

## Management as a Factor of Production and as an Economic Resource

**NGIGE CHIGBO D. ( Ph.D, MNIM)**

Department of Business Administration

Faculty of Management Sciences

Anambra State University

Igbaram Campus, Nigeria

### **Abstract**

*This paper is on management as a factor of production and as an economic resource. The problem of most industrialized and industrializing economies is on how to coordinate and integrate all the other factors of production for proper socio-economic development. Thus, the problem of most developed/developing economies is how to solve the management and labour problems of economic development. The study analyzes management as a factor of production and as an economic resource; and posits that it is the factor necessary for coordinating and integrating the other factors of production for rapid socio-economic growth and development. It assays management as a factor of production, management as an economic resource, ideas (management ideas/knowledge) as capital; which is a factor of production, and thus offers insights, and suggestions to policy makers and to those who manage people, organizations and nation states.*

**Key Words:** Management, Factors of Production, Economic Resource, Ideas as Capital

### **Introduction**

To Eyigere (1989: 59), factors of production are those resources which enable man to produce goods and services. These resources are the building blocks of the economy. Without these resources production cannot take place. These resources in the classical economic sense include; land, labour and capital.

On the other hand, the Oxford Advanced Learner's Dictionary defines "economic" as something that is connected with trade, industry and development of wealth of a country, an area or a society. It equally defines "resource" as a supply of something that a country, an organization, or a person has and can use, especially to increase their wealth. Therefore, an economic resource represents the supply of something that a country, an organization, or a person has and can use, especially to increase/boost trade, industry and development of wealth of a country, an area or a society. These resources include; minerals and other natural resources (land), financial/capital resources (capital), and human resources (labour). However, some scholars use the terms factors of production and economic resources synonymously, and this suggests that they mean the same thing.

Nevertheless, the classical economists from Adam Smith (1723-1790) to David Ricardo (1772-1823) to John Stuart Mill (1806-1873), including their successor and antagonist, Karl Marx (1818- 1883), only identified land, labour and capital as the factors of production, and therefore knew no management (Drucker, 1974:21). J. B. Say (1767- 1832) propounded a different approach that included entrepreneurship as one of the factors of production. But entrepreneurship is not management. To Francois Fourier (1772-1837), Comte de Saint-Simon (1760-1825), and Alexander Hamilton (1757-1804), management is a factor of production (Drucker, 1974: 22).

However, sometimes the overall state of technology is described as a factor of production. Thus, the number and definition of factors varies depending on theoretical purpose, empirical emphasis or schools of economics cum management. In this regard, subsequent analyses by scholars like Romer (1990), Aghion and Howitt (1992: 323-351), Grossman and Helpman (1994: 23-44) argued that technological progress generated by the discovery of new ideas was the only way to avoid economic stagnation and promote socio-economic development cum growth in the long-run. Barro (1996) lends credence to this viewpoint drawing inspiration from the older, neoclassical model and extended the factors of production to include government policies, human capital, and the diffusion of technology.

Consequently, and with regard to current realities, Harbison and Myers (1959) are of the view that management is a factor of production and an economic resource, and the arts and sciences of management appear to provide the best opportunity for increase in productivity. Heizer and Render (1991) supports this assertion and are of the opinion that the vast majority of productivity improvements (60%) in industry/society are within the purview of assertive, innovative entrepreneurial managers functioning in their role as productivity catalysts. Nevertheless, Barro (1996: 1) is of the view that besides management that there are other factors that leads to productivity improvements in societies/nations or rather are the determinants of economic growth. These factors include; lower fertility, lower government consumption, better maintenance of the rule of law, lower inflation and improvements in the terms of trade.

It is therefore, pertinent and against this background that this paper aims to look at management as a factor of production and an economic resource and thus offers suggestions to those who manage people, organizations and nation states.

### ***Management as a Factor of Production***

Adam Smith was a great English Economist. The publication of his *Wealth of Nations* in 1776, has been described as the effective birth of economics as a separate discipline. The book identified land, labour and capital as the three factors of production and the major contributors to a nation's wealth. Thus, the great English economists, from Adam Smith (1723-1790) to David Ricardo (1772-1823) to John Stuart Mill (1806-1873), including their successor and antagonist, Karl Marx (1818-1883), only identified land, labour and capital as the factors of production, and therefore knew no management (Drucker, 1974:22). To them, the economy was impersonal and objective. To put it in another way, Economics deals with the behavior of commodities, rather than with the behavior of men.

However, J. B. Say (1767-1832), propounded a different approach which put the manager into the center of the economy and stressed the managerial task of making resources productive. Say, perhaps the most brilliant economist produced by France – or for that matter by continental Europe – was an early follower of Adam Smith and the propagandist for the *Wealth of Nations* in France. But in his own works, he did not recognize management as one of the factors of production. It is the entrepreneur – a word Say coined – who directs resources from less productive into more productive investments and who thereby creates wealth. However, Bendix (1956: 466) distinguishes between entrepreneurial ideology, associated with the early stages of industrialization, and managerial ideology, found in fully industrialized societies. Hence, on the national scale/level, it is management and managers who manage and organizes all the entrepreneurial activities coupled with other resources towards the part of socio-economic development. Entrepreneurs do not perform this act. In view of this, in contemporary times, management and managers acting as productivity catalysts spearhead much of the productivity improvements in industry/nations; and is thus a factor of production.

Historically, the “utopian socialists” of the French tradition, especially Francois Fourier (1772-1837) and the eccentric genius, Comte de Saint-Simon (1760-1825) were the first to identify management as a factor of production. At that time there were no large organizations and no managers, but both anticipated developments and discovered management before it actually came into being. Saint- Simon in particular saw the emergence of organization. And he saw the task of making resources productive and of building social structures. He saw managerial tasks. It is for their stress on management as a separate and distinct force, and one which can act independently of the factors of production as well as of the laws of history, that Marx vehemently denounced the French and gave them the derisory name of “utopians”.

Furthermore, Alexander Hamilton (1757-1804), one of the founders of modern America, gave emphasis to the constructive, purposeful, and systematic role of management as a factor of production. He saw in management, rather than in economic forces, the engine of economic and social development; and in organization, the carrier of economic advance,

Harbison and Myers (1959) are also of the view that management and administration is a factor of production, Accordingly, Harbison and Myers in their study of labour problems in economic development, put forward six propositions to justify, understand and accept management as a factor of production. The first five propositions show how the requirements for high-level managerial resources are related to industrial development, while the sixth show that the productivity of labour is determined not only by investment of capital in machinery and processes, but also by the quality of management with which labour and that investment are combined.

Harbison (1956: 364-379) corroborates this assertion and argues that the concept of organization and management is more precise and meaningful for the study of economic growth and development than traditional notions of entrepreneurship. In relating organization and management to other resources, he put forward a number of tentative propositions which include: (1) Industries requiring large capital investment probably require a corresponding large investment in organization/management, (2) Organization and management is the principal factor determining the productivity of labour, assuming capital and natural resources to be constant, (3) Because of non-economic factors ..., all organizations are probably 'inefficient' in effecting the optimum combination of economic resources which is theoretically possible.

In view of this and in line with current realities, management is the most active factor of production because it assembles and integrates the other factors. The efficient use of land and capital depends upon labour which is in turn governed by management. Management coordinates the other Ms (manpower, methods, markets, materials, machinery and money) of an organization and, therefore, it occupies a unique place among the productive factors. However, some people group management and entrepreneurship together, but this is a misleading/false representation. This is rather due to the fact that in a small enterprise, the owner/entrepreneur may himself act as the manager. But in large organizations, there is a divorce between ownership and management.

The efficiency of the management factor can be improved through training and development of executives; meaning that there is a definite relationship between the competence and performance of management and the facilities for developing managerial resources. The importance of management increases with the tempo of industrialization. Thus, the economic and social development of mankind since the Second World War has occurred as a result of systematic and purposeful work on developing managers. The goal of managing is making it possible for people to operate in group in such a way as to gain the most, in terms of objectives sought by an enterprise/nation or a part of it, with the human and material resources available. Clearly, ineffective managership leads to inefficient use of these resources. And whether the goal of an enterprise/nation is economic, political, or otherwise, it is not difficult to see that waste of resources will occur with poor managing.

Moreover, this paper views management as the single most critical social activity in connection with economic progress. Physical, financial, and manpower resources are by themselves but passive agents; they must be effectively combined and coordinated through sound, active management if a country is to experience a substantial level of economic growth and development. A country can have sizable natural and manpower resources including plentiful skilled labour and substantial capital but still be relatively poor because very few competent managers are available to put these resources efficiently together in the production and distribution of useful goods and services.

### ***Management as an Economic Resource***

To Hornby (2000: 369) an economic resource represents the supply of something that a country, an organization, or a person has and can use, especially to increase/boost trade, industry and development of wealth of a country, an area or a society. These resources include; minerals and other natural resources (land), financial/capital resources (capital), and human resources (made up of labour and managerial resources).

Therefore, management and administration is an economic resource. Just as we have labour-intensive as opposed to capital intensive techniques and activities which suggest that certain techniques, activities, assignments and jobs may require more labour concentration than capital, while others may require more capital concentration than labour in their effective and profitable operationalization; we can in the same vein and by the same logic of operationalization, equally talk of management-intensive and/or administration intensive techniques and activities or jobs and assignments. Thus, meaning that certain types of activities, jobs and assignments require relatively higher managerial and administration concentration than others. Management and administration are therefore very important economic resources.

Consequently, we no longer talk of capital and labour, but of management and labour. As an economic resource, management makes a productive enterprise out of physical and human resources (i.e. labour). Efficient management is the most important input in the success of an organization. The inputs of manpower, materials, machinery and money do not by themselves ensure growth; they become productive through the catalyst of management.

**Ideas as Capital: i.e. Management Ideas/Knowledge as Capital and thus a Factor of Production**

In classical economics, the factors of production are land, labour and capital. However, in contemporary times ideas (including both management ideas/knowledge and technological ideas/knowledge cum inventions) are equally regarded as capital. Thus, since both management and technological ideas/knowledge are regarded as capital, and capital being one of the factors of production; therefore management and administration is a factor of production and an economic resource.

In this regard, most people think that money is the only aspect of capital. However, in contemporary times, money is an aspect of capital, but certainly does not represent all of it. Thus, ideas/knowledge (both management ideas/knowledge and technological ideas/knowledge) are capital. It should be remembered that the knowledge/ideas in the memory of university/college professors/research scientists also constitute technology; which is a factor of production. In the same vein and the same logic of operationalization, the ideas/knowledge (including complex management knowledge, theories and principles) in the memory of management scholars/thinkers and policy makers in any society are capital; and is therefore a factor of production. The management ideas/knowledge coordinates and integrates the other factors of production for socio-economic growth and development.

Thus, endogenous growth theories that included the discovery of new ideas (including management ideas/knowledge) and methods of production are important for providing possible explanations for long-term growth and socio-economic development. These new ideas/knowledge (both managerial and technological) are therefore capital (which is a factor of production); meaning that management and administration is a factor of production and an economic resource.

In view of this, management is a mental and communicating activity, and is the act of getting things done by, through and with other people to achieve organizational/national objectives. In other words, the managerial functions of planning, organizing, directing and controlling are carried out principally through mental activities, through meeting with people, communicating with them formally and leading them to action. Consequently, top management tasks require ability to analyze, to think, to weigh alternatives and to harmonize dissent, and this applies in all management functioning and at all levels and situations. In a way, these are the main factors that distinguish managers from operatives or rather broad labour because managers make decisions to set out actions. The managers head/brain power so to say, directs the operatives/labourers hands. However, managers, of course, often involve themselves in end activities, in “doing”, but these can be demonstrative or serve as a means of putting into action the mental, leading and communication activities. Management or rather management ideas/knowledge is therefore capital, and is thus a factor of production and an economic resource.

**Conclusion**

This paper has reviewed management as a factor of production and as an economic resource, and had set forth some theoretical propositions to show how the requirements for high level managerial resources are related to industrial development. Thus, management is the principal factor determining the productivity of labour, if we assume that capital and raw materials input are the same.

Management also has a qualitative dimension. The productivity of labour is determined not only by investment of capital in machinery and processes, but also by the quality of management with which labour and that investment are combined. But there are inherent inefficiencies in all managerial organizations which may be substantially reduced but never completely eliminated. Thus, the reduction of “organizational frictions” is another imperative for progress in industrial development.

Moreover, management and administration are very important economic resources. Economic progress, to the extent that it is associated with industrialization, is made possible by a substitution of both capital and labour by management. Consequently, the accumulation and productive employment of high-level managerial resources, like the accumulation and productive investment of capital and labour, is a universal imperative in the industrialization process.

Finally, ideas (including both management ideas/knowledge and technological ideas/knowledge) are capital, and is therefore a factor of production and the most important economic resources. Hence, the accumulation of management ideas cum knowledge coupled with the provision of high talent, high caliber manpower/managerial resources coordinates and integrates the other factors of production for socio-economic growth and development; and is thus a universal imperative in the industrialization process,

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