

# Improving the



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# BOTTOM LINE

THE END OF  
MANAGEMENT  
AS WE KNOW IT

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## The End of Management As We Know It

Management is out of date. The principles upon which we run companies haven't evolved to keep pace with the rapid changes of 21st-century business needs. Most companies, however, continue to operate on management principles formulated in the last century and based on manufacturing needs.

Like the combustion engine, it's a technology that has stopped evolving. This isn't good because management—the capacity to marshal resources, lay out plans, schedule work and spur effort—is central to influencing human behavior.

When management is less effective than it needs to be, companies—and people—pay the price. What constrains most organizations' performance is not their operating or business models, but their management models.

While most companies have methodologies for product innovation, rarely do they examine their management processes.

In recent years, there has been a push to systematically reinvent business processes and systems for the sake of speed and efficiency. Curiously, so few companies apply any attention to the kind of innovation that matters most: *management innovation*.

## Why Reinvent Management?

Gary Hamel, author of *Leading the Revolution and Competing for the Future*, addresses the need to reinvent management in his recent book, *The Future of Management* (2007).

Without revamping management, companies will find themselves in the dinosaur bone yard, relics of outdated practices and bureaucracies that stifle innovation, dispirit employees and cause obsolescence.

There have always been dinosaurs — companies like Kodak, Sony, Sears and General Motors, which failed to reinvent themselves on a timely

*Hamel believes that companies will face do-or-die challenges in the near future that can be conquered only with inspired changes in how we manage.*

basis and paid the price.

In recent years, however, entire industries have suffered because they couldn't adapt fast enough. TV networks, newspaper publishers, record companies, traditional airlines and giant drug companies struggle with outmoded business models.

Some will eventually regain their footing. In the meantime, billions of dollars and millions of customers will be lost.



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## Overcoming Trade-Offs

Modern management has succeeded in conquering many industrial challenges. The management principles we use today tackle problems like:

- ▶ Breaking complex tasks into small, repeatable steps
- ▶ Enforcing adherence to standard operating procedures
- ▶ Measuring costs and profits
- ▶ Coordinating the efforts of tens of thousands of employees
- ▶ Synchronizing operations on a global scale

But these achievements come at a price. While the machinery of modern management forces diverse, opinionated and free-spirited human beings to conform to rules, there are big trade-offs.

Conformity squanders human imagination and initiative. While it brings discipline to operations, it slows things down. Discipline and conformity imperil organizations' abilities to react to market needs and adapt quickly. In today's climate, rapid adaptability is crucial.

While the management system, as we now know it, has multiplied the purchasing power of consumers worldwide, it also requires them to spend hours captive in jobs with routines they may or may not enjoy.

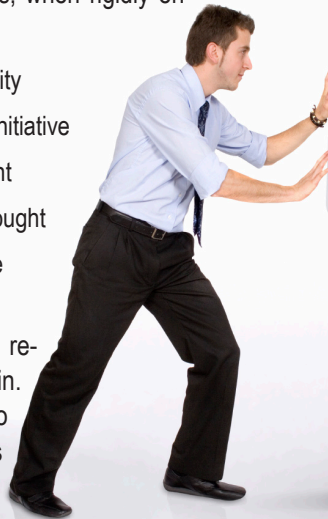
Modern management has helped make businesses dramatically more efficient, but there's little evidence it has made them more ethical or socially responsible.

Gallup surveys reveal two-thirds of employees are not engaged or are actively disengaged. Conformity to rules and operating procedures, when rigidly enforced, causes:

- ▶ Slower adaptability
- ▶ Less employee initiative
- ▶ Less engagement
- ▶ Less creative thought
- ▶ Fewer innovative ideas

Perhaps it's time to re-negotiate the bargain. How can we learn to coordinate the efforts of thousands of individuals without stifling imagination? How can we build organizations where discipline and freedom aren't mutually exclusive?

In this new century, we can strive to transcend the seemingly unavoidable trade-offs that have been the unhappy legacy of modern management.



## Strategic Inertia

Large organizations are not usually strategically nimble, innovative or highly engaging places to work. Many factors contribute to strategic inertia, but three pose the most serious threats to rapid adaptation:

- ▶ 1. Management teams' tendency to deny or ignore the need for a strategy reboot
- ▶ 2. Too many compelling alternatives to the status quo, which lead to strategic paralysis
- ▶ 3. Allocational rigidities that make it difficult to redeploy talent and capital behind new initiatives

The problem is, management orthodoxies are often so deeply ingrained in executive thinking that they're nearly invisible. They are so devoutly held that they're unassailable. They ignore the warning signs until a crisis forces them to change.

Changing the way we manage can deliver potent advantages to the innovative company and produce seismic shifts in leadership. Technology and product innovation, by comparison, tend to deliver small-caliber advantages.

A management innovation creates long-lasting advantage when it meets one or more of three conditions:

- ▶ 1. The innovation is based on a novel principle that challenges management orthodoxy
- ▶ 2. It is systemic, encompassing a range of processes and methods

### What's Different Now?

There are undoubtedly seismic winds of change afoot: world-flattening communications, China's and India's rise to power, climate changes, and religious unrest. But what distinguishes our business climate is the accelerating pace of change.

In the near future, the adaptability of every society, organization and individual will be stressed as never before.

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." – Charles Darwin

Great changes and perturbations create opportunities, as well as chal-

lenges. Organizations and individuals who can rapidly shift their strategic missions and manage change well will survive.

The most critical question for every 21st-century company is: **"Are we changing as fast as the world around us?"**

To thrive in an increasingly disruptive world, companies must become as strategically adaptable as they are operationally efficient.

To safeguard their margins, they must become gushers of rule-breaking innovation. If they're going to out-invent and outthink a growing pack of up-starts, they must learn how to inspire their employees to give the very best of themselves every day.

- ▶ 3. It is part of an ongoing program of invention where progress compounds over time

Here's how some companies created management innovations in the last century:

- ▶ 1. GE's industrial research laboratory, as well as its commitment to improving management talent
- ▶ 2. DuPont's development of capital-budgeting techniques with ROI calculations
- ▶ 3. Procter & Gamble's approach to brand management
- ▶ 4. Visa's groundwork for industry consortiums
- ▶ 5. Linux's open source development and online collaboration
- ▶ 6. Toyota's problem-solving contributions from front-line employees
- ▶ 7. Whole Foods Market's recognition of the power of community, teams, rewards and compensation systems

## Management Innovation Defined

According to Gary Hamel, a management innovation is "a marked departure from traditional management principles, process and practices, or a departure from customary organizational forms that significantly alters the way the work of management is performed."

Management innovation changes how managers do what they do, including:

- ▶ Setting goals and laying out plans
- ▶ Motivating and aligning efforts
- ▶ Coordinating and controlling activities
- ▶ Accumulating and allocating resources
- ▶ Acquiring and applying knowledge
- ▶ Building and nurturing relationships
- ▶ Identifying and developing talent
- ▶ Understanding and balancing the demands of outside constituencies

Management processes like strategic planning, capital budgeting, project management, hiring and promotion, employee assessment, executive development, internal communications and knowledge management are the gears that turn management principles into everyday practices. They establish the recipes and rituals that govern managers' work.

While operational innovation focuses on a company's business processes (procurement, logistics, customer support), management innovation targets a company's management process.

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## How to Become a Management Innovator

Innovation is always a numbers game: The more you do it, the better your chances of hitting a winner.

As with other types of innovation, the biggest challenge is generating truly novel ideas. It's possible to increase the odds of a "Eureka!" moment by assembling the right ingredients.

Some of the essential components include:

- ▶ A recurring problem that demands fresh thinking
- ▶ Novel principles or paradigms that illuminate new approaches
- ▶ Careful deconstruction of the conventions and dogma that constrain creative thinking
- ▶ Examples and analogies that help redefine what's possible

Let's explore these four elements.

### I. Commit to a Big Problem

Big problems don't always produce big breakthroughs, but little problems never do. If you want to turn your company into a management innovator, Hamel suggests you commit to solving a big problem in a fresh way. Ask these questions to stimulate your imagination:

- ▶ 1. What are the tough trade-offs that your company never seems to get right?
- ▶ 2. What are big organizations bad at?
- ▶ 3. What emerging challenges does the future have in store for your company?

### II. Search for New Principles

Novel problems demand novel principles. If you want to prime your company for continuous, preemptive strategic renewal, new principles will be needed:

- ▶ Variety
- ▶ Devolution
- ▶ Allocation flexibility
- ▶ Competition
- ▶ Activism

These principles have not been inherited from the Industrial Revolution, but they will be necessary in the future.

The machinery of bureaucracy was invented in an age when human beings were seen as little more than semiprogrammable robots. If you want to build an organization that unshackles the human spirit, you're going to need some decidedly unbureaucratic management principles.

### III. Deconstruct Your Management Orthodoxies

A lot of what passes for management wisdom is unquestioned dogma. Management is not ordained. It does not operate according to scientific laws. You must loosen the grip precedent has on your imagination.

As a management innovator, you should subject every management belief to two questions:

- ▶ 1. Is the belief toxic to the ultimate goal you're trying to achieve?
- ▶ 2. Can you imagine an alternative to the reality the belief reflects?

Few companies have worked as systematically as Google to broadly distribute the responsibility for strategic innovation to workers. The conventional view of the CEO as the strategist-in-chief is merely a convention. It's not entirely wrong, but it's a long way from being totally right. When you closely examine other management conventions, the space for innovation grows.

### IV. Exploit the Power of Analogy

If your goal is to escape the straitjacket of conventional management thinking, study organizations that are decidedly unconventional. An organization like Alcoholics Anonymous manages itself well with self-organizing groups. Bangladesh's Grameen Bank has also invented new management thinking.

Where can you look to hunt down equally unlikely analogies that suggest new ways of tackling thorny management problems?

### *Get Innovative*

**How have your company's existing management processes exacerbated big problems you need to solve?**

There's no doubt that with each passing year, the present is becoming a less reliable guide to the future. So far, management in the 21st century isn't much different from management in the last century.

You can wait for a competitor to stumble upon the next great management breakthrough, or you can become a management innovator now.

In a world swarming with new management challenges, you'll need to be even more inventive and less tradition-bound than all those management pioneers who came before you.



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