

The Rise and Fall of Management

A Brief History of Practice, Theory
and Context

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Prologue

The main focus of this brief history is on the management of business organizations operating for profit in freely competitive markets. Such business organizations are important because it is from the fruits of their operations, either directly or indirectly, that a nation pays for its health, education, defence and social services as well as its government. And their management is important because it, or they, largely determine the effectiveness of business operations, usually measured in terms of taxable profitability and growth, and therefore the potential generosity of the national services referred to, which are some measure of the degree to which a society might be regarded as civilized.

The story of capital accumulation and its investment in industrial enterprise has been one of ever rising standards of living, albeit with the occasional step backwards along the way. But it is also a story that has always seemed inequitable. In the beginning, peasant farmers were dispossessed of their meagre strips of land so that it might be enclosed for the economic advantage of tenant farmers and their landlords. The dispossessed then joined a reserve army of labour to be accessed as needed by the capital accumulating industrialists.

Ricardo's later explanation of capital as the accumulated surplus value expropriated from labour clearly had some general justification even if his detailed argument appears somewhat arcane.

However, industrial development has also been a story of impecunious members of the labouring class, through their own ingenuity and energy, becoming masters of industry and possessors of substantial wealth. There had always been some such social mobility, but it substantially increased with the process of industrialization.

Those who presided over the distribution of the surpluses produced by industry could, if so minded, discharge those responsibilities with fairness and 'frugality', to use Adam Smith's word. But Smith argued that the economy as a whole depended on quite different behaviour if it were to grow and prosper.

*'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard for their own interest. We address ourselves not to their humanity but to their self-love.'*¹

Smith argued that the efforts of these many individuals working purely to maximize their own wealth in competitive markets largely freed from government regulation and interference, would maximize the aggregate wealth of the population. And, so far, his theory has worked better than any alternative in delivering that object. Despite their vulnerability to sentiment and sometimes even hysteria, markets work better in the delivery of economic goods and commodities than the alternative systems of central planning and control.²

But maximizing aggregate wealth does not necessarily imply equity in its distribution. The emerging gap between employers and employed and more particularly the unemployed, sometimes highlighted by the ostentatious consumption of the few in the faces of the insecure many, fuelled continuous aggravation and from time to time open conflict and occasionally bloody revolution. And quite apparently it may do so again. This inequity lies at the heart of the management task.

Throughout its history, industrial enterprise has been shaped, both directly and indirectly, through the actions of government guided by the prevalent economic theory. While variations have occurred at different times, economic theories, from Marx to Keynes and Friedman, share both a common root in Adam Smith and a more or less complete incomprehension of business enterprise and its management.

Alfred Chandler started his account of the twentieth-century American management revolution, with the assertion that the visible hand of management had replaced Adam Smith's invisible hand of market forces. Modern business enterprise had become:

*'the most powerful institution in the American economy and its managers the most influential group of economic decision makers.'*³

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- 1 Smith, A., (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book 1, Chapter 2, p. 22. *Wealth of Nations* was republished as a selected edition in 1993 with an introduction and notes by Kathryn Sutherland in the Oxford World's Classics imprint by Oxford University Press. In references from *Wealth of Nations* page numbers are quoted from this Oxford edition unless stated otherwise.
 - 2 Parker, M. and Pearson, G., (2005), 'Capitalism and its Regulation: A Dialogue on Business and Ethics', *Journal of Business Ethics*, Vol. 60, No 1, pp. 91–101.
 - 3 *The Visible Hand: The Managerial Revolution in American Business* (1977), Cambridge, Mass: The Belknap Press of Harvard University Press, p. 1.

Nevertheless, he noted that economists had excluded management from their theory of the firm:

*'Any theory of the firm that defines the enterprise merely as a factory or even a number of factories, and therefore fails to take into account the role of administrative coordination, is far removed from reality.'*⁴

Moreover:

*'Historians as well as economists have failed to consider the implications of the rise of the modern business enterprise. ... they have paid almost no notice at all to the managers who ... play a far more central role in the operations of the American economy than did the robber barons, the industrial statesmen, or financiers.'*⁵

Nevertheless economic theory influences the thinking not just of management but of all enterprise stakeholders: customers, employees, shareholders, suppliers, money lenders, tax authorities, legislators, politicians, local communities and the wider environment which will be the home of future generations. They all now share the dismal science's perspective on the amoral, self-interested role of management. It has become the taken-for-granted assumption that almost everyone has about management. It is in the culture of organizations, governments and social groups of all kinds and it is what is taught to business school students of management. It has bred such cynicism, that if a business were to act with integrity, it would simply be regarded as engaging in good public relations, rather than it being the product of a deeply embedded organizational culture which determines 'the way we do things around here'.

Some account of economic theory is therefore unavoidable in an examination of management. Here it is limited to what has significantly influenced business and management. Repeatedly over the past two hundred and thirty-odd years since Smith's *Wealth of Nations*, economists have produced broad general accounts of economic activity which appear logical, stand up to practical scrutiny and seem to work. Then, repeatedly, theorists have sought to examine and explain in detail the foundations of those broad truths and have come up with theories and propositions which appear absurd if not factually wrong, and so serve to undermine, rather than support, the broad analysis. In this account, the detail of economic theory is largely omitted.

4 Ibid, p. 490.

5 Ibid, p. 490-1.

All history is a compromise; a brief history an even greater one. Broad generalizations have been made in the narrative of management's emergence, rise, fall and possible renewal. This is clearly not the whole truth; there have always been those prepared to swim against the tide. But the rise and fall generalization nevertheless appears to be a valid picture of the broad trends. Similarly so with the treatment of the various tides of economic theory; attention has been concentrated on the broad trends.

The brevity is further strained by the necessity with this subject to straddle the Atlantic. The initial focus was in England where industry and the management process first emerged. But since the late nineteenth century, management practice and theory has been dominated by the United States. This history is therefore essentially Anglo-Saxon in its analysis, both of the development of management and of economic theory in its political context. The British reality has been closely entwined with that of the United States and that proximity is reflected in these pages which largely exclude non-Anglo-Saxon contributions to the story. The most regrettable omissions are the Japanese and German more technologically oriented contributions, both demonstrably more successful than Britain in their post Second World War industrial development.

A final compromise that had to be made in a brief history of this kind was in the selection and balance between the different strands which make up the history: management practice, management theory, economic theory, the political context and the education of management. The normal respect for chronology is somewhat compromised by this entwining of strands. The first part covers a period from around the beginning of the eighteenth century to somewhere around 1870 when the United States economy overtook those of the old world. The second part deals with the following hundred years or so up to the time when 'Keynesian economics' ceased to be the accepted orthodoxy. Part III then takes the story from the late 1970s through to the new millennium. Part IV is written from a 2008–9 perspective.

The new context substantially raises the stakes for management. It is now generally agreed that, driven by world population growth and the unceasing quest for better standards of living, the earth's resources are being depleted at an unsustainable rate, its atmosphere polluted and its climate undermined through the industrial activities of the developed and developing world. Management can no longer simply aim to 'make as much money as possible for stockholders'. All our futures depend on management espousing higher aims than that and largely achieving what they aim for, and doing so before it is too late.