

2.14: Current Developments in Management Practices

Learning Outcomes

- Explain the concept of operations management.
- Explain the concept of systems management.
- Explain the concept of information management.
- Explain the concept of contingency management.

In the twenty-first century, organizations face many new challenges. Some people would argue that society and the economy have changed so radically that the last century's management practices and theories are no longer relevant. The truth is management has become more important than ever. Almost everything we do today as individuals or organizations requires us to interact with large-scale institutions, such as government agencies, banks, health-care providers, insurance companies, school systems, universities, online retailers, and technology service providers. How has management theory and practice evolved to manage this new organizational and business environment? Interestingly, it has become both more specific and more general.

Forces Shaping Management

Several forces are significantly shaping management practices today, including the pace of change, technology, globalization, diversity, and social expectations. Let's look at each of these in more detail.

The Pace of Change

Managers must understand that society, politics, the economy, and technology are changing at an unprecedented rate. In 2001, Ray Kurzweil proposed that in the twenty-first century our rate of progress would double every decade.^[1] This means that over the next one hundred years, we will experience changes that would have taken twenty thousand years in the past. This presents a vexing problem for management. On one hand, managers need predictability and stability to develop and implement plans effectively. On the other hand, they need adaptability and flexibility to respond to opportunities. *How does management provide both stability and flexibility?*

Technology

The primary factor driving change is the development of computer and information technology. Fifty years ago, almost no one knew about computers except from science fiction books and movies. Today nearly everyone uses a smartphone with more power than the computers that guided rockets to the moon in 1969. Many of the routine jobs analyzed by Frederick Taylor and the Gilbreths are now automated, done by computers and robots. It has been estimated that robots will perform 50 percent of current jobs within twenty years. *What is the role of management when machines instead of people are doing work?*

Globalization

Globalization refers to the increasing ease of flow between countries. It includes economic, political, social, and cultural interactions. In particular, **economic globalization** is creating one global marketplace, making it easier to conduct business across borders. Globalization has allowed companies to perform many manufacturing jobs in low labor-cost countries. As a result, the United States has shifted from a manufacturing economy to a service and information economy. Consider the following comparison:

AT&T vs. Google

YEAR	MOST VALUED COMPANY IN THE U.S.	MARKET VALUE	NUMBER OF EMPLOYEES
1964	American Telegraph and Telephone (AT&T)	\$267 billion	759,000
2015	Google	\$370 billion	55,000

This table shows that technology workers today produce nearly twenty times more value for a company than manufacturing workers did in the past. *How does management lead and control this new knowledge worker?*

Diversity

Since the turn of the century, the U.S. workforce has become more diverse in almost all dimensions, including race, gender, ethnicity, and age. In 1950, women made up about 30 percent of the workforce; in 2015 women made up about 47 percent of the workforce. By 2024, ethnic and racial minorities are expected to comprise 40 percent of the workforce. And for the first time, there are now five generations of workers in the workforce, from veterans born between 1928 and 1946 to iGens born after 1994. This diversity provides a tremendous resource to organizations. People from different backgrounds have unique perceptions, experiences, and strengths. This can promote creativity and innovation that stimulates unique problem solving. But it also brings different expectations and norms about behavior and attitudes. *How can management capitalize on the advantages of diversity while accommodating differences?*

Social Expectations

From the start of the Industrial Revolution until the middle of the twentieth century, management could look inward to determine how to best use resources to meet organizational goals. Although government passed laws to address the worst abuses, organizations primarily interacted with the external environment through the marketplace. The expectation of public, private, and civic organizations was that they would provide the goods and services society required. This attitude also began to change around the middle of the twentieth century as organizations, especially businesses, were viewed as social, as well as economic, actors. The positive and negative impacts of organizations on the wider environment—alongside the products and services they provided—were also considered outputs of production. Now managers have to satisfy not only their customers but also a wider set of stakeholders, from government agencies to community groups. *How does managing stakeholders get incorporated into management theory and practice?*

Current Developments in Management

We don't yet have the answers to most of these questions. No "grand theories" like those we have discussed previously in this module have emerged to address these new challenges. That is not to say that management has not responded; it has, in two ways:

- Management has become more specific with the formation of different disciplines. Managers now focus on specific aspects of organizational management: operations management, financial management, marketing management, human resource management, etc. By limiting the number of factors and issues they must deal with, managers can develop practices that address the specific issues they face in their discipline.
- Management has also become more general. Managers are not provided with an instructional manual that tells them how to manage. Instead, they are given a **toolbox** of different theories and practices. Effective managers need to know what tool to use and how to use it in different circumstances.

Let us consider some current developments in management.

Operations Management

Operations management is concerned with all of the physical processes involved in producing and delivering goods and services to customers. Operations management is the "guts" of a manufacturing or service company. It is concerned with all aspects of converting materials and labor into goods and services as efficiently as possible. Operations managers must work closely with every department in the business to ensure that products are manufactured as efficiently as possible. The same forces that are transforming organizations and management are transforming all aspects of operations management, from design to production.

Operations managers are involved with the initial product design to incorporate features that facilitate production. Sometimes small changes that don't affect function, such as the number of different types of screws used in an assembly, can have a significant impact on production costs. Today, many manufacturing firms are using computer-aided design that will translate design plans directly into instructions for computer-controlled machinery and robotics. Operations managers also manage the **supply chain** to find the best sources for high-quality materials and supplies at the lowest cost. Operations managers have become international operations managers, as supplies come from anywhere in the world and manufacturing can be done anywhere in the world.

Operations managers are also responsible for materials **inventory**. This consists of materials that will be used in production or for performing services. Some amount of inventory is needed to prevent delays in production or servicing. The worst thing that can happen to an auto manufacturer is to have an assembly line stop because of a shortage of a basic part, such as spark plugs or tires. On the other hand, maintaining inventories is a significant cost for companies, so they want to minimize the amount of inventory on hand. Operations managers must balance the need for maintaining sufficient inventory with the need for reducing costs. They now schedule deliveries and manage inventory using techniques such as just-in-time to optimize the amount of inventory on hand.

This frequently involves developing long-term, cooperative partnerships with suppliers. Inventory management is a huge concern for Amazon, for instance, which maintains an inventory of millions of products. It has developed specialized techniques to maintain enough inventory to avoid lost sales without holding costly excess inventory.

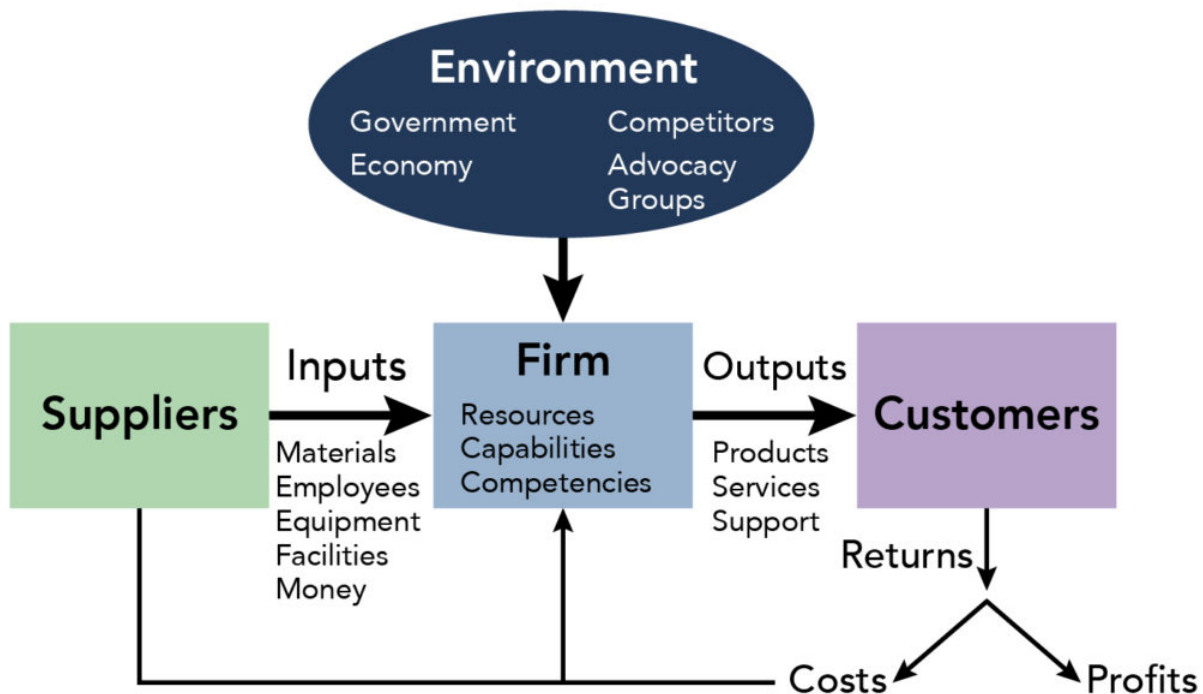
All of these activities support operation management's main function: the manufacturing of products or the delivery of services. Operations managers must be concerned not only with cost and quantities but also be responsible for delivering quality. They design and supervise production processes and service delivery using modern methods such as lean manufacturing and Six Sigma. Six Sigma is a systematic set of practices used to reduce defects or complaints. The goal of Six Sigma is fewer than 3.4 defects per one million parts produced, transactions performed, or services delivered.

Finally, operations management works with marketing and sales to make sure goods and services are delivered where and when they are needed. They use sophisticated technology, such as point-of-sale data collections and **integrated ordering** systems, to forecast demand for products and services. This information is feedback through the entire system, from ordering materials and supplies to scheduling production. Operations management is responsible for making sure everything and everyone is working together to deliver what the customer expects.

? Practice Question

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Systems Approach to Management



Organizations operate as open systems

A **systems approach** to management recognizes that organizations are open systems that interact with and are dependent on their environment. In a continual process, they obtain necessary inputs, transform the inputs into finished goods and services, and deliver their outputs to the market. The organization gets feedback from the market in two forms. First, it receives revenue. The revenue provides finances to support the organization and to acquire additional inputs needed for production. Revenue can also finance organizational improvements, such as upgraded equipment, development of new or improved products and services, or expansion of facilities. Any revenue that is not reinvested in supporting or improving the organization can be disbursed to owners as dividends.

The second form of feedback is information on how well the organization is doing. Organizations get direct information from customer surveys, customer service complaints, and social media. Starbucks, for example, started a customer blog to get feedback

on the customer's experience. Based on the results, it made changes to speed up service even though that increased cost.

The systems approach to management focuses on performance of the whole production process, including the customers' process. The process is usually split by specialties within the company, and each specialist tries to optimize his contribution. But more efficiency for one function may cause delays or bottlenecks elsewhere in the process, hurting overall production. The systems approach analyzes these interactions and makes decisions to improve overall production.

The system model also shows that companies are open to environmental influence. Factors such as political instability, economic conditions, consumer tastes, demographics, legal requirements, and the physical environment all can affect an organization. Successful organizations must be able to detect, understand, and respond effectively to changes in the external environment. These factors are discussed in more detail in the following module.

? Practice question

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Information Management



Data security has become a critical element of systems management.

If operations management is the guts of a business, information management is the nervous system. Organizations today depend on the availability and accuracy of information to make decisions at every level. Information management is concerned with the collection, preservation, storage, processing, and delivery of information. The purpose of information management is to make sure information is available to the right people at the right time in a form that they can apply.

Information management is not a new concept. Businesses and organizations of all sorts have always required information about their internal and external conditions to manage effectively. Although the need for information is not new, the volume of information available, the means of gathering information, and the methods of processing information into useful knowledge have all been transformed.

A recent development in information management is the use of big data. **Big data** refers to incredibly large amounts of data available to organizations today and how that data can be analyzed for useful information. Big data comes from a variety of sources, including social media, business transactions, government interactions, and education and health experiences, to name a few. It also comes in a variety of formats from structured, numeric data to unstructured text data, social media, and telephone calls.

Methods are being developed to mine this data to extract useful information about individual behaviors. An example of using big data that went viral a few years ago was how Morton's Steak House delivered a steak dinner to a man getting off a plane at Newark airport. The man had tweeted: "Hey @Mortons – can you meet me at newark airport with a porterhouse when I land in two hours?" Morton's continually mines social media for use of its name. Its data analytics captured the tweet, identified the man's name, determined that he was a frequent customer (and a frequent tweeter), and determined what his favorite meal was. Within two hours, Morton's had a tuxedo-clad waiter deliver the meal as the man got off the plane.^[2] Think of the amount of data that had to be analyzed to make this happen—the amount of information on social media, the number of customers Morton's has served, and the number of meals that have been ordered. This is more than finding a needle in a haystack. It is more like finding a specific pebble in a mountain of gravel.

? Practice Question

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Contingency Management

Unlike the topics discussed earlier, **contingency management** is not a specific function. It is a general approach to management practice that basically says there is no one best way to manage.

The management theories we discussed earlier had implicit assumptions that management concepts were universal. That is, what worked in one organization would work in others. Certainly some modifications would be made for specific circumstances, but the principles of scientific management and bureaucracy were assumed to apply in any organization. The contingency view rejects this assumption. In contingency management, every situation is considered unique. Managers must adapt theory and practice to match the situation by identifying the key contingencies, or factors, in the situation.

Contingencies might include the industry in which the company operates. For example, an effective organizational structure for an Internet company such as Google would not be the same as a manufacturing company such as General Motors. Another contingency factor is the country in which the company operates. US management methods do not work well in France. The type of employee is also a contingency factor—incentive systems that work for manual laborers do not work for **knowledge workers**. Effective managers need to be able to interpret the contingencies of a situation to determine which approach would be more effective.

? Practice Question

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Key Points

Conditions are much different now than they were a hundred years ago when many management theories were developed. However, many of the ideas that originated then are still relevant. Rather than abandon years of management experience, managers today need to adapt and modify theory and practice to meet today's conditions. Understanding the historical concepts in management provides a foundation for developing new practices and methods.

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1. Kurzweil, R. (2001, March 7). The Law of Accelerating Returns. Retrieved August 01, 2017, from <http://www.kurzweilai.net/the-law-of-accelerating-returns>↵
 2. McMillan, Graeme. (2011, August 23). Man Uses Twitter to Get Free Morton's Steak Dinner Delivered to Airport. Retrieved August 01, 2017, from <http://techland.time.com/2011/08/23/man-uses-twitter-to-get-free-mortons-steak-dinner-delivered-to-airport/>↵

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