CHAPTER ONE

Time for a Reset

The time for a management reset has come. A management reset is needed that is not simply a matter of making leaders more effective or adopting the latest twist on how to engage employees. It must be a seismic change, a complete rethinking of what an organization's objectives are and the way they are achieved, the kind of reset that has happened only twice in the past century.

What will this new world of management be like? Consider the following scenario. Your work week begins with you walking into a company meeting of 150 people. While many people are physically present, many are attending virtually. Everyone has gathered to design a new product or service solution to reduce water use in rural homes—an issue your futuring process has determined will soon become a huge environmental issue in Southeast Asia. Included in the meeting are company employees as well as members of nongovernmental organizations, governments, health officials, and potential customers.

For the next two-and-a-half days you work in a series of small groups, describing and designing a solution that everyone agrees will generate a reasonable profit, a positive impact on the natural environment, and an improvement in the quality of life in rural communities. At the end of the meeting you are exhausted but delighted by the outcome of the meeting. You wish you could go to "your office" to decompress and catch up on what has happened in the past two days, but like almost everyone else in your company, you do not have an office. Instead, you access your video mail via the link in your car and arrive home in time to spend an evening with your family.

Will environmental and social issues really be a front and center issue in the next management reset? Absolutely. The next reset will require companies to be as keenly tuned to a range of societal stakeholders as they are now to a range of investors. Just this orientation already exists at Patagonia, PepsiCo, and Unilever.

Will you really get a chance to think ahead and address issues before they become crises? Yes, and it won't be just you and a few key managers involved in futuring processes. It will include most members of your organization and key stakeholders. Such broad involvement in thinking about the future is the only way organizations will be able to keep up with the pace of change.

Will your job description call for you to participate in large-group design meetings? The answer is no because job descriptions lost their usefulness years ago, and the next management reset will acknowledge that jobs themselves are an obsolete notion. Instead, work will be defined by the projects and initiatives that drive current effectiveness and create future strategies. And don't count on your place in the hierarchy to give you power—there are many leaders in your organization because people rise to the occasion when leadership is needed.

Will offices be a thing of the past? Yes—to a large extent they already are. They are an expensive artifact of an era when the Internet did not exist and office size and location was a source of status and a valued reward. In the next reset, where you work will be determined by what you are doing and who you are doing it with. It is just as likely to be conducted in virtual space as it is in physical space.

A Brief History of Management

To understand the future of management, you first have to understand the past. We cannot successfully build the nimble, future-oriented, and socially savvy organization of tomorrow if we don't understand why new management approaches are created. Let's look at the first two resets so we will be able to drive the next one.

In the early 1900s, Western civilization had reached a developmental tipping point.[1] A shift in consumer demand was driven by population growth and an expanding number of social classes that multiplied the range of products and services that people wanted. At the same time, mass production technology burst onto the scene thanks to Henry Ford's development of the assembly line.

The first management reset occurred when the rational principles of bureaucracy—the only management framework available—were married with the scalable technology of mass production. It was a match made in heaven and led to the development of what we call *command and control organizations* (CCOs). Buoyed by the certainty of demand growth, the ability of CCOs to meet customer demand fostered an era of unprecedented economic growth.

Business and social changes also triggered the second management reset. The growing complexity of work, the rising education level of the workforce, and innovations in management practice led to the creation of organizations committed to employee involvement. In contrast to the assumptions embedded in CCOs, people were considered sources of creativity and innovation and not just mindless dolts needing autocratic supervision.[2]

The second reset led to the development of high involvement organizations (HIOs) and showed that people could be an important source of competitive advantage when they are managed in the "right way." Buoyed by the certainty of long-term productivity improvements, the high involvement approach to management garnered a lot of attention and generated significant increases in profitability. However, it did not replace command and control management as the dominant approach to managing large organizations.[3]

The economic success that accompanied both resets reinforced the management principles used by CCOs and HIOs. While GM and Exxon conjure up images of mechanistic bureaucracies, Whole Foods and Procter & Gamble are associated with visions of employee involvement. We are not going to debate whether the CCO and HIO management principles served us well; instead, we are going to argue that they are now obsolete for three reasons.

The first reason is the way social and business environments are changing. In the past, both the rate and complexity of environmental change were manageable using CCO and HIO principles. The luxury of growth in demand covered up mistakes in product and market development. Today, demand growth is much less certain, and most organizations are overwhelmed by the rapid changes that come from so many places and in so many different forms. Managers now find it nearly impossible to achieve the speed and agility required to keep up with, much less get ahead of, changes in the business environment.

There is an easily identified explanation for their confusion. CCOs and HIOs have trouble dealing with rapid change because they both wrongly assume that the business environment will be relatively stable. Buried deep in the managerial psyche is the belief that change is the enemy and that financial success can be achieved best by remaining stable.

We believe organizations must change the way they view change. To respond effectively to the type and rate of change they are experiencing, organizations must see change as inevitable and a chance to create a new source of competitive advantage. If they don't, they are going to go the way of the dodo bird and the dinosaur.

A second reason the CCO and HIO management principles are obsolete is the rapid pace of globalization. China is now the world's second-largest economy (and headed toward being the largest). Emerging markets will contribute more to economic growth than the U.S., European, or Japanese markets. Organizations that operate globally have no choice: they must operate within a variety of social, regulatory, and governmental contexts and with diverse workforces.

Unfortunately, the path to globalization is littered with cases in which organizations from developed countries have been fully or partially responsible for supporting sweatshop working conditions, child labor, environmentally damaging practices, or other unethical activities. Too many organizations, especially those from the United States and Western Europe, have exhibited patronizing attitudes—not every culture needs or wants a Swanson's Hungry Man dinner or a McDonald's drive-thru window.

We believe that organizations must see developing countries, emerging markets, and different cultures as sources of innovation and diversity, not something to be homogenized or conquered. The business models of CCOs and HIOs are not able to deal with today's complex, global business environment. They were designed for a world that no longer exists and should be relegated to history!

The third reason the CCO and HIO management principles are obsolete is environmental degradation. It is occurring at an ever-increasing rate. The more material wealth organizations create, the more the natural environment suffers. CCOs and HIOs have proven to be hauntingly shortsighted and complicit in doing harm to the planet's natural environment. As long as organizations operate without having to account for the damage they do to the environment, they will continue to destroy it.

We can no longer hope that technology will come to the rescue; the available evidence suggests that the damage being done to the planet exceeds any technology's ability to repair it. A management approach is required that maximizes value creation, not just shareholder return. Value creation must be judged by a proper accounting for an organization's impact on the planet and people as well as its profits.

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The failure of the existing management approaches to deal with today's world compels us to argue strongly for a third management reset. The management reset we will describe in this book involves more than just modifying how organizations handle globalization, the number of levels of management they have, how diversified they are, and how they treat their people. This is not a book about sustainability initiatives and being more "green," nor is it about corporate social responsibility programs. It is about designing and managing organizations to be sustainably effective. It is about a new coherent approach to managing large, complex organizations that fits today's and tomorrow's world.

Sustainable Management

What does a new management approach need to do in order to be effective? It must create organizations that value change and people and have the capability to implement strategies that generate profit, support social well-being, and improve the environment. Profitable organizations need to be built that are as interested in their community as they are in their debt, as concerned about their carbon footprint as they are about their cash flow.

We think the right name for the management approach that works best in today's world is *sustainable management.* Sustainable management organizations (SMOs) are much more agile and adaptable than CCOs, much more outward looking than HIOs, and much more effective at addressing the demands of multiple stakeholders than is either of the old management approaches.

Organization Effectiveness

For most of the twentieth century, it was accepted that organizations should primarily serve one stakeholder—the owners—and focus on one goal—maximizing profit. Corporate boards and the financial markets judged organization effectiveness only in terms of financial performance, including revenue and earnings growth, stock price, and profitability. There was little concern for other stakeholders or for the ability to innovate and change.

The logic and design of CCOs and HIOs makes them incapable of supporting both rapid change and multiple outcomes. They love stability and are optimized for financial performance.

We believe that organizations should pursue sustainable effectiveness. They should be agile enough to remain effective over time and perform effectively in three areas: people, planet, and profit. Organization effectiveness should be judged on two dimensions:

- *Does the organization generate sustainable outcomes and act responsibly toward all stakeholders?* This is often referred to as the triple-bottom line, but the broader principle is manifest in the day-to-day decisions that give social and environmental

outcomes equal standing with economic concerns.[4] SMOs are designed to do consistently well in all three of these areas; they do not let the desire for profit squeeze out the others.
- *Can the organization sustain effectiveness?* This translates to questions about adaptability, innovation, risk management, and an appropriate identity. Whereas CCOs assume stability in their structures and processes, and HIOs assume stability in their workforce, SMOs assume little will be stable in the long term. To be truly sustainable, SMOs commit not only to triple-bottom-line goals but also to having execution, innovation, and implementation capabilities that support change.

The Way Organizations Are Managed

Four core issues determine the way organizations are managed. To be effective, SMOs must address each of them with principles and practices that fit the business environment and produce sustainable effectiveness. We will introduce them here, and we will return to them throughout the book.

- *The way value is created.* SMOs substitute robust strategies for competitive ones. A robust strategy is successful over a broad range of conditions over a long period of time and capable of changing to address short-term opportunities and threats. It is crafted to create a combination of social, environmental, and economic value. It looks for a series of momentary competitive advantages.
- *The way work is organized.* SMOs need a design that makes them adaptable, responsive to changing conditions, and responsive to multiple stakeholders. The structure, work processes, and management processes of SMOs need to facilitate innovation and execution, collaboration and efficiency. Achieving this requires high levels of contact between employees and the business environment; the development of innovative units; flexible, budget-less control systems; new ways of working; and value-creating networks.
- *The way people are treated.* Key to the success of organizations that create value based on their competencies and

capabilities is how they treat talent. It is critical that the right talent be attracted, retained, developed, and motivated. To do this, SMOs need reward systems that focus on skills, talent management systems that identify and retain the "right" employees, and performance management systems that are tied to the organization's strategy.

- *The way behavior is guided.* How employees behave is strongly influenced by the combination of their organization's leadership style and culture. SMOs need to be led with an approach that creates leaders throughout the organization and that rejects the imperial CEO model. They need a culture that loves change, innovation, and sustainable performance.

The sustainable management approach is being invented by organizations and researchers around the world. By looking at organizations that are breaking free from their CCO or HIO roots, it is possible to specify the major features of sustainable management. It is a management approach that may at times seem bizarre and at other times compelling. Consider for a moment a few common questions and the way some uncommon organizations answer them:

- Do you think that maximizing profits is the overriding reason for a corporation to exist? Certainly that is not what drives people to work for Patagonia, a company committed to environmental responsibility. Chick-fil-A closes on Sundays because religious values trump the profit motive. Even hard-driving GE devotes considerable attention to matters of integrity, as documented in its *Citizenship Report.*
- Do you think of your organization as a stand-alone entity rather than as part of a value network? Management at Eli Lilly used to think of it as a fully integrated pharmaceutical company, but now they think of it as an integrated pharmaceutical network. What difference does this make? It means options that formerly would not have been considered are now a natural way of operating.

  When leaders at Lilly have tough chemical problems to tackle, they do not just assign them to their crack team of

scientists, they reach out to a broad network of scientists by posting problems on the Internet and rewarding the best solutions. Lilly operates in terms of accessing the capabilities needed, wherever in the world they exist. Accessing capabilities is not a matter of whether or not they sit within the company's walls, it is a matter of where they exist.
- Do you define your market as a demographic segment to which you sell products and services? Management and staff at DaVita, a Fortune 500 health care services company, believe it is a "village first and a company second." One fifth of its customers—patients in final stages of kidney failure—die every year, and yet the company defines itself as a village. In every one of the thirteen hundred kidney dialysis centers throughout the United States, the Wall of Fame connects patients and teammates around pictures, stories, and facts about the people who work together. It's not simply a slogan: DaVita opens its quarterly earnings call with its clinical outcomes, because a village would worry about its own first, and then worry about "profit." (Oh, by the way, an investment in DaVita increased in value by over 1500 percent from 2000 to 2010.)
- Do you have job titles in your company? W. L. Gore, an organization that lives by many of the principles we discussed in our previous book *Built to Change*, does not. Is this just a gimmick? We do not think so. Job titles emphasize stability, and W. L. Gore believes the world is volatile and uncertain; its management practices reflect that. Gore has built fluidity into its organization so that change is natural; most organizations (without consciously thinking about it) build structures as if they will be permanent.

As we describe sustainable management in greater detail, you will see that it represents radical change. Many have called for a new approach to management, but few have appreciated just how much sustainable effectiveness requires deviating from the management approaches of the past. Even fewer have explored its implications for strategy, structure, decision-making practices, human resource management, and leadership.

Management: The Old

Command and control and high involvement organizations differ dramatically from sustainable management organizations and from each other in how they view people and value creation. As noted, command and control organizations are the oldest and most common type. Large global organizations are particularly likely to use command and control management. Although less common, high involvement organizations often get better results with respect to profit and people, but high involvement management is harder to implement. If we are to understand why sustainable management is superior to them, we need to take a brief look at both.

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Command and Control Management

Command and control management is based on an image of organizations as well-oiled machines. It has gone through a number of revisions and names, but all emphasize carefully defined jobs, hierarchical organization structures, rules, regulations, discipline, and control. We refer to it as command and control management because it employs top-down leadership approaches, clearly specified performance metrics, and rigid control processes. It is intended to support the reliable production of services and products at a low cost. At its core is the belief that top-down control and discipline will lead to profitability through efficiency and execution.

CCOs have evolved over the past century thanks to changes in information systems, process engineering, quality control, and organization design. The popularity of reengineering and total quality management in the 1980s gave CCOs a much-needed performance boost. More recently, enterprise resource planning (ERP) systems have made CCOs more effective at controlling material costs, labor costs, and other expenditures. These innovations were popular and quickly embraced by CCOs because they support the underlying assumption and beliefs that control is good, that predictability and stability lead to effectiveness, and that people need to be directed and controlled to optimize productivity.

For decades, management writers have argued that the command and control style is obsolete.[5] Despite its evolution, it still has a deep-seated faith in the power of top-down management, simple standardized jobs, and tight budget-driven controls. It continues to focus on producing profits and often does so at the expense of people and the environment. Ironically, it often fails to produce sustainable profits precisely because of the way it treats people and the environment as well as the risks it encourages executives to take in order to maximize profits.

CCOs were the best approach in the first half of the twentieth century because they fit the relatively stable local business environments, the nature of the workforce, and the type of products and services that were demanded in most developed countries. But in the decades since, the workforce has become more educated, involved, diverse, and informed. We have gone from producing Model Ts to space shuttles, from a cash society to a complex electronic world of consumer spending, and from a world in which a high school education was enough to a world in which a college degree is the bare minimum required for many jobs. Competition has become global and, increasingly, governments and the public are demanding that organizations reduce their destructive impact on the environment.

With all the changes that have taken place since command and control management was developed, it is hardly radical to argue that it is outdated. But it is a big mistake to underestimate how deeply CCO assumptions are embedded in our thinking. It is still the way most corporations, governments, nonprofits, and nongovernmental organizations (NGOs) are managed.

High Involvement Management

High involvement management is based on an image of organizations as a participative community. When Douglas McGregor wrote about Theory Y, he argued that when people are involved in making important decisions and given interesting work, they are highly motivated and committed to organization success. He championed the idea that the way CCOs are designed decreases the motivation of individuals and creates a dysfunctional adversarial relationship between employees and the organization. As a result, instead of leading to lower costs, CCOs actually create high costs, because they have high employee turnover, excessive absenteeism, adversarial union-management relations, worker health problems, and a poorly motivated workforce.

The high involvement approach assumes that investments in workforce development, work design, and participative decision making will result in high performance levels and low overall costs. It evolved rapidly during the 1980s and 1990s under the banner of employee involvement.[6] Advances in the design of self-managing teams and in the understanding of participative leadership have contributed greatly to its effectiveness and to our knowledge about how and where it should be implemented.

High involvement management fits well in businesses with complex production processes that are not facing rapid, technological change. Perhaps the most advanced and sophisticated versions of the high involvement approach are found in process production plants (such as for chemicals, food, and energy) and other complex workplaces. In them, employees actually run the operation and are so committed to the organization and its performance that there is little need for supervision. The high involvement style also fits well in companies that are in relatively “stable” businesses and are able to commit to building teams, offering people careers, and providing interesting work. HIOs are particularly good at attracting talent that wants to do work that is significant and challenging and wants an involved long-term relationship with a company.

Given its obvious appeal, many wonder why more organizations have not adopted high involvement management. The answer is that it is hard to implement, and it is easy to break. It is hard to implement because it challenges traditional notions of power and status and it involves a complex constellation of structures, beliefs, people, and practices that must be aligned. Getting all the pieces right is difficult. It also is easy to break because it depends heavily on trust, which can be destroyed in a moment, and on long-term investments in people, which can be difficult to maintain in a rapidly changing business world.

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The major problem with HIOs, however, is not that they are hard to create and maintain. It is that high involvement management is not a good fit for organizations that need to change rapidly and frequently to keep up with an uncertain and unpredictable world. Technology, globalization, and workforce changes are forces to which the organization must adapt again and again. Because of this, HIOs are a poor fit for most of today's technology and knowledge work organizations. As appealing as high involvement management is, something as different from it as an HIO is from a CCO is needed.

Is a Reset Really Required?

But is a full reset really needed in management thought and practice? Can't CCOs and HIOs just make some adaptations so that they are more agile, more thoughtful about people, and more in tune with the natural environment? The mass media are full of reports describing how many large corporations are implementing a variety of sustainability initiatives, corporate social responsibility programs, and agility capabilities.

We think these sustainability, social responsibility, and agility programs will always fall short of producing an SMO because they do not fully acknowledge and address the forces demanding change. Technology and globalization are demanding that organizations be more agile. Societies, cultures, governments, and NGOs are challenging organizations to make their demands equal to those of owners. These demands are familiar, but to understand why a reset is necessary, we need to review them. It will show that trying to adapt the command and control approach or the high involvement approach to deal with agility and multiple stakeholders will not enable an organization to achieve sustainable effectiveness.

Agility Forces

An organization cannot be sustainably effective unless it is agile enough to handle the complexity and change that characterize today's world. The three familiar forces for change—technology, globalization, and workforce—have created a business context in which change is rapid, large in magnitude, and often unpredictable in direction. Together, they define the new normal: change—faster and faster change. It was these forces and their implications that led us to write about agile organizations in *Built to Change.*

There is little doubt that information technology and scientific knowledge are among the biggest changes that have occurred in the past three decades. ERP systems, mobile devices, the Internet, and Web 2.0 technologies provide access to information and people in ways that never existed before and that continue to expand at a dizzying pace. Virtual presence technology is proliferating, closing the distance between people and challenging our concept of time. In addition, the amount of research and knowledge produced increases every year, creates opportunities for new products, and fuels progress. As a result, organizations are constantly facing the need to change and innovate.

The impact of globalization is multifaceted and demanding.[7] Various countries and locations have the potential to exploit new sources of competitive advantage, including cheap raw materials and new types of technical expertise. India's software and information systems management expertise is on par with any other country in the world. Recognizing this, Cisco Corporation has created a co-corporate headquarters to take advantage of the talent that is available there. China now has supercomputers that are as fast and perform as well as any that are made in the West. The globalization of knowledge and technology has forced organizations to continually modify the services and products they offer as well as where and how they produce them.

Finally, the workforce of most organizations has become more diverse in terms of gender, national origin, race, and age and more central to success. With respect to age it is likely to become even more diverse. More and more individuals in developed countries lack the financial wherewithal to retire, cannot be forced to retire because of age discrimination laws, and want to work for most of their increasingly long lifetimes.

While physical and financial assets remain important, for many organizations their major assets are their talent, intellectual property, and brands. Talent, intellectual property, and brands are often virtually impossible to separate because they feed off of each other, are much more mobile and perishable than physical and financial assets, and are more challenging to utilize and manage.

In combination with technology changes and globalization, the nature of work itself is changing; simple well-defined jobs are being replaced by knowledge work that is much harder to direct, measure, and perform. Organizations in developed countries are increasingly doing complex work that requires highly skilled employees who cannot be closely supervised.

Clearly, surviving in this complex and unstable world requires high levels of strategic and organizational agility. CCOs and HIOs struggle to adapt because they are designed to be stable. They were born in a time when change was glacial compared to today's rates, and so their foundation is stable structures, jobs, and processes—stability is in their blood. HIOs may be a little more fluid in terms of structures and jobs, but they are committed to a stable workforce—it is in their soul. CCOs and HIOs are like buildings made of concrete—it's possible to modify them, but it doesn't come easily.

In *Built to Change*, we described how organizations could be more like Lego towers and have the capability to respond quickly to technological change, globalization, and workforce changes. However, even if we make CCOs and HIOs more agile, they will not be sustainably effective as we have defined it. They may be able to meet owners' goals over time, but are likely to do so at the expense of social and natural environment outcomes. Agility alone is insufficient to produce sustainable effectiveness, because agile organizations—as derivatives of CCOs and HIOs—still focus on only one stakeholder: investors.

Stakeholder Forces

An organization cannot be sustainably effective unless it produces outcomes of value to all its significant stakeholders. In today's connected world, even small stakeholders can directly or indirectly harm the organization if they feel betrayed. In the case of social and ecological stakeholders, these are not "new" forces. They have always been a part of the environmental scans organizations do during their traditional strategic planning processes. However, they are rarely viewed as important and certainly not relevant enough to be prioritized over economic forces. Today, social and environmental groups have become formal and well organized, and they are focusing their demands on organizations in meaningful and powerful ways.

The social dimension of an organization's footprint has become more than just a line item to be checked off during environmental scanning exercises. It is a full-fledged and multifaceted stakeholder with as much power to challenge, shut down, and damage an organization's reputation as a lack of cash or other assets. The days of operating under the assumption that social concerns are a low priority are over. Organizations must begin operating according to the Brundtland Commission's 1989 definition of sustainability—"meeting the needs of the present without compromising the needs of future generations."[8]

Thanks to globalization, it is no longer just a matter of what the United States, Japanese, and European societies think. Prior to the emergence of the technological and globalization trends, China, Vietnam, Indonesia, India, South Africa, Brazil, Russia, and Turkey were of little concern. They were just foreign countries with unique cultures, negligible economies, and small markets that were full of natural resources at cheap prices.

What a difference a decade makes! Now, apparel retailers such as Gap and Nike must design, manufacture, distribute, and sell their goods in ways that support freedom of association, labor's right to organize, and a country's quality of life in every part of their supply chains. Manufacturers, such as Flextronics and

Intel, must assemble products in ways that provide employment but do so in ways that do not destroy cultural values in multiple countries.

The social dimension also refers to an organization's relationship with its employees. When CCOs dump job security as part of their employment deal, they are left with an unattractive employee value proposition. With their emphasis on specialized jobs and top-down leadership and control, CCOs struggle to find competent employees who are motivated by the kind of human resource management practices that are offered. Today's employees resist the rigidity and conformity of this management approach, particularly now that most CCOs have made it clear that loyalty to the company is not reciprocated.

Academics and researchers have led the argument that organizations should be held accountable for the quality of work life they create.[9] It is not just that organizations have a moral duty to care about people (although they do); it is that organizations that treat people badly dump the costs of poor health, stress, mortality, and family conflict on society. HIOs became popular partly because CCOs failed to create a high quality of work life, but like their CCO cousins, HIOs also focus more on their own welfare than on that of their employees.

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If there is one issue that is more potent than social concerns it is ecological concerns. While organizations have for a long time had the ability to ruin land, forests, lakes, and rivers through bad practices, it is only recently that they have had the ability to do environmental damage on a global scale. The 2007 report from the Intergovernmental Panel on Climate Change (IPCC) placed global warming, greenhouse gas emissions, and carbon footprint issues squarely in front of us.[10]

Although there are those who continue to challenge the IPCC findings and the urgency with which we must respond, most right-minded people and organizations recognize the implications. We can no longer extract energy from the earth's crust with impunity. We can no longer place toxic chemicals or pollutants into the biosphere. The very resources that sustain life—not just organizations!—are in shorter supply and damaged condition.

Over 70 percent of Chinese rivers, lakes, and seashores are polluted, and 90 percent of underground water in Chinese cities is polluted; secondhand smoke is linked to respiratory disease; the levels of lead in fish and water continue to rise; and we continue to put carbon into the air we breathe. The fishing industry has become a kind of mining activity and has done long-term damage to what should be a renewable resource. Dependence on ever-more-expensive oil can produce problems far greater than the bursting of the finance bubble. Society will no longer accept that organizations should be exempt from caring about the health of the planet. Nongovernmental organizations have achieved enough power to demand organization action.

The social and ecological components of the environment have taken on the status of stakeholders as powerful and demanding as shareholders. The BP oil leak in the Gulf of Mexico had a game-changing impact on global oil companies and their employees, the communities in which they operate, their shareholders, and the environment and economy of an entire region. It is a chilling example of the interdependency among social, economic, and environmental issues.

Some argue that CCOs and HIOs have always served multiple stakeholders. Despite any rhetoric you may have heard, the CCO approach does not respect people; and while the HIO approach respects employees, it does not treat society or the natural environment as stakeholders. In both CCOs and HIOs, meeting the needs of all stakeholders is mainly done in the context of compliance, and even that is often up for debate if the cost of fines is less than the cost of respecting the rights of society or the planet's environment. This is to be expected, given that a board of directors primarily represents one stakeholder, the shareholders.

A Reset Requires an Integrated Approach

In high technology, a "kludge" is an inelegant and ultimately unworkable innovation that is the result of pieces not working together. It is the fashion equivalent of putting lipstick on a pig. To be sustainably effective, organizations must be both agile and responsible. They can only achieve this by adopting designs in which policies and practices work together to produce sustainable performance.

Technology and globalization pressures are not changes in the stakeholder mix demanding attention. They are forces to which organizations must adapt. Social and environmental stakeholders are different than owners. They demand a different set of objectives. Therefore, independent changes aimed at agility or responsibility will produce a kludge, not an SMO.

CCOs and HIOs are built on the assumption of stability and in particular on the assumption of stable growth in demand. Only under the assumption that the population will continue to increase, that new markets will always be created, that lesser developed economies will continue to emerge, and that consumers will continue to buy more and more can the logic of CCOs and HIOs be successful without having to account for change.

No industry is more locked into a continuous cycle of growth and greed than the finance industry, and its spectacular failure taught people from Florida to Latvia that housing prices and stocks do not go up forever. Only "the house" wins in gambling. Similarly, the world's population, global fishing, oil production, and so on cannot go up endlessly. Take away the belief in unending growth and there is little economic justification for organizations designed to pursue stability.

CCOs' and HIOs' values, strategies, and economic logic acknowledge social and environmental demands with only a wink and a nod. They point to philanthropic orchestra sponsorship and recycling programs but do not change their goals, work flows, supply chains, or reward systems. More important, they do not view these stakeholder domains as sources of innovation and profit. Their only comeback to the challenge of being more responsible is "We'll have to charge more"—which demonstrates how foreign the idea is to their economic model.

Facing the Challenge

The case is clear. A management reset is needed. It is needed in order to develop organizations that will be sustainably effective in today's and tomorrow's world—a rapidly changing, very demanding world that is not particularly forgiving of organizations that don't measure up to its standards. We have made the case that it is not demanding an upgraded version of the command and control management style or a more advanced version of the high involvement management style. It is demanding a new approach that integrates agility and responsibility into what we call sustainable management.

Sustainable management is an evolving management style that we believe is the right one for many companies because of how well it responds to today's stakeholder demands as well as the demands of the future. We have chosen to call it sustainable management because it is focused on creating organizations that consistently perform well financially, socially, and environmentally.

The specifics of the sustainable management style are not as fully developed as are those of its two "competitors"; that will come with time and experience. However, as we will show in the chapters that follow, there is enough known about it so that it can be practiced today.