Principles of management and competitive strategies: using Fayol to implement Porter

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Abstract

Purpose – The purpose of this paper is to present how the past, Fayol's principles of management, is applied to the present, Porter's competitive strategies – cost leadership and differentiation – and in turn how the understanding of this connection between the past and present directs the future development of firms.

Design/methodology/approach – This study explores which of Fayol's principles can be matched to Porter's cost-leadership or differentiation strategy in terms of strategy implementation.

Findings – The paper finds that the principles of division of work, authority and responsibility, unity of command, unity of direction and scalar chain are useful in the implementation of a cost leadership strategy but other, more modern alternative principles apply for differentiation strategy. Likewise, the three principles of stability of tenure of personnel, initiative and *esprit de corps* apply to the implementation of differentiation strategy, but not to cost leadership, where, again, alternative principles apply. The remaining six principles of discipline, subordination of individual interests to the general interest, remuneration, centralization, order and equity are applicable to implementation of both.

Practical implications – By melding the past with the future, it shows that the flexible use of Fayol's principles in an integrated manner lays the foundation for the successful implementation of competitive strategies and the future development of firms.

Originality/value – This study documents the flexible use of Fayol's principles, an issue that has received modest attention in the literature. It also adds to the literature on the potential implication of Fayol's work for successfully implementing competitive strategies.

Keywords Management theory, Competitive strategy, Strategic management, Management history

Paper type Research paper

Introduction

Along with Frederick Winslow Taylor, Henry Fayol (1841-1925) is considered a seminal author in the classical school of management (Wren, 1994). After 30 years of

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an eminently successful career as a practitioner, Fayol devoted the remainder of his life in promoting his theory of administration (Fayol, 1949). He argued that all industrial undertakings precipitate activities that can be categorized into six groups: technical, commercial, financial, security, accounting and management. Fayol's work focused on the latter category, management. For Fayol, management was not so much that of devising systems and methods for increasing the velocity of throughput as it had been for scientific management. It was the orderly arrangement and integration of the production, sales, financial, and accounting functions of the organization. Thus, Fayol's management function was a way of identifying management as something apart from technical activities but essential to getting economy from their integration.

Fayol was perhaps the first to note the need for management education (Wren, 2003; Brodie, 1967). To Fayol, the reason for the absence of management education was the absence of theory. From these premises, Fayol used his experiences and observations to propose a comprehensive theory of administration (management) that included a description of managerial functions as well as 14 principles designed as guides to thinking and practice. To Fayol, principle was the code that represented the sum total of truths at any given moment. Metaphorically, the code was the lighthouse, which enabled managers to get their bearings, but it could only help those who knew the way towards the port. Besides, Fayol also proposed that managers must plan, organize, command, coordinate and control in order to effectively implement his 14 principles.

Fayol's principles of management provided and continue to provide a general management perspective for practicing managers and an instructional tool for academicians teaching in the field of management. His notion of a principle was not rigid since "there is nothing rigid or absolute in management affairs, it is all a question of proportion" (Fayol, 1949, p. 19). Likewise, Fayol did not regard his list of principles as fixed. Rather, Fayol believed that the actual number of principles was arbitrary and his original list non-exhaustive:

> Every rule or managerial procedure which strengthens the body corporate or facilitates its functioning has a place among the principles so long, at least, as experience confirms its worthiness. A change in the state of affairs can be responsible for change of rules which had been engendered by that state (Fayol, 1949).

Thus, Fayol considered his principles of management to be flexible and adaptable to every change and need. This study focuses on this flexible use of Fayol's principles.

Indeed, a body of research has been conducted to develop and crystallize Fayol's work and found his work worthy of investigation and use. The common goal of this line of research has been to suggest general guidelines that will advise managers to administrate their organization effectively. For instance, researchers have offered an interpretation and a framework to synthesize Fayol's ideas about the management of an organization for achieving success in the current management (Rodrigues, 2001; Carroll and Gillen, 1984; Breeze, 1985). Researchers have also explored the impact of each principle that fosters effectiveness highlighting the role of organizational structure (Pietri, 1974; Gomberg, 1985). While this research has enriched our understanding of Fayol's principles, it has been limited to recognizing and focusing on the universality of management (Crainer, 2003). This approach has been criticized because identifying "one best way" to administer organizational activities is too ambitious and is a common criticism of the seminal authors (Wren, 1994).

The answer to how to outperform competitors and produce above average profits compared to other firms lies in the pursuit and execution of business-level strategies. Although various types of generic strategies have been proposed (Utterback and Abernathy, 1975; Vesper, 1979; Hofer and Schendel, 1978), Porter's (1980) work on competitive strategy is generally recognized as the most influential contribution to the study of strategy formulation. It has also been widely used by researchers studying relationships between competitive strategy and other aspects of management such as information technology (Huff, 1988), manufacturing strategy (Kotha and Orne, 1989), and managers' perception (Bowman and Johnson, 1992). Researchers, however, have neglected the fact that Michael Porter's cost leadership and differentiation strategies differ in their aims and, therefore, implementing them requires different resources, skills, tactics, and corporate cultures and atmospheres. Obviously, successful implementation of these two strategies requires different organizational arrangements, control procedures, and inventive systems (Porter, 1980). Most textbooks discuss implementation of business-level strategies in terms of functional areas such as marketing, finance, etc. (Harrison and St John, 2002). Here, we propose a different way to think about implementation of the Porter framework, using the time-honored principles of management proposed by Fayol.

Thus, the objective of this paper is to explore which of Fayol's principles can be matched to Porter's cost-leadership or differentiation strategy in terms of strategy implementation. Through in-depth review of the original work of Fayol (1949) and the more recent, related literature (Wren, 1995, 2001, 2003; Wren *et al.*, 2002; Rodrigues, 2001; Fells, 2000; Reid, 1995; Breeze, 1995), we propose that 8 of the 14 principles including division of work, authority and responsibility, unity of command, unity of direction, scalar chain, stability of tenure of personnel, initiative and *esprit de corps* are more applicable only to the implementation of either cost leadership or differentiation strategy. However, the other six principles: discipline, subordination of individual interests to the general interest, remuneration, centralization, order and equity are essential to organizational management regardless of the type of strategy. Thus, we assume that these six principles are appropriate for implementing both the differentiation and cost leadership strategies. To keep the scope of this paper manageable, we limit our detailed discussions to the eight principles of management that are more applicable to the implementation of either a cost leadership or differentiation strategy.

The next section of the paper reviews the competitive strategies of Porter, focusing on their implementation. Then we suggest research propositions on the contingent matches between Fayol's principles and Porter's competitive strategies that may be used as basis for hypothesis development and testing for future empirical work. This is followed by a discussion and implications of this study. This paper concludes with a demonstration of how the understanding of this connection between the past, Fayol, and the present, Porter, can promote the successful development of firms.

Competitive strategy

Porter (1980) argues that a firm can achieve a higher level of performance over a rival in one of two ways: either it can supply an identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. In the former case, the firm possesses a cost advantage. In the latter, the firm possesses a differentiation advantage. In pursuing cost advantage, the goal of the firm is to become the cost leader in its industry or industry segment. On the other hand, differentiation by a firm from its competitors is achieved when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1980, 1985). A firm that is competing on low cost is distinguishable from a firm that competes through differentiation in terms of market positioning, resources and capabilities, and organizational characteristics. Porter originally viewed cost leadership and differentiation as mutually exclusive strategies. He argued that effectively implementing these generic strategies required total commitment and supporting organizational arrangements that are diluted if there is more than one primary focus. If a firm attempts to pursue both at the same time, it will result in inferior performance, so-called, "stuck in the middle" (Porter, 1980, 1985).

A cost leadership strategy is designed to produce goods or services more cheaply than competitors by stressing efficient scale of operation. When a firm designs, produces, and sells a comparable product more efficiently than its competitors as well as its market scope is industry-wide, it means that the firm is carrying out the cost leadership strategy successfully (Parnell, 2000; Brooks, 1993). Firms often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984).

With the differentiation strategy, on the other hand, the unique attributes or perceptions of uniqueness, and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980). It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980). Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Ireland *et al.*, 2001; Dess and Davis, 1984; Porter, 1985).

Implementation of Porter's competitive strategy using Fayol

Principles commonly useful for the implementation of both competitive strategies

Fayol enumerated and discussed 14 "principles" of management:

(1) division of work;

(2) authority and responsibility;

(3) discipline;
(4) unity of command;
(5) unity of direction;
(6) subordination of individual interests to the general interest;
(7) remuneration;
(8) centralization;
(9) scalar chain (line of authority);
(10) order;
(11) equity;
(12) stability of tenure of personnel;
(13) initiative; and
(14) *esprit de corps*.

Six of his famous principles are applicable to the implementation of any business level strategy, because they are fundamental to the success of any business. For example, "... *discipline* is absolutely essential for the smooth running of an organization and without discipline no enterprise could prosper" (Fayol, 1949, p. 22). Likewise, subordination of the individual interest to the general interest is particularly applicable in this age of team-oriented businesses. Regardless of whether the firm is a cost leader like WalMart or a differentiator like J.C. Penny, teamwork and working together for mutual benefit is a hallmark of contemporary business. In Fayol's (1949, p. 26) words: "... in a business, the interest of one employee should not prevail over that of the concern ..." Certainly, the remuneration of personnel is equally important to both strategies since: "It should be fair and, as far as possible, afford satisfaction to personnel and firm (employee and employer)" (Fayol, 1949, p. 26).

The question of centralization might, at first, seem more applicable to a cost leadership strategy. But, from Fayol's (1949, p. 33) point of view: "The question of centralization or decentralization, is a simple question of proportion, it is a matter of finding the optimum degree for the particular concern," or in this case of the particular strategy. The principle of order refers to both people and things:

> The formula is known in the case of material things "A place for everything and everything in its place." The formula is the same for human order "A place for everyone and every one in his place" (Fayol, 1949, p. 36).

Finally, employees want to be treated fairly, regardless of what strategy the firm pursues, so the principle of equity applies to all:

> For the personnel to be encouraged to carry out its duties with all the devotion and loyalty of which it is capable it must be treated with kindliness, and equity results from the combination of kindliness and justice (Fayol, 1949, p. 38).

Principles having different effect on the implementation of two competitive strategies

Although the 6 principles of 14 are commonly beneficial to successfully implement both cost leadership and differentiation strategies, the effectiveness of other eight principles depends on the fit with the strategy the firm pursuing.

Therefore, understanding of contingent matches between the principle with a strategy in the case of good fit and alternative principle in the case of bad fit is crucial to successfully implement the strategy firm is pursuing.

For the remainder of this study, we argue that division of work, authority and responsibility, unity of command, unity of direction and scalar chain principles are more appropriate for the implementation of a cost leadership strategy than a differentiation strategy. We also contend that stability of tenure of personnel, initiative and *esprit de corps* are more appropriate for the implementation of a differentiation strategy than to cost leadership. The reasons for these arguments are amplified in this section, along with propositions to guide future research (Figure 1).

Principles for implementation of a cost leadership strategy

Division of work. This principle is the well-known idea that specialization of labor leads to less waste, faster production, and an increased ease of teaching the job. Fayol noted that division of work reduces the number of objects to which attention and effort must be directed and has been recognized as the most efficient means of accomplishing repetitive tasks. "The worker always on the same part, the manager concerned always with the same matter, acquire an ability, sureness, and accuracy which increase their output" (Fayol, 1949, p. 20).

According to Porter (1980, 1985), one of the principal sources of cost advantage of firms is economies of scale. And, these economies of scale can be achieved, in part, by specialization of labor (Smith and Skinner, 1999). Fayol's principle of division of work is particularly important in this respect. Mass production involves breaking down the production process into a series of separate tasks to be performed by specialized workers. Specialization of labor avoids time lost from switching activities and assists in mechanization and automation of operations.

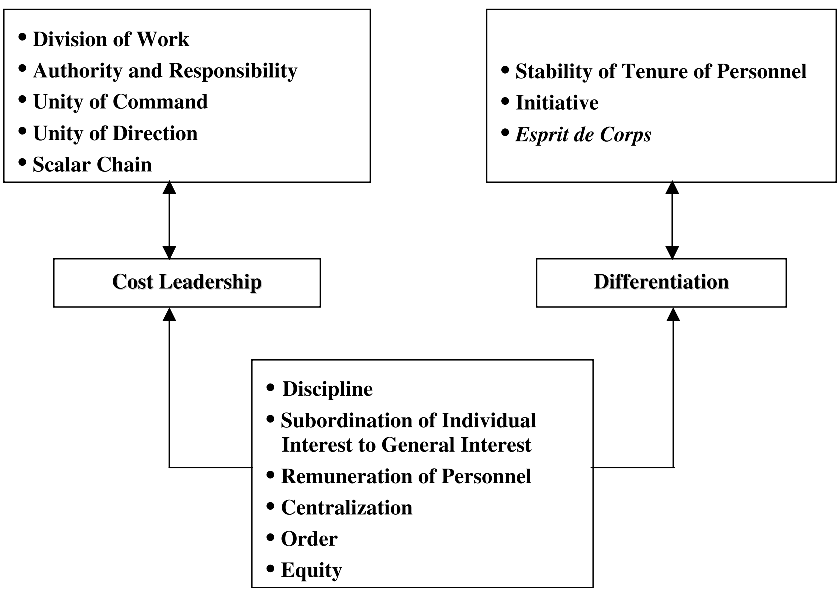

Figure 1.
Principles of management and competitive strategies

However, this same principle is not as useful for a firm using the differentiation strategy. Fayol (1949) noted that "division of work has its limits which experience and a sense of proportion teach us may not be exceeded." A differentiation strategy requires organizational learning and a move away from cognitive and structural rigidity, which increases resistance to change (Leonard-Barton, 1992). Furthermore, standardization of work stifles creativity that is critical for successful implementation of a differentiation strategy. To foster creativity as well as adaptation to change, firms pursuing differentiation should move away from division of labor and towards job enrichment rather than specialization. This concept, often associated with the work of Herzberg (1966, 1987) allows workers to help plan and control the work processes. For successful implementation of job enrichment, firms need to remove controls that limit people's discretion in their work and thus give them the freedom and flexibility to experiment. By doing that, job enrichment affects the critical psychological states of meaningfulness, felt responsibility, and knowledge of results (Hackman and Oldham, 1976). Therefore:

P1. Firms using division of labor to implement a cost leadership strategy will outperform those that do not use it.

Authority and responsibility. Fayol defined authority as the right to give orders and the power to exact obedience. He made distinction between formal authority due to rank or position and personal authority due to the respect the manager has from workers because of his intelligence, experience, moral worth, ability to lead, past services, etc. "Responsibility is a corollary of authority, it is its natural consequence and essential counterpart, and wheresoever authority is exercised responsibility arises" (Fayol, 1949, p. 21). Thus, according to Fayol, managers require formal and informal authority to carry out their managerial responsibilities and, thus, to achieve high performance.

Intensive control of labor is a commonly required skill for successful implementation of cost leadership strategy (Porter, 1980). The principle of authority thus is considered to be well applicable to the implementation of cost leadership strategy because authority is a critical factor to facilitate formal organizational controls. In other words, strict lines of authority and distinct areas of assigned responsibility is advantageous to a firm using a cost leadership strategy because of the efficiencies they can generate by using standard procedures to perform specialized works of the different tasks and jobs that employees do (Parker and Lewis, 1995).

In contrast, strict application of the principle of authority can adversely impact job performance and the ability of workers to contribute via participation (Cotton *et al.*, 1988; Shashkin, 1984; Cole, 1990; Semler, 1989). A strategy of differentiation relies on rapid identification and response of firms to the changes of customer needs. Thus, in order to implement a differentiation strategy successfully, firms must encourage employees to be proactive and contribute to its mission through increased involvement (Vroom and Yetton, 1973). With participative management, firms assume that employees doing the work have unique insights for solving job problems, and places new expectations on them to apply and share their knowledge, expertise, and problem-solving skills. They attempt to harness the intelligence and creativity of employees by encouraging open communication, building trust and cooperation, and engaging in consultation. They also have a tendency to have lateral communication. Therefore:

> *P2.* Firms using the principle of strict (authority) control to implement a cost leadership strategy will outperform those that do not use it.

Unity of command. Unity of Command means that each employee is held accountable to only one supervisor. With this principle, Fayol (1949, p. 24) argued that "For any action whatsoever, an employee should receive orders from one superior only ... Should it be violated, authority is undermined, discipline is in jeopardy, order disturbed and stability threatened." A firm has a cost advantage if it achieves the stability of its operations by minimizing the task confusion of its employees and in turn maximizing their focusing on specialized work. Fayol's principle of unity of command, therefore, provides strong foundation to successfully accomplish the goals of cost leadership strategy. In fact, it was Fayol who criticized Frederick W. Taylor for his concept of "functional foremen" as part of implementing scientific management because it violated this principle, and, therefore, reduced efficiency.

However, this principle is not as applicable to a differentiation strategy. As noted earlier, a differentiation strategy requires more creative thinking of organization members. This creative thinking of organization members often stems from their ability to solve the problems by broadly combining the ideas from the several functions of the firm (Porter, 1985; Zahra and George, 2002). Likewise, the extensive use of teams (especially "leaderless" ones) and other forms of participative management tend to move away from central control. Further, researchers imply that a "multi-boss" or matrix organization structure would be preferable for a firm using a differentiation strategy because this kind of structure intensifies a firm's organizational capability to create ideas for innovative products and services. Therefore:

> *P3.* Firms using the principle of unity of command to implement a cost leadership strategy will outperform those that do not use it.

Unity of direction. If the tasks in an organization are specialized, then each task must have its own specialized objective or goal. This principle is expressed as "One head and one plan for a group of activities having the same objective. It is the condition essential to unity of action, co-ordination of strength and focusing of effort" (Fayol, 1949, p. 25). This principle implies that organizational efficiency increases through minimizing the conflicts among group members if each unit or employee has a single activity that are planed and managed by managers (Schein, 1992; Reid, 1995). Without unity of direction, managers would have a difficulty to choose or control the goal of each unit or employ, the processes for achieving the goal and problems they have to encounter in the course of reaching the goal. As this difficulty may lead to a failure of achieving the objectives of authority and order principles that are essential to successfully implement a cost leadership strategy, Fayol also suggested that unity of direction is a necessary condition to achieving the goals of unity of command. Thus, as recalling the previous proposition, we can infer that the unity of direction principle is more relevant to cost leadership strategy.

On the other hand, this principle is not as effective with regard to a differentiation strategy because minimizing conflicts among group members driven by unity of direction can decrease an organization's creative thinking ability that is so critical to successfully implementing a differentiation strategy. Constructive conflict, especially task conflict, may have favorable effects on cognitive task performance that involves generating plans or creative ideas, solving problems, or making decision, things that are required for implementing a differentiation strategy (Pelled *et al.*, 1999). Therefore:

> *P4.* Firms using the principle of unity of direction to implement a cost leadership strategy will outperform those that do not use it.

Scalar chain (line of authority). Fayol (1949, p. 34) stated, "The line of authority is the route followed – via every link in the chain – by all communications which start from or go to the ultimate authority." This principle emphasizes the importance of a vertical, uninterrupted chain of authority and communication. While Fayol suggested the occasional need for horizontal communication through the concept of a "gang plank," his suggestion for horizontal communication was only possible when a specific need arose and permission from superiors had been obtained. Thus, through this principle, Fayol emphasizes the usefulness of the hierarchical form of organizational structure (Argyris, 1957). The hierarchical form of organizational control that comes from strict application of the scalar chain principle is very important for the effective implementation of a cost leadership strategy. Miles and Snow (1978) argue that the organizational structure characterized by extensive division of labor, centralized control, and communications through formal hierarchical channels is the essential condition to a firm that is focusing on producing and distributing goods or services as efficiently as possible because this strict control of the organization ensures efficiency.

Conversely, strict use of the scalar chain can inhibit communication and coordination across functions and, as a result, be a reason for less innovative thinking in the firm and slower adaptation to changes outside of the firm. Thus, the principle of the scalar chain is not as applicable to the implementation of differentiation strategy as it is to the implementation of cost leadership strategy. One of the common requirements for successful implementation of differentiation strategy is strong coordination among functions such as R&D, product development, and marketing (Porter, 1980). Thus, to successfully implement a differentiation strategy, firms should create an organizational atmosphere of maximum creativity by maximizing the interaction and cooperation among various functions, characteristics that cannot be attained by the scalar chain principle (Katzenbach *et al.*, 1993; Parker, 1995). Therefore:

> *P5.* Firms using the principle of scalar chain for communication and decision making to implement a cost leadership strategy will outperform those that do not use it.

Principles for implementation of a differentiation strategy

Stability of tenure of personnel. This principle speaks to the need to have a secure workforce and a strong organization culture. Time is required for an employee to get used to new work and succeed in doing it well – in modern parlance, the notion of a learning curve. However, this is not a new idea:

> If when he has got used to it, or before then, he is removed he will not have had time to render worthwhile service. The undesirable consequences of insecurity of tenure are especially to be feared in large concerns, where the settling in of managers is generally a lengthy matter. Much time is needed indeed to get to know men and things in a large concern in order to be in a position to decide on a plan of action, to gain confidence in oneself, and inspire it in others (Fayol, 1949, p. 39).

Stability of tenure seems very important for successful implementation of differentiation strategy. Without stability of tenure, it is easy for workers and managers to have a strong tendency for risk aversion and myopia. One organizational lesson learned from the technology stampede of the 1990s was the importance of not punishing failure. If innovation, risk propensity and creativity are valued, then they must be rewarded. Here, the leader sets the example and provides the foundation for the entire organization culture in terms of its values and beliefs. This can be a long-term impact, especially in mature firms (Schein, 1992). Stability of leadership is important in establishing and sustaining a strong culture and many have linked strong cultures to strong performance (Peters and Waterman, 1982). Thus, stability of tenure should be essential to creating and promoting a culture of creativity that is crucial to the implementation of a differentiation strategy.

However, the principle of stability of tenure seems less useful to the implementation of a cost leadership strategy because of the high cost structure that can accompany it. In some industries, where cost efficiency is crucial, it is cheaper to hire new employees, despite the costs of turnover. For example, in the fast-food industry, most jobs are minimum wage, entry-level, with little chance for advancement. Here, turnover is less expensive than keeping on employees who increasingly demand higher wages with their seniority. Job specialization is used to keep training costs to a minimum and thus reduce the costs of turnover. Therefore:

P6. Firms using the principle of stability of tenure to create a culture of innovation and creativity to implement a differentiation strategy will outperform those that do not use it.

Initiative. Over a century ago, Fayol (1949, p. 39) understood the importance of workers who approach their jobs with energy and enthusiasm:

> Thinking out a plan and ensuring its success is one of the keenest satisfactions for an intelligent man to experience. This power of thinking out and executing is freedom to propose and to execute belongs too, each in its way, to *initiative*. At all levels of the organizational ladder, zeal and energy on the part of employees are augmented by initiative. The manager must be able to sacrifice some personal vanity in order to grant this sort of satisfaction to subordinates.

As previously pointed out, a strategy of differentiation relies on creative product adaptations, applied research and development, and innovative new-product development. Thus, to successfully implement a differentiation strategy, firms should encourage innovative thinking and behaviors of their workers and managers by creating an atmosphere of maximum creativity. And, this atmosphere can be created by developing a corporate culture in which its vision, company philosophy, and strategies can be implemented by employees who take initiative (Hinterhuber and Popp, 1992). Thus, Fayol's principle of initiative seems well applicable to the implementation of differentiation strategy. Firms might adopt the technique of empowerment in order to foster an atmosphere of maximizing creativity. Empowerment is similar to participative decision making but is also very distinct from it (Hollander and Offerman, 1990). Both constructs relate to a democratic approach to managing by involving employees in tasks beyond the day-to-day work, but empowerment is defined more broadly than involvement in decision making. Empowerment enlarges the employee's role by tapping the natural initiative and sense of responsibility of employees (Forrester, 2000). It is not simply sharing power but distributing power, whereby employees may be given power or control over some or all aspects of the task, from scheduling jobs to making decisions to implementing ideas (Schermerhorn *et al.*, 1998). It provides employees with a sense of ownership and control over their jobs and thus strengths initiative of them (Bass, 1985; Kanter, 1983; Kouzes and Posner, 1988).

When it comes to linking Fayol's principle of initiative to cost leadership strategy, however, it does not seem that this principle is helpful for the implementation of cost leadership strategy because vigorous application of it might distract the employee's attention from the task at hand, and thus hinder efforts at division of labor and specialization designed to minimize costs. To maximize the efficiency of their operations, firms would emphasize procedures, rules and tight process and cost controls, rather than encouraging employees to take the initiative and engage in innovative thinking and behavior. Therefore:

> *P7.* Firms using the principle of initiative to create a culture of innovation and creativity to implement a differentiation strategy will outperform those that do not use it.

Esprit de corps. Fayol's principle of *esprit de corps* stresses building harmony and unity within the firm to maximize the morale of its employees. The organization can use this principle as a means of increasing collaboration and building trust among members by distributing the now over-differentiated tasks into more recognizable chunks and assigning shared responsibility for them to groups of individuals in ways that make work once again comprehensible (Peters and Waterman, 1982). Differentiation grows out of the firm's value chain, and virtually any value activity in value chain, including both upstream and downstream activities can be a potential source of competitive advantage (Porter, 1985). Achieving the goal of differentiation from downstream activities such as responsive customer service in fact requires a high level of morale of employees stemming from harmony among employees. Additionally, Miles and Snow (1978) also imply that the essential administrative problem of initiating a differentiation strategy is to facilitate rather than control organizational operations. That is, the differentiation strategy requires an organizational system that must be able to derive collaboration and harmony among numerous decentralized units, one that is the most important aspect of *esprit de corps* principle.

However, it seems hard for a firm with cost leadership strategy to accept this principle because performing this principle is usually costly. A cost leadership strategy focuses on efficiency and increasing productivity. These foci are grounded in the theory of scientific management (Taylor, 1947) which emphasizes the employees' attention on economic incentives, not social needs (Wren, 1995). In fact, many firms now find themselves in a situation where robots have taken over a variety of the specialized jobs and where a number the jobs requiring low-skilled labor have been transferred to low labor cost countries to become a cost leader in their market (Schmenner, 2004; Harpaz, 1990). Therefore:

> *P8.* Firms using the principle of *esprit de corps* to create high morale and unity among employees to implement a differentiation strategy will outperform those that do not use it.

Discussion

A vast body of research has found a great sense of practical usefulness in the work of Henri Fayol who described a series of principles of management by which an organization can be effectively managed. Although many scholars regard Fayol as the father of the first theory of management, the contribution of Fayol to the contemporary management practice is now all but ignored with the criticism that his ideas provide just only vague management directions and his framework is somewhat based on closed systems without considering environmental influence. While the logic of this criticism that views Fayol's principles as an inflexible framework seems somewhat reasonable, it neglects the reality that Fayol himself recognized, that work can be done flexibly in accordance with changing circumstances.

Recently, some researchers have caught and sought to develop this possibility (Parker and Ritson, 2005; Rodrigues, 2001; Smith and Boyns, 2005). However, despite the growing attentions on the flexible use of Fayol's works, researchers have not systematically documented the application of his ideas to an organization's specific functions. This is especially the case with implementing competitive strategies. Accordingly, the present study makes an attempt to show that Fayol's principles can be flexibly applied to increasing the effectiveness of the implementation of each of Porter's competitive strategies. It also provides some alternative principles such as job enrichment, participation and conflicts, modern principles that have better applicability to one of two competitive strategies than Fayol's principles. Thus, this study is not intended to be either a simple reiteration or a replacement for Fayol's principles of management. Instead, it is intended to be complementary to them given the premises that the principles of management should be flexible and adaptable to different need, situations and perspectives.

Through this study, it is implied that managers need to recognize the importance of organizational management for effectively implementing a competitive strategy. While managers readily understand the importance of choosing a competitive strategy for outperforming their competitors, attention should be given to managing organizations appropriately along with their competitive strategy. Fayol's principles can help organizations in this respect as managerial work descriptions or skills. Managers also need to focus on selecting and applying the knowledge or ideas gathered from various principles. The information from various principles might be contradictory and fragmented in some contexts; careful selection and flexible use make this knowledge useful in organizational management practice.

It should also be noted that while Porter (1980) originally viewed cost leadership and differentiation as mutually exclusive strategies, in practice few firms are faced with such stark alternatives. In many industries, market leadership is often held by a firm that maximizes customer appeal by reconciling differentiation with low cost. In fact, researchers found a relationship between successful use of the integrated strategy and above-average returns (Dess *et al.*, 1999). Furthermore, we expect that the importance of this integrated cost leadership/differentiation strategy will be even more emphasized in the future requiring firms to prepare new forms of competition.

The new context for management has been often described as a "high velocity competition" (Brown and Eisenhardt, 1998) or as hypercompetition (D'Aveni, 1994). And this phenomenon is characterized by intense and rapid competitive moves, in which competitors must move quickly to build new advantages and erode the advantages of their rivals (Fenton and Pettigrew, 2000; D'Aveni, 1994). In the face of this hypercompetition, firms must create a commitment to strategic flexibility. Also, in order to create a commitment to strategic flexibility and thus remain competitive in this dynamic environment, firms must opt for a competitive strategy that combines a cost leadership and differentiation perspectives (Ven Gils *et al.*, 2004). Indeed, evidence suggests that, compared to firms implementing one dominant competitive strategy, the company that successfully uses an integrated differentiation/cost leadership strategy is in a better position to adapt quickly to environmental changes, learn new skills and technologies more quickly, and effectively leverage its core competencies while competing against its rivals (Ghemawat, 2001; Dess *et al.*, 1995; Kim and Lim, 1988).

Thus, it can be implied that the two competitive strategies of Michael Porter should be considered as a continuum, cost leadership strategy as one end of a continuum and differentiation strategy as the other end. Accordingly, each principle presented herein should be considered as a continuum that represents the different degree of applicability to the implementation of two different competitive strategies. When firms faces a situation where they pursue both competitive strategies simultaneously, they should apply the principles that they deem to be more effective to what are now called "best cost" strategies (Harrison and St John, 2002). Furthermore, they must create and maintain a strategic flexibility that allows them to continuously adjust their positions along the continua of principles in order to respond quickly to dynamic environmental changes and thus remain competitive in the future. By melding the past with the future, we suggest that this integrated approach lays the foundation for the successful implementation of business level strategy.

Conclusion

For more than a century, Fayol's 14 principles of management have provided a general framework for practicing managers and an instructional tool for academicians teaching in the field of management. As noted earlier, Fayol emphasized the notion of "proportion" and "flexibility" more than the rigidity and structure that are commonly associated with the term "principles." Likewise, he understood that his list of 14 principles was not all inclusive, nor even applicable in every instance or circumstance. Building on this observation, we have attempted to show how his age-old ideas can be applied to the present by creating actionable knowledge with regard to the implementation of competitive strategies. Like Fayol, we recognized that not all 14 principles apply in all cases, and indeed that some more modern, complementary principles were needed to round out the notion of strategy implementation of Michael Porter.

This study makes two contributions to literature. First, it systematically documents the flexible use of Fayol's principles, an issue that has received modest attention in the literature (Parker and Ritson, 2005). Fayol's principles have been regarded as the textbook of organizational management that suggests the universal and normative guidelines. However, previous research has not related Fayol's ideas to implementing an organizational function as managerial work descriptions or skills. Thus, this study offers a new opportunity to see Fayol's work in different perspective and reconsider its relevance to today's management practice. Second, this study adds to the literature on the potential implication of Fayol's work for successfully implementing competitive strategies. Despite widespread interests and studies, and the emphasis of its importance by initiator, Porter (1980), past research has little regard for how to implement the generic strategies apart from functional strategies. Without careful commitment to organizational arrangement, it is impossible for a firm to achieve the goal of its competitive strategy. Thus, how to manage an organization for implementing Porter's generic competitive strategies is not well understood. This study seeks to fill this gap.

In sum, this study takes up the challenge to show a book written 100 years ago needs to be extraordinarily insightful to retain its relevance for our times. Specifically, it argues that the effectiveness of the implementation of each competitive strategy is contingent on appropriate selection and application of Fayol's principles of management, because various strategies differ in their aims, and require different resources, capabilities, and corporate culture and atmospheres. This paper invites future research into more systematic investigations of the flexible use of Fayol's principles by translating the propositions contained herein to testable research hypotheses that can be empirically verified and tied to firm financial performance. The richness of Fayol's ideas combined with the proven utility of Porter's ideas makes for an interesting framework, applicable to practitioners and academics alike.

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