Management's New Paradigms

Assumptions of both the discipline and the practice of management

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Basic Assumptions

• Basic assumptions about reality are the paradigms of a social discipline.

• Natural science versus social discipline:
  – behavior of objects vs. behavior of people and human institutions.

• Drucker reviews seven old assumptions.
Old Assumptions

- 1. Management is Business Management.
- 2. There is one right organization.
- 3. There is one right way to manage people.
- 4. Technologies, markets and end-uses are given.
- 5. Management's scope is legally defined.
- 6. Management is internally focused.
- 7. The economy as defined by national boundaries is the ecology of enterprise and management.
Management is Business Management

- Subspecies
- Political correctness, public administration, hospital administration
- 'Good word'
- Renaming of business schools...
- 1929
- 1950
- 2000
- Wallstreet stock market crash
Management is Business Management

Conclusion:

Management is NOT Business Management!
The One Right Organization
The One Right Organization

- There is no such thing as the one right organization!
- What about the “end of hierarchy”? 
- Deliberation vs. Teamwork.
- Coexisting structures of organization:
  - Managing foreign currency exposure
  - Research: strict functional or teamwork
The One Right Organization

- Principles of Organization:
  - Organization has to be transparent
  - One person must have the authority to make final decisions:
    - “A slave who has three masters is a free man”
  - Organization has to be as flat as possible.
The One Right Organization

• One Implication:
  - Individuals will have to be able to work at one and the same time in different organization structures.

• Even more important:
  • For what tasks are what organizations most suitable?
  • For what tasks are what organizations least suitable?
  • When should we switch from one organization to another?
The One Right Organization

Conclusion:

There is NO “one right organization”
The organization that fits the task!
Management of People (MoP)

- “There is one right way to manage people”
- Proposed in 1960 by D. McGregor and in 1954 by P. Drucker
- Disproven in 1962 by A. H. Maslow
MoP: Employees

- Employees – 80 years ago
  - Full-time
  - Depend on organization
  - Subordinates

- Employees – today
  - Part-time
  - Work for outsourcing contractor
MoP: “Knowledge Workers”

- Full-timers
- Associates
- More knowledge about job than bosses
  - “Superiors” have not held “subordinates” job
- Depend on Boss
  - Hire, fire, promoted, ...
  - Direction
  - Score
MoP: “Knowledge Workers”

- Management as if volunteers
- Their means of production = their knowledge
- Motivation = Money ?
- Challenge
- Employees are partners = equal
- Not “Management of people” but “Managing for Performance”
Management of People

One does not “manage” people. The task is to lead people. And the goal is to make productive the specific strengths and knowledge of each individual.
Technologies and Uses (TaU)

- “Technologies and End Uses are fixed and given”

- Assumption:
  - Each industry has its own unique technology
  - Research lab (1869 Siemens)
  - Outside technology no impact on industry

- Today:
  - Industries depend on different technologies
  - No parallel technology lines - crisscross
TaU: Research Labs

• Assumption:
  - Own research lab produces everything exclusively for the company/industry

• Bell Labs (founded 1920)
  - Until 1960: produced everything for telephone system
  - Invention of the Transistor
  - Not enough use – sold technology
  - New telephone inventions from outside
TaU: End Uses

- “End uses are fixed and given”
- Antitrust legislation based on that assumption
- Since WW2 end use not tied to a certain product
  - Plastic
- “Want” is unique, not the means
Technology and End Uses

- New assumptions:
  - “No Technology pertains to any industry and all technologies are capable to be of importance in any industry”
  - “…not one given enduse for any product...no use is going to be linked to any one product...”
Management's Scope is Legally Defined

- Deals with the legal entity, an individual enterprise (i.e. hospital, university, business cooperation,...)
- Implied by the command and control structure
- Customer & Suppliers, two separate processes
Keiretsu

• William C. Durant (General Motors, 1910)
  - Buying up small manufactures
  - Followed by parts and accessories companies
  - joint planning, development and cost control
  - “sub”-companies had to sell 50% outside of GM
    -> competitiveness
Keiretsu (2)

- Sears Roebuck (appliances & hardware retailer, 1920s)
  - Small minority stakes & contracts
- Marks & Spencer (clothing, food, ...)
  - Only contracts
New Paradigm

- Keriratsu still based on power
- Distinction of Suppliers & Customers is difficult
- More like Partners (pharmaceutical and chemical companies, new technologies)
- Small but independent technology (they can choose)
“The new assumptions on which management, both as a discipline and as a practice, will increasingly have to base itself is that the scope of management is not legal. It has to be operational. It has to embrace the entire process. It has to be focused on results and performance across the entire economic chain.”
Management's Scope is Politically Defined

- National boundaries equal management boundaries
- Multinationals
  - Basically two or more separate companies (produce and sell in the same country)
  - e.g. Fiat
  - Country was a business unit
Transnationals

- Individual tasks are organised in a worldwide structure (research, design, engineering,...)
  - e.g. Pharma company has 10 labs in 10 different countries, but they all report to one research director. The same with manufacturing plants, ...
  - Countries became “cost centers”, not a unit for organisation, strategy, production

- Management and national boundaries are no longer congruent
Drucker:

“National boundaries are important primarily as restraints. The practice of management—and by no means for businesses only—will increasingly have to be defined operationally rather than politically.”
The Inside is Management's Domain

- Distinction between management and entrepreneurship
- “But results of any institution exist only on the outside”
- Management has to focus on results and performance.
- Organise the resources for results outside the organisation
Drucker:

“Management's concern and management's responsibility are everything that affects the performance of the institution and its results—whether inside or outside, whether under the institution's control or totally beyond it.”