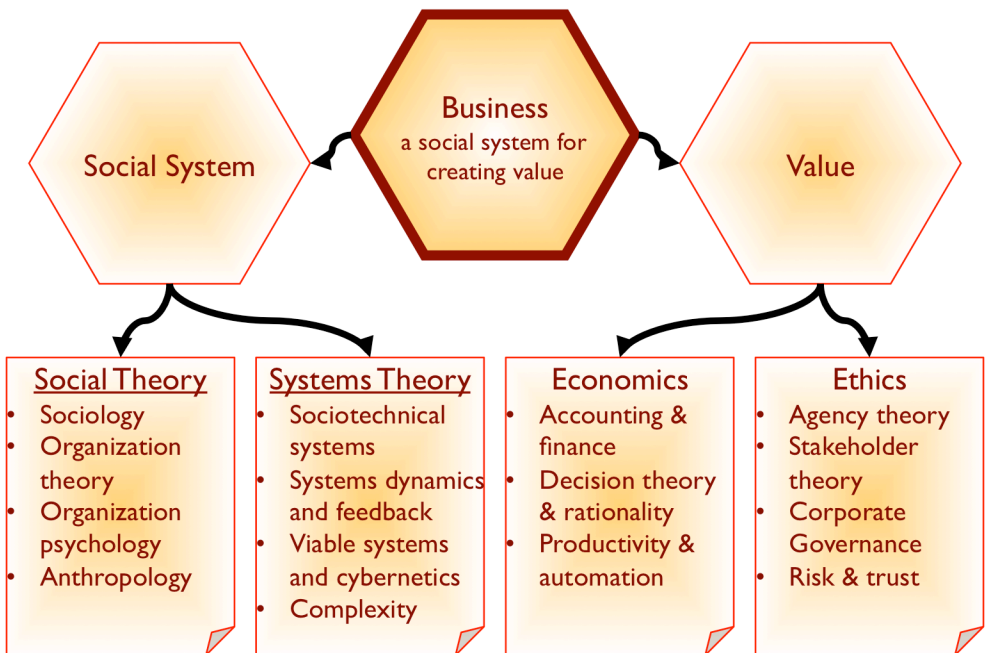


# Foundations of Business



**Richard Veryard**

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Richard Veryard

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This version was published on 2013-01-08

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## **Also By Richard Veryard**

Organizational Intelligence Primer

Six Viewpoints of Business Architecture (Draft)

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# Preface

## Purpose

This book is designed to help an intelligent and inquisitive reader achieve a thorough grounding in business, organization and management.

Many readers will have some background in another discipline, such as computing or engineering, and seek to give increased business relevance to their work in these other disciplines.

Business studies itself draws on several different disciplines, so there are many different connections that can be explored.

Depending on your past education, experience and general knowledge, you may recognize many of the ideas presented in this book. The purpose of this book is to bring these ideas together into a fairly broad framework, so that you can see how these ideas can be integrated.

- help you to pay closer attention to business phenomena, and give you additional insight
- help you engage purposefully and reflectively with the business environment

## An interdisciplinary approach

Business can be regarded as a **social system for creating value**. This indicates four founding disciplines for business studies:

**Social theory** the study of social phenomena, including anthropology, psychology and sociology.

**Systems theory** the general study of systems, including cybernetics and control theory

**Economics** the science of value, including microeconomics and management accounting

**Ethics** the philosophy of value

## How this book is structured

We identify a number of different threads of business thinking, including economics, ethics, social studies and systems thinking, and devote a chapter to each thread. Obviously there are some topics that appear in more than one thread.

The book cannot possibly cover every topic in much detail, but aims to provide a broad framework. References are provided so you can explore relevant and interesting topics further.

## **How to use this book**

This book can be used for private study, or to support structured learning under the guidance of an instructor.

The best way to learn concepts is to try and apply them in real or simulated situations, preferably in discussion with other people.

## **Sources of case material**

There may be situations in your current or recent work, or elsewhere in your organization, where you don't fully understand what is going on, or what you could do about it.

Senior managers are often willing to spend time explaining aspects of the business to staff who show an intelligent interest.

And there are always business stories in the media that deserve further analysis.

There is a companion volume of cases studies and exercises, which may be used for informal group discussion or formal group seminars.



## **Acknowledgements**

Especial thanks to Aidan Ward, who taught this material with me at City University between 2001 and 2005, and who developed around half of the case studies in the companion booklet.

# Making Sense of Business

## An interdisciplinary approach

Business can be regarded as a **social system for creating value**. This indicates four founding disciplines for business studies:

**Social theory** the study of social phenomena, including anthropology, psychology and sociology.

**Systems theory** the general study of systems, including cybernetics and control theory

**Economics** the science of value, including microeconomics and management accounting

**Ethics** the philosophy of value

There are many simple ways of making sense of a given business situation using one of these four disciplines.

However, most complex business situations cannot be fully understood from within any one of these four disciplines.

So the challenge is to combine these four disciplines in a rich and coherent manner.

## Clockwork or Snakepit

In a classic essay (later included in his book *Narcissistic Process and Corporate Decay*, New York University 1990), Howard Schwartz distinguishes between two views of organization - clockwork or snakepit.<sup>1</sup> John Darwin later introduced a third view, which he called rainforest.<sup>2</sup>

### Clockwork

- Everyone knows what the organization is all about, and is concerned solely with carrying out its mission
- People are basically happy in their work
- Level of anxiety is low
- People interact and cooperate without friction. Mutual support.
- Management problems are easily solved with proper skills and correct techniques.

### Snakepit

- Everything is always falling apart. Your first concern is to make sure it doesn't fall on you.
- Nobody really knows what is going on. But everyone wants to know, because there is danger in not knowing.
- Anxiety and stress are constant companions.

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<sup>1</sup>[http://jme.sagepub.com/cgi/pdf\\_extract/11/2/19](http://jme.sagepub.com/cgi/pdf_extract/11/2/19)

<sup>2</sup>Working the Boundaries, (Social Issues, October 2001)

- People deal with one another with little pleasure and considerable suspicion.
- Management problems are intractable. Managers feel they've done well if they can make it through the day.

### Rainforest

- Accept unpredictability and the likelihood of emergence
- Search for and discover patterns beneath complexity
- Accept fuzziness (and distinguish fuzzy thinking from sloppy thinking!)
- Identify and use both positive and negative feedback
- Recognize the capacity for self-organization, and the freedom that must be given to facilitate this
- Address the need to develop the organization's intelligence and ability to generate knowledge
- Recognize codependent arising: the mutually interactive creation of the organization and its environment
- Accept the need for disruptive action
- Exercise what the poet John Keats called Negative Capability: the ability to be "in uncertainties, mysteries, doubts"

Darwin points out that it is simplistic to regard the clockwork and the snakepit as two contrasting alternatives.

These can be complementary views, alternative ways of making sense of the same organization. Darwin regards either/or logic as limited, and uses fuzzy logic to argue that the clockwork, snakepit and rainforest metaphors all offer potential strengths for individuals at different times in organizations and all are limited in certain circumstances.

## **Multiple Perspectives and Narratives**

Even within a single discipline, different people will pay attention to different aspects of the situation, and will be concerned about different things. Some things may only be directly visible to people inside the organization (although well-informed outsiders may make intelligent guesses). Conversely, there may be some things that are invisible (taken for granted) by people inside the organization, but are obvious (and perhaps puzzling) to outsiders.

## **Categorical frameworks**

One way of organizing organizational narratives is to place them within some kind of categorical framework. Darwin's characterization of three metaphors appears to play this kind of categorical function. Another framework that may be useful in organizing organizational narratives is Dave Snowden's Cynefin framework.

However, these frameworks are not sufficient for sense-making, as they focus on the sorting/classification element rather than the storytelling element. Telling me that a situation is complex or simple doesn't help me make sense of it, it merely tells me what KIND of story WOULD make sense of it.

Deciding which quadrant of some framework your story will fit into is like choosing the genre of the story. Some story-tellers decide the genre before they start to construct the story, while other story-tellers find themselves shifting from one genre into another or even creating a new genre. But talking about the genre is a meta-story rather than the story itself. Unless you are in one of these wonderful postmodern novels where the author plays with the story and the genre at the same time.

## **Three levels of analysis**

We might think that the best way to find out what is going on is to talk to the people that know. Whether we are engaged in practical help or academic social science, all we need to do is interview people, individually or in small groups, and take careful notes.

But we cannot always take the things we're told at face value. Sometimes we detect blatant contradictions or holes in what we've been told by different people. (Sometimes, of course, one person will even contradict himself.) These are often the most interesting areas to explore further;

they may indicate problems that we can help to solve or resolve, or they may be symptoms of much wider problems. Alternatively, when we pursue these contradictions or holes, they may disappear - as someone carefully explains to us how we've misheard or misunderstood something.

But whether the material appears to be consistent and complete, or not, we should not assume that it gives us access to the Truth. This section briefly describes a simple method for analyzing beneath the surface. This method does not make any claims to establishing absolute Truth either. However, this method sometimes helps us to reach a deeper level of understanding that we can otherwise access.

We can define three levels of analysis.

**Level 1** What's going on. At this level, we look at what is said. We don't have to take this at face value if it is obviously wrong; but even if it is wrong, we don't ask why.

**Level 2** How do people describe what's going on. At this level we ask: who is speaking. We are presented with a narrative, which is constructed by a person or group with a particular identity and agenda. What can we learn from the way people describe (and construct) their world?

**Level 3** How do people describe to us what's going on. At this level we also ask: who is listening. What is it about ourselves, as researchers or consultants, that

prompts one narrative rather than another? What can we learn from reflecting on how we listen to this narrative?

One of the most important differences between the three levels is the approach to perceived contradictions in the material. At level 1, the emphasis will be on determining which account is true. At level 2, the emphasis will be on explaining the contradiction as an internal phenomenon of the person or organization being studied. At level 3, the emphasis shifts to the question why this apparent contradiction has been revealed to this researcher or research team.

## **Sociological Example: Teenage Girls**

A study of teenage girls and their families used the three levels of analysis to understand a large amount of complex interview-based material.<sup>3</sup>

When a researcher in the social sciences interviews a teenage girl and her parents about such topics as education, class and pregnancy, the researcher is not simply presented with objective data; instead, she is presented with a number of narratives. These narratives are often emotionally charged, and always meaningful to the subjects. The narratives themselves provide important insights on the way the subjects forge their own identity.

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<sup>3</sup>Valerie Walkerdine, Helen Lucey and June Melody, *Growing up girl: psycho-social explorations of gender and class* (2001)



Furthermore, the narratives presented to a particular researcher are in part determined by the researcher herself. For example, the fact that the researchers all have university education influences the way the subjects speak to these researchers about the possibilities of university education for themselves. It also influences the way the researchers listen to the choices being made by the teenage girls.

For example, one of the researchers carried out several interviews while she was pregnant. This clearly affected the narratives on pregnancy and motherhood that were presented to her by the teenage girls and their mothers.

## **Management Example: Image**

A study of enterprise transformation included the following statements.

‘The CEO ... changed the IS function’s position within the company structure .... As a consequence of this change, the power symmetry that existed between the IS department and its business clients was mitigated. Hence many of the negative effects of “political influence” ... were overcome.’

‘The IS management’s role has moved beyond that of being a mere strategy implementor and has grown to be one of executive leadership, technology architects, and IT catalysts.’

The first level of analysis takes these statements at face value.

The second level of analysis asks: who is speaking? Is this what the researcher was told by the IT director? It certainly conveys a strong sense of the way we might imagine an IT director to speak. But the IT director's perspective is not the only one - is this study limited by its over-reliance on the IT director's narrative? Whose value system is being expressed here?

The third level of analysis asks: who is listening? What is the relationship between the researcher and the IT director? What was this interviewer predisposed to hear? Would a different researcher have heard something different?

Of course, when we are reading a published paper, we can only speculate on these questions. When we are engaged in this kind of work ourselves, we have more direct ways of addressing them.

## **How to go deeper**

The three levels of analysis are simple to define, but hard to achieve. Where the interviews raise personal and emotional issues, as they certainly do in the sociological example cited here, psychoanalytic techniques and appropriate levels of supervision may be required to help the researcher achieve the necessary level of self-awareness.

When interviewing people about important things, the researcher must engage actively with the interviewee. The researcher is the research instrument, and the feelings aroused by the interview or the interviewee are often

important sources of material, to be thoroughly analyzed with colleagues or supervisors. (In psychoanalysis, the technical term for this is countertransference.).

This is equally true of consultants. Peter Block urges consultants to pay attention to their feelings when engaging with clients, and argues that successful consultancy demands personal authenticity from the consultant.

Furthermore, the interviewee may reveal or withhold information, or describe it in particular ways, and this partially depends on the interviewee's beliefs about the interviewer. Often the interviewee actually knows very little about the interviewer, but constructs an image of the interviewer based on the interviewee's past relationships. (In psychoanalysis, the technical term for this is transference.) How this affects the interview material is also something that the researcher or consultant needs to be able to analyze, and is often not able to perceive such things without help.

## **Issues for Research**

Based on the three levels of analysis, it is plausible to suggest that if the interviewer presents a flat and uninteresting image to the interviewee, the interview material will in consequence be equally flat and uninteresting. Whereas if the interviewer presents a rich and well-rounded personality, the interview is more likely to produce rich and well-rounded material.

This clearly slants the choice of researcher. Perhaps we should not expect much from young researchers with little experience of life, although clearly there are some capable young researchers who are able to overcome this limitation.

## **Issues for Consultancy**

Similarly, it may not make sense to expect young inexperienced consultants to uncover the interesting material, although many large consultancy practices use recent graduates for much of the routine work.

Furthermore, the three levels of analysis force us to ask a number of questions about the consultant-client relationship. For example, what concerns is a client prepared to share with this consultant at this time. This not only raises important questions of trust and rapport, but also the identity of the consultant. A factory manager, for example, may prefer a mentor who appears to have the characteristics and experience of an excellent factory manager.

We might be tempted to ask: what are the characteristics of the ideal consultant or researcher for a given situation, to gain the maximum amount of trust and insight? But this we feel this idealization is inappropriate. Instead, we should be asking: how can we make the most of a given relationship between consultant and client, and how can we develop this relationship?

## **General Issues**

When we work on our own, whether as researchers or consultants, we cannot step outside our own skin, to get a reliable entry into the third level of analysis. Analyzing one's own personal engagement in a situation is often uncomfortable.

It follows that we should not work on our own. We all need colleagues, team-mates, supervisors, analysts or other partners, who will help us reach the third level of analysis.

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# Guidance for teachers

This material can be used either for a full-time course (e.g. 1-2 days) or for a course involving regular sessions over a number of weeks. You should alternate presentation of the concepts with practical discussion of case material.

You may decide to use this work for structuring your material, as well as recommending it to students. In any case, you may wish to encourage your students to read widely, including business stories in the media. You may be able to draw their attention to major business stories and invite them to comment.

You may also use the case study material for tutorials and group exercises, as well as individual assignments. You may wish to update specific cases, or find more recent examples.

Some of our case studies are designed to explore one topic area, while others involve many different topic areas. It is usually better to get started with the more simple ones. Some teachers prefer to teach the theory before the corresponding exercise, while others allow the students to explore the exercise first before drawing out the theory.

For an extended course, you may be able to use or establish an online discussion forum for the duration of the course.

Other available materials include sample examination questions with suggested marking scheme.

Bulk discounts are available for groups of students.



## Typical Module Objectives

A training module containing this material could be designed with the expectation that students should in future be able to contribute usefully to the following activities.

- Analyse the sociotechnical requirements of a business - specify the business process and organizational requirements as well as technical requirements
- Manage the participation/consultation of business in IT requirements planning and business system analysis.
- Formulate and present a business case for a technology project.
- Formulate and present a business plan for a technology venture. (A venture may be a standalone company, or it may be a strategic IT investment that delivers a direct or indirect return by a visible contribution to other projects.)
- Manage the implementation of an IT system into an organization.

Studying the Foundations of Business may contribute to the development of these capabilities in the following ways.

Appreciating the motivation and context for computing in terms of its expected effects on business.

- Understanding what makes a business organization viable.
- Understanding the kinds of management action that may enhance the viability of a business organization.
- Understanding the possible role of computing technology in improving the viability of a business organization.

Appreciating the practical difficulties of delivering business benefit from computing.

- Understanding positive and negative patterns of interaction between computing technology and business organizations.

Appreciating the complexity of sociotechnical systems.

- Accepting the fact that there often isn't a single "right" way of making sense of organizations.
- Recognizing that different stakeholders often perceive business and organization issues differently, and understanding some of the reasons for this.
- Recognizing the danger of taking participants' statements at face value, and the need to keep a critical distance.

Appreciating the ethics of business and the implications for technology.

- Recognizing that technical projects may not be value-neutral, but inherit a management agenda (in other words, a set of management values with ethical implications) from which they derive their purpose.
- Appreciating the business value and human cost of IT systems.
- Understanding IT systems as an expression of a particular theory of management.

Linking business theory with business practice.

- Ability to make appropriate use of business literature.
- Recognizing the opinionated and superficial nature of a great deal of popular business material.
- Ability to engage constructively with business opinions and arguments,

Communicating with business and organization.

- Listening, speaking, writing.

## **Tutorials**

Tutorials can form an important component of any course. This is your opportunity to help the students to develop analytical skills and deepen their understanding of the

material, through interaction with their fellow-students and the course leaders.

Each tutorial should start with a case study, which explores some aspects of the material. To start with, the case studies are fairly simple and can be understood by focusing on a single area of the material. As the module progresses, the case studies get more complex, and students should look for opportunities to reference and integrate all four disciplines (social theory, systems theory, economics and ethics) in their analysis.

Students should note that success in the exam depends on an ability to perform the kind of analysis that is practised in the tutorials.

You may wish to set some groundrules for debate, to ensure mutual respect and the avoidance of irrelevant political issues.

## **Success Criteria**

Students should be able to demonstrate their capabilities in the following ways:

- Ability to take a relevant news story from the quality press and establish a contrasting explanation for the events described.
- Ability to analyse a project plan involving a technological change to a business organization, to explain

the behaviour of the sociotechnical system, to recommend management action to promote the success of the change, and to estimate the effect of such action. Ability to analyse a failed technological innovation, and to explain the failure in sociotechnical terms.

- Ability to analyse a case study involving interaction between conflicting stakeholder positions, to identify different stakeholder perspectives, and to explain system behaviour from multiple perspectives.
- Ability to identify the values and management agenda implicit in a given technological project.
- Ability to use business theory to explain and interpret practical issues, to make predictions, and to justify practical recommendations. Ability to use practical examples to illustrate and test theory.
- Ability to write clear analysis of a case study.
- Ability to deliver a formal presentation on a business/organization topic.

## General remarks

Success in this course depends on acquiring both knowledge and skills. The knowledge is contained in the course material and reading, supplemented by other course activities. The skills outlined in this section are not only necessary for top performance on this course, but may also enhance your students' future job prospects, since they are

often relevant to success at job interview and subsequent promotion. While students will have opportunities to develop and practise these skills within the course, they should be encouraged to find additional opportunities for themselves - including participation in other university activities outside the formal curriculum.

# Guidance for Students

## Background

### Your Experience with Organizations

Everyone has some experience of organizations already. You may be able to find examples of business concepts and theories from your own observations.

Types of Organization

- Families
- Schools & Colleges
- Religious Organizations & Charities
- Clubs & Unions
- Political Parties & Governments
- Work: Offices, Shops & Factories
- Consumer: Banks, Shops, Internet

Typical Role

- Participant / Observer
- Volunteer / Conscript
- Customer / Partner
- Insider / Outsider
- Manager / Managed
- Team Member / Individual

## **Your Future with Organizations**

You may have opportunities to work with a wide variety of organizations in many different ways. Your present studies of business and organizations should give you a basis for intelligent reflection and confident action in various future roles.

### Types of Organization

- Business: Commercial & Industrial
- Public Administration, Police, Armed Forces
- Not-For-Profit, Campaigning, Missionary
- Arts & Sports
- Task Force, Team, Project, Programme
- Joint Venture, Partnership

### Possible Role

- Founder / Director / Entrepreneur
- Manager / Employee
- Elected / Appointed Official
- Team Leader
- Consultant
- System Engineer
- Researcher / Reporter

*no ranking implied*



## Sources of Information

In addition to the required reading, you should spend some time following business stories and analysis in the media. This includes newspapers (especially the Financial Times and other broadsheets), magazines (Economist), television and radio programmes (Channel Four News, Newsnight and the Radio 4 Today Programme, as well as occasional documentaries) and the Internet. Some newspapers and magazines offer cheap subscriptions for students. Many newspapers and magazines maintain a website where you can read business articles online.

There are thousands of business books published every year - many of them offering simple formulas for business success. There are also many articles published on the Internet. While these books and articles often contain interesting and entertaining examples, they are usually uncritical and lack depth.

When studying a particular company, you may find useful information on the company's own website. You may also find relevant information by conducting an Internet search for the company name. (However, this technique doesn't work for computer companies such as Microsoft - any information about Microsoft as a company will be swamped by vast amounts of technical information about Microsoft products, which is probably not relevant to this course.)

Some sources - including Private Eye as well as some web sources - contain detailed allegations against business or-

ganizations and other institutions, often suggesting serious malpractice or incompetence. While these sources can provide a useful contrast to the bland and often misleading material provided by the companies themselves, it is usually safer to regard them as unfounded allegations rather than proven fact.

If you have family or friends in business or management positions, they may be willing to discuss some practical issues with you. You should always regard such discussion as private and confidential - if you use privately-sourced information about an organization in class or with your fellow students, you should not name the organization. Of course, information that is already in the public domain may be freely repeated.

## **Skills**

### **Broad Awareness / Business Intelligence**

When studying business, you should take a keen interest in business, and be willing to engage with the details of business organizations.

Interest in business doesn't necessarily mean you always have to be pro-business. You may take either side of the debate, but you need to have the data and arguments to support your position.

## Connect Theory with Practice

*“There is nothing so practical as a good theory.”* Use theory to explain and interpret practical issues, to make predictions, and to justify practical recommendations. Use practical examples to illustrate and test theory.

To the extent that you have direct experience of organizations, you should be able to use the theory to reflect on your own experience. In any case, you should be able to use theory to reflect on case studies and other material.

If possible, you should also try to do the converse - to use the practical material to identify the limitations of a particular theory. Regard a theory as a tool, which may be useful in many situations but may not be applicable to all situations. *“To the man with a hammer, everything looks like a nail.”*

## Critical Distance

You should always try to take a critical distance from your sources. Recognize that people within organizations have a unique insight into these organizations, but also that they may have strong attachment to certain positions and perspectives, so they often don't or can't reveal the “whole truth” about what is going on. Official statements and press releases, or one-sided statements about internal political disputes should never be taken at face value. Try to read between the lines, to make an intelligent guess at what's

really going on. If you're doing an in-depth study, don't rely on a single source of data.

## **Presentation Skills**

If you are studying this material formally, you may be required to present your analysis and conclusions in clear written and spoken form. You should pay attention to the structure of your presentations and essays, and to the logical flow. Your reasoning should be visible and coherent.

## **Independent Judgement**

You should be able to arrive at your own judgements about business in general, and about particular organizations and management styles. I do not ask you to take any particular stance towards business. However, I do ask you to try to take a clear position, and support it coherently and robustly.

## **Additional guidance for university students**

You may have studied any of these topics previously (e.g. at A-level). You may recognize some of the buzz-words.

Now you are at university, your understanding and use of these concepts should be

- *broadier*
- *deeper*
- *more integrated*
- *more critical*

University study also has the following characteristics.

- Intellectual and social development
- Independent study - you are not always going to be told what to read, or what to think.
- Extend your ability to appreciate and balance different points of view.
- Make and justify your own judgements.
- Develop clearer powers of expression.

## **Additional guidance for IT students and practitioners**

### **Practical objectives**

For planning, designing and implementing IT solutions for business agility and competitiveness, you need to know

- how business value and viability is measured;
- how business systems generate economic and other forms of value.

For planning, designing and implementing IT solutions for people in organizations, you need to know how people work in organizations.

For planning, designing and implementing IT systems as management support tool, you need to know how management works in organizations.

For running IT projects with people in organizations, you need to know how people work effectively in teams.

## **Theoretical Side**

Applying general systems theory to the study of technical systems, social systems and sociotechnical systems.

Appreciating the business value and human cost of IT systems.

Understanding IT systems as an expression of a particular theory of management.

- IT systems inherit management agenda
- Value of IT systems is only meaningful within a given management agenda.
- IT systems may inherit any political, social or ethical critique of the management agenda