
The history of management: a global perspective

History of
management

Wolfgang Pindur and Sandra E. Rogers

College of Business and Public Administration, Norfolk, Virginia, USA and

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Pan Suk Kim

*Department of Public Administration, University of Incheon, Incheon,
South Korea*

Introduction

One of the keys to successful management is the ability to understand and apply modern management principles and techniques effectively. Managers must develop an in-depth knowledge of past and present models, theories and processes in order to manage effectively and intelligently. Contemporary management practice is pervasive in every aspect of human life within all types of organizations.

Basic management techniques have been traced to the city of Ur (Iraq) in 3000 BC where Sumerian priests were the first to keep written records as a means of recording business transactions. Translations from early Egyptian papyri, dating back to 1300 BC, recognized the importance of organization and administration in bureaucratic states. Similar records have been found for ancient China[1]. Moses is credited with employing his father-in-law, Jethro, as a management consultant. Jethro helped design the organization through which Moses ruled the Hebrews in the desert[2].

Around 400 BC, Socrates defined management as a skill separate from technical knowledge and experience[3]. Plato also recognized management as a separate art and promoted principles of specialization[4]. In *The Republic*, Plato describes how carefully selected young men should be trained so that they would develop the appropriate personalities and skills necessary to serve as leaders. Diocletian, a Roman emperor in AD 284, initiated organizational hierarchies when he reorganized his empire into 101 provinces and grouped them into 13 dioceses. This marked the beginning of delegation of authority and chain of command[5]. Although ancient Rome's management records are incomplete, the complexity of the administration influenced the development of managerial techniques. Using the scalar principle and the delegation of authority, the city of Rome efficiently expanded to an empire.

Attila the Hun, king over the royal tribe around AD 433, successfully merged all of the independent Hunnish tribes into a single nation. Attila considered leadership to be a privilege[6]. He accepted the responsibility of directing the actions of others to achieve the goals of the organization. He delegated authority at varying levels and with accepted accountability for successes and failures. His principles of leadership still stand firm today in modern management[6].

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The early Roman Catholic Church used several management practices such as scalar territorial organization, hierarchical chain of command and delegation of responsibilities clearly laid out for its pope, clergy, and people. Specialization, job descriptions, staff independence and compulsory staff service are also attributed to the early Church.

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Classical management movement

The oldest and most widely accepted school of thought among management practitioners is normally called the “classical management movement”. This approach to management arose between 1885 and 1940 in an effort to provide a rational and scientific basis for the management of organizations. Its beginning stems from the Industrial Revolution when people were brought together to work in factories as opposed to the handicraft system whereby people worked in small shops or in homes. Industrialization created a need for efficient planning, organizing, influencing and controlling of all work activities.

The classical management movement has two fundamental thrusts – scientific management and general administrative management. Scientific management centres on ways to improve productivity. Administrative management theory examines organizations as total entities and focuses on ways to make them more effective and efficient. The frame of reference normally used for the classical management movement runs from 1895 to around 1940. In recent years, there has been renewed interest in classical management theory as a method to cut costs, increase productivity and re-examine organizational efficiency and effectiveness.

Scientific management

The Soho Engineering Foundry in Great Britain was founded in 1796 by the inventors and developers of the steam engine. The management of the foundry was turned over to the sons, James Watt Jr and Matthew Robinson Boulton, who systematically implemented several management techniques including:

- market research and forecasting;
- planned machine layout and work-flow requirements;
- planned site location;
- production planning;
- production process standards; and
- standardization of product components[7].

In accounting and cost analysis, Watt and Boulton, the firm’s managers, developed and maintained detailed statistical records and advanced control systems with which they were able to calculate cost and profits for each machine manufactured for each department. For their personnel, Watt and Boulton formed worker and executive training and development programmes, work-study programmes leading to payment by results based on work studies,

and certain welfare programmes such as a sickness benefit programme executed by a committee of elected employees[7].

In Scotland, Robert Owen, who is frequently referred to as the father of modern personnel management, experimented with improving working conditions in the factories, raising the minimum age for working children, providing meals at the factories for on-duty employees. He also set up company stores to sell necessities at cost, and sought to improve the community by building houses and streets and making the community and factory attractive[8].

Charles Babbage, best remembered for his book on the division of labour, *On the Economy of Machinery and Manufactures*, published in 1832, contended that mutual interests could exist between workers and owners of factories. Babbage strongly argued for a profit-sharing system whereby workers could profit from their productivity[3].

Henry Varnum Poor, editor of the *American Railroad Journal* concluded that what the railroads needed was effective management. Poor developed a managerial system with a clearly established organizational structure so that individuals could be held accountable. The system would also incorporate a top down report communications system throughout the organization[1].

The beginning of the twentieth century brought new concerns about productivity. Businesses were expanding and money was available. However, labour was in short supply. Management began looking at methods to improve efficiency. Frederick W. Taylor of the Midvale Steel Company recognized, in the early 1880s, the need for labour and management co-operation, cost controlling and work methods analysis. He understood the principle of greater output achieved through worker participation which he called "systematic soldiering". Essentially, he enlisted the management at Midvale to study what constituted a "good day's work". His differential piecework plan followed the conclusions of his time studies and called for high wage rates for performance deemed above standard and low rates for work which fell below the mark as established by the company. There was absolutely no promise of basic wage rates or, as we now know it, minimum wages, until Taylor's later programmes.

Taylor's entire theory was predicated on the assumption that the primary interest of management and the worker was one and the same. If management's goal was lower labour costs, then the workers' goal of higher wages could be easily met because their work was considered measurable. It was also Taylor's assumption that, once the workers understood the great advantages of scientific management, they would immediately develop a better mental attitude towards management and one another, thus eliminating the need for constructive criticism and complaints[9].

Henry L. Gantt, another colleague of Taylor's at Bethlehem Steel Works, implemented a wage incentive programme considered far superior to Taylor's. Gantt's incentive system provided bonuses for workers who completed their jobs in less time than the allowed standard. He also initiated a bonus plan for supervisors. Though he made many contributions to the field of management,

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Gantt is best known for an offshoot of his task and bonus system. The main thrust of his system was centred on the completion of a given amount of work in a given time. He developed planning and control techniques using a simple graphic bar chart, the Gantt Chart, to display relationships between planned and completed work on one axis and elapsed time on the other[3].

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Frank and Lillian Gilbreth, also followers of Taylor, are known for contributions in production and operation management. They are best known for their time and motion studies. From these studies, the Gilbreths developed the “laws of motion economy”, which involved 22 principles dealing with:

- the use of the human body;
- the workplace arrangement; and
- tools and equipment design[10].

General administrative management

Whereas scientific management focused on employees as individuals and their tasks, general administrative management theory dealt with total management organization. General management theory was an attempt to develop a much broader theory concerned with administrative management functions and is considered the forerunner of modern organization theory. As with scientific management, there were many contributors to general management theory.

Around the turn of the century, a Frenchman named Henri Fayol introduced the management world to “systematic management theory”. An executive and mining engineer, Fayol played an important role in the field of management from 1888 until the time of his death in 1915. According to Fayol, the basic functions of any manager incorporated planning, organizing, commanding, co-ordinating and controlling[11]. Fayol maintained that all activities involved with industrial projects could be separated into six sections:

- (1) *Technical* which involved production.
- (2) *Commercial* which included buying, selling, and exchange.
- (3) *Financial* which increased the search for, and optimum use of, capital.
- (4) *Security* which provided protection of property and persons.
- (5) *Accounting* which included statistical analysis.
- (6) *Managerial* which encompassed planning, organization, command, co-ordination, and control[8].

Fayol carried the management process beyond the basic hierarchical model developed by Taylor. Under Fayol’s system, the command function continued to operate efficiently and effectively through a series of co-ordination and control methods. He recommended regular meetings of department heads and liaison officers to improve co-ordination of organizational operations[11].

Max Weber, the father of bureaucratic management, developed a system in which the individual was granted a series of primary occupations and

responsibilities within an office. Each lower office was accountable to the next higher one following a systematic division of labour which pursued organizational goals and objectives. People working in each office were chosen for their position based on their qualifications. Their sole responsibilities were the primary occupations or classifications assigned to them when they were hired. Promotions were designed to reward seniority, achievement or both. According to Weber's plan, promotions were not affected by political manoeuvring. Workers were also expected to separate personal business from official responsibilities[12].

Chester I. Barnard is considered an important transitional figure who attempted to connect scientific management and human relations. Barnard defined an organization as a system of discerning co-ordinated individual activities or forces. Barnard introduced a theory concerning the acceptance of authority based on free will and outside forces. The acceptance theory of authority maintained that employees considered the validity of a superior's orders and then decided consciously whether to accept them or not. A directive was accepted by the employee if he understood it, was able to follow it, and he believed it appropriate as it related to his understanding of organizational goals[13].

Along with any formal organization, an informal organization always appeared. An informal organization dealt with communication and relationships that the formal structure was not equipped to handle. Informal groups were considered essential because they established attitudes, customs and standards. According to Barnard, the characteristics of the informal contacts or interactions were that they occurred repeatedly without any specific unified purpose[13]. This is a distinct difference from modern theory, which maintains that a major function of informal organizations is to achieve intergroup goals which are not met by formal organizations.

Luther Gulick was among those who expanded on the works of Henri Fayol to build a foundation for management theory. He viewed management functions as universal[14]. His seven-activities acronym, POSDCORB, is a familiar word throughout management practice. POSDCORB stands for planning, organizing, staffing, directing, co-ordinating, reporting and budgeting. He wanted to revise administrative practices by the establishment of general rules. He agreed with Frederick Taylor in that he believed that certain characteristics of organizations provided administrators with the means to manage effectively. He was in accord with Max Weber in that organizations were hierarchical. Gulick added the concept of span of control, which addressed the factors limiting the number of people a manager could supervise. He also recommended unity of command because he felt that people should know to whom they were responsible. His homogeneity of work centred on the fact that an organization should not combine dissimilar activities in single agencies. This was the basis of Gulick's major contribution in the area of departmentalization[14].

Lyndall Urwick synthesized and consolidated previous writings and research concerning the structure of management and the function of the executive.

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Additionally, Urwick's contributions included fostering modern thought about the management functions of planning, organizing, controlling, and developing general managerial guidelines. Like Fayol, he generated a list of ten general principles for improving managerial effectiveness[15].

James Mooney developed three primary management principles[16]:

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- (1) the co-ordination principle;
- (2) the scalar principle; and
- (3) the functional principle.

Co-ordination was considered the first principle and it contained the other two. It involved individuals performing activities together to obtain a common goal. The scalar principle was second and it was described as the rating of the duties involved for different members of the organization according to the degrees of authority and corresponding responsibility. The functional principle was defined as the differentiation between various kinds of duty.

The primary contributions of the classical management movement include applying science to the practice of management[8]; developing the foundation for later management developments; advancing the concept of the basic management functions of planning, organizing, influencing and controlling; classifying relevant management processes, functions and skills which are still acknowledged as key concepts today; articulating and applying specific principles of formal management[17]; and, focusing attention towards management as a legitimate topic worthy of scientific inquiry[5].

The major limitations of the classical management movement are that it assumes that each worker is an economic man and will, therefore, work harder in order to make more money[5]; it is most suitable for uncomplicated and relatively stable organizations, whereas most of today's organizations are complex and aggressive[8]; it does not deal with the relationship between an organization and its environment[18]; and most classical theorists regard employees as tools to be used to achieve organizational goals rather than as valuable resources[17].

Behavioural management movement

In the 1920s and 1930s, many individuals became convinced that scientific management was short-sighted and incomplete. These researchers believed that the human aspects of business organizations had been ignored. The "behavioural management movement" is an approach to management that is primarily concerned with human psychology, motivation and leadership, as differentiated from simple mechanical efficiency. The behavioural management movement includes the human relations movement as well as modern behaviourism.

The behavioural management movement looks at employee behaviour in the organizational setting. There are again two main thrusts – human relations and organizational behaviour. With the outset of industrial psychology, the human

relations movement replaced scientific management as the primary management method during the 1930s and 1940s. Organizational behaviour surfaced in the late 1950s and is ongoing.

Human relations

Hugo Münsterberg, considered the father of industrial or applied psychology, saw a connection between scientific management and industrial psychology or human behaviour. He believed that both sought increased efficiency through scientific work analyses[8].

One of the earliest writers to view organizations from an individual and group behaviour perspective was Mary Parker Follett. Her works on topics such as administrative conflict, motivation, co-operation and authority are considered building-blocks for modern organizational development[19]. In one of her earliest works, she centred on the issue of conflict management. Historically, conflict was considered improvident and damaging. Follett portrayed conflict as a process in which important differences occur but the resolution of these differences could, in fact, contribute in a constructive way towards the attainment of organizational goals[20].

At the same time as Follett was actively writing, another early team of contributors to the human relations school in organizational theory, Elton Mayo and Fritz Roethlisberger, were studying the Western Electric Hawthorne Company[17]. The Hawthorne experiment led Mayo and Roethlisberger to an understanding of the internal dynamics of informal groups in organizations. They discovered that the relationships between supervisors, subordinates and peers had a stronger effect on productivity than either economic benefits or the organization's physical environment. These relationships, however, did not appear on the formal organizational charts[17].

In 1943, Abraham Maslow introduced a five-tiered hierarchy of needs. Needs were defined as internal states which make certain outcomes appear attractive. He believed that individuals are motivated by certain needs. Motivation was defined as the willingness to exert high levels of effort to reach certain goals. These needs were then arranged in a hierarchy from the lower-level physiological needs to the higher-level needs for self-actualization. The physiological needs were the highest priority because, until they were reasonably satisfied, other higher-level needs would not emerge to motivate new behaviour[21].

One of the earliest theories extending from Maslow's needs theory is affiliated with job design. Frederick Herzberg's motivation-hygiene theory of motivation studied job satisfaction. The basic assumption of Herzberg's two-factor theory revolved around redesigning and improving employee positions to increase motivation and involvement[22]. The two factors Herzberg identified are the satisfiers and the dissatisfiers of the hygiene-motivators. A set of extrinsic conditions results in dissatisfaction among employees when they are not present. These conditions are expected and included such things as pay, working conditions, good personnel policies and procedures, and supervision.

However, when these conditions are present, they do not necessarily motivate employees. They are called the dissatisfiers, or hygiene factors, since they are required to maintain at least a level of “no dissatisfaction”[22].

The second set of conditions, or satisfiers, is intrinsic and creates dynamic levels of motivation which can result in good job performance. These conditions include things like sense of challenge, achievement, recognition, responsibility, advancement and personal growth. If these conditions are not present, they do not prove highly dissatisfying as satisfiers are not expected[22].

Herbert A. Simon, in his classic *Administrative Behavior*[23], first published in 1947, attacked the principles approach to management. Simon contended that the principles approach was often inconsistent and inapplicable. He advocated a systems approach to administration based on the decision-making process. According to Simon, individuals who behave rationally do not optimize their situation. They are making decisions based on what their environment dictates that they can or cannot do. They satisfice or search for a decision that is good enough rather than optimal[23]. Simon’s organizational decision-making research is considered an important link between the management science and behavioural approaches[3].

In the late 1950s, Douglas McGregor stressed the importance of understanding the relationships between motivation and human nature. He believed that managers attempted to motivate employees using one of two basic approaches. The first was a negative theory, labelled theory X. Theory X followed the traditional view of management based on direction and control. It suggested that managers were required to coerce, control or threaten employees in order to motivate them. In contrast, the second was a positive theory, labelled theory Y, and was based on new information about behaviour. Theory Y suggested that managers believed that people are capable of being responsible and mature.

Using Herzberg’s[22] motivation theories, McGregor determined that the more basic and fundamental needs were generally being met for the majority of employees in industrial organizations. Therefore, these needs ceased to be motivators. Since the higher-level social, esteem and self-actualization needs became the pivotal points, the workplace needed to reorganize in order to assist individuals in reaching them. At that point, work becomes enjoyable. According to McGregor, when jobs become enjoyable, employees actively seek responsibility and commit themselves to the achievement of organizational goals[24].

Chris Argyris developed an open-system theory of organization which used organizational behaviour as a frame of reference. The open system placed a high value on human beings as individuals and everything was regularly done openly and honestly, and is similar to theory Y. This generated accurate information and communication so that informed decisions concerning the individual’s future could be made freely[25].

In 1959, Charles A. Lindblom presented his famous essay, “The science of muddling through”. He criticized the rational models of decision making. He

argued that, in reality, the rational models did not work and, therefore, decision makers depended on small, incremental decisions[26].

Whereas Maslow's hierarchy of needs stressed a uniform and pervasive set of needs, McClelland[27] emphasized the fact that there are certain needs which are learned or socially acquired by an individual as he or she interacts with the environment. In his three-needs theory, McClelland suggested that there are three significant motives which are formed by the interaction of an individual's needs with various environmental factors. They are:

- (1) the need for achievement;
- (2) the need for power;
- (3) the need for affiliation[27].

Equity theory was developed by J. Stacey Adams. According to Adams, employees make comparisons of their job inputs and outcomes relative to others, and inequities influence the degree of effort which employees exert. Equity refers to the perception by workers that they are being treated fairly. Employee perceptions have a major impact on performance. External equity exists when employees performing jobs within a firm are paid at a level comparable with those paid for similar jobs in other firms. Internal equity exists when employees are paid according to the relative value of their jobs within their organization[4].

The major contributions of behavioural management are that it produces understanding concerning motivation, group dynamics, leadership and other interpersonal processes in organizations[8]; it directs management's attention to these processes; and it disputes the concept that employees are tools, and fosters the idea that employees are valuable resources[2].

The major limitations of behavioural management include the difficulty in predicting human behaviour because of the complexity of individual behaviour[8]; many managers are hesitant to adopt complex behavioural concepts because of the difficulty in implementing them[5]; and current research results by behavioural scientists are often not communicated effectively to the management field[4].

Quantitative management movement

The "quantitative management movement" centres on adapting mathematical models and processes to management situations. There are three major areas:

- (1) management science;
- (2) operations management;
- (3) management information systems.

Management science deals specifically with the development of mathematical models to assist in decision making and problem solving. Operations management centres more on the application of management science to

organizations. Management information systems are complex communication systems designed to provide information to managers[4].

Quantitative management emerged as a result of the development of mathematical and statistical solutions to solve military problems during the Second World War[8]. Quantitative techniques were used by the British in determining maximum effectiveness for their aircraft against the Germans. The British mathematicians were able to design an optimum allocation model to provide maximum aircraft capability. The USA developed operations research techniques to improve the odds for survival for Allied convoys crossing the Atlantic. The USA used a quantitative approach to choose the optimal depth-charge patterns for aircraft and battleship attacks on German U-boats[4].

Following the Second World War, many of the quantitative techniques which had been applied to military problems were applied to the private business sector. Industrial organizations started recognizing the potential of quantitative techniques to solve problems of production management when dealing with inventory control, and consumer waiting lines[8].

Quantitative management includes applications of statistics, optimization models, information models and computer simulations. For example, managers can use linear programming to improve resource allocation decisions. Scheduling projects can be more efficient using critical path scheduling analysis[2]. Optimum inventory levels can be determined by the economic order quantity model. The major contribution of the quantitative approach for management is in the area of decision making, particularly as it relates to planning and control[2].

Planning methodology employs mathematics to quantify planning problems into mathematical models and manipulate them to maintain the purity of specific programmes, track inventories, and complete schedules. Quantitative analysis is a standard tool for organizational planners or those conducting operations research[8]. Organizational planning brought about the development of a new science known as strategic planning in the 1940s. Strategic planning evaluated the effects of management strategies on planning processes. The first theories of strategic planning grew from the study of the impacts of “game theory” on decisional methodology.

Von Neumann’s game theory is a type of mathematical analysis which deals with abstract models of conflict situations. They are characterized by the fact that their outcomes are dependent on the collective action of the players and by chance effects as well. In a business situation, for example, two manufacturing firms producing the same item in competition with each other must make a wide variety of action-oriented business decisions. Decisions may include advertising, retooling machines, adding new products, or even merging. The results of the different interactions of the decisions made by both firms are apparent by the “pay-off”, which could be net profit, annual gross sales, or buyouts[28].

The major contributions of quantitative management involve developing complex quantitative techniques to assist with decision making and problem

solving; it uses mathematical models to increase knowledge and comprehension relating to complex organizational processes and situations; it is a tool for implementing organizational planning and controlling processes[17]; and it places an emphasis on computers in decision support systems[3].

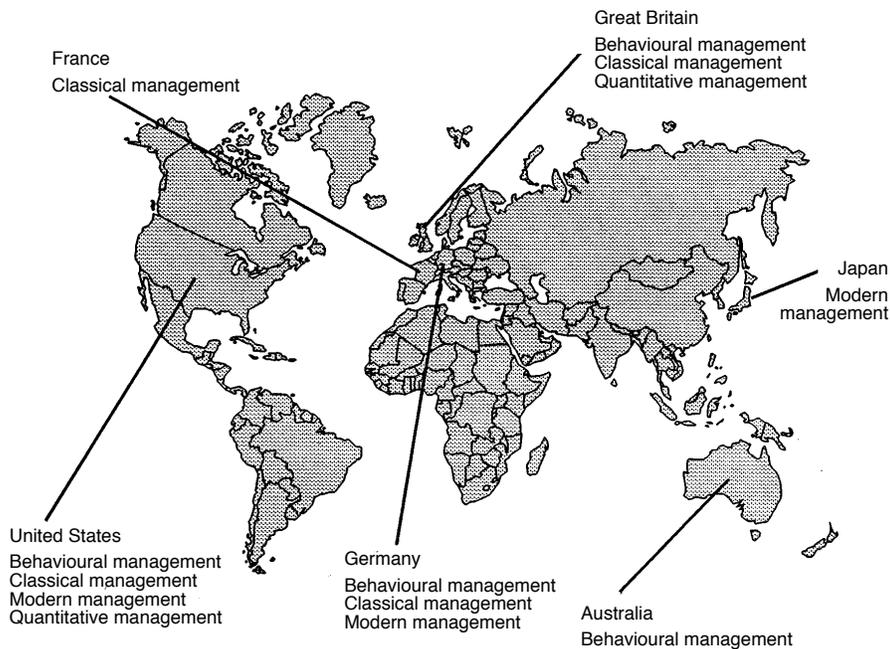
The major limitations of quantitative management are that: it cannot predict or explain human behaviour in organizations[17]; it may sacrifice other managerial skills in order to gain mathematical sophistication[4]; and certain models may require impractical or unsubstantiated assumptions[8].

Modern management movement

The “modern management movement” continues to evolve by integrating theories. The approaches to modern management include the process approach, the systems approach, the contingency approach, the strategic management approach, the Japanese style management approach, and the excellence approach. It is a synergistic product. The classical, behavioural and quantitative movements, along with systems and contingency management theory, become integrated to form the framework of the modern management movement (see Figure 1).

The process approach

In 1961, Koontz published an article in which he concluded that there existed a “management jungle theory”[29]. Koontz believed that each identified



Source: Adapted from [8]

Figure 1.
A global management perspective – contemporary management movement

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management approach offered something to management theory. He argued that the human resources and the quantitative approaches were tools rather than management approaches[2]. He then demonstrated that a process approach could encompass the variances.

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According to Koontz, the process approach, originally proposed by Fayol, views management as a process of getting things done through and with individuals who are operating in organized groups. Managers plan, organize, lead and control[29]. This process is a circular loop, with controlling leading back to planning, indicating that it is continuous[2]. The management process which has been discussed in many terms is essentially a decisional and informational activity.

The systems approach

The two basic types of systems are closed and open. Closed systems are not influenced by and do not interact with their environment. Open systems recognize and respond to their environment. Frederick Taylor's view of people and organizations as machines was essentially a closed system. The closed model includes Taylor's scientific management, Weber's bureaucratic theory, and Gulick's administrative or principles school[2]. As early as the 1930s, Barnard maintained that organizations were open systems and interacted with the environment[13]. The open model includes the human relations school, organizational development, and organizations as a unit in the environment. Both open and closed models are interested in production and efficiency[2].

The systems approach to management is considered a phenomenon of the mid-1960s, although its beginnings were much earlier. Von Bertalanffy is the best known of the systems theorists[3]. Von Bertalanffy described a "system" which consisted of connected parts joined to form a whole in which the coordinated and combined effect of the subsystems creates synergy[30]. Systems theory describes the behaviour of organizations both internally and externally. Internally, it shows how and why people inside organizations perform their individual and group tasks. Externally, it integrates organizational transactions with other organizations and institutions[3].

The closed model generally deals with routine tasks, task specialization, emphasis on the means, and top down conflict management. Responsibility is tied into class specification, and loyalty is to a subunit or a department. Knowledge is found at the top. Interaction is vertical and closely follows the chain of command. The emphasis is on obedience and following set policies and procedures. Prestige is internalized. The organizational structure is a formal hierarchy[17]. Closed systems are self-contained and do not rely on the environment. Closed systems operate best under stable conditions.

Open models generally deal with non-routine task performance. Specialized knowledge runs throughout the organization. Conflict is resolved among peers. The group as a whole contributes to solutions to problems. Responsibility is to the total organization. The structure is fluid like an amoeba and is informal. Interaction occurs between staff and employees both vertically and

horizontally. The goal is on excellence. Prestige is externalized (reputation, knowledge) instead of internalized (rank). Open systems operate under unstable conditions and are not considered self-contained. They rely on the environment for inputs and outputs[17].

In systems theory, the organization is one of several elements which interact interdependently. The flow of inputs and outputs is the starting-point when describing an organization. In the simplest of terms, the organization takes resources (inputs) from the larger system (environment), processes these resources, and returns them to the environment in changed form (outputs)[30].

The contingency approach

Contingency theory is a problem-solving approach which considers all major factors in a situation before making a decision[3]. It has been used in recent years to replace the simplistic principles of management with more integrated ones. Simplistic principles provide insight about management and employees within the organization, but they are often incomplete. Many of the early management principles and organizational theories were assumed to be universal. Through the years, research has shown that there are situations and conditions which support the need for a more integrated approach.

The contingency approach as proposed by organizational theorists such as Lawrence and Lorsch[31] and Schein[32] attempted to implement a variety of concepts from other approaches. They found that the effectiveness of their techniques changed from one situation to another. Organizations and their subsystems proved to be unique. This provided the base for designing and managing organizations individually.

Contingency management stresses the need for appraisal and analysis of the entire managerial environment within the organization. The appraisal and analysis are done in order to determine what work features, technology, personnel and organizational designs need to be considered as most fitting for particular circumstances.

There are three principal sets of interrelated assumptions[33]. The first set assumes that agreement exists between organizations and their internal and external environments, and between the management system and its various components. The second set assumes that there is an appropriate pattern for relationships which exists for all organizations. The third set centres on the best contingency plan. Accordingly, the best management practice is one which examines and fits what and how it is to be done, who is to do it, the impact of what is being done for the organization, and the impact of the organization on what is being done[33]. The contingency approach promotes organizational effectiveness.

Strategic management

Management uses strategy for an organization's survival by eliminating competitive threats and maximizing opportunities for increased organizational security and wealth. Strategic management is concerned primarily with the

decision-making process and actions which determine an organization's long-run performance. It emphasizes monitoring and evaluating external and internal environmental opportunities and controls in view of an organization's strengths and weaknesses. Business policy, on the other hand, maintains an integrative orientation and, therefore, tends to look inward. It focuses on the efficient use of an organization's assets by formulating general guidelines which will assist the corporation in accomplishing its goals and objectives. Strategic management simply incorporates business policy with a heavier emphasis on environment and strategy[34].

A good method of defining strategy is to list the more generally approved elements which go into the making of a strategy statement. They are vision, mission, comparative advantage, goals and objectives, critical success factors, shared values or corporate culture, and action orientation. Strategic management involves four basic components:

- (1) environmental scanning;
- (2) strategy formulation;
- (3) strategy implementation;
- (4) evaluation and control[34].

Von Neumann and Morgenstern illustrated that, through the development of game theory, it is possible to construct an interval expected utility if the probabilities of the to-be-chosen events were known. They defined strategy as a series of actions taken by a corporation which are decided on according to the particular situation[35]. *Practice of Management*, written by Drucker in 1954, describes strategy as a means of analysing the present situation and changing it if necessary. Drucker incorporated determining what one's resources are or what they should be[36].

The academic discipline of policy and strategy experienced a major shift in the 1960s as business programmes changed from business policy courses to strategy. Chandler introduced a number of ideas about corporate strategy based on the history of four large American corporations. His concepts were developed as he explored the corporations' responses to the changing economic environment, their diversification, and finally their changed organizations[37]. Chandler's definition of strategy is that it determines the basic long-term goals of a corporation. Strategy also includes the adoption of courses of action and the allocation of resources necessary to achieve corporate goals. He also believed that organization design follows strategy[17].

Ansoff, in 1965, followed a more rational approach in *Corporate Strategy*. Ansoff examined strategy from a programmatic and analytic approach. He laid out a specific sequence of issues which needed to be explored and looked at the decision-making processes as set in corporate strategy. Ansoff also placed a great deal of emphasis on diversification. According to Ansoff, strategy is defined as a rule for making decisions which are determined by the product and market, the growth vector, the competitive advantage and synergy[38].

The 1970s created a new flurry of writings, with the focus centring on the organization within a specific industry, industrial organization and transition. The recommendation was to look outside the organization and develop long-range plans which anticipated change and develop plans of action in order to take advantage of them. This is exemplified in Porter's *Competitive Strategy*[39].

In 1978, Hofer and Schendel published a comparison study of business strategy concepts. They found that there were three major areas of disagreement. Authors disagreed in areas concerning the breadth of the concept of business strategy, the components of strategy, and the inclusiveness of the strategy formulation process. They failed, however, to examine the common threads woven within the various concepts[40]. In 1979, Hofer and Schendel defined strategy as a means to provide direction to the organization which allows it to achieve its objectives while responding to both environmental opportunities and threats[41].

The late 1970s brought forth yet another definition of strategy. Mintzberg, in *The Structuring of Organizations*, defines strategy as a mediating force between an organization and its environment. Mintzberg found that there were consistent patterns in the decision-making process to allow organizations to deal with the environment[42].

The focus on organizational cultures had its beginnings in strategic management in the late 1970s. Analysts were seeking ways to define strategic culture in which change would be accepted as normal. One method for dealing with corporate culture was developed by McKinsey and Company, a management consulting firm. The McKinsey seven-S framework was introduced by Pascale and Athos's *The Art of Japanese Management* in 1981[43] and popularized by Peters and Waterman, who contend that corporate strategy tends to centre on the hardware of organization[44]. The "hard" elements are considered to be structure, strategy and systems. Pascale and Athos argue that four additional elements must be considered as integral components of the organization in order to achieve success. The McKinsey seven-S model provides the framework to view corporate culture.

Japanese-style management approach

In 1950, Deming introduced a comprehensive management system which is the model for Japanese-style management, or total quality management (TQM). TQM uses statistics to analyse variability in production processes in order to improve the product quality continuously. Quality is whatever the customer needs and wants and, because the customer's needs are always changing, the solution to defining quality in terms of the customer is to focus continually on customer research. Deming's basic philosophy on quality is that productivity improves as variability decreases[45]. A statistical method of quality control is needed because of variations. He is an advocate of worker participation in decision making. Deming also claims that management is responsible for 94 per

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cent of quality problems. He also points out that it is management's job to help employees work smarter, not harder[46].

Another pioneer in the TQM field is Juran. Juran was the first to deal with the broad management features of quality, which distinguishes him from those who advocate specific techniques, statistical or otherwise. He believed that organizations did not understand how to manage for quality. Juran included three basic steps to progress:

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- (1) structured annual improvements;
- (2) major training programmes;
- (3) upper management leadership.

He contends that less than 20 per cent of quality problems are because of workers. The rest are caused by management and faulty processes. Accordingly, all managers should have training in quality in order to oversee and participate in quality improvement projects[47].

Crosby is best known for his concept of zero defects. According to his definition, quality is conformance to requirements and it can only be measured by the cost of non-conformance. Crosby lists three components that can be used by organizations to prevent non-conformances – determination, education and implementation[48].

In the early 1980s, Ouchi studied a number of American companies and found many characteristics which were normally associated with successful Japanese corporations. Ouchi used the term “theory Z” to describe their unique management practices. Theory Z corporations generated close relationships with their employees and even made long-term employment commitments to the new hires. They also developed their employees' talents and focused on teamwork through lateral job rotations and collective decision making[49].

The excellence approach

The major focus of excellence management is improving management in order to gain or maintain excellence within a corporation[3]. The excellence approach first appeared in the early 1980s with the publishing of Peters and Waterman's book, *In Search of Excellence*[44]. The authors researched organizations which were considered excellent, and proceeded to document management practices they found to be consistent throughout these organizations[18]. The excellence approach dictates that effective organizations continue to strive for improvement. Peters and Waterman continue to hold seminars, write journal articles, and update their books. They now discuss constantly changing external environment and the need for internal environmental change[18].

Conclusion

Studying the fundamental concepts here described in greater depth will create the foundation that effective managers of the future will need in terms of understanding techniques, organizational cultures and theories. There are, of

course, benefits and pitfalls associated with each one. Awareness and willingness of management to incorporate a variety of management theories and tools as the organization constantly changes are keys to gaining and maintaining the competitive advantage over others.

Organizations can profit by practising scientific management to promote efficiency and production. Behaviour theories provide a manager with the knowledge to appreciate the importance of employee needs and behaviours. Motivation, leadership, communication, and group processes play an equally important role in organizational development. Quantitative management supplies a manager with tools and techniques to increase effectiveness and efficiency. Systems theory tells managers to consider environmental influences. Contingency theory reminds managers that tools, concepts, techniques or theories which function well in one organizational system may not be appropriate in a different setting.

Japanese management theory supports a holistic approach, seeking co-operation and harmony in the workplace. And, finally, the excellence approach to management provides managers with descriptive common characteristics possessed by outstanding corporations.

Contemporary management theory is not a single theory. It is a loosely knit combination of many approaches. The focus, the questions, the methods and the analyses are diverse. Management theory cannot be portrayed as an orderly succession of ideas or a unified body of knowledge in which each improvement builds on and advances the one before it. By its very nature, management is a complex process and, therefore, is a multidisciplinary field of study. Management is a combination of science, art, philosophy, social sciences, psychology and industrial psychology.

Most recently, sociologists and management researchers are continuing to study organization structure, design and interorganizational co-ordination. The many theories involving decision making within organizations have been examined through economic analyses. Anthropologists and communications analysts are studying the cultural and linguistic aspects of organizational life. Systems analysts are equipping management with applied mathematical models for planning and programming.

This conglomeration of disciplines undoubtedly contributes to the fullness and the complexity of management theory, as well as conflicts over the theories. It is also evidenced by the absence of conceptual agreement on fundamental assumptions concerning the nature of management and organizations as well as the purposes of organizations.

It is important to note that the classical, behavioural, quantitative theories and modern management are not opposing or mutually exclusive approaches. Because of the vast number of participants and the wide range of interpretations, it is impossible to expect consistency throughout. A thorough understanding of modern management requires an appreciation of the composite fundamental beliefs found in the history of management. In summary, the study of management movements encompasses a broad range of

management styles, theories and processes. The concepts presented here are instrumental for the continued growth and development of modern integrated management.

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