

The Evolution of Management

# WHAT IS MANAGEMENT?

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This article examines the birth and evolution of the concept of management and analyzes what has underpinned IESE's vision of management from the outset.



The “American” vision of management that IESE has embraced since its foundation was far from uniform, as different schools had different points of departure. Right from the very start, one well-known author<sup>1</sup> described management theory as a “jungle” difficult to find your way in.

This was primarily because the early theories stressed one aspect of management, or one situation type in isolation from other variables within a company. Yet it was also because there were different schools of thought within the same field.

Therefore, it’s worthwhile trying to clarify the essence of this American vision of management. In fact, today this clarification may be more important than ever as in recent years, management has undergone a new and powerful intellectual invasion from economics that has shifted things in the opposite direction, which some of us believe is the wrong path.

The original vision was based on four basic points that we will revisit here, not for historical interest but because they are all valid today.

First we examine the definition of management found in Wikipedia: “in simple terms (management) means the act of getting people together to accomplish desired goals.”<sup>2</sup>

We note that this definition does not even mention economics.<sup>3</sup> A classic author, Chester I. Barnard,<sup>4</sup> expressed it more roundly in one of the most often-cited excerpts from his work:

*“Next to the question of authority as a cause for confusion concerning organization, I would place the course of the development of economic thought in the last century and a half and the exaggeration of the economic phases of human behavior which the early formulation of economic theory made far too convenient. (...) Adam Smith and his successors depressed the interest in the specific social processes within which economic factors are merely one phase, and greatly overemphasized economic interests (...) All of this meant, and still means in the current thought of many, that man is an “economic man” carrying a few non-economic appendages.”*

*“At least this I can assert: though I early found out how to behave effectively in organizations, not until I had much later relegated economic theory and economic interests to a secondary - though indispensable - place did I begin to understand organizations or human behavior in them. I do not mean merely that non-economic organizations - such as the political, the educational, the religious - are also to be found and are of primary importance; I mean specifically with reference to business organizations that non-economic motives, interests and processes, as well*

*as the economic, are fundamental in behavior from the boards of directors to the last man.”*

The classic concept of management, then, refers to ways to meet human needs, economic and otherwise, and getting people to cooperate in the process of meeting these needs. This is the first point.

### LEARNING FROM PRACTICE

Secondly, the concept of management that IESE embraced from its inception includes the idea that it should contribute to resolving real, complete problems in all their dimensions, as opposed to theoretical, technical or simplified problems.

The case study method is clearly a good tool for putting this idea into practice. This methodology should not solely consist of teaching how a theory is applied, nor illustrating a good example, nor providing prefabricated solutions. Rather it should be a tool for teaching students how to resolve non-operational problems, that is, teaching executives to reason through whole problems that cannot be resolved via a pat theory or routine.

The argument that IESE Prof. Juan A. Pérez López used to employ, and that many of his successors have continued to subscribe to, was that although the best source of learning is real experience, you can also learn from simulated experience.

True, simulated learning has several disadvantages compared to real experience, which is always preferable. However, it also has several major advantages, such as the number of different situations that one can examine via case studies, which is much higher than the number of experiences one can actually have.

It is wise, therefore, to avoid two types of frequent mistakes: thinking that the case study method can replace theory, and thinking that theory can replace the case study method. When there are structured theories that are useful for resolving case studies (such as financial theory, which, it has been said on occasion, is like the physics of management), participants must have a grounding in them before sitting down to resolve cases. However, these theories cannot replace the case studies if we

1 Ver Koontz, H. “The Management Theory Jungle”, *Academy of Management Journal*, December 1961.

2 This is the definition found on July 17, 2008, on Wikipedia. The Spanish version does not contain the word “management”, and the definition for “economics and business management” (economía y dirección de empresas), which would be the closest equivalent, already has a much more pronounced economic bent than the English version.

3 It is interesting that even today the Spanish version of Wikipedia provides a much more economics-focused definition.

4 Chester I. Barnard, *The Functions of the Executive*, Cambridge, Mass, Harvard University Press, 1938, pp. 30-31.

"IESE DID NOT CONTENT ITSELF TO JUST OBSERVE WHAT THE ACADEMIC INSTITUTIONS WERE DOING BACK THEN. INSTEAD IT BROUGHT BUSINESS LEADERS ON BOARD TO EXAMINE THEIR PROBLEMS TOGETHER AND HELP THEM TO RESOLVE THEM IN A STRUCTURED FASHION."

are talking about resolving real problems, which in the business world are largely non-operational. There is no comprehensive theory that can resolve them.

Thirdly, an additional factor, which is almost a consequence of the two previous ones, is that IESE, similar to many of the American business schools, did not content itself to just observe what the influential academic institutions were doing back then. Instead, it brought business leaders on board to examine their problems together and help resolve them in a structured fashion.

Finally, the classic management embraced by IESE from the start originated from the standpoint of general management, which requires a broader analysis, as we shall discuss in the next section.

#### DRUCKER AND THE GLOBAL CONCEPT OF MANAGEMENT

Back at IESE's foundation, there was one author who was widely respected and accepted almost as the defining standard in the discipline: Peter Drucker. Drucker wrote what could rightfully be considered the seminal work on management: "The Practice of Management." In the prologue to the 1986<sup>5</sup> edition, he wrote:

*"Management books, though only few of them, had been written and published before The Practice of Management appeared in 1954. (...) Still, The Practice of Management was the first true "management" book. It was the first to look at management as a whole (...) The Practice of Management thus created some thirty years ago what we now refer to as the "discipline of management. and this was no accident or good luck – it was the book's mission and intent (...) The Practice of Management has remained the one book which students of management, young people aspiring to become managers and mature managers still consider the foundation book. "*

Although it seems a bit boastful coming from the author himself, Drucker is largely right. In "The Practice of Management," Drucker presented an overall scheme of management that included almost everything that was later considered fundamental, but he presented it all together as opposed to merely component-by-component as most authors had done before. Curiously many of today's authors still do this, in this sense reverting to the pre-Druckerian lack of structure, as we shall discuss further on. That is, this broadly shared approach was the general management approach.

Let's get specific. Even though some of us may think that the books published prior to Drucker (the ones by Chester Barnard for example) lay down a solid foundation for academic development, they did not use the general management approach, or the global approach, as we may have called it years ago

back when it simply meant seeing things as a whole. Before Drucker, no management book had begun by talking about business analysis as the basis of companies. Many of the previous books of the time took this issue for granted before starting. Business was what it was, and the idea was to administer or manage it, and to accomplish this you had to do things this way or that. In contrast, Drucker made business a variable worth analyzing and determining.

Drucker immediately went on to proclaim the need for managers, but not just any kind of managers. He called for independent managers with decision-making authority rather than decorative figureheads or managers limited to executing the behests and whims of the boss. And they had to be answerable, meaning that management had to be based on objectives.

Drucker then went on to talk about structure, workers and social responsibility. In the space we have here we cannot even begin to briefly summarize his ideas, but suffice it to say that he tried to integrate the notion of business with the notion of management, with workers and with the rest of society.

During the years following the publication of the book, talking about management meant talking Drucker. Obviously there were specific considerations that escaped the Druckerian approach, such as in the realm of accounting, production or even sales (in short, in any functional area). But as a general way of seeing things it was the only widely accepted theory, and it was also the common point of reference for the various opinions that might exist on specific issues. Additionally, since it had been so successful, it did not seem wise to oppose what Drucker had written, under the penalty of being viewed as someone outside the mainstream of modern thinking.

The truth of the matter is that it is difficult to take issue with Drucker on most of the basic issues for two reasons. First, because they are elaborated with a great deal of common sense. And secondly, because he gives relatively few specifics (although he does explain examples in substantial detail), meaning that if he is interpreted mistakenly it just serves to justify almost any position we might want to defend. Perhaps this is his greatest weakness, although if you try to capture the spirit rather than the letter of what he proposes, he leaves little room for doubt.

#### THE CURRENT LIMBO

In recent years, a split has emerged within the world of management. Nobody knows exactly what management means today. I mentioned above that from the very start the theory

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<sup>5</sup> Harper & Row, New York, pp. 7-12.

## "THE PREVAILING FOCUS ON ECONOMICS HAS PLACED A GREAT DEAL OF EMPHASIS ON THE ECONOMIC VARIABLES OF 'BUSINESS' (OFTEN TO THE EXCLUSION OF ANY OTHER VARIABLE)."

of management was a "jungle" in which it was difficult to find one's bearings. But back then, "Drucker-style management" could serve as the glue that bound all the different techniques or ways of seeing it together.

However, the situation today is quite different. First, there is a certain ideological division, and "Drucker-style management" is no longer the standard. Secondly, the different specialties are virtually isolated from one another, hindering mutual understanding.

Finally, there are no major differences within each specialty because they are being ironed-out by the uniformity that current research has induced. Among other things, so-called "institutional theory" [the theory that organizations must conform to the prevailing rules and belief systems to survive] must have acted as the cause or consequence, but today it is difficult to find any differences in the realm of research in different specialties.

Very rarely are there original points of view that "break" with what is commonly accepted. There is more imitation than anything else, with a handful of exceptions. To some extent, **Harvard Business School** and **Stanford** still retain their own personality. Perhaps we could cite a few other examples. The rest are mere copies of what they and others do without original ideas or any attempt to question "conventional wisdom", which should, after all, be the main goal of any scientific investigation.

Today's most widespread consensus is based on the predominance of economics, of its assumptions and its methods. This is a serious mistake that departs from the American tradition and is curiously linked to the Spanish tradition in the faculties of economics, where the course called "Business Economics" was a minor, unimportant specialization within economics.

The prevailing focus on economics has placed a great deal of emphasis on the economic variables of "business" (often to the exclusion of any other variable. It has a purported "realism" in human issues, which consists of viewing humans as solely seeking their own interests, or *homo economicus*. It has bounded rationality and must maximize the value of the firm so that it produces a socially efficient result.

Clearly, there is an ideology underpinning this school of thought: a pessimistic view of human nature which sees humans as simultaneously selfish, limited in their value systems and capable of calculating everything that can be calculated.

The alternative approach, which easily dovetails with "Drucker-style management" revolves around any organization's (not necessarily a business) need for good management. Therefore, it does not aim to maximize anyone's value but to satisfy the

various participants in the organization so that they remain a motivated part of the web that makes up any organization.

It views people as a fundamental element in this management and as the recipients of what organizations produce. In contrast, the more economics-oriented vision sees people as mere instruments that should be manipulated in order to achieve the organization's goals (to maximize value), which come above everything else. More operationally, management decides how to achieve this maximization of value and imposes this approach on the human instruments that will put it into practice.

The first vision has of *homo economicus* been described as "cynical" and postmodern<sup>6</sup> while the second is much more "humanistic." Curiously, if you ask a representative of either of these camps about Drucker, you will normally be regaled with eloquent praise that, at times, misses important parts of his thinking.

It is a shame that Drucker has lost ground as an authoritative source. If you quote Drucker to members of the younger generation, they tend to shrug their shoulders or let a smile creep over their faces, as if they were hinting that the Jurassic Period ended eons ago. However, most of Drucker remains valid today in spite of some vagueness and ambiguity. But he has to be studied in his entirety, not just in bits and pieces or random sentences that omit what he views as important. Business is important, true, but only with managers operating with autonomy and self-control, and with motivated, involved workers.

But the main risk to our society is not the humanistic stance but the theory of *homo economicus*, principally when it is taken to its extreme consequences, as seen in the matter of financial incentives, which were at the root of the financial scandals in recent years. Drucker, in contrast, proposed that we take certain non-profit organizations as our model, for example the Girl Scouts, as institutions in which there is the idea of a mission, outstanding transmission of it to everyone in the organization, and direct motivation by the members to fulfill the purposes of the organization. We would be much better off listening to him.

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<sup>6</sup> That is how it was described by the organizers of the conference on Management and Humanism that was held in Venice in September 2003.