

# СУЧАСНІ ІНСТРУМЕНТИ МЕНЕДЖМЕНТУ ТА МАРКЕТИНГУ

Jel classification: D91; L26; M12

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## INNOVATION MANAGEMENT BASED ON JUDGMENTAL DECISION

The relevance of the topic analyzed is of emerging interest in the innovation and entrepreneurial field of economic and social scientific research. The object of the study is to penetrate the differences between business management and innovation management. International independent science, which excludes all kinds of endogenous and exogenous involvement in the scientific process, is the methods behind the study. The issues discussed in the article are the roots and traditional meaning of management, the philosophy of business and social entrepreneurship, ethical and practical principle of money and vanity as motivating factors and driving forces behind the outcomes for the worker, the principles and consequences of judgmental discussion making, non-hedonistic and motivating factors for the entrepreneur, development and entrepreneurial profit, the creation of a better world for everyone based on the capacity of the social entrepreneurs. The goal of international independent science as a method is to present the scientific truth, which manifests the conclusion of this article.

**Key words:** innovation management; entrepreneurial profit; wage; vanity; cadre

**Introduction.** This article deals with a main scientific topic, which is to analyze the fundamental consequences of innovation management respective business management, or management by tradition. Management is something more and something different than leading the production function under predictable and traditional circumstances. Furthermore, how can management as a philosophy contribute to create a shift in the economy, to create wealth for the entrepreneur and the family, and lay the foundation for a better world for all, which are the pressing issues of the emerging science on innovation and entrepreneurship dealt with in the study?

**Brief Literature review.** Innovation management is a scientific topic that stretches back to the era of the French Physiocrats. Its meaning is the coordination of goals and resources efficiently based on planning, organizing, staffing, leading and controlling in the process of innovation. Actually, innovation management is also deeply involved in business philosophy and reflects the fundamental principles that underline formation and operation of an enterprise: the nature and purpose of the business and its role in society, influenced by philosophy, ethics and economic theory. The primary goal of any business is to make a profit, be it in monetary terms or otherwise. Products and services are the means that secure the creation of a profit as the primary goal and output based on the production function. In classical term, the production function runs by a set of input

factors, land, labor and capital. The meaning of management, as a philosophy and a pragmatic tool is to secure the optimal use of time and resources and to gain market shares by successful competition, all conducted through and by the production function.

It is easily understood that the production function is run by tradition, the same operations repeatedly taking place over time. That is also the case with management [1]. Management is closely linked to the production function, and has been taught at universities for a very long time, it has been delivered from fathers to sons in the family businesses, and through the tradition in companies, branches and economic sectors. Management is deeply rooted in the belief that “if we are clever enough, the consumers will buy our products and services”. Anyhow, that belief is wrong. There is no room for every competitor; the competition will expel those businesses that cannot meet the challenges on the market. In other words, management by tradition does not have the capacity to meet the competition based on consumers’ desire [5].

Management comes probably from the Italian word *maneggiare*, which means to handle tools and especially to handle horses [6]. Horses represent power, horsepower, and it takes a strong and skilled individual to handle all that power. There is a clear parallel between handle the horsepower and handle the work force, both represent power, and that power must be directed in one and the same direction,

otherwise the effect of the two powers will result in nothing, or in the worse scenario, in a catastrophe. To handle tools is also a profession of a skilled individual. In both cases, the expert individual is on top of the tools and the horsepower. The modern meaning of management is to handle others. That is what the manager is doing, leading the work force as part of the production function. There are three levels of management in the business sector. On the top level in any business of scale, we have the board of directors and the executive officer (CEO); they decide and communicate the strategy to the middle managers, and finally the team-leaders or supervisors who oversee the daily work of the worker. Alfred D. Chandler Jr. (1962) [4] concluded that structure could be defined as the design of an organization through which the enterprise is administered and that structure follows strategy. In those businesses who failed to succeed, according to Chandler Jr., the top managers were too involved in everyday activities, did not understand or appreciate the long-term goals of the company, their training and education failed, or they did not have the ability to handle the problems. Management is a profession like any other profession, and it is compensated by wages; managers are wage earners. Management as a profession offers the work force many options, not at least vanity [8]. The higher ranking, the higher wage, the bigger office, the fancier job description and title, the more personal to manage the bigger the vanity is. Vanity is always the wrong focus for the laborer. In management, the focus should be on running the production function more efficiently. Management as a philosophy is contradictory, because the managers cannot identify with the long-term goals, only with the personal outcomes that are gained from the process on the individual level, which are wage and vanity.

The process of decision-making in business management is based on aggregating votes in those cases where more than one individual represents the ownership. Decision-making based on aggregating votes makes it very difficult, almost impossible to gain understanding and appreciation among the whole board of directors and even staff. Aggregating votes as means of decision taking reflects the relative power structure in the company but not necessarily the beneficial or appreciated solutions. Majority is not always right, but it has the right to make decisions. In some cases the manager is also the partially owner. The manager might own shares, or other equity or debt capital investments in the company, and at the same time function as an employee, as decision maker. It is easy to understand that the double function might be problematic and give some ethical issues. If the solution based on majority is against the will and the benefits of the employee as an investor, it is almost impossible to accept and associate with

the long-term goals in the role as manager. The solutions will be to sell out or quit. Anyhow, the business management is always an endogenous function as part of the production function. Managers form a specific cadre, either as wage earners or as capital owners, or both, depending on their role and connection to the company [7].

Three different roles that should be recognized are capital owner who is responsible for the debt, the entrepreneur who makes the innovation, and the manager who is responsible for leading personnel. Mark Casson (1982) [3] defined the entrepreneur as someone who specializes in taking judgmental decisions, excluding the team, the committee and the organization. Casson accepts that everyone might be involved in taking judgmental decisions now and then, but that does not make them specialists in decision taking. The three different roles can be represented in the same person at the same time. When the entrepreneur is carrying out the new combinations of land and labor, the person is operating only in the role as entrepreneur, and he is not the capital owner or manager. If the entrepreneur has invested capital in the enterprise, the person represents the role of the capital owner, and might lose the capital and even be responsible for the debt. Finally, the entrepreneur can take the role as manager, and in this case, the economic benefit will be wage for the strenuousness.

Innovation is the carrying out of the new combinations, as put forward by Joseph A. Schumpeter (1934) [14]. Innovation, according to Schumpeter, implies that one is able to do something that previously could not be done, or at least not so efficiently or economically. Innovation is a spontaneous change in the production function, which leads to a technological shift in the whole economic system where the game of competition is forever changed. Companies who do not change to the new production function will be losers and eventually disappear from the market. Business management based on tradition is not sufficient to follow the change. Companies must adopt to the new production function and thereby compete with new sets of rules. Either the old products and services will be changed to the new ones or they will transform to a more efficient or economical optimal. Because the production function for innovation runs with only two input factors, capital has resolved into land and labor. Thereby the entrepreneur, according to Schumpeter, is an economic agent in the social system. The entrepreneur is named the capital leader because the capital is represented in land and labor and the mission is to run the production function in such a way that entrepreneurial profit occurs. The entrepreneurial profit is not a motivating factor for the entrepreneur; it is only a proof that the idea was right.

The entrepreneurs are not motivated by any hedonistic desires or anything money can buy. Entrepreneurs are strong individuals and they operate individually, they do not form any cadre and they are exogenous relative to the production function. Entrepreneurs are never members of any team or management group, they operate based on their will and action. Furthermore, the entrepreneurial profit is the property of the entrepreneur, and there will never be any kind of sharing or dividend of the profit. The individual entrepreneur is one of one, never one of many in a group. Entrepreneurship is not a part of the sharing economy.

It is a common view among both scientists and practitioners that Schumpeter's definition of the entrepreneur is the core approach to entrepreneurship as a scientific topic. Jan-Urban Sandal (2004) [11], defines social entrepreneurship as a special form of management whose purpose is to run a production function in such a way as to ensure increased value for all the participating parties in that function. The main objective for social entrepreneurship is to make the world a better place for everyone. To reach that goal is a very big task. Nevertheless, it is said to be the mission and the justification of the social entrepreneurs [15]. The social entrepreneur must secure an entrepreneurial profit based on a social innovation. Typically for social entrepreneurs is that they operate in the second and third sectors of the economy. Furthermore, the stakeholders, whoever they might be from case to case, should achieve social and economic benefits. That is only possible if the social entrepreneur operates independently based on personal strength like the personal will and action [10]. The social entrepreneur is never operating on behalf of anyone other than himself, the individual person who is defined as social entrepreneur. To manage oneself is exactly what the social entrepreneurs, as the business entrepreneurs are doing. The entrepreneurs are taking the decisions by themselves, based on a critical and judgmental process of taking the right decisions. No one can interfere in that process of decision-making, because the entrepreneur is the owner and controls the innovative process. The entrepreneur is a specialist on taking decisions [2].

The opportunities of becoming an entrepreneur are open for everyone, especially when we talk about the western style democratic societies. Anyway, the talent that is needed to succeed as entrepreneur is scarce in the populations, and many have tried and many have failed.

Business management is about taking decisions in a business environment where almost all facts are known and with high degree of predictability and based on aggregating votes in those cases where

more than one individual represents the ownership. Business management is to manage others.

Innovation management is about taking decisions in business environments where facts are unknown and without any predictability. Innovation management is to manage oneself. That is what the entrepreneurs are doing, managing themselves. There will never be any dispute in the process of decision making as we find in the business management, because only one individual person is involved in the making of judgmental decisions.

The prerequisite for reaching the high goals of the social entrepreneur, to make the world a better place for everyone, is the process of judgmental decisions [9]. No team, board of directors, committees, governments or authorities can take that position. When others than the sole entrepreneur are taking the decisions, the production function is being used to preserve what already exists, in other words, produce more of what we already have too much of, and to prolong the existing society. That process leads the economy and the society nowhere and represents the opposite of innovation [13]. What is needed is to continue the international independent scientific research on topics like innovation, business and social entrepreneurship, innovation management and business philosophy, ethics and economic theory in the sphere of growth and development, and with special emphasis on how society can change to the better for all without intervention of the political and governmental structures [12]. Innovation management, or manage oneself, is of an invaluable scientific approach sphere if systemic hindrances are to be overcome by the single individuals as non-political democratic powers to reconstruct society and to boost its improving to the kind of society where the individuals life potentials can flourish.

**Purpose.** The aim of the scientific research is to analyze the differences between business management, or management as usual, and innovative management, which is based on judgmental discussions and thereby have the capacity to develop the economy as a whole in the process of innovative entrepreneurship. Furthermore, the intermediate aims are to show that academic education, training and skills in management are neatly connected to wage as the input factor in the production function, and that management by tradition reflects social class belonging as a cadre, while innovation management is based on talent and ability without any boundaries to class whatsoever.

The methods used in this article are based on literature review and analyzes of the most relevant and emerging theories in the fields of business management, innovation management as well as theories of business and social entrepreneurship and

social innovation, relevant for this scientific process. The time span of the review is approximately three hundred years back in time and is limited to the fields of the research topics only, pointing directly to the second and third sectors of the economy. For natural reasons, as a consequence of the topics investigated, the first economic sector and political, religious and military aspects are kept out. References are strictly directed to the issues discussed and synthesis are based on analyzes made on top of the scientific literature presented. The literature, which makes the basis of the analysis, is global, in both space and time, and its secondary literature is covered by the human magnitude of philosophy in the field. The most fundamental principle of methodology used in this article is international independent science, which ultimate goal is to present the scientific truth. Independent science is exogenous to the production function, and based on the fact that no wages, capital, power structures or interventions on behalf of any principal figure whatsoever can intervene or manipulate the scientific process or the scientific results.

**Results.** The results of this independent scientific analysis of the literature reviewed is magnitude. Management probably comes from the Italian word *maneggiare*, which traditionally meaning is to control horses and the use of tools. In modern scientific use of the word, it has two meanings, to manage others and to manage oneself. Managing oneself is the mission of the entrepreneur, be it business or social. Business management by tradition is the mission of the special cadre, which social class group members are recruited to jobs as managers on three distinct levels in any business of scale and whose mission is to run the production function as efficiently as possible. The management cadre is overseeing the work of the lower social class, the laborers, but often fails in their effort to reach the strategic long-term goals. The management cadre represents an ethical dilemma, as the individual manager can possess two different role at the same time, manager as wage earner and owner of the company through investments. Business management by tradition takes decisions by aggregating votes while entrepreneurs make judgmental decisions, and is characterized as innovation management.

To manage others, which is the modern use of the word, originating from *manggiare*, has some significant consequences. The fact that some people is on top of other individuals in the structure of running a production function has created a situation for cadre based on management. Illustration of this situation can be a hammer and a nail, where the hammer symbolizes the manager who is in position to exercise power and violence, both physically and psychologically and by other means, and the nail the

one who is being suppressed, knocked down and taken advantage of. The pyramid structural thinking and acting is not supporting equality, or intellectual capital stimulation, because both levels represent contradictory powers towards each other in the stimulus of the human capacity. They are both controlled and in opposition towards each other. Fake motivation arranged by the owner like competition, motivational programs, rewards for best ideas etc., in a long range of activities and programs only manifest the divergence in the input factor of labor and has no change to convert the business into a competitive organization at the end. Due to the competition on the market, which is a threat to the businesses managed by tradition, they cannot easily transform to the new. They will inevitably be pushed towards governance by monopoly, unfair competition, privileges, unjust pricing and marketing and eventually seek closer relations to governments on all levels, which is the main source of corruption and waste of opportunity and taxpayers money. In the end, the businesses run by management by tradition face three solutions to their future, transform to the new based on the adoption process, voluntary liquidation or continuation based on coercion by forcing the surroundings to obey by using force, threats or brutality. Nature destruction is also a part of this strategy, and activities by overloading natural resources as a compensation for failed competitiveness. When this nature destruction is taking place on a large scale, it is usually done only by governments' acceptance or by governments' turning their blind eye to the realities.

Innovation management, managing oneself, is what the entrepreneur is doing. The entrepreneur is stimulated by reaching the final goal; which is the currying out of the new combinations. That is always being done without interference of the politicians or governments. The successful entrepreneur never faces the three options, which so clearly is the runway for the businesses governed by traditional management. There will be no demolition of the nature made by the entrepreneur, because the consumers are the real boss, and without their consent on the market, the entrepreneur can do nothing. The consumers are the guarantee that the entrepreneur is doing the right thing.

The reward of vanity is emptiness. The reward of wages is everything money can buy. The manager is left with only two values, consumption and emptiness. Consumption is important to both the micro and macro economy. Micro, because the worker must satisfy the need to buy to live, macro because the economy as a whole is dependent on the sales, because money is what makes the world economy go round. Enjoyments and pleasures are values that come with money and vanity. The

manager usually gets little pleasures that he can afford to buy for the wage, because most wages are neatly calculated to cover only the basic needs for the laborer and the family. Vanity is a fake value given to the laborer. There are many alibies for offering the worker vanity. The alibis work both ways, for both the giver and the receiver. Uniforms, business attire like shirts, t-shirts, jacket etc., distinctions on clothes, educations, university degrees, diplomas, titles etc. in a long row are effective symbols and rewards that attract workers and stimulate them to work harder, and to become obedient to the company and loyal to the cadre for a very low company spending. Vanity is a bubble that bursts. In the end, vanity is good for nothing, and most workers look the opposite way after discovering the fake embedded in vanity. All kinds of competence building, academic and pragmatic are stimulus in the vanity group, even though some of the tradition presented in the education might be used in the day-to-day operations of the actual production function. In the end, all of that kind of activity will be a part of the bubble that bursts, because its usefulness is limited to the time and place that its meaning was to satisfy in the first place. One very common female vanity, which is to be observed all over the globe, and that illustrates the point in an excellent way is: "what kind of feelings will your mother have if you start studying at the university and become a medical doctor, thereafter get a position at the university hospital in the capital of your country so you can help many people". Female vanity usually borrows positions and fake values from the man's world in lack of good status positions from traditional female activities. When the worker is fired or laid off, social security by welfare is the solution. Social benefits are substitutes for wages, but there are no vanity connected to welfare. No common vanity structures exist, like f. ex. unemployed of the second grade or third degree, or generally speaking being retired and gaining vanity of different classes and status. If the individual has had a position as manager previously, a reference to that employment position will be used, f. ex. retired director of management, Professor emeritus, retired pilot etc. In other words, the manager will leave the production function without gaining any new platform for vanity.

The entrepreneur is motivated by using creativity, relative strength, to win the competition and to prove that the idea was right. There are no kind of hedonistic desire or vanity involved in the process of entrepreneurship. The entrepreneur is remunerated by profit only, and when the time comes when the entrepreneur no longer is active in the business life, the entrepreneurial profit will still finance the living expenses. The entrepreneur is not dependent on welfare or pension, like the manager. In some

countries, every citizen is entitled to receive pension, or welfare, and there should be no reason whatsoever that the entrepreneur should not receive the fair share of that benefit.

There is a widespread misconception about the meaning of social entrepreneur. Some think that social means to be social as a person, always nice, goodhearted, well behaving and kind. That might very well be, but the meaning of social in this connection does not describe the personal qualifications or personal attitudes of the individual. The meaning of social points to the third sector of the economy. Sometimes the social entrepreneur has to hire and fire staff. Most people would think that hiring staff is a friendlier attitude to the employers than firing them. Anyhow, that kind of argument is irrelevant, because the social entrepreneur must always follow the rules of game on the market, and that might force the entrepreneur both to fire and hire people. Nevertheless, staff, like all other parties in connection to the production function are important to the entrepreneur, which of course inflicts on the way they are treated. In the case of the entrepreneurs, one cannot talk about the hammer and the nail; it is more just to speak about attitudes like friendship, respect, high level of communication, common values and a prosperous future for all.

**Conclusion.** Innovation management is different from business management or management by tradition. The important differences are that innovation management is the process of judgmental decision-making while business management is done by aggregation votes, representing the management of others, while the entrepreneurs are managing themselves. Furthermore, managers are wage earners, motivated and controlled by wage and vanity, representing the cadre characterized by hammer and nails, while entrepreneurs are remunerated by entrepreneurial profit only, and they are never motivated by hedonistic desires or any kind of social class belonging, brutality or arrogance. Business management does not contribute to the change of the production function or the society, while innovation management is the skill of successful entrepreneurs and represents the ability of development and change based on innovation. The novelty of the scientific process is the fact that the distinction between manage others and manage oneself has not previously been a reference frame in the analysis of management and innovation. Innovation management is what is needed to transform the society to become a better place in the future for all. The method to be used is exclusively international independent science, which results are the scientific truth. Relevant scientific research topics in the future would be innovation management, the process of judgmental decision-

making, innovation as the tool of society transformation, the entrepreneur as a non-political

democratic power in the development process of the society, the meaning of a better world for all.

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## Аннотация

Ян-Урбан Сандал

## ІННОВАЦІЙНИЙ МЕНЕДЖМЕНТ НА ОСНОВЕ ВЗВЕШЕНОГО РЕШЕННЯ

Актуальність аналізованої теми викликає ростиючий інтерес к інноваціям и підприємництву в області економічних и соціальних наукових досліджень. В основі дослідження лежить міжнародна незалежна наука, виключаюча все види ендогенного и екзогенного участія в науковому процесі. В статті розглядаються корні и традиційне значення менеджменту, філософія бізнесу и соціального підприємництва, етичний и практичний аспект грошей и щастя як мотивуючих факторів и рухомих сил, лежачих в основі результатів для співробітника, принципи и наслідки взвешеного прийняття рішення, негедоністическіе и мотивуючі фактори для підприємця, розвиток и підприємницька прибуль, створення кращого світу для всіх на основі можливостей соціальних підприємців.

Ключові слова: управління інноваціями; підприємницька прибуль; заробітна плата; щастя; кадри.

## Summary

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