A Philosophy of Management

Ralph C. Davis


Stable URL:
http://links.jstor.org/sici?sici=1047-3483%28195811%2925%3A3C1%3AAPOM%3E2.0.CO%3B2-8

The Journal of Insurance is currently published by American Risk and Insurance Association.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at http://www.jstor.org/about/terms.html. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at http://www.jstor.org/journals/ari.html.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to creating and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.

http://www.jstor.org/
Thu Dec 1 00:28:09 2005
A PHILOSOPHY OF MANAGEMENT

RALPH C. DAVIS

The Ohio State University

The term "philosophy" may be defined as a body of related knowledge that supplies a logic for effective thinking in seeking solutions to certain kinds of problems. A management philosophy supplies the basis for the solution of business problems. An executive with no philosophy can have only limited capability for creative thinking regardless of his basic intelligence. The development of a sound philosophy of management is probably the most practical self-developmental project an executive can undertake.

The modern executive is responsible for a dynamic leadership of the business organization he heads. This is true whether the organization is large or small; whether he heads the entire organization, or merely a component of it. The executive is faced, in any case, with the problem of exercising such leadership in a world where economic, social, and political conditions are changing rapidly. He is faced with new management problems for which there are few precedents. There is no such thing as practical experience in doing something that has never been done before. When broad changes are taking place, one's thinking must be based increasingly on fundamentals that do not change. The executive's decisions, as they enter into the work of planning, organizing, and controlling the action of his organization, must rest on certain timeless truths. These are truths concerning basic economic objectives, sound business principles and policies, and fundamental approaches to the solution of business problems. These change little so long as people continue to behave like human beings. Such truths are the foundation stones of any sound management philosophy.

It is inevitable, in a rapidly changing society, that the executive who has no sound management philosophy must step aside for one who has. The private business enterprise must have effective leadership to survive. If too many executives fail in the discharge of their leadership responsibilities, the survival of a free market economy and the free enterprise system may be endangered. The failure of this system would be disastrous to everyone, whether executive, operative, or a member of the general public.

Certain basic concepts underly any development of a management philosophy. The phraseology, implications, and policies stemming from these concepts may be viewed in different lights, but acceptance of them in some form is necessary for effective organization and operation. The following are believed to be fundamental:

(1) Belief that values constituting customer satisfaction are primary objectives of management. Profits are necessary but collateral objectives;

(2) Belief in private property, free competition, and opposition to forces weakening the free market system;

(3) Belief that the personal interests of owners, executives, and operatives must be subordinated to the primary service of the organization;

(4) Belief in the obligation of owners
and managers to promote continued technological and social progress and economic expansion;

(5) Belief in the importance of the scientific method as a basis for an analytical approach to business problems;

(6) Belief in the importance of incentives, rewards, and penalties as the best spur to economic progress;

(7) Belief in the necessity for continued study of sound principles of executive leadership;

(8) Belief in high ethical standards as a basis for sound business relations;

(9) Belief in labor’s right of collective bargaining; and,

(10) Belief in the importance of preserving individual initiative and freedom of action.

The Service Obligation of the Private Enterprise

The service philosophy is based on the concept that the primary objective of the business organization is to create those economic values needed or desired by its customers. It emphasizes the obligation of owners and employees to contribute substantially to a standard of living that is increasing continuously through time. It is a philosophy of economic service in the public interest.

This concept is not a visionary goal dreamed up by some public relations expert for purposes of public propaganda. The people have the right to choose the economic, social, and political systems under which they will live. They have voted during the past 25 years for measures that have moved the economy in the direction of socialism. This may be due in part to the increasing complexity of the economy. It may have been due to a lack of understanding of the long-range implications of the measures adopted and a greater interest in the apparent short-run benefits. It may also have been due to some lack of confidence in the purposes of private enterprise.

The concept of the primary service objective is widely accepted by business executives. The insurance industry characterizes itself as a service industry. The values an insurance company creates for its customers are the satisfactions of certain needs or desires for financial security and other supporting services. The work of the company is planned and organized primarily to create and distribute such values.

Other industries likewise may be classified as being of the service type. The manufacturer is concerned with who wants the things he makes, where and when the customer wants them, what the customer is willing to pay, and many other questions concerning customer service. Answers to these questions must be worked out in terms of the quantities, qualities, costs, deliveries, supporting services, and other requirements for a satisfactory accomplishment of customer service objectives. Many millions of dollars may be spent on marketing research, product research, and process research; in planning and organizing for what the manufacturer thinks are reasonable satisfactions of customers’ wants. His reward may be a loss if his customers disagree with his judgment.

There is nothing in the concept of the primary service objective that suggests capital should forego profits or that labor should forget its desire to improve its economic situation. It merely recognizes that the public has the final word as to who has what “rights” to what.

Private Capitalism and a Free Market Economy

The philosophy of private capitalism is based on the right of private property and the concept of a free market economy. It is a philosophy of economic decentralization in this respect and tends to be opposed to:
(1) Philosophies of socialism, since they are basically philosophies of economic and political centralism that tend to diminish the freedom of the individual and the exercise of individual initiative,

(2) Centralized controls of the economy by central government, beyond the necessary minimums, since these weaken the right of private property;

(3) Monopoly, either of capital or labor, since monopoly tends to destroy a free market economy;

(4) Any measures designed to prevent the formation of private capital, without which there can be no system of private capitalism. These measures include confiscatory taxation, social pressures exerted deliberately to promote "dissaving," "planned inflation," and others that tend to prevent private capital formation. Such measures lead to state capitalism and the development of a socialist economy. A free market economy can only operate effectively under a system of private capitalism.

The public has a right to expect that it will be provided with goods and services that it wants. Its natural protection in a free market economy against unreasonable prices or quality is some "reasonable" condition of free competition. Certain forces, however, tend to limit competition. The increasing needs for large aggregations of capital as a result of the increasing mechanization of industry tend to result in some condition of oligopoly. The very effectiveness with which private capitalism serves the public may tend to destroy the basic condition on which its effectiveness rests—free competition. Many American business executives have taken measures to maintain competitive conditions within the organizations for which they are responsible. Some large corporations have limited voluntarily the share of the market they will take for certain product lines. For if the dominant member of a basic industry were to achieve 100 per cent of the total market for its product, there would be few alternatives to dissolution or governmental regulation.

Governmental control tends to become government ownership, with consequent deterioration in the quantity, quality, or cost of customer service. The term "socialism" can represent an infinite number of conditions under which the state owns or controls the means of production. These means include both capital and labor. The right of private property depends on more than certain provisions of the Constitution. These provisions can be amended. The right of private property depends largely on the ability and willingness of businessmen to compete.

Obligations of Owners and Employees to the Organization

Owners, executives, and operatives must accept the fact that their personal interests have to be subordinated to the primary service objectives of the organization if the concepts of private property and private enterprise are to be validated. It is not necessary, however, that this acceptance be completely voluntary. It is sufficient that it be accepted under the duress of competition and a minimum of supporting governmental regulation. This writer was told recently of a well-known corporation that had deliberately set up an independent corporation, over which it had no control, for the purpose of creating competition with itself. It was alleged that the stimulus to corporate rectitude was the hot breath of the Department of Justice on the neck of the potential victim. The particular corporation has an excellent record of constructive contributions in all areas of its field of business. It is equally probable, therefore, that its top management had evaluated the trend of changing public concepts and was reacting intelligently to the situation.

It is a truism that individuals and
groups on every economic and social level have a more immediate and intense concern with the promotion of their personal interests than they have with the promotion of the general interest. This is as true with respect to the accomplishment of the company's service objectives as it is with respect to the public interest. A reasonable subordination of personal objectives to organizational objectives requires that a reasonable satisfaction of the former be made dependent on the accomplishment of the latter. This writer's philosophy of management is one of intelligent selfishness.

**Economic and Social Progress**

Owners and managers must be committed to the active promotion of social and economic progress. This represents a philosophy of progressive conservatism. It seeks to conserve the worthwhile economic and social values that have been created under our system of individual initiative and private enterprise while fostering continued progress toward higher levels of living for everyone. It does not sanction, accordingly, attempts by owners or managers to "turn back the clock," since it recognizes the economic and social obligations of private ownership to contribute to progress in an expanding economy. It is not a reactionary management philosophy. It does not sanction attempts by politicians or academic theorists to bet the fruits of past technical and managerial achievements of private enterprise on the nose of some untested economic, political, or social hypothesis. It is likewise not a radical philosophy. It does place an obligation on the executive leadership of a business organization to conserve those social values in the community and the nation that are affected by business activity; however, any such contribution can not be at the expense of the primary service objectives of the firm. A business organization is primarily an economic institution, not a social agency.

It is obvious that the right to engage in private enterprise carries with it the obligation to contribute to technological progress in the particular industry involved to the limits of the organization's capabilities and resources. The elevation of the living standards of the rank and file of the population depends on continued advances in this area.

**Managerial Progress and the Scientific Method**

The application of the scientific method to management problems results in an analysis of the principal factors, forces, and effects in the management process. It develops a logic of effective thinking in terms of business objectives, policies, functions, factors, and relationships that is applicable to the solution of managerial problems anywhere. It is a scientific philosophy of management in this respect. It does not advocate any formulistic approach, mathematical or otherwise, to the solution of business problems. It recognizes that such approaches may aid in the performance of managerial functions. Yet as of now there is no mechanical substitute for the mental processes of executive decision-making.

**Incentives, Rewards, and Penalties**

A sound philosophy of management includes recognition of the importance of big rewards for big results. It does not seek to chisel away the fruits of success, whether they be in the form of profits, bonuses, incentive pay, salaries, wages, fringe benefits, or various intangible values, provided that these are earned under competitive conditions. It is a philosophy of positive motivation.

This philosophy recognizes the validity of the profit objective on the basis of:

(1) The concept of profit as a reward of private capital for the successful ac-
ceptance of business risk in the rendering of an economic service, under competitive conditions in a free market. It recognizes, consequently, that a profit is the principal objective of the business man, even though customer service is the primary objective of the business organization;

(2) The concept of profit-making as a necessary stimulus to the formation of private capital.

This philosophy is not in sympathy with attempts to prevent individuals from accumulating large fortunes or corporations from plowing back large sums for the growth and expansion of the particular business, especially when such attempts have as their real objective the prevention of the growth and development of a free enterprise economy. It has been noted previously that one can not have private capitalism without private capital. The alternative is some form of state capitalism and socialism. The right to accumulate large pools of private capital places on individuals, insurance companies, investment trust managers, administrators of pension funds, and other private agencies an obligation to use such funds wisely in the interests of its private owners but with due regard for the public interest.

The obligation to serve the public interest through a satisfactory accomplishment of customer service objectives carries with it the right to stimulate effective action by organization members for the accomplishment of these objectives. This stimulation may be given through appropriate incentives. These incentives may be positive motivations based on the hope of gaining additional values as a result of superior performance. These values may be money or some intangible satisfactions. Incentives may also be negative motivations based on the fear of losing desired values as a result of disciplinary action for cause. The obligations of leadership carry with them the right to engage in appropriate and just disciplinary action.

Failure to take appropriate disciplinary action, when required by the situation, carries with it the danger of loss of organizational morale. Positive incentives tend to be more effective in the long run than negative incentives.

Leadership, Responsibility and Authority

No organization can be better than its leadership, over a period of time. The function of management is the work of executive leadership. It is the mental work of planning, organizing, and controlling the activities of others in the joint accomplishment of a common objective. The executive must have those rights of decision and command that are necessary for effective leadership anywhere, as well as the concomitant obligations of leadership. It is recognized that an uncontrolled exercise of any authority, including executive authority, is neither in the public interest nor in the interests of private enterprise.

The organization and use of executive development programs has been widespread since World War II. Participants in these programs are usually candidates for advancement to the ranks of general executives. An objective of these programs is usually the development of greater breadth of understanding and viewpoint of the problems of management, both internal and external. Another objective is the self-development of some greater capability for creative thinking and problem-solving thought among the program participants. The development of greater technical proficiency in some staff field is seldom the objective. The continuation of these programs is evidence of the importance attached to effective executive leadership by top management.

Business Ethics and Sound Business Relations

A well-rounded management philoso-
phy recognizes that the development of good organizational morale and the maintenance of sound business relations of all kinds depend on confidence in the executive leadership provided. It emphasizes, therefore, the importance of ethical principles in the formulation of business policies. It is a moral philosophy in this respect.

Business leaders state frequently that a successful business is conducted on a basis of confidence. Many millions of dollars are spent annually for the promotion of better public relations, community relations, dealer relations, supplier relations, and labor relations. The objectives of a company are usually determined initially by its top management with the approval of the board. No one is likely to have much confidence in the purposes of an organization when the ethics of its principal executives are open to question.

In an attempt to discredit the free enterprise economy, some critics impugn the motives of business leaders generally. Standards of right or wrong business conduct are relative, of course. They rest on various intangible considerations. It is true, nevertheless, that there are some unethical people, including executives. It is true also that under a condition of free competition the level of business conduct tends to be determined by the least common denominator of ethical behavior. As a consequence of this fact, some governmental regulation of business conduct has become necessary. On the other hand, many management societies, professional societies, and trade associations have emphasized the importance of business ethics in the conduct of business affairs. They have attempted to develop management codes for the guidance of their members.

Many large corporations have published statements of basic policies that are in effect management codes. They put themselves on record when they do this. Some cynical commentators have remarked that these codes, when properly framed, are suitable only for hanging on the wall of the president's office. In any event, the process of transmuting ethical principles into business policies and the translation of these policies into operating practices do seem to be something of a mystery to some executives. This, however, is a question of ability rather than intent in many cases.

Sound Labor Relations

Owners and managers must recognize labor's right of collective bargaining. The loss of a property right in one's services is coincident with or follows the loss of property rights in one's possessions. The right to sell one's services, individually or collectively, through representatives of one's choosing, was reaffirmed by the Taft-Hartley Act. A denial of the right of collective bargaining, and its concomitant right to organize, leads to socialism. The socialist state owns or controls the means of production. These means include operative labor and management, as well as land and capital. Countries with advanced forms of state capitalism have labor organizations. However, these organizations are instruments of the state, which is also true of the business organizations of these countries. There can be no true collective bargaining under socialism.

A philosophy of management, to be sound, need not insist that management should facilitate the organization of its operatives and bargain collectively through professional labor leaders. This is a matter for the decision of these employees. They can elect to deal directly with their company executives, since it is their right to deal through representatives of their own choosing. Such an election implies, however, a higher level of morale than is found in most business organizations.

The problem of organizational morale
also appears to be a mystery to many executives. This may be why they have handled the problem so poorly. The existence of the problem is no compliment to these executives, since leadership is a basic morale factor. It is conservative to say that American executives have done a much better job of new product development than they have of morale development.

An acceptance of the value of collective bargaining does not mean that one must recognize any right of labor to a profit share because of the service obligations set up in a contract of employment. One cannot sell one's services and retain title to them at the same time. It recognizes the right of the firm to dispose of its profits or losses in any legitimate manner.

**Individual Initiative and Freedom of Action**

This writer's management philosophy emphasizes the concepts of delegation, decentralization, individual initiative, and individual accountability. It recognizes the obligation of the individual to contribute to the accomplishment of the primary service objectives of his organization, as well as his right to a reasonable satisfaction of his personal objectives insofar as they are associated with his contract of employment. It emphasizes the importance of the individual, while recognizing the value of group coordination and cooperation. It is a philosophy of individualism in this respect.

**Epilogue**

The development of the above philosophy of management began about 25 years ago as the author sought for himself a better basis for problem-solving thought in the field of management than then existed. It has been most helpful to him. It is presented with the thought that it may be helpful to those business executives who may wish to develop a philosophy of management for themselves.