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KEY CONCEPTS IN MANAGEMENT

jonathan sutherland
and diane canwell

Cambridge
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Introduction

The art of management is not simply restricted to the organization of processes and operations. Neither is management restricted to problem solving and decision making. Management is an all-encompassing discipline, which requires an expansive range of skills and abilities, about which millions of words have been written and millions more will be written. Every year several hundred management 'bibles' are produced, expounding new theories of management, as consultants and theorists vie to become the new leaders in management thought.

Management has been a discipline and a fact of life for centuries, but it is only in recent years that it has been described as both a profession and a science. The development of management theory can be traced back over hundreds of years and has been influenced by key thinkers such as Karl Marx, Max Weber, Henri Fayol, Frederick Winslow Taylor, Elton Mayo, Dale Carnegie, Igor Ansoff and Henry Mintzberg, to name but a few.

Successive waves of theorists have dissected the nature of management, the environment in which it operates, the inter-relationships between managers and employees, the nature of change, communication, teams and groups. Successive theorists have examined the differences between leadership and management, coming to many radically different conclusions about their nature and their dependence upon one another. Other theorists have focused on motivation, or the management of conflict, and, in latter years, attention has been drawn to performance management.

No study of management or leadership can ever be complete; neither can it hope to be the last word on the subject. The discipline continues to develop, spawning new sub-disciplines. Whilst skilled workers, with defined tasks, duties and roles, may have a blueprint to work from, there is no such blueprint for management; there are no precise plans, there is no ideal way in which to manage. Management depends upon circumstance, personal style, the environment, the organizational structure and its processes. Management is a continually moving field and few attain sufficient proficiency in the art to do much more than cope with situations as they present themselves.

The structure of the glossary

Every attempt has been made to include all of the key concepts in this discipline, taking into account currently used terminology, ratios and jargon common throughout management in organizations everywhere. There are notable differences in legislation and procedure when we compare approaches in the United Kingdom, Europe, the United States and Japan. However, the majority of these key management concepts are standard and in widespread use throughout organizations around the world, and the majority of the underlying concepts of management and leadership are universally recognized, regardless of their origin.

Each of the key concepts has been placed alphabetically in order to ensure that the reader can quickly find the term or entry of immediate interest. It is normally the case that a brief description of the term is presented, followed by a more expansive explanation.

The majority of the key concepts have the following in common:

- They may have a reference, within the text, to another key concept identified by a word or phrase that is in **bold** print – this should enable readers to investigate a directly related key concept should they require clarification of the definition at that point.
- They may have a series of related key concepts, which are featured at the end of the definition – this allows readers to continue their research and to investigate subsidiary or allied key concepts.
- They may include book or journal references – a vital feature for the reader to undertake follow-up research for more expansive explanations, often written by the originator or by a leading writer in that particular field of study.
- They may include website references – it is notoriously difficult to ensure that websites are still running at the time of going to print, let alone several months beyond that time, but in the majority of cases long-established websites have been selected, or governmental websites that are unlikely to be closed or to have a major address change.

Glossary terms – a guide

Whilst the majority of the key concepts have an international flavour, readers are cautioned to access the legislation, in particular, which refers to their native country or the country in which they are working.

It is also often the case that there are terms which have no currency in a particular country, as they may be allied to specific legislation of another country. Readers should check whether the description does include a specific reference to such law and should not assume that every key concept is a generic one that can be applied universally to the understanding of management and leadership.

In all cases, references to other books, journals and websites are based on the latest available information. It was not always possible to ensure that the key text or printed reference is in print, but most well-stocked college or university libraries should have access to the original materials. In the majority of cases, when generic management books have been referenced, these are, in the view of the writers, the best and most available additional reading texts.

In *Key Concepts in Management*, the focus of the key concepts has been on the more generic concepts, applicable to most areas of management. Clearly, it has not been possible to include all management-related areas specific to particular management disciplines. We would, therefore, recommend the following *Key Concepts* glossaries for further information in specific specialisms:

- *Key Concepts in Human Resource Management* – which covers management techniques and disciplines regarding the practice of employee management and development.
- *Key Concepts in Accounting and Finance* – which addresses the issues of financial measurement, budgeting and control.
- *Key Concepts in International Business* – which specifically addresses the management function in an international or global context.
- *Key Concepts in Marketing* – which covers management of the marketing function, including brand management.
- *Key Concepts in Business Practice* – which addresses the daily procedural functions related to management.
- *Key Concepts in Strategic Management* – which takes the next logical management step to incorporate broader issues related to the management function.

Aa

Abell, Derek F.

British-born Derek F. Abell was a professor at the Harvard Business School in Boston from 1969 to 1981. He is a published author in the fields of marketing, strategic planning and general management. He has worked as a consultant for both US and European multinational corporations.

Abell is, perhaps, best known for his identification of competitors. He identified three dimensions, which were:

- customer functions;
- customer groups;
- alternative technologies.

Abell, Derek F., *Defining the Business: Starting Point of Strategic Planning*. Englewood Cliffs, NJ: Prentice-Hall, 1980.

Abell, Derek F., *Managing with Dual Strategies: Mastering the Present, Pre-empting the Future*. New York: Free Press, 1993.

www.imd.ch/faculty/vitae/index

Absolute cost advantage

The term 'absolute cost advantage' is largely associated with one of the many **barriers to entry** which prevent businesses from entering new markets. Absolute cost advantages are the advantages which a larger, more established business can benefit from as a result of **economies of scale**, or an innovation which has allowed them to reduce costs. Typically, a new competitor entering the market may face a price war, which often causes new entrants to fail, whilst the incumbent, having the absolute cost advantage, manages to survive.

The incumbent, having taken account of relevant opportunity costs, will expend resources and secure a **first-mover advantage** in a new market or with a new innovation, and will be able to enjoy, relatively speaking, monopoly profits. Any potential entrant into the market must devise a profitable entry plan. The scale of these costs is often referred to as the 'height' of an entry barrier.

Absorptive capacity

The absorptive capacity of a business represents its abilities to identify, and to value, assimilate and then utilize any new knowledge. In other words, it is the ability of the business to recognize the value of new, often external, information, then assimilate it and apply it to its own commercial advantage. Businesses have increasingly realized that outside sources of knowledge are important if not crucial in continuing to innovate.

It is believed that there is a negative relationship between a business's absorptive capacity and the practice of **outsourcing**. Businesses which carry out their own **research and development** are more likely to achieve absorptive capacity as a by-product of this activity.

Cohen, W. M. and Levinthal, D. A., 'Absorptive Capacity: A New Perspective on Learning and Innovation', *Administrative and Science Quarterly*, 35(1) (1990).

www.ifs.org.uk/workingpapers/wp0103.pdf

Accountability matrix

The accountability and responsibility matrix (Figure 1) is a concept designed by David Brin. Brin contends that individuals see the top two boxes of the matrix as being good and the bottom two boxes as being bad. Businesses or society require boxes 1 and 3, since these create accountability. Businesses and society are averse to boxes 2 and 4 since they pit employees against one another.

Brin, David, *The Transparent Society: Will Technology Force us to Choose Between Privacy and Freedom?* New York: Perseus Books Group, 1999.

Acquisition and restructuring

The term 'acquisition and restructuring', in referring to a **business strategy**, is formulated on the presumption that a business which has a superior internal governance system can create value simply by acquiring less efficient, or poorly managed, businesses and improving their efficiency.

An acquisition can be differentiated from either a merger or a takeover in as much as it is a transaction where one business buys another with the primary purpose of using that business's **core competence** by making it a subsidiary.

There are a number of reasons why businesses choose to acquire another business, these include:

Accountability Matrix

1 Tools that help me see what others are up to	2 Tools that prvent others from seeing what I am up to
3 Tools that help others see what I am up to	4 Tools that prevent me from seeing what others are up to

Brin argues:

- Where it says 'others' insert some person or group, such as 'government' or 'corporations' or whoever you perceive as a dangerous power centre.
- People are likely to call 'good' any device, law or technical advance that enhances the effectiveness of 1 or 2. In contrast, whatever comes along that increases the effectiveness of 3 or 4 may raise your discomfort, if not ire.
- If our aim is to live in a society that is fair and free, the tools needed by our commons will be those favouring 1 and 3.
- The most dangerous trends, laws, and technologies are those promoting 2 and 4, pitting citizens against one another in an arms race of masks, secrets, and indignation.

Figure 1 Accountability matrix

- Increased speed to market – which is a term closely related to **barriers to entry** as it allows market entry more easily.
- Diversification – which allows the business to move quickly towards gaining experience and depth.
- Reshaping competitive scope – which relates to acquisitions as a primary means by which a business reduces its dependence on a few products or markets

Effective acquisitions can be achieved by addressing the following issues:

- Complementary assets and resources – buying businesses with assets that meet current needs and help build competitiveness.
- A well-considered selection process – which incorporates an evaluation as to the ease of integration and whether **synergies** will be built.
- Maintaining a financial reserve – so as not to forgo any other profitable projects as a result of spending all reserves and available cash on the acquisition.

Normally there are three different forms of restructuring, which can be best summarized as in Table 1.

Table 1 Forms of restructuring

Restructuring alternative	Short term	Long term
Downsizing	Reduced labour costs	Loss of human capital
Down-scoping	Reduced debt costs	Potentially lower or higher performance
Leveraged buy-out	High debt costs	Higher performance but higher risk

Action planning

Action planning is an integral part of both goal-setting and problem solving, yet in many business contexts it is a neglected area. Action planning can assist a business in planning for the future, ensuring that as future situations change, they can be controlled. At its most basic, action planning is, in effect, the conversion of goals or objectives into a series of steps, in order to ascertain what has to be done, by whom, and by when. This is variously known as either an action planning process or an event track. The process of formulating the event track follows a set series of procedures:

1. Decide a goal or objective.
2. Identify the sequence of actions required to achieve this.
3. Refine the initial plan by identifying where it may go wrong.
4. Having identified what may go wrong, formulate plans or actions to deal with these problems.

The action plan should explain how the business is to get from where it is now to where it wishes to be, describing in detail how the business proposes to do this. There needs to be a secondary process running alongside the action plan, which checks to see whether the action plan is working.

Effective action planning requires the participation of all relevant **stakeholders**, who should be aware of their role in the process. A full action-plan event track is likely to incorporate the following aspects:

1. Development of a rough action plan, which should combine individual work from the participants, listing the activities they propose in order to reach the goal. Once this has been completed, all of the activities are discussed and, perhaps using a voting technique, the most appropriate ones are chosen. These then need to be arranged in the correct sequence.

2 The action plan now needs to be refined. Above all, the action plan needs to be robust; each event needs to be detailed in terms of what, when and who.
3 Assumptions – checks need to be made of any assumptions made in the creation of the action plan. This may include assumptions regarding skills, time, finance and materials. There may also be assumptions regarding coordination. Above all, the participants need to consider how to deal with any unexpected problems that arise.
4 Contingency plan – no matter how complex the creation of the action plan may have been, it is imperative that a contingency plan is created, which may need to be instituted in the event of the action planning going off track. This means that a monitoring process needs to be put in place, together with a clear idea of how to solve potential problems as they arise, if they require immediate action in order to ensure that the goal is finally reached.

Kaplan, Robert S. and Norton, David P., *The Balanced Scorecard: Translating Strategy into Action*. Boston, MA: Harvard Business School Press, 1996.

Active listening

The purpose of active listening is to improve mutual understanding. This involves a radically different approach to the process of listening and responding. The assumption is that when individuals talk to one another they do not necessarily listen. There may be other issues which distract them. There is a particular problem in situations where the two individuals are in conflict with one another, as they are more concerned with formulating a response than with what is actually being said.

The concept of active listening requires listeners to carefully absorb what the speaker has said and then to repeat it back in their own words. In this way the original speaker can be apprised of whether the listener actually understood, and whether there is any conflict in the intent of what was said. It is a question of interpretation and this is often the root cause of misunderstandings between individuals during a conversation. By repeating what has been said, the two individuals can hope to move towards a consensus through confirming understanding. The process also avoids the two individuals contradicting one another by claiming that the other said something which they did not. Providing the two individuals are attuned to one another in this way, they are likely to explain in detail precisely what they mean, and conflict can be avoided.

Figure 2 illustrates the external factors that prevent an individual from being able to listen actively.

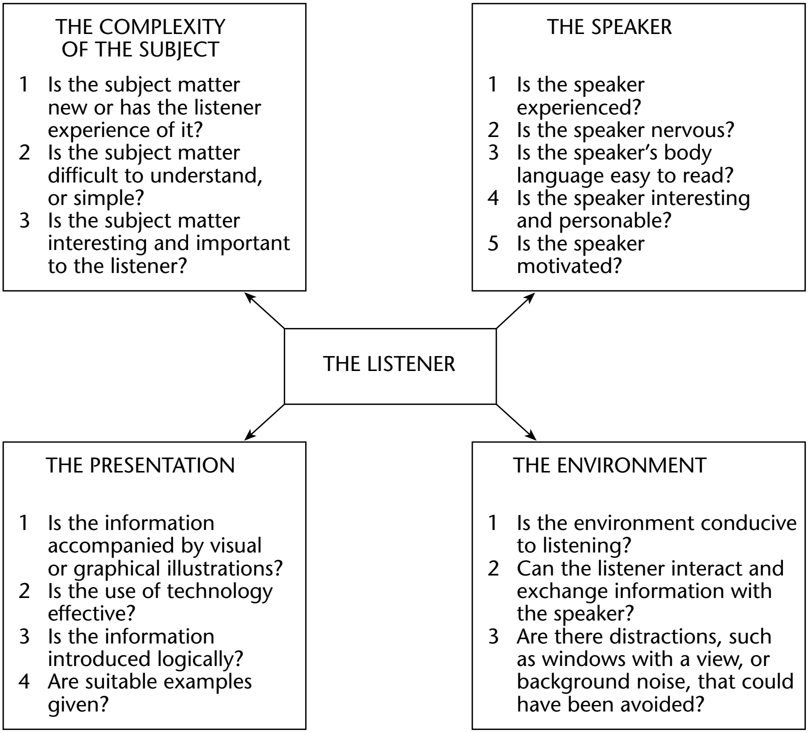


Figure 2 Factors that prevent active listening

In order to listen actively, listeners should attempt to ensure that they:

- focus their attention on the subject by stopping all non-relevant activities beforehand, to orient themselves with the speaker or the topic;
- review mentally what they already know about the subject, and organize relevant material in advance, to develop it further;
- avoid distractions by sitting appropriately close to the speaker and avoiding a window or talkative colleague;
- set aside any prejudices or opinions, and be prepared to listen to what the speaker has to say;
- focus on the speaker;
- let the presentation run its course before agreeing or disagreeing;
- actively respond to questions and directions.

Westra, Matthew, *Active Communication*. Florence, KY: Wadsworth Publishing, 1995.

Activity ratio

Activity ratios are a means by which an assessment can be made as to how well a business is managing its assets. Typically, the activity ratios would include the following:

- **Inventory turnover** – which shows whether a business is holding excessive stocks of inventory.
- **Fixed assets turnover** – which shows whether the assets are being used close to capacity.
- **Total assets turnover** – which indicates whether a sufficient volume of business is being generated for the size of the asset investment.
- **Working capital** turnover – which indicates whether funds are being efficiently used.

The activity ratios combine information which can be found on a business's balance sheets or income statements, and are considered to be useful analytical tools in understanding the financial statements. Effectively, the ratios revolve around turnover, or may perhaps include calculations regarding issues such as the **average collection period**.

Temple, Peter, *Magic Numbers: The 33 Key Ratios that Every Investor should Know*. New York: John Wiley & Sons, 2001.

Adaptive culture

Edgar Schein originally proposed the notion that organizational culture is framed by what a business assumes to be true about its organization and the environment in which it operates. He also suggested that culture is unconscious, but can be learned and reinforced when problems can be solved repeatedly using the same approach.

An adaptive culture is an organization which recognizes that it is not the strength of its culture which matters the most, but its adaptability. An adaptable culture is one which allows the adoption of strategies or practices that are able to respond continually to changing markets and new competitive situations. These organizations are forward-looking and tend to be guided by positive change. Research has shown that organizations which do not have adaptive cultures can be short-term successes, but as markets change they are unable to change quickly enough to adapt to new business conditions. The main differences between organizations with high-performance adaptive cultures and those without high-performance adaptive cultures are outlined in Table 2.

Table 2 Organizations with and without adaptive cultures

Organizations with high-performance adaptive cultures	Organizations without high-performance adaptive cultures
Ability to maintain a fit between the culture and the business context	Short-termism
Active support within the organization to identify problems	Emphasis on structure and systems
Active support within the organization to identify problems and find workable solutions	Inability to focus on multiple stakeholders
Feeling of confidence amongst employees	Biased perception of the competition
Trust	Inability to deal with negative suggestions or observations
Risk-taking	Feeling of invulnerability
Proactivity	Alternative strategies ignored

Kotter, John and Heskett, J. L., *Corporate Culture and Performance*. New York: Free Press, 1992.

Added value

Value added, or added value, is an increase in the market value of products, parts or components which excludes the cost of materials and services used. In other words, this is a cost-plus-profit concept, defining 'value added' as either the difference between the cost of producing a product and the price obtained for it (the selling price), or an additional benefit offered to purchasers in order to convince them to buy. Added value is the key concept in both the internal and the external accounting systems of an organization and is a useful means of identifying the relative efficiency of a business. It should be noted that the value-added concept looks at the internal input costs in such a way that they are not confused with the external output costs, which may be beyond the control of the organization.

A

The value of the goods or services supplied may depend on a number of different variables. Obviously, if the organization is processing raw materials into finished products and is responsible for all stages of the production process, then it has a relatively high degree of control over the level of added value involved. Organizations which buy in components or partly finished products do not have this depth and length of control. They purchase products which have had value added to them already. The supplier will have gone through a similar set of calculations prior to selling the components or part-finished products on to the organization, which in turn will continue their processing. In the end, the level of value added to the goods or services supplied is directly related to the price the customer is willing to pay. An organization may decide to add value which would raise the price beyond what the average customer is willing to accept. In such a case, the supplier would have either to accept that it cannot receive the price which it expected, or to drastically reduce its costs, which have contributed to the end-user price.

The most common definition of 'value added' is profit. Before the profit is realized, however, it is necessary to be able to cover the directly applied or overhead costs of the organization. If the organization is able to cover the various costs, then it has gone a considerable distance towards being able to break even. It is only when the added value exceeds the **breakeven point** that the organization moves into real profit. It is, perhaps, this part of the value-added concept that is most important. Profit means a number of things to an organization: for example, additional investment potential, expansion, reorganization or acquisition. It is in the nature of the value added, to have a tendency to push up the end-user price from the moment the raw materials are extracted. In stages, some more dramatic than others, added value will be heaped upon the product. Each layer of the supply chain will demand its rightful profit in handling the product or service. Consequently, if an organization is not involved in the total extraction, processing and sale of a product or service, then it may not be able to curb unnecessary levels of added value elsewhere in the trading cycle.

Sherrington, Mark, *Added Value: The Alchemy of Brand-led Growth*. Basingstoke: Palgrave Macmillan, 2003.

See also **Porter, Michael** *and* **value chain**.

Albrecht, Karl

Karl Albrecht is a management consultant who is essentially concerned with organizational and individual effectiveness. He has written widely on creative thinking, negotiation, service management, **added value**, and humans as assets, as well as customer care.

Karl Albrecht's service triangle addresses the interconnectivity of people, systems and strategy and their impact on service management (see Figure 3).

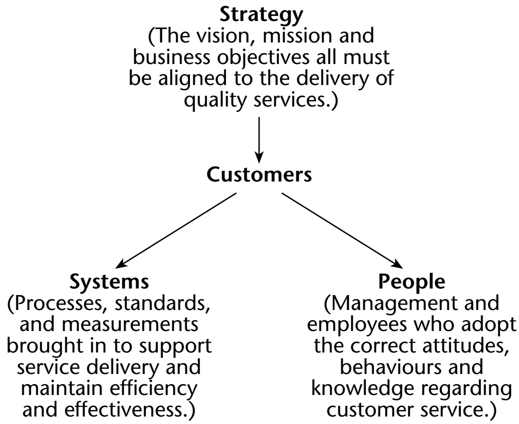


Figure 3 Albrecht's service triangle

Albrecht, Karl, *Delivering Customer Value: It's Everyone's Job*. Cambridge, MA: Productivity Press, 1995.

www.karlalbrecht.com

Alderfer, Clayton P.

In the 1970s Alderfer identified three categories of human needs which influenced an employee's behaviour (see Figure 4). In essence his theory aimed to address some of the limitations of **Abraham Maslow**'s hierarchy of needs.

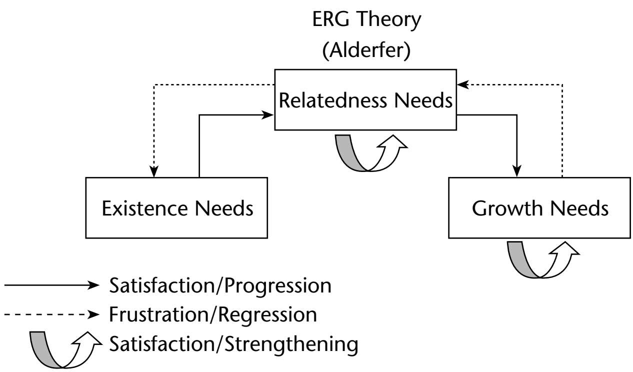


Figure 4 Three categories of human needs

Alderfer's three criteria were:

- *Existence needs* – which incorporate Maslow's first and second levels and include physiological and safety needs.
- *Relatedness needs* – which accord with Maslow's third and fourth needs and include social and external esteem.
- *Growth needs* – which are also in line with Maslow's fourth and fifth levels and include internal esteem needs and self-actualization.

Alderfer did not consider these three criteria to be stepped in any way, unlike Maslow's idea that access to the higher-level needs required satisfaction in the lower-level needs.

In effect, the ERG (Existence, Relatedness, Growth) theory recognizes that the order of importance of the three areas may be different for different individuals. He does, however, recognize that if a particular need remains unfulfilled, then an individual will suffer dissatisfactions, regressions and frustrations. ERG theory is very flexible, as it can explain why individuals may be perfectly prepared to work under poor circumstances, for limited pay, in employment from which they gain a great deal of personal satisfaction, and why others receive recognition for their work, and high pay, yet are frustrated by limitations and boredom.

Alderfer, Clayton P., *Existence, Relatedness and Growth: Human Needs in Organizational Settings*. New York: Free Press, 1973.

Ansoff, Igor H.

The Ansoff matrix (see Figure 5), one of a number of classic marketing concepts, encapsulates the future vision of the business.

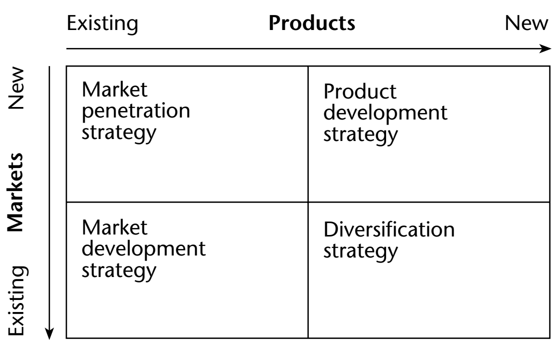


Figure 5 The Ansoff matrix

A

Igor Ansoff has made major contributions to the concepts surrounding corporate strategy (*A Practical System of Objectives* in *Corporate Strategy*). However, it is for the growth vector matrix that he is best known. The matrix examines the potential strategies available to a business in four areas, cross-referenced as new or existing markets and new or existing products. The matrix suggests the marketing strategies available to the business in each of these areas:

- *Market penetration* – Existing products into existing markets.
  Management seeks to increase its market share with the current product range. This is considered to be the least risky strategy of all of the options available. Existing customers are encouraged to buy more products and services, those at present buying a competing brand are persuaded to switch, and non-buyers are convinced to begin to make purchases. Any readily recognizable weaknesses in the portfolio of the business need to be addressed and strengthened.
- *Market development* – Existing products into new markets.
  Systematic market research should reveal new potential markets for the existing products. Clearly stated segments are then targeted individually, either through existing marketing and distribution channels or by setting up new ones to service the new segments. As the business is moving into new markets, it needs to be aware of the potential differences in reactions, expectations and other factors.
- *Product development* – New products into existing markets.
  Assuming the business has sufficient resources, then new products, or developments in the existing products, can be brought into the market. Provided the business has closely matched the new products with the requirements of its existing markets risks are minimized. The major concern is 'time to market', which means the time it will take to develop the new products and whether there will be the opportunity to defray the development costs quickly.
- *Diversification* – New products into new markets.
  This is considered to be the highest risk of all the strategies. Essentially, there are two options available to the business: the first is synergistic diversification, which relies on the business being able to harness its existing product and market knowledge (production processes, channels of distribution, etc.). The other option is known as conglomerate diversification, which means that the business departs from its existing product and market knowledge. This form of diversification is often achieved by merging with, or taking over, a business operating in another unrelated area (which in fact

converts conglomerate diversification into synergistic diversification).

Ansoff, Igor, *Corporate Strategy* (The Library of Management Classics). London: Sidgwick & Jackson, 1986.

Architecture

Organizational architecture is taken to mean the totality of an international business's organization, including its formal structure, **organizational culture**, processes, incentives and human resources. It is believed that in order for an international business to be profitable, three conditions related to its organizational architecture need to be in place. These are:

- The various elements of the business's organizational architecture must be consistent from an internal standpoint.
- The organizational architecture must match the strategy of the business.
- Both the organizational architecture and strategy must be consistent with the prevailing competitive conditions in the markets in which the organization operates.

www.sixsigma.com/context/C010128a.asp

Argyris, Chris

Argyris has contributed much to the understanding of the relationship between people and organizations, as well as organizational learning itself. Argyris wrote that bureaucratic organizations lead to mistrustful relationships, and that the creation of an environment which incorporates trust leads to greater personal confidence, cooperation and flexibility. Employees desire to be treated like human beings and their complex needs must be recognized by an organization. Businesses should provide opportunities for employees to influence the way in which they work and the way in which the business is structured (see Table 3).

Pyramidal or bureaucratic organizational structures still dominate the majority of businesses and these structures have an impact upon the way in which individuals within an organization behave, and their personal growth characteristics. Argyris created the immaturity/maturity continuum, which sought to identify the ways in which healthy personalities can be developed within an organization that allows career and personal development. This is best summed up as in the diagram in Figure 6.

Table 3 Organizational structure

Bureaucratic/pyramidal	Humanistic/democratic
The crucial human relationships are those which relate to the meeting of the business's objectives.	The crucial human relationships are not only those related to meeting the objectives of the business but also those that maintain the business's internal systems and adapt to the environmental issues.
Effectiveness in relationships increases as behaviour becomes more rational, logical, and clearly communicated.	Human relationships increase in effectiveness as all the relevant behaviour becomes conscious, discussed and controlled.
Effectiveness decreases as behaviour becomes more emotional.	
Human relationships are effectively motivated by defined direction, authority, and control. This is in addition to appropriate rewards and penalties that emphasize rational behaviour and the achievement of objectives.	In addition to direction, human relationships are most effectively influenced through control, rewards and penalties, authentic working relationships, internal commitment, psychological success and the use of the process of confirmation.

Immaturity →	**Maturity**
Passive	Active
Dependence	Independence
Limited behaviour range	Capable of behaving in many ways
Erratic shallow interests	Deeper and stronger interests
Short time perspective	Long time perspective (past and future)
Subordinate position	Equal or superordinate position
Lack of awareness of self	Awareness and control over self

Figure 6 The immaturity/maturity continuum

The theory postulates that an organization's culture either inhibits or allows an expression of the growth of an individual who works within that organization. Argyris argued that, at the time of writing, very few organizations had reached maturity in their approach.

Argyris, Chris, *Personality and Organization*. New York: HarperCollins, 1957.
Argyris, Chris, *Knowledge for Action: A Guide to Overcoming Barriers to Organizational Change*. San Francisco, CA: Jossey-Bass, 1993.

See also **double loop learning**.

Asset reduction

An asset-reduction strategy is also known as a 'harvest strategy'. It is a means by which an organization seeks to limit or decrease its investment in its business by extracting as much cash out of the operation as it can. Typically, an asset-reduction strategy would be employed in a declining market or industry, allowing the business to optimize its **cash flow** levels.

Attractiveness–strength matrix

In the early 1970s the General Electric Company (GEC) began to restructure its business, with the assistance of McKinsey Consulting. The GE/McKinsey approach assesses both environmental and business-level situations. In effect, the approach looks at the firm's attractiveness, or carries out an environmental analysis, on the basis of a number of criteria, including:

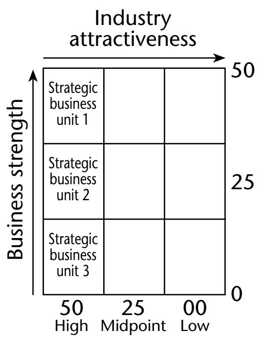
- market share;
- market growth rate;
- **barriers to entry**;
- inflation;
- industry profitability;
- manpower availability;
- technology;
- social issues;
- environmental issues;
- competitive structure;
- regulation;
- political issues;
- legal issues.

The business would also address those of its internal strengths which it considers to be **critical success factors**. These would include:

- market share growth;
- sales force;
- marketing;
- distribution;
- research and development;
- financial resources;
- breadth of product line;
- quality and reliability;
- customer service;
- managerial competence;
- image;
- manufacturing ability.

In order to use the GE/McKinsey approach, five steps are involved:

1 An identification of the external and internal critical success factors.
2 An identification of the external industry factors. This involves attaching a weighted score to the attractiveness of each industry, with the weighted score attempting to capture two dimensions of each factor. An estimate is made of the industry importance of each factor, with the total of the weights adding to 1.00. Each of the factors is then graded between 1 and 5 and then the weight is multiplied by the rating to give the final weighted score.
3 The internal factors are now assessed using precisely the same procedure. The weighted score captures the two dimensions: the weight used to evaluate how far a factor affects the competitive



Industry attractiveness

Business strength	High	Med	Low
High	Invest & grow Seek dominance Maximize investment	Selectivity growth Identify growth area Invest in growth	Selectivity Maintain position Seek cash position
Med	Selectivity growth Identify weaknesses Build on strengths	Selectivity Specialize Invest selectively	Harvest/Divest Prune lines Minimize investment
Low	Selectivity Specialize niche Seek acquisition	Harvest/Divest Specialize niche Consider exit	Harvest/Divest Attack rivals Time exit

Figure 7 The attractiveness–strength matrix

position, and a weighting which grades the business on each of the factors.

4 Having replicated the task for each business unit within the organization, it is now possible to create an attractiveness–strength matrix (see Figure 7), which notes the difference between any rating scores, or weighting, for each of the business units.

5 A formal strategy is now adopted which determines the position of the business as a whole in the matrix.

Authority

As far as a manager is concerned, authority may come from several different sources, which can broadly be described as either legitimate or illegitimate. The sources of authority, however, can be typified as in Table 4.

Table 4 Sources of authority

Authority	**Description**
Charisma	More often than not this relates to one individual having the ability to influence another by using the strength of his or her personality.
Coercion	This relates to an individual's ability to threaten others or bribe them into taking action they would not otherwise have taken.
Conformity	Some managers, and also some organizations as a whole, set standards or behaviour values which those wishing to progress within the organization have no alternative but to accept and adopt.
Divine right	This kind of authority could be said to 'come with the position' in that those who consider themselves to be important give an air of expecting others to recognize their authority immediately.
Expertise	This type of authority relates to an individual, or to a group, exercising power because of their knowledge and experience. Used positively it can be beneficial, but when it is used negatively, others may consider this type of authority to be a block on their own progress.
Legality/ rationality	This type of authority relates to an organization which, possibly on setting up, has laid down strict rules and norms which must be complied with. Although this may have been adopted in the initial stages of an organization, other types of authority often develop during the organization's life.

⇒

Table 4 Sources of authority (*continued*)

Authority	Description
Physicality	This relates to an individual's body shape, size and strength in relation to those of his or her colleagues. It can also be related to organizations that are large and powerful enough to exert their strength over others.
Punishment	This implies an individual's power to punish, or threaten to punish, others who carry out certain activities or behave in a certain way.
Resource command	This type of authority relates to an individual's power to command certain resources within an organization and thereby influence the actions of others.
Reward	This relates to an individual's ability to influence the behaviour of others through the power to reward them if they comply.
Tradition	Accepted customs and norms dictate this form of authority, which is based on a position that has been handed down over the years.

Autocratic leader

Various theorists have proposed a range of ideas of leadership style, and at one end of the spectrum is a form of leadership known as 'autocratic'. It is exemplified by individuals who prefer to solve problems themselves, make all decisions, supervise subordinates closely and tend to treat their subordinates with little interest and no regard for their views. **Victor Vroom** and Philip Yetton identified two different forms of autocratic leader in 1973. They typified the first as Autocratic I, which were managers who solved problems themselves and made all the decisions themselves whilst using any information that became available to them. A more extreme example was their Autocratic II, which described individuals who collected information from subordinates and then decided on solutions themselves. They saw subordinates primarily as information providers and felt that they did not need to know what the information was for, or how it could be used to solve a problem. Indeed, in the majority of cases, the subordinates were unaware that a problem needed to be solved at all.

John Adair developed his theories on leadership between 1968 and 1998 and exemplified his forms of autocratic leader as having either a benevolent or a tyrannical leadership style. He identified some seven characteristics of autocratic leaders:

- They were the ones who made the final decision.
- They closely supervised their subordinates.
- They believed that an individual's interests were subordinate to that of the organization.
- The views of subordinates were not sought.
- They placed high demands on their subordinates.
- They discouraged questioning from their subordinates.
- They thrived in a coercive or conformist environment.

Adair, John, *Action-Centred Leadership*. Aldershot: Gower, 1979.
Adair, John, *Leadership in Action*. London: Penguin, 1998.
Vroom, Victor H. and Yetton, Philip W., *Leadership and Decision-Making*. Pittsburgh, PA: University of Pittsburgh Press, 1973.

Average collection period

The average collection period is also known as the collection ratio. It is the average length of time for which receivables are outstanding, and is equal to the accounts receivable divided by the average daily sales.

Bb

Backward integration

Backward integration occurs when a business integrates in some way with another business further back from it in the distribution chain. In other words, it involves perhaps a manufacturer taking over a supplier, or a retailer acquiring a manufacturer. This is largely as a result of the business wishing to guarantee its supplies. The primary concern of the business is to develop into areas which provide the inputs into its current operations.

Balanced scorecard

Robert Kaplan and David Norton developed the balanced scorecard system in the 1990s. The balanced scorecard seeks to assist businesses in clarifying their visions and strategies and provide them with a means by which they can be translated into action.

The balanced scorecard consists of four separate perspectives which aim to allow the business to develop measurement systems, data collection mechanisms and means by which information can be analysed. The four perspectives (see Figure 8) are:

- *Financial* – which includes metrics such as **cost–benefit analysis** and financial **risk assessment**.
- *Internal business processes* – which aim to identify how well the business is performing and whether products and services offered meet customer expectations.
- *Learning and growth* – which seek to identify where employee training budgets can be best deployed with the objective of ensuring continued individual and corporate improvement.
- *Customers* – which focuses on the analysis of different types of customers, their degrees of satisfaction and the mechanisms or processes which are used by the business to deliver products and services to customers.

Figure 8 A balanced scorecard

Kaplan, Robert S., Lowes, Arthur and Norton, David P., *Balanced Scorecard: Translating Strategy into Action*. Watertown, MA: Harvard Business School Press, 1996.

Barriers to entry

'Barriers to entry' is a term used to describe the way in which a business, or group of businesses, seek to keep competition out of markets in which they are currently operating. There are four main ways in which this is achieved:

- A business may have control over a specific resource, such as oil, or an exclusive licence to operate, such as a broadcast agreement.
- A large business which has significant **economies of scale** will have a **competitive advantage** because it can produce products and services at lower costs than other rivals.
- A business may protect its market by investing considerable sums in advertising and marketing, making it very difficult for competitors to make any impression in the marketplace.
- Large and powerful businesses can make a competitor's venture into their market far more risky by raising the exit costs. In this respect they may have established specific ways of hiring employees, perhaps on long-term contracts which have become the industry norm. It will therefore be expensive for a newcomer to the market to try and then fail, as dispensing with staff would be prohibitively expensive.

See also **Porter, Michael.**

B

Barriers to imitation

It would be reasonable to assume that technological innovations and new ideas, which can be brought to the market much more swiftly than was hitherto thought imaginable, would offer little opportunity for competitors to copy them. None the less, businesses are increasingly aware that competitors are not only able to imitate their products, but can also take significant advantage of the ways in which successful businesses operate.

Creating barriers to imitation involves attempts to sustain a **competitive advantage**. This can be done in a number of ways, including:

- legal restrictions, including patents, copyrights and trademarks;
- superior access to inputs or to customers, either by having cost or quality advantages in inputs that make it difficult for competitors to imitate, or in the case of customers, by having access to the best distribution channels or the most productive retail locations.

Behavioural theory

The concept of behavioural theory is derived from the field of psychology and is often referred to as 'behaviourism'. In essence, there are two forms of behaviourism, the first of which is known as 'classical conditioning', which suggests that individuals' behaviour is based on reflex learning. They are conditioned by repetition to continue to behave in a particular way in similar circumstances. A slightly more sophisticated version, known as 'operant conditioning', states that when individuals exhibit a particular behaviour and understand the consequences of what they have done, this is reinforced, making it more likely that they will do it again.

In management terms, particular behaviours can indeed be reinforced in order to ensure that the correct response in certain circumstances is largely guaranteed. Equally, if individuals are not given encouragement and praise for particular behaviour, then it is likely that this form of behaviour will cease. This form of management theory is concerned with behaviour modification, by using praise and discipline, and perhaps rewards, in order to reinforce the desired behaviour. It is suggested that praise is a far more potent form of reinforcement than criticism or punishment, and that feedback is of prime importance in order to ensure behaviour modification.

Belbin, Dr Meredith

Belbin suggested that the most effective teams include between five and seven individuals who have a specific blend of team roles. He identified

Table 5 Building an effective team

Team-role type	Characteristics and contribution
Completer/finisher	An individual who attempts to finish tasks on time whilst seeking out any errors or omissions. Tends to take a conscientious approach to work. They prefer to carry out the work themselves rather than delegate.
Coordinator	A promoter of joint decision making with the ability to clarify goals. Keen to delegate but is often seen as manipulative and willing to pass work on to others.
Implementer	A disciplined and reliable individual who has the ability to transform ideas into practical solutions. Implementers are often seen as slow to adopt new ways of working because of their inflexibility.
Monitor/evaluator	Has the ability to take a wider view and assess all available options. Not considered to be a great motivator and often appears to lack essential drive.
Planter	Essentially a problem solver who is both imaginative and creative. Is more preoccupied with communication than the detail of a task.
Resource investigator	Highly communicative and usually able to identify and deploy useful resources and contacts. Since their contribution is based on their enthusiasm for progress, they can be over optimistic and lose interest if little progress is being made.
Shaper	Able to deal with pressure and to overcome obstacles. They tend to be rather abrasive individuals who can often offend.
Specialist	Has access to specialist information and is often single-minded. They tend to be able to contribute only to certain aspects of a task and are quite technically focused.
Team worker	Cooperative and diplomatic listeners who wish to avoid conflict. They tend to be indecisive and lack the ability to contribute under pressure.

nine team-role types (see Table 5), which suggests that an individual has the capacity to perform more then one role in the team.

Belbin also created four categories to identify the different types of teams:

- *Stable extroverts*, who excel in roles with a focus on liaison and cooperation. These are ideal human resource managers.
- *Anxious extroverts*, who tend to work at a higher pace than others and exert pressure on other people. They are typified by a sales manager.
- *Stable introverts*, who work well with a small, stable team, where relationships are a high priority. They are ideal local government officials.
- *Anxious introverts*, who rely on self-direction and persistence and are often committed to the longer term. The majority of creative individuals fall into this category.

Belbin, R. Meredith, *Team Roles at Work*. Oxford: Butterworth-Heinemann, 1995.
Belbin, R. Meredith, *Management Teams: Why they Succeed or Fail*. Oxford: Butterworth-Heinemann, 1996.
Belbin, R. Meredith, *Beyond the Team*. Oxford: Butterworth-Heinemann, 2000.

www.belbin.com/meredith.html

Benchmarking

A benchmark is a predetermined set of standards against which future performance or activities are measured. Usually, benchmarking involves the discovery of the best practice for an activity, either within or outside the business, in an effort to identify the ideal processes and prosecution of that activity.

The purpose of benchmarking is to ensure that future performance and activities conform with the benchmarked ideal in order to improve overall performance. Increased efficiency is a key to the benchmarking process, as in human resource management, improved efficiency, reliability of data and effectiveness of activities will lead to a more competitive edge and ultimately greater profitability.

Damelio, Robert, *The Basics of Benchmarking*. Portland, OR: Productivity Press, 1995.

Bennis, Warren

Warren Bennis has written a number of books, primarily on leadership. He discovered that there was no one correct way to lead, but there were some common characteristics or competences. These were:

- the management of attention – which refers to the need for a vision to focus minds;
- the management of meaning – which implies the ability to communicate a vision;

- the management of trust – which requires the leader to be consistent and honest;
- the management of self – which requires the leaders to be aware of their own weaknesses.

In his book *Organizing Genius: The Secrets of Creative Collaboration*, which was published in the 1990s, Bennis turned his attention to groups and concluded that each group required the following:

- a shared vision;
- the willingness to sacrifice personal goals;
- young members of the group prepared to work longer hours;
- protection from management.

Bennis has been an advisor to four Presidents of the US and has written over 20 books on leadership and leadership-related matters.

Bennis, Warren, *Organizing Genius: The Secrets of Creative Collaboration*. Harlow, Essex: Addison-Wesley, 1998.

Bennis, Warren, *On Becoming a Leader: The Leadership Classic – Updated and Expanded*. Cambridge, MA: Perseus Book, 2003.

www.behavior.net/column/bennis/bio.html

Blake, Robert and Jane Mouton

Robert Blake and Jane Mouton developed a grid strongly reminiscent of **Rensis Likert**'s systems 1 to 4. The grid provides an opportunity to identify styles adopted by managers in specific situations. By completing a questionnaire, individuals tally their people- or task-related scores and then cross-reference them to discover to what degree they accord with the four broad types of manager identified on the grid (see Figure 9).

The Country Club manager is typified by an individual who tries to avoid problems and considers productivity to be subservient to staff contentment. Anything that disturbs the balance is avoided.

A Team Leader or Team Manager manages to maintain a high level of simultaneous concern for both productivity and employees. The focus is upon providing the employees with the means by which they can achieve organizational objectives. Employees are encouraged to participate, to state their opinions, not to avoid conflict (as this is seen as a means by which problems can be resolved), and to approach all working relationships with honesty.

An Impoverished Manager is interested in neither productivity nor employee relations. The manager does not encourage creativity or initiative, seeks to avoid conflict and does not seem to wish to contribute. This is an individual who is concerned only with survival.