

Heinz Weihrich
Harold Koontz

MANAGEMENT

A GLOBAL PERSPECTIVE

Tenth Edition

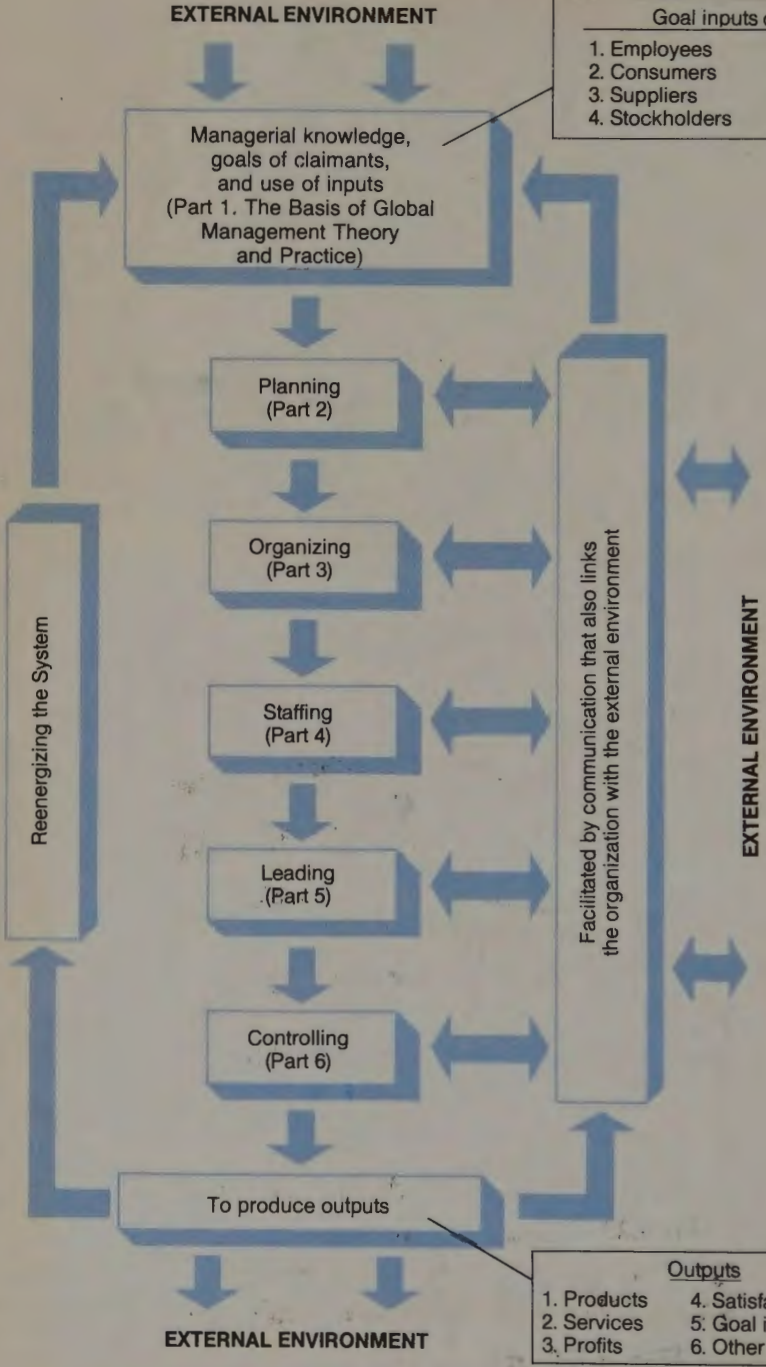
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 2. Capital
 3. Managerial
 4. Technological

- Goal inputs of claimants**
- | | |
|-----------------|----------------|
| 1. Employees | 5. Governments |
| 2. Consumers | 6. Community |
| 3. Suppliers | 7. Other |
| 4. Stockholders | |



- External variables and information**
1. Opportunities
 2. Constraints
 3. Other

- Outputs**
- | | |
|-------------|---------------------|
| 1. Products | 4. Satisfaction |
| 2. Services | 5. Goal integration |
| 3. Profits | 6. Other |

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Management

A Global Perspective

Tenth Edition

Heinz Wehrich

Professor of International Management
University of San Francisco

Harold Koontz

Late Professor of Management
University of California, Los Angeles

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About the Authors

Heinz Wehrich is Professor of International Management at the University of San Francisco. He received his doctorate from the University of California at Los Angeles (UCLA) and was a visiting scholar at the University of California at Berkeley. His fields of work are in management, international management, and behavioral science. He has taught at Arizona State University, at the University of California at Los Angeles, and in Europe.

Dr. Wehrich has published more than fifty books, including various editions and translations, and is now the sole author of *Essentials of Management*, 5th edition. Another of his books, *Management Excellence: Productivity through MBO*, discussing a goal-driven management system, has been translated into Spanish, Italian, German, Greek, Korean, and Japanese. More than a hundred of his articles have been published in several languages in journals such as *Human Resource Planning*, *Journal of Systems Management*, *Management International Review*, *Long Range Planning*, and *Academy of Management Executive*.

In addition to pursuing his academic interests, Dr. Wehrich is active in management consulting as well as executive and organizational development in the United States, Europe, Africa, and Asia. His consulting and business experiences include work with companies such as Eastman Kodak, Volkswagen, and Hughes Aircraft. He is also an active member of Toastmasters International. He was elected as a Fellow of the International Academy of Management, the highest honor conferred by the international management movement, and is listed in *International Businessmen's Who's Who*, *Men of Achievement*, *Dictionary of International Biography*, *Who's Who in the West*, *Who's Who in America*, and *Who's Who in the World*.

The late **Harold Koontz** was active as a business and government executive, university professor, company board chairman and director, management consultant, worldwide lecturer to top-management groups, and author of many books

and articles. From 1950 he was Professor of Management and from 1962 Mead Johnson Professor of Management at the University of California at Los Angeles; from 1978 to 1982 he was World Chancellor at the International Academy of Management. He was the author or coauthor of nineteen books and ninety journal articles, and his *Principles of Management* (now in its tenth edition as *Management: A Global Perspective*) has been translated into sixteen languages. His *Board of Directors and Effective Management* was given the Academy of Management Book Award in 1968.

After taking his doctorate at Yale, Professor Koontz served as Assistant to the Trustees of the New Haven Railroad, Chief of the Traffic Branch of the War Production Board, Assistant to the Vice President of the Association of American Railroads, Assistant to the President of Trans World Airlines, and Director of Sales for Convair. He acted as management consultant for, among others, Hughes Tool Company, Hughes Aircraft Company, Purex Corporation, KLM Royal Dutch Airlines, Metropolitan Life Insurance Company, Occidental Petroleum Corporation, and General Telephone Company. Professor Koontz's honors include election as a Fellow of the American and the International Academies of Management and a term of service as President of the American Academy of Management. He received the Mead Johnson Award in 1962 and the Society for Advancement of Management Taylor Key Award in 1974 and is listed in *Who's Who in America*, *Who's Who in Finance and Industry*, and *Who's Who in the World*. Harold Koontz passed away in 1984.



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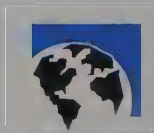
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Preface

This book prepares men and women for the exciting, challenging, and rewarding career of managing in an international environment as we move toward the twenty-first century. As the title indicates, this up-to-date tenth edition recognizes and responds to the global nature of managing.

Prior editions of the book have been published in sixteen languages. The global perspectives will appeal to those who realize that in the new world order, walls are crumbling and new alliances among companies and peoples are being formed. Beyond the discussion of managerial issues in the United States, about equal attention is given to topics in the New Europe and in the Pacific Rim countries. By acquiring a global outlook and applying the book's principles, concepts, and theories in their daily work, readers can surely become more effective as managers.

Who Will Benefit from This Book?

All persons who work in organizations will benefit from learning about managing. They include students in colleges and universities, aspiring managers, those who already have managerial skills and want to become more effective, and other professionals who want to improve their understanding of the organization in which they work. This book is for people in all kinds of organizations, not just business firms; it is relevant to nonbusiness organizations as well, such as government, health care, educational institutions, and other not-for-profit enterprises.

Managerial functions are essentially the same for first-level supervisors, middle managers, and top executives. To be sure, there are considerable variations in environment, scope of authority, and types of problems in the positions. Yet all managers undertake the same basic functions to obtain results by establishing an environment for effective and efficient performance of individuals working together in groups.

Organization of the Book

As in previous editions, managerial knowledge is classified according to the functions of planning, organizing, staffing, leading, and controlling. A systems model, shown on the inside cover and used in part openings throughout the book, integrates these functions into a system and also links an enterprise with its environment. The suggested open-systems view is even more important now than in the past, as the external environment has become more challenging through internationalization.

Part 1 covers the basis of global management theory and practice and also introduces the systems model that serves as the framework of the book. To set forth the new perspective of this edition, Part 1 includes chapters on management and its relations to the external environment, social responsibility, and ethics. Moreover, to emphasize the book's international orientation, Part 1 now also includes a chapter on global and comparative management. Parts 2 through 6 discuss the managerial functions of planning, organizing, staffing, leading, and controlling. A summary of relevant principles, or guides, for each function (highlighted on gray pages) follows the last chapter in the respective parts.

The global perspective of managing is emphasized in each part closing (highlighted on colored paper), which deals exclusively with important international issues. Specifically, the closings for Parts 2 through 6 focus on managerial practices in Japan and the People's Republic of China, which are compared with practices in the United States. Moreover, all six part closings have an International Focus section that gives special attention to important issues, such as the New Europe and how managers can prepare for the next decade, or the importance of quality service in Europe, the United States, and Japan. The car industry best illustrates the internationalization of businesses. For example, the Ford Escort (Europe) is assembled in the United Kingdom and Germany, yet the parts for this car are produced in at least fifteen countries. To explain the global competitiveness of automobile companies, Part Closings 1 through 5 have a global car industry case, and the Part 6 Closing has two such cases.

Revision Work for This Edition

This tenth edition is the result of the most comprehensive revision work since the book was first published by the late professors Harold Koontz and Cyril O'Donnell. While material that was well received over the years has been retained, much new information has been added. For example, this edition builds on the strong characteristics of the ninth edition—such as breadth, depth, and the use of examples and cases—identified in the textbook survey published in the *Academy of Management Review*;^{*} at the same time, many modern ideas, techniques, and features have been added, especially those providing a global perspective of managing.

Two major influences guided the revision work for this edition. The first is the valuable feedback from teachers, scholars, and students who used past editions

* Allen C. Bluedorn, "Resources for the Introductory Management Course," *Academy of Management Review* (July 1986), pp. 684–691.

of this book at various levels of academic and practical management education in a wide variety of universities and operating enterprises. The second major influence is the great volume of research, new ideas, and advanced techniques, especially those being applied to management from the behavioral, social, and physical sciences. The emphasis is on managerial practice based on sound theory.

Although not all changes can be mentioned here, certain revision work should be pointed out. All chapters have been updated. The number of chapters has been reduced to twenty-three from the twenty-five in the ninth edition. For example, the ninth-edition chapters “The Nature and Purpose of Staffing” and “Selection: Matching the Person with the Job” are now combined in Chapter 13. Similarly, the chapters “Managing and the Human Factor” and “Motivation” are merged in this edition (Chapter 16). While some material has been condensed, other topics have been expanded. Certain topics have also been reorganized. “Committees and Group Decision Making,” for example, is now in Part 5, “Leading.” The topic “Creativity and Innovation” has been moved from the chapter on managing and the human factor to Chapter 8, “Decision Making.”

New topics. These are some of the new topics in this edition:

- What General Electric learned in France (Chapter 4)
 - Korean managerial practices (Chapter 4)
 - Michael Porter’s Competitive Advantage of Nations (Chapter 4)
 - The New Europe: preparing for the next decade (Part 1 Closing)
 - The car market in the New Europe (Part 1 Closing)
- A case on the globalization of Federal Express (Chapter 8)
 - Planning, organizing, staffing, leading, and controlling practices in Japan and the People’s Republic of China (closings for Parts 2 through 6)
- Planning for the New Europe (Part 2 Closing)
 - A global car industry case on Daimler-Benz and how the company needs to prepare for the twenty-first century (Part 2 Closing)
 - The new international executive team at Apple Computer (Chapter 9)
 - Organization structures for the global environment (Chapter 10)
 - An international case on Siemens, the sleeping giant (Chapter 10)
 - A case on the restructuring of Korea’s Daewoo (Chapter 12)
 - Organizing for quality service in Europe, the United States, and Japan (Part 3 Closing)
- A global car industry case showing how the Lexus, a Japanese car, was developed (Part 3 Closing)
 - A comparison of workweek differences in various countries (Chapter 13)
 - The global orientation of Procter & Gamble (Chapter 13)
 - A comparison of CEOs in various countries (Chapter 14)
 - An example of management development at China Resources (Chapter 15)
 - The German/European model for training and development (Part 4 Closing)
 - Comparisons of leadership approaches at Honda, Chrysler, and Daimler-Benz (Part 4 Closing)
- A Perspective on disillusioned middle managers (Chapter 16)
 - The impact of the human factor in managing at Olivetti in Italy (Chapter 16)

- Worker participation in the New Europe (Chapter 18)
- A Perspective on how communications differ in various countries (Chapter 19)
- A case on the Challenger Space Shuttle accident, which shook the nation (Chapter 19)
- Description of the managerial function of leading as carried out in different cultures (Part 5 Closing)
- A case on controlling the decentralized Unilever Company (Chapter 20)
- Telecommunications battles in Europe (Chapter 21)
- Maquiladora companies in Mexico (Chapter 22)
- Quality circles in Japan (Chapter 22)
- A case on General Electric “enlightening” Hungary (Chapter 22)
- Implications of the European Community 1992 (EC 1992) program for managers in the New Europe (Part 6 Closing)
- The importance of quality and continuous improvement for gaining the competitive edge (Part 6 Closing)
- A global car industry case showing the competitive challenges for carmakers (Part 6 Closing)

Other important ■ expanded topics. Here are some other important or expanded topics in this edition:

- The most admired companies in America (Chapter 1)
- The importance of the role of women in managing (discussed throughout the book, see, for example, the Chapter 17 Perspective on Marisa Bellisario, a very effective CEO in Europe)
- McKinsey’s 7-S framework, which was the conceptual framework for the book *In Search of Excellence*, by Peters and Waterman (Chapter 2)
- A model for ethical decision making (Chapter 3)
- Code of ethics for government service (Chapter 3)
- Porter’s generic competitive strategies (Chapter 7)
- Decision support systems (Chapter 8)
- Entrepreneurship and intrapreneuring (Chapter 9)
- Organization culture (Chapter 12)
- Strategic career management (Chapter 14)
- The role of microcomputers, telecommuting, and computer networks (Chapter 21)
- Productivity of knowledge workers for gaining a competitive advantage (Chapter 22)
- Computer-aided design (CAD), computer-aided manufacturing (CAM), and manufacturing automation protocol (MAP) (Chapter 22)

Additional features. Other features of this book are as follows:

- Many examples are given from companies such as Compaq, Eastman Kodak, General Electric, General Motors, IBM, Lufthansa, McDonald’s, 3M Company (Post-it Notes), and Volkswagen.

- Each chapter ends with two cases, many of which are international. Many cases are based on the consulting experience of the authors. Sometimes company names are disguised, to protect confidentiality, but some cases reveal the names of firms (such as People Express, Honda, McDonald's, the University of California, and IBM) and even the name of a country (South Africa).
- Throughout the book, many real-life situations illustrate managerial concepts and theories.
- Boxed inserts called "Perspectives" or "International Perspectives" provide additional insights.
- Each chapter has two recommendations for "Exercises/Action Steps" that get students involved in investigating management practices.
- Frequent references to nonbusiness organizations are made.
- New terms have been added to the already comprehensive glossary.

Learning Assistance

The integrative systems model on the inside cover gives an overview of the content and organization of the book. The model is discussed in detail in Chapter 1. Parts 2 through 6 are each introduced with the model, together with a list of chapters included in the respective part.

Each chapter begins with a notable quote and learning objectives and concludes with a summary, a list of key ideas and concepts for review, discussion questions, and two activities called "Exercises/Action Steps" that are designed to prompt readers' involvement in learning about management. There are also two cases for each chapter.

Following the last chapter in Parts 2 through 6—those dealing with the five managerial functions of planning, organizing, staffing, leading, and controlling—is a summary of major principles, or guides, for the respective function. Each of the six parts has a part closing that focuses on various global aspects of management. (In addition, important international aspects of managing are marked with globe or flag ornaments throughout the text.)

Supplemental Materials

The text is accompanied by a full ancillary program with items designed to complement both the instructor's teaching efforts and the students' learning process. These materials include a Student Study Guide and a comprehensive Instructor's Manual, both by John Half; Overhead Transparency Acetates; a Test Bank, authored by Heinz Wehrich; and a video program. For information and costs on any supplementary materials, please contact your local McGraw-Hill representative.

Acknowledgments

The late Dr. Harold Koontz is sorely missed by those who knew him. At a memorial session at an Academy of Management meeting, Professor Ronald Greenwood stated that "Howdy" Koontz was many years ahead of his time. Indeed, his inspiration and guidance popularized the classification of management knowledge

according to the managerial functions, a framework now used around the world. He will long be remembered for his contributions to management and for his many books, especially the first edition of this book (with Cyril O'Donnell), originally published as *Principles of Management* in 1955 and continuously updated ever since.

Professor Koontz and I are indebted to so many persons that a complete acknowledgment would be encyclopedic. Many scholars, writers, and managers are acknowledged through references in the text. Many managers with whom we have served in business, government, education, and other enterprises have contributed by word and example. Thousands of managers in all kinds of enterprises in various countries have honored us over the years by allowing us to test our ideas in executive training classes and lectures. In particular, many Eastman Kodak managers around the world have generously shared their international experience. Similarly, the managers in an executive program in Switzerland and those at China Resources in Hong Kong provided opportunities to learn about their culture and their managerial practices. To the executives of these and many other companies with whom we have been privileged to work as directors, consultants, or teachers, we are grateful for the opportunity to gain the clinical practice of managing.

Many colleagues, scholars, managers, and students have contributed their ideas and suggestions to this book. My good friend Professor Keith Davis, at Arizona State University, was particularly generous with his time. One of my mentors at UCLA, Professor George S. Steiner, has done much to stimulate my interest in the development of the TOWS Matrix for strategic planning. Professors Peter F. Drucker, George S. Odiorne, and Gene Seyna, to whom my book *Management Excellence: Productivity through MBO* has been dedicated, have sharpened my thinking about goal-driven management systems and managerial productivity. John Halff, the author of the *Study Guide* and the *Instructor's Resource Manual*, has diligently read the text and made very important recommendations over the years.

In previous editions, special appreciation was expressed to those who contributed in many important ways. While they are not named here, their contributions have been important for this edition as well.

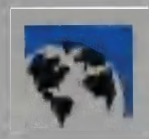
We are very indebted to our academic colleagues who contributed, at various stages, to the development of this edition. They include Professors Theodore Andersen, University of California–Los Angeles; Richard D. Babcock, University of San Francisco; Allen Bluedorn, University of Missouri–Columbia; James Buckenmyer, Southeast Missouri State University; Donna E. Bush, Middle Tennessee State University; Marjorie Chan, California State University–Stanislaus; James G. Coe, Taylor University; Thomas P. Cullen, Cornell University; James Daly, Long Island University–Southampton; Diana Dean, Linfield College; Santa Deb, University of San Francisco; Claudia Harris, University of Scranton; Stuart Klein, Cleveland State University; John J. Kustura, Saint Louis University–Parks College; Agia H. Meleka, California State University–Northridge; Marta Mooney, Fordham University; James R. Necessary, Ball State University; Gary R. Oddou, San Jose State University; Larry A. Pace, University of Tennessee–Knoxville; Andrew J. Papageorge, California State University–Stanislaus; Jill Russell, Camden County

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We wish to thank the many people at McGraw-Hill who were involved in publishing this edition: Seibert G. Adams; Laura Givner; Frederick Perkins and Javier Neyra B., whose contributions helped make the book, in its previous editions, a best-seller in the Spanish-speaking world; Lynn Richardson; Alan Sachs; June Smith; and Laura Warner, who skillfully managed this and previous editions from manuscript to bound book.

Finally, my wife Ursula helped greatly with her patience and understanding when yet another deadline for the book had to be met. To her and Mary Koontz this book is dedicated.

Heinz Wehrich



Management

A Global Perspective





The Basis of Global Management Theory and Practice

Chapter 1

Management: Science, Theory, and Practice

Chapter 2

**The Evolution of Management Thought and
the Patterns of Management Analysis**

Chapter 3

**Management and Society: The External Environment,
Social Responsibility, and Ethics**

Chapter 4

Global and Comparative Management

Part I Closing

The Basis of Global Management

Chapter 1

Leadership complements management,
it doesn't replace it.

Chapter Objectives



Management: Science, Theory, and Practice

After completing this chapter, you should be able to:

1. Define and describe the nature and purpose of management.
2. Understand that management, as used in this book, applies to all kinds of organizations and to managers at all organizational levels.
3. Recognize that the aim of all managers is to create a "surplus."
4. Identify excellent and admired companies and their characteristics.
5. Understand the concepts of productivity, effectiveness, and efficiency.
6. Explain that management as practiced is an art in which the underlying theory and science are applied in light of situations.
7. Demonstrate that concepts, theories, principles, and techniques furnish the basic elements of operational science.
8. Realize that managing requires a systems approach and that practice must always take into account situations and contingencies.
9. Define the managerial functions of planning, organizing, staffing, leading, and controlling.
10. Understand how this book is organized.



One of the most important human activities is managing. Ever since people began forming groups to accomplish aims they could not achieve as individuals, managing has been essential to ensure the coordination of individual efforts. As society has come to rely increasingly on group effort, and as many organized groups have become large, the task of managers has been rising in importance. The purpose of this book is to promote excellence among all persons in organizations, especially among managers, aspiring managers, and other professionals.*

DEFINITION OF MANAGEMENT: ITS NATURE AND PURPOSE

Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims. This basic definition needs to be expanded:

1. As managers, people carry out the managerial functions of planning, organizing, staffing, leading, and controlling.
2. Management applies to any kind of organization.
3. It applies to managers at all organizational levels.
4. The aim of all managers is the same: to create a surplus.
5. Managing is concerned with productivity; this implies effectiveness and efficiency.

The Functions of Management

Many scholars and managers have found that the analysis of management is facilitated by a useful and clear organization of knowledge. In studying management, therefore, it is helpful to break it down into five managerial functions—planning, organizing, staffing, leading, and controlling—around which can be or-

* At times the term “nonmanagers” is used in reference to persons who have no subordinates. Thus, nonmanagers include professionals who may have a high status in organizations.

ganized the knowledge that underlies those functions. Thus, the concepts, principles, theory, and techniques of management are grouped into these five functions.

This framework has been used and tested for many years. Although there are different ways of organizing managerial knowledge, most textbook authors today have adopted this or a similar framework even after experimenting at times with alternative ways of structuring knowledge.

Although the emphasis in this book is on managers' tasks that pertain to designing an internal environment for performance within an organization, it must never be overlooked that managers must operate in the external environment of an enterprise as well.² Clearly, managers cannot perform their tasks well unless they have an understanding of, and are responsive to, the many elements of the external environment—economic, technological, social, political, and ethical factors that affect their areas of operations. Moreover, many organizations operate now in different countries. Therefore, this book takes a global perspective of managing.

Management as an Essential for Any Organization

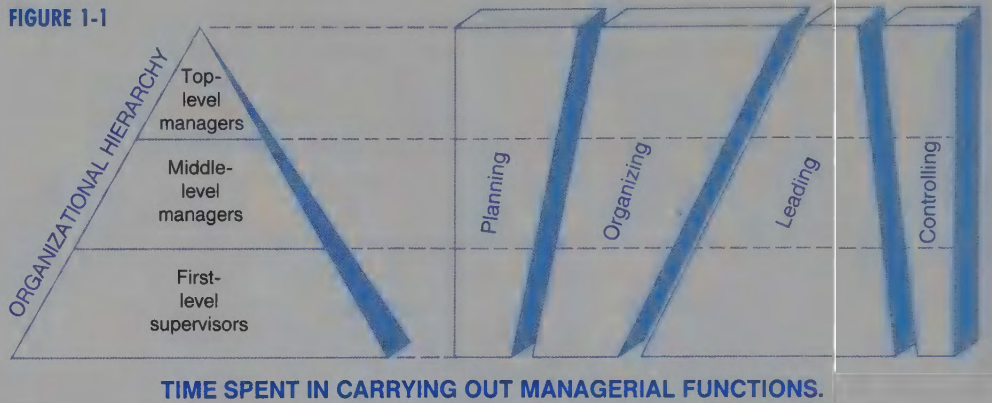
Managers are charged with the responsibility of taking actions that will make it possible for individuals to make their best contributions to group objectives. Management thus applies to small and large organizations, to profit and not-for-profit enterprises, to manufacturing as well as service industries. The term “enterprise” refers to businesses, government agencies, hospitals, universities, and other organizations, since almost everything said in this book refers to business as well as nonbusiness organizations. Effective managing is the concern of the corporation president, the hospital administrator, the government first-line supervisor, the Boy Scout leader, the bishop in the church, the baseball manager, and the university president.

Managerial Functions at Different Organizational Levels and Women in Management

In this book, no basic distinction is made between managers, executives, administrators, and supervisors. To be sure, a given situation may differ considerably among various levels in an organization or various types of enterprises. Similarly, the scope of authority held may vary and the types of problems dealt with may be considerably different. Furthermore, the person in a managerial role may be directing people in the sales, engineering, or finance department. But the fact remains that, as managers, all obtain results by establishing an environment for effective group endeavor.

All managers carry out managerial functions, but the time spent for each function may differ. Figure 1-1 shows an approximation of the relative time spent for each function, although top-level managers in modern corporations probably spend more time leading than the researchers found. Top-level managers spend more time on planning and organizing than do lower-level managers. Leading, on the other hand, takes a great deal of time for first-line supervisors. Time spent on controlling varies only slightly for managers at various levels.

FIGURE 1-1



Partly based on and adapted from Thomas A. Mahoney, Thomas H. Jerdee, and Stephen J. Carroll, "The Job(s) of Management," *Industrial Relations* (February 1965), pp. 97-110.

Managerial skills and the organizational hierarchy. Robert L. Katz identified three kinds of skills for administrators.³ To these may be added a fourth—the ability to design solutions.

1. **Technical skill** is knowledge of and proficiency in activities involving methods, processes, and procedures. Thus, it involves working with tools and specific techniques. For example, mechanics work with tools, and their supervisors should have the ability to teach them how to use these tools. Similarly, accountants apply specific techniques in doing their job.
2. **Human skill** is the ability to work with people; it is cooperative effort; it is teamwork; it is the creation of an environment in which people feel secure and free to express their opinions.
3. **Conceptual skill** is the ability to see the "big picture," to recognize significant elements in a situation, and to understand the relationships among the elements.
4. **Design skill** is the ability to solve problems in ways that will benefit the enterprise. To be effective, particularly at upper organizational levels, managers must be able to do more than see a problem. They must have, in addition, the skill of a good design engineer in working out a practical solution to a problem. If managers merely see the problem and become "problem watchers," they will fail. Managers must also have that valuable skill of being able to design a workable solution to the problem in the light of the realities they face.

The relative importance of these skills may differ at various levels in the organization hierarchy. As shown in Figure 1-2, technical skills are of greatest importance at the supervisory level. Human skills are also helpful in the frequent interactions with subordinates. Conceptual skills, on the other hand, are usually not critical for lower-level supervisors. At the middle-management level, the need

for technical skills decreases; human skills are still essential; the conceptual skills gain in importance. At the top management level, conceptual and design abilities and human skills are especially valuable, but there is relatively little need for technical abilities. It is assumed, especially in large companies, that chief executives can utilize the technical abilities of their subordinates. In smaller firms, however, technical experience may still be quite important.

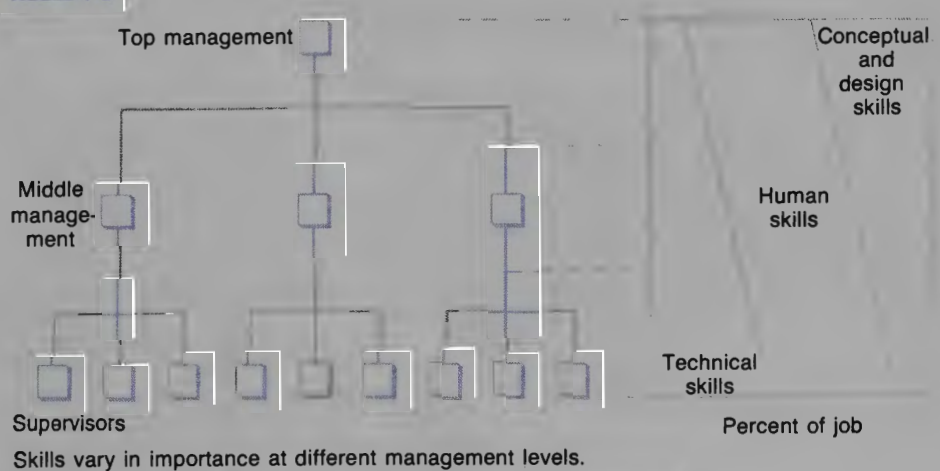
Women in the organizational hierarchy. In the last decade or so, women have made significant progress in obtaining responsible positions in organizations. Among the reasons for this development are laws governing fair employment practices, changing societal attitudes toward women in the workplace, and the desire of companies to project a favorable image by placing qualified women in managerial positions.

In 1965, readers of the *Harvard Business Review* were surveyed to determine their attitudes toward women in business organizations.⁴ About half of the men and women (and there was not much difference between them) responding felt that women seldom expected to achieve or even desired positions of authority.

Twenty years later, in 1985, the results showed that the attitudes toward women in business had changed significantly. Only 9 percent of the men and 4 percent of the women in the survey thought that women do not aspire to top positions. Moreover, it was found that men increasingly saw women as competent, equal colleagues. However, over 50 percent of those answering in the survey thought that women would never be completely accepted in business. This may indeed be discouraging to those women who aspire to top management positions. Yet, 20 years ago, few people would have expected the progress toward equality that has been made since 1965.

Some evidence suggests that women do have difficulties making it to the top. For example, there are no women on the way to the chief executive officer's job

FIGURE 1-2



SKILLS AND MANAGEMENT LEVELS.

in the *Fortune* 500 corporations. Discrimination has been given as one reason, according to a *Fortune* article.⁵ On the other hand, Marisa Bellisario, who will be discussed in greater detail in Chapter 4, is one of the most successful executives in Italy, with the press calling her “Lady Computer” and the “manager in jeans” (she occasionally wears jeans at work). In fact, companies such as IBM, AT&T, and GTE Corporation have unsuccessfully tried to recruit her.

Another success story involves the internationally oriented Ellen Hancock, a high-ranking top executive at IBM. She heads the company’s striving telecommunications business. Educated as a mathematician, she started as a programmer in 1966 and achieved a top position in the 1980s. With computer networking booming, especially in Europe, she decided to relocate her headquarters in London, where she began directing IBM’s operation in Europe in 1991. Her international outlook is shown by her statement that “having a line of business headquartered in Europe will give us a different perspective on all our markets.”⁶

The Goals of Managers and Organizations

Nonbusiness executives sometimes say that the aim of business managers is simple—to make a profit. But profit is really only a measure of a surplus of sales dollars (or any other currency) over expense dollars. For many business firms, an important goal is the long-term increase in the value of their common stock. In a very real sense, in all kinds of organizations, whether business or nonbusiness, the logical and publicly desirable aim of all managers should be a *surplus*. Thus, managers must establish an environment in which people can accomplish group goals with the least amount of time, money, materials, and personal dissatisfaction or in which they can achieve as much as possible of a desired goal with available resources. In a nonbusiness enterprise such as a police department, as well as in units of a business (such as an accounting department) that are not responsible for total business profits, managers still have goals and should strive to accomplish them with the minimum of resources or to accomplish as much as possible with available resources.

Which are the excellent companies? In a society such as that in the United States, profitability is an important measure of company excellence. At times, however, other criteria are also used that frequently coincide with financial performance. In their book *In Search of Excellence*, Thomas Peters and Robert Waterman identified 43 companies that they regarded as excellent.⁷ In choosing some of the firms, they considered factors such as growth of assets and equity, average return on total capital, and similar measures. They also asked industry experts about the innovativeness of the companies.

The authors identified eight characteristics of excellent enterprises. Specifically, these firms:

- Were oriented toward action
- Learned about the needs of their customers

- Promoted managerial autonomy and entrepreneurship
- Achieved productivity by paying close attention to the needs of their people
- Were driven by a company philosophy often based on the values of their leaders
- Focused on the business they knew best
- Had a simple organization structure with a lean staff
- Were centralized as well as decentralized, depending on appropriateness

Two years after *In Search of Excellence* was published, *Business Week* took a second look at the companies that Peters and Waterman had considered excellent.⁸ The magazine's survey revealed that at least 14 of the 43 companies did not measure up very well to several of the eight characteristics of excellence. Nine companies showed a great decline in earnings. While Peters and Waterman have been criticized in several respects (their methods of collecting and interpreting the data, for example, such as extensive use of anecdotes and quotations from leaders in the field rather than more scientific research sources),⁹ the performance review of the firms indicated that success may be only transitory and that it demands continuing hard work to adapt to the changes in the environment.

The late Professor George Odiorne, widely recognized for his contributions to management by objectives, researched the performance of stock prices of the so-called excellent companies.¹⁰ A few companies did very well indeed; but about an equal number did very poorly. Odiorne's analysis was based on this question: If you had invested \$1000 in stocks of the companies, how well would you have done? Three companies—Wal-Mart, Amoco, and Intel—performed very well. On the other hand, Avon, Allen Bradley, and Data General did very poorly. In short, if people had invested in all companies considered excellent, the return on their investment would have been mixed at best.

One could take a position that factors other than stock prices should be used as criteria for excellence. Still, the characteristics of excellence identified by Peters and Waterman can have a downside:

1. A *bias for action* can also mean an argument against long-range, strategic planning.
2. *Staying close to the customer* could also mean producing anything the customer wants, even at great cost and without regard to whether or not it fits into the product line.
3. Promoting *autonomy and entrepreneurship* can also mean pursuing new ideas without considering their suitability for a long-term strategy.
4. *Hands-on, value-driven managing* can also result in top managers becoming so involved in the details of the operation that they lose sight of the overall objectives of the firm.
5. *Sticking to the knitting* could be used as an excuse for not searching for meaningful acquisition or mergers.
6. Using a *simple form and a lean staff* could also be an argument against meaningful staff work such as that done by strategic planners. Doing *and* thinking (by staff) are important.

The danger of these prescriptions is that they could result in myopic managing, that is, management with insufficient foresight. A well-known economist making his point for short-term solutions to economic problems said that in the long term we are all dead. Peters and Waterman seem to take this position with respect to managing. Yet we know that many Japanese companies have been successful precisely because they considered the long-term implications of their decisions.

Certainly, Peters and Waterman have done a great service by encouraging companies to have a second look at their managerial approaches. On the other hand, unquestioned pursuit of these authors' management prescriptions can lead to the misapplication of their suggestions. The effective manager is a situational manager who evaluates each approach in light of the circumstances and selects the one that most effectively and efficiently achieves individual and organizational goals.

The most admired companies in America.¹¹ *Fortune* magazine questioned more than 8000 senior executives, outside directors, and financial analysts about the reputation of *Fortune* 500 companies on eight criteria: the quality of management; the quality of products or services; innovativeness; the value of long-term investment; financial soundness; competence to attract, develop, and keep good people; corporate responsibility toward the community as well as the environment; and the way corporate assets are used.

The most admired among the 307 companies identified in 1992 was Merck (pharmaceuticals), followed by Rubbermaid (rubber and plastic items), Wal-Mart Stores (retailing), Liz Claiborne (apparel), and Levi Strauss Associates (also apparel). These companies were followed by sixth-ranked Johnson & Johnson (pharmaceuticals), Coca-Cola (beverages), and 3M (scientific and photo equipment). PepsiCo (beverages) and Procter & Gamble (soaps and cosmetics) were equally ranked in ninth place.

As in the 1991 ranking, notably absent in the top ten were IBM and other computer companies. Procter & Gamble dropped from third place in 1991 to ninth in 1992. Levi Strauss, on the other hand, improved its 1991 ranking (from twentieth to fifth) and became the first private company in the top ten.

Customers come first: An important aspect of excellence. Customers are the reason why businesses exist. Yet this point often tends to be forgotten, although there is ample evidence that staying close to customers can pay off handsomely. Here are some examples:

- After a disappointing 1984 model year, the Cadillac division of General Motors tried another approach in designing the new De Ville model. The company invited customers to tell them what they wanted. Furthermore, they let them test-drive the cars and asked for their opinions and suggestions. The result: a 36 percent increase in sales of the Fleetwood and De Ville models in the last quarter of 1988.

- But customer service goes beyond reaching the ultimate consumer. At Domino's Pizza, emphasis is also placed on the service the headquarters provides for its chain stores. Similarly, firms that supply pizza ingredients are evaluated on their service orientation. Bonuses are given for good service and quality.
- Satisfied customers account for the success of Lands' End, a mail-order house. Customers' trust goes so far that the customers think the company would not sell them anything the people at Lands' End would not buy or wear. A big part of the profits is used for capital expenditures to serve customers even better.

Successes are not magical. In fact, the reasons behind them are deceptively simple—for example, imagining oneself as a customer. But this orientation must be taught to all employees, who have to be monitored so that the company's philosophy is put into practice. Bureaucracy should be kept at a minimum so that customers do have access to communicate their satisfaction as well as dissatisfaction to upper-level managers. Service does not end with a sale but continues to make customers come back.

Productivity, Effectiveness, and Efficiency

Another way to view the aim of all managers is to say that they must be productive. After World War II the United States was the world leader in productivity. But in the late 1960s the deceleration of productivity growth began. Today the urgent need for productivity improvement is recognized by government, private industry, and universities. Often one looks to Japan to find answers to our productivity problem (a subject to be considered later, in Chapter 4), but one tends to overlook the importance of effectively performing the basic managerial and nonmanagerial activities.

Definition of productivity. Successful companies create a surplus through productive operations. Although there is not complete agreement on the true meaning of **productivity**, let us define it as *the output-input ratio within a time period with due consideration for quality*. It can be expressed as follows:

$$\text{Productivity} = \frac{\text{outputs}}{\text{inputs}} \quad (\text{within a time period, quality considered})$$

The formula indicates that productivity can be improved (1) by increasing outputs with the same inputs, (2) by decreasing inputs but maintaining the same outputs, or (3) by increasing outputs and decreasing inputs to change the ratio favorably. Companies use several kinds of inputs, such as labor, materials, and capital. Total-factor productivity combines various inputs to arrive at a composite input.¹² In the past, productivity improvement programs were mostly aimed at the worker level.¹³ Yet, as Peter F. Drucker, one of the most prolific writers in management, observed, “The greatest opportunity for increasing productivity is surely to be found in knowledge work itself, and especially in management.”¹⁴

Definitions of effectiveness and efficiency. Productivity implies effectiveness and efficiency in individual and organizational performance. **Effectiveness** is the achievement of objectives. **Efficiency** is the achievement of the ends with the least amount of resources. Managers cannot know whether they are productive unless they first know their goals and those of the organization, a topic that will be discussed in Chapter 6.

MANAGING: SCIENCE OR ART?

Managing, like all other practices—whether medicine, music composition, engineering, accountancy, or even baseball—is an art. It is know-how. It is doing things in the light of the realities of a situation. Yet managers can work better by using the organized knowledge about management. It is this knowledge that constitutes a science. Thus, managing as practice is an *art*; the organized knowledge underlying the practice may be referred to as a *science*. In this context science and art are not mutually exclusive; they are complementary.

As science improves, so should art, as has happened in the physical and biological sciences. To be sure, the science underlying managing is fairly crude and inexact. This is true because the many variables with which managers deal are extremely complex. Nevertheless, such management knowledge can certainly improve managerial practice. Physicians without the advantage of science would be little more than witch doctors. Executives who attempt to manage without management science must trust to luck, intuition, or what they did in the past.

In managing, as in any other field, unless practitioners are to learn by trial and error (and it has been said that managers' errors are their subordinates' trials), there is no place they can turn to for meaningful guidance other than the accumulated knowledge underlying their practice.

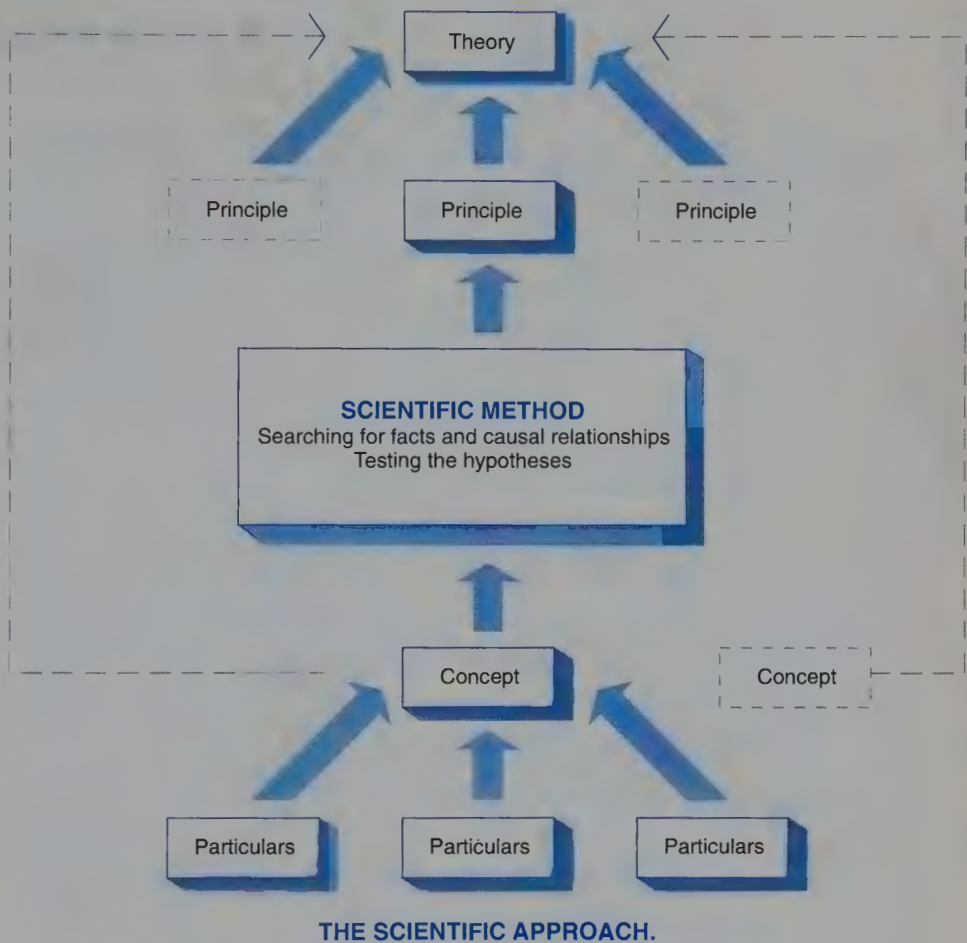
THE ELEMENTS OF SCIENCE

Science is organized knowledge. The essential feature of any science is the application of the scientific method to the development of knowledge. Thus, a science comprises clear concepts, theory, and other accumulated knowledge developed from hypotheses (assumptions that something is true), experimentation, and analysis.

The Scientific Approach

The scientific approach, schematically shown in Figure 1-3, first requires clear **concepts**—*mental images of anything formed by generalization from particulars*. These words and terms should be exact, relevant to the things being analyzed, and informative to the scientist and practitioner alike. From this base, the **scientific method** involves the determination of facts through observation. After classifying and analyzing these facts, scientists look for causal relationships. When these

FIGURE 1-3



generalizations or hypotheses are tested for accuracy and appear to be true, that is, to reflect or explain reality, they are called “principles.” They have value in predicting what will happen in similar circumstances. Principles are not always unquestionably or invariably true, but they are considered valid enough to be used for prediction.

Theory is a systematic grouping of interdependent concepts and principles that gives a framework to, or ties together, a significant area of knowledge. Scattered data, such as the notations left on a blackboard after a group of engineers has been discussing a problem, are not information unless the observer has knowledge of the theory that will explain relationships. Theory is, as Homans has said, “in its lowest form a classification, a set of pigeon holes, a filing cabinet in which fact can accumulate. Nothing is more lost than a loose fact.”¹⁵

The Role of Management Theory¹⁶

In the field of management, then, the role of theory is to provide a means of classifying significant and pertinent management knowledge. In the area of designing an effective organization structure, for example, there are a number of principles that are interrelated and that have a predictive value for managers. Some principles give guidelines for delegating authority; these include the principle of delegating by results expected, the principle of equality of authority and responsibility, and the principle of unity of command.

Principles in management are fundamental truths (or what are thought to be truths at a given time), explaining relationships between two or more sets of variables, usually an independent variable and a dependent variable. Principles may be *descriptive* or *predictive*, but not *prescriptive*. That is, they describe how one variable relates to another—what will happen when these variables interact. They do not prescribe what people should do. For example, in physics, if gravity is the only force acting on a falling body, the body will fall at an increasing speed; this principle does not say whether anyone should jump off the roof of a high building. Or take the example of **Parkinson's Law**: *Work tends to expand to fill the time available*. Even if Parkinson's somewhat frivolous principle is correct (as it probably is), it does not mean that a manager should lengthen the time available for people to do a job. As another example, in management the **principle of unity of command** states that *the more often an individual reports to a single superior, the more likely it is that the individual will feel a sense of loyalty and obligation and the less likely it is that there will be confusion about instruction*. The principle merely predicts. It in no sense implies that individuals should never report to more than one person. Rather, it implies that if they do so, their managers must be aware of the possible dangers and should take these risks into account in balancing the advantages and disadvantages of multiple command.

Like engineers who apply physical principles to the design of an instrument, managers who apply theory to managing must usually blend principles with realities. An engineer is often faced with the necessity of combining considerations of weight, size, conductivity, and other factors in designing an instrument. Likewise, a manager may find that the advantages of giving a controller authority to prescribe accounting procedures throughout an organization outweigh the possible costs of multiple authority. But if they know theory, these managers will know that such costs as conflicting instructions and confusion may exist, and they will take steps (such as making the controller's special authority clear to everyone involved) to minimize disadvantages.

Management Techniques

Techniques are essentially ways of doing things, methods of accomplishing a given result. In all fields of practice they are important. They certainly are in managing, even though few really important managerial techniques have been invented. Among them are budgeting, cost accounting, network planning and control techniques like the Program Evaluation and Review Technique (PERT)

or the Critical Path Method (CPM), rate-of-return-on-investment control, and various devices of organizational development, all of which will be discussed in later chapters. Techniques normally reflect theory and are a means of helping managers undertake activities most effectively.

Perspective

Management Techniques or Fads?

A **management fad** can be defined as a managerial interest or practice followed for a period of time with exaggerated zeal or craze. But fads come and go—some slowly, others quickly; some survive and others fall by the wayside. These managerial fads can be found in all managerial functions. *Business Week* identified some that are out and some that are currently in vogue.¹⁷ Let us look at some of those that are “in” in the various managerial functions.

Fads in planning? One of the fashionable buzzwords is **strategic alliance**, which essentially means that companies cooperate, as in forming a joint venture. These alliances even cut across national boundaries: American Telephone and Telegraph joins forces with Olivetti in Italy (this alliance was not successful and broke up in 1989); General Motors builds cars with the Japanese car manufacturer Toyota.¹⁸

Fads in organizing? **Corporate culture** is also “in.” It pertains to the values and beliefs shared by employees and the general patterns of their behavior.

Fads in staffing? Organizations have to be staffed by people who are not only competent but also healthy. This requires **wellness** or **fitness** programs and the management of **stress**. Over 90 percent of the 500 largest companies in the United States have a wellness program or are assisting employees in managing stress or improving their health.¹⁹ **Paying for performance** is also currently fashionable.²⁰ This simply means measuring the contributions of individuals and rewarding them accordingly. Another term you may hear at times is **demassing**, which is a euphemism for laying off employees or demoting managers.

Fads in leading? Then there is the **intrapreneur**, a person who acts like an entrepreneur but does so within the organizational environment. Gifford Pinchot, who coined the term, describes intrapreneurs as “those who take hands-on responsibility for creating innovation of any kind within an organization. The intrapreneur may be the creator or inventor but he or she is always the dreamer who figures out how to turn an idea into a profitable reality.”²¹

Fads in controlling? People admire success. Managers, rightly or wrongly, look to Japan to solve their productivity or quality problems. Thus, **quality circles**, widely used in Japan, are seen as a way of improving quality and making U.S. products more competitive.