



## Course information 2015–16

# MN2177 Core management concepts

The course covers the main areas of general management and the intellectual foundations of management concepts. It is the basis upon which more specialised functional management courses can be taken.

### Prerequisite

If taken as part of a BSc degree, courses which must be passed before this course may be attempted:

MN1107 Introduction to Business and Management

### Aims and objectives

The aims of this course are:

1. To give students a thorough grounding in the key management sub-disciplines
2. To provide an overview of the development of these disciplines
3. To illustrate the disciplinary anchors of these disciplines in sociology, psychology and economics

### Assessment

This course is assessed by a three hour unseen written examination.

### Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- Demonstrate understanding of core management concepts
- Apply these concepts to specific business situations
- Analyse and evaluate managerial tools such as balance sheets and marketing plans
- Explain the relevance of social science to business practice

### Essential reading

For full details please refer to the reading list.

P. Willman *Understanding Management: The Social Scientific Foundations*, (Pearson)

Students should consult the *Programme Regulations for degrees and diplomas in Economics, Management, Finance and the Social Sciences* that are reviewed annually. The Prerequisites, Exclusions, and Syllabus are subject to confirmation in the *Regulations*. Notice is also given in the *Regulations* of any courses which are being phased out and students are advised to check course availability.

## Syllabus

This is a description of the material to be examined, as published in the *Regulations*. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading

**Introduction:** This chapter introduces the course and its approach. It discusses the pre-industrial roots of thinking about management and leadership, and shows the longevity of certain management practices. The industrial revolution prompted major developments in social theory and political economy—in particular in Europe and USA—which in turn have influenced the analysis of management in business. The chapter traces the roots of modern management technique in the developing disciplines of the social sciences and offers a framework for a critical understanding of the corpus of business knowledge.

**Management and the Firm:** The chapter looks at the growth of large firms in historical context and examines the major explanations for the growth of firms, specifically technological indivisibility and market failure. It specifically examines the work of Chandler. It describes the separation of ownership and control and introduces the problem of agency. It introduces the ‘varieties of capitalism’ debate and covers the varieties of institutional arrangements for firm governance that have emerged in advanced economies. The relationship between the factory system and the creation of an industrial workforce is discussed.

**Taylorism, Motivation, and Performance:** This chapter looks at the emergence of two important schools in the history of management science that attempt to systematically analyze human behaviour at work: 1. Taylorism and scientific management; and 2. the development in psychology and the human relations movement. It offers an overview of the background, principles, as well as limitations and problems of the two schools. Performance appraisal systems and reward systems in organisations are examined as well.

**The Rise and Decline of Labour :** This chapter looks at the historical root of industrial and labour relations and explores the linkage between workplace control and the broader economic and political context of work organisations. The evolution of internal labour market, the logic of collective action, and wage determination and rent-sharing in collective bargaining are examined. The chapter also introduces the markets for trade unionism and the mechanisms that unions grow. It overviews the rise and fall of trade unions with reference to historical and contemporary influences. Alternative voices schemes are explored at the end.

**The Rise of Human Resources Management:** This chapter looks at the origin and evolution of the field of human resources management (HRM) and introduces key theories and analytical concepts of HRM. The chapter will provide a framework for thinking systematically and strategically about aspects of managing the organisation’s human assets. Major approaches to HR strategy—Michigan School, Harvard School, and Resource-based models will be discussed.

**Origins of Management Science :** This chapter will look at the development, post-Taylorism, of quantitative modelling approaches to operations management. Basic concepts of queueing systems and inventory control, and linear programming will be introduced and placed in context. We will discuss how these concepts have been developed as organisations have become more complex, and more mature in their ability to process data and harness computing power. We will also talk about how these ideas have spread beyond the engineering and manufacturing settings in which they were first introduced, and some of the challenges facing the implementation of these management science concepts in these new environments.

- Ideas of inventory theory like EOQ/newsvendor
- Basic queueing models, M/M/1, M/M/k—focusing on graphical presentation and insights (no proofs)—basic equations and say the real world more complex but the basic insights hold.

**Accounting, finance and the firm:** The chapter will comprise a review of models of agency provided by principal agent theory, behaviouralism and the theory of the firm provided by Rajan & Zingales (1998). It would also introduce accounting theories that do not utilize such models, such as the critical accounting school. These theoretical perspectives will constitute reference points for case discussion in later weeks. We will be drawing on discussions of principal / agent theory and behaviouralism provided in earlier chapters within the course.

**Management Accounting: Costing:** This chapter will introduce management accounting as a set of practices relating to the internal control of the corporation and their evolving role in facilitating decision making by managers. Then focus will be placed on costing. We will distinguish between direct and indirect costs, and between standard costing methods and Activity Based Costing. We will place issues relating to costing in historical perspective and drawing on Johnson & Kaplan’s Relevance Lost, make comparisons with costing in earlier periods.

**Management accounting: Decentralization and performance measurement:** This chapter would introduce themes in management account relating to the collecting, processing and analysis of information regarding the internal functioning of the firm. We will investigate the relationship between performance measurement and decentralized forms of organization. Following a review of different aspects of management accounting, we will cover issues agency and institutionalist perspectives on performance measurement. We will then cover the Balanced Scorecard.

**Financial accounting:** This chapter will introduce the three elements of the financial report, namely, the balance sheet, the profit and loss statement and the

cash flow statement. We will discuss the qualitative requirements of financial accounting for relevance, reliability, comparability and understandability. We will also look at processes for setting financial accounting standards.

**Modern Portfolio Theory:** This chapter will first introduce the financial framework relating to risk and reward and place this in the context of the characteristics of different asset classes. We discuss issues relating to asset allocation, long term rates of return of different asset classes, the research on the relative returns of asset class selection and security selection.

**Security analysis and valuation:** We draw on the previous chapter in examining different financial ratios and their application in conducting financial analysis of firms. In the latter part of the chapter we will extend this discussion to revisit issues relating to mergers and acquisitions.

**The Origins of Modern Strategy:** This chapter will focus on the origins of the strategic management discipline. The chapter will emphasise what differentiates the discipline of strategic management from its sibling and parent disciplines. Particular attention will be paid here to understanding its level and units of analysis, principal questions, primary assumptions, typical research methods and key debates. The early 'pre-theoretic' schools that characterised the youthful strategic management discipline in the 1960s and 1970s will be surveyed. In addition, the influential 'positioning school' work of Michael Porter from the 1980s with its focus on industry analysis will be introduced.

**Understanding Organisational Structures:** The chapter examines structural options. Beginning with the Weberian concept of bureaucracy, it discusses the development of formal rational hierarchies in business. It covers the work of Mintzberg and Scott. It examines explanations for the rise of m form organisations (Coase, Williamson) and introduces the concept of matrix organisation. Finally, it discusses institutional theories and the pressures of isomorphism.

**Analysis of Organisations:** This chapter analyses the development of theories of organisation, dealing with both sociological and economic approaches and examining ecological and institutional theories of organisational fields. It looks at the connection between the study of organisational forms and fields, and examines network theories of organisation

**Contemporary Strategic Management:** This chapter will examine the most prominent theoretical perspective to emerge in the strategic management discipline in recent decades: the Resource-Based view (RBV) of the firm. The emergence of this re-focus on the 'internal' elements of company strategy will be placed in disciplinary context. Major works of both scholarly (e.g. Jay Barney, Kathleen Eisenhardt, and Bruce Kogut) and practitioner-oriented RBV authors (e.g. Gary Hamel and C.K. Prahalad) will be reviewed to provide a

representative picture of the concerns, methods, findings, and debates of the RBV (and associated Knowledge-Based View) theoretical perspectives. The chapter will conclude with a discussion of cutting edge trends in strategic management theory and practice.

**Strategy and Decision Making:** This chapter will trace the evolution of behavioural decision theories from their origins in the 1950s to the present day. Behavioural theories are normally based on (i) a concept of a "good" or "rational" approach to decision making; (ii) empirical evidence which shows that people do not follow such an approach; (iii) a theoretic account of why such departures from rationality occur, and, sometimes (iv) some suggestions as to how to help people make more rational decisions. In this chapter we centre mostly on the celebrated "heuristics and biases" tradition of Kahnemann and Tversky, showing how the theory which these authors developed can shed light on both economic behaviour and managerial decision making. We also discuss some of the controversies surrounding this theory and some alternative views.

**The Origins of Marketing: The Development of the Theory:** Marketing theory approaches, like marketing itself have to span both the level of individual behaviour, which tends to be most informed by economics and psychology and aggregate behaviour and organisational relationships where sociological and again economics approaches provide much of the initial theoretical background. On top of this much of the aggregate work also relies to a considerable extent on advanced statistical techniques.

**The Origins of Marketing: The Development of the Practice:** The practice of Marketing has emerged from a number of different "traditions", including business journalism, advertising, selling and, rather later, market research. We will look in more detail at the historical development of one of these traditions: advertising, to illustrate in more specific terms, the recurrent themes particularly in terms of the issue of practice and professionalisation but also allied issues such as the knowledge base, the questions of standards and the nature of regulation. We will then consider the more recent manifestation of these issues in both a US and a UK context.

**Future Challenges for Marketing in the Digital Age and the role of Branding:** It is perhaps an inevitable characteristic of the area of marketing that it has to confront questions of change both within the organisational function and also in the wider market environment. We will look at two key areas: the claims and evidence for the changing nature of the communications and promotion activity in responding to the shift from "broadcasting" to "narrow-casting" and the extent to which a more interactive relationship with customers is changing the underlying rationale of many marketing activities. We will finally consider one area of apparent continuity: the inexorable rise of the notion of "The Brand".

# Examiners' commentaries 2015

## MN2177 Core management concepts – Zone A

### Important note

This commentary reflects the examination and assessment arrangements for this course in the academic year 2014–15. The format and structure of the examination may change in future years, and any such changes will be publicised on the virtual learning environment (VLE).

### Information about the subject guide and the Essential reading references

Unless otherwise stated, all cross-references will be to the latest version of the subject guide (2014). You should always attempt to use the most recent edition of any Essential reading textbook, even if the commentary and/or online reading list and/or subject guide refer to an earlier edition. If different editions of Essential reading are listed, please check the VLE for reading supplements – if none are available, please use the contents list and index of the new edition to find the relevant section.

### Comments on specific questions

**Candidates should answer FOUR of the following EIGHT questions: TWO from Section A and TWO from Section B. All questions carry equal marks.**

#### Section A

Answer two questions from this section.

##### Question 1

Critically evaluate the contribution of the Resource Based View of the firm (i.e. the RBV) to the discipline of strategic management. Illustrate your answer with examples.

##### Reading for this question

Relevant material and references for Question 1 are to be found in the subject guide, Chapter 16, and in:

Willman, P. *Understanding management: social science foundations*. (Oxford: Oxford University Press, 2014) [ISBN 9780198716921] Chapter 7, Theme 8.

##### Approaching the question

The question relates to two sections of the subject guide: the first on fundamentals of business strategy, covering Chandler and Porter; and the second was on the RBV, covering Penrose, Rumelt, Teece and Barney.

Good answers will:

- give an account of the key approaches to the RBV and their implications for strategy and address the contrast between the internal resource view and the industry positioning view that preceded it

- present the core concepts of resource, capability and core competence, and show their strategic relevance to the creation of competitive advantage
- present the Barney VRIO framework
- present a critique indicating the theoretical weaknesses of the resource-based view.

The subject guide contains examples of the application of resource based approaches, notably that of the Disney corporation, and directs students to this example.

## Question 2

**How would you account for the rise of the human resource function within large firms?**

### **Reading for this question**

The question relates to Chapter 5 of the subject guide. This describes the history of HRM from the Hawthorne studies to the rise of the modern HRM function. Candidates should also consult Willman (2014) Chapter 4.

### **Approaching the question**

Good answers will:

- analyse the labour contract (Simon, Williamson), emphasising its incompleteness and the importance of managerial action in generating consummate cooperation
- describe the emergence of the human relations school as an attempt to improve labour performance and retention
- present the two main models (Michigan, Harvard) of the role and function of HRM and relate these to the growth in influence of the function in large firms under managerial capitalism
- attempt to explain the variance between firms and sectors in the growth of HRM, related to labour performance as a source of competitive advantage
- assess the current state of HRM practice in large firms.

## Question 3

**Why have so many firms adopted a multi-divisional structure?**

### **Reading for this question**

The multidivisional structure is touched upon in Chapter 9 of the subject guide, but the core sections are to be found within Chapter 14. It is often abbreviated to the term 'M form'. Candidates should also consult Willman (2014) Chapter 5 and Theme 6.

### **Approaching the question**

Good answers will do the following:

- define what a multi-divisional structure is, and contrast it with the functional organisational form
- describe the mechanisms for coordination and measurement of performance that exists within this organisational form (Chapter 9 of the subject guide)
- look at the efficiency arguments (notably those of Williamson) for the growth of the M form and describe the alternative explanations
- indicate the variance of structures that can be called 'M form' and explain this variance

- discuss the relationship between a head office and divisions within the structure, and the advantages and disadvantages of different forms of the relationship.

#### **Question 4**

**What is a rational decision? Describe some of the barriers to rational choice in organisations and how they can be overcome.**

##### **Reading for this question**

This question relates to Chapters 6 and 17 of the subject guide. Chapter 17 stresses internal cognitive limitations, both in terms of limited processing capability and costly search for alternatives, and also systematic biases in choice. It also points to other factors, such as incentive structures and organisational cultures which are not conducive to good decision-making. Candidates should also consult Willman (2014) Chapter 5, Theme 4.

##### **Approaching the question**

Good answers should outline:

- Different approaches to rationality (the three meanings of the term 'bounded rationality' must be described and should appear in a good answer).
- The corrective actions suggested in the lectures have been training, use of models, tools and data, making explicit contrasts and opportunity costs in order to make choice more explicit, surfacing multiple perspectives and frames, so that the decision-maker does not get trapped in any one action.
- The biases that affect all four of the phases of decision-making described: information gathering and processing, decision-making and decision review.

The corrective actions are: training, use of models, tools and data, making explicit contrasts and opportunity costs in order to make choice more explicit, surfacing multiple perspectives and frames, so that the decision-maker does not get trapped in any one action.

#### **Section B**

Answer two questions from this section.

#### **Question 5**

**What is the principal-agent problem? Can this problem be solved by the use of financial incentives?**

##### **Reading for this question**

The principal-agent problem is defined and its implications discussed in Chapter 7 of the subject guide. Candidates should also consult Willman (2014) Chapter 2 and Theme 2.

##### **Approaching the question**

Good answers to this question will:

- define the principal-agent relationship and its key features, which include information asymmetry
- identify and define adverse selection and moral hazard
- identify the use of monitoring and incentives as key tools for resolving the principal-agent problem
- discuss the experience of the use of financial incentives in agency problems

- contrast the agency, power and behavioural approaches to agency within the firm.

Candidates should indicate different forms of agency relationship and the different forms of financial incentive that have been used to address them.

#### **Question 6**

**Explain the term 'scientific management'. Is it a useful approach for the design of jobs in the twenty-first century? Explain your answer.**

#### **Reading for this question**

The most relevant sections of the subject guide in answering this question are Chapters 3 and 14. Candidates should also consult Willman (2014) Chapter 4, Theme 2.

#### **Approaching the question**

Candidates are required to present the five core principles of Taylor's approach to scientific management together with an appreciation of their strengths and weaknesses. This then needs to be related to modern principles for the structuring of organisations and the design of jobs.

Good answers will:

- describe the Taylor approach and contrast the engineering approach to design with psychological approaches
- discuss the division of labour and the coordination of tasks
- indicate the circumstances under which a Taylorist approach can be effective
- assess the extent to which these circumstances are common in modern firms
- show examples of the application of scientific management principles in modern assembly and call centre operations.

#### **Question 7**

**What are the strengths and weaknesses of Return on Investment measures of performance? What other measures are available to measure the performance of a business unit?**

#### **Reading for this question**

Candidates should consult Chapters 7 and 9 of the subject guide, and Themes 6 and 8 of Willman (2014).

#### **Approaching the question**

Candidates are first required to discuss how return on investment (ROI) measures are determined. This is income over some measure of investment: assets or capital employed.

Good answers will note the following strengths:

- The ROI measure is comparable with rates of return with on deposits and fixed income instruments.
- The ROI measure enables firms to get a more detailed understanding of the reasons for the performance of the firm.
- Thus, if measured as income / invested capital, the ratio can be broken into a measure of profitability: income / revenue and a measure of efficiency revenue / capital invested.
- These distinctions can be broken down further and consequently greater detail can be gathered with respect to the performance of the firm.

The primary weakness of the ROI measure is that this measure distorts investment decisions made within the firm. Good answers will note:

- the tendency of ROI to encourage short-term focus on performance
- that it can be increased by reducing capital employed
- that it encourages focus only on financial performance.

These issues are addressed by residual income and economic value added measures of performance that assess the degree of money made by the firm or division after subtracting some cost of capital.

Candidates may also mention that ROI mode of control was associated with a decentralised approach to strategic management and capital budgeting. They may also address again the question of the desirability of flexibility with respect to management accounting techniques.

### **Question 8**

**Discuss the case for marketing to be viewed as a profession. How does this relate to both the nature of the responsibilities that are given to the marketing function and also to the nature of the actual job of a marketing manager?**

#### **Reading for this question**

Candidates should consult Chapter 19 of the subject guide and Theme 7 of Willman (2014) as well as:

Abbott, A. *The system of professions: an essay on the division of expert labour*.  
(Chicago: The University of Chicago Press, 1988) [ISBN 9780226000695].

#### **Approaching the question**

A good answer will cover most of the following points:

- Marketing history as a practice evolved out of advertising (in the USA) and sales (in the UK). Both of these domains could themselves be seen as quasi-professional but neither had achieved professional status on their own.
- As marketing as a practice evolved, it faced the same basic issues as its predecessor areas of expertise. In particular the more the underlying knowledge base was codified in teaching in higher education (seen by many as important precursor to establishing professional status), the more it was felt this encouraged the further development of knowledge through research, which did not necessarily address the core issues in improving marketing practice.
- If we consider Abbott's framework and analysis, then there are two relevant considerations. First, his general framework he argues that the professions expand their domain of legitimacy by a process of 'abstraction'. He identifies two forms of abstraction, one of which is significantly stronger than the other in terms of legitimising such claims.