Chapter 1

The Meaning of Management

In This Chapter

- A (very) brief history of management
- A manager's responsibility and role
- The "Essential Six" principles every manager must know

Imagine an army with no general, a team with no coach, or a nation with no government. How could the army beat the enemy? How could the team win games? How could the nation avoid complete anarchy?

They couldn't. And an organization can't succeed without a manager. Managers make sure that an organization stays, well … organized. Organizing and directing the work of others is the work of the manager. People need organization and direction if they are to work effectively, and managers provide that.

Management is generally defined as the art and science of getting things done through others. This definition emphasizes that a *manager* plans and guides the work of other people. Some (cynical) individuals think that this means managers don't have any work to do themselves. As you'll learn in this book (if you don't already know it), managers have an awful lot of work to do.

Organizing and directing the work of others is known as administration. In a business it is called business administration. (In a hospital, it is called health-care administration. In a government agency, it is called public administration.) Thus, *business administration* means managing a business, and an *MBA—master of business administration*— degree prepares a person to manage a business. In an MBA program, which is a graduate school program, you learn about the structure, parts, and purpose of a business, and about the tools you need in order to manage the business. These tools include budgets and financial statements as well as methods of analyzing business decisions.

This chapter will introduce you to management by touching on the development and role of management and by covering the key principles of managing any business.

MBA Lingo

Management is the art and science of getting things done through others, generally by organizing and directing their activities on the job. A **manager** is therefore someone who defines, plans, guides, assists, and assesses the work of others, usually people for whom the manager is responsible in an organization.

Business administration means organizing and directing the activities of a business. An **MBA,** or master of business administration, degree is a postgraduate degree from a university with a business school (or B-school, for short) that teaches management. Essentially, the program covers the structure and purpose of a business and its various functions, and the tools needed to manage these functions—just as this book does.

What Makes a Good Manager?

As in politics or sports, some people seem more naturally suited to being managers than others. In our society, people often believe that men and women with a certain personality or appearance are best qualified to be managers. However, often it doesn't work that way. Management isn't about personality or appearance. I've known many managers with the so-called right image who were "empty suits."

It takes dedication to avoid being an "empty suit" or someone who enjoys being a manager but shirks the actual work of a manager. And it *is* work. A manager must think ahead several moves; planning is central to good management. A manager must deal skillfully with people, giving positive feedback for solid performance, helping those with performance problems, and, occasionally, terminating those who cannot improve their performance. Managers must keep financial considerations, as well as customer service, front and center because a business exists to make money by serving a customer need.

Nonetheless, despite these "musts" some managers try to avoid stepping up to the real work of managing. Some managers fail to plan realistically, don't develop their interpersonal skills, and lose sight of financial considerations and customer needs. Such managers not only make it tough for their employees, superiors, and customers, they also give all managers a bad name. They give people the idea that a manager is someone "paid to do nothing" or who "watches while we work." Managers who are worthy of the name take their responsibilities and roles seriously.

A manager has an area of responsibility, that is, an activity or a function that he or she is responsible for running. A financial manager is responsible for some area of finance. In sales, an account manager is responsible for a set of accounts. A departmental manager or branch manager is responsible for a specific department or branch.

A manager's role is to run his or her function properly. It may be as large as the entire company, as is the case for the CEO (chief executive officer). It may be as small as the mail room. Whatever the area of responsibility, management represents the sum of a set of tasks. Being a manager comes down to doing these tasks well and consistently. Before we look at these tasks, let's view the role of the manager in historical context.

The Professional Manager

How can "being the boss" be a profession? A profession has its own principles, tasks, and standards, and it requires a course of study. (Think of the traditional professions: medicine, law, engineering, architecture, and accounting.) Does management share any of these characteristics?

The answer is yes, and it has been for most of this century. When factories became large and complex enough to demand skills beyond those of a simple owner-boss, management grew out of economics and engineering to become a distinct discipline.

The need to apply concepts from economics and engineering became apparent as businesses grew beyond relatively small, simple craft operations and farms into larger, more complex operations capable of higher production. Economics enabled managers to analyze ways to drive costs down and produce the most money. Engineering helped managers think of ways to best handle the physical (as opposed to financial) aspects of production. These include decisions regarding the layout of the factory, methods for dividing job functions, and ways to handle and distribute finished products.

The need for professional management arose when larger factories and the new machines of the Industrial Revolution were adopted. A mere "boss" in the sense of someone who basically just told others what do to was not equal to the demands of managing such operations. Therefore, the professional manager stepped up to the task.

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Scientific management applies scientific tools (such as research, analysis, and objectivity) to business to improve productivity. A **time-and-motion study** breaks work down into subtasks to discover how long each task takes. The goal is to understand the job and improve the way it is done in order to improve efficiency.

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An **efficiency expert** is an outdated term for someone who uses scientific management principles to improve business processes. Today this work usually falls to management consultants, who work either as hired independent professionals or as employees within the company (as internal consultants).

In the early 1900s, the professional status of management got a big boost from the concept of *scientific management*. Frederick Taylor was "The Father of Scientific Management." (It's on his gravestone.) Taylor believed that managers could improve the productivity of factory workers if they understood workers' tasks and then properly planned each task for each worker.

"Taylorism," as scientific management came to be called, led to legions of *efficiency experts* doing *time-and-motion studies* in organizations. These studies led to the redesign of factory work. Some experts credit Taylorism with helping the U.S. win the Allied victory in World War II. U.S. factories were able to quickly gear up production of arms, ammunition, vehicles, airplanes, uniforms, equipment, and other materials needed for the war effort, and to establish and maintain high levels of quality while doing so. This was largely thanks to modern management methods, many of which were introduced by Taylor or others who extended his work.

The professional standing of management was enhanced when management associations and business education flourished in the first half of the 1900s. Of course, graduate schools offering MBA degrees also boosted management as a profession.

Today, the quest for better management practices continues with as much intensity as ever—with more intensity than in many eras, in fact. Business now occurs on a more international scale than in the past, so competition is tougher than ever. Customers around the world become more sophisticated and demanding with each passing year. Technology creates (and destroys) companies and even entire industries more quickly than ever. So managers face challenges as great or greater than they did in any other time.

Despite the essential role that managers play in business, you will occasionally hear about companies laying off managers. You may read stories about economic uncertainty, rapid change, and new technological demands making life tough for managers. There is some truth to these stories. However, three facts remain unchanged:

- Business will always need managers because no business can manage itself.
- Economic and competitive conditions will always present challenges (a business must always do better no matter how well it's doing).
- Those who understand the job of the professional manager and dedicate themselves to doing it well will always have a business to manage and will be prepared to deal with the challenges.

Case in Point

Professional management principles made the U.S. auto industry a productivity machine. Ford Motor Company's assembly line, in which a car moves along a conveyor belt so workers can perform individual tasks in a certain sequence, grew directly out of scientific management. By scientifically studying work and identifying each task needed to complete a larger task, such as assembling the motor or body, Ford focused each worker on performing a few tasks as the car traveled along the assembly line. Critics argued that workers lost their sense of craftsmanship by being limited to "tightening bolt number 47." While there's some truth to the charge, the assembly line produced cars so efficiently that it became the standard operating system for most manufacturing industries, as well as the entire auto industry.

The professional manager, like any other professional, understands certain principles, performs certain tasks, and upholds certain standards. These elements are what makes a manager a professional.

The Six Business Principles Every Manager Must Know

The following six concepts are central to business and are the reasons that business needs managers:

- Value for customers
- Organization
- Competitive advantage
- Control
- Profitability
- Ethical practices

I'll describe each concept in more detail over the following pages.

Value: What Customers Pay For

A business exists to create value of some kind. It takes raw materials or activities and increases their value in some way, transforming them into products or services that customers will buy. Value is what customers pay for. Customers buy things that they value.

For example, McDonald's creates value by setting up places where people can eat inexpensively away from home. The company builds restaurants, hires cooks and counterpeople, buys food, and prepares meals. The customers value the convenience of location (you don't have to go home to eat), the speed of service (it's not called "fast food" for nothing), and the tastiness of the meals (most people like hamburgers, chicken, soft drinks, and fries).

A business—and its managers—must create value for customers. This can be done in almost limitless ways because human desires are limitless. But a single business cannot serve limitless desires. Instead, it must create a specific kind of value in a specific way. In other words, management must decide what the business will do, and then organize itself accordingly.

Let's Get Organized

An organization must have goals and the resources (human, material, and financial) to meet those goals. It must keep track of what it does and how well it does it. Each department has to perform its function properly. Employees must be assigned specific tasks that move the outfit toward its goals.

Management is responsible for keeping the company organized. The employees—human resources—and all other resources of the business, such as equipment, floor space, and money, must also be organized.

Managers achieve organization by means of *structure*. The overall structure can be represented in an organization chart like the one you'll see in Chapter 3. But managers have other structures for achieving organization. For example, the company's financial structure organizes the way it handles money. The sales force can be structured into sales teams by geography, by products, or both.

Companies achieve organization in various ways. Some take a highly structured, almost military approach, with strict hierarchies, sharply defined duties, and formal protocol. Other outfits take a more informal approach, which allows people greater leeway and creates a more unstructured environment.

The nature of the business can determine how structured or unstructured a company will be. For example, smaller firms (those with fewer than 50 employees) tend to be less structured than large ones. Companies in heavy manufacturing are usually more structured than those in creative fields, such as advertising or entertainment.

Regardless of how tightly or loosely structured a company is, managers must keep it organized. Even a highly structured company will become disorganized if management fails to manage properly. And even a very loosely structured company will be organized as long as management does its job.

MBA Lingo

Structure refers to the way a company or department is organized. A company's structure includes elements such as the corporate hierarchy, the number and kinds of departments, number of locations, and the scope of operations (for example, domestic or international).

Competitive Advantage: The Winner's Edge

To succeed in a particular market, a company must do something better than other companies in that business. Doing something better creates a competitive advantage. That "something" may be only one aspect of the product or service, as long as customers value it highly. For example, a company can gain a competitive advantage by offering the widest selection of products. Or rock-bottom prices. Or high quality. Or great service. But it can't do all of those things.

Managers decide what basis the company will compete on, and they must be quite clear about this. For example, despite advertising claims, no company can really provide both the highest quality and the lowest price, at least not for long. (It can offer the highest quality in a certain price range, but not at the lowest price.) So management must decide whether it wants to compete on quality or on price. Or on service. Or on convenience of location. Then it has to manage the company so that it does compete on that basis by delivering that advantage to customers.

By this, I mean that a company must consistently present a certain advantage to its customers. John's Bargain Stores does not pretend to be Bergdorf Goodman, and vice versa. John's competes on price and pulls in bargain hunters.

Case in Point

In the late 1970s, the Cadillac division of General Motors introduced a relatively low-priced, "sporty" Cadillac called the Cimarron. The product failed miserably. Why? Because it departed from what had always been Cadillac's competitive advantage: big, plush, luxury cars with status-symbol appeal. This is a good example of a company that temporarily forgot the source of its competitive advantage.

Bergdorf's competes on quality and service and attracts customers motivated by those considerations, rather than price concerns. If John's displayed designer clothing and $400 fountain pens, customers would laugh. If Bergdorf's carried no-name clothing and Bic pens, customers would turn up their noses.

Customers who can afford high quality will buy from the high-quality company; those who want low prices will buy from the low-price company. Customers can figure this out. But sometimes managers cannot.

Control Means Never Having to Say You Lost It

After management decides how to create value, organize the business, and establish a competitive advantage, it must control the outfit. This does not mean ruling with an iron fist (although some managers believe it does). Rather, it means that everyone must know the company's goals and be assigned tasks that will move everyone toward those goals.

Controls ensure that the right manager knows what's going on at all times. These controls are based mostly on information. For example, every company needs financial controls. Managers have budgets so they can control their department's spending. They receive regular information about the amount their department has spent and what it was spent on. Financial controls ensure that the company spends what it needs to spend—no more, no less—to do business and meet its goals.

A business is made up of many processes, so "process control" is something you may hear about. A manufacturing process, a hiring process, and a purchasing process all require controls. In these examples, the controls ensure, respectively, that product quality is maintained, that the right people are hired at the right time, and that the right materials are purchased at a reasonable price.

Controls, and the information that supports them, enable managers to manage.

Profitability: You Gotta Have It

A business is set up to make money. As you will see in Part 3, the money a business earns can be measured in various ways. But no matter how it is measured, a business has to make money—earn a profit—on its operations.

If, during a certain period of time, a business takes in more money for its products than it spends making those products, it makes a profit for that period. If not, it has a loss for the period. Losses cannot continue for long or the company will go *bankrupt*.

The most basic goal of management is to make money for the business owners. Regardless of how well they do anything else, managers who lose money for the owners will not keep their jobs for long. Whatever else a business does, its overall goal must be profitability.

> **MBA Lingo**
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> A company may go **bankrupt** when it is continually unable to pay its bills for an extended time. After a company declares bankruptcy, it goes through a legal process either to reorganize itself so it can become profitable, or to close down completely.

Practicing Ethical Practices

In 2002, a series of business scandals came to dominate the news. Senior managers at Arthur Andersen, WorldCom, Adelphia Communications, and Imclone Systems faced criminal charges brought by the U.S. Justice Department. Executives at AOL, Computer Associates, Enron, Global Crossing, and Qwest were under criminal investigation. The charges involved securities fraud, *insider trading* and other illegal transactions, and obstruction of justice as well as improper accounting procedures.

As a result of these and other cases, investors came to distrust the sales and profit figures that many companies were issuing because of so-called aggressive accounting practices, which are described in Chapter 14.

Today's competitiveness and the drive for profits have been blamed for an upswing in bad behavior in business. However, dishonesty and greed have been around as long as business itself—longer, in fact. Although the vast majority of businesspeople are honest, managers in particular must engage in and tolerate only completely ethical practices.

This is true for three reasons: First, managers, especially senior managers, hold a position of trust as stewards of the company for the stockholders, employees, customers, and community. Second, managers have the most opportunity to enrich themselves at the expense of the stockholders, employees, customers, and community. Third, managers set the standard for the entire company. If they are fudging their numbers, how can they expect honest numbers from their subordinates?

> **MBA Lingo**
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> **Insider trading** occurs when a manager, employee, or other person "inside" a company uses information not known to the public to profit from a purchase or sale of the company's stock.

Chapter 27 more fully covers the role of ethics and integrity in business. Yet it is worth noting here that integrity has always been a fundamental principle of business, if for no other reason than the lack of it destroys companies.

Remember the Essential Six

Remember the six concepts summarized in this chapter. Think of them as the "Essential Six" because they underlie everything a manager does. That is, all the activities of management have one collective aim: to make these concepts real for the company and its employees and customers.

The essential six are guiding principles, as opposed to skills. Skills, which you will learn about in the next chapter, enable managers to make sure that these principles are realized at the day-to-day level in the business.

The Least You Need to Know

- Managers must monitor the "Essential Six" business principles: value for customers, organization, competitive advantage, control, profitability, and ethical practices.
- A business—and its managers—must create a specific kind of value for customers.
- Management is responsible for keeping the company organized.
- Managers decide what basis the company will compete on.
- Managers are responsible for control. They must know the company's goals and assign tasks that will move everyone toward those goals.
- The most basic goal of management is to make money for the business owners.
- Managers must hold themselves to the highest ethical standards.