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WHY MANAGEMENT FAILED

The investment banking industry officially ceased to exist on September 21, 2008. That was the day the last two remaining investment banks, Goldman Sachs and Morgan Stanley, converted themselves into deposit-taking commercial banks. With Lehman Brothers filing for bankruptcy a week earlier, Merrill Lynch sold to Bank of America the same week, and Bear Stearns sold to JP Morgan back in March 2008, the independent broker-dealer investment bank was no more.

Many books and articles have now been written to explain the causes of the credit crisis of 2007–2008 and the broader upheaval in the financial services industry that followed. We know there was a failure of regulation, a failure of macroeconomic policy, perhaps even a failure in the way our entire market system worked. And all institutions involved in the financial services sector—ratings agencies, regulators, central bankers, as well as law firms, accountants, and business schools—have taken their share of the blame. But what has attracted far less attention so far is that the demise of traditional investment banking was also a spectacular *failure of management*.

Of course, it goes without saying that when a company fails, the CEO takes responsibility for that failure. The likes of Stan O'Neal (Merrill Lynch), Chuck Prince (Citibank), and Peter Wulfli (UBS) were rightly dismissed when the scale of the problems in their respective organizations became known, and Dick Fuld will rightly be viewed as the architect of Lehman Brothers' impressive rise and dramatic fall.

But this "failure of management" in investment banking is far more than the story of a few CEOs losing control of their organizations; it is the story of a deeply flawed model of management that encouraged bankers to pursue opportunities without regard for their long-term consequences, and to put their own interests ahead of those of their employers and their shareholders. And it's a story we see played out in similar ways in companies around the world that are all suffering from a failure of management.

Lehman Brothers' Demise

Consider Lehman Brothers (Lehman), perhaps the institution where the greatest amount of value was destroyed in the shortest period of time. Since 1993, Lehman had been led by Dick Fuld, a legendary figure on Wall Street, and a "textbook example of the command and control CEO."[1] Fuld inspired great loyalty in his management team, but his style was aggressive and intimidating. In the words of a former employee, "His style contained the seeds of disaster. It meant that nobody would or could challenge the boss if his judgment erred or if things started to go wrong."

And things did go wrong. The company made a record $4.2 billion profit in 2007, but it had done so by chasing low-margin, high-risk business without the necessary levels of capital. When the sub-prime crisis hit, Lehman found itself exposed and vulnerable. Fuld explored the possibility of a merger with several deep-pocketed competitors, but he refused to accept the low valuation they were offering him. And on September 15, 2008, the company filed for bankruptcy.

What were the underlying causes of Lehman's failure? While Dick Fuld's take-no-prisoners management style certainly didn't help their cause, we need to dig into the company's underlying Management Model to understand what happened. Contributory factors included:

- **Its risk management was poor.** Like most of its competitors, Lehman failed to understand the risk associated with an entire class of mortgage-backed securities. But more importantly, no one felt accountable for the risks they were taking on these products. By falling back on formal rules rather than careful use of personal judgment to take into account the changing situation, Lehman made many bad decisions.

- **It had perverse incentive systems.** Lehman's employees knew what behaviors would maximize their bonuses. They also knew these very same behaviors would not be in the long-term interests of their shareholders—that's what made the incentive systems perverse. For example, targets were typically based on revenue income, not profit, and individual effort was often rewarded ahead of teamwork.
- **There was no long-term unifying vision.** Lehman wanted to be "number one in the industry by 2012," but that wasn't a vision—it was simply a desired position on the leader board. Lehman did not provide its employees with any intrinsic motivation to work hard to achieve that goal, nor any reason to work there instead of going over to the competitors. And that vision was far from unifying—there were ongoing power struggles between the New York and London centers.

Of course Lehman Brothers was not alone in pursuing a failed Management Model. With a few partial exceptions such as Goldman Sachs and JP Morgan, these practices were endemic to the investment banking industry. It was the combination of Lehman's model, its fragile position as an independent broker-dealer, and its massive exposure to the sub-prime meltdown that led to its ultimate failure.

The key point here is that a more effective Management Model could have made all the difference. Instead, it was almost as if management didn't matter. An encapsulated definition of a Management Model, something we fully explore in the next chapter, is the set of choices we make about how work gets done in an organization. One of the well-kept secrets of the investment banks is that their own management systems are far less sophisticated than those of the companies to which they act as advisors. For example: people are frequently promoted on technical, not managerial, competence; aggressive and intimidating behavior is tolerated; effective teamwork and sharing of ideas are rare.

Nor are these new problems. In 2002 *The Economist* reviewed the state of the banking industry and called the investment banks "among the worst managed institutions on the planet."[2] And back in 1993, following an earlier financial crisis, the CEO of one of the top US investment banks wrote himself a memo, documenting all the managerial failings in his company, and concluding with the statement, "I think I am right in saying that the most demanding part is the management."[3] The harsh truth is that most investment banks have been poorly managed for decades despite—or because of—the vast profits they have made. The financial crisis of 2008 exposed these problems for all to see.

General Motors' Bankruptcy

Let's be clear that the investment banking industry is not alone in having ill-designed and badly executed Management Models. General Motors (GM) is another company with a long and proud history, though it finally skidded off the track in 2009. In the post-war period, GM was the acme of the modern industrial firm, the leading player in the most important industry in the world. But from a market share of 51% in 1962, the company began a long slide down to a share of 22% in 2008. New competitors from Japan, of course, were the initial cause of GM's troubles, but despite the fixes tried by successive generations of executives, the decline continued. The financial crisis of 2008 was the last straw: credit dried up, customers stopped buying cars, and GM ran out of cash, filing for bankruptcy on May 31, 2009.[4]

As is so often the case, the seeds of GM's failure can be linked directly to its earlier successes. GM rose to its position of leadership thanks to Alfred P. Sloan's famous management innovation: the multidivisional, professionally managed firm. By creating semi-autonomous divisions with profit responsibility, and by building a professional cadre of executives concerned with long-term planning at the corporate center, Sloan's GM was able to deliver economies of scale and scope that were unmatched. Indeed, it is no exaggeration to say that GM was the model of a well-managed company in the inter-war period. Two of the best-selling business books of that era—Sloan's *My Years with General Motors* and Peter F. Drucker's *Concept of the Corporation*—were both essentially case studies of GM's Management Model, and the ideas they put forward were widely copied.[5]

So where did GM go wrong? The company was the model of bureaucracy with formal rules and procedures, a clear hierarchy, and standardized inputs and outputs. This worked well for years, perhaps too well—GM became dominant, and gradually took control not just of its supply chain but of its customers as well. We can be sure that economist John Kenneth Galbraith had GM in mind when he made the following statement in his influential treatise, *The New Industrial State*, in 1967:

> The initiative in deciding what is to be produced comes not from the sovereign consumer who, through the market, issues the instructions that bend the productive mechanism to his ultimate will. Rather it comes from the great producing organization which reaches forward to control the markets that it is presumed to serve.[6]

This model worked fine in an industry dominated by the Big Three. But the 1973 oil-price shock, the arrival of Japanese competitors, and the rediscovery of consumer sovereignty changed all that. At that point, all GM's strengths as a formal, procedure-driven hierarchy turned into liabilities—it was too slow in developing new models, its designs were too conservative, and its cost base was too high. A famous memo written by former Vice Chairman Elmer Johnson in 1988 summarized the problem very clearly:

> . . . our most serious problem pertains to organization and culture . . . Thus our hope for broad change lies in radically altering the culture of the top 500 people, in part by changing the membership of this group and in part by changing the policies, processes, and frameworks that reinforce the current mind-set . . . The meetings of our many committees and policy groups have become little more than time-consuming formalities . . . Our culture discourages open, frank debate among GM executives in the pursuit of problem resolution . . . Most of the top 500 executives in GM have typically changed jobs every two years or so, without regard to long-term project responsibility. In some ways they have come to resemble elected or appointed top officials in the federal bureaucracy. They come and go and have little impact on operations.[7]

A similar, though more succinct, diagnosis was offered by former US presidential candidate Ross Perot when he sold his company, EDS, to GM in the 1980s: "At GM the stress is not on getting results—on winning—but on bureaucracy, on conforming to the GM System."[8] GM found itself killed off, in other words, by the very things that allowed it to succeed in the postwar years—formalized processes, careful planning, dispassionate decision-making, and an entrenched hierarchy.

This story is now well known. Here's the point: GM's bankruptcy was caused in large part by a failure of management just as Lehman's was. But the *mistakes made by* GM were *completely different from the mistakes made by Lehman*. To wit:

- Lehman motivated its employees through extrinsic and material rewards, and used incentives to encourage individualism and risk-taking. GM paid its employees less well, it hired people who loved the car industry, and it promoted risk-averse loyal employees.

- Lehman used mostly informal systems for coordinating and decision-making. GM emphasized formal procedures and rules.
- Lehman had no clear sense of purpose or higher-order mission. GM had a very clear and long-held vision—to be the world leader in transportation products.

Like Lehman, GM's demise can be explained by any number of factors. Some of these are purely external, such as Japanese competitors and rising oil prices in the case of GM, and poor regulation and policymaking in the case of Lehman.

My view—and the thesis of this book—is that we have to look inside, to the underlying *Management Models* that both companies adopted, subconsciously or not. We will examine shortly what a Management Model is, but for the moment we can think of it as the set of choices we make about how work gets done in an organization. A well-chosen Management Model, then, can be a source of competitive advantage; a poorly chosen Management Model can lead to ruin. And Lehman and GM illustrate nicely—but in contrasting ways—the downside risk of sticking with a Management Model that is past its sell-by date. As do Enron and Tyco, for example, which also went through high-profile bankruptcies.

Disenchantment with Management

Management as we know it today is struggling to do the job it was intended to do. But we can also see evidence of a creeping disenchantment with management as a discipline. Here are some examples:

- **Management as a profession is not well respected.** In a 2008 Gallup poll on honesty and ethics among workers in

21 different professions, a mere 12% of respondents felt business executives had high/very high integrity—an all-time low. With a 37% low/very low rating, the executives came in *behind* lawyers, union leaders, real estate agents, building contractors, and bankers.[9] In a 2009 survey by *Management Today*, 31% of respondents stated that they had low or no trust in their management team.[10]

- **Employees are unhappy with their managers.** The most compelling evidence for this comes from economist Richard Layard's studies of happiness.[11] With whom are people most happy interacting? Friends and family are at the top; the boss comes last. In fact, people would prefer to be alone, Layard showed, than spend time interacting with their boss. This is a damning indictment of the management profession.
- **There are no positive role models.** We all know why Dilbert is the best-selling business book series of all time, and why *The Office* sitcom was a big hit on both sides of the Atlantic—it's because they ring true. The Pointy-Haired Boss in Dilbert is a self-centered halfwit; Michael Scott (or David Brent, if you watched the UK version) is entirely lacking in self-awareness, and is frequently outfoxed by his subordinates. If these are the figures that come into people's minds when the word "manager" is used, then we have a serious problem on our hands. Interestingly, the phrase "leader" has much more attractive connotations, and some positive role models—but we will come back to the leader versus manager distinction shortly.

Except in sitcoms and comic strips, managers don't go to work in the morning thinking, "I'm going to be an asshole today, I'm going to make my employees' lives miserable." But some behave that way anyway, because they are creatures of their environment—a working environment that has taken shape over roughly the last 150 years. The harsh reality is that today's large business organizations are—with notable exceptions—miserable places to spend our working lives. Fear and distrust are endemic. Aggressive and unpleasant behavior is condoned. Creativity and passion are suppressed. The good news is that the opportunity for improvement here is vast and, if we *do* improve the practice of management, the payoffs—for pioneering companies, for all their employees, and for society as a whole—are substantial.

Let's be clear upfront that there are no simple solutions to this problem. Many thinkers and business pioneers have tackled the same set of issues, and made limited progress. But we should at least recognize that this is a problem worth working on. Management has failed at the big-picture level, as the employees and shareholders of Lehman and GM will attest. Management has also failed at the personal level, as every one of us has observed.

We need to rethink management. We need to help executives figure out the best way to manage, and we need to help employees take some responsibility—to get the managers they deserve. These are the challenges we come to grips with in this book.

The Corruption of Management

Where did management go wrong? We cannot put it down to a few rogue executives or bad decisions, and we cannot single out specific companies or industries. The problem is systemic, and it goes way back in time. Big-company executives may be the ones in the hot seats, but many other parties are complicit in the problems of management, including policymakers, regulators, academics, and consultants.

Before discussing where things went wrong, we need a clear definition of management. Leading academics from Mary Parker Follett, Henri Fayol, and Chester Barnard through to Peter Drucker, Henry Mintzberg, and Gary Hamel have all offered a view on this, but I am going to keep things simple and use the Wikipedia definition:

> Management is the act of getting people together to accomplish desired goals and objectives.

Please think about these words for a few moments. There is a lot of stuff missing from this definition—no mention of planning, organization, staffing, controlling, or any of the dozen other activities that are usually associated with management. There is also no mention of companies or corporations, and absolutely nothing about hierarchy or bureaucracy. And that is precisely the point—management is a social endeavor, which simply involves getting people to come together to achieve goals that they could not achieve on their own. A soccer coach is a manager, as is an orchestra conductor and a Cub Scout leader. At some point we need to qualify this definition to make it relevant to a business context, but for now let's use the word in its generic form.

I believe that management—as a social activity and as a philosophy—has gradually become corrupted over the last 100 years. When I say corrupted, I don't mean in the sense of doing immoral or dishonest things (though clearly there have been quite a few cases of corrupt managers in recent years). Rather, I mean that the *word has become infected or tainted.* Its colloquial usage has metamorphosed into something narrower, and more pejorative, than Wikipedia or *Webster's Dictionary* might suggest. In talking to people about the term, and in reading the literature, I have noticed that managers are typically seen as low-level bureaucrats who are "internally focused, absorbed in operational details, controlling and coordinating the work of their subordinates, and dealing with office politics."[12]

Whether accurate or not, this is a sentiment everyone can recognize. But it is a very restrictive view of the nature of management. And such sentiments also feed back into the workplace, further shaping the practice of management in a negative way. This is why I argue that the word has been corrupted.

Why has this corruption taken place? There are two major reasons.

Large industrial firms became dominant—and their style of management became dominant as well. A careful reading of business history indicates that large companies, of the type most of us work in today, first came into existence about 150 years ago. Back in 1850 nine out of 10 white male citizens in the USA worked for themselves as farmers, merchants, or craftsmen. The biggest company in the UK at the time had only 300 employees.[13] But the industrial revolution sparked a wholesale change in the nature of work and organization, with mills, railroads, steel manufacturers, and electricity companies all emerging in the latter part of the nineteenth century. Helped along by management pioneers like Frederick Taylor, Frank and Lilian Gilbreth, and Henri Fayol, these companies put in place formal structures and processes and hierarchical systems of control that we would still recognize today, and which were all geared toward efficient, low-cost production of standardized products.

Of course this industrial Management Model was a spectacular success, and became one of the key drivers of economic progress in the twentieth century.[14] But it had an insidious effect on the concept of management, because the term came to be associated exclusively with the hierarchical, bureaucratic form of work practiced in large industrial firms. For many people, even today, the word management conjures up images of hierarchy, control, and formal procedures, for reasons that have nothing to do with the underlying meaning of the term. "Management" and "large industrial firm" became intertwined in the 1920s, and they are still tightly linked today.

Such a narrow model of management gets us into trouble for a couple of reasons. First, it blinds us to the range of alternative Management Models that exist. Sports teams, social communities, aid organizations, even families, operate with very different principles than large industrial companies, and these alternative principles are potentially very useful today. It is interesting to note that management thinker Mary Parker Follett's prescient ideas about empowerment and trust emerged from her work as a community organizer in Boston in the 1920s.[15] While the other writers of that era were studying large industrial companies, she was studying management in voluntary organizations. Unsurprisingly she came up with some novel and belatedly influential ideas and accurately pointed out that management happens in a wide variety of social settings. There is a need for many more management writers like her to make sense of some of these alternative contexts.

The other reason that a narrow view of management gets us into trouble is that it leads us to assume, incorrectly, that large industrial companies are inherently superior to other forms of organization. Of course there are certain industrial processes that are best suited to economies of scale and scope, but we would be misunderstanding history if we assumed that mass production was the only feasible model of industrial organization. In a fascinating article called "Historical alternatives to mass production,"[16] academics Charles Sabel and Jonathan Zeitlin made the case that other viable forms of organizing existed during the industrial revolution, including confederations of independent firms working collaboratively within a municipality, and loosely linked alliances of medium-sized and small firms linked through family ties and cross-shareholdings. Often concentrated in "industrial districts" such as Baden-Wurtemberg in Germany and Emilia-Romagna in Italy, these models were quite workable in the late 1800s and many are still in existence today. Sabel and Zeitlin weren't trying to suggest that mass production took us down the wrong path. Rather, they were arguing for pluralism—for the need to recognize that Management Models *other than the hierarchical, bureaucratic organization* have their own important merits. Again, this is a lesson from history that has enormous resonance today.

The aggrandizement of leadership came at the expense of management. The second body blow to "management" was the apparently inexorable rise of "leadership" as a field of study. While the classic texts on business management are now more than a century old, books on business leadership are a more recent phenomenon, emerging in the post-war years and really taking off in the 1970s. Today there are more business books published on leadership than any other sub-discipline. A few writers stuck with management—Peter Drucker and Henry Mintzberg being the most notable cases—but in most books management has been entirely subordinated to leadership.

It's very clear what happened. To make room for leadership—which back in the 1970s was a poorly understood phenomenon—business writers felt compelled to diminish the role of management. Managers, in this new worldview, were passive, inert, and narrow-minded, while leaders were visionary agents of change. And the consequences of this leadership "revolution" were predictable: people flocked to this new, sexy way of thinking, while management took a step backward. Here is one example: every year I am asked to write an appraisal of the people who work for me, and one of the questions is: "Leaders and managers are different. Is this person a leader?" No prizes for guessing what the desired response is here. It is a very concise way of denigrating the work of management, and of influencing the way thousands of people think about these two terms.

Let's look more closely at the leadership versus management debate. Table 1.1 summarizes the arguments of two of the most influential leadership thinkers, John Kotter and Warren Bennis. Kotter sees managers as being the ones who plan, budget, organize, and control, while leaders set direction, manage change, and motivate people. Bennis views managers as those who promote efficiency, follow the rules, and accept the status quo, while leaders focus on challenging the rules and promoting effectiveness. Needless to say, I believe this dichotomy is inaccurate and, frankly, insulting. Why, for example, does "motivating people" lie beyond the job description of a manager? And "doing things right" versus "doing the right things" is a nice play-on-words but

Table 1.1: Leadership versus management[17]

	Role of A Manager	*Role of A Leader*
Warren Bennis	Focuses on efficiency Accepts the status quo Does things right	Focuses on effectiveness Challenges the status quo Does the right things
John Kotter	Coping with complexity Planning and budgeting Controlling and problem-solving	Coping with change Setting direction Motivating people

a rather unhelpful distinction. Surely we should all be doing both?

Now, Kotter and Bennis are smart, thoughtful people who are more right than they are wrong. And they have a logically flawless response to my critique: namely, that "leadership" and "management" are *roles* that the same individual can play at different times. I can put on my leader hat in the morning when speaking to my team about next year's plans, and then in the afternoon I can put on my manager hat and work through the quarterly budget. This makes sense. But I still think the aggrandizement of leadership at the expense of management is unhelpful, because management—as a profession and as a concept—is vitally important to the business world. We should be looking for ways to build it up, rather than knock it down.

Here is my view on the management versus leadership debate. Leadership is a process of social influence: it is concerned with the traits, styles, and behaviors of individuals that cause others to follow them. Management is the act of getting people together to accomplish desired goals. To make the distinction even starker, one might almost argue that leadership is *what you say and how you say it*, whereas management is *what you do and how you do it*. I don't want to fall into the trap of making one of these seem important at the expense of the other. I am simply arguing that management and leadership are complementary to one another.

Or to put it really simply, we all need to be leaders *and* managers. We need to be able to influence others through our ideas, words, and actions. We also need to be able to get work done through others on a day-to-day basis.

How did Barack Obama win the presidency? Yes, he ran a well-managed and innovative campaign, but I think it was his leadership qualities—his vision, his charisma—that made the difference. Perhaps we can attribute one-quarter of his success to good management, three-quarters to good leadership. But now that he is in office the relative emphasis switches, as he seeks to deliver on his election promises, resolve competing agendas, and prioritize the issues that land on his desk. I believe his job is now three-quarters management and one-quarter leadership, and that the success (or not) of his administration will rest primarily on his qualities as a manager.

To summarize: the concept of management has been gradually corrupted over the years, partly because of the success of large industrial companies and their particular model of management, partly because of the popularity of leadership, which has grown at management's expense. To make progress, we need first to reverse out of the cul-de-sac that management has been driven into. We need to rediscover the original meaning of the word, and we need to remind ourselves that leadership and management are simply two horses pulling the same cart.

Management in a Changing World

I have painted a somewhat gloomy picture so far, and the picture gets gloomier still, at least for the moment. The failure of management might not be such a concern if the business world were as predictable and stable as it had been in the post-war years. But a great deal has changed since then. The major shifts in the business environment are well documented, so we won't go through them in any detail, but they are worth summarizing:

- We have undergone a period of economic and political transformation, the result of which is a more tightly integrated world economy, with new markets opening up in previously closed regions, and new competitors emerging, often with very different operating norms to those we are used to.
- We have also lived through the Information and Communication Technology revolution, leading to the emergence of the "World Wide Computer"[18] that provides access to information on an unprecedented scale.
- We have experienced many social changes as well: people are living and working longer, but with far more loyalty to their own professional identity than to the organization they work for. And they are seeking engagement in their work, not just a paycheck.

These trends have led to a fundamental change in the economic logic of the firm. In the traditional model, capital was the scarce resource, and the strategic imperative of the firm was to transform inputs into outputs as efficiently as possible. Today, the scarce resource is knowledge, and firms succeed not just on the basis of efficiency, but also creativity and innovation.

These trends have also led to changes in the nature of management. The onset of global competition has made it necessary to adapt the traditional Anglo-American model we are most familiar with to the cultural norms of the countries in which we are working. The rise of "knowledge workers," individuals who own their own means of production, has changed the relationship between boss and employee. And the invention of the Internet has made it possible to access information and work together in a dispersed manner that was never possible before.

Of course, depending on your worldview, these trends are either threats or opportunities. They are threats insofar as they make it even harder than before to retreat back into our traditional models of management. And they are opportunities because new ways of working are opening up before our eyes.

Management was in need of reinvention anyway. But with these technological, economic, and social changes afoot, the urgency of the task has become that much greater. We pick up on these themes and play out their implications for management in the chapters ahead.

Reinventing Management

So what is the future of management? In the face of all these challenges, can management be reinvented to make it more effective as an agent of economic progress and more responsive to the needs of employees?

One school of thought says management cannot be reinvented. The argument here can be summarized as follows: management is fundamentally about how individuals work together, and the basic laws of social interaction have not changed for centuries—if ever. While the business context will evolve, the underlying principles of management—how we set objectives, coordinate effort, monitor performance—are never going to change. For example, Stanford Professor Harold Leavitt's most recent book *Top Down* argued the case for hierarchy:

> Hierarchies have structured human activity for centuries. They've learned to cloak themselves in the commoners' clothes in order to do business in egalitarian cultures, but don't let that fool you . . . Hierarchy remains the foundational shape of every large human organization.[19]

Several other leading thinkers, including Henry Mintzberg and Peter Drucker, have put forward similar points of view. In Mintzberg's most recent book *Managing*, he argues that the nature of managerial work has hardly changed for decades: "Managers deal with different issues as time moves forward, but not with different managing. The job does not change."[20] Indeed, it is interesting to note that most of the major innovations in management—the industrialization of R&D, mass production, decentralization, brand management, discounted cash flow—occurred before 1930. Most of the recent innovations—Six Sigma, the balanced scorecard, re-engineering, for example—have been little more than incremental improvements on existing ideas, rather than entirely new ideas in their own right. If we extend this train of thinking, we could conclude that the evolution of management has more or less run its course, that, to use Francis Fukayama's famous expression, we've reached "the end of history" with regard to management progress.

But we haven't. Of course there is some validity in arguing that the basic laws of human behavior are not going to change. But the practice of management is enormously context dependent, and as the nature of business organizations evolves, so too will management. Yes, there will always be the need for some sort of hierarchical structure in a large organization, but the nature of that hierarchy—as we discuss in Chapter 4—can potentially change dramatically.

The other reason I disagree with the argument that "management cannot be reinvented" is that *there must be a better way of running large companies*. The first part of this chapter documented some of the problems with management as it functions today, and I believe we cannot just accept that our current model is as good as it gets.

Another school of thought says we are on the cusp of inventing an entirely new model of management. The argument here runs as follows: management as we know it today was developed for the industrial era, in which capital was the scarce resource. Today, it is knowledge. Firms gain advantage not by working efficiently but by harnessing initiative and creativity. And, most vitally, the information technology revolution is making it possible for entirely new ways of working to emerge. MIT Professor Tom Malone has made this case clearly:

> We are in the early stages of another revolution . . . that promises to lead to a further transformation in our thinking about control. For the first time in history, technologies allow us to gain the economic benefits of large organizations, without giving up the human benefits of small ones. This revolution has begun.[21]

Many other writers have made similar claims. For example, technology writer Howard Rheingold observed that "the most far-reaching changes [from new technology] will come, as they often do, from the kinds of relationships, enterprises, communities, and markets that the infrastructure makes possible."[22] *Wired* editor Jeff Howe argues that the Internet-driven phenomenon of crowdsourcing "will change the nature of work and creativity."[23] Again, the argument is persuasive, and one that we can all relate to as we try to come to grips with the potential ramifications of Internet technology.

The trouble is, I have a nagging concern that we have been here before. All the arguments around decentralization and empowerment have been debated for a very long time. *Fortune* magazine ran a series of articles on "The New Management" in 1955 in which these themes were discussed. And every generation of management writers since then, including such luminaries as Peter Drucker, Gary Hamel, Rosabeth Moss Kanter, and Sumantra Ghoshal, has also argued for its own version of revolutionary change in the years ahead.

Harvard Professors Robert Eccles and Nitin Nohria wrote a very thoughtful critique of this perspective in *Beyond the Hype*. Writing in 1992, they observed five principles of the "new organization" that were being preached to managers—smaller is better than larger, less diversification is better than more diversification, competition must be replaced by collaboration, formal authority must be diminished, and time cycles must become shorter. Needless to say, these five principles are still being preached 20 years on. And Eccles and Nohria's rhetorical question—are we [really] moving from one historical epoch to another, during which radical and fundamental changes are taking place in organization and work?[24]—is still as germane as it was back then.

Is there a third way here? Can we identify a useful way forward that avoids the extreme positions of these other two schools of thought? I believe there is.

We don't need to throw up our hands and say management has gone as far as it can, because that would accept the failures of management as something we must just live with. And we don't need to create a whole new model of management—we have plenty of ideas from the world of theory and insights from the world of practice to guide us.

We need to develop a more comprehensive understanding of what management is really about to make better choices. By going back to a basic definition of management—the act of getting people together to accomplish desired goals—we can frame our discussion of the activities and principles of management much more explicitly. And armed with this new understanding, we can help managers make better choices within the universe of known possibilities, rather than suggest they invent something that has never been thought of before.

Here is an example. Why should we assume that all important decisions get made by the people at the top of the organizational hierarchy? Traditionally this was certainly the case, but is it possible that important decisions might be made in less-hierarchical or non-hierarchical ways? Yes it is. In fact, entire books have been written on the "wisdom of crowds" and "crowdsourcing" techniques for aggregating the views of large numbers of people to make better decisions.[25] So it would be wrong to assume that all decisions made in the future will be made exclusively by those at the top of the hierarchy, and it would be equally wrong to assume that crowdsourcing will entirely replace traditional decision-making structures.

The prosaic truth is that *it depends*—the right model depends on a host of contingencies, including the nature of the decision being made, the company's size and background, the interests and capabilities of the employees, and so on. In the next chapter we explore just what a Management Model is. We develop a framework outlining the four key activities of management, and the traditional and alternative principles by which each activity can be managed. *The right Management Model for your company is the one based on the most appropriate choices you make within that framework.*

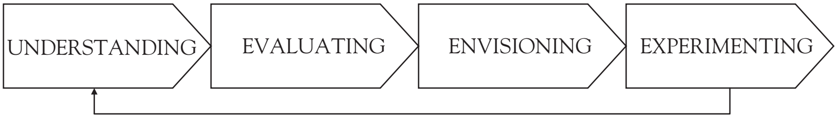
The Key Messages in this Book

In the field of business strategy it is often argued that there are two different and complementary pathways to success—devising a distinctive strategic position and implementing a particular strategy effectively. Southwest Airlines, Dell Computer, and IKEA have prospered because they developed and protected a distinctive strategic position. Toyota, McDonald's, and Tesco have prospered by executing their plain-vanilla strategy better than anyone else in their industry.[26]

The same logic applies in the field of management: you can make distinctive choices about the Management Model you are going to use, and you can have high-quality managers who simply do their jobs well. Ultimately there is no trade-off needed between these two approaches. High-performing companies typically do both well. But I make the distinction to emphasize that this book is focusing on the former—it is about how you choose the best Management Model for a given situation. Of course the quality of the individuals you employ, and the extent to which they do their jobs well, are important, but such issues are the subject of another book. The focus here is on the overall architecture of management—the choices we make about how we work. We make these choices through four linked steps (Figure 1.1).

- **Understanding: You need to be explicit about the management principles you are using to run your company.** These

Figure 1.1: The four key steps in making smarter choices



principles are invisible, and often understood only at a subconscious level, but they drive the day-to-day processes and practices through which management work gets done. Chapter 2 describes a framework for clarifying what these principles are and it provides a tool to help you diagnose your company's implicit choices.

- **Evaluating: You need to assess whether your company's management principles are suited to the business environment in which you are working.** There are risks associated with whatever principles you employ, so you need to understand the pros and cons of each one so that you can choose wisely. Chapters 3–6 take you through the four major activities of management (coordinating activities, making decisions, setting objectives, motivating people), discussing in detail the pros and cons of each. Chapter 7 then puts forward an integrative framework for looking at these choices in a comprehensive way.
- **Envisioning and experimenting: You need to be prepared to try out new practices as a way of reinforcing your choices.** Your Management Model can only become a source of advantage if you find ways of working that separate you out from the crowd. So it is important to take a creative approach to management, by envisioning new ways of working and experimenting with them. Chapters 8 and 9 therefore focus on *how* you innovate your Management Model, with Chapter 8 addressing the challenges of enacting change from a mid-level position in a large company and Chapter 9 looking at the same issues from the position of the

chief executive officer. Chapter 9 closes with a step-by-step guide to the process of management innovation.

Lehman Brothers and GM Revisited

Before moving on to look carefully at what precisely a Management Model is, let's revisit for a moment the cases of Lehman Brothers and General Motors. I suggested that Lehman suffered from a couple of fatal flaws: it lacked any sort of higher-order purpose to guide or motivate its employees, and it focused on extrinsic rewards (i.e. money) at the expense of all else, thereby driving out teamwork, institution-building, and loyalty. GM suffered from excessive bureaucracy and overly formalized management processes, and a mistaken belief that it could control its business environment. Underlying these characteristics, in each case, was an implicit point of view about the company's Management Model, about the guiding principles on which particular practices were built.

And it's not as though there were no other options available to these two companies. Goldman Sachs' partnership model was built on very different underlying principles (and with much greater success) than the free-agent model that Lehman adopted. In the automobile industry, Toyota was founded on a set of beliefs about how to get the best out of employees that was dramatically different from that of the Big Three, but GM was unable to fully internalize those principles. Indeed, GM was never able to shed Alfred Sloan's legacy. Peter Drucker observed, when commenting on GM's long decline, "To the GM executives, policies were 'principles' and were valid forever."[27]

It's worth noting that these companies got it wrong in two distinct (though linked) ways. Mistake number one was that the executives subconsciously assumed (incorrectly) that there was only one valid Management Model in their industry, i.e. the one they had always used. Mistake number two was to fail to adapt their existing Management Model to the changes under way in the business environment, with the result that their earlier strengths turned gradually into liabilities.

It's very easy to go astray. For example, a decade ago, the mantra in many large companies was "bring the market inside"—use market-like mechanisms to overcome the stifling problems of bureaucracy and hierarchy. This advice was aimed at companies like GM. It worked well in Shell and others, as they created venture capital-like seed funding systems such as Gamechanger. But it was disastrous in Lehman and the other investment banks, which were destroyed by opening themselves up to market forces. And it was disastrous in Enron. The message, in other words, is that the right Management Model for a big oil company is not necessarily the right Management Model for an investment bank. But more importantly—how crucial it is to get it just right.

Chapter 1: Key points

Management is the act of getting people together to accomplish desired goals and objectives. Unfortunately this meaning has become corrupted over the years, with the result that many people now see management as a narrow and overly mechanistic activity. This corruption occurred for two main reasons. First, the growth of the modern industrial corporation led people to equate the style of management practiced in a large factory with the practice of management in general. Second, the rise in popularity of thinking about leadership was at management's expense, so that the job description of management ended up becoming narrower and less attractive over the years.

The 2007–2008 financial crisis was a *failure of management* as much as it was a failure of policy, governance, or regulation. The underlying cause of Lehman Brothers' demise was a poorly chosen Management Model that encouraged bankers to pursue their own interests at the expense of their employees and shareholders. The collapse of General Motors, on the other hand, was the result of an entirely different set of management mistakes that prioritized conforming to the GM system ahead of adapting to changing market demands. In contrasting ways, both companies' problems point to the need for greater attention to be paid to management in large companies.

This book seeks to bring management back into focus. It argues that companies should invest as much time thinking about improving their management practices as they think about developing new products and services. This need is driven both by the flaws in our current models of management and by the new opportunities that Web 2.0 technologies offer us.

There are two views of management out there at the moment. One view suggests that management as a discipline is essentially the same as it has ever been; the other view suggests that we need to radically rethink our basic principles of management. This book suggests a third way—it suggests that managers become more conscious of the choices they have subconsciously made about how they get work done, and it shows how they can make smarter choices in the future that build on the opportunities for improvement, while also being aware of the downside risks.