Professor Paul Willman

Foundations of Management
What are we here to study? – the background

- Following the industrial revolution in the west (or as part of it) there was a growth in large firms.

- Much economic activity took place *within* such firms, which developed elaborate, mostly hierarchical structures, borrowing from the experience of large state or religious organisations.

- These firms became powerful economic and political actors within western nations, often acting to transform the societies in which they operated.

- Theorists sought to address, both descriptively and prescriptively, how such large organisations operated. In the late 19th and early 20th century, business or management theory emerged.

- It borrowed heavily from existing social science, but in turn came to influence it.

- The borrowing was often concerned to develop technique – practical applications of social science in order to run businesses or develop markets.
CORE DISCIPLINES

- ECONOMICS – Finance, Strategy, Marketing
- MATHEMATICS – Finance, Decision Sciences
- PSYCHOLOGY – Organisational Behaviour, Marketing, Strategy, Behavioural Finance
- SOCIOLOGY – Strategy, Organisational Behaviour, Accounting & Marketing
What are we here to study? – some questions

• How much of the theory applied to business in this process is time bound – late C19 – C20?

• How much of it is specifically western?

• How much of it ever worked?

• To what extent did it explain business practice or shape it?

• Which elements are resilient?

• How can we learn to use them?
A 20th Century Business School...why did this happen?

- Accounting
- Finance
- Operations
- Organisational Behaviour/Theory
- Marketing
- Strategy
- Decision Sciences

MBA

Executive Education

Executive Global Masters in Management
CORE CONCEPTS

- Market, hierarchy and network
- Co-ordination and control
- Contract
- Individual and Collective action
- Rationality and Irrationality
- Incentive and Performance
- Efficiency and Cost
- Price and Profit
- Agency
- Competitive advantage
Characteristics of this Knowledge Set

• Opportunistic – borrowing of ideas to solve perceived business problem. E.g. studies of soldier stress to devise working times.

• Eclectic – ideas from anywhere. E.g. culture from anthropology, competitive advantage from economics, portfolio theory from maths.

• Fragmented (and sometimes internally inconsistent). E.g. optimising individual productivity through engagement or throughput.

• Derivative – second mover advantage. E.g. options pricing using heat diffusion equations.
The Big Picture

During the ‘short’ C20th, 1914-90, the study of management grew..

- From applied engineering to a 6-’discipline’ curriculum
- From vocational education to a multi-billion $ business
- From a ‘technical’ best practice approach to a moral and ethical crisis
The Short C20th

- War
- Collapse of C19th globalisation
- More War
- The American Dream
- Cold War
- Competition from the East
- Triumph of capitalism?
Short C20th - Issues

• The control of labour

• The rise of the large firm and the development of mass markets

• Managerial Capitalism

• Japanese competition

• Unleashing financial markets
Control in Hierarchies and Markets

The Firm

Organisational Design
Management Accounting
Operations management

Industrial Relations
Human Resource Management

Labour Market

Product market

Marketing

Marketing conception

Strategy

Financial Accounting

Finance

Finance conception

Manufacturing conception
The early 21st century

- Dot.com boom
- Dot.com crash
- Brics
- ‘Hollowing out’ of American manufacturing
- Another crash (too many crashes for a normal distribution)
- Hungry governments
Issues

• End of the public company? (Jensen)
• End of investment banking? (Disintermediation of financial markets)
• Partnerships are back (PE, Hedge funds).
• From vertical integration to the global supply chain (Nike, Apple).
• Shrinking banks (Non-bank lending).
• Growth in intra-firm inequality
• Return of ‘big government’?
Studying Management

• The six discipline set is no longer enough.

• Politics, Law, Sociology, Macro-economics

• Imperialism of financial economics over? (efficient markets and strategy—Shiller and Jensen)

• Firm as the unit of analysis?

• Rationality as a variable.
Thinking About Management

Management Tools

<table>
<thead>
<tr>
<th>Make a difference</th>
<th>Make no difference</th>
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<td>Management Tools</td>
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Management Process

<table>
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<tr>
<th>Rational</th>
<th>Irrational</th>
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<tr>
<td>Organisational and financial economics, e.g. Jensen, game theorists</td>
<td>Managerial decision making, e.g. Simon, Kahneman</td>
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<td>Theologians</td>
<td>Chroniclers</td>
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<td>Process and tool builders, e.g. Taylor, Kaplan, Hamel</td>
<td>Management as ritual, e.g. ‘anthropologists,</td>
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<td>Preachers</td>
<td>Sceptics</td>
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Executive Global Masters in Management

LSE the London School of Economics and Political Science