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Division of Management Labour

A sociological approach to understanding the role of management might be to view it, without prior conception, as a class of individuals. They have no democratically won authority, being merely appointees. Yet within their own organization, they appear to have more or less absolute power. Their authority is not legitimated by any obvious means. Weber identified three categories of leadership: charismatic, hereditary and bureaucratic, the latter meaning through the acceptance of the rational–legal rules and procedures of bureaucracy.[1] Drucker pointed out the three most charismatic leaders of the twentieth century were Stalin, Hitler and Chairman Mao, concluding 'God preserve us from charismatic leaders!' Nor are managers for the most part appointed as a result of an agreed hereditary succession or any other traditional process, and the legitimacy of those that are so appointed is dubious.

Management authority appears to lack a moral justification, yet they exercise moral discretion over all manner of significant decisions affecting not only those employed in their company but on a much wider front, for example, including their suppliers, customers, local community and the world at large. They decide, on whatever grounds they choose, how the surplus their company generates will be distributed. They are all-powerful but with arguably limited claims to legitimacy.

Such an analysis might raise interesting questions about management. But industrial management itself has not been much concerned with making claims for its own legitimacy. Management was drawn into existence by sheer necessity. The most obvious fact about management was that it cost money. While it did not itself make anything, or sell anything, it nevertheless had to be paid a salary and provided with a space in which to work. Such additional cost, without apparent profit, would not be attractive to *'the butcher, the brewer*

1 Weber, M., (2001). *The Protestant Ethic and The Spirit of Capitalism,* London: Routledge Classics. First published in 1904.

or the baker' and would not have been incurred if it could have been avoided. But it could not. And the surprising thing was that management, once it was established, proved an effective contributor to productivity, profitability and growth in what has been referred to as 'the management revolution'.

Management matters but its precise nature often remains obscure. Academic theorists have generally shrunk from any detailed explanation. Smith seemed to think that in a company run by hired managers as opposed to owners, the managers should spend their time looking after 'other people's money' with 'anxious vigilance'.

Marx, writing 90 years after Smith, thought of managers as the equivalent of an army's officers, responsible for the 'direct and constant supervision' of 'foremen and overlookers'. He may have been right in the sense that they were responsible for the 'esprit de corps' of the organization, to use Fayol's terminology. However, the army officer analogy captures only the people management part of the role. The aims and tasks of an army are determined for it, war being 'simply the continuation of policy by other means.'[2] The officer ranks are not therefore engaged with formulating policy, whereas managers of an industrial company are responsible for every aspect, strategic and operational, of their autonomous competing organization.

Business historian Chandler referred to managers as 'administrative coordinators', which might mean whatever is wanted for it to mean, without shedding much light on what they actually did. Management practitioners themselves have not generally been very good at explaining their role. Most have focused on prescriptions for what they believe in any circumstance will be most effective, but without offering much descriptive analysis of management practice. More thoughtful practitioners, such as Alfred Sloan, Geoffrey Vickers, Chester Barnard, Wilfred Brown and a small number of others, have provided invaluable insights into aspects of the management process, but their main aim has not been descriptive.

Clearly, the management task is not simply that of the bureaucrat, operating according to a prepared set of rules which cover all known eventualities, as might have been the case, for example, in a government department. Their

2 Von Clausevitz, C., (1830), *On War*, currently available in the Wordsworth Classics of World Literature series, based on the translation by J.J. Graham, revised by F.N. Maude, abridged and with an introduction by Louise Willmot. The quotation is from Book 1, Chapter 1, section 24.

responsibility was, and is, to deal with variety and the unexpected, and ultimately to create variety and innovation.

Perhaps Galbraith was right when he claimed that what he referred to as 'businessmen' found it difficult to explain what they actually did. The term 'businessmen' was then in common usage, especially among economists and sociologists who had little understanding of, or sympathy for, those who held the management responsibility. Mintzberg's PhD study of managerial work was more enlightening about the allocation of management time to different types of work rather than describing the work itself. The essential characteristic was one of fragmentation and discontinuity, confirmed by Parker referring to management work in the very different setting of a research university.[3] But it is important to know what management work is and to distinguish between the version of management appropriate for the baker, butcher or pin maker, and the management that developed as large scale business grew up in the United States.

Adam Smith suggested that every form of labour, so widely defined as to include even philosophers, would be subject to specialization. The labour of management was certainly no exception. Chandler indicated some of the management specializations achieved by the American railroad companies. As businesses grew in scale, it was imperative for the management process to be so divided.

The process came to full fruition in the big manufacturing businesses of the late nineteenth century such as the United States Steel Corporation which was not just a steel producer but also manufactured a wide variety of steel end-products. The division of management labour was repeated in every kind of business organization. And it continues to be repeated today as every successful start-up business progresses towards robust viability. Its aim is for ever increasing efficiency and effectiveness.

The division of management must have started, as it still starts today, when the successful founding entrepreneur, the sole proprietor of the business, found that he or she was no longer able to manage everything themselves. Some portion of their workload had to be delegated to another if the business was to survive and grow. That first division of responsibility carried certain unavoidable consequences with it. It was, and is, a big decision.

3 Parker, M., (2004), 'Becoming Manager', *Management Learning*, Vol. 35, No. 1, pp. 45–59

Firstly, it immediately increased the cost base of the business and necessitated a significant increment in gross profit if the business were to remain viable. Secondly, the owner manager would be concerned to ensure that the first appointment would not adversely affect the way business was conducted. The established focus on, for example, standards of service and customer relations must not be compromised. And as the business continued to grow and further new appointments were made, it would be important to maintain the internal climate and culture of the organization so as to preserve and develop its reputation with customers, suppliers and others, critically including potential employees.

Manufacturing, even pin making, remains a useful context for considering the division of management labour as it includes the production process as well as selling and administration. Typically, responsibilities for internal operations and those for marketing and sales are the first to be separated, while in the early stages at least, responsibility for finance is likely to be held by an external professional on a consultative or part-time basis. At the same time a back office administrative role has to be established keeping track of orders being processed as well as basic book-keeping and preparation of accounts. This is the basic division of management discussed in the following sections which occurred when management first emerged and which is still, in broad principle, repeated today.

The division of management labour demonstrates the possibility that management without ownership can be professionally focused on avoiding 'negligence and profusion' and that 'anxious vigilance' would be an inadequate substitute for professional expertise in any business which has grown more complex than *'the baker, the brewer or the butcher'*.

The division of management is a variable but continuing process. The division that was appropriate in the eighteenth century was not apt in later times. What was appropriate in textiles may not have been in automobiles or internet firms. Furthermore, with each increment in growth the management of a business is forced to consider the possibility of further division, the potential for application of more detailed expertise or newer technology, or simply the division of existing processes among a greater number of hands.

There is no universal truth about the division of management labour. The following is an approximation intended to give some flavour of the potential complexity and sophistication of management specialisms which goes beyond the simplifications offered by economic models.

Operations Management

The manufacturing process can be accomplished in various ways. Some organizational decisions will depend on whether the items being manufactured are standard products sold on a continuous basis through normal distribution chains, or are items designed and made specifically to the specifications of an individual customer and manufactured and despatched to them in one or more discrete batches. Perhaps the most interesting manufacturing organization would combine both continuous and batch production. That combination has clear implications for all aspects of manufacture from the receipt and acceptance of raw materials, their storage and control, issue to the manufacturing unit, shop floor operations, production control, the management of quality throughout the whole process and final despatch of finished product.

There is no need here to review any of these different jobs in detail but a summary might indicate the nature of management responsibility. The business process is a continuous cycle but for the present purpose it can be assumed that it commences with the receipt of a purchase order from a customer. Clearly, the order has resulted from some prior process which for the moment can be disregarded. The order will require the acquisition of materials necessary for its completion, so the real work starts with the purchase of those materials.

Procurement is one of the critical management support functions. The purchase decision depends on a mix of criteria including price, quality, delivery performance and reliability in all these categories. Moreover, the purchase decision is not simply a one-off, but part of a continuing series of such decisions which may be taken on a purely open market basis, or a longer-term agreement may be reached whereby both supplier and buyer accept a degree of interdependence in which the supplier is given a contract which excludes other suppliers in return for reliable deliveries which enables the purchaser to minimize their holdings of material stocks. The aim of purchasing management is to minimize the long-term costs which arise not only from the prices paid and stock levels needing to be carried but also the reliability of continuous supply and the quality of materials.

When the relevant materials are delivered and their quality assessed and approved they will be accepted into store. Materials control is a basic management responsibility, the aim of which is to ensure that sufficient materials are always available so that the factory is never held up for their lack, but on the other hand that there is no more money tied up in stocks than is necessary to

assure the sufficiency. Clearly, the treatment of materials for standard products in continuous manufacture and for products ordered and made in discrete batches is quite different. For standard products, materials will be ordered and received on a regular basis, the most economic order quantities being agreed with suppliers. It may be that each delivery of such items would comprise a four-week supply, with deliveries being made four- weekly and a safety stock amounting to, say, two weeks' supply, being permanently held in store. The safety stock would be held to cover for any interruptions to supply so as to ensure the factory is never stopped awaiting supplies. Such a traditional system of materials control is little different from the modern just-in-time system which operates with more frequent deliveries and without safety stocks.

This summary account of purchasing and materials control is intended only to indicate that there are techniques and procedures which are important to the effectiveness of the company's operations, for which management is responsible and which have no relevance to, or relationship with, matters of the company's ownership. The middle managers carrying these responsibilities are employed to work for the company's good and their performance in that is typically open to regular review.

Similar disciplines apply to the rather more complex processes of production scheduling and control, whose responsibility is to advise the customer of a date for delivery of the finished product and to issue the materials and making instructions onto the shop floor at the appropriate time and to monitor progress through its various work stations to completion. Production scheduling aims not only to satisfy customer delivery requirements but also to minimize the amount of work in progress on the shop floor and consequently the amount of money tied up, at the same time ensuring there is sufficient work available so that no workstation runs out of work and is kept waiting. A key part of the production control function is the maintenance of information as to the stage of the process achieved for all customer orders.

Quality management works hand in glove with the above control systems, in the early days presiding over systems of inspection which were not infrequently in conflict with production management over the required standard of quality to be achieved. Such issues were often heightened by the methods of payment of production workers who may not have been paid for substandard work. The American quality gurus responsible for radically improving quality standards in post-Second World War Japan, Deming and Juran, changed the practice of quality management. Quality standards were defined precisely in terms of

conformance to customer requirements, statistical process control techniques were applied to ensure that variations from those standards were identified before production went out of tolerance limits, and methods were adopted which aimed to build quality into products rather than inspecting it out, as was previously the practice with final inspection systems. Quality standards could be achieved at very little if any cost by eliminating scrap and the necessity for reworking. But as with the other areas of operations management, there was a balance to be struck: achieving the customer's requirements could be done efficiently but aiming to achieve quality standards in excess of what the customer required, or was prepared to pay for, may simply have been wasteful.

Although the above account is much oversimplified, it nevertheless indicates that Smith's suspicion of hired managers, on the grounds that they can't be trusted to be vigilant since they are looking after other people's money, is simply misplaced. It is not to deny that his basic contention, especially around a baker's or butcher's shop, might not have some truth, but that it is simply not relevant to the operations on a larger scale.

It might be asked how the above account of operations management lines up with economic theory, for example, that quantities of output are set at the level where marginal cost is equal to market price in order to maximize profit. Economic theory does not appear to contribute anything of worth. The relevance of economic theory may be more aptly considered in relation to the whole management project rather than in relation to a particular functional area.

Marketing Management

Whilst the functional expertise in marketing is quite different from that of operations, the management concerns to achieve efficiency and effectiveness, avoiding waste and achieving an ever improved competitive position, are just the same. Most businesses start with a product or service for which there appears to be some customer demand and they are initially oriented around that product and the definition of its particular characteristics. As businesses progress they develop their focus more into the processes of production as previously described with the aim of reducing costs and improving quality and performance.

In terms of the division of management labour it is often the sales responsibility which is the specialism that is first identified and the business becomes sales oriented. But it is quickly recognized that responsibility for sales is not simply a matter of selling, but of marketing. As Levitt pointed out:

> *'The difference between marketing and selling is more than semantic. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert the product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and, finally, consuming it.'*[4]

The American Marketing Association (AMA) defines marketing as:

> *'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large',*[5]

a definition approved by the AMA's board of directors in October 2007 and which bears the certain hallmarks of definition by committee. Kotler more succinctly defined it as:

> *'the science and art of finding, keeping and growing profitable customers',*[6]

a definition that is so general as to be a little short on specific meaning. Levitt suggested that a business:

> *'must learn to think of itself not in terms of producing goods and services but as **buying customers**, as doing the things that will make people **want** to do business with it'*[7] *(original emphasis in bold italics).*

Drucker suggested the job of business was to create a customer.

4 Levitt, T., (1960), 'Marketing Myopia', *Harvard Business Review,* July/August, p. 7. Now accessible as Best of HBR series reprint R0407L at http://www.dallascap.com/pdfs/MarketingMyopia.pdf

5 http://www.marketingpower.com/AboutAMA/Pages/DefinitionofMarketing.aspx

6 Kotler, P., (1999), *Kotler on Marketing*, New York: The Free Press, p. 36.

7 Levitt, T., (1960), 'Marketing Myopia', *Harvard Business Review,* July/August, p. 13.

The tools at marketing management's disposal include firstly marketing research, which involves whatever techniques and methods are required to identify details of existing and potential customers and markets, and technologies. Such research is conducted partly on an ongoing basis so that the company is aware of critical changes, if possible before they occur and at least as and when they occur; and partly on a one-off basis when specific researches are designed and executed to find answers to particular questions which may be critical to the further development of the business.

Other mechanisms for which marketing management are generally held responsible, referred to as the marketing mix, are product, price, promotion (of which selling is one element) and distribution, sometimes referred to as placement, or place, in order to comprise '4 Ps'. Each of these variables is controlled by management and none of them is as straightforward as they might first appear.

The concept of the product (or service) is multi-dimensional. According to standard definitions it comprises a core benefit or service for which the customer has a need or want. It has a physical existence which is manifest in its price and quality, its performance, specification, design, reliability and longevity. Beyond that, there is the question of the service that is involved with the product, such things as its warranty, delivery, after-sales service and promotional support. And even beyond that, there are psychological characteristics such as the product image and brand and corporate images which are perceived by existing and potential customers.[8] Product analysis goes beyond this level of detail. For example, Garvin suggested that quality be defined by such additional characteristics as conformance, durability, serviceability, aesthetics and perceived quality.[9]

Marketing management's responsibility is to ensure that the product which is delivered, defined in terms of its various attributes as above, is the product which the customers need and want and believe they are getting when they purchase. Moreover, it is marketing's responsibility to ensure they understand which attributes are most important to the customer and to ensure that the company does not incur cost delivering levels of attribute the customer does not need or want.

8 Pearson, G., (1999), *Strategy in Action,* Harlow: FT Prentice Hall, p. 59.
9 Garvin, D.A., (1987), 'Competing on the Eight Dimensions of Quality', *Harvard Business Review*, November/December.

Price is one important attribute of the product and it is interesting to compare how marketers are taught to treat pricing with how economic theory suggests prices should be set. Many different approaches to the pricing decision have been proposed by marketers: premium, penetration, economy, price skimming, psychological pricing, product line pricing, optional pricing, captive product pricing, product bundle pricing, promotional pricing, geographical pricing and value pricing.[10] To this list might be added simple cost plus pricing or even marginal cost pricing. Whatever approach is adopted, the pricing element is clearly only one of many product attributes which need to be complementary rather than contradictory if the product is to present itself as a coherent whole.

Promotion can involve any or all of advertising, internet promotion, personal selling, sales promotion, public relations, direct mail, trade fairs, exhibitions and sponsorship. The management decisions on promotion involve selecting the methods and media to be used based on their efficiency and effectiveness and critically including their compatibility with the other product attributes and existing and potential customer and market characteristics.

Finally, among the marketing mix is distribution, a management decision which is easy to overlook since the most appropriate distribution channels might appear obvious. Distribution could be direct, such as via mail order, internet or telephone sales. Or it could be through an agent who sells on behalf of the producer, or via a wholesaler who sells to retailers, or it could be direct to the retailer who sells to end-customers. Innovative distribution decisions could be critical to the success of a particular business.

As with all management decisions those on the marketing mix have to be planned and executed and their effectiveness monitored and adjustments to the original decisions considered. These issues may appear more remote from the business of processing customers' orders than is operations management. But their effectiveness and efficiency are clearly crucial to the company's survival and prosperity. The degree to which the company has absorbed the marketing philosophy is widely seen as a mark of its stage of development.

Economic theory is largely silent regarding any of this. It simply does not engage with the concept of marketing management. It is concerned with what it refers to as commodities whereas marketing is concerned with differentiated products, identifying their uniqueness to differentiate them further from

10 Marketing Teacher at http://marketingteacher.com/Lessons/lesson_pricing.htm

competing products in ways which customers find appealing. Economic theory is concerned with market prices whereas marketing management is concerned with differentiating their product by all means including price in order that it is perceived as more desirable than competing products. Economic theory suggests that corporate ownership is essential to those in control if they are to be 'vigilant' but ownership is utterly irrelevant to professional marketing management. It is competition, rather than ownership which drives management to efficiency and effectiveness.

Financial Management

The third primary division in the work of management is the finance responsibility. While often headed up by a professionally qualified accountant, it is a management responsibility. Accounting is a distinct sub-division of financial management.

Accounting is concerned with recording management stewardship over past periods and is a tool of management control. It involves the accurate recording of all monetary transactions and the preparation, at the end of each accounting period, of reporting schedules such as the balance sheet, the profit and loss account and cash flow statement. As well as these formal documents, accounting is also concerned with recording and preparing management accounts such as budgets, actual results and reports of variations between the two and the likely import of such variance. Accounting is intended to assist in the effective and efficient internal control of day to day business.

Financial management is a more strategic responsibility, ensuring the business has adequate, but not excessive, funding to survive and prosper, that it makes effective and full use of its assets and does not retain underutilized assets and that it invests effectively in its future security and development.

The planning of adequate funding requires detailed knowledge and understanding of the funds, actual and potential, generated and consumed by business operations and the funds required for the planned business future. This requires an ability to control short-term cash conservation and generation from the business, so that sufficient cash is available to fund raw material purchases, employee wages and all the costs of producing goods plus the provision of credit to customers till they pay for the goods they receive, as well as any other short-term needs such as tax payments. Nothing is quite so strategic as running

out of cash. Management is concerned first and foremost with avoiding waste and financial management is responsible for waste incurred by lax control of working capital, or by payment of more taxation and dividend than necessary.

Financial management involves responsibility for generating funds from external sources, usually including shareholders, purchasers of loan stock and banks who might provide short and medium-term loans. The mix of such sources of finance is critical to the future viability of the business. While bank loans may be satisfactory for the short and medium-term liquidity requirements of the business, its long-term structure depends on: a) the mix of shareholders' funding which is rewarded by dividends and the possibility of capital growth as the share price rises; and b) the long-term debt component which is rewarded by interest payments to holders of bonds and loan stock.

Dividends are paid out of profits on which taxes have been paid, whereas interest is treated as a business cost prior to payment of tax. Consequently interest-bearing loan stock is generally a substantially less costly form of externally funded capital. Financial management therefore has a fine judgment to make regarding the mix of the equity and debt it issues to generate funds. If the proportion of debt is too low, the company will be paying more for its funding than is necessary. If the proportion of debt is too high, the company may be perceived as too risky and the share price may be damaged, thus raising the cost of future increments in external funding. Minimizing the cost of the company's capital, (calculating it as the average cost of its different sources, weighted by their proportions in the total capital mix) reduces the return the company has to make on future investments if they are to be profitable. Thus the lower the weighted average cost of a company's capital the more the investment it can afford to make in its future.

The quantification of debt and equity capital and their remuneration has generally been recorded on a company's balance sheet and has therefore traditionally embodied a degree of objectivity, or at least, transparency. However, in more recent years the nature of a company's assets has changed making it more difficult to record their true value on the balance sheet. And at the same time there has also been an incentive for accounts to deliberately mislead by taking real liabilities off the balance sheet, thereby reducing the apparent scale of risk involved and enabling companies to take on more debt than would otherwise be thought prudent. The truth and fairness of a company's published accounts has therefore been allowed to be compromised.

Associated with decisions regarding the capital structure of the business are the more routine decisions as to the level of dividend payments. Dividends impact on the stock market performance of the company's shares, but it is only one such influence. The company's shares, traded in the freely competitive stock market, may be regarded as a 'product' competing with other 'products', and dividends are just one of the product's attributes. Financial management has responsibility for marketing the company's shares using all the marketing tools available to it, not simply relying on the one lever, dividends.

Financial management's task is not to maximize the share price on the stock market but to ensure it performs sufficiently to ensure the company's autonomous survival. Distributing more dividends than necessary to achieve this would be just as wasteful as giving the customer levels of quality, or any other characteristic, for which they are not prepared to pay.

This requires the general stock market to be aware of the company's true position and to have that reflected in the current share price as accurately as possible. Given that the market itself is subject not merely to factual analysis but to sentiment, not to mention hysteria and panic, the accuracy is fairly limited, but this only makes it more important that the share price and the company's underlying value do not get too disconnected. If they do the company's autonomy will be threatened because such misleading valuations will almost certainly become apparent at some point.

Financial management is also responsible for ensuring that investment decisions are taken on the basis of rational financial grounds. Non-financial criteria, for example, related to the appropriateness of the strategic direction of the investment, may be critical, but properly conducted financial assessment is also necessary to try to ensure the future viability of new investment. These may include the setting of an appropriate interest rate which new investments might be required to return if they were to proceed, the hurdle rate being set by reference to the weighted average cost of the company's capital.

This brief summary of aspects of the financial management responsibility is sufficient for the present purpose. Clearly, the many and various financial decisions would normally be taken guided solely by the best interests of the company. That is no different from all other management decisions such as those in operations and marketing already considered. However, were financial management to be persuaded that their responsibility was to act solely in the best interests of shareholders, capital structuring and the distribution of dividends

might be decided quite differently, subordinating the long- term interests of the company to the immediate or short-term interests of its shareholders.

Technical Management

The three primary divisions of management labour appear to be generally applicable in any industrial activity. But the industry-specific technical management responsibility is likely to be just as important as the others and may in some circumstances be paramount. Technical management has always been an important management responsibility, right from the beginning of industrialization. The famous names associated with the first canal, road and rail systems were the engineers such as Brindley, Macadam, Stephenson and Watt. The same is true of manufacturing industries of the initial industrialization: Arkwright, Crompton, Darby, Kay, Hargreaves and others, are all known for their industry-specific technological contributions.

The distinction between the technologists and the mere 'businessmen' was made by Thorstein Veblen.[11] He contrasted the engineers and scientists, *'professionals of great skill and productive potential' with the 'profit oriented businessmen'*.[12] This appreciation of the technical role, which economists make no attempt to model, adds to the denigration of the 'businessman' which economists from Smith onwards have claimed to account for. But the 'businessman', synonymous with the capitalist 'Mr Moneybags', is not management, while the professional technical role is part of the management responsibility.

Technical management requires knowledge and expertise, relevant to the specific industry, which is nowadays normally obtained through graduate education in the particular science or technology. It requires continuous updating as technology advances, so that the company's use of technology remains competitive. It oversees the research and development activity which aims to take the company ahead of competition in terms of its use of technology.

The vast majority of inventions and innovations emanate from research and development groups operating within large-scale business organizations.[13] The

11 Veblen, T., (1904), *The Theory of Business Enterprise*, New York: Macmillan.
12 Galbraith, J.K., (1987), *A History of Economics*, London: Hamish Hamilton p. 172.
13 Schmiemann M., 'The Link Between R&D, Inventions and Innovations in Europe', *World Patent Information*, Volume 21, Number 1, March 1999 , pp. 43–45(3).

commonplace assertion that big businesses cannot be innovative is patently untrue. But the organizational characteristics which permit organizations to be efficient in their day to day operations can tend to frustrate and inhibit the effective operation of research and development. Protecting the ability to be creative, within a large and efficiency and effectiveness focused organization, is one of the responsibilities of technical management.

There has always been some disagreement as to the role of technical management in the initiation of innovations. Marketers can argue that their role is prime, there being no point in producing an innovative new product for which there is no market. The opposing argument holds that constraining research and development to projects approved by marketing effectively rules out the possibility for fundamental step-change innovations for which there is no existing sale and no market experience. The truth is that either markets or technology can initiate innovations, but successful developments will need to satisfy the requirements of both.

The industry specific nature of technical management means that further generalization on the division of its labour would be problematic, save to note that it may be the most important managerial role in some industrial situations and is excluded from the economic model.

The Management Mindset

The division of management labour may continue indefinitely as organizations grow. The tendency to create bureaucracy as organizations grow and mature is understood and appropriate counter measures have been prescribed.[14] Mintzberg was quoted as saying he could offer an account of problems an organization had experienced by reference to the titles of head office departments, many having been created to solve specific issues. Some functions, which might be thought of as management, actually are the providers of administrative support rather than being themselves management responsibilities.

People management is a good example of Mintzberg's analysis. The personnel or human resource management function was traditionally a responsibility of line management, an implicit and important part of the role of any manager. The staff function merely provided administrative support on such matters as pay and occasionally being asked to provide arbitration when

14 Pearson, G., (1999), *Strategy in Action*, Harlow: FT Prentice Hall, pp. 223–248.

line management and workers were in dispute. The role gained importance in situations where industrial relations were contentious, and sometimes, in fulfilment of Mintzberg's contention, separate departments of industrial relations were established. But managing people is so much an intrinsic part of management that many, including Drucker, have been doubtful whether there should be such a separate function operating continuously as intermediary between line managers and workers. Such a function might well be indicative of an organization's personnel problems, and its existence dependent on continuation of those problems.

No matter how management labour is divided there are consistencies of approach amounting ultimately to a management mindset which drives decisions in all such specialist areas. Adam Smith's assertion that it was from the producer's self-interest that 'we' – Smith makes it clear he was referring to 'we' as customers – benefit, rather than their 'humanity'. The customers' benefit arises from the fact that producers compete with each other to offer customers a better deal; it does not derive from any aspect of ownership. The need to avoid losses, or to survive in the face of competition, is what drives management, not the narrow self-interest of ownership.

Smith denied the possibility of business improvement by management without ownership and in this he was demonstrably wrong. Management without ownership has achieved massive improvement. Chandler referred to it as 'the managerial revolution in American business'; Drucker referred to it as the 'productivity revolution' which had more dramatic impacts on the general population than did the first industrial revolution. The division of management labour demonstrates the means by which this was achieved. It is a technical, professional process rather than simply being based on the subsequently ubiquitous 'greed is good' caricature of Smith's approach.

Management labour may start as described previously or it may take a different route depending on the nature of the business and possibly the personal strengths of its founding entrepreneur. It does not necessarily imply any particular organizational structure. Perhaps the only generalization that can be made is that while the business is successful and continues to grow, so the division of management labour will also proceed.

Operations management may spawn an industrial engineering function whose job it is to continually improve production methods, ensuring the company maintains its position in available technology. Technical management

may set up a separate research and development unit to initiate the development of new products or completely new technologies, such a department being quite separate from the main business so that different cultural rules might apply to this essentially creative work. Marketing may initiate a separate research department devoted to identifying new markets or new applications or new customer wants or needs. Finance may establish a separate treasury function whose job it is to ensure that any short-term cash balances the company might accrue are deployed in the most lucrative ways commensurate with their ready accessibility. They may also develop specialist tax expertise whose job it is to ensure the company does not miss any opportunities to reduce its tax payments. Similarly, of support systems, accounting may establish a specialist credit control function to ensure invoiced payments are received on time.

The division of management labour is continuous while ever the business grows, and it can contribute substantially to its success.

The management responsibility is for the survival and future prosperity of the organization and as it grows to find ever better ways of dividing that work so as improve the methods of manufacture (i.e. to reduce costs, improve yields or improve quality of production), or to improve the products (i.e. by either lowering their cost, improving their quality or performance or adding more features).

Eliminating waste is invariably the first and simplest way of improving the way things are done. This applies to all the various functional areas of management which have been briefly reviewed in this chapter. The preoccupation is, as Drucker emphasized, with avoiding losses, i.e. surviving, rather than maximizing profit:

> *'Nothing shows more clearly how deeply we are still entrapped in pre-industrial thinking than our pre-occupation with "profit". The central fact of industrial economics is not "profit" but "loss" – not the expectation of ending up with a surplus, its justification, and the legitimacy of the claims to a share in it; but the inevitable and real risk of ending up with an impoverishing deficit, and the need, the absolute need, to avoid this loss by providing against the risks.'*[15]

Drucker's concept of management, largely shared by Barnard, Brown and others, is of a continuously innovative process of improvement, introducing

15 Drucker, P.F., (1950), *The New Society*, New York: Harper & Brothers, p. 52.

the new, eliminating waste, reducing costs, improving quality, and so giving the customer a better deal than competitors do. This is the management mindset which drives management across all its responsibilities in operations, marketing, finance and technical management, focusing on ever better use of resources so as to ensure the company's survival and its ability to win in its chosen markets.

The complaint that commercial management seeks to avoid paying, for example, more tax than is absolutely necessary, is based on a misunderstanding of the management project. Of course, it will seek to minimize its tax payments, just as it does any other expense. It is up to government to set the tax rules without ambiguity. It is not up to management to pay additional unnecessary tax motivated by generosity or patriotism.

It is a paradox of classical economic theory that while it claims to be an objective study, it is based on the concept of the amoral, self-interested individual seeking only to maximize his own utility. Smith knew nothing of large-scale industry and its management. His models were the butcher, the brewer, the baker and the pin-making workshop. For all his insights, these were the foundation of his theory, which held that hired managers could not be expected to work in the long-term interests of the company they managed, but only in their own rather shorter-term self-interest. Like much economic theory it may have been appropriate in its own time, but its relevance was not permanent.