1 Exploring ideas

What is management?

It looks like a simple and obvious question, and you may even be expecting to find the ‘right answer’ here at the start of this course. If you are, then an important word of warning is needed. It is actually a profoundly difficult question to answer. There is certainly no single, commonly accepted and agreed answer or definition of ‘management’.

Management means different things to different people in different circumstances and at different times. For practising managers – rather than academics and linguists – it is also a seriously misleading question, as it assumes that there is one right definition of management and consequently one right way of being an effective and competent manager.

The real challenge for you is to develop an understanding of the different ways in which management is defined, perceived and practised and to be able to draw on those different – and even contradictory – ideas to help you adjust your practice to be effective in different contexts and situations.

The following sections and activities will introduce some contrasting ways of thinking about management, the languages and debates about it, and issues and questions that may emerge from these differences. Exploring different perspectives on management in this will introduce you to ways of working with ideas – as a manager and as a student.

1.1 General theories of management –contrasting approaches

This section provides a summary overview of two contrasting general theories of management. They are based on the writings of two management thinkers – Fayol and Urwick – who can be taken to represent the classical traditions of management theory, and two management thinkers – Follett and Likert – whose basic approach was very different and who can be taken to represent a [**human relations approach**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44235216).

Section 1, together with the associated questions below, introduce a more general consideration of ways of drawing on general theories and ideas about management in your study, your development and your routine practice as a manager. You may like to make notes as you read. You might find it a quick and convenient way of getting your thoughts down. Even if they’re only rough, they can be interesting to refer back to.

This section (Section 1.1) summarises the ideas about management of four writers on organisations – Henri Fayol, Lyndall Urwick, Mary Follett and Rensis Likert – from the period 1900–1970. The reading presents their respective ideas as contrasting contributions to an ongoing debate about the nature of management.

Section 1.2 is a short extract from a book written by Donald Schön in the mid-1980s – *The Reflective Practitioner.*This was a study of the behaviours of people in a range of professions – doctors, architects, engineers, managers – and he explored particular features of those professions and the nature of professionalism in general. The book has become a modern classic and has been influential in setting up approaches to professional learning.

**Activity 1 Theories of management - Task A The nature of management**

Read the rest of this section and keep the following questions in mind:

* What are the similarities and the differences between the two broad positions on management of the four writers?
* Where have you found echoes of these general theories of management in your own experience?
* How far do they reflect some of your ideas and assumptions?
* Which do you prefer, and why?

While you read, keep a note of your thoughts on the questions above, together with your response to a further question which is more about the application of theory:

* What do you see as the implications and benefits of engaging with these theories for practising managers?

Feedback will follow Task B.

1.1.1 Classical management theory (Fayol and Urwick)

Henri Fayol (1841–1925) is often described as the ‘father’ of modern management. He had been managing director of a large French mining company, and was concerned with efficiency at an organisational level rather than at the level of the task. Drawing on his experience of what worked well in an organisation, he developed a general theory of business administration.

He first broke management down into five distinct elements:

* forecasting and planning – looking into the future and drawing up action plans
* organising – building up the material and human structure of the undertaking
* commanding – maintaining activity amount personnel
* coordinating – unifying and harmonising activity and effort
* controlling – ensuring that things conform to rules and instructions

This is a logical, rational and normative analysis of what needs to be done. But this was not a wholly abstract piece of theorising. Fayol was writing on the basis of his own, highly practical experience of management. On the basis of the five elements of management, he then proceeded to identify what he presented as 14 principles for improving managerial effectiveness.

Interestingly, Fayol’s principles share a lot with those of Lyndall Urwick (1891–1983), an army officer turned management consultant, who combined ideas of scientific management and those of classical organisation theory in his writings. Like Fayol, he also came up with a list of general principles for managerial effectiveness. The two writers’ sets of principles are compared here.

***General principles of managerial effectiveness***

***Henri Fayol (1917)***

1. Division of work – specialisation encourages continuous improvement, both in terms of skill and methods.
2. [**Authority**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44228160) – the right to give orders and the [**power**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44239968) to require obedience.
3. Discipline – a successful organisation requires the shared effort of all staff. Employees must obey, but this is two-sided – they will only comply if management play their part by providing good leadership.
4. Unit of command – employees should have only one boss with no other conflicting lines of command.
5. Unity of direction – the entire organisation should be aligned and be moving towards a common goal.
6. Subordination of individual interests – individual needs and interests should be subordinate to the needs of the organisation.
7. Remuneration – payment is an important motivator, but should be fair and reward well-directed effort.
8. Centralisation – an element of centralisation must always be present and is part of the ‘natural order’ in an organisation.
9. Line of authority – a hierarchy is necessary for unity of direction.
10. Order – an organisation’s requirements must be balanced against its resources.
11. Equity – employees must be treated equally and fairly.
12. Stability of tenure of personnel –employees need a period of stability in a job to perform at their best.
13. Initiative – encouraging staff to show initiative is a source of strength in an organisation.
14. Esprit de corps – management should foster harmony, cohesion and morale among the organisation’s staff.

***Lyndall Urwick (1943)***

1. The principle of the objective – the overall purpose of an organisation it its raison d'être.
2. The principle of specialisation – one group, one function.
3. The principle of coordination – the purpose of organising is to facilitate coordination or unity of effort.
4. The principle of [**authority**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44228160) – in every organised group, supreme authority must be located somewhere, and there should be a clear line of authority to every member of the group.
5. The principle of responsibility – a superior may be held accountable for the actions of subordinates.
6. The principle of definition – jobs, duties and relationships should be clearly defined.
7. The principle of correspondence – in every position, responsibility and authority should correspond with one another.
8. The principle of span of control – no person should supervise more than 5–6 line reports whose work is interlocked.
9. The principle of balance – it is essential that the various units of an organisation are kept in balance.
10. The principle of continuity – reorganisation is a continuous process and provision should be made for it.

**Stop and reflect**

Although many of the above principles have been adopted as good practice for many years by managers in all kinds of organisation, it is less certain whether they are still relevant today given the complexity of the modern manager’s role and the high-paced environment in which most managers now operate. Are the principles timeless or are they now outmoded? How do they fit with your experience of being a manager?

1.1.2 A human relations approach (Follett and Likert)

In contrast to Fayol and Urwick, Mary Parker Follett (1868–1933) eschewed the scientific-cum-technical approach to management, emphasising instead the importance of manager–worker relations and the need to view management (and leadership) more holistically. Like Urwick, she was an early management consultant and organisation theorist. She also wrote on creativity; the best-known quote from her work is ‘management is the art of getting things done through other people’ (Follett, 1918). Note that she identifies management as an art – not a science. This sits at the heart of her thinking about management and her strong belief that the key task of management is to facilitate cooperation and the involvement of staff in decision making.

Her contribution to modern day thinking about management and employer– employee relations is becoming more widely known, thanks in part to the work of the Mary Parker Follett Foundation:

Follett is increasingly recognised today as the originator, at least in the 20th century, of ideas that are today commonly accepted as ‘cutting edge’ in organisational theory and public administration. These include the idea of seeking ‘win–win’ solutions, community-based solutions, strength in human diversity, [**situational leadership**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44248896), and a focus on process. However, just as her ideas were advanced for her own time, and advanced when people wrote about them decades after her death, they remain too often unrealised. We recognise them as an inspirational and guiding ideal for us today, at the beginning of the 21st Century.

(Source: Mary Parker Follett Foundation, undated)

Follett’s human relations approach to the basis of effective management was echoed later by such writers as the American social psychologist Rensis Likert (1903–1981). His research was summarised by Derek Pugh as follows:

Likert distinguishes four systems of management. System 1 is the exploitative authoritative type where management uses fears and threats, communication is downwards, superiors and subordinates are psychologically far apart, the bulk of decisions are taken at the top of the organisation, etc. System 2 is the benevolent authoritative type where management uses rewards, subordinates’ attitudes are subservient to superiors, information flowing upwards is restricted to what the boss wants to hear, policy decisions are taken at the top but decisions within a prescribed framework may be delegated to lower levels, etc. System 3 is the consultative type where management uses rewards, occasional punishments and some involvement is sought; communication is both down and up but upward communication other than that which the boss wants to hear is given in limited amounts and only cautiously. In this system subordinates can have a moderate amount of [**influence**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44237120) on the activities of their departments as broad policy decisions are taken at the top and more specific decisions at lower levels.

System 4 is characterised by participative group management. Management give economic rewards and make full use of group participation and involvement in setting high performance goals, improving working methods, etc.; communication flows downwards, upwards and with peers and is accurate; subordinates and superiors are very close psychologically. Decision making is widely done throughout the organisation through group processes, and is integrated into the formal structure by regarding the organisation chart as a series of overlapping groups with each group linked to the rest of the organisation by means of persons who are members of more than one group. System 4 management produces high productivity, greater involvement of individuals, and better labour–management relations.

[...] Management, according to Likert, is always a relative process. To be effective and to communicate, leaders must always adapt their behaviour to take account of the persons whom they lead. There are no specific rules which will work well within all situations, but only general principles which must be interpreted to take account of expectations, values and skills of those with whom the manager interacts. Sensitivity to these values and expectations is a crucial leadership skill, and organisations must create the atmosphere and conditions which encourage all managers to deal with the people they encounter in a manner fitting to their values and their expectations.

1.2 Management as a science versus management as an art

In 1983, Donald Schön published a seminal study of how professionals think in action. The *Reflective Practitioner* was based on a study of the way in which a range of professionals – managers, doctors, architects, and planners – actually approached their work. He gave particular attention to the huge discrepancies between the official accounts professionals give of their professional practice and the actual way in which they work; between the formal, rational dimensions of their working methods and the less formal, more intuitive and emotional dimensions.

The following extract from Schön’s book is taken from the start of the chapter specifically on management. Following on from the issues identified in reading 1, this extract laid some of the main foundations for the ways in which managers understood their role in the last years of the twentieth century and into the current century. Schön also played a key role in shaping the ways in which managers learned their trade – and you will have a chance to look further at his ideas in later sections of the module.

**Task B Management as a science versus management as an art**

The next section helps you address another big question posed in this course:

* Is managing a science or an art?

In the light of this section on general ideas about management as a science versus management as an art’ as you read make on the following questions:

* Do Schön’s distinctions between management as a science and management as an art or craft reflect your own experiences?
* Does he challenge your ideas about management, or those of managers you have known, or the assumptions about management you have encountered in different organisations and contexts? If so, how?
* What do you see as the implications of Schön’s ideas here for practising managers?
* Is management, for you, primarily a rational or an intuitive/creative profession?

As before, it would also be very helpful if you could consider the following questions, which are relevant to all general theories and ideas about management, not just those you have been considering here:

* Do you think academics, researchers and writers on management differ in their approaches to ideas and theories about management from practising managers?
* If they do, how do you see those differences?
* 1.2.1 The split in the field of management
* The field of management has long been marked by a conflict between two competing views of professional knowledge. On the first view, the manager is a technician whose practice consists of applying to the everyday problems of the organisation the principles and methods derived from management science. On the second, the manager is a craftsman; a [**practitioner**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44240832) of an art of managing that cannot be reduced to explicit rules and theories. The first view dates from the early decades of the twentieth century when the idea of professional management first came into good currency. The second has an even longer history, management having been understood as an art, a matter of skill and wisdom, long before it began to be understood as a body of techniques. But the first view has gained steadily in power.
* The idea of management science, and the complementary idea of the manager as a technician, has been carried by a social movement which has spread out from its centre in the United States to encompass the whole of the industrialised world. The origins of this movement are difficult to identify, but a critically important milestone in its development was the work of Frederick Taylor who, in the 1920s, conceived of management as a form of human engineering based on a science of work. While Taylor may not have invented these ideas, he was certainly the first to embody them in a practice of industrial management and consultation, and he popularised them in a way that has had enormous influence in industry, in business, and in the administration of public agencies.
* Taylor treated work as a man/machine process which could be decomposed into measurable units of activity. Every industrial process, from the shovelling of coal to the processing of steel, could be subjected to experimental analysis. The design of tools, the bodily movements of the worker, and the sequencing of production steps, could be combined in an optimum configuration, a ‘one best way.’ Taylor saw the industrial manager as a designer of work, a controller and monitor of performance, and a distributor of rewards and punishments carefully selected and applied so as to yield optimally efficient production. Above all, he saw the manager as an on-line experimenter, a scientist in action, whose practice would consist in the trial and measurement of designs and methods aimed at the discovery and implementation of the one best way.
* Taylor’s views were not unique. Thorstein Veblen, to take one extraordinary example, also perceived that industry had taken on the characteristics of an organisational machine within which managers of the business enterprise must be increasingly concerned with standards, measures of performance, and the articulation of interlocking activities. But it was Taylor who embodied these ideas in practice, and it was Taylor’s version of the practice of industrial engineering, efficiency expertise, and time and motion study which has evolved into the management science of the present day.
* World War II gave an enormous impetus to the management science movement, first, because of the general rise in prestige of science and technology, and second, because of the birth of operations research and [**systems theory**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44251904). These disciplines, which grew out of the use of applied mathematics to solve problems of submarine search and bomb tracking, were later exported to industry, commerce, and government. In the wake of World War II, management science grew to maturity. Teachers and researchers in the new schools of management, in partnerships with managers in public and private sectors, have engendered a plethora of new techniques. There is no field of management which has been immune to the incursions of management science. What was once true only of industrial production has now become true of sales, personnel selection and training, budgeting and financial control, marketing, business policy, and strategic planning? Technical panaceas have appeared on the scene with clocklike regularity, old ones making way for new. Value analysis, management by objectives, planning, programming and budgeting and zero-based budgeting are only a few of the better-known examples. Even the human relations movement, which had originated as a reaction against Taylorism, has tended increasingly to present itself as a body of techniques.
* Yet in spite of the increasingly powerful status of management science and technique, managers have remained persistently aware of important areas of practice which fall outside the bounds of technical rationality. This awareness has taken two forms.
* Managers have become increasingly sensitive to the phenomena of uncertainty, change, and uniqueness. In the last 20 years, ‘decision under uncertainty’ has become a term of art. It has become commonplace for managers to speak of the ‘turbulent’ environments in which problems do not lend themselves to the techniques of benefit-cost analysis or to probabilistic reasoning. At least at the level of espoused theory, managers have become used to the instability of patterns of competition, economic context, consumer interests, sources of raw materials, attitudes of the labour force, and regulatory climate. And managers have become acutely aware that they are often confronted with unique situations to which they must respond under conditions of stress and limited time which leave no room for extended calculation or analysis. Here they tend to speak not of technique but of intuition.
* Quite apart from these exceptions to the day-to-day routine of management practice, managers have remained aware of a dimension of ordinary professional work, crucially important to effective performance, which cannot be reduced to technique. Indeed, they are sometimes aware that even management technique rests on a foundation of nonrational, intuitive artistry.
* Among theorists of management, the nonrational dimension of managing has had several notable exponents. […] I have cited Chester Barnard’s description of ‘nonlogical processes,’ Geoffrey Vicker’s analysis of the art of judgment, and Michael Polanyi’s reflections on tacit knowing.
* More recently a Canadian professor of management, Henry Mintberzg has caused a considerable stir with studies of the actual behaviour of top managers that reveal a virtual absence of the methods that managers are ‘supposed to’ use. In some of the most prestigious schools management, where the curriculum depends on cases drawn from the actual experience of business firms, there is a widely held belief that managers learn to be effective not primarily through the study of theory and technique but through long and varied practice in the analysis of business problems, which builds up a generic, essentially unanalysable capacity for problem-solving.
* It is no exaggeration, then, to say that the field of management is split into two camps, each of which holds a different view of the nature of professional knowledge. At the same time that management science and technique have grown increasingly in power and prestige, there has been a persistent and growing awareness of the importance of an art of managing which reveals itself in both crucially important situations of uncertainty, instability, and uniqueness, and in those dimensions of everyday practice which depend upon the spontaneous exercise of intuitive artistry. One sign of this split is that in some schools of management, representatives of the two tendencies – the professors of management science and the practitioners of case-method – no longer speak to one another. The representatives of each school of thought go about their business as though the other school of thought did not exist.
* But a split of this kind, which is barely tolerable in a professional school, creates for thoughtful students and practitioners a particularly painful variant of the dilemma of ‘rigour or relevance.’ For if rigorous management means the application of management science and technique, then ‘rigorous managers’ must be selectively inattentive to the art which they brings to much of their day-to-day practice, and they must avoid situations – often the most important in organisational life –where they would find themselves confronted with uncertainty, instability, or uniqueness.
* But if the art of managing can be described, at least in part, and can be shown to be rigorous in a way peculiar to itself, then the dilemma of rigor or relevance need not be so painful. Indeed, it may be possible to bring the art of managing into dialogue with management science.

# 1.2.2 The art of managing

* In management as in other fields, ‘art’ has a twofold meaning. It may mean intuitive judgement and skill, the feeling for phenomena and for action that I have called knowing-in-practice. But it may also designate a manager’s reflection, in a context of action, on phenomena which are perceived as incongruent with intuitive understandings.
* Managers do reflect-in-action. Sometimes, when reflection is triggered by uncertainty, the manager says, in effect, ‘This is puzzling; how can I understand it?’ Sometimes, when a sense of opportunity provokes reflection, the manager asks, ‘What can I make of this?’ And sometimes, when managers are surprised by the success of their own intuitive knowing, they ask themselves, ‘What have I really been doing?’
* Whatever the triggering condition, a manager’s reflection-in-action is fundamentally similar to reflection-in-action in other professional fields. It consists in on-the-spot surfacing, criticising, restructuring, and testing of intuitive understanding of experienced phenomena; often, it takes the form of a reflective conversation with the situation. A manager’s reflection-in-action also has special features of its own. A manager’s professional life is wholly concerned with an organisation which is both the stage for his or her activity and the object of his or her inquiry. Hence, the phenomena on which a manager reflects-in-action are the phenomena of organisational life. Organisations are repositories of cumulatively built-up knowledge: principles and maxims of practice, images of mission and identity, facts about the task environment, techniques of operation, and stories of past experience which serve as exemplars for future action. When a manager reflects-in-action, he or she draws on this stock of organisational knowledge, adapting it to some present instance. The manager also functions as an agent of [**organisational learning**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44238912), extending or restructuring, in the present inquiry, the stock of knowledge which will be available for future inquiry.

**(Organisational learning)**

**Has been described as ways firms build, supplement and organise knowledge and routines around their activities and within their cultures, and adapt and develop organisational efficiency by improving the use of the broad skills of their workforces (Dodgson, 1993, p. 377).**

* Finally, managers live in an organisational system which may promote or inhibit reflection-in-action. Organisational structures are more or less adaptable to new findings, more or less resistant to new tasks. The behavioural world of the organisation, the characteristic pattern of interpersonal relations, is more or less open to reciprocal reflection-in-action – to the surfacing of negative information, the working out of conflicting views, and the public airing of organisational dilemmas. Insofar as organisational structure and behavioural world condition organisational inquiry, they make up what I will call the ‘learning system’ of the organisation. The scope and direction of a manager’s reflection-in-action are strongly influenced, and may be severely limited, by the learning system of the organisation in which they practice.
* These distinctively organisational aspects of a manager’s reflection-in-action must enter into any good description of the art of managing.**SIGN IN to enrol** >

1.3 Functional perspectives on management

Henri Fayol (1917) suggested that all the activities that take place in organisations can be divided into the following groups:

1. technical activities
2. commercial activities
3. financial activities
4. security activities
5. accounting activities
6. managerial activities

Interestingly, at least three of these activities (1, 2, and 3/4) correspond directly with three of the four dominant, contemporary management functions – operations, marketing and finance/accounting. And the fourth function, organisational behaviour and human resource management (HRM), arguably falls within Fayol’s sixth category of managerial activity. Together with change and project management, these core functions of management, along with their respective bodies of specialist, professional and academic knowledge, still provide the accepted framework and focus for the general practice of management. Most business and management courses still underpin their learning with these core disciplines and functional perspectives.

Things are becoming more blurred. Although many large, traditional organisations may still have specialist departments dedicated to the management of these core organisational functions, most smaller and medium-sized enterprises have a much more flexible approach to the ways in which functional management is undertaken. The ability to manage effectively and integratively across functional boundaries is becoming a more usual requirement for both the specialist and the generalist manager.

Nevertheless it remains the case that any aspiring senior manager nowadays still has to be capable of working effectively across the full range of managerial activities represented by the classic functions. Managers must be able to bring to bear in their work many of the specialist skills, knowledge and languages associated with each of the core functions. When it comes to managing effectively within the network of [**stakeholder**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44250960)s which shapes the work of all managers, being able to engage competently with all management specialisms and perspectives is a necessity and not an optional extra.

**Stakeholder**

**An individual, group or organisation with a ‘stake’ or interest in some aspect of an organisation's function and who can assert some influence on its activities.**

This section includes ‘insider’ accounts what each core function involves, offering a useful introduction to these key aspects of management.

**Activity 2 Functional dimensions of management**

The previous activity looked at management as a whole from very different perspectives – and in slightly abstract ways. Another way in which you will encounter different perspectives is rather more immediate – through the different functions into which management has traditionally been divided, e.g., finance or marketing. Not only do those functions represent major areas of management activity and, in many larger organisations, the way in which departments are structured, but they are also the focus for much of the research and knowledge base that informs management theory and practice.

Therefore, another way of working with management ideas is to study those core perspectives. Being able to ‘speak the language’ of different functions and see management problems from a different functional perspective are core management abilities.

**Task A Functional perspectives on management**

As you work your way through the different functional ‘accounts’ in this section try to see them as specialist ways of talking about a mix of elements that you will encounter in many complex management situations. At the start of each account is an audio introduction.

As you are reading, keep notes on the following questions:

* Do these functions share the same underlying assumptions about the core purposes of management? Or do they reflect divergent views of what management is all about? What are those similarities and differences?
* What knowledge and ideas do you already have that would enable you to hold an informed professional discussion (or maybe even negotiations) with a specialist manager from each of the functions?

Feedback follows Task B.

1.3.1 A human resources perspective

Either read or listen to the audio track of the text which gives a functional account of the human resources perspective of managing.

HR perspective

I guess that I’m lucky that in our organisation HR is seen as a vital part of organisational strategy. I am almost always involved in strategic discussions. This means that the HR implications of strategy are thought about from the outset. This means that we would never adopt a strategy without being sure that we could ensure the human capabilities to deliver it.

I see part of my role as scanning the relevant parts of the environment – is there any legislation being debated that might impact upon us? How likely is it to be enacted? When? What do we need to do to prepare ourselves? For example, when legislation against age discrimination was introduced we needed to review all our recruitment and selection policies to ensure that they weren’t discriminatory – I hadn’t realised how often we used terms like ‘dynamic’ that could be seen to suggest discrimination against older applicants. We also had to look at other likely aspects of its impact on our employment practices. It is really important to see things like this coming so that you have time to make all the necessary changes.

I see my role within recruitment very much as one of helping managers to resource their teams. Sometimes I think they see me as an impediment when I insist on following organisational procedures – I don’t think they always realise the legal difficulties we may get into if we are not seen to be fair. Nor do I think they always realise how expensive it can be to take on someone who isn’t really up to the job. I appreciate that sometimes they are under a lot of pressure to fill a vacancy, because it is difficult for their team when they are short staffed, but an unsuitable recruit can cost a great deal in terms of impact on both colleagues and customers, and in terms of possible dismissal, replacement and occasional grievance cases.

Some of the frictions over issues like this – where I am seen as imposing unnecessary restrictions on people – can sometimes mean that we do not get involved as early as we might in planning for recruitment exercises. Nor do managers realise the importance of involving us in performance management issues as soon as they arise. The procedures are quite complex and need to be followed carefully. We can offer a lot of help to managers, but it is best if they contact us earlier rather than later. Sometimes I wonder if they realise that we are actually there to help rather than hinder them!

The biggest difficulties, I guess inevitably, are when we have to make redundancies. Sadly in times of economic difficulty this is almost inevitable in our industry. In our organisation we operate a fairly clear ‘last in, first out’ (LIFO) policy. You need a clear policy if people are not to claim unfair dismissal. But managers may resent this, if they feel that some of their longer serving staff are less innovative and less motivated than those more recently recruited. I suppose this is an endorsement of improvements in recruitment in recent years, but it creates a real problem if we then lose these excellent staff.

I guess you can’t expect general managers to understand the wider implications of some of the decisions they want to take – after all they haven’t been drilled in the importance of things like legal implications the way I was when I took my [**CIPD**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44231248) (Chartered Institute of Personnel and Development) qualification. Nor do they necessarily understand the interrelatedness of things like recruitment, development and performance management. When you do meet a manager who understands our role, and uses us as a resource, it is really great.

1.3.2 A finance and accounting perspective

Either read or listen to the audio track of the text, which gives a functional account of the finance and accounting perspective of managing.

[Show transcript](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-1.3.2)

[Download](http://www.open.edu/openlearn/ocw/pluginfile.php/58657/mod_oucontent/oucontent/272/61239bdf/f873820a/b716_finance_persp.mp3?forcedownload=1)

Finance perspective

I am the chief financial officer (CFO) at Step plc. Two years ago, the firm was facing big problems. Performance was poor and jobs were at risk. The chief executive officer (CEO) organised a meeting with the bank manager and representatives of the union, the employees and the local municipality to resolve the problems.

I started the meeting as follows: ‘According to the financial statement produced following **[IAS](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary" \l "idp44236352" \o "International accounting standards)**standards, our [**ROS**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44247168) dropped from 8.5% to 5% in the last quarter. Last year [**ROE**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44243552) decreased by 34.7% and we have difficulties in finding new investment opportunities because our WACC is too high (16.5%). The bank is charging us 450 basis points on [**EURIBOR**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44234304).’

During my explanation, the bank manager was taking a look at the figures and commented, ‘I see your point but our decision is linked to Step’s financial structure. Your gearing went up by 50% and the interest cover down by 67%. We anticipate you will have some difficulties in matching the covenants on the long-term loan as well as the repayment plan of your 2012 – 5.2% bond. By the way, last quarter the ROS was not 5% but 2% and WACC is not 16.5% but 18.3%. We are really concerned about your capability to find investments with a positive[**NPV**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44237984).’

As soon as the bank manager finished, the union representative said, ‘I am really concerned about your calculations: please revise them since the firm’s ROS is 7.5%. Having said that, I personally think employees’ productivity is very good and you cannot blame them for poor performance: number of products per employee went up by 5% and the cost of personnel on the overall direct costs went down by 2%.’

The local municipality representative argued, ‘Please, keep your eye on the ball: the firm is the main contractor in the area with more than 25 SMEs whose existence depends on Step. Last year the municipality financed the new link with the motorway (mainly to help Step) with an investment of €1.5 million.’

The CEO immediately interrupted the municipality representative. ‘Yes and we appreciate it but we paid more than €25.5 million taxes in only the last year!’

An employee raised a hand and said, ‘I don’t understand much about IAS, WACC, ROS, EURIBOR, gearing, basis points, etc. It makes no sense to me. Could you explain to me what the problem is?’

The CEO immediately gave his explanation: ‘The cost of debt is too high’.

The bank manager returned, ‘You’re wrong, the problem is not the cost of debt but the increased gearing and the poor productivity.’

The union representative: ‘Oh please, don’t blame employees. The productivity is high! I’m not here to discuss reductions in pay or redundancy plans.’

The employees’ representative protested, ‘How can you all have such different opinions and figures about the very same firm?’

Finally, we found a solution and I am still working at Step plc. What is interesting in the story is that it is a typical example of discussions you can encounter in a meeting where different stakeholders are involved. My long experience as CFO teaches me that people tend to think about accounting and finance as a subject with only right or wrong answers (just look at the employee’s conclusion). In reality, in accounting and finance there is no such thing as a right or wrong answer. In fact, I found that different stakeholders look at the same thing differently not only in management, strategy, operations, and marketing but, as shown above, in accounting, too.

I think that there are at least two main reasons behind such different perspectives:

1. Each stakeholder is interested in specific topics and runs analysis accordingly: for instance, my main concern as CFO is to pay attention to accounting standards while the bankers focus attention on the firm’s financial aspect and CEOs are interested in the big picture by looking at very general figures. Both tend to forget that the figures they rely on can be affected by the accounting standards I used. The union representative and the employee will be focused on the role of human resources in the organisation, their impact on the costs and on their productivity. To sum up: your role affects the way you look at the firm.
2. Technically speaking, accounting and finance rely on assumptions that are often taken for granted and not explained or discussed. Different assumptions can affect the way in which you calculate ratios: ROS is the ‘return on sales’ but its calculation depends on what you consider return and how you calculate sales. Thus, it is important to always have in mind the assumptions behind the calculation and to be able to discuss them with other stakeholders.

To sum up: there are different interests, different perspectives, different analytical approaches, and different conclusions. I know it can seem quite strange but finance and accounting is always a matter of perspective and assumptions.

My story stresses an additional point: the jargon. All accounting and finance people, including me, are often blamed for using very complex and incomprehensible words, abbreviations, acronyms, and so on. It is partially true but the terminology as well as the abbreviations and acronyms used help us in exchange of information. At the end of the day, each sector tends to develop its specific jargon: finance and accounting is no different. My opinion is that it is important for people who work in other departments to get used to it as well as to be able to challenge CFOs on the meaning of the jargon used.

**IAS**

**International accounting standards**

**ROE**

**Return on equity – a measure of how well a company used reinvested earnings to generate additional earnings.**

**ROS**

**Return on sales – a measure of a company’s profitability**

**EURIBOR**

**European interbank offered rate – the rate at which a prime bank is willing to lend funds in Euros to another prime bank.**

**NPV**

**Net present value – the difference between the present value of the future cash flows from an investment and the amount of investment.SIGN IN to enrol** >

**1.3.3 A marketing perspective**

Either read or listen to the audio track of the text, which gives a functional account of the marketing perspective of managing.

Marketing perspective

As a marketing practitioner I see the key aspect of the job as maintaining a clear focus on the organisation’s customers. There are four main elements to this:

1. *Identifying who the customers are*. These might be individual organisations such as IBM or Microsoft, or groups of customers. In a previous post I worked for an advertising agency where our clients were mainly large organisations. My present job as marketing manager for a large financial services organisation involves identifying target markets for our products. We segment the market using variables such as age, lifestyle and geographical location, and identify target audiences with similar needs.
2. *Understanding customers through research and insight*. To be competitive we need to really understand our customers, their needs and how these are changing over time. Consequently I have recently been involved in commissioning market research which has highlighted some interesting results as to how our customers perceive our services compared to the competition.
3. *Developing the products and services relevant to our target audience and positioning these in a competitive way through branding, pricing, communications and distribution strategies*. My main role here has been in channelling the market research information and an analysis of competitors’ products into the various teams who are focusing on these decisions. In my previous job we were organised on a customer basis but here we are organised on a combination of functional and product groupings.
4. *Meeting our targets and key objectives*. Marketing’s main focus is on the revenue side of the profit equation. Through developing new products and communicating the benefits to the target audience, the marketing team aims to increase sales and market share. Within this broad framework key objectives relate to increasing the number of products sold to individual customers, constantly improving the perceived level of service quality, and innovation in both products and distribution. As for most organisations, the key is to implement strategies and policies which will result in customer satisfaction and loyalty. In other words satisfied customers are likely to stay with the organisation, buy more services and recommend us to their family and friends. Developing the customer satisfaction survey together with the research agency has therefore been one of my recent tasks.

The main challenges can be broadly grouped into external and internal.

**External challenges**

We constantly need to assess the changing needs of our customers and the activities of our competitors. The various product teams require updating on consumer trends, particularly with respect to the impact of recession and changing attitudes towards financial products (competitor strategies with respect to new products, for example), pricing policies and adoption of new technologies. Additionally I am involved in managing relationships with advertising, market research and other agencies. Working with these different groups can sometimes be problematic in terms of mutual understanding of objectives and priorities.

**Internal challenges**

Internally some of the greatest challenges relate to managing relationships with other functions, for example, with respect to finance, human resources and operations.

***Finance***

I have had to work closely with finance, for example with respect to establishing viable pricing strategies, assessing individual customer and segment profitability, as well as making profit forecasts for individual products and product groups.

Over the years I have worked for a number of organisations and with finance departments which seemed to have quite different attitudes towards business and marketing in particular. A frequent source of conflict relates to budget setting which of course is never enough. Research and advertising budgets are examples where I have had problems convincing finance that in order to build market share and achieve economies of scale we need spend on communications. Additionally, establishing and maintaining good relationships with larger corporate clients has required spending on customised development projects. What finance perceives as a relatively minor change in service quality resulting from a cost reduction, in staffing levels, for instance, can make all the difference to customer perceptions, satisfaction and propensity to switch suppliers.

***Human resources***

The people side of the business in terms of numbers, skills and motivation will always have an impact on product quality, creativity and innovation, which will impact on the product as perceived by customers. However, it is in the service industry context where the role of marketing and HR become inextricably linked. Here the people are the product. Of course it can be argued that for most customer transactions there will be some contact between employees and customers. In my present job, marketing and HR have to work closely with respect to recruitment, training and design of reward systems. In particular I have to feed the results of service quality research into this. There can be problems particularly relating to communication and coordination, for example when new products have been launched without the requisite staff training. Potential conflict of objectives can also lead to problems.

***Operations***

In my experience a good working relationship between marketing and operations is essential but there are many potential problems. The exact relationship depends on the nature of operations but broadly speaking marketing establishes customer requirements in terms of quality and quantity for operations to use in their planning and development activities. Matching supply and demand is one of the major challenges: one of our recent advertising campaigns created more demand than the systems could cope with. One of my memories from my advertising agency days was when the client account manager agreed with the client to make major changes to the original specification without consulting with the creative or production team. A lot of people were very unhappy to say the least – the air was blue and there was blood on the carpet!

**Dealing with the challenges and tensions**

Broadly speaking there are two main areas where tools would be useful. First, dealing with the elements of the job itself, for example templates for the various marketing activities, such as selecting target markets, and indications of how these templates would change from one context to another, for example from manufacturing to services, and from commercial to not-for-profit marketing. Second, a more holistic perspective on the activities of the organisation emphasising the pursuit of common objectives, effective communication and coordination, using approaches such as [**cross functional teams**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44232224) and techniques such as the [**balanced scorecard**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44229104), [**six sigma**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44249856), project management and [**TQM**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44252768).

**Cross functional teams**

**A group of employees make up of individuals from different functional areas of the organisation e.g. HR, Finance and Marketing, put together to work on a specific task with the wider aim of improving communication and building collaboration and understanding across different parts of a given organisation.**

**Balanced scorecard**

**Originally developed as a performance management tool by Robert Kaplan and David Norton as a semi structured report with automation tools allowing tracking and monitoring of performance, this has evolved as a widely used planning and management system use to align business activities to the vision and strategy of the organisation. It is a means of providing performance measurements and helping planners identify what needs to be measured and evaluated.**

**Six Sigma**

**A rigorous business and management strategy for improving the quality of outputs which involves identifying and removing causes of variability and error in the production process through an infrastructure of individuals trained in quality control methods and statistically modelling (from where the term is derived).**

**TQM**

**TQM (total quality management) is an approach to management that argues that commitment to quality in all areas of the organisation creates a culture which satisfies customers’ perceptions of quality.**

1.3.4 An operations management perspective

**Operations management perspective**

* Operations management is crucial to the competitiveness and sustainability of all types of organisations. It is challenging because the ever-changing nature and dynamics of the business environment require organisations to continually adapt their operations to new requirements, demands, situations and expectations in the market. And it is exciting because, in order to make operations really contribute to the competitiveness and success of an organisation, operations managers have to be active, creative and innovative in improving the company’s operations. So how do I see my role as an operations manager? What do I do, and what sort of challenges and difficulties do I face? Who do I have to interact with both within and outside my organisation?
* All organisations exist for a purpose. As an operations manager I am responsible for managing the resources and processes necessary for the production and delivery of goods and services. I have to ensure that operations contribute to the achievement of the main strategic objectives of the organisation, the design of the systems and processes that produce the organisation’s goods and services, the allocation of the resources necessary to produce the goods and services, the planning and control of the operations’ activities, and the improvement of the operations over time.
* So I am a designer: although I do not have direct responsibility for the design of a product, I play an important role in providing the information and advice upon which the successful development of that product depends, and am involved with the design of the processes that will produce the goods and services to be delivered to end customers. At a strategic level, I ‘design’ the supply network of operations that will deliver goods and services to customer. At an operational level, I ‘design’ the physical arrangements of the facilities, technologies, people and activities that will produce the goods and services.
* The sorts of challenges I face include decisions about what technology to adopt or replace, the resources and staff necessary for the operations, the capacity required to face predicted – and sometimes unpredicted – demand, the adequate suppliers for the operations, the proper systems and tools to help operations planning and control, and the best performance level for the operations. I have to ensure that the operations meet customers’ requirements, safety and health standards, and high quality and dependability levels, and that operations are flexible enough to respond quickly to new requirements and demands. Operations management is a constant improvement exercise and everything has to be done in the most efficient and cost-effective way.
* Fortunately, there is a myriad of systems and managerial approaches to help deal with the challenges and difficulties involved. Operations management as a discipline has significantly evolved over the years, and practices for planning, controlling, designing and improving operations are now well established. They include capacity management strategies, process technologies, quality control approaches and ‘lean’ management practices.
* I deal with many people inside and outside the organisation. Many operations processes flow from and to other organisational functions such as marketing, HR and finance, so good communication with these other functional areas is essential. I need to be able to explain my plans to other functions, and also to make clear the operational implications of what other functions are trying to achieve. Externally, I deal, directly or indirectly, with both suppliers and customers: developing good relationships with both is essential. I need to select and maintain an efficient and effective network of suppliers and accurately identify customers’ requirements and preferences.

# 1.3.5 A project and change management perspective

* **Project management perspective**
* I started managing projects and change initiatives part way through my career when I was already established as a supervisor in an operations department. At that stage I had only experienced being on the receiving end of this type of work or being part of a project or change team and my early attempts at managing were quite naïve. Like many managers I was put in ‘at the deep end’ and asked to manage my first project with no training. As I have gained experience and undergone various forms of training my skills have improved. However, some early lessons have stuck with me.

## It’s almost impossible to successfully manage a change initiative or project if you and your team don’t know what you are trying to achieve

* This sounds like an obvious statement. However, in so many change or project initiatives that I experience, it is less than clear. All too often a senior manager will know what they want to be achieved and issue what they see as a clear brief. The project manager then interprets the brief in his or her own way and translates this to the project team, which in turn translates the brief as something slightly different. This was an early (and costly) lesson I learned and as a consultant I now spend much of my time clarifying what exactly needs to be achieved.

## Many projects or change initiatives are not labelled as such

* Many pieces of work undertaken in organisations are included in the everyday workload of teams. This means that they often lack the structure and resources they would gain as a project or change initiative. Sometimes, for small changes in particular, this is a useful approach but, for many large pieces of work, using project or change techniques will help to clarify how much resource is required to make it happen. The likelihood that a project or change initiative will be labelled as such can depend on the type of organisation: an engineering firm, for instance, is more likely to use project terminology than a publishing firm. This means that what is labelled as a project for some may just be seen as management for others.

## Change initiatives and project management overlap and are often messy

* When does a change management initiative become a project? Why are these defined as separate things? The reality of most organisations is that what is labelled as a change initiative or a project is rarely the same between one organisation (or even department) and another. Many projects include some elements of change management, so an IT project which is implementing a new system could use some change management tools and techniques to roll out the system. Similarly, most change initiatives are at some point broken down into individual projects that have defined objectives and timescales. Change and project management offer a variety of tools and techniques for managers and the skill is in knowing when to use each.

## There is always a limit to what can be achieved with the resources that you have

* Again, this seems like an obvious statement. After all, if you have a tank of petrol in your car that will allow you to drive for around 500 miles, most people wouldn’t expect to be able to drive their car for 1000 miles on that one tank of petrol. Despite this, it is very common to expect a group of people to achieve more than is possible with their available time. This often leads to objectives not being met or work being carried out in a hurried or sub-standard way. With change initiatives this often means that they are not properly embedded and an organisation will need to return to them again in the future. With projects in particular, time, quality and resources are all interconnected and fixing one is bound to have an impact on the others. As a project or change manager, one of my roles has been to clearly set out what can be achieved within the constraints set down. It is also important to recognise what is within your control and what is controlled by others but is still critical to your project and could affect when it can be delivered.

## The impact of change is usually vastly underestimated

* While to some extent lower-level change happens all the time in organisations – e.g., two people agree between themselves to work differently together – most of what is labelled as change in organisations takes place at a macro-rather than a micro-level. These larger changes can impact upon many people, for example, one change of procedure in a call centre can affect dozens of people. If you then add the complication of not just changing what individuals do but of changing their interactions with others then the impact of even a relatively small change starts to look quite big. If you then think about the ambitions of some organisations to change their whole culture and of all the different ways that this affects what people do at work then it is easy to see that change is a very complex process. Because the individual proposing the change will usually see it as a necessity and to some extent ‘obvious’ does not necessarily make it so. Having said this, it is important to remember that not all of the impact of change will be bad, and I have found that my experience of project and change management has proved to be invaluable in a variety of other roles, and even outside of the workplace.

1.3.6 Postscript to the functional perspectives

The following overview of the ideas of Rosabeth Moss Kanter indicates some of the ways in which the classic approach to management functions is changing – and not necessarily making things any easier for either senior or middle managers.

**The new managerial work**

The perspectives above display a fairly traditional picture of discrete functional departments within organisations. Although this structure is still quite common in larger organisations worldwide, over the past 25 years there has been considerable merging of roles and more working across functional boundaries, some examples of which were illustrated in the stories you have just read. This inter-functional dependency is an important feature of contemporary organisations. The beginnings of these changes are evident in Rosabeth Moss Kanter’s article for the *Harvard Business Review* (1989), where she highlighted the rapid and fundamental changes taking place in managerial work in large organisations. She reported that they were struggling to create or maintain competitive advantage in industries that are being transformed by technological, social and market upheavals. Some implications of these changes include:

* Functional departments are becoming involved in strategy formulation.
* Direct inter-departmental contact and collaboration are replacing formal procedures and ‘clearance-seeking’ through the hierarchy.
* The pace of change means jobs, departments and projects can seldom be precisely defined any more.
* Suppliers who were once perceived and treated as adversaries, with whom you drove the toughest possible deals, are now allies, partners in long-term strategic alliances helping to formulate new plans.
* Internal service departments have been turned into autonomous suppliers.
* The number of middle managers has been significantly reduced and hierarchies have become flatter.
* The complexity of the work being undertaken and the relationships involved create enormous pressures and overload.

For some managers this has resulted in a loss of power (assuming they had it in the first place) – status and seniority count for little when everything is up for grabs. They no longer feel in control of their staff. In getting things done, rank or position in the hierarchy is now less important than the networks we can tap into. Clearly defined management roles and stable organisational structures have been swept away and managers are having to re-learn what it means to manage.

**Stop and reflect**

How has managerial work in your organisation changed in recent years? Is the management structure of your organisation flatter? What impact has this had on the management task, for example, in terms of workload or span of control (number of staff managed)?

**Task B Returning to your experiences**

Continue to explore the knowledge you already have of these functional perspectives and ideas:

* Think about your experiences and situations of management. Choose the one that seems most complex. Identify, as far as you can, ways in which ideas from each of the functional areas of management were reflected in those situations. Alternatively, consider how knowledge of each of the functions could contribute to the management of the situation you experienced.
* If none of your experiences relate to your current work situation, consider how each of the functions impacts on the management of the situation in which you are currently working.
* Without becoming too specific about the detail of different functions of management, in what ways do you envisage working and engaging with the ideas of these different functions over the coming months?

[Reveal discussion](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-1.3.6)

**Discussion**

Clearly much of the module will be based around working with the ideas, techniques, assumptions, approaches and language of each of the core functions. At this stage, it is worth noting some specific issues:

* The different functions of management are not just clusters of specialist techniques for you to apply and learn about separately. They are more generally different languages that reflect different priorities and imperatives based on different beliefs on what is most important in the practice of management.
* It is valuable for managers to appreciate that the knowledge and ideas of the core functions are all underpinned, not just by management theories, but by more general areas of knowledge – e.g., psychology, economics and maths.

The technical aspects of each function need to be approached on the basis of a more general appreciation of the perspectives as different ‘ways of seeing’ situations. Seeing the world through the eyes of the functional specialist is as important for the general manager as being able to manage a range of highly specialist operations, while at the same time having to keep an eye on the bigger picture.

You will find it helpful to revisit your work on the functions of management in the light of the next section, this time on stakeholders.

1.4 Stakeholder analysis and management

This section provides an introduction to the original ideas of stakeholder identification and management.

The word ‘[**stakeholder**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44250960)’ is now commonplace in most managers’ vocabulary, but like so many terms in the management lexicon it can mean different things. For example, in the private sector it has a set of nuances that may not be shared in the public sector, and vice versa. However, most commentators agree that stakeholders are important – no organisation can fulfil its purpose or achieve its mission without the support of others. However, in an increasingly global environment this becomes even more important, a point made by Anders Dahlvig, president and CEO of the furniture chain IKEA:

The world has changed enormously in the past decade … All of us now act in ways we did not 10 years ago. Globalisation means stakeholders and responsibilities everywhere, which have to be managed. It’s quite a different level of complexity.

**Stakeholder**

**An individual, group or organisation with a ‘stake’ or interest in some aspect of an organisation's function and who can assert some influence on its activities.**

(Source: Dahlvig, 2000, cited in Neely et al., 2002, p. 4)

Although there is now widespread agreement that stakeholders have a vital role to play in the life of an organisation, this was not always the case. If we travel back in time to the 19th Century, the only stakeholder who was likely to carry any sway in an organisation was the owner of a business; businesses were run as wealth-creating machines for the benefit of just the owner. Workers had little if any influence and neither customers nor suppliers enjoyed much more. However, relationships began to change following the industrial revolution. Workers acquired new rights and, moving into the 20th century, customers and shareholders began to exert their influence in ways that were unimaginable a hundred years before. During the last 20–30 years, a greater sensitivity to the environmental impact of organisations’ actions also began to emerge and, in a sense, we all became stakeholders of ‘big business’, irrespective of whether we bought or used an organisation’s products or services. Add to the mix increasing concern about human rights and corporate social responsibility, and the word ‘stakeholder’ takes on a whole range of complex dimensions.

From a theoretical point of view, the stakeholder concept draws from a number of disciplines, as illustrated in Figure 1.

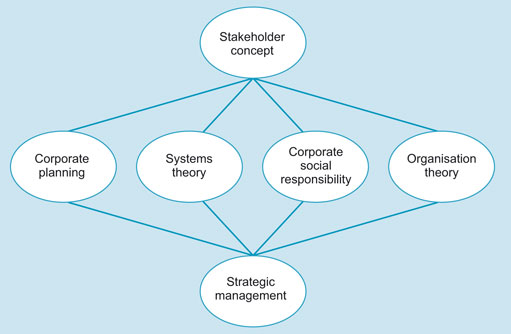


Figure 1 The stakeholder concept, drawing from a number of disciplines

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43904816&clicked=1)

In order to understand better why the stakeholder concept is important, we need first to define what a stakeholder is and, second, to explore the nature of their relationship to an organisation. We will address both questions and consider how stakeholders and their interests might be identified. We will also focus in this reading primarily on the analysis and management of stakeholders at the macro-level of the organisation as a whole and their relationship to the management of organisational strategy – as this was the area of management for which the ideas about stakeholder management were first developed and applied.

It must be stressed, however, that the basic ideas of stakeholder analysis and management are regularly used by managers working at all other levels. Small projects will also have an array of stakeholders whose influence needs to be identified and managed. Even making relatively minor changes to the routine work of a team or department involves dealing with the sometimes competing interests and influence of different stakeholders. Those involved in planning a community project or charity event will also have to take account of their different stakeholders. Even in your personal life you can better understand complex choices and problems by thinking about the various stakeholders involved. The activities in this course and the next will help you explore the many possible ways in which you can use the basic ideas and models of stakeholder analysis and management in very different situations and contexts.

**Activity 3 Stakeholders and the management context**

This activity introduces you to some of the background thinking about [**stakeholders**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44250960), who are especially important when considering the organisational and strategic dimensions of management, in terms of ensuring that organisational objectives are delivered without impediment. The key task for this activity is to use the ideas from the reading as a way to analyse and make sense of a much wider set of management issues and situations.

You may not be directly involved in negotiations about strategy and external stakeholders, but you have to deal with a network of stakeholders in most management activities and initiatives. In practice, it may well be that colleagues working in other functional areas and/or departments are key internal stakeholders for your work. And at a more immediate and personal level, a good grasp of stakeholder analysis and management can be extraordinarily useful when organising complex family and community undertakings – your children’s education, for instance, or a local campaign for better facilities in the community.

While you read through this section, log your responses to the following tasks:

* For most managers, stakeholder analysis is often most readily applied to the internal, functional stakeholders. Make a list of the key internal, functional stakeholders who impact on your work. You can then extend this list by considering other individuals or groups with an interest in the issues on which you work.
* Stakeholder analysis can also be applied more widely on any major undertaking you are involved in. For example, it would be very beneficial to map out all the stakeholders relevant to your. In this way, you use the stakeholder concept to identify a wide network of influences on any given situation.

You should also try out some of the frameworks for mapping out the power and interest of stakeholders, suggested in this section. The identification of stakeholders is only part of the issue; for practical purposes, the key issue is deciding what to do about these stakeholders; stakeholder management is the key issue. This often introduces issues of power that you, as a manager, must consider

1.4.1 Who are stakeholders?

It is essential to distinguish between [**stakeholders**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44250960) and [**shareholders**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44248016). Shareholders – owning part of a company by holding stock or shares – are certainly stakeholders in a commercial business but they are by no means the only stakeholders, as we shall discover in a moment. The aims and objectives of all the different stakeholders may well not be the same as those of the shareholders and this may result in tension or conflict, which must be managed.

A fuller discussion of the competing claims of shareholder and stakeholder theory lies beyond the scope of this short reading, but in an article for the *Sloan Management Review*, Smith (2003, p. 85) informs us that according to shareholder theory, a manager’s primary duty is to maximise shareholder returns, whereas stakeholder theory argues that ‘a manager’s duty is to balance the shareholders’ financial interests against the interests of other stakeholders such as employees, customers and the local community, even if it reduces shareholder returns.’

**Stop and reflect**

If a private sector manager’s duty is to balance shareholders’ financial interests against the interests of other stakeholders, what kind of ethical dilemmas might this give rise to? Can you think of an organisation where the financial interests of shareholders conflict with the needs or wishes of its stakeholders? How does this tension manifest itself?

**Definitions of stakeholder**

So who are the stakeholders? There are many different definitions of the word ‘stakeholder’–this seems to be a familiar refrain in business studies and one of the reasons why the study of management is so complex and contested. Here are some typical definitions of ‘stakeholder’ from the literature:

Any group or individual who can affect or is affected by the performance of the achievement of the organisation’s objectives.

(Source: Freeman, 1984, p. 46)

Any person group or organisation that can place a claim on the organisation’s attention, resources, or output, or is affected by that output.

(Source: Bryson, 1995, p. 27)

People or small groups with the power to respond to, negotiate with, and change the strategic future of the organisation.

(Source: Eden and Ackermann, 1998, p. 117)

Stakeholders are the individuals and groups affected by and capable of influencing the development and implementation of strategy and policy proposals.

(Source: Prime Minister’s Strategy Unit, 2004)

Those persons and organisations that have an interest in the strategy of the organisation. Stakeholders normally include shareholders, customers, staff and the local community.

(Source: Chartered Institute of Management Accountants, 2005, p. 53)

Individuals or groups who depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends.

(Source: Johnson et al., 2008, p. 132)

Those persons and groups who contribute to the wealth-creating potential of the firm and are its potential beneficiaries and/or those who voluntarily or involuntarily become exposed to risk from the activities of a firm.

What can we conclude from these definitions? In addition to being affected by an organisation’s decisions or actions, stakeholders may have an influence on what it does, the resources it may be able to call upon, and what it should achieve.

**Stop and reflect**

If stakeholders have an influence on what an organisation does, the resources it may be able to call upon, and what it should achieve, what issues does this pose for those who manage the organisation?

Importantly, although early definitions of the term ‘stakeholder’ lean towards the private sector, most of the above definitions are generic since they apply equally to public sector organisations as well. However, while there may be some commonality between the stakeholders of a private sector organisation and a public sector organisation, for example employees, the degree of difference in the list of both organisations’ respective stakeholders will to a great extent be determined by the purpose and mission of the organisation. Let us look briefly at two examples.

# 1.4.2 Identifying an organisation’s stakeholders

R. Edward Freeman, in his landmark book *Strategic Management: A Stakeholder Approach*(1984, p. 25), draws a stakeholder map of the firm (see Figure 2) which ‘takes into account all of those groups and individuals that can affect, or are affected by, the accomplishment of organisational purpose’. Each of the groups identified by Freeman not only has a role to play in the success of the firm but also has a stake in it, hence the term ‘stakeholder’.



Figure 2 A stakeholder map

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43932352&clicked=1)

Let us now compare Freeman’s map with a list of stakeholders identified by the [**Cabinet Office**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44230352) (2004) for strategy work at a governmental level:

* users and customers
* the departmental or lead minister (if there is one) and their specialist adviser
* ministers in relevant other government departments and their specialist advisers
* groups of officials and individuals in the relevant other government departments
* devolved administrations
* representative organisations from the relevant sectors
* local authorities and the wider public sector
* private sector organisations and individuals who have a current or potential future vested interest in an area (for example, if they might be involved in future delivery)
* Parliamentary Committees
* . academics, research organisations and think tanks
* . employers and trade unions
* . international organisations such as the European Commission (EC), World Bank, International Monetary Fund (IMF) or United Nations (UN).

**Stop and reflect**

What similarities and differences can you observe in the two sets of stakeholders? With which set do you identify most, and why?

**Stakeholder mapping**

One of the most common ways of identifying stakeholders is to plot them on a ‘map’, usually in concentric circles, according to the degree to which they are affected by an organisation’s strategy or its operations. The stakeholder map at Figure 3 illustrates how an imaginary probation service might plot its stakeholders.

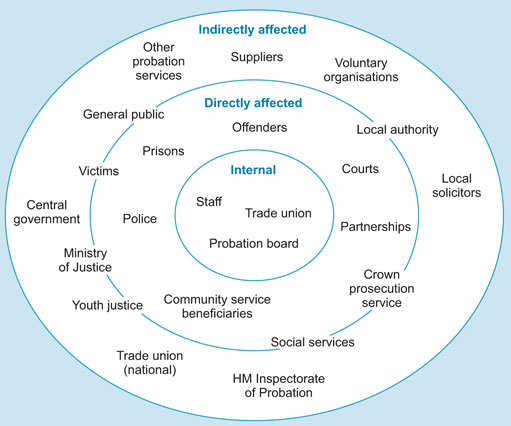


Figure 3 Stakeholders in Westchester Probation Service

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43944336&clicked=1)

The stakeholder map above uses three categories – internal, directly affected and indirectly affected – to plot its stakeholders, but an alternative approach might be to divide them into primary or secondary stakeholders. Primary stakeholders are those seen as most vital to an organisation, without whom the organisation cannot survive, such as customers, suppliers, shareholders and employees, whereas secondary stakeholders are those on whom the organisation does not rely directly for its existence, such as media, community and regulatory bodies.

**Stop and reflect**

Who are your organisation’s primary stakeholders? Can you think of any stakeholders who might be categorised as both primary and secondary?

However, there are dangers in categorising stakeholders thus as they may belong to more than one group, either internal or external, and alignments may shift depending on the issue in hand. Although stakeholder groups tend to be made up of large numbers of individuals, they are not necessarily homogeneous and may in fact consist of groups within groups, with power often unequally shared. (We shall return to the issue of stakeholder power shortly.)

An alternative way of mapping the stakeholders is to use a relationship map or network diagram such as the one below (Figure 4) where each coloured node and its ‘satellites’ represent groups within groups.

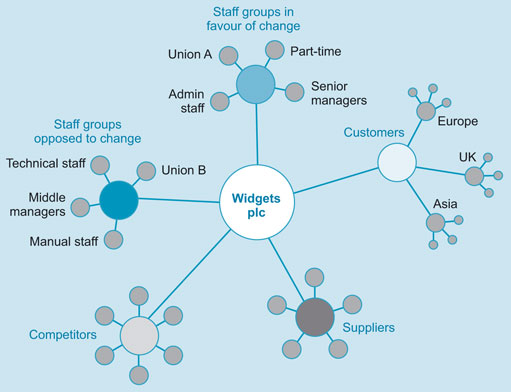


Figure 4 A relationship map

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43951424&clicked=1)

The UK’s National Health Service (NHS) Institute for Innovation and Improvement (2008) has devised a useful checklist for ensuring that you include all relevant stakeholders. Although intended primarily for NHS practitioners, the checklist known as ‘9Cs’ (see below), has wider applicability and can easily be repurposed for private sector or other public sector organisations:

* commissioners – those who pay the organisation to do things
* customers – those who acquire and use the organisation’s products
* collaborators – those with whom the organisation works to develop and deliver products
* contributors – those from whom the organisation acquires content for products
* channels – those who provide the organisation with a route to a market or customer
* commentators – those whose opinions of the organisation are heard by customers and others
* consumers – those who are served by the organisation’s customers, e.g., end users
* champions – those who believe in and will actively promote the project
* competitors – those working in the same area who offer similar or alternative services.

**Stop and reflect**

Thinking of your own organisation, can you identify a stakeholder group for each of the 9Cs?

1.4.3 Analysing an organisation’s stakeholders

We have talked already about using maps as a means of identifying stakeholders. While this is often a useful exercise in its own right, stakeholder maps often presuppose that stakeholder positions are fixed whereas in fact they are dynamic and may move according to the issue at hand, level of interest and/or degree of influence they might possess.

In order to manage stakeholders effectively it is important to understand the needs, interests and power of each. This means ascertaining their goals, reviewing past reactions, considering expected behaviour and probable reaction, assessing the likely impact that the organisation’s operations will have on them, and gauging the extent of buy-in and level of support offered.

In an article for *Public Management Review*, Bryson (2004) describes fifteen different techniques which a manager, or policymaker for that matter, might use to identify and analyse an organisation’s stakeholders. He reminds us that the main purpose of stakeholder analysis is to:

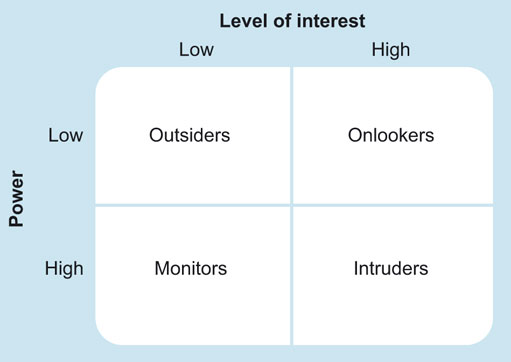
* identify stakeholders and their interest
* clarify stakeholder views of the organisation
* identify key strategic issues
* begin the process of identifying coalitions of support and opposition.

There is not space for discussion of all fifteen techniques here, but among the most popular is the power versus interest grid or matrix. Although Bryson makes reference to the grid developed by Eden and Ackermann (2003), theirs is but one of many versions in use today. Most share very similar characteristics in that they juxtapose stakeholder interest (in the political sense) with stakeholders’ power to affect the organisation or the issue under consideration.

We have included two alternative power versus interest grids in this reading (see Figures 5 and 6). The first grid (Figure 5) was adapted by Johnson et al. (2008, p. 156) from an earlier model developed by Mendelow in 1991. What is perhaps different about the Johnson et al. version is that the matrix indicates the type of strategy the organisation needs to adopt in relation to each stakeholder group.

To a great extent the strategies are self-explanatory, but according to Johnson et al., the relationship with stakeholders in quadrant C may be one of the most difficult to plan for. On the face of it, stakeholders in this quadrant may appear passive (and therefore easy to manage) but if the level of interest is underestimated and they move to quadrant D, a strategy of ‘keep satisfied’ maybe very risky.

A ‘keep informed’ strategy may not seem contentious. This is because they may also be vital allies in a broader lobbying strategy to influence the attitudes of more powerful stakeholders.



(Source: Johnson et al., 2008)

Figure 5 Power versus interest

The power versus interest map in Figure 6 is similar to the Mendelow/ Johnson et al. matrix except that the emphasis is on characterising the stakeholders who populate each quadrant. Offered as part of a range of tools and techniques to support the management of change, Price (2009) identifies four categories of stakeholder:

1. *Monitors* are individuals or groups who are powerful enough to support or undermine the change effort. What is important, argues Price, is that they can work with you but also against you.
2. *Intruders* are similar to monitors in that they have the power to support or undermine change, but critically they are sufficiently interested to take action if they choose.
3. *Onlookers* may be very interested in the changes taking place but crucially have very little power to do anything or influence planned change.
4. *Outsiders* are individuals or groups who rate low on both power and interest.

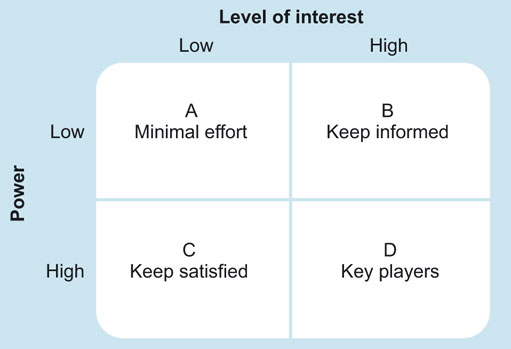


Figure 6 Power versus interest (Price, 2009)

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43975392&clicked=1)

Both matrices encourage a proactive approach to the management of stakeholders, but we should note that such categorisation presupposes that stakeholder positions are fixed whereas in fact they are dynamic and may shift according to the issue at hand, so stakeholder vigilance is crucial.

**Stop and reflect**

Can you think of a stakeholder group for your organisation whose position in relation to an issue has shifted? Why was this and what does it tell you about both the stakeholder group and the issue?

The UK’s Training and Development Agency for Schools (TDA) (2007) offers a somewhat different approach to the ‘mapping of stakeholder disposition’ as part of a ‘remodelling’ toolkit for managing the process of change in schools. Although the example in Figure 7, which illustrates stakeholder disposition towards a school change initiative, is a public sector one, the principles that underpin it can be used for any organisation. In many respects this is a more dynamic tool than the grids described above because it addresses both the strength of relationships and degree of influence by using line thickness and circle size. Clearly, the aim is to get your most influential stakeholders on the right-hand side of the chart and as near to the top as possible.

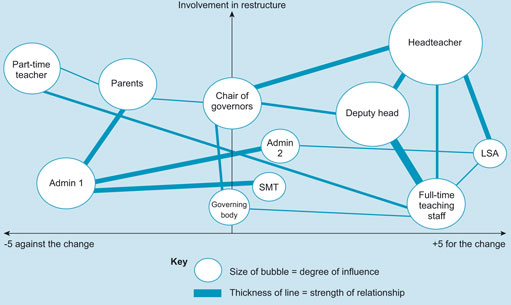


Figure 7 Mapping stakeholder disposition – an example

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43982144&clicked=1)

Scholes (1998, p. 155) cautions us to strike a sensible balance between being too simplistic or generic in our selection of which stakeholders to plot and being so detailed that analysis is rendered difficult or meaningless. He also advises against ascribing more power to the stakeholders than they actually possess.

To facilitate the assessment of power and potential influence, Johnson et al. (2008) identify a number of factors that may point to a stakeholder’s power (see following box). However, they rightly stress that no single indicator will give an exact assessment of a stakeholder’s power; rather it is the interplay of measures that will inform the most useful analysis.

**Sources and indicators of power**

**Internal stakeholders**

* status, e.g., position in the organisational hierarchy
* representation, e.g., committees they may be on
* involvement in strategic decision making
* reputation
* informal influence
* expertise
* grade or salary
* .claim on resources, e.g., size of budget or number of staff
* . symbol of power, e.g., size and location of office or secretarial support.

**External stakeholders**

* control of strategic resources
* relative size of shareholdings or loans
* dependence on small number of customers
* ... reliance on small number of customers
* negotiating arrangements
* status, e.g., is the customer or supplier wined and dined?
* at what level is the customer or supplier ‘managed’ by the organisation?

(Source: adapted from Johnson and Scholes, 2008)

1.4.4 Managing stakeholders

Having identified an organisation’s stakeholders and assessed their relative interest and power with regard to a specific issue or the organisation’s operations, the next step is to consider which strategies might be most appropriate in a range of given situations. The Mendelow/Johnson et al. matrix provides some clues, but Scholes (1998, p. 163) has identified nine stereotypical maps and suggests a range of ‘political mechanisms’ that might be most appropriate in each case.

The nine maps are presented in Figure 8, followed by a brief discussion of each. The fact that some quadrants remain empty is not an indication that there are no other stakeholders; rather that the maps are designed to show the dominant weight of stakeholder influence. Also, in some situations there may be hybrid maps where more than one stereotype coincides.

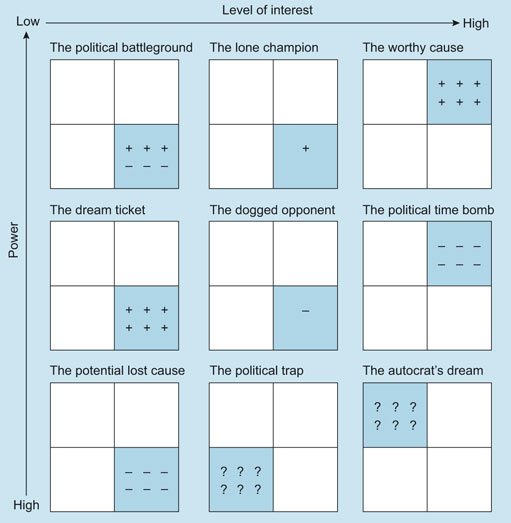


Figure 8 Scholes’ nine stakeholder maps

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp43996160&clicked=1)

* The political battleground – in this scenario there are many key stakeholders divided in their support and resistance to the issue. Potential management strategies include facilitating the dominance of supporters, breaking down resistance, or even ‘divide and rule’.
* . The lone champion – in this scenario there is one powerful supporter, but the biggest threat is potential loss of the champion. Possible management strategies include extending the support base and maintaining participation.
* The worthy cause – this situation is distinguished by high levels of interest from stakeholders who have little power. Potential management strategies include empowering the stakeholders and facilitating the creation of alliances.
* The dream ticket – in this situation there are several powerful champions but no powerful opponents. The main danger here is one of complacency, so a strategy of keeping the stakeholders satisfied is a priority.
* The dogged opponent – in this scenario there is one powerful opponent. Potential management strategies include breaking down their resistance or enlisting the support of a more powerful champion.
* The political time bomb – in this situation there are several opponents of the strategy but with little power. One of the biggest dangers is underestimating their ability to gain support or build their own power base. The main management strategy here is to keep them informed.
* The potential lost cause – in this scenario resistance is such that abandonment of any proposed strategy may be necessary. Although the main management strategy is to break down resistance, e.g., by building a coalition of support, the battle may not ultimately be winnable.
* The political trap – this situation is characterised by low levels of interest among all powerful stakeholders. Potential management strategies include raising interest levels, keeping them satisfied or encouraging the emergence of a lone champion.
* The autocrat’s dream – in this scenario stakeholders show little interest and have little power. However, complacency should be guarded against by continual monitoring of stakeholder reactions.

**Stop and reflect**

Thinking of your own organisation, who are the lone champions and/or dogged opponents? Identify a situation in which both lone champion and dogged opponent are in conflict with one another. Can you also think of a situation in which they may be one and the same person or even group?

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1.4.5 Summary

The days when organisations could survive and prosper by focusing on the wants and needs of one stakeholder – usually the shareholder in commercial enterprises – are long gone (Neely et al., 2002, p. 1). In today’s increasingly complex world of competing interests and demands, the ability to identify, analyse and manage stakeholder relationships is a key management skill.

In this reading, we have examined a range of stakeholder definitions and reviewed a number of tools and techniques for identifying and analysing stakeholder relationships, including stakeholder maps and power versus interest matrices. We have also explored a number of stereotypical stakeholder scenarios and strategies for managing stakeholder relationships.

Before moving on to the next section, look back, briefly, at the activities you completed in this section. You have moved from:

* considering general theories and ideas of management
* through the more detailed, specialist ideas and perspectives that derive from functional perspectives
* through to the use of a single concept or framework (stakeholders) to illuminate management situations and guide management decision making.

These are three common approaches to the study of management and ways of generating management ideas that focus on:

1. defining at a broad level what management is and what managers do
2. how the functions of management are different and have different objectives and priorities
3. how a specific idea or concept can help to shed light on the practice of management, both in general and as it relates to your own experience.

2 Developing capabilities

In [**section 1**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-1), you were thinking very broadly about the general question: ‘What is management?’.

This section of the course extends the exploration of management on the basis of a related but rather different question, namely:

* What do managers actually do?

Rather than thinking about management at a very general, slightly abstract and impersonal level, this question asks what management looks like when we focus on the details of the day-to-day work that managers have to do and what practical responsibilities they exercise.

As in [**section 1**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-1), three broad ways of beginning to deal with the practicalities of management work are offered, namely, exploring managers’:

1. actions and responsibilities
2. roles and relationships
3. sense-making.

You will also develop some skills in analysing this complexity using the SWOT and PESTLE frameworks.

**A slight change of focus: from exploring management to developing management**

In this cluster of activities, you will begin to systematically explore some of the personal skills and competences that an effective manager has or develops.

You may find it helpful to skim through the activities and resources before working more carefully through the tasks.

2.1 Management activities

When asked what was most challenging about politics, Harold Macmillan, British prime minister in the late 1950s and early 1960s, is reported to have replied, ‘Events, dear boy, events’.

Many managers today might find themselves giving a similar kind of response to a question about what is difficult or challenging about their job. Curiously, it is often difficult to summarise what a management job is really about or involves, or for managers to explain in an informative, well-ordered way, what they are there to do. They may say something like: ‘I’m head of x, responsible for y, keep an eye on z and liaise with departments p and q.’ Beyond that very general level, it is the particular pressures, challenges or surprises of this month, this week, or this particular day that may be what is most vivid and easy for them to relate. It is as if the job is made up of a string of ‘events’.

Researchers who have studied the realities of managerial jobs have come to the conclusion that in spite of enormous variety across different kinds of managerial jobs, the common characteristic of managerial work is its fragmented nature. In the 1980s, Rosemary Stewart, one of the best-known researchers of what managers actually do, summarised this research tradition as follows:

The best documented finding from a variety of studies in different countries is about the pace of managerial work ... The manager typically switches every few minutes from one subject or person to another, rarely completing one task before being involved in another. There are few opportunities for uninterrupted work for half an hour or longer. This hectic pattern is, in part, a demand of most managerial jobs because the manager must respond to a variety of people and problems. It can also be, in part, a choice, as observational studies have shown.

(Source: Stewart, 1984, p. 326)

Few would dispute that this picture applies just as well today in the context of developments such as globalisation, an increased emphasis on performance measurement, e-commerce, and all that email. Fragmentation may happen in ever-changing ways, but is still very much a fact. The only countervailing tendency is perhaps that many managers are now taking advantage of their laptops and widespread access to the internet to work in a more concentrated way at home for perhaps one day a week, getting to grips with more complex analytical tasks or report production. Indeed, computer firms have begun to market laptop computers using images of blissfully uninterrupted professionals working in unorthodox locations. Fragmentation is now so intense that it is driving managers out of their offices, unless of course they no longer have their own office because they have become based at home or use a variety of desks in different offices (‘hot-desking’) in order to carry out responsibilities split across a number of different sites.

If we want to understand what is involved in improving our own practice as managers and, by implication, the practices of others in our organisations, the first step is to find a way of standing back from this overcrowded surface experience of a management job. We need to find a way of thinking in a more systematic way about what our management ‘practice’ is actually like, why it has become so, and how it might be improved.

Unlike earlier sections, which explored the question ‘*What is management*?’, this reading explores some of the answers to an apparently more straightforward question: ‘What do managers actually do?’

The problem in answering this second question is that many of those who have written about management talk about what they think managers ought to be doing rather than what they actually do. Rather than basing their answers on systematic observation, many writers tend to present ideal or normative answers to the question. It is worth noting, incidentally, that the distinction between what is descriptive and what is normative in management writing has been very blurred for a very long time. Much of the ambiguity of management theories and models can be traced back to the failure to make this crucial distinction.

Henri Fayol is a case in point. His definition of management was not based on systematic observation and research – it was a statement of what he thought managers should be doing. However, when the activities of managers are observed, a rather different picture emerges. Let’s begin, however, by looking at what a few management theorists think managers ought to be doing.

**Activity 4 Management activities**

The following section sets out several ways of organising the different activities and responsibilities that make up most managers’ workloads.

**Task: Your management activities**

Pay particular attention to the framework suggested by Luthans for classifying a manager’s workload. Then, using the framework linked below as a guide:

1. Make a breakdown of the proportion of your own time that is spent on each of the categories of management activity – over a day, a week, a month and a year,
2. Using the same template, do the same breakdown for the proportion of time another manager with whom you have worked spends on each of Luthans’ categories of management activity. If possible, you should aim to do this independently and then ask them to make their own breakdown.

The comparison will be interesting in examining how you and another manager may approach the task of managing differently and specifically how you have perceived the other manager’s job compared to how they have represented it. This could act as a springboard for opening up a debate about the nature of management practice with another manager.

1. On the basis of these analyses, to what extent is management work a fragmented experience for you?
   * What surprised or startled you about the results of your time analysis?
   * What are the implications of this analysis on how you manage your own time and commitments?
   * Are the activity categories you use the most reactive or proactive?
   * Why do you undertake the activities that you do? How could you rationalise your choices?
   * What are the motivations behind how you manage your time and workload?
   * To what extent are you in control of what you do? Or how much freedom do you have to prioritise the activity categories you employ?

Once you have completed your analysis, write a brief note reflecting on your findings.

You may also wish to consider the important distinction made by Luthans about the significantly different patterns of work undertaken by managers who are effective and managers who are successful.[**Management activities template**](http://www.open.edu/openlearn/ocw/mod/oucontent/olink.php?id=1441&targetdoc=Management+activities+template)

2.1.1 Exploring what managers are supposed to do

 Writing at the start of the First World War, with 25 years’ experience ‘under his belt’ as managing director of a large French mining company, Fayol (1917) defined the management task in terms of five distinct elements or functions. He also developed a general theory of business administration, based on his own experience, which set out how management should be conducted.

The five core activities/functions of management, which define the management role, are sometimes identified by the abbreviation POCCC (see Figure 9).

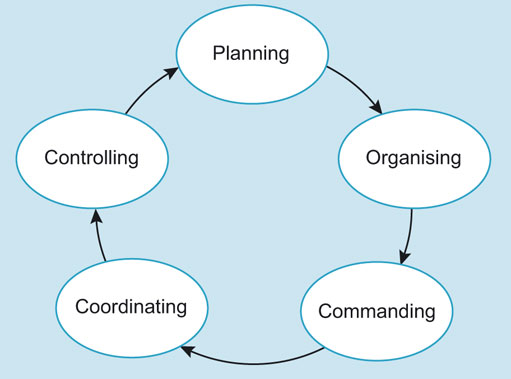


Figure 9 POCCC: five functions of management

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp44037856&clicked=1)

1. *Planning*. Although the first of Fayol’s elements is usually translated as ‘planning’ in English, he actually used the word ‘prévoir’ in the French original, which has a connotation of anticipation and forecasting, as well as planning. So planning is as much about looking into the future as it is about drawing up action plans.

Interestingly, this very point was echoed by Peter Drucker (1980) more than 60 years later, when he wrote that one of the most important managerial skills during times of great turbulence is anticipation.

1. *Organising* involves putting in place the capital, human resources and other materials needed for the day-to-day running of the business, and building a structure that will support the work, e.g., lines of authority and responsibility.
2. *Commanding*, also referred to as directing, involves putting the plan into action and maintaining activity among the staff.
3. *Coordinating* involves unifying and harmonising activity and effort.
4. Controlling is about monitoring and adjusting, and ensuring conformance with rules and instructions.

Critics of Fayol often react strongly to his language and object to his use of terms such as command and control, which have an authoritarian ring to them. While it may be true that such words enjoy less currency nowadays, we should not forget that Fayol was writing from his own experience of management at the beginning of the twentieth century.

**Stop and reflect**

How accurately do Fayol’s functions of management describe the job you do as a manager in the twenty-first century?

In 1937, Luther Gulick and Lydnall Urwick added to Fayol’s list and coined yet another acronym, POSDCORB, which, despite the eight letters, refer to just seven activities:

* *P*lanning
* *O*rganising
* *S*taffing
* *D*irecting
* *CO*ordinating
* *R*eporting
* *B*udgeting.

In many respects, it is difficult to take issue with either the Fayol or Gulick and Urwick lists. They appear to be logical statements of what needs to be done from a management point of view. They provide those new to management with a framework for sorting out the different things they should be doing and the particular competences they need to develop. Although managers today operate in a very different context from those of Fayol or Gulick and Urwick, many of the listed management activities or functions are arguably as relevant today as they were 70–90 years ago. They certainly bear more than a passing similarity to Peter Drucker’s own thinking on management.

One of the most prolific and influential of all business gurus, Drucker died in 2005 after a distinguished career as a management writer and theorist. His output was impressive: 39 books which include classics such as *The Practice of Management* (1954). Zahra (2003, p. 17) usefully summarises some of his key thinking on management and its responsibilities below:

1. Management is a distinct and important function that determines the viability and success of the firm.
2. The managerial task, though amenable to scientific analysis, is practice-oriented. Management education enhances and sharpens managerial skills.
3. The managerial task combines creative and adaptive components.
4. There are two entrepreneurial dimensions to management: marketing and innovation. Marketing focuses on identifying customers. Innovation centers on creating products, goods, systems, processes, and services. It also requires acquiring and honing the skills necessary to develop products, services etc.
5. Managers should follow a systematic decision-making process that focuses on: defining the problem, developing alternatives, examining the merits and shortcomings of these alternatives, selecting the approach to be followed, implementation, and using feedback.
6. Managers are responsible for building the organisation and integrating its different functions.
7. Managers are responsible for developing and leading knowledgeable workers.
8. Integrity is the hallmark of managerial character. Along with integrity comes a sense of accountability.

(Source: Zahra, 2003, p. 17)u1

Later, in another seminal text, *Management: Tasks, Responsibilities, Practices*, Drucker (1973, p. 389) defined the manager’s role in terms of five basic functions:

1. *Setting objectives* – the manager sets goals and decides what work needs to be done to meet them.
2. *Organising* – having divided the work into achievable tasks, the manager chooses people to carry them out
3. *Motivating and communicating* – the manager uses both incentives and his or her relationship with staff to motivate them to achieve objectives.
4. *Measuring* – the manager establishes appropriate targets and measures, and both monitors and assesses performance.
5. *Developing people* – in a knowledge economy, employees are the organisation’s most important resource, and it is up to the manager to train and develop them.

Drucker certainly provided a rounder overview of the scope of the core management activities and functions. It is debatable, however, how far this is descriptive of the situation which Drucker encountered in the decades following the Second World War and how far his ideas are also quite normative – albeit reflecting more contemporary concerns and values in management

We now turn to more recent attempts to identify what managers actually do with their time.

2.1.2 Exploring what managers actually do

What really moved the debate about management activity forward was the work of researchers in the 1980s who sought to analyse the actual work that managers did. One such researcher was Henry Mintzberg. Another was Fred Luthans (1988).

What really moved the debate about management activity forward was the work of researchers in the 1980s who sought to analyse the actual work that managers did. One such researcher was Henry Mintzberg. Another was Fred Luthans (1988). Luthans (working with Rosencrantz and Hennessey) looked at a diverse sample of managers, drawn from all levels within a wide range of organisations. The categories derived from Luthans’s observations have overlaps with earlier writers, but there are some important differences of focus and emphasis.

In analysing his observations, Luthans was able to describe what he saw in terms of 12 categories of management activity. He then grouped these into four main areas. The 12 activity categories are shown in the first column of Table 1, and the four main areas into which they can be classified are shown in the second column. The reference to ‘real’ in the heading is to emphasise the fact that their sample was more varied than Mintzberg’s.

**Table 1 The activities of real managers**

|  |  |
| --- | --- |
| **Descriptive activity categories** | **Main areas of real managers’ activities** |
| Exchanging information | Communication |
| Paperwork |  |
|  |  |
| Planning | Traditional management |
| Decision making |  |
| Controlling |  |
|  |  |
| Interacting with others | Networking |
| Socialising/politicking |  |
|  |  |
| Motivating/reinforcing | Human resource management |
| Disciplining/punishing |  |
| Managing conflict |  |
| Staffing Training/developing |  |

(Source: adapted from Luthans, 1988, p. 28)

Luthans and his colleagues went further than merely categorising activities. They analysed the frequencies of the different categories of behaviour, and tried to correlate this with success and with effectiveness. Success was defined in terms of speed of promotion, a definition which might itself be questioned. Effectiveness was rather harder to measure, but they did so in terms of high levels of satisfaction and commitment by subordinates, combined with high quantity and quality standards of performance. A key finding of their research, perhaps because it is counter-intuitive, was that ‘successful’ managers, i.e., those who were rapidly promoted, had little in common with effective ones!

Of the four broad activity categories in Table 1, only networking was associated with success. The top third of managers in terms of success were doing significantly more networking than the bottom third. And they spent much less of their time on the traditional management and human resource management categories.

Effective managers spent their time rather differently. The biggest contribution to effectiveness came from communication, followed closely by human resource management. Given this, it is perhaps not surprising that very few managers, a mere 10 per cent of the sample, were in the top third for both success and effectiveness. And this minority balanced their time in line with the sample as a whole rather than spending more or less time on a particular category. (Luthans does not comment on whether those who fell in the bottom third on each measure also divided their time in this way.)

Luthans’s research raises two crucial points for all managers.

1. First, the categories seem to relate better to the range of activities which most managers actually find themselves doing. The focus is primarily on types of activity rather than formal functions or responsibilities.
2. Second, the successful/effective distinction is a really interesting one, as indeed is Luthans’s definition of ‘success’. It suggests that different views of what is important may be held by different people, and that these ways of thinking can impact significantly on the organisation and the behaviour of managers. Luthans makes the point that organisations might do better to promote those who were effective than those who were good at socialising and politicking.

**Stop and reflect**

Which managers tend to be promoted most rapidly in your own organisation? Is it those who are most effective in achieving organisational objectives, or those who are most successful at being noticed? What is the likely impact of this on organisational effectiveness?

This brief overview of different ways of specifying the range of things managers actually do ends with a brief mention of the more recent categorisation of Buchanan and Huczinski (2004). They suggest three sets of management (and leadership) functions:

1. creating an agenda
2. developing people
3. execution.

Managing is a complex activity. Any attempt to split it into a small number of categories will have weaknesses as well as strengths. But this last set of categories has the virtue of distinguishing three obviously different dimensions of what managers, or indeed leaders, do.

This reading has illustrated the complexity of the management role and the interplay between the functions of management and the activities that managers do. The tension between being a successful manager and an effective manger is an important point in thinking about the role and purpose of managers.

**Feedback on Activity 4**

Click below to see feedback on Activity 4.

[Reveal discussion](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-2.1.2)

**Discussion**

Luthans surfaces a question that you will need to ask yourself about your own aims, aspirations and ambitions as a manager, namely:

* Do you want to be effective or do you want to be successful as a manager? (Be honest!)

OK. You probably want to be both. In which case, on the basis of Luthans’s analysis of managerial work, how are you going to manage your own activities and workload to achieve both these ambitions? As ever, managing involves complex choices and the negotiation of inherent tensions and ambiguities.

2.2 Recognising your roles as a manager

Organisational life can be extremely messy. Management courses –this one included –preach the virtues of clear objectives, clearly defined tasks, clear roles, and clear lines of authority and responsibility. But it is often very hard to be clear about these things, let alone to agree them with others. For much of the time we face a degree of looseness, tension, uncertainty and even inconsistency. Sometimes we are not clear until after the event what we were trying to do or our reasons for doing it. And sometimes, if we are clear, agreement is impossible.

This reading is about one approach to understanding and coping with some of that inherent uncertainty of management activity. It looks at the issues of the *roles* which managers undertake. Seeing managerial work in terms of roles provides a way of making sense of many tensions and uncertainties – even if you still cannot do anything much about them.

The idea of ‘role’ is probably already familiar to you –we often refer, for example, to ‘wearing several hats’. In this reading we will be looking at notion of ‘role’ from two related perspectives. It may refer to the particular organisational *position* you hold. It also refers to the *part we* *play* in different situations. In practice these two uses of the term ‘role’–one structural and one from a theatrical metaphor –tend to run together, simply because most positions are improvised. So, very generally, the term ‘role’ can be defined as:

The set of expectations held by the person concerned and by those he or she interacts with about the appropriate contribution he or she will make in a given situation.

In this way we link the formal role of a manager –the overall role that links your disparate responsibilities –and the varying roles that managers have to play at particular moments in response to particular demands and expectations.

**Activity 5 Management roles**

There is a very real sense in which management is a public business in which you are always ‘on the stage’. To be effective (and successful for that matter) you have to be able to respond appropriately to the very different demands of both people and situations. Much premium is given to personal integrity and authenticity, but just ‘being yourself’ may not suffice on all occasions; there is a wider repertoire of roles, skills and competences on which you need to be able to draw.

The issue of roles opens up many of the unavoidably emotional and **[relational](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary" \l "idp44242784" \o "Characterised or constituted by relations)**dimensions of being a manager, and this activity invites you to begin to explore them. This is not about formal responsibilities and job descriptions; it is about the network of relationships within which most of your managerial activity has to be enacted.

**Task: Your management roles**

This section focuses on Mintzberg’s discussion of management roles. Write brief notes on the following:

1. Which roles do you think are most and least important in your job? Why do you think this is the case? You can use the management roles template linked below to record your thoughts.
2. With which roles are you most and least comfortable?
3. Does the range of your roles throw any light on the problems of managing your time and activities, such as the difficulty of delegating or of saying ‘no’ to particular tasks? Would it be helpful to think in terms of avoiding or passing on certain roles (rather than activities)?
4. As well as identifying roles, how does this analysis help you to probe the balance between organisation, task and person in shaping the roles you have to play as a manager?

Extend the analysis to consider the ways in which you experience what is referred to in the reading as [**role ambiguity**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44244448).

1. To bring this initial work on roles to a conclusion, you should also make use of the ‘role as given’ and ‘role as taken’ framework to examine the ways in which you balance what you want to do, and what you are expected and required to do.

[**Management roles template**](http://www.open.edu/openlearn/ocw/mod/oucontent/olink.php?id=1441&targetdoc=Management+roles+template)

2.2.1 Sources of management roles

The roles that people play in organisations are shaped by three different pulls (see Figure 10). We will consider each in turn.

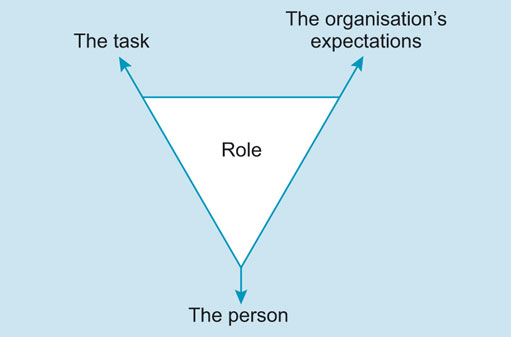


Figure 10 Roles within organisations: three pulls

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp44113104&clicked=1)

**Task and role**

Job descriptions usually outline responsibilities and specify functions. As such, they can be a useful guide to the work that has to be done, although for managers they very rarely say much about how you should go about it. Indeed, job descriptions, the formal statement of task, often bear little relation to what managers actually do. Indeed, a pervasive problem with job descriptions is that they do not really enable you to ‘get a handle’ on what the job is all about. There is a real dichotomy between what a manager ought to do (as the job description indicates) and what they actually do during the working day. This dichotomy was examined in the 1970s and 1980s by Henry Mintzberg.

If you ask a manager what he does, he will most likely tell you that he plans, organises, coordinates and controls. Then watch what he does. Don’t be surprised if you can’t relate what you see to these four words.

(Source: Mintzberg, 1975, p. 47)

Mintzberg observed the everyday activities of five North American chief executive officers and discovered that the reality was far removed from expectations. Such managers were typically imagined to spend their time taking rational decisions in an orderly fashion. Instead, their days were highly fragmented and fast paced, with frequent interruptions and changes of activity. A large proportion of their time was spent in meetings, both scheduled and unscheduled. Indeed, almost four-fifths of their time was spent in verbal communication.

Mintzberg identified the chief characteristics of management activity as:

* fast pace of work
* many interruptions
* brevity, variety and fragmentation of activities
* lots of verbal (rather than written) contacts (note: Mintzberg’s observation occurred before email existed)
* much time in scheduled meetings.

Out of this whirlwind of activity, Mintzberg went on to identify a range of roles that managers were required to play. The work of a manager was described in terms of ten roles or clusters of behaviours associated with a position (Figure 11): ‘formal authority gives rise to the three interpersonal roles, which in turn give rise to the three informational roles; these two sets of roles enable the manager to play the four decisional roles’ (Mintzberg, 1975, p. 13).

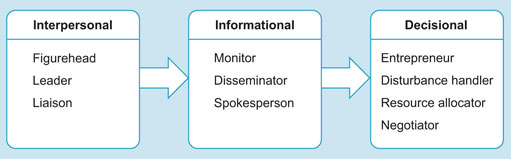


Figure 11 Mintzberg’s management roles

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp44123376&clicked=1)

Interpersonal roles derive from the manager’s formal authority and are characterised by the use of interpersonal relationships:

* Figurehead – the manager performs ceremonial duties as head of the organisation.
* Leader– the manager motivates and encourages staff and reconciles individual needs with those of the organisation.
* Liaison – the manager networks and maintains relationships with stakeholders both inside and outside the organisation.

As a result of his or her interpersonal contacts, the manager emerges as the nerve centre of his or her organisational unit.

* Monitor – the manager gathers information relevant to the organisation.
* Disseminator – the manager acts as a conduit, disseminating information to staff.
* Spokesperson – the manager reports to the outside world on matters relating to performance, legislative compliance and social responsibilities.

Information is not an end in itself but a key input to decision making.

* Entrepreneur – the manager designs and initiates change in pursuit of continuous improvement.
* Disturbance handler – the manager deals with crises and unexpected events.
* Resource allocator – the manager controls and authorises the use of organisational resources, but also determines how work is allocated and coordinated.
* Negotiator – the manager negotiates with others regarding the commitment of organisational resources.

The strength of Mintzberg’s work is not so much the precise lists of roles he suggests, but that he points to the fact that managers are expected to perform a set of very different sorts of behaviours at different times. They have to be able to adjust their roles and their relationships depending on circumstances.

Mintzberg recognised that the ability to draw appropriately on a diverse repertoire of roles is a key to effective management.

**Organisation and role**

Of course, the clarity and strength of this roles-orientation towards management is also one of its weaknesses. Roles are typically multidimensional, and may be unclear, include conflicting objectives, or sometimes be simply impossible to enact. The role may be complicated. You might, for example, have a lot of projects or teams to manage, and need to coordinate resources from a variety of sources, and monitor outputs against a wide variety of different timelines. Complication does not necessarily mean complexity. You might simply need to be very good at rational planning in order to be effective.

In general, how managers carry out their roles, the demands they experience, the constraints they are faced with, and the choices they make are all conditioned by the expectations that others have of them. The roles you undertake are not performed within an organisational vacuum. Many of these expectations never appear in job descriptions, but their impact is nonetheless powerful. A manager who moves from one organisation to another, or from one sector to another, may well discover that the expectations of staff, colleagues and directors are wholly different. Being capable of playing a range of roles in one context does not mean that such an ability is automatically transferable to another.

Such problems point to two related comments about the nature of management roles:

1. The roles that organisations expect their managers to play may be unclear or inconsistent. The term ‘role ambiguity’ is often used to refer to such situations of uncertainty about what is expected of a person in a particular role.
2. The manager’s role has to be consistent with the commonly held idea of the organisation. There is always an element of organisational dependence in management roles. A manager plays an important part in making or remaking the idea of the organisation, but cannot usually act completely independent of it.

The issues of the clarity and consistency with the organisation’s ‘way of doing things’ affect how any manager has to interpret his or her role.

Another set of problems concerns the tensions that can arise between the expectations that different people in an organisation have of the same manager – often referred to as [**role conflict**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44245328). The requirements of a role include elements that appear to be in conflict with each other. An HR manager might have the dual responsibilities of championing the employee perspective and managing a programme of redundancies. A manager in a production department might be asked to sustain output with a seriously diminished team while ensuring that quality standards are met and reducing team levels of absence due to stress. Managers often report to two different people within the organisation with conflicting priorities, or may have a range of internal customers with competing requirements. Complexities within the context can create a complex role. Sometimes the context imposes constraints on a role which leave little or no room for taking necessary actions. For example, some child protection workers in the UK currently complain that legal, bureaucratic and resource constraints make it impossible for them to do what is necessary to protect the children for whom they are responsible.

**Role conflict**

**This is where different aspects of the job do not complement each other and instead conflict with the delivery of the different component parts.**

**Person and role**

It is important not to lose sight of your own contribution to the ways in which you enact and perform your various managerial roles. Sticking solely to the script of the role or the demands of the organisation overlooks the fact that people have expectations of you as a person. The sort of person you are also shapes the roles you play as a manager.

What kind of person you are influences the way in which you take up a particular management role and the kinds of roles you take up. Some people find it easy enough to give orders; others are happier working through consensus. Some people are at their best in a crisis; others generally prefer an ordered life. The truth of this is obvious if you think of the people you work with – especially where the same job is or has been done by different people.

The fact that who you are shines through in the roles you undertake as a manager is inevitable. Whether it works for or against you, for or against your organisation, depends on the situation. Where your experiences, aptitudes and values match the requirements and expectations of the job, you will carry out the role with confidence and satisfaction. It will be ‘doing what comes naturally’. On the other hand, where you are expected to be and do things that, in varying degrees, clash with your experience, aptitudes and inclinations, you are likely to encounter difficulties and tensions.

Tensions between person and role can be made far worse if people fail to recognise the discrepancy between what they preach and what they practise. This discrepancy can be a potent source of cynicism and frustration – which can bedevil the whole area of management.

This also raises the dilemmas associated with too close a fusion between role and person. It touches on some of the potential risks and dangers in the ideas associated with roles – for example, encouraging people to behave in ways that are not authentic. Isn’t it important to be wholeheartedly committed to our roles? ‘Wholehearted commitment’ usually means that person and role have become indistinguishable. This is fine when things go well, and correspondingly difficult when they do not.

Take the example of the manager who says that she has worked 112 hours a week for the organisation, that is, all her waking hours. This person has fused self and role, so that there are no distinctions. She has taken on a role of total commitment to the organisation. What would you expect her feelings to be about the organisation? What about the feelings of other people in the organisation about her role?

She may feel that she is not properly appreciated or that other people do not do enough; that she is fully satisfied through her work or that she is much loved and supported by her colleagues and friends. Those working for her may find her oppressive or inspirational.

The dilemmas here are that the roles, the personal and the organisational, become too closely aligned. Criticisms of role become criticisms of person; issues of reasonable difference become issues of loyalty and disloyalty.

It is important, therefore, to maintain a clear separation between person and role in our thinking. This is obvious in relation to other people but it also applies to managers themselves: commitment is fine, but being able to detach ourselves from our roles is also a necessary and important ability.

2.2.2 Balancing management roles

If the fate of the manager (and perhaps the very essence of modern management) is to have too many job aspects, tasks and roles to attend to, how can he or she make effective choices in order to carve out a role that works?

A useful way of beginning to handle some of the complexities of role is based on the distinction between the role you are given and the role you take. We can think about occupying a management role as a balancing act, as a continuous process of negotiation between your own expectations and the expectations of others. In Figure 12, Krantz and Maltz (1997) offer a simple but effective way of thinking about this kind of negotiation. They distinguish between the ‘role as given’ and the ‘role as taken’.

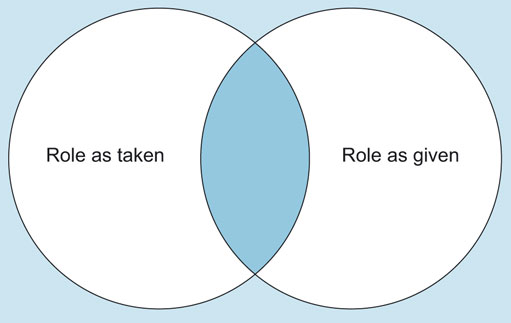


Figure 12 The role as given and the role as taken

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp44149936&clicked=1)

‘Role as given’ refers to the role as defined by the ‘[**role influencers**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section--glossary#idp44246256)’–the set of people in the organisation who see it as their responsibility to define the expectations for what someone in a particular job does, including what is to be done and how. The ‘role as taken’ refers to the view of the job holder as to what is to be done and how. In general, there is a considerable overlap between the two versions of the role, but there are also areas of mismatch. This mismatch is the source of tension between the job holder and the role influencers, and it is generally around these tensions that some form of negotiation takes place to achieve a balance that is acceptable and workable for everyone.

**Role influencers**

**People in the organisation, who see it as their responsibility to define what is expected of someone in a specific job or role.**

This reading has covered the nature of managers’ work from the perspective of the roles they have to perform. The reading started with Mintzberg’s empirically informed description of the nature of management activity and then moved on to his identification of ten specific roles which managers perform. These are particularly helpful in understanding the skill which managers need in being able to perform a wide variety of roles and the ability they need to develop to balance and adjust the roles they play according the specific nature of the situation. Discussion then focused on the potential tensions between role and task and how individual managers learn to shape their roles within the parameters of the job (the role given and the role taken).

**Feedback on Activity 5**

Click below to see the feedback for Activity 5.

[Reveal discussion](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-2.2.2)

**Discussion**

It takes a bit of effort to become familiar with Mintzberg’s classification of roles and to sort out your own working relationships using this sort of framework. Many managers do find, however, that the effort is worth it in terms of gaining a sense of their own management roles and their implications for management practice. Bear in mind that roles emerge not because managers want to ‘play act’, but because they find it essential to respond appropriately to the requirements of the situation.

In many ways, being able to trace the ways in which organisation, task and person shape what you have to do is more important than actually mapping your work onto Mintzberg’s role classification. A role is always context specific.

As ever, the really crucial issues arise once you explore the messy complexities of the experience that lie behind the neat classification. Negotiating different roles and avoiding the confusions associated with them is a major element of working effectively within your roles.

In completing the work on stakeholders ([**Activity 3**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-1.4#e688d18a-75a0-4577-b98c-73f03d6e2e04)), activities ([**Activity 4**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-2.1#v61f1d327-506c-49bc-af5e-b54ab3374261)) and roles ([**Activity 5**](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-2.2#v745b1c90-d956-467b-b178-e9584c0d8b3b)), you have been building up a powerful framework for making sense of what you do as a manager, not in terms of your official job description and formal responsibilities, but what you actually do on a regular and routine basis within your organisation.

Managing is not a matter of simply imposing yourself and your wishes on your context; it is a much more fluid process of discovering and furthering what can be done within a network of people and situations. These issues inevitably both constrain and enable you to achieve what you wish to achieve as a manager. The realities of your working life within a specific context are at the heart of your professional practice as a manager.

2.3 SWOT and PESTLE analyses

**Activity 6 SWOT and PESTLE analyses**

**Introduction**

Like the stakeholder analysis, both the SWOT and PESTLE frameworks were originally designed to support strategic analysis of the interface between an organisation and its external environment. This activity helps you to do a bit more analysis of your own specific management context, using these two well-established frameworks to bring together a range of factors in your environments.

You may already be familiar with SWOT and PESTLE frameworks and confident in how to use them but, for those of you who are new to them or want a refresher, do the following quiz.

**Part A**

What would you categorise the new entrance of a competitor into your market as?

Top of Form



Threat



Weakness

Yes, that's **correct**.

Bottom of Form

**Discussion**

The competitor is an external force, so we would probably argue that it is a threat.

**Part B**

Someone in the development wing of your organisation has developed a new product which hasn’t been tested but may help the company exploit new markets. Is it more of a:

Top of Form



Opportunity



Strength

Yes, that's **correct**.

Bottom of Form

**Discussion**

It could certainly prove to become a strength but is currently an opportunity.

**Part C**

Match the example with the PESTLE factor:

[Skip to accessible version of matching question](http://www.open.edu/openlearn/money-management/management/leadership-and-management/discovering-management/content-section-2.3#matching_access_)

Change in competition law

Legal

Change in taxation policy

Political

Environmental protection laws

Environmental

New technological discovery

Technological

Inflation rate

Economic

Change in demographics

Sociological

Drag each answer (above) into the correct slot (below).

Yes, that's **correct**.

**SWOT and PESTLE**

The purposes of the SWOT and PESTLE analyses are reasonably straightforward. The real judgements are what to include in the various areas of the framework and how you evaluate their relative influence on the situation.

In themselves, neither framework will lead to a ‘correct analysis’ or a single solution for action, but they can aid decision making and, more importantly perhaps, open up discussions with colleagues and stakeholders.

A PESTLE analysis could help you think more deeply about your situation in reference to different layers of the onion diagram, so you may want to have a go at doing one here. You might also want to use it later in the module when you need to think about how different functional areas and factors impact on your organisation.

2.3.1 SWOT

SWOT is an acronym for:

* Strengths (S)
* Weaknesses (W)
* Opportunities (O)
* Threats (T)

SWOT analyses are most often used to identify customers, competitors, and the organisation’s relationship to its external environment. They are also very helpful on focusing on your intrinsic qualitative strengths and weaknesses, or those of your organisation

**Table 2 Common questions used in a SWOT analysis**

|  |  |
| --- | --- |
| **Internal factors** | **External factors** |
| Strengths   * What are we best at? * What intellectual property do we own? * What specific skills does the workforce have? * What financial resources do we have? * What connections and alliances do we have? * What is our bargaining power with suppliers and intermediaries? | Opportunities   * What changes in the external environment can we exploit? * What weaknesses in our competition can we attack? * What new technology might become available for us? * What new markets might be opening up to us? |
| Weaknesses   * What are we poor at doing? * Is our intellectual property outdated? * What training does our workforce lack? * What financial constraints do we have? * What connections and alliances should we have, but don’t? | Threats   * What might our competitors be able to do to hurt us? * What new legislation might damage our interests? * What social changes might threaten us? * How might an economic cycle affect us? |

(Source: based on Blythe, 2001, p. 17)

However, like stakeholder analysis, the SWOT model is capable of being applied more widely to other situations that managers encounter. For example, it is frequently used by individuals to evaluate their developmental needs in terms of their strengths, weaknesses, opportunities and threats (or barriers) for development.

If you would like to read more about this, these [**CIPD resources on SWOTExternal link**](http://www.cipd.co.uk/subjects/corpstrtgy/general/swot-analysis.htm) (2008) are very helpful.

**Task: Your SWOT analysis**

Get ahead of the game. Create a SWOT analysis for yourself, using the factors in your own situation and the template provided below.

[**SWOT analysis template**](http://www.open.edu/openlearn/ocw/mod/oucontent/olink.php?id=1441&targetdoc=SWOT+analysis+template)

2.3.2 PESTLE

PESTLE is an acronym which stands for the following factors:

* Political (P)
* Economic (E)
* Sociological (S)
* Technological (T)
* Legal (L)
* Environmental (E)

The PESTLE framework is used to weigh up the wide range of factors in an organisation’s environment that will impact on its strategy. It can also be used to identify wider influences that occur in different managerial situations.

The factors in a PESTLE analysis are shown in Figure 13.

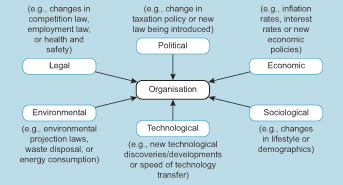


Figure 13 Factors in a PESTLE framework

[Long description](http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=1441&extra=longdesc_idp44206400&clicked=1)

If you would like to read more about this, these [**CIPD resources on PESTLEExternal link**](http://www.cipd.co.uk/subjects/corpstrtgy/general/pestle-analysis.htm) (2008) are very helpful.

**What is PESTLE analysis?**

PESTLE stands for - Political, Economic, Sociological, Technological, Legal, Environmental. The term PESTLE has been used regularly in the last decade or so and its true history is difficult to establish. Various other similar acronyms have been used including ETPS, STEP, PEST, and STEEPLE (where the extra E stands for Ethical). The term PESTLE is particularly popular on HR and introductory marketing courses in the UK.

PESTLE analysis is in effect an audit of an organisation's environmental influences with the purpose of using this information to guide strategic decision-making. The assumption is that if the organisation is able to audit its current environment and assess potential changes, it will be better placed than its competitors to respond to changes.

To help make decisions and to plan for future events, organisations need to understand the wider ‘meso-economic’ and ‘macro-economic’ environments in which they operate. (The meso-economic environment is the one in which we operate and have limited influence or impact, the macro-environment includes all factors that influence an organisation but are out of its direct control). An organisation on its own cannot affect these factors, nor can these factors directly affect the profitability of an organisation. But by understanding these environments, it is possible to take the advantage to maximise the opportunities and minimise the threats to the organisation. Conducting a strategic analysis entails scanning these economic environments to detect and understand the broad, long term trends.

A PESTLE analysis is a useful tool for understanding the ‘big picture’ of the environment in which an organisation is operating. Specifically a PESTLE analysis is a useful tool for understanding risks associated with market (the need for a product or service) growth or decline, and as such the position, potential and direction for an individual business or organisation.

A PESTLE analysis is often used as a generic 'orientation' tool, finding out where an organisation or product is in the context of what is happening outside that will at some point affect what is happening inside an organisation. The six elements form a framework for reviewing a situation, and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.