

Societies and Inflation  
With Particular Relation to the  
Management of Societies

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Management has been accustomed to an economic situation where the rate of economic change was, in financial terms, relatively slow. With costs and prices rising steadily but not rapidly, management adapted through a process of piecemeal adjustment which took place without any great upset to the society or to the beliefs and operational methods of management. However, the present rate of inflation is such as to threaten this relatively stable state and the ways in which management thinks and behaves.

Need for: 1. New Procedures of Control

In the first place management finds that reliance on the historical view, on what has happened in the past, is no longer an effective guide to the present and the future. Experience loses some of its value. In practical terms this means, among other things, that control figures based on past performance lose some of their validity; for example, average personnel costs based on the last six or twelve months of a highly inflationary period give little or no guide when the important question is what has happened in the last month or so, for this may bear little relation to the longer term average.

This example emphasizes the dilemma of control and adaptation. In times of rapid change there is need for efficient control systems so that management quickly knows what is happening and can do something to control the situation. In a period of very rapid change, that is doubly difficult. First, control systems imply stable procedures and

structures but these may create just those inflexibilities that are dangerous in a rapidly changing situation. Procedures devised for more leisurely times, when little or no harm was done if information was processed on the basis that it would still be relevant in three months' time, are not at all satisfactory when information is required almost on a day-to-day basis. Thus new procedures are required. Secondly, the control information that is eventually at the disposal of management is likely to be out of date. In a period of rapid change, no matter how speedy the transmission and processing of control information the situation to which it refers will have altered; decisions based upon that information will be out of date and to a great extent inappropriate. The actions resulting from these management decisions are likely to be mismatched with the situation in which they are applied. This does not mean that all is lost, but that management has to build into its decision-making a greater tolerance for uncertainty and error.

In management terms this means that greater emphasis has to be laid on the development of more flexible procedures and structures, discarding many long-accepted ideas about management authority and delegation. The need for greater speed points to greater decentralisation in the large retail society, with managers having greater discretion to make decisions in the face of rapid change in their own functional, geographic and commodity areas. At the same time these decisions will have to be taken within a policy framework that is well understood and is itself flexible. More frequent and regular meetings of top management will be essential so that a co-ordinated policy can be maintained within which management can operate and use their discretion. This pattern of management with its emphasis on much more frequent meetings coupled with added delegation needs to be developed throughout the retail society. It will have the benefits of providing frameworks within which management can operate at all levels and it will provide a mechanism for maintaining management co-operation in difficult times. In this way it will contribute to the maintenance of morale.

## 2. To Think in Systems Terms

A second significant way in which rapid inflation disturbs established management beliefs and behaviour is that uncertainty takes on a new and threatening meaning. In one sense there is a high degree of certainty; managers are certain that inflation will continue at a high rate for some time to come. What is uncertain is the effect of this on the business of the society, on the consumer, on the general level of economic activity, on employment levels and on the activities of Government. There is also the uncertainty as to when if ever the high rate of inflation will turn down. Management is faced with a level of uncertainty that calls for a radical relearning of much that is taken for granted. Learning new methods and new ideas was less urgent in the past, managers could take their time and indeed could cope with change through active and more or less systematic resistance. Managers could be inattentive to the information which threatened their current ways of looking at things, and still hope to survive. They were able to develop programmes to keep things as they were and, where change could not be wholly avoided, could strive actively to contain it if not suppress it so that it created the minimum of disturbance to the established ways of operating. Where change had to be accepted in any area of management the stability of the remainder would be stressed. All these tactics were aimed at keeping things as they were and so long as change was not too rapid they might well succeed without destroying the society. A society could survive without speedy adaptation while operating in a manner which did not take much account of many of the changes in the environment. This view of change can be seen as part of the general attempt of management to maintain a comfortable level of stability.

However in the present situation these traditional means of defence no longer work and this in itself is upsetting for managers. In a time of high inflation managers cannot disregard the never-ending signals which point in the same direction; they cannot undertake stabilising exercises when they have not adequately developed techniques for

handling the situation; they cannot suppress the facts and effects of inflation because these infiltrate every part of the working of a retail society, so that managers cannot balance change in one part against stability in another part of the society.

Management is thus engaged in the task of learning a new way of handling a situation while at the same time keeping the society in business. The problem is not made easier by the fact that even the language of the past loses some of its meaning. Inflation no longer means price rises of three, four or even five per cent per year, it means rises of the order of twelve to twenty per cent per year. It calls for a new understanding. If managers are to cope with this new situation they will have to think more than ever in systems terms, that is, to think about the inter-relationships of the different parts of the society, of the different functions within it and of the flows of goods, people and money within and between it and the environment. The relationships between rapidly changing price levels of different commodity groups and lines, and between different rates of costs and revenue will all call for urgent attention. Established ideas on product mix will need to come under scrutiny as well as many other aspects of the total retail society.

### 3. For Flexible Attitudes

A third significant impact of high rates of inflation is that the overall attitudes of management come under pressure. In times of slow inflation, steadily rising prices allied to the reality of steady expansion creates an atmosphere of optimism and there is the feeling that the situation is under control. Very rapid inflation and uncertainty about the future, with the past providing little in the way of guidelines, provide a new type of situation and there is the tendency for a feeling of helplessness to appear, a feeling that the situation is out of control, a feeling that is strengthened by the uncertain political and social context which inflation generates. This situation can have the effect of making management

less willing to look at long-term plans and more ready to take ad hoc decisions to gain some measure of protection. For example, there is the danger that managers over-insure by trying to procure immediate supplies for fear they will be caught short later. The result may well be the creation of shortages, increasing prices still faster and pushing up operating costs. More generally inflation can lead management into decisions which distort the distribution of resources.

The sense of loss of control mentioned earlier may be felt particularly by those managements which have in the past relied heavily on external sources for their continued survival. Relations with suppliers and markets can be upset as firms and societies become more vulnerable and as consumers' behaviour becomes more uncertain.

Inflation places management in a state of flux and moves it into unknown areas. Any reaction of panic or pessimism can only add to the difficulties of management. What is needed is that managers give systematic thought to the impact of inflation on the individual trading departments within the society, on the functional departments such as personnel, on the relationship of goods to cash and on the total operation of the society. A continuing appraisal on these lines coupled with greater flexibility of attitudes, structures and processes allied to a built-in, realistic appreciation of the nature of inflation could create an effective management for a Co-operative society.