs a car. The definition includes practically every role which is a part of a business, from a student working in a library and a team manager organising information technology IT could qualify as a manager. A definition is only a useful device if it does not demonstrate a whole of people who are

**Case 1.2: The C-suite team of a global business**

The C-suite team (senior people whose job title includes the word 'chief') is probably the most important team in any organisation. It often meets regularly in the boardroom. In the 1970s, the managing director and his position were filled by people like W. A. Rorer and W. A. Rorer. They were friends and they tried to be cooperative in the firm's eight years and so a person. They had no member a late C-suite in the mid-1970s with his chief operating officer (COO) and then he became UK Deputy Secretary. Senior C-suite teams are seen in many other major companies, such as Coca-Cola, Microsoft and Nike. Nike's C-suite team had an CEO team made up of three chief executives: Michael E. Urie, Michael E. Urie and Michael E. Urie. The C-suite team is largely made up of four members: CEO, CFO, COO and a vice-president in charge of marketing and strategy.

Small, high-working, teams are necessary because a single person does not have enough ability to handle all the complex, multi-faceted, process information or data on the diverse tasks needed of a large organisation. Bruce Chizen, CEO of Adobe Systems has said, 'The job is simply too big for one person'.

Members of a C-suite team are usually complementary. Generally the CEO is good at dealing with external matters such as public and public relations, while the COO is good at dealing with internal matters such as production and operational issues. CFO, one or more members of a C-suite team will act as a different 'specialist' who will deliver an agreement to the board. Usually, you need a C-suite team as a 'quarter' who personifies what is good in the organisation, who tries to pull things together within the organisation, who makes sure that an entrepreneur who can do it, joins the organisation into new things. Members of C-suite teams usually have complementary expertise. Although they are general managers they only have detailed experience in one or two business functions such as sales and marketing or, say, R&D plus operations. Some advantages of C-suite teams are:

- There is a diversity of thought and ideas.
- While decisions take longer to make, they are usually superior.
- There is an effective constraint on strong egos that are based at the top of organisations.

C-suite teams also have disadvantages such as:

- A decision may occur in a negotiable path and they may have incompatible roles.
- People lower down the organisation sometimes wonder to whom they should talk or listen.
- It is much more difficult to make changes at the top because members of a C-suite team are likely to have more to lose than those who are not.

Source: based on Mintz, S.A. and McHugh, A.L. (2007) 'The leadership team: a complementary ensemble of working species', *Executive Decision Review*, 45 (4), 70-92.

**CHAPTER 3 The Historical Context**

**Chapter contents**

The history of management can be divided into six parts. They are:

3.1 Early beginnings	43	3.4 Human Relations	71
3.2 Scientific Management	43	3.5 Systems Theory	77
3.3 Classical Administration	71	3.6 Contemporary Theory	81

**LEARNING OBJECTIVES**

After reading this chapter you should be able to trace the development of management theory and practice. You should be able to explain how economic, technological and social factors of a period influence management thought. You should be able to identify and describe the main schools of management thought such as scientific management, contingency theory and systems theory. You should be able to:

- describe scientific management and its main contributors.
- describe the work of classical administration theorists, especially the work of Fayol and Weber.
- describe the main management paradigms identified by Fayol and explain the differences between scientific management, systems theory and contingency theory.
- explain the basic philosophy of the main schools of management thought and explain the management techniques involved.
- explain the work of 'modern' theorists and the work of 'contemporary' theorists.
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**Case 1.3: The C-suite team of a global business**

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Source: based on Mintz, S.A. and McHugh, A.L. (2007) 'The leadership team: a complementary ensemble of working species', *Executive Decision Review*, 45 (4), 70-92.

**Toolkit 8.1 Leadership Toolkit**

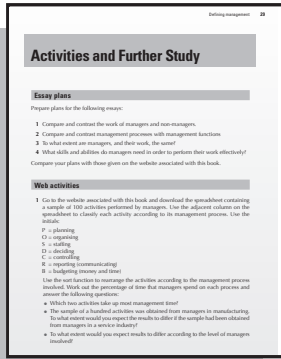
A leadership toolkit needs to give team leaders advice: how to be a leader and how to manage leaders.

**Toolkit for leaders**

- Have a clear vision about where and how you want your group to go. Communicate this vision enthusiastically and loudly.
- Be a good role model. Act intelligently, energetically and with integrity.
- Do not rely on a single source of power. Usually you will need to supplement reward power with, say, expert power or threat power.
- Adapt your approach to the situation that you face. For example, in very easy or very difficult situations it may be best to be directive.
- Adapt your approach to the characteristics and, especially, the needs of your followers. Do not assume that all followers have either the same needs or the same relationship with you.
- Pay attention to the two main dimensions of leadership: focus on the task your group needs to perform and on the team you have or need to form. Both the relationship between yourself and team members and also the relationship between the various members of the team.

**Toolkit for managing leaders**

- Do not rely on leadership to reach. There are good situations where even the best leadership makes no difference. If you rely on good leadership alone, there might be those if your leaders are not so good, competent, energetic. It is also not so good if your leaders are not so good and do not have the resources, money and competent workers.
- Research leadership to see how to improve that competence and productivity by effective means.
- Be careful to distinguish leadership with internal leadership by appointing formal leaders who have, or who can gain, power.
- Develop an understanding of who has leadership qualities: intelligence, integrity, creativity, etc. However, it is often the combination of qualities that matters. The combination may well be a significant level of competence that can deal with difficult situations.
- Make sure that leaders have effective control over rewards and sanctions which are valued by their followers.
- Remove 'toxic leaders' who might influence their group to follow bad pathways that might damage the organisation.

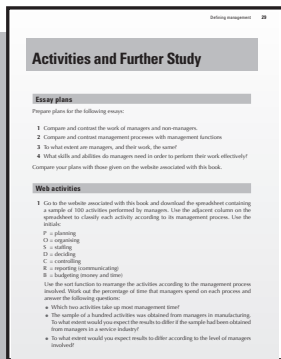


## Activities and further study

Each chapter ends with this section which gives the reader ample opportunity to test, apply and develop their understanding in a variety of ways:

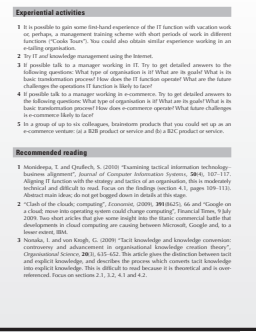
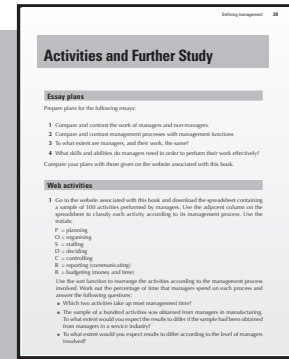
### Essay plans

Practice essay questions with feedback provided on the book's website at [www.mcgraw-hill.co.uk/textbooks/mikesmith](http://www.mcgraw-hill.co.uk/textbooks/mikesmith)



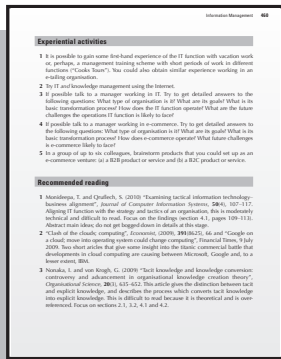
### Web activities

Guided activities for further research on the Web.



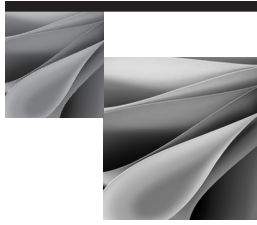
### Experimental activities

An opportunity for individual or group work to apply the chapter's ideas.



### Recommended reading

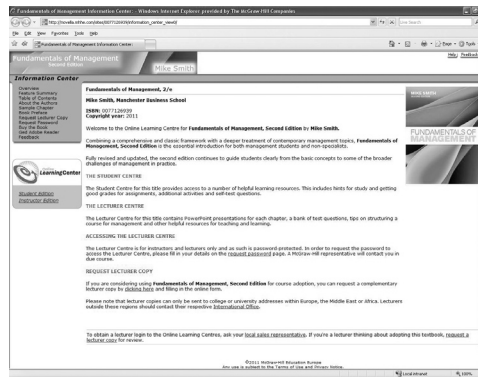
Annotated suggestions chosen as the ideal starting point for any additional reading or further research on the chapter's themes.



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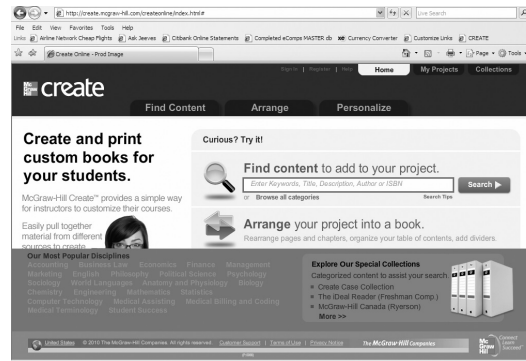
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- a bank of test questions
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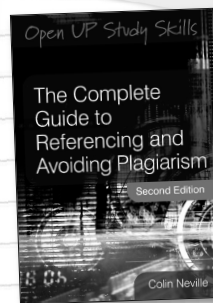
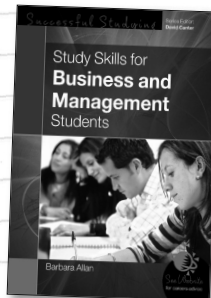
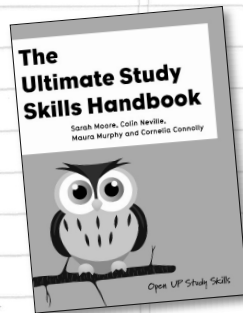
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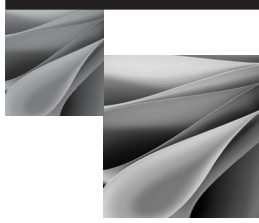
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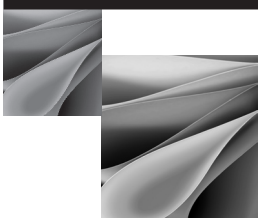
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Dr Mike Smith has researched and taught management for many years. He has experience of managing in several UK organisations, as well as consulting in management in UK, Australasia, South Africa and Asia. He was formerly Senior Lecturer at Manchester Business School.

