

Key concepts and terms

- *Business model*
- *Business model innovation*
- *Competitive advantage*
- *Core competencies*
- *Horizontal integration*
- *Management*
- *Resource-based view*
- *Strategic capability*
- *Strategic fit*
- *Strategic management*
- *Strategy*
- *Vertical integration*

LEARNING OUTCOMES

On completing this chapter you should be able to define these key concepts. You should also understand:

- What managing means
- The purpose of managing
- The role of the manager
- The process of strategic management
- The relationship between leadership and management

Introduction

Management is essentially about managing people. But, as covered in this chapter, managers are also responsible for generally controlling the business

or their part of it by managing their other resources — finance, work systems and technology. Additionally, they have to manage time and themselves.

The word ‘management’ is derived from the Italian verb ‘*maneggiare*’, which means ‘to handle a horse’. This definition at least states that to manage is to have charge of or responsibility for something, but there is clearly more to it than that and this is what this chapter is about. Consideration is given initially to what the process of managing is and the role of the manager. Managing includes the vital process of strategic management and this is also examined in the chapter. Finally, the processes of management and leadership are compared.

Management defined

Management is the process of making things happen. Managers define goals, determine and obtain the resources required to achieve the goals, allocate those resources to opportunities and planned activities and ensure that those activities take place as planned in order to achieve predetermined objectives. Management can be described as getting things done through people by exercising leadership. This definition emphasizes the importance of the leadership role but it should be remembered that managers are also there to make effective use of the other resources available to them.

Purpose of management

The purpose of management is to satisfy a range of stakeholders. In the private sector, this means making a profit and creating value for shareholders, and producing and delivering valued products and services at a reasonable cost for customers. In the public sector, management is there to ensure that the services the community requires are delivered effectively. In the voluntary sector, management sees that the purposes of the charity are achieved and also keeps the faith of the community and donors. In all sectors management is about exercising social responsibility and providing rewarding employment and development opportunities for employees.

The role of the manager

Peter Drucker (1955: 1) stated that ‘The manager is the dynamic, life-giving element in every business.’

Managers are there to get results by ensuring that their function, unit or department operates effectively. They manage people and their other resources, which include time and themselves. They are accountable for attaining goals, having been given authority over those working in their unit or department.

The traditional model of what managers do is that it is a logical and systematic process of planning, organizing, motivating and controlling. However, this is misleading. Managers often carry out their work on a day-to-day basis in conditions of variety, turbulence and unpredictability. Managers may have to be specialists in ambiguity, with the ability to cope with conflicting and unclear requirements.

Managers are doers. They deal with events as they occur. But they must also be concerned with where they are going. This requires strategic thinking, especially at higher levels. As strategic thinkers, managers develop a sense of purpose and frameworks for defining intentions and future directions. They are engaged in the process of strategic management as considered below.

Strategic management

Strategic management is an approach to management which involves taking a broad and longer-term view of where the business or part of the business is going and managing activities in ways which ensure that this strategic thrust is maintained. Boxall and Purcell (2003: 44) explained that: 'Strategic management is best defined as a process. It is a process of strategy making, of forming and, if the firm survives, reforming its strategy over time.' The purpose of strategic management was expressed by Rosabeth Moss Kanter (1984: 288) as being to 'elicit the present actions for the future' and become 'action vehicles – integrating and institutionalizing mechanisms for change' (ibid: 301).

The key strategic management activity as identified by Thompson and Strickland (1996: 3) is 'deciding what business the company will be in and forming a strategic vision of where the organization needs to be headed – in effect, infusing the organization with a sense of purpose, providing long-term direction, and establishing a clear mission to be accomplished'.

The focus is on identifying the organization's mission and strategies, but attention is also given to the resource base required to make it succeed. Strategic management involves the development and implementation of strategy (business, HRM and L&D) as described below. It also includes the important activity of business model innovation, which identifies opportunities to increase the competitiveness and prosperity of the business through a review of all the elements of its business model (a picture of an organization which explains how it achieves competitive advantage and makes money).

Strategic management involves the formulation of strategy and it has to take account of the concepts of core competences or capabilities, the resource-based view, strategic fit and strategic capability.

Strategy

Strategy is a declaration of intent which sets out the approach selected to achieve defined goals in the future. It was defined by Thompson and Strickland

(1996: 20) as: ‘The pattern of actions managers employ to achieve organizational objectives.’

Strategy is forward looking. It is about deciding where you want to go and how you mean to get there. It is concerned with both ends and means. It states: ‘This is what we want to do and this is how we intend to do it.’ Strategies define longer-term goals but they also cover how those goals will be attained (strategic planning). They guide purposeful action to deliver the required result.

But strategy formulation is not such a deterministic, rational and continuous process as is often supposed. Sparrow et al (2010: 4) asserted succinctly that: ‘Strategy is not rational and never has been.’ It has been said (Bower, 1982: 631) that ‘strategy is everything not well defined or understood’. This may be going too far, but in reality, strategy formulation can best be described as ‘problem solving in unstructured situations’ (Digman, 1990: 53) and strategies will always be formed under conditions of partial ignorance. Quinn (1980: 9) pointed out that a strategy may simply be ‘a widely held understanding resulting from a stream of decisions’. He believed that strategy formulation takes place by means of ‘logical incrementalism’, ie it evolves in several steps rather than being conceived as a whole.

Mintzberg (1987) argued that in theory strategy is a systematic process: first we think, then we act: we formulate, then we implement. But we also act in order to think. In practice, ‘a realized strategy can emerge in response to an evolving situation’ and the strategic planner is often ‘a pattern organizer, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived’ (ibid: 68). This concept of ‘emergent strategy’ conveys the essence of how in practice organizations develop their business and HR strategies.

Core competencies and distinctive capabilities

Core competencies or distinctive capabilities describe what the organization is specially or uniquely capable of doing. The concept of core competencies was originated by Prahalad and Hamel (1990), who described them as a company’s critical resource which represented the collective learning in the organization. Distinctive capabilities can exist in such areas as technology, innovation, marketing, delivering quality and making good use of human and financial resources. Understanding distinctive capabilities – what they are and should become – is an essential task for those concerned with HRM and L&D in achieving their aim of enhancing the human resource capability of the organization.

The resource-based view

The resource-based view of strategy is that the firm is a bundle of distinctive resources that are the keys to developing competitive advantage – the strategic

capability of a firm depends on its resource capability. It is based on the ideas of Penrose (1959: 24–25) who wrote that the firm is ‘an administrative organization and a collection of productive resources’ and saw resources as ‘a bundle of potential services’. It was expanded by Wernerfelt (1984: 172), who explained that strategy ‘is a balance between the exploitation of existing resources and the development of new ones’. Resources were defined by Hunt (1991: 322) as ‘anything that has an enabling capacity’.

The concept was developed by Barney (1991: 102), who stated that ‘a firm is said to have a competitive advantage when it is implementing a value-creating strategy which is not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy’. This will happen if their resources are valuable, rare, inimitable and non-substitutable.

The resource-based view (RBV) provides a practical justification for key aspects of a firm’s HRM and L&D policies and practices such as human capital management, talent management, knowledge management, and learning and development. Kamoche (1996) stated that the RBV builds on and provides a unifying framework for the field of strategic human resource management. Boxall (1996: 66) pointed out that: ‘The resource-based view of the firm provides a conceptual basis, if we needed one, for asserting that key human resources are sources of competitive advantage.’

Strategic fit

Strategic fit is a way of achieving competitive advantage which means attaining and sustaining better results than business rivals, thus placing the firm in a strong competitive position. The focus is upon the organization and the world around it. To maximize competitive advantage a firm must match its capabilities and resources to the opportunities available in the external environment. As Hofer and Schendel (1986: 4) concluded:

A critical aspect of top management’s work today involves matching organizational competences (internal resources and skills) with the opportunities and risks created by environmental change in ways that will be both effective and efficient over the time such resources will be deployed.

Strategic capability

Strategic capability refers to the ability of an organization to develop and implement strategies which will achieve sustained competitive advantage. It is therefore about the capacity to select the most appropriate vision, to define realistic intentions, to match resources to opportunities and to prepare and implement strategic plans.

The strategic capability of an organization depends on the strategic capabilities of its managers. People who display high levels of strategic capability know where they are going and know how they are going to get there.

They recognize that although they must be successful now to succeed in the future, it is always necessary to create and sustain a sense of purpose and direction. Managers who think strategically will be aware that they are responsible first, for planning how to allocate resources to opportunities which contribute to the implementation of strategy, and secondly, for managing these opportunities in ways which will add value to the results achieved by the firm.

Leadership and management compared

Are leadership and management the same or different? Some commentators regard leadership as synonymous with management, others see them as distinct but closely linked and equally necessary activities, others consider management a subset of leadership, and yet others praise leadership and demonize management. Warren Bennis (1989) viewed managers as those who promote efficiency, follow the rules and accept the status quo, while leaders focus on challenging the rules and promoting effectiveness. John Kotter (1991) saw managers as being the ones who plan, budget, organize and control, while leaders set direction, manage change and motivate people. Hersey and Blanchard (1998) claimed that management merely consists of leadership applied to business situations; or in other words, management forms a subset of the broader process of leadership.

As Birkinshaw (2010: 23) commented: 'By dichotomizing the work of executives in this way, Kotter, Bennis and others squeezed out the essence of what managers do and basically left them with the boring work that leaders "don't want".' His view on the leadership-versus-management debate was that: 'Leadership is a process of social influence, concerned with the traits, styles and behaviours of individuals that causes others to follow them. Management is the act of getting people together to accomplish desired goals. To put it simply, we all need to be both leaders and managers' (ibid: 23). Earlier, Mintzberg (2004: 22) summed it all up (as he often did) when he wrote: 'Let's stop the dysfunctional separation of leadership from management. We all know that managers who don't lead are boring, dispiriting. Well, leaders who don't manage are distant, disconnected.'

The answer to the question posed at the beginning of this section is that management is different from leadership although they are closely associated. Management is the process of making effective use of all available resources in order to achieve goals while leadership focuses on the key resource which enables goals to be achieved, ie people. Management necessarily involves leadership and leadership necessarily involves management.

KEY LEARNING POINTS

Management

Management is the process of making things happen. Managers define goals, determine and obtain the resources required to achieve the goals, allocate those resources to opportunities and planned activities and ensure that those activities take place as planned in order to achieve predetermined objectives.

The purpose of management is to satisfy a range of stakeholders.

Strategic management

Strategic management is an approach to management which involves taking a broad and longer-term view of where the business or part of the business is going and managing activities in ways which ensure that this strategic thrust is maintained.

Business model innovation

Business model innovation is an approach to strategy which focuses on how the firm creates value. The aim is to change the ways in which companies view their business operations and to provide guidance on mapping their future strategy.

Strategy

Strategies define longer-term goals but they also cover how those goals will be attained (strategic planning). They guide purposeful action to deliver the required result.

Strategy formulation is not necessarily a deterministic, rational and continuous process.

Core competencies

Core competencies or distinctive capabilities describe what the organization is specially or uniquely capable of doing.

The resource-based view of strategy

A firm is a bundle of distinctive resources that are the keys to developing competitive advantage – the strategic capability of a firm depends on its resource capability. Boxall (1996) pointed out that: 'The resource-based view of the firm provides a conceptual basis, if we needed one, for asserting that key human resources are sources of competitive advantage.'

Strategic fit

To maximize competitive advantage, a firm must match its capabilities and resources to the opportunities available in the external environment.

Strategic capability

The ability of an organization to develop and implement strategies which will achieve sustained competitive advantage.

Leadership and management

Leadership is a process of social influence, concerned with the traits, styles and behaviours of individuals that causes others to follow them. Management is the act of getting people together to accomplish desired goals.

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Questions

- 1 How would you define management?
- 2 What is the purpose of management?
- 3 What is strategic management?
- 4 What is strategy?
- 5 How would you describe the process of strategy formulation?
- 6 What is a business model?
- 7 What is business model innovation?
- 8 What is a core competency?
- 9 What is the resource-based view?
- 10 What are the meaning and significance of strategic fit?
- 11 What is strategic capability?
- 12 What is the difference between management and leadership?