



## NEW MANAGEMENT FOR NEW TIMES

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Anyone knowledgeable about management is well aware of the power of “disruptive innovation”—Clay Christensen’s term for how long-established and well-resourced enterprises can be upended by creative competitors focused on delivering more value to their customer bases. What many do not yet recognize, however, is that *management itself*—the whole set of rules and tools by which organizations are professionally run—is also in the process of being disrupted. As a profession and as a discipline, management has been stuck in a form that may continue to appeal to old-guard practitioners, scholars, and consultants, but to many of us looks increasingly obsolete.

First, let’s be clear about what we mean by “management.” What is this thing that must be, and is being, overhauled? The simple answer is that management is the corpus of rules and tools for running a complicated group effort well—the set of teachable learnings about “what works best” when people are trying to produce something of value through their collective efforts. Peter Drucker referred to it as a “social technology.” It is, in other words, a set of already devised and proven approaches and processes that enables motivated practitioners to accomplish much more than they could if they did not have it at hand.

Drucker was right to be proud of the world’s ever-accumulating management prowess. It is what, more than anything, has delivered increasing prosperity and relieved suffering in the world. Where famine, drought, and disease have declined most, it has been by better management. Where scientific discoveries have yielded broadly accessible solutions, these have been the results of management. Where middle classes have emerged and quality of life has improved, that has been due to management—and particularly so in market economies based on private ownership of assets. As Eric Beinhocker and Nick Hanauer put it: “Once we understand that the solutions capitalism produces

are what creates real prosperity in people’s lives, and that the rate at which we create solutions is true economic growth, then it becomes obvious that entrepreneurs and business leaders bear a major part of both the credit and the responsibility for creating societal prosperity” (Beinhocker and Hanauer, 2014).

### How Do We Know It Needs a Redesign?

So, what’s the problem? If management has been turned into a tractable and teachable subject, and has proved to be a powerful and positive force in the world, why is reinventing it such an imperative?

There’s a widespread, strong sense that neither the practice of management nor the discipline of how it is taught has evolved with the times. The world and its economy have gone through momentous technological and social changes in the last decades. Today, perhaps as much as any time in the past, people trying to keep their organizations productive and moving forward are confronted with a “poly-crisis” challenge—an environment in which surprising events as disparate as pandemics, proxy wars, overwhelming migrations, and artificial intelligence collide and complicate each other.

The situation calls to mind Thomas Kuhn’s classic explication of the dynamics that lead up to scientific revolutions. When the model a discipline has been relying on to make sense of the world and plan effective interventions is no longer fit for task, that shows up in the form of anomalies. Eventually there are too many things the model fails to predict. There are too many interventions that fail to produce their intended effects. It becomes increasingly obvious that the model does not describe reality (Kuhn, 1962).

In the case of management, this is not because it was so imperfectly devised at the outset, given the reality of the mid-twentieth century commercial context. It is because, today, that reality is different. Assembled in the first place as the compilation of “what works,” the body of knowledge known as Management still describes what worked in a world that no longer exists. Perhaps most important, the management we have inherited from the past was devised for a world of atoms and not bits, and a time when most people labored with their bodies more than their minds. The most important thing business administrators in the industrial age could do was to squeeze more productivity out of physical plants full of expensive capital equipment. That meant casting workers as highly fungible inputs, always subject to replacement by automation, and producing at ever greater scale—constantly, steadily pushing out the point where diminishing returns would kick in. Large-scale product production has not in the meantime become a bad idea (low prices still depend on scale efficiencies) but in modern economies dominated by knowledge work and knowledge workers, it’s a management obsession that is no longer relevant to the central elements of value creation.

The litany of what has changed could go on, but what is important is the question it invokes: Could it possibly be that the social technology of management as it currently exists—as mainly a set of practices and tools describing what worked best in twentieth-century corporations—could serve as well in a twenty-first century context? Surely too much has changed all around it, as the discipline itself has changed too little.

## What Will Next-Generation Management Emphasize?

So much has changed in the set of challenges confronting organizational leaders that it is impossible to do justice here to the subject, but at least a few major pillars can be described of what would constitute a next-generation version of management. It would put a primary rather than secondary emphasis on the goal of *innovation*, and it would be more human-centered, seeing skilled, creative, and engaged people as the greatest source of value creation. It would define with more clarity the social engagement now required of businesses in societies beset by problems, and it would recognize the expanded scope of the manager’s role, from the control of an enterprise to a contribution to an *ecosystem*.

## Exploration versus Exploitation

Is there enough innovation in the world? Looked at in one way, there is plenty—especially in whole new sectors like social media, new fields like data science and analytics, and new technologies like generative AI. Yet it is also evident that the world’s demand for fresh solutions vastly exceeds the supply. And, depending on how innovation output is measured, arguments have been made that it is actually on the decline (NBER, 2017).

The discipline of management has a built-in bias toward “exploitation” versus “exploration,” to use James March’s famous terms. In the slower-moving commercial environment of the past, the way to generate a healthy surplus was to build a business around an already proven solution and crank it out at scale, at a

consistent, acceptable level of quality. Generations of managers have had this risk-averse mindset pounded into their consciousness, and it continues to shape their decisions even as it has become obvious that the winners in competitive markets are now the greatest innovators in their sectors.

As Scott Anthony frames it, the challenge today is one of “breaking down the barriers to innovation.” (Anthony et al., 2019). Companies and the societies they serve are being deprived of many new solutions that could be created because of holdover management approaches that impede them. It’s all the more important to reorient management toward the pursuit of innovation given that the investment environment creates incentives for them to do otherwise. When the focus is on short-term returns to impatient shareholders, top management teams pay a penalty for making investments that will not pay off within a few quarters, if indeed they pay off at all, and they are rewarded for cost-cutting moves, many of which are in areas important to building the future (Cheng et al., 2007; Barton et al., 2016; Graham et al., 2005).

Peter Drucker saw clearly that to put innovation at the center of your objectives was a fundamental shift in mindset. In his words: “Innovation is more than a new method. It is a new view of the universe, as one of risk rather than of chance or of certainty. It is a new view of man’s role in the universe; he creates order by taking risks. And this means that innovation, rather than being an assertion of human power, is an acceptance of human responsibility.”

## People versus Plant

The idea that “people are our greatest asset” is, on the one hand, hardly new. On the other hand, it is not a belief reflected in the version of management we have inherited from the industrial age and continue for the most part to sustain. In a next-generation version, much more attention and energy will be devoted to how talent is cultivated and how it is best leveraged in organizational settings.

What we could term “Management 1.0” is characterized by hierarchy, top-down command and control, centralization, technocratic and bureaucratic processes, economies of scale, self-centered institutional silo-thinking. Its structure corresponds to what psychologist Douglas McGregor called *Theory X* of human motivation: it assumes that people in a paid work setting don’t want responsibility, need to be told what to do, and require close supervision to prevent shirking or backsliding. Management is the system that makes them productive in spite of themselves. McGregor offered *Theory X* as the foil to a more enlightened view of people management, *Theory Y*, which assumes that people are intrinsically motivated to do good work that has positive impact, all the more in collective efforts—making it the job of management not to police their worst tendencies but to create conditions that cultivate and leverage their best ones.

*Theory X* worked, up to a point, for highly routinised or assembly-line work, but even the business builder most associated with it, Henry Ford, recognized the flaw in it. “Why is it,” he is said to have asked in a mock-rueful tone, “that every time I ask for a pair of hands, they come with a brain attached?” Today, it is the brain that is primarily being asked for. And knowledge work, which situates the means of production inside the human head, requires

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a different approach – one that fosters initiative, discretionary effort, and self-direction.

Again, this is not new territory. We've been citing work done more than half a century ago by McGregor, and extensive work has been done since to build the case for management approaches based on trust, empowerment, learning, and encouragement of imagination and experimentation. Other studies have called for managers to dismantle hierarchical structures and replace them with more decentralized and flat ones, where decisions can percolate from the bottom up and where everyone is attuned to the workings of a greater ecosystem beyond the walls of their organization. And yet the old paradigm of management continues to assert itself in ways subtle and not so subtle, with the people of the organization cast not as the essential driver of success but as the expendable drag on efficient production, ideally to be replaced by less high-maintenance machines.

Making management more human-centered implies many meaningful changes but perhaps the most salient to the moment is the rethinking it forces on the proper application of technology—in particular, the application of artificial intelligence. Next-gen management thinking insists that the proper use of this technology is to augment and not simply to automate human work. The first rule of AI application becomes that it must relieve humans of mind-numbingly tedious paperwork that adds nothing to their knowledge or creativity, and requires no human insight to perform. All the better if it is work that no human was doing in the past, so that having it performed by a smart machine threatens no crippling staff reductions.

The advent of AI and its increasing application in business makes it all the more urgent that we redefine what constitutes excellence in management and how to achieve it—because things could go in either of the two directions McGregor outlined, and whichever path we take will be exponentially advanced by these powerful technologies. A next-generation version of management could, that is, be a *Theory-X*-based approach on steroids, with AI tools deployed to detect and punish bad behavior by workers regarded as fundamentally unmotivated and untrustworthy. Or it could be a *Theory-Y*-based investment in a powerful set of new tools to place in the hands of empowered, purpose-inspired people who are therefore able to increase their contributions to the organization—and society—and see that value creation recognized and rewarded. With AI as co-pilot, the productivity of knowledge work could be boosted substantially. One optimistic recent projection suggests that AI could give global GDP an astonishing \$14 trillionshot in the arm, and claims that, even in the next, transitional decade, “under most scenarios, more jobs will be gained than lost.” (Manyika and Sence, 2023).

Which of these futures unfolds more generally has everything to do with how managers understand their roles and their goals, and the prevailing norms and standards of the profession of which they are members.

### ***Social Enhancements versus Shareholder Enrichment***

Few pressures have created more headaches for managers in recent years than the increased demand by social activists for

organizations—especially private sector businesses—to take stands and take action on social issues beyond their traditionally tightly-focused realms of commerce and influence. Reluctance to weigh in on hot-button issues invites “naming and shaming” from those who equate silence with violence. Proactive stance-taking leads to boycotts and, if too many customers defect, to shareholder lawsuits.

It would seem that we have reached the apotheosis of an argument that has been building since Drucker's own time over the question of what constitutes social responsibility in a business. A new management model should make it a priority to clarify for managers, and those who would judge their conduct, the most important ways in which their work should advance the progress of their societies.

Drucker came to his own answer, which was a nuanced one. In a nutshell, “the proper social responsibility of business is . . . to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth.” (Drucker, 1984). It's a statement of responsibility that we might say advises managers to “stay in their lane” but at the same time gives them a big lane to fill. Certainly, with its emphasis on social problem-solving and enhancing workers' competence and compensation, it is no endorsement of a laser-focus on maximizing shareholder value. But neither does it demand of managers that they assert themselves as political actors and commit their organizations to stances on socially divisive issues that are not universally shared by the people of the organization.

Whether this is the direction that a next-generation management model would prescribe, the point here is that, to be useful to practitioners, that model should offer guidance on a problem that is new and pervasive in their work.

### ***Ecosystems versus Enterprises***

It has become normal today to talk about commercial “ecosystems” and the opportunities they represent for larger-scale value creation. But practice has not caught up with language change in this regard. We are still in the early stages of understanding the implications of an ecosystems view for management. Yet one thing is immediately clear. Management of an ecology is as different from managing a stand-alone, bounded, rationally planned organization (the unit of management concern up till now) as quantum is from Newtonian physics.

Complex, dynamic, evolving, shape-shifting and with results that are hard to predict, ecosystems upend all our previous management certainties and the linear thinking that goes with them. Being organic, they require tending rather than commanding, and the different kind of thinking that goes with it: imagination, adaptability, experiment and empathy, instead of the meticulous planning and goal setting of the past. Attempting to manage and sustain natural and institutional ecosystems with today's machine metaphor for companies, with concomitant top-down control and bureaucratic processes, is worse than fruitless – it is counterproductive.

## We Need to Get this Right—and Soon

This essay began with the observation that the disruption of management is not only overdue but is already underway. Many have already turned their frustration with an outmoded management model into action, experimenting with and researching approaches that deviate from the norm. Visions of the future of management, in part or in whole, have been developed in many quarters by many brilliant minds. The work of Gary Hamel and Michele Zanini comes first to mind, with its strong advocacy of a reorientation to innovation and a dismantling of initiative-crushing hierarchy and bureaucracy. Julian Birkinshaw, who helped Hamel found what they called The Management Lab, has also written extensively on the subject of reinventing management. Some others whose work we especially respect include Amy Edmondson, whose work has done so much to make organizations more conducive to learning from experience; Curt Carlson, who has dedicated himself to developing approaches to value creation and teaching a new generation to see that as their responsibility; Steve Denning, who tirelessly advocates for work settings that are more humanistic and agile in spotting and solving problems; Zeynep Ton, whose airtight case for more “good jobs” is a forceful challenge to employment trends moving in exactly the opposite direction; and Michael Jacobides, with his insightful analyses of business ecosystems and the challenges they present to managers.

There are innovative businesses, too, experimenting with new approaches and achieving better results. One that has been especially generous in sharing those learnings is Haier, which has translated its founder Zhang Ruimin’s embrace of “Theory Y” thinking into a model based on radical decentralization and empowerment of small units to respond as they see fit to their customers’ needs. Another is Vinci group whose longtime leader Xavier Huillard has decomposed the company in thousands of entrepreneurial entities held together by a strong common culture and wide framework of strategic directions. Yet each company of the group devises its own business strategy.

That there should be such a profusion of activity and experiments springing up in such scattered, uncoordinated ways is all to the good: it is the sign of an authentic, pressing need and an organic movement to meet it. The transformation of management can only happen if it taps into a pent-up demand for change. At the same time, the change can be accelerated by doing more to pull these separate ideas and energies together.

Drucker also liked to refer to the “social ecology” in which any managed entity was situated. All societies are made up of many complementary, overlapping, and competing organizations and institutions. We can think of the social ecology of management as comprising practitioners across business, government, and nonprofit sectors, plus management scholars and researchers across many fields (economics, psychology, sociology, ethics, computer science, engineering, and more), management consultants, knowledge workers, regulators, and more. With this system view in mind, we can think like ecologists about how to bring about systemic change. No one is in charge of the whole ecology, but action can be taken on multiple levels to influence it with deliberate interventions.

First, we can accelerate the progress toward a next-generation model of management merely by bringing separate strands of effort into contact with each other. By convening conversations

among these various parties, we can provide the creative friction that makes collaborative efforts fruitful.

We can also invest in efforts to synthesize the learnings from diverse projects and people and understanding how they relate to each other and could combine into higher-level understandings of the problems and emerging phenomena challenging managers.

We can commit to and provide guidance to additional work in areas that seem under-developed, perhaps by announcing grand challenges and by highlighting intriguing new lines of inquiry.

We can elevate and celebrate accomplishments and experiments that are clearly important advances toward a next-generation management. It’s a basic truth of social psychology that leaders should celebrate what they want to see more of. When an organization puts in place an effective new way of getting things done and proves the value of a new approach that others can also adopt, that breakthrough should be acclaimed. When a theorist reframes a managerial problem in a way that opens up new avenues for progress, there should be something akin to a Nobel Prize in Management.

Finally, it will accelerate the work simply to keep reminding the players involved of the importance of the effort. The reinvention of management to become more well matched to the conditions of the twenty-first century, and to enable a new century of progress and prosperity in the world, is something this whole managerial community should be bending its efforts to bring about.

## Time for a Purposeful Change

A society is made up of institutions, and in the healthiest societies we find the highest-performing institutions. This is the responsibility of management—to continually raise performance—whether we are talking about the management of a team or a multinational corporation, or talking about the entire concept, profession, and discipline of management.

And just as expert artisans craft not only products of increasing quality but also tools of greater utility, dedicated managers must be prepared to reconsider the toolkit of their “social technology.” Constantly it is being tweaked and adapted on the margins to tackle new challenge and changing circumstances. Sometimes the change required is more sweeping.

It may be that unlike in physics and other hard sciences, there are no absolutes to be discovered about what works in the practice of management. Yet we can agree on the fundamental need for it and its overarching goal: to build prosperity in societies by sustaining a virtuous circle of perceiving new opportunities, pursuing them with imagination and energy, attracting people to the challenge with work arrangements that honor human strengths and develop human potential, and ultimately providing solutions that make the world a better place. If we get this “Next Management” right it will lift all boats including the drive to create a more sustainable world: we will finally leave the prescriptive top-down mandates behind us and give freedom to innovators and entrepreneurs to find solutions that nobody has ever been thinking about. This will be the Next Sustainability.