Good Management Matters in Remembering What Makes Organizations Great

To address why good management matters, I begin by drawing a parallel between the physical and social systems. With technology advances in irrigation, a typical farmer who no longer has to dry farm could focus on growing only the more profitable crops, such as tomatoes, instead of having to rotate them with less profitable crops that could now be more profitably outsourced from relational partners, or even competitors, at the market and resold. During the next few production cycles, focusing on tomatoes results in record sales and profits. Over time, however, the soil deteriorates—resulting in bad tomatoes—because the crop alternation is what preserves soil fertility, etc. Thus, what begins as a strategy to obtain superior profits from specialization decomposes over time into a pile of unmarketable fruit rotting on withering vines. In the end, focusing on the tomatoes, ironically, ends up destroying the tomatoes.

To relate the analogy to the social system, consider, for example, an organization providing software and hardware technical support that with organization has several teams of employees based around the different hardware platforms it supports, such as consumer desktop support, consumer laptop support, company server support, etc. Now, assume that the corporate server support team might be more profitable to the organization than consumer desktops or laptop support, like tomatoes being more profitable than other vegetables. The organization may decide to outsource the desktop and laptop support teams, as they are less profitable. However, what that organization has failed to realize is that in the very near future—I forecast with the next five to ten years—there is going to be a retirement surge among baby boomers that are waiting for a small bit of stabilization in the markets. When those employees in the corporate server support team retire, there are now no other individuals to take their place—as the employees on the server teams each spent several years in a number of other support teams learning the needed knowledge necessary to be competent in the server support role. Focusing on the server team competence to the exclusion of knowledge antecedent positions in the organization ends up destroying the competence over time. Thus, not only is the farming story indicative of specialization problems in the physical system, but I propose it also aptly anecdotally illustrates the current cliff that many organizations are on throughout the world in the social system. These problems illustrate why good management matters—as the problems could be avoided, though, through a combination of what I term 'good' and 'Good' management practices.

The good in good management can be difficult to define, in part because of the dichotomous nature of the adjective 'good.' Something can be good in the sense that it is done well. Thus, "good" (denoted hereafter with a lower case 'g') management could refer to the technical aspects of management theory and practices. Alternatively, something can be "Good" (denoted hereafter with a capital 'G') in the sense that it is beneficial socially. Both are important. Consider a firm in which management excels at disseminating and responding to information about customers and competitors, such as a number of firms in the tobacco industry. They may be good at the technical 'good' component, but what they do is not 'Good' in the social component. Alternatively, consider the management of some nonprofit organizations that are very 'Good' (as in benefiting society) but are weak when it comes to the technical good management of managing information within the organization. Thus, both good management and Good management matter, as illustrated next.

As to the concept of good management, in the technical sense, I contend that too few organizations adequately focus on competence retention--but those that do will see a larger benefit in the coming decade (for reasons mentioned later in this section). It is generally agreed that organizations are competitive at customer service when they gain complex bundles of intangible skills and accumulated knowledge, called “capabilities,” that enable the organizations to act upon tangible resources such as capital, labor, land, and materials, with these specialized interconnected combinations referred to as “competences.” Another way of putting it is that the heterogeneity of the knowledge within an organization can combine with other resources to form competences that are the basis of competitive advantage. While there is much discussion and knowledge about competence creation (and even ideas about how organization might apply capabilities to new areas), there is lack of focus on the retention of existing competences, or strategic renewal, within organizations. One consideration, as put forward at the beginning of this essay, is to more deeply consider the role of knowledge transfer within organization. Similar to nutrients established from crop rotation, intangible skills and important knowledge is established in employees from position rotation. Like an organ, good management aids in directing the skills and knowledge transfer to and between employees, keeping capabilities and competences flowing within the organization.

However, the combinations of resources that result in the *creation* of competences leading to sustainable advantage normally are causally ambiguous, socially and technologically complex, and require time and additional resources to develop. Specialization breeds further efficiencies that in turn lead to greater specialization. For example, specialization could lead to resource lock-in in which the organization is limited to a particular path due to earlier decisions. When resources are specific, specialized, and developed with considerable commitment of other resources, the resulting path dependent competences can restrict a firm’s strategic options because of the time and cost associated with a shift in course. Consider the case of Iomega, whose revolutionary zip drive was far superior to the common floppy disk, yet while zip drives over time increased in file capacity, the firm was locked into one path which made it difficult, if not impossible, to consider the industry's jump to USB (universal serial bus) memory sticks as an alternative technology for portable file storage.

Also, competences are valuable through barriers to imitation (stopping competitors from copying it) include ambiguity among competitors about the combinations of skills, knowledge, and resources that make the competences. However, resource lock-in can lead to capabilities becoming embedded in firms. As the knowledge becomes embedded in specific organizational routines, recognition of the unique value of that knowledge and memory of how it led to an advantage building competence may be lost. Thus, good management is needed to overcome intra-firm ambiguity about the competences. Otherwise, the ambiguity can increase the likelihood that specific resources, those that can yield competitive advantage, will be labeled as general resources. In such cases, management may fail to reinvest in these resources, ultimately diminishing the competence's efficacy to sustain a competitive advantage. Perhaps management may not realize the importance of these resources and fail to protect them and the employees in which these resources reside. These managers may downsize key resource bearing employees or even outsource their functions to upstream suppliers. If such competitive advantage producing resources are outsourced, the firm risks losing control of them and therefore the ability to leverage them. The end result of such ambiguity is a focus on exploitation rather than exploration—or in other words, on cost cutting instead of value creation. This is unfortunately what happens when management training focuses more on finance and accounting and less on marketing and innovation—two hallmarks of business (according to Drucker) that are relegated to the advertising department instead of being firm wide. Thus, two of the reasons for good management mattering is avoidance of resource lock-in and causal ambiguity in the organization regarding the building blocks of the capabilities and competences. Without good management, employees continue to focus on tactics usually aimed at cost costing (as driven by investors).

As to the concept of Good management, in the social sense, it has been proposed that management should bring out the best in people, with best referring to the social dimension of the term (and not the technical). In short, all institutions have a responsibility to society as a whole. Multinational companies have acquired some of the powers that were once monopolized by governments. Such power carries social responsibilities. These responsibilities are not without benefits, though. Recent organization research indicates a positive return in the form of 'moral insurance' to the organizations for participation in corporate social responsibilities aimed at secondary stakeholders or society at large (Godfrey, Merrill, and Hansen 2009). Moreover, companies are usually incorporated within states or nations, which also have competitors. While everyone hopefully seeks global improvement, nations do compete. Part of that competition is through the organizations that are chartered in their territory. Thus, the same suggestions for organization presented in this essay might be adapted to the competitive advantage of nations.

Last, I believe there are two related cautions in attempting to undertake both good and Good management. First, while trying to make sure that the organization doesn't have too many employees, consistent with the advice of Drucker, management needs to watch the counterbalance in making sure they have enough diversity in employee positions—not just to produce the competences, but to sustain the knowledge of the competences built through rotation in other positions in the firm (such as the laptop and desktop support teams contributions knowledge needed for employees on the server support teams, etc). Unfortunately, many chief executive officers these days have a strong financial/accounting background, but a less developed marketing background, leading to an organization emphasis on cost cutting instead of on value creation. It can become a race to the bottom. This is why *g*ood management matters. Second, in critiquing "why good management matters," it is important that the critical nature of the inquiry does not become a negative view. Else wise a good critical management view can easily become an anti-business view. This is why *G*ood management matters. Unfortunately, there is a trend in some business journals and among some faculty toward anti-business views. This is not beneficial. The goal of management theory and practice should not be to focus on emancipating consumers or employees from bad management assuming all management is bad, but rather the goal should be to show how good/Good management can enable organizations to retain competences through avoiding problems such as resource lock-in or ambiguity in the firm, leading toward betterment of the organization and society. To that end, management is a necessary organ in the organization, as knowledge needed to sustain the life giving capabilities and competences would wither and die without good/Good management, like rotten tomatoes that were not provided the necessary nutrients from crop rotation.