Reinventing Management

May 20th 2010

Professor Julian Birkinshaw
London Business School
And the MLab
The Failure of Management

Shockingly poor risk-management decisions

Perverse incentive systems, “eat what you kill”

No higher-order purpose
The Failure of Management

The definitive professionally-managed company c.1950

Gradually lost touch with the marketplace through 1970s/80s

“At GM the stress is not on getting results—on winning—but on bureaucracy, on conforming to the GM System”
## Two contrasting management models

<table>
<thead>
<tr>
<th>Lehman Brothers</th>
<th>General Motors</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Fluid, flexible, entrepreneurial, client-focused, results-oriented</td>
<td>- Professionally managed, clear structure, formal systems, technical focus</td>
</tr>
<tr>
<td>- But led to greed, arrogance, internal competition, lack of concern for risks taken, failure to see big picture</td>
<td>- But led to lack of customer responsiveness, complacency, lack of urgency</td>
</tr>
</tbody>
</table>
What is Management?

“Getting work done through others”

“Bringing people together to accomplish desired goals”
How “management” got corrupted

1. By the rise of the Industrial Corporation
2. By the rhetoric of “Leadership”

<table>
<thead>
<tr>
<th></th>
<th>A manager...</th>
<th>A leader...</th>
</tr>
</thead>
</table>
| **John Kotter**| • copes with complexity  
• plans and budgets  
• organizes and staffs  
• controls and problem-solves | • copes with change  
• sets a direction  
• aligns people  
• motivates people |
| **Warren Bennis** | • promotes efficiency  
• is a good soldier  
• imitates  
• accepts the status quo  
• does things right | • promotes effectiveness  
• is his or her own person  
• originates  
• challenges  
• does the right things |
Managers vs. leaders: A false dichotomy
Which professions do people respect most?

How do you rate the honesty and ethics of the following professions? (% answering very high or high)

<table>
<thead>
<tr>
<th>Profession</th>
<th>% Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical doctors</td>
<td>65%</td>
</tr>
<tr>
<td>Police officers</td>
<td>63%</td>
</tr>
<tr>
<td>High School teachers</td>
<td>64%</td>
</tr>
<tr>
<td>Journalists</td>
<td>23%</td>
</tr>
<tr>
<td>Bankers</td>
<td>19%</td>
</tr>
<tr>
<td>Lawyers</td>
<td>13%</td>
</tr>
<tr>
<td>Executives/Managers</td>
<td>12%</td>
</tr>
<tr>
<td>Car salespeople</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Gallup 2009
Who are you happiest with?

<table>
<thead>
<tr>
<th>Group</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends</td>
<td>3.3</td>
</tr>
<tr>
<td>Parents/relatives</td>
<td>3.0</td>
</tr>
<tr>
<td>Spouse</td>
<td>2.8</td>
</tr>
<tr>
<td>My children</td>
<td>2.7</td>
</tr>
<tr>
<td>Co-workers</td>
<td>2.6</td>
</tr>
<tr>
<td>Clients/customers</td>
<td>2.4</td>
</tr>
<tr>
<td>Alone</td>
<td>2.2</td>
</tr>
<tr>
<td>Boss</td>
<td>2.0</td>
</tr>
</tbody>
</table>

(Rating is on a 1-5 scale)

Source: Richard Layard
Who are the role-model managers?
The Agenda: Reinventing Management

- We need to recapture the spirit of management
  - We need to be leaders and managers
  - We need to find ways of enhancing our employees’ engagement in their work

- We need to become more innovative about management
  - Are there new or alternative principles that we can apply to the challenge of “getting work done through others?”
Thesis 1
Good management is common sense
A brief exercise: Part 1

- Think back to the last piece of work you did where you were fully engaged and highly motivated.
- What were the key features of that project?
- Discuss in pairs, 60 seconds
A brief exercise: Part 2

- Now put on your manager’s “hat”
- What should you do as a manager/leader to enable your employees to do work that makes them engaged and motivated?
- Discuss in pairs, 60 seconds
Key features of good management

- Give your people **important work** to do
- Provide them with **space**
- Provide **support**
- Give them **recognition** and praise

But often we get:

- Confusing objectives
- Micro-management
- Lack of information
- No feedback
Where does it all go wrong?

Why is there such a disconnect between the rhetoric and reality of good management?

- Too busy
- Conflicting priorities
- Risk-aversion
- Need for control

- And we are saddled with outdated principles that make effective management difficult
Bridging the rhetoric-reality gap

Stephen Martin

- How does Stephen Martin’s “undercover” experience help him at Clugston?
- What can you do to generate some of the same benefits without going to the same lengths as him?
Some changes made by Stephen Martin

- Skip-level meetings, informal discussions with the CEO
- Simpler communication – short weekly sessions with supervisors, monthly newsletters with payslips
- Several specific initiatives – making better use of experience, less reliance on contractors
Thesis 2

Rethinking our *principles* makes dramatic improvements in *practice* possible
Uncovering the principles of management

CURRENT WORKING PRACTICES
UNDERLYING MANAGEMENT PROCESSES
DEAP-SEATED PRINCIPLES

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What does the future of management really look like?

Flat
Decentralised
Empowered
Self-organised
Values-driven
Virtual
Engaged
What does the future of management really look like?

“Same as it ever was”

Radically different—unknown and unknowable

Is there a third way?
Management as a conscious set of choices among known alternatives

**Business Model**

Choices an organisation make about:

- Sources of revenue
- Cost structure
- What to make / buy
- How to make a profit

**Management Model**

Choices firms make about:

- Defining objectives
- Motivating effort
- Coordinating activities
- Allocating resources

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A framework for rethinking management

Managing across: activities
Managing down: decisions
Managing individual motivation
Managing objectives

Traditional Principle
- Bureaucracy
- Hierarchy
- Extrinsic
- Alignment

Alternative Principle
- Emergence
- Collective wisdom
- Intrinsic
- Obliquity

ENDS MEANS
A framework for rethinking management

ENDS

Managing objectives
Managing motivation
Managing down: decisions

Means

Managing across: activities

Traditional Principle

Alternative Principle

Bureaucracy
Emergence
Use “peer pressure” rather than formal rules
Eliminate unnecessary activities

- Objective: Organic growth
- Biggest orthodoxy: The budgeting process
- Solution: Elimination of traditional budgeting, each desk head now evaluated on ROI versus peer units

Profit before tax for Wealth Management (ex US) in CHF Billion

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A framework for rethinking management

Ends

*Managing objectives*

*Managing individual motivation*

Means

*Managing down: decisions*

*Managing across: activities*

Traditional Principle

Alternative Principle

- *Hierarchy* ←→ *Collective wisdom*

- *Emergence* ←→ *Bureaucracy*
Hierarchy ← Collective Wisdom

65% 91%
A framework for rethinking management

**ENDS**
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Copyright: Julian Birkinshaw
Topcoder’s unique approach to motivation

Hungry community of software developers

Clients needing software developed

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Member Count</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Warsaw University</td>
<td>46</td>
<td>2408.78</td>
</tr>
<tr>
<td>2</td>
<td>TsingHua University</td>
<td>44</td>
<td>2257.90</td>
</tr>
<tr>
<td>3</td>
<td>SPbSU ITMO</td>
<td>22</td>
<td>2244.11</td>
</tr>
<tr>
<td>4</td>
<td>Moscow State University</td>
<td>33</td>
<td>2235.14</td>
</tr>
<tr>
<td>5</td>
<td>University of Waterloo</td>
<td>32</td>
<td>2057.17</td>
</tr>
</tbody>
</table>
Tomek Czajka

- Twice winner of the TopCoder “Open”
- What motivates him?
  - Love of programming
  - Status/recognition among his peers
  - Possibility of winning the prize
Extrinsic Intrinsic

Extrinsic
Doing work for direct, material rewards

Intrinsic
Doing work to gain status or recognition, to fit in
Doing work for its own sake: for innate pleasure

How should these be harnessed to motivate the people who work for you?

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A framework for rethinking management

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- Managing across: activities
- Managing down: decisions
- Managing individual motivation
- Managing objectives

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- Traditional Principle
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  - Hierarchy
  - Extrinsic
  - Alignment
- Alternative Principle
  - Emergence
  - Collective wisdom
  - Intrinsic
  - Obliquity

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Alignment: Is this really how organisations work?
What is Obliquity?

Obliquity is the idea that goals are best achieved indirectly.

If you want to get to point A, aim at point B.
A more oblique path to success…

“Employees First, Customers Second”

Vineet Nayar, President HCL Technologies

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Two very different views on long-run goals

“We must continuously achieve superior financial and operating results while simultaneously adhering to high ethical standards.”

“To create a better everyday life for the many people.”
A framework for rethinking management

- Managing across: activities
- Managing down: decisions
- Managing individual motivation
- Managing objectives

Traditional Principle
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How people think management will change

ENDS

1. Managing across
2. Managing down

MEANS

1. Managing objectives
2. Managing individual motivation

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<th></th>
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<th>2</th>
<th>3</th>
<th>4</th>
</tr>
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<td></td>
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<tr>
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<td>Obliquity</td>
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<td>Intrinsic</td>
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Coda: What are the biggest barriers to change?

Survey of 900 mid-level employees in 2009. Top three barriers were:

- Disincentives to act: Fear of change, executive self-interest (14%)  
- Old and orthodox thinking (15%)  
- Limited bandwidth: Not enough time, too few resources (19%)
A simple framework for experimenting with new ways of working

- Objective: Organic growth, Innovation etc.
- Design Flaw: Bureaucracy, Risk-aversion, Silos etc.
- Radical Remedy: Experimental new structure, new practice
<table>
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<tr>
<th><strong>Objective:</strong></th>
<th><strong>Blocker:</strong></th>
<th><strong>Solution:</strong></th>
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<td>Innovation</td>
<td>Slow decisions</td>
<td>?</td>
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Gary Hamel
**Objective:**
Innovation

**Blocker:**
Slow decisions

**Solution:**
“Gamechanger” funding

1. Idea submission: *Anyone, any time*
2. Peer review: Within a week
3. Test & Mature: Testing hypotheses
4. Expert review
5. First tollgate: Value proposition
6. Technical feasibility
7. Second tollgate: Business logic

*Outcomes: 40% of projects in E&P division came out of Gamechanger*
Thank You!