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MANIFIESTO FOR A BETTER MANAGEMENT
A RATIONAL AND HUMANISTIC VIEW

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Abstract

At the end of the first decade of the 21st century, a disastrous world economic crisis is creating a very difficult situation for many people. The causes of the crisis are many and complex. The reigning economism looks for mechanical causes (excessively low interest rates, "herd" behavior in the real estate and financial bubbles, etc.). Yet bad management by the people in charge of many of the institutions affected has been crucial.

Paradoxically, management can be responsible both for great successes and for great failures. The same term, "management", can refer to very different concepts. The emphasis on immediate effectiveness in terms of financial results (which always turn out to be short-term) as the sole purpose betrays a pessimistic conception of human beings as creatures that react only to economic stimuli, thus neglecting other dimensions that are fundamental to good management, and leading us to the present crisis.

In this paper we aim to establish the starting points for good management, explain why management is important for society, critically analyze the present economic crisis and the practices and concepts that led to it, and propose the foundations of a better conception of management for the future, rejecting the culture of shortsightedness.

We therefore set forth:

a) Which concepts of the company and of management are conducive to management practices that are good for society as a whole.

b) Why management is important for the development of human societies in general.

c) What is good and what is bad about the practices and theories that currently dominate the world of management.

d) How to prevent bad theory and bad practice, including bad applications of good theory, from influencing the broader trends.

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A very special mention goes to Juan Antonio Pérez López and Antonio Valero, both now deceased, whose work has inspired many of the ideas in this paper. Their thought is so much a part of ours that we find it impossible to separate the two. We have therefore drawn freely on their work, confident in the knowledge that this is what they would have wanted us to do, because that is why they developed what they developed.

Keywords: humanistic management, economism, reorienting management, and crisis.

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Introduction

We are writing this paper at the end of the first decade of the 21st century, against the background of a disastrous crisis of the world economy, undoubtedly the worst for eighty years, in which the developed countries have been worst hit. The crisis is causing difficult, or very difficult, situations for many people, some of whom have lost their homes because they could not keep up payments on mortgages they should never have been granted; while others have lost their jobs because the companies they worked for are in serious difficulties, perhaps after a burst of completely unjustified optimism; and yet others have seen their income drop significantly in relation to their accustomed standard of living.

The causes of the crisis are many and complex. The reigning economism – a supposedly non-ideological ideology – looks for mechanical causes (such as excessively low interest rates, or the "herd" behavior that created the real estate and financial bubbles, precipitating the present troubles when they burst). Factors such as these may have helped; but human intervention and the mistakes made by the people in charge of many of the affected institutions were crucial. Whole countries, such as Iceland and Greece, are technically bankrupt for completely different reasons, and yet their problems have a common origin in the mismanagement of public and private institutions.

The proponents of the currently predominant practices argue that, despite the crisis, we are enjoying previously unheard-of levels of well-being, even in the underdeveloped world, which is slowly starting to develop; and that this is a consequence of those "ways of doing things". Critics, meanwhile, point out that national and individual bankruptcy has gone hand in hand with excessive enrichment of the few: while a large part of the population have lost their jobs, their savings and their retirement pensions, the executives who bear a good part of the responsibility for the loss have walked off with multi-million dollar pay awards.

Perhaps paradoxically, management can be responsible both for great successes and for great failures. According to Peter Drucker, without good management there is neither material nor human progress – to which we might add, with bad management there are great failures and great swindles. The fact is that the same word, "management", covers a multitude of very different concepts.

Some of the fundamental concepts associated with management have been very positive. Examples include the pursuit of immediate effectiveness and the basic techniques for achieving it, the management mentality, and systems of objectives and policies. Concepts such as these have contributed significantly to the material and non-material progress of the human species. All excess is bad, however, and adhering to the virtuous Aristotelian mean often proves difficult because by nature the mean tends to be unstable; and it cannot be made more stable by formal rules, regulations or laws. Often, there has to be a basic agreement, broadly accepted by society, about what is to be considered fair and honorable. The emphasis on immediate effectiveness in terms of tangible (mainly financial) results – which when it comes down to it, despite assurances to the contrary, always end up being exclusively short-term – as the sole purpose reveals a pessimistic conception of the human being as a creature that reacts only to economic stimuli. Such a conception disregards certain elementary truths. As we shall be arguing, those truths can be considered an integral part of good management, and neglect of them led us almost directly to the present crisis. In particular, we have seen a gradual abandonment of *prudence* in decision making and implementation.

The concept of management that has thus come to predominate in recent times, mainly in the financial field and in executive pay, is perhaps the main cause of the disasters. While modern financial theory has helped build a rigorous, albeit partial, framework that is useful for thinking about corporate objectives and activities, the associated paradigm has oriented the conception of the company toward an exclusively financial point of view, reducing the purpose of the company to that of "making money". The resulting concept of management has drifted away from the traditional notions, and this drift has often been presented as progress. Events have stubbornly reminded us that this putative progress was nothing of the kind, or at least was much less than it could have been.

Finding out what practices led us to this crisis and how it can be prevented from repeating itself should be a priority for management researchers. Our purpose in this paper is to establish the starting points for good management, explain why it is important for society, critically analyze the present economic crisis and the practices and concepts that led to it, and propose the foundations of a conception of management that augurs a better future.

In short, we want to speak out against the culture of shortsightedness, both as regards the time scale for obtaining results and the kind of results to be obtained. We thus add our voice to that of Philip Selznick (1957), whose arguments have been – and were, perhaps, even in his time – so widely misunderstood. In this paper, therefore, we wish to set forth:

a) Which concepts of the company and of management are conducive to management practices that are good for society as a whole.

b) Why management is important for the development of human societies in general.

c) What is good and what is bad about the theories and practices that currently dominate the world of management.

d) How to ensure that theory and practice evolve in the right direction, and that bad practices, or bad applications of good theory (which up to a point are inevitable), do not seriously influence the broader trends.

Management and Its Importance

In Anglo-American literature, the concept of management has always been clear. Wikipedia defines it as *"getting work done through others"*, without any economistic connotation. Thus described, it is simply good team work, "carried out in the context of an organization" of whatever type.

Organization and Management

Companies

In what follows we take a company (the most common type of organization) to be *"a group of people who coordinate their efforts to achieve certain objectives*[1] *in which, in principle, they all have an interest, though quite possibly for different personal reasons"*.

Moreover,

- the objectives generally have to do with the production of goods and services for other people (customers), with the aim of helping to meet their needs (solve a problem for them) in exchange for fair compensation (price), which they are willing to pay. Thus, every company wants to "be useful to" (serve) someone and, at the same time, to generate income (earn). Carlos Llano (2010) would say that if we are talking about companies in the proper sense, we should exclude the extreme cases of institutions that "earn without serving", "serve without earning", or "neither serve nor earn", and concentrate on those that "earn while serving" or "serve while earning".

- From this perspective, companies help to *create economic value* for society.

- The quality of their contribution to the *distribution* of said economic value in society, which may influence the actual value created, is a separate issue. This paper has partly to do with this issue[2].

- The activities that are necessary in order to achieve the objectives invariably involve interactions between people and communities in the company's immediate environment, in particular employees, customers, suppliers, financiers, the communities (town, region, nation) in which the company operates, other companies and individuals, and so on.

- Companies also *create value that is not strictly economic*, or at least not directly convertible into economic quantities. Examples would include technological or organizational know-how. The depositaries of this value, in the first instance, are the persons involved, mainly through learning, both internally within the company and in their dealings with the environment.

The Concept of Management

In this context, *management* refers to the activities that have to be performed in order to:

- Define an organization's objectives.

- Select the actions most likely to achieve those objectives.

- Organize to implement those actions, assigning tasks, duties and responsibilities to specific people and using appropriate management systems to obtain the greatest

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[1] To exclude pathological cases, we shall assume that said objectives are lawful and morally acceptable, and that one of them consists of producing enough profit to ensure the company's long-term survival.

[2] By this, we mean to suggest that, generally speaking, the value that is created is not independent of the process by which it is created, partly because the people involved are essential agents in that process. In particular, the result of the process may be better if those people find meaning in their participation than if they do not.

possible benefit from the available resources, whether actual (mainly material and knowledge resources) or potential (by developing new knowledge through learning).

- Coordinate the implementation of these tasks and responsibilities.
- Ensure that the tasks and responsibilities contribute to the desired objectives and correct any deviations that can be corrected.
- Provide an atmosphere in which people are able to work together satisfactorily.
- Take steps to ensure that the process facilitates learning – in the broad sense – in the people involved, including moral improvement, which requires the development of virtues.
- Thus, create a work environment that is effective and positive for each individual, ultimately enhancing the effectiveness and efficiency of the whole.
- Compensate the people involved fairly[3], not only through strictly economic remuneration.

In this context, managers are the ones responsible for doing all this in companies[4]. They do it through *management acts*, which include both decision making and implementation. By their nature, management acts:

(i) materially determine management effectiveness,

(ii) fundamentally involve interaction with other people (whose work and activities they coordinate),

(iii) are subjective and, precisely for these reasons,

(iv) call for the exercise of leadership by the person who manages.

It is not our purpose in this paper to explain the nature and need for leadership in this sense. Suffice it to say that true leadership is founded on the *trust* a good leader is able to inspire in his "followers", a trust which goes deeper than simple charisma, or even power of persuasion or "eloquence", and has a lot to do with the sharing of values, so that the followers *trust* that the leader's acts will tend to be good for them. This implies, of course, that a manager's power to lead is easily dissipated if he ceases to inspire trust.

A fundamental consequence is that management acts cannot be judged solely on their results. The underlying process and intentions are more important in management than in other professions because they *directly influence* what other people – and, by extension, society in general – learn (whether by accident or design) from management acts. This element of learning is crucial for the development of vicious or virtuous circles, as we shall discuss later.

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[3] "Fair" understood, once again, in the broad sense. That is, not only in the sense of matching the "market" wage, which in fact is defined considering only the strictly economic aspects of what has come to be known as the "labor market". Compensation for a personal effort thus comes to be considered in the same aseptic way as, say, a contribution of financial resources. From the previous discussion it follows that when there are people directly involved, the implications go much further. See also footnote 6.

[4] How a person earns the right and accepts responsibility for becoming a manager is a question we do not propose to discuss here, but which may not be irrelevant to the person's subsequent effectiveness.

Summing up, what sometimes is denoted by the "management function"[5] can be understood as that which, through a company's day-to-day activities, seeks to:

(i) establish the company's future in terms of its business,

(ii) develop a framework for "working together" that enables people to relate to one another and do what has to be done in order to make that future a reality, and

(iii) establish an "institutional set-up" in terms of governing bodies with the stakeholder participation considered appropriate, in form and content, at any given time.

Consequently, as we shall argue in more detail below, management is of capital importance in the functioning and development of society.

The Importance of Management

There is no doubt that management is one of the most important phenomena in today's world. Historically, it was related to companies. Since the beginning of the 20th century, however, when management theory started to develop, many of the classic authors have realized that management is equally applicable to any kind of organization, including non-profits and political organizations.

Just as organizations affect all of us, so does management. Like it or not, every person belongs to various organizations, which sooner or later play an important role in his life. He is affected by the way these organizations are run, i.e., by their management, in the sense described in the previous point. Let's look at some fundamental reasons why this is so.

1) Creating economic value

Companies in particular, but also many other organizations, create economic value for citizens in general. That is to say, they produce useful goods and services to satisfy people's needs, for which people are willing to pay more than it costs to produce them (basically because people could not produce the same goods and services for themselves from the same inputs).

If organizations are crucial for producing economic value, so too is management, which brings together and coordinates productive resources to obtain the end product. Management thus *consciously* coordinates human activities, which is a function that economic theory attributes to organizations, complementing the unconscious work of coordination done by the markets. Managers are responsible for coupling resources and ensuring that each fulfills its function at all times. According to the more conventional conception of microeconomic theory, management is responsible for ensuring that economic variables function as they should.

However, the "production function" that conventional microeconomic theory takes as given (in terms of available technology) is not in fact "given". Production may be more or less efficient, depending on the company (i.e., different companies may need different amounts of inputs to produce the same outputs). The "efficient frontier", where the currently available

[5] Ideas put forward by A. Valero and subsequently organized by him and J.L. Lucas (2007) in a way that is very consistent with the (more theoretical) approach of J.A. Pérez López (1993).

technology is used to maximum effect, is not reached automatically. Whether it is reached or not depends to a large extent on the quality of a company's management. The number of people required, the amount of raw materials used and the quality of the end product depend on how particular people carry out the necessary tasks. They therefore naturally depend on management. Whether a company is able to cross the efficient frontier, through innovation, likewise depends on management.

It should be noted, however, as an introduction to what follows, that not everything that is socially useful and desirable is economic value, and that not all economic value is socially desirable. There are socially desirable things, such as education, culture or art, that as individuals we do not value sufficiently before we consume them because we do not appreciate a priori the real value they can have for us. And there are other things whose value for society goes beyond their value for the individual concerned. For any person, for example, there is clearly value in having a neighbor who is highly educated.

Similarly, there are sources of economic value that may not translate into greater well-being for the people who help to create that value. Consumerism, impulse purchases that cause regret, false advertising that creates a sense of deception in the purchaser – these are all examples of a supposed economic value that turns out to be illusory.

2) Fostering the well-being and development of people

Generally speaking, people spend a large part of their waking lives at work. Therefore, if we want to help people achieve not only greater economic value but also greater well-being in every aspect of their lives, we need to recognize that their well-being at work depends to an important extent on the quality of the management that coordinates their activities and ultimately is responsible for their *development*, both professional and personal[6].

In accepting this, we effectively deny that purely economic remuneration is sufficient to compensate those who perform the activities that must be performed in order for a company to function as it should. To argue that "everything has a price" and that "a present inconvenience or discomfort can always be compensated by a convenience or comfort at some time in the future" is to assume that the problem of well-being at work can be solved by regulating the level of economic compensation so that it is fair and allows employees to buy the well-being they want outside the company. Management thus offloads the problem and neglects its responsibility, because we all know that there are things that money cannot buy. And yet, irresponsibly, many managers think this way, and so do many employees.

There are various aspects to well-being at work. First, a job can be considered "decent", or fit for a person, in either quantitative or qualitative terms. Quantitatively speaking, the job must be humanly doable, in a reasonable number of hours, with proportionate effort and in return for decent pay that is sufficient to live on, in line with the standards of the person's social environment. Qualitatively speaking, nobody is proud of a botched job, which is why it is so

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[6] As we stress later, *both* developments have to do with the *learning* that people acquire in companies. *Operational learning* is at the origin of *professional* development. On the other hand, the influence of people's activities on their *personal habits* (the raw material of the virtues) leads naturally to genuinely *ethical* considerations which the responsibility of the manager cannot ignore.

important that people feel proud of what they do and how they do it. Making this possible to an acceptable degree is the responsibility of management.[7]

With regard to remuneration or compensation, two points need to be made clear. First, there are certain minima, common to all human beings everywhere, below which a wage is unacceptable. Second, we should not apply the standards of a developed country to a developing country, and vice versa. Prices and wages tend to be higher in developed countries, giving room for maneuver that may not exist in a developing country. The technological advances available in developed countries make work easier and enable higher productivity, making it possible to pay higher wages[8]. However, this should not be taken as an excuse for consenting to unfair working conditions in developing countries. A competent business owner or manager must be capable of finding better solutions than either superhuman effort or subhuman pay. If not, he should take up another profession and let someone who can take his place, because he is not doing his job as a manager[9].

On the other hand, the dignity of labor does not mean avoiding effort or having low standards. It is obvious that continuously working very long hours will not enhance a person's well-being; but people are not, as a rule, averse to effort or hard work (as economic theory often assumes they are, e.g., in agency theory). In high-level (especially management) jobs, workaholics are by no means an exception. Similarly, while nobody likes to be supervised too closely (nor does such close supervision make sense from a management point of view), likewise nobody likes it if even the most perfunctory performance is considered good enough, or if serious effort to do the best job possible receives no more recognition than simply ticking the boxes.

Implicit in what we have just said is the idea that a decent job must be of at least some minimal interest to the person who does it. This minimum is relative to the person's skills and abilities. In particular, the job must give the person scope to progress and improve as a worker and as a person.

Lastly, the treatment an employee receives must be in keeping with his dignity as a person. Specifically, an employee must not be treated as "labor", i.e., as a mere tool of another person who thinks for both, but as a person who has his own initiatives and his own way of seeing things and making decisions, which as a rule will be as valid as that of his boss (sometimes more so, as he is closer to the problem).

The above conditions, though not part of a person's economic wealth, are nonetheless important components of his well-being and depend crucially on management. We shall argue later that to posit an inevitable contradiction between economic value creation and personal well-being – i.e., to claim that the same variable (work, effort, or whatever) that adds to profit necessarily subtracts from the utility of people considered as workers and consumers – is to accept a primitive and simplistic view of how people and organizations actually work.

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[7] In a sense, it is a matter of structuring the activities that have to be performed for a company to function satisfactorily in such a way that the employees are more than just "labor"; see A. Llano (2010).

[8] In a developing country, demanding wages equal to those of a developed country may give rise to an insoluble problem and make the company unviable. In a developed country, by contrast, paying developing country wages will be both immoral and inefficient.

[9] In other words, there are certain minima below which a wage violates the dignity to which every human being is entitled. These minima are part of the "rules of the game", which are non-negotiable by nature.

What is more, an important function of management is to ensure that things are not like that. Not even to attempt it – or to uncritically accept the contrary view – can become a self-fulfilling prophecy that hurts everybody and benefits nobody.

3) Creating models for society

Companies, and organizations in general, do not exist in a vacuum. On the contrary, every company is embedded in a society that influences it and that is influenced by it. What happens in either of the two is partly the cause and partly the consequence of what happens in the other. Because a large part of people's lives takes place in the organization in which they work, people end up regarding what happens in that organization as "normal" (or even desirable), regardless of whether it actually is or not. Eventually, this leads to a culture in which people accept the status quo[10]. Insofar as that culture is positive and rooted in society, this is a desirable contribution. Otherwise, clearly it is not.

But it is bound to be one thing or the other. In the long run, all this leads to a situation where society implicitly or explicitly adopts certain values, which eventually are taken for granted. An example would be the way wealth and material goods are accepted as measures of a person's success in life, often without considering how they were obtained. Another would be the way the overwhelming power that some shareholders[11] have over companies and corporate decisions is accepted as "normal", to the point where it is even enshrined in companies' articles of association. In reality, this is a rather arbitrary choice, taking the contribution of capital to have priority over the contribution of labor, which is deemed to be "sufficiently remunerated by a market wage"[12].

The classic argument here is that workers "can always find another job", whereas shareholders "cannot find other money". If there ever was a time when this argument had some truth to it, it is not now. Today, capital can change hands very easily[13], whereas a

[10] Examples of the practices we are referring to include the various forms of remuneration (e.g., strong incentives based on indices of measurable variables, or a fixed salary, or various mixed formulas); the types of contracts people are offered (fixed, stable, temporary, junk contracts); the way people are treated and the response to their initiatives; people development policies of any kind; and many others, as we shall see in the following sections.

[11] It is important to distinguish here between "entrepreneur" shareholders and "investor" shareholders. It is typical of investor shareholders to demand economic value in purely financial terms, without having a deep knowledge either of the business (a knowledge often limited to what might be termed "industry" parameters, without distinguishing between individual companies) or of the particularities and complexities of its management. "Entrepreneur" shareholders tend to behave in the opposite way, committing even their personal wealth, so that for them the option of "getting out of the business fast" is much less feasible. For that reason, in this paper, "entrepreneurs" should not be considered to be included in the term "shareholders".

[12] Or perhaps not so arbitrary after all. This is a subject of great consequence in the sense that in order to treat people as people, management should strive to conceive of the organization's business in such a way that the fundamental contribution, by its very nature, is the contribution made by people (e.g., as depositaries of the company's competitive advantages). In that case, the priority would automatically lie further from capital; see also footnote 7.

[13] To almost unimaginable extremes: today, many financial transactions take place through electronic communications literally at the speed of light, which a human cannot possibly keep up with, simply because his "natural pace" is slower and does not change significantly. This is creating problems in the cadence of these transactions, which increasingly are generated and executed by software that not only administers the transactions but also tries to "apply criteria" so as to (mechanically) "understand" the objectives of other pieces of software with which it "transacts" in the "market". It is hardly surprising that proposals have been made to "artificially slow this pace", so that it is intelligible to the people involved (who ultimately are the only ones genuinely responsible) and so that they can react before a (long) series of mishaps occurs that must then be "reversed", which can be a mammoth task (Coy 2010).

worker who has invested in specific training for the company by which he is currently employed will have difficulty finding another job in which that training is recognized at its full value. An employee who puts time and effort into training for a particular job thus becomes "hostage" to the job.

4) Other impacts on society

The actions of companies and organizations have an impact on society beyond the transfer of business practices. If in the 1920s and '30s, in the large urban centers where the social control that used to exist among the inhabitants of small towns had been lost, large companies were already affecting the way people lived (as described by Elton Mayo, see **Exhibit 1**), the changes brought about in the last three or four decades have been even more substantial.

Changes in the way people live due to different working hours, the effect of working hours on personal and family life, and the consequences of temporary employment and job instability – all these have important social consequences. Whether things in a particular company are done one way or another depends largely on management. Managers' sensitivity to these problems, and their willingness and ability to find solutions, can have a decisive impact on the way a society develops.

Likewise, there are times when, due to exceptional circumstances, the lives of a company's employees are seriously affected, which will obviously be reflected in the company's results. If a company's employees are badly affected by a natural disaster (an earthquake, flood or volcanic eruption) and management is sensitive to the problem and does everything in its power to end or at least alleviate the suffering, there will be an increase in well-being well beyond anything that can be measured economically. Once again, therefore, the result, both inside the company and in its immediate social environment, will depend on management.

Drucker, perhaps the best known of all management authors and one of those who have shown most common sense and practical wisdom, came to the same conclusion from his pragmatic humanistic perspective, though he expressed it in very different concepts. He thought that management was possibly the most important social institution of the 20th century. In 1954, in one of his key works, he wrote:

> *"The manager is the dynamic, life-giving element in every business. Without his leadership the 'resources of production' remain resources and never become production. In a competitive economy, above all, the quality and performance of the managers determine the success of a business; indeed they determine its survival. For the quality and performance of its managers is the only effective advantage an enterprise in a competitive economy can have. (...) The emergence of management as an essential, a distinct and a leading institution is a pivotal event in social history. Rarely, if ever, has a new basic institution, a new leading group, emerged as fast as has management since the turn of this century. Rarely in human history has a new institution proven indispensable so quickly; and even less often has a new institution arrived with so little opposition, so little disturbance, so little controversy. Management will remain a basic and dominant institution perhaps as long as Western civilization itself survives. (...) Only superior management competence and continuously improved management performance can keep us progressing, can prevent our becoming smug, self-satisfied and lazy."*

With a few qualifications, these words are as relevant today as when they were written:

> *"Outside the United States management has an even more decisive function and an even tougher job. Whether Europe regains her economic prosperity depends, above all, on the performance of her managements. And whether the formerly colonial and raw material producing countries will succeed in developing their economies as free nations or will go Communist, depends to a large extent on their ability to produce competent and responsible managers in a hurry. Truly, the entire free world has an immense stake in the competence, skill and responsibility of management."*

For all these reasons, it seems reasonable that society should hold managers to the highest professional standards and be willing to recognize and reward them appropriately (we shall try to be more precise in this regard in the next section).

The Ills of Today's Management

We already mentioned in the introduction some of the causes of the present crisis, which had to do with the actions of the people in charge of many of the institutions affected by the crisis – with their bad management, we could now add. Because just as good management brings benefits to society, bad management is generally pernicious and can give rise to intricately counterproductive situations from which it is difficult to recover, and from which also it is difficult to learn, as a society, so as to avoid similar episodes in the future. In a word, we are talking about *incompetent managers* (Sahlman, 2009).

In the economic events of the first decade of the 21st century, many practices and institutions have been dysfunctional. Without aiming to list them all, we can cite at least the following:

- Credit rating agencies, which recommended investments that ought not have been recommended, underestimating certain risks or putting their own interests ahead of the supposed "neutrality" of their assessments.
- Investment banks, which invested where they ought not have invested, inducing their customers to do the same.
- Banks, which extended loans to those unfit to borrow, aggressively inducing the financially incapable to borrow, contrary to the industry's conventional and traditional standards of prudence, claiming that this was the "modern" thing to do; in some cases taking advantage of the ignorance of people whom they had genuinely deceived.
- The academic world, mainly the economics departments, which justified ridiculous management practices with the excuse of preserving the free market.
- Also business schools, which ought to have known better but which in recent years have become mere mouthpieces of the economics departments and have applauded any practice, however absurd, that could demonstrate some short-term economic success, often forgetting the *governance* needed to put business strategy into effect by coordinating the activities of multiple actors.
- The change in company ownership, from individual business owners (or groups of owners) who are committed to the company's mission and customers, to institutional investors who are mere speculators and have no interest in either.

- Builders and property developers, who launched far more projects and developments than would have been reasonable given the population and the population growth rate and, therefore, the real need for homes and other buildings, confident that they would find willing customers, thus starting a spiral that led to the bubble and so contributed to the current situation.

- Managers in general, who uncritically designed and used management systems – in particular, perverse incentive schemes – that enabled, motivated and reinforced all these behaviors; in particular, patterns of bad practices that led to vicious circles, sustained by a perverse spiral in which managers and regulators joined forces to benefit one another, to the detriment of (various) others.

- And the arrogance, or hubris, of some managers, who thought themselves better than everybody else, encouraged by the approval of society at large and business schools in particular, mainly because of "good" short-term financial results.

- As a result, the discontent of a large proportion of the population with their jobs and lack of trust in their bosses. Many people are unhappy with their jobs for reasons that are plain common sense, and yet are in no position even to disapprove of what they see, much less do anything about it.

It cannot be said that there were no warnings or calls of alarm beforehand. When the dot.com bubble burst, Ghoshal spoke loud and clear, both in the general press (*Financial Times*) and in academic journals (special issue of *Academy of Management Learning and Education*, 2005), even posthumously. In the same special issue, dedicated to him, others were just as outspoken. Mintzberg, Pfeffer, Hambrick, Ross and Gapper were equally critical of the state we were in. These authors had already voiced criticisms earlier, which is probably why they were asked to contribute to the special issue.

In fact, by definition there have always, in management history, been academics and professionals who were critical of the way of doing and thinking that dominated the contemporary world. From Mary Parker Follet to Drucker and the authors just mentioned and others, people have questioned the most commonly used and widely cited "paradigms"[14].

The Conceptual Bases of the Problems

But there have also always been others who have defended them, in academia and in the business world. In recent decades there has been a strong bias in this direction. At the root of these attitudes are five negative tendencies, which unfortunately have become well established in recent times.

1) Economism, which consists of taking economic and financial variables as the primary, or even exclusive, consideration.

[14] We put the word "paradigm" in inverted commas because we do not feel that what we have in management is anywhere close to a paradigm in the Kuhnian sense. A paradigm needs a minimum of structure and rigor, which is something only the economistic paradigm (without inverted commas) has. We discuss this below.

The economistic attitude, or ideology, is grounded in the idea that the price system is such that if companies maximize their profits, they automatically make the greatest possible contribution to social welfare. But as Adam Smith already realized more than two centuries ago, this is only true if business owners are "enlightened" profit maximizers (Jensen, 2001) and with a view to the long term. But that is not always the case, as the present crisis shows. When we talk about profit, it is impossible to prevent its being taken to mean short-term profit.

The modern version of profit maximization, designed to more explicitly emphasize the long term, is usually expressed in terms of maximizing shareholder value. To start with, this is technically incorrect: one should attempt to maximize total firm value instead; but, besides, it is a fallacy: in practice, the market value of a company's shares is determined largely by short-term results (often as short-term as quarterly earnings), as assessed by financial analysts and investment banks.

There is more to it, however. In the words of Alejandro Llano, "the disturbing thing about economism is that ... the model ... prevents workers from knowing ... the meaning of their work ... [and] ... deprives them of their very humanity"[15]:

Thus, the real world consequences obtained from models that are based on oversimplified or even false assumptions and that consider the only valuable dimension to be the one that can be measured in financial terms, end up becoming normative, while all reference to those initial assumptions is lost. Unfortunately, the simplicity of this normative recommendation has encouraged widespread adoption. As a result, it has become a self-fulfilling prophecy, confirming the apparent effectiveness of the model and making it seem increasingly appropriate, because managers implicitly tailor their actions to it. Hence the model's normative recommendation, which therefore tends to end up being seen as a "natural truth".

Beyond the value of the firm, the economistic approach and the models it uses have other serious limitations:

a) They do not go into the details of what companies – i.e., the context in which management takes place – are or how they work. They do not open the "black box". They reduce companies to "production functions" that express the technologically possible combinations of inputs and outputs. All management considerations are therefore dispensed with. It is surprising that many business schools should base their approaches on this conception.

b) In particular, they do not use concepts such as "competitive advantage" and "distinctive competency" (Selznick, 1957; Pérez López, 1993) to explain how companies obtain "above normal" profit, even though developing, using and maintaining such advantage and competency (i.e., deploying the necessary learning) is very typically a management activity.

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[15] The complete quote: "The strange and disturbing thing about economism is that it reduces us to seeking possession of the only goods that we cannot possess: material goods. I can use, hold, own, sell, or buy a rug, a vacuum cleaner, a car, a high-interest account, etc. But I do not possess any of this. None of it is mine. I have it, but it is not me. The only thing I can really possess, or make mine, is what economism ignores: the stuff of my living world, that is, what I know and what I love. If an organizational model prevents workers from knowing and wanting the purpose, or meaning, of their work, then it is not depriving them of a thing: it is stripping them of their very humanity" (Llano, 2010).

c) They therefore implicitly accept that the "normal" profit of companies is the minimum required return on capital[16], as, under open competition, given the homogeneity of their production functions (i.e., essentially, their costs and their products), all companies will sell at the same price. For management, the aim is precisely to move as far away as possible from the balance to which the economistic approach gives rise, in order to obtain a higher return.

d) They accept, without solid justification, an unequal distribution of the economic value created, to the advantage of business owners. This is another of the reasons that have led to the mistaken but, sadly, commonly accepted conclusion that "creating value for the owners" must be companies' main purpose and achieving it, therefore, the fundamental task of those who manage them.

2) Self-interest as the only driver of management, indeed of all human action, as opposed to the "higher ends" that Khurana refers to (2007). Moreover, said interest is attributed in equal measure to all the parties involved, without any nuance or dynamic (such as would arise if, say, the possibility of learning were included).

   Ghoshal (2005) attributes the emphasis on self-interest to a pessimistic view of the human being, put forward by Milton Friedman (1962) in his famous book *Capitalism and Freedom*[17]. The rise and growth in importance of incentive systems over the last forty years are closely related to the hypothesis of self-interest as the only driving force in the economic world. If this hypothesis is true, only an incentive system can align the company's objectives with the interests of its members (including managers) and the interests of the members among themselves. Persuasion, a sense of mission, the meaning of work, friendship, companionship, etc. – none of this is important. All that matters is self-interest and, above all, economic self-interest.

3) Consistent with the previous two points, an instrumental conception of the human person, in which people are mere instruments of companies as producers of shareholder value.

   If the firm is merely a production function designed to enrich shareholders; if labor is simply an input – one of many – that is purchased in a competitive market (and, therefore, in which there is no product differentiation except in terms of specialty, i.e., one administrative worker is the same as any other administrative worker; one sales representative, the same as any other sales representative, and so on); and if employees

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[16] What books on microeconomics call "zero" profit.

[17] According to Ghoshal,

"In Friedman's words, 'a major aim of the liberal is to leave the ethical problem for the individual to wrestle with.' In other words, it can and, indeed, must be excluded from social theory. The way to do so is to base all theories on the assumption of homogeneous human behavior based on self-interest. And 'the liberal conceives of men as imperfect beings [...] and regards the problem of social organization to be as much a negative problem of preventing bad people from doing harm as of enabling good people to do good...' And, given that much of social science until then had focused on the second part of the problem, the agenda of social scientists thereon, that is, for the last 40 years has focused on the first part, that is, on the negative problem. Hence the pessimism, the ideology-based gloomy vision. [...] While within individual fields, such as organization theory and strategic management, authors can and do publish research grounded in very different assumptions and traditions, Friedman's version of liberalism has indeed been colonizing all the management-related disciplines over the last half century."

can only be motivated with incentives, then the concept of the person as instrument follows logically. [18]

Consistent with the concept of the person-as-instrument, the possibility of learning is not considered. Management techniques are repetitive and largely mechanical, as it is assumed that the people using and experiencing them do not change. If there is any concept of learning, it is purely machine-like and even follows a certain mathematical formula: an improvement of skills that allows a reduction in operating costs.

As instruments, people can have neither intentions nor a sense of purpose. They must limit themselves to doing what they are told (once again, Taylor springs to mind) and the company's management simply does what all other managements do. New institutional theory, one of the dominant trends in organization theory, has contributed to this concept of the person-as-instrument. It has even taken it a step further, leaving institutions without a purpose of their own other than to legitimize themselves by doing the same as others (mimesis).

4) If there is no learning, managers and the people who interact with them cannot improve or deteriorate as people (i.e., other than as instruments) as a result of their interactions. This fundamentally excludes ethical considerations from management activities, as ethics is concerned with the mediation between a subject and its acts, in the sense that any act of a person gives rise to a structural modification of the person, precisely as a result of having acted. A person learns to serve customers better by persevering in serving them, just as a person who steals regularly, even if obliged to do so, will learn to be a competent thief.

5) A management research methodology that we can describe as naïve empiricism, which accepts only empirical evidence as proof of any "scientific" statement[19.] This empiricist view is related to the more radical versions of logical positivism or empiricism, though it does not have their logical rigor. Today, logical positivism is not accepted even in natural science, as its demands are considered excessive. All the more reason to reject it in the social sciences, especially for analyzing and understanding management phenomena:

    a) Often, subjects are analyzed using approaches and methods properly intended for other types of phenomena. For instance, researchers look for patterns such as are found in the physical world ("physics envy", as it has sometimes been called), using statistical analysis, on the implicit assumption that people always react in the same way. This is highly unrealistic when researching the behavior of human beings, who learn and, as a result, change their behavior – unlike basic particles or stars.

[18] Unfortunately, the conception of people as instruments goes back a long way, to before the colonization of management by economic theory. It was more or less the conception held by Taylor and his followers in the early 20th century. According to March and Simon (1958), Taylor and his followers considered people as "adjuncts to machines", that is, as instruments, possibly even in a lower category than machines. And although nowadays, in developed societies, most of the jobs that Taylor studied are done by machines, the concept has changed very little. Administrative, commercial and even operational jobs are done by people who, it is assumed, take the objectives as given, who must be as efficient as possible, without any motive or creativity, and who are assessed using supposedly objective measures, on which incentive systems are based.

[19] This is the equivalent, at the extreme, of accepting a premise of the kind "all cats are black" simply because of having seen a lot of black cats.

b) There is what Hayek, in his Nobel Memorial Lecture (1974), called "the pretence of knowledge", meaning a disregard for the limits of human capabilities. On the one hand, social events are "phenomena of organized complexity" and any application of scientific methods to these phenomena *"is often the most unscientific, and, beyond this, in these fields there are definite limits to what we can expect science to achieve"* (Hayek, 1974; see also Feldman, 2006). From a practical point of view, this has serious implications as regards determining whether a person can ever know for sure what needs to be done at any given time in a particular company.

c) One consequence of all this is a tendency to accept overly simple explanations and models, which in the end merely confuse matters because they oversimplify and omit fundamental aspects of management phenomena. As Mencken said, *"there is always an easy solution to every human problem – neat, plausible, wrong"*.

Some Practical Implications of These Problems

Many of these counterproductive conceptions are regularly taken for granted in everyday management practice, both in general management and in the functional areas into which managerial decisions and acts have traditionally been organized. Without aiming to be exhaustive, **Exhibit 2** provides some examples under two broad headings: (i) Lack of an administrative point of view, and (ii) Problems related to the functional areas.

Foundations for a Renewed Conception of Management

The above analysis has important implications for management theory and practice. Ideally, one would first develop a solid theory and then put it into practice. Judging by what has happened in the other sciences, however (e.g., in the most developed one, namely physics), it takes a long time to develop a good theory and integrated models that allow us to put every real phenomenon in its place and so deduce what has to be done in order to achieve the desired outcome.

Fortunately, the above critique already contains some ideas that can be applied to management practice immediately. At the risk of repeating ourselves, we shall list them here, not exhaustively (which would be impossible without first developing a theory) yet systematically. After that, we shall sketch the foundations on which, we believe, a good theory that will allow us to solidly ground management practice should be built.

Which Way Ahead for Management Practice?

1. It must be based on the idea that companies are made up of people who work, organize themselves, manage, produce goods and services, sell, etc., with certain objectives – both individual and collective – in mind. These people and their interests are heterogeneous. Therefore, their non-homogeneous role in ensuring that companies perform their functions must be an important factor in the design and functioning of companies.

2. Consequently, *most* of a company's activities (including management activities) must involve people (either members of the company or people belonging to its immediate environment). To be realistic, we must consider companies from this point of view. That is to say, it is not appropriate to consider the work that people do as something strictly mechanical that requires no specific training or information, no identification, enthusiasm or learning, no attitude development, and in so doing rob their work of any *meaning* (Llano, 2010). By reducing work to a form of merchandise, the suppliers of which are paid a salary and an incentive, economism ignores meaning and fails to recognize that missions *motivate*, whereas monetary incentives do not (George, 2003).

3. In other words, organizations, which are the context in which "management acts" take place, must be communities of people who interact on the personal level (Pfeffer, 2005) and so evolve over time, fundamentally through learning. They cannot be considered as impersonal collections of contracts, protocols and rules of conduct that exist and perpetuate themselves independently of their human members. As Alejandro Llano (2010) says, "The basic fabric of a company is not the regulations or economic exchanges, but the vital *ethos*, the web of relationships that bind the people who make up the company".

4. Management must therefore explicitly acknowledge that it is at the service of people, rather than people being at the service of management, or of particular managers. In establishing the objectives of organizations, the main concern must therefore be to satisfy the objectives of the people who will work in them or enjoy their products (which obviously includes their customers). In particular, care must be taken not to rely exclusively on contemporary financial theory and the associated objective of maximizing shareholder value, which has had such harmful consequences, as we have mentioned. The objectives will therefore culminate in company missions and purposes that transcend the (necessary but not sufficient) goal of creating economic value in the short term.

5. In this respect, it is important to recognize that people have certain characteristics that are neither exclusively nor directly economic, including friendship, loyalty, identification, enthusiasm, motivation, and so on. Insofar as organizations are made up of people, the purposes of organizations can on no account be *exclusively economic*, regardless of the variables used to measure them (share price, added value, or any other economic or financial dimension). That economic objectives are important for companies, even non-profits, is not in question, however.

6. Therefore, we need more than just behavioral theories that confine themselves to explaining the existence of certain phenomena in sociological terms, without deducing from them any rule for action or for making a better future for the human species, thus negating the rationality, intentionality, learning and sense of purpose and initiative that are distinctive traits of persons.

7. Learning is particularly important because it leads to changes in persons themselves, their way of seeing things, even their desires. That is why employee careers in companies need to be carefully thought through, explicitly considering what *all* those involved, including those who initiate interactions – i.e., in most cases, managers themselves – will learn (and not only on an operational level). Consequently, at any level but especially at management level, high self-expectation, in terms of learning

from the results of one's actions, is fundamental. It is at the origin of "business ethics", which from this perspective is consubstantial with the management profession and which essentially means that management, even when apparently centered on purely technical issues, *is by nature never neutral* in this sense.

8. Precisely because management has such important social implications, we need to establish in society an expectation of professional excellence in managers in dimensions beyond that of immediate effectiveness: moral integrity, treatment of people, people development, and so on. This requires a shared value system that is difficult to achieve. That managers' status in society should be founded almost exclusively on financial results and remuneration, regardless how achieved, is highly dysfunctional.

9. Thus, just as economism has produced a self-fulfilling prophecy from a fallacy, a management based on the principles we have indicated should have the same effect, but in reverse. In other words, it should help to develop in organizational members motives other than economic ones, including those mentioned in the previous points, assuming they have them.

10. For all these reasons, it should be understood that the purpose of a company is not a direct and exclusive consequence of the forces of the environment or of a "nature of things" that inexorably determines predefined institutional behaviors. On the contrary, that purpose is the result of the actions of specific, boundedly rational people who have a sense of purpose and intention. The purpose only becomes inevitable if people neglect their share of responsibility in the company's activities (in which case, we might add, they will have deserved it). The phenomena we are concerned with are therefore elusive by nature and occur in contexts of organized complexity, in which people act. By organized complexity we mean a complexity that is not simply a result of the number of variables or of the mathematical complexity of the relationships between them, but a complexity deriving from the fact that the context involves the actions of people, with their implicit and explicit intentions. From a complementary point of view, as Hayek realized, the above implies that organizations need the active cooperation of those people; and they need the cooperation to be all the more active – ideally extending to enthusiasm – the greater the complexity of the tasks. All this implies a fundamental interdependence between a company's *business plan (strategy)* and its *implementation*, precisely because people play such a role in putting it into effect. This interdependence must be taken into account in order to exercise a professionally responsible management.

11. Another consequence is that it is inappropriate for companies to have arbitrary and discriminatory compensation systems which ignore the fact that, as we said, it is much easier for a shareholder, by selling his shares, to sever relations with a company than it is for an employee who has made a personal investment in specific knowledge, learning, cultural fit, etc. (which are at least as necessary, for the company to function satisfactorily, as the capital contributed by shareholders) (Ghoshal, 2005). It is often argued that managers deserve their astronomical pay awards because they have "all the merit" of results to which many other people, through unfairly treated as passive instruments, have actively contributed. These systems need rethinking from the ground up, basically because they violate the primary concept of management, namely getting things done with and through other people.

12. Any attempt to measure performance or the result of actions, even imperfectly, is positive if the measure is used sensibly. But it is important to bear in mind that accurately measuring the excellence or quality of a management act in one dimension is *impossible* because management acts have so many different aspects, including their results, which by their nature are of different types and cannot generally be offset against one another[20]. In fact, the aspects that are most important at any given time tend to be the most difficult to measure, which means that any indicators we use will be imprecise at best. This means it is impossible to automate management acts, which by definition are largely discretionary (i.e., involving non-trivial amounts of honest, responsible *subjectivity*).

13. The previous point invalidates the kind of management which assumes that those who happen to be "at the top"[21] at any given time are omniscient, as if a great Moloch in the form of results (measured approximately, nobody knows how) to which they have (privileged) access, were above all else, without the people who are affected by their management acts being able to learn from them. This kind of management, based on scorecard variables, is essentially contrary to the concept of management we are trying to define here.

14. What is needed is a management that has commitments (above all to the persons affected) and a sense of mission beyond the immediate and necessary objective of generating financial results. Such a management is contrary, for example, to advertising that is blatantly false (e.g., products claiming curative properties they do not possess) or that has nothing to do with the company's product or service[22]. The aim is to understand potential customers' real needs and make every effort to satisfy them through the company's products and services at a cost that the customers are very willing to pay, without deception, subterfuges or unfair small print.

15. The preceding points do not mean that good management is based on tolerating any kind of behavior and accepting incompetence and shirking. On the contrary, it is based on adequate performance, which is absolutely indispensable but does not mean treating people like animals (or things), or demanding more and more in return for less and less.

16. Lastly, the efforts of business schools to educate and develop managers would be more effective if they explicitly took the above points into account. That way we would avoid falling into the trap that Leavitt (2007) describes as follows:

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[20] Also, there are always certain aspects that must be respected "to the maximum"; in this sense, they are genuinely non-negotiable. An extreme example would be: will we murder a customer to win an order, however large the order?

[21] Incidentally, it is interesting to consider what justification there is, in each case, for their "being at the top". In the context of what we have said so far, considerations such as "because of their performance in some other organization" or "because the shareholders trust them" are inappropriate because such considerations are based on almost exclusively economic assessments, both for judging results and for "granting decision and governance rights" in organizations. This is something that, in general, we have accepted uncritically, merely because it has been presented as a simplifying hypothesis in some widely used models, or is taken as an absolute truth based on results obtained using these models, often without even knowing the initial assumptions.

[22] For example, a car competing in a downhill slalom, or dairy desserts that develop the body's natural defenses, like so many other tricks simply designed to "sell" the product to consumers in order to meet sales targets, pulling the wool over their eyes if necessary.

> *"Currently, our business schools encourage students – implicitly and sometimes quite explicitly – to envision the treasury troves of wealth, status, and 'success' that await them out beyond their degrees. But shouldn't we teachers and trainers also be forewarning them of the enervating, often disillusioning psychological traps that lie out there? Shouldn't we pointing out, too, the perhaps* ***irreconcilable conflict between those organizations' values and the ones our parents taught us? Our universities purport, after all, to be truth-seeking institutions, not pre-recruiters for corporations****. Sooner or later, our students will surely encounter a host of organizational situations that will try their souls and test the depth of their decency – unless our systemizing educational efforts will already have erased their rectitude. They will encounter cruel and incompetent bosses, arbitrary and unjustified punishments, overly competitive peers, hurtful family/organization stresses, and wrenching decisions that seriously affect the lives of their 'subordinates'." (My emphasis)*

It would also help to develop a better "social ethos", along the lines described by, among others, Gintis and Khurana (2008):

> *"By abjuring professional standards for managers in favor of a culture of greed, it is likely that business schools that have promoted the neoclassical model of stockholder-manager relations have so undercut the culture of professional honor among managerial personnel that the mechanism of informal third-party punishment and reward has sunk to dramatically low levels, thus contributing to a deficit in moral behavior on the part of contemporary managerial personnel."*

Which Way Ahead for Management Theory?

1. First of all, we need a well constructed theory of management, i.e., using elementary concepts that it does not define and elementary principles or statements that are taken as truths for the chosen purpose, on which basis the rest of the concepts are defined and the rest of the truths are proven, reducing any ambiguities to those there may still be in the elementary concepts and statements; all this in the best tradition of classic axiomatic systems.

   Likewise, the theory must have a normative purpose, indicating the direction it proposes be taken, and why, in order to improve things.

2. Second, it must be built on a concept of the human being as a whole person, that is to say:

   a) As a subject of rights and as the purpose of any human action.

   b) As guided by a purpose or intentions that are the expression of the goals that human beings see as explicit, which are much broader than mere self-centered self-interest. We must see the theory as something positive, not as a means of solving the negative problems of organizations (Hirschman, 1970, quoted in Ghoshal, 2005); and also in the spirit of Amartya Sen (1998), when he says that:

   > *"…in acknowledging the possibility of a prudential explanation of apparently moral conduct, we should not fall into the trap of presuming that the assumption of pure self-interest is, in any sense, more elementary than assuming other values. Moral or social concerns can be just as basic or elementary."*

c) With bounded rationality, which is rationality and is bounded in (a) its intentions and purposes (which may not be what human beings really need), (b) in the means it provides for achieving them (which may not be the most appropriate ones), and (c) the way they are used (which may not be the best way, including the impossibility of optimizing the value of one or other of the variables).

d) As a subject of learning, both in the sense of learning to want what he really needs and in the sense of learning what means are necessary to achieve it or what trust he can have in other people.

3. Third, it must be built on a rational concept of organization, that is to say:

   a) With a particular organizational purpose and trying to provide the means to achieve it. The purpose is always multidimensional and will include explicit short-term results, the development of distinctive competencies, and the development of identification with the organization, which guarantee long-run effectiveness23. These dimensions cannot be reduced to one, largely because of the bounded rationality of those who make the decisions. A much more realistic objective is to achieve a "satisficing" minimum in each dimension.

   b) Knowing that the persons who take part in the organization: a) are boundedly rational and may make mistakes, and b) may have objectives that are not aligned with the organization's explicit purpose, including, in some cases, a hypothetical "ill will", which can range from misuse of power by those who have it, to management acts that run counter to the organization's best interests.

   c) Acknowledging that these problems are complex and highly uncertain and so call for great expertise, which sometimes leads organizations to imitate one another.

   d) Realizing that organizations must satisfy all kinds of motives in their members, both extrinsic (pay and suchlike), intrinsic (the interest of the job itself) and transcendent (meeting the needs of others)[24]. Therefore, to consider, in decision making, only the criterion of immediate effectiveness and to neglect people's development (not only on a professional level) and their other needs is a serious error that must be avoided.

Conclusion

By way of a conclusion, we would like, on the one hand, to say that it is disheartening to find that most management research does not proceed along these lines, even though in recent years there has been notable progress and various authors have raised some of the issues dealt with in this paper. On the other hand, there is perhaps more encouragement to be gained from business practice. Many companies and managers, perhaps without a solid theoretical basis, are quietly and effectively practicing quite a bit of what we are preaching here. With this paper we hope to contribute to progress in this direction both in theory and in practice.

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[23] See Pérez López, 1993.

[24] See Pérez López, 1993.

It will be a difficult battle and we never can say that it is won completely, as the pressure of immediate effectiveness will always be a temptation, sometimes too strong. But that is how human progress has always come about, and probably always will: imperfectly, with occasional steps backward, but moving forward overall. We trust that that is what will happen also in the field of management in the future.

Exhibit 1 – Elton Mayo and the "Hawthorne Experiments"[25]

Some classic management authors anticipated the importance of management in social affairs. Elton Mayo, a Harvard Business School professor, reformer and social scientist, is one example. A cordial, affable type and a good communicator who cared about what others thought and about the well-being of people in general, Mayo realized that management needed to concern itself with the specific circumstances of workers. To a large extent, his attitude was shaped by the famous "Hawthorne Experiments" at Western Electric.

In his view, these experiments had shown that people's performance at work depended not only on (physical and organizational) circumstances, but also on personal and social problems, which could generate imbalances. The company could influence all this decisively, in a positive or a negative sense. Workers who had come to the United States from rural Italy, where the surrounding society exercised an immediate social control, found themselves in large, "soulless" urban agglomerations or dormitory towns, where any personal problem could easily be amplified, producing a state of "anomie" (a concept taken from the French sociologist Durkheim), or lack of purpose and objectives, that led to inferior work performance. Therefore, even if only to improve company earnings (and there are other reasons, as we have been arguing), management must also concern itself, as far as possible, with improving the lives of workers. As Mayo puts it:

> *"Certain of the sources of personal disequilibrium, and specially the low resistance to adverse happenings in the ordinary workroom, must be attributed to the developing social disorganization and consequent anomie which is in these days typical of living conditions in or near any great industrial center. This developing anomie has changed the essential nature of every administrative problem – whether governmental or industrial. It is no longer possible for an administrator to concern himself narrowly with his special function and to assume that controls established by a vigorous social code will continue to operate in other areas of human life and action. All social controls of this type have weakened or disappeared – this being symptomatic of the diminished integrity of the social organism. The existing situation, both within the national boundaries and as between nations, demands therefore that special attention be given to restatement of the problem of administration as the most urgent issue of the present" (Mayo, 1933, p. 165).*

This lack of social control and the consequent "anomie" are clearly pernicious in themselves, but also because of the impact they have on the company. Mayo thus has two types of reasons, interwoven with one another, for believing that management is important. One, that social disorganization and lack of cohesion and purpose induce imbalances in people that are bad for society in general and for the individuals concerned in particular. Two, that these same imbalances make people's performance at work clearly worse.

[25] The "Hawthorne Experiments" are perhaps the most famous experiments in management history. Although the core of the experiments were conducted over several years in two specialized test rooms, each with five workers, they also included 20,000 interviews with Western Electric employees (Mayo, 1933).

Exhibit 2 – Some practical implications of the problems of today's management

Below are some of the counterproductive conceptions referred to in general terms in the text. As a rule, these conceptions originate from the academic world and then cross over to the business world, where their implementation is quite variable (in other words, there are quite a few real companies that are very well managed and that have not fallen into the trap of these conceptions). The following examples are illustrative.

A2.1. A lack of an administrative point of view and a failure to consider sufficient criteria when making decisions

Any problem that arises in an organization has to be understood in its context, making explicit what is supposed to be achieved by solving it. Not all organizations – nor all companies – are the same, nor are all companies in the same industry the same. In fact, if a company has a clearly defined strategy, by definition that strategy makes it different from any other company in its industry. The differences lie in a multitude of details regarding both the conception of the product or service and the target market or value chain structure, or "organizational structure" in a broad sense. Unfortunately, this is commonly overlooked. The problem is seen in isolation from everything else and a "technical" solution is applied, perhaps one recommended by an outside expert as an off-the-peg option, which may solve part of the problem, while making another part of the problem bigger. This lack of an administrative point of view manifests itself in particular in the following four aspects:

A2.1.1. An overspecialization and a lack of a "general management view"

Both in teaching and in practice, management problems are often seen as small technical problems that can be solved easily enough using the (informed) judgment of an specialized expert or by applying standard techniques. If there is a financial problem, for instance, it tends to be assumed that a financial markets expert will be able to make the decision, isolating it from the business context in which it has arisen. All that is needed is to apply the appropriate theory and see what it recommends. Or if there is a production programming problem, it is simply a matter of applying the appropriate programming technique, nothing more. Any link between the problem and a view of the company and its strategy as a whole is conspicuous by its absence. The application of the solution is colorless, odorless, bland and aseptic. Furthermore, the impact the supposed solution is likely to have on other aspects of the company and possible implementation difficulties are not taken into account.

A2.1.2. A mechanistic view of persons as "something" that does not change or learn

What people do and the stimuli they respond to, particularly economic incentives, are taken as given, regardless of any learning that may take place – which inevitably it does, changing people's responses, as we have already emphasized. This view justifies the approaches described in the previous points. What makes management problems interdependent is precisely the fact that they affect people, often *the same people* from different angles. And, again, what makes a "general management point of view" necessary is people, who ultimately bring the company's strategy to life and make it a reality, which by definition would make no sense in an "impersonal" environment (although at present there is an unfortunate tendency to "depersonalize strategy" in this sense).

A2.1.3. Strategy formulation understood as something mechanical, almost exclusively the result of passive industry analysis

For decades, strategy was understood as something specific to each company and, though obviously conditional on the peculiarities of the sector, would nevertheless take full account of the company's internal circumstances, particularly its weaknesses and strengths for tackling a particular strategy.

The progress in industrial economics from the 1970s onward brought about a change in this conception. In what was supposed to be a clear step forward, intuitive industry analysis was replaced by more formal tools. As a result, "objective" factors relating to industry participants, industry structure and feasible competitive positions came to be understood as the only thing to be considered when designing strategy, giving relatively less (if any) importance to specific, detailed knowledge of the company's customers, the needs to be met, and the distinctive competencies available to do so.

A2.1.4. The virtual disappearance of strategy "implementation", except for incomplete indicator systems

In a recent article, Joseph Bower, a well known professor of strategy at Harvard Business School, summed up very clearly the history of general management courses at his school and, specifically, of the Policy Implementation course, which at Harvard traditionally followed the Policy Formulation course. Essentially, it used to be thought that once a strategy had been designed, it had to be put into practice through an appropriate organizational structure, instilling in employees the necessary motivation. This course started from a conceptual framework that Bower summarized as follows:

> *"The leader of the firm was a general manager whose most fundamental responsibility was for the formulation of purpose (Barnard), institutionalization (Selznick), and the building of organization and systems for its implementation (Chandler), in a way consistent with market needs (Barnard), and societal demands (Selznick)."*

Unfortunately, a few years later:

> *"Across academia – Harvard Business School included – work in competitive strategy gained increasingly economic rigor. At the same time, the role of managers in the course began to disappear, especially the general manager..." (Bower, 2008).*

One may agree or disagree with this description, especially the details, but what is beyond doubt is that the role of the general manager used to be considered important, and that both students and professors used to think that the general manager role afforded a crucial point of view for addressing real-world problems, which, in turn, highlighted the general manager's responsibility and professionalism as a manager. Today, this view has virtually disappeared. Whether this is because the real world has turned its back on this type of problem or for the opposite reason is debatable. The fact is, however, that the two things coincided in time.

A2.2. Problems relating to functional areas

If we carry out a brief and systematic (though not exhaustive) review of the various functional areas, we find a long list of problems or false solutions, as follows.

A2.2.1. Misuse of accounting and management control systems, mainly in relation to performance assessment and measurement, and policy on performance-based pay

Accounting has always sat uneasily with management. On the one hand, it is a technical and legal requirement; on the other, it is very useful for decision making. It has always had a significant utilitarian component, i.e., as an input for decision making. But because accounting has to be standardized to ensure consistency between companies, accounting data have become "hyper-technical". Moreover, they are often used mechanically. For instance, if the aim is to meet customers' needs (which it normally is), instead of thinking about the customers and how their problem can best be solved, an indicator is established (e.g., a questionnaire on supposed customer satisfaction). This indicator is called a "metric" to give it a false air of exactitude[26] and immediate incentives are applied, depending on the degree of achievement of targets set in relation to this "metric". Management as such – i.e., any attempt to assess the whys and wherefores (which, we repeat, will inevitably be subjective), any boss-subordinate debate, any attempt to learn for the future – is left out of the picture.

A2.2.2. A finance function that either turns into ideological microeconomics or becomes "hyper-technical" and turns into applied EXCEL. Absence of financial policies

The financial function is important in any company. Finding out where (short or long-term) funds can be raised, what type of funds can be raised and how they can be invested is perhaps one of the most important financial problems, both for society in general and for companies in particular. It is not at all a "technical" problem. Discovering where to invest requires a thorough knowledge of the business and in-depth study of the alternatives that present themselves. In fact, the alternatives do not usually present themselves of their own accord; often they have to be created by management. And once they have been created, there is still the question of where to obtain the funds to invest in them. Another important decision is what sources of funds are available and which source is best one to use at any given time. Again, there is nothing "technical" about this, especially not if the company has no funds of its own; and if it does, there is always at least one other possible use for them, which is to give them back to shareholders.

This very brief summary of financial decisions reminds us that such decisions are often given over to "technical experts", thus stripping them of their management component, which is rightly a part of them. Long-term decisions (equity and debt issues, investments, dividend policy) are sometimes presented as irrelevant, based on certain theoretical models, while short-term decisions (sources of working capital and how to use it) are treated as if they were a matter of knowing how to use EXCEL.

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[26] "Metric" is a term used in mathematics with a very precise and specific meaning and with certain characteristics that cause the variable to have certain properties. Performance indicators, which are often called "metrics" in current theoretical and professional literature, have none of these properties. The widespread use of the term is unfortunate and shows the lack of rigor of some management literature.

People often fail to distinguish between finance as such, as the basis of financial decisions, and financial economics, which is the formal analysis of markets, without any reference to specific decisions. Financial decisions are as uncertain and prudential as any other type of decision. The trivialization of risk assessment, leading in many cases to systematic risk underestimation, accompanied by insistent approval of leverage as a sales technique for winning customers or as a financial technique for achieving better results for shareholders, has had lethal effects, which have contributed to the current crisis.

A2.2.3. A concept of marketing which considers customers as passive entities whose behavior is fully captured by statistics, and which forgets that its fundamental goals should be to meet customers' real needs and create consumers

The most popular version of marketing is the one that sets out to persuade customers by any means to buy something – through advertising, mechanically trying to determine what consumers respond to; and through sales, chasing them with all kinds of tricks, looking to see when they "take the bait" and when not, and with cheap psychology about "what makes consumers tick".

The classics of management literature express a very different view. Here we shall cite just two. First, in what is perhaps his best known work, Peter Drucker (1954) says that the purpose of business is to create a customer, because:

> *"Markets are not created by God, nature or economic forces, but by businesspeople. The want a business satisfies may have been felt by the customer before he or she was offered the means of satisfying it (...) but it remained a potential want until the action of businesspeople converted it into effective demand." (p. 37)*

Philip Kotler, perhaps the best known author in the field of marketing, proposes what he calls *"the societal marketing concept"*, which consists of stating that:

> *"The organization's task is to determine the needs, wants and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being." (1984, p. 29)*

In either case, the emphasis is on satisfying human needs, not on increasing sales. Going back to Drucker:

> *"Despite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses" (2001, p. 20).*

A2.2.4. A mechanical production which forgets that those who must actually do the producing are human beings who know more about the real production process than their managers

Oliver Sheldon, at the beginning of the 20th century, distinguished between things he thought could be treated scientifically (materials and mechanical operations) and people, which were not. "There can be a science of costs, of transport and of operations, but there cannot be a science of cooperation," he said. Mary Parker Follet criticized this point of view at the time because she thought that the two things (materials and mechanical operations on the one hand and people on the other) were inseparable (Follet, 1927).

Nowadays, with the progress that has been made in information and decision support systems, it is partly possible to have greater decentralization and “on the fly” decision making. What often happens in practice, however, is that human judgment is replaced by undiscriminating mechanical systems that can only impoverish both the decision making system and management acts in general.

A2.2.5. An organizational behavior that: a) is merely descriptive as far as organizations are concerned, and b) considers people as mere instruments of organizations

Very early on in the development of management theory it became apparent that problems relating to people’s behavior reached beyond purely mechanical and economic factors. The famous Hawthorne Experiments are the classic reference. What has changed substantially in recent years, however, is the objective and emphasis of behavioral research. On the one hand, it has become supposedly more scientific in its efforts to measure unmeasurable variables and demonstrate relationships between them using statistical methods. On the other, it has become more instrumental, trying to find ways to use those measurements to influence people so that they serve the “interests of the company” (which in reality tend to be the interests of a few senior managers), losing the genuine concern it initially had for the well-being of all the people involved.

A2.2.6. An economic analysis that puts ideology before facts

Economic analysis, which abstracts from non-economic variables and presents itself as rigorous analysis (which it cannot be, by definition, as it omits other variables that are crucial for the purpose of managing), is often taken as a paradigm of virtue, as perfectly immune to ideology, and as a solid foundation of analysis that cannot be questioned from merely intuitive viewpoints and is very superior to them. That is why we earlier described it as a supposedly non-ideological ideology, because it conceals a highly ideologically charged way of seeing things – a way of seeing things that tends to permit any economic behavior, however much it undermines fundamental rights of persons seen as entities of a not exclusively economic nature, possibly in the name of freedom.

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