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MANAGING IN THE NEXT SOCIETY

Peter F Drucker's book *Managing in the Next Society* was published in 2002 – three years before his death. The title makes one of the fundamental connections that Peter Drucker emphasised during his long life as teacher, writer and consultant: management is deeply rooted in society.

A crisis of management

Drucker called management a “social technology” and referred to himself as a “social ecologist”, meaning someone who watches and understands the man-made environment of modern societies. This environment is made up of institutions and organisations that need highly skilled people called “managers”, who achieve their objectives with others and through others.

Thus management becomes a generic function in modern societies – not only for business but also for government, education and civil society. As decision makers, managers wield significant power and influence. Their choices have direct impact on people's lives. This means responsibility and accountability. The current crisis may be perceived as a crisis of management.

It marks the culminating point in a process of increasing disenchantment with business leaders, who are considered the ultimate culprits. 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. Even within companies the esteem for management is at a low point. In a recent study about happiness economist Richard Layard showed that the boss came last among people that employees would want to interact with.

It is obvious that the excesses in global finance have further tainted the reputation of management as a profession. Yet those who rightly condemn the management of financial services institutions tend to forget that management is a vital profession, permeating all institutions of our society. There is no alternative to “management”

As Peter Drucker put it in his 1993 book *The Ecological Vision: Reflections on the American Condition*: “Management and managers are the central resource, the generic, distinctive, the constitutive organ of society...and the very survival of society is dependent on the performance, the competence, the earnestness and the values of their managers...What managers are doing is therefore a public concern”.

Can corporate management redeem itself from a public perception of greed and shortsightedness? Is there credibility to achieve what Lynda Gratton, a Professor of Management Practice at London Business School, has postulated – to put people at the heart of the corporate purpose? (Living Strategy, Prentice Hall 2000)

Or are there new role models emerging from the world-leading small and medium enterprises as described by Hermann Simon in his book Hidden Champions of the 21st Century?

A moment of truth

The combination of widening budget deficits, an aging population and increasing competition from emerging markets is set to exacerbate the imbalances in public finances in developed nations around the world. There are no easy answers – pure belt-tightening might have a huge social cost. Achieving significant growth seems to be the only alternative.

Craig Barrett, former CEO and Chairman of Intel, has formulated it like this: We cannot save our way out of the crisis, we must innovate it!

Yet it is more than innovation in products and services. Innovation needs to comprise business models, organisation processes, public private partnerships, government services and the social sector. Ultimately we will have to innovate innovation itself. A combination of productivity increases and incremental and game-changing innovation will be the ingredients for growth and future prosperity. The time may also be over where we the West were the hub of the world for understanding and managing innovation. As the late and much missed C K Parahalad has demonstrated in his influential book *The Fortune at the Bottom of the Pyramid*, new ways of innovating are being created in emerging nations that might revolutionise innovation in the developed world. In the recent special report on innovation in emerging markets in *The Economist* Adrian Wooldridge provides impressive indications for a rapid shift in the centre of gravity for innovation in a world turned upside down.

What might be called “Innovation 3.0” must include system-level transformation taking into account the increasing interdependence and complexity of companies, economies and social systems. Innovation 3.0 is not just a quest for competitive advantage by individual institutions, a strategy game or sand table exercise for business and policy makers – it is the lifeline for 21st century society.

Hence, this is the moment of truth for management. Transformation, managing and accompanying profound change in organisations and reinventing the institutions of our society is an unprecedented challenge. Will this require reinventing management itself as postulated by a recent book from Julian Birkinshaw (*Reinventing Management, Smarter Choices for Getting Work Done*, Jossey Bass, 2009)? Or does it mean – as Fredmund Malik would argue – to finally apply the fundamentals of management as established by Peter Drucker and other great management thinkers (*Führen Leisten Leben*, Campus 2006)?

Challenges and opportunities

Can it be done? Is there a realistic chance to make the 21st century an age of pervasive and systemic innovation and of deep transformation? Will we be able to manage both continuity and change to avoid a catastrophic system crash? Where are the opportunities and how realistic is it to assume we can make this work?

In his prescient way Professor Drucker pointed in the 1960s to the rise of the knowledge worker and knowledge becoming the key resource in a post-capitalist society.

With some 30% of the population in developed economies dealing with knowledge in non-routine and creative ways there is still a huge untapped potential for increasing this pool. This is the big challenge for the education system – increasing the quantity of people benefitting from advanced education and improving quality and relevance at the same time.

The underlying social challenge is to avoid yet another divide – the knowledge divide between those who can participate in the creative economy and those who are excluded.

The first and foremost challenge relating to knowledge work in modern organisations will be the liberation of latent creative and innovative potential. The level of autonomy required by knowledge workers is in stark contrast to the reality in most organisations that still use bureaucratic top-down approaches. However, with knowledge workers connecting in professional and scientific communities beyond the enterprise there is an enormous intellectual and creative pool emerging.

The so-called demographic time bomb is one of the big threats and opportunities as we move into the 21st century. Peter Drucker has pointed to the absurdity of applying the current pension philosophy to knowledge workers and thus invalidating their intellectual and social capital at a pre-defined date. This is a colossal waste, particularly at a time where state pension deficits are soaring while all hands – or rather all brains – are badly needed on deck. This exemplifies well the profound systemic changes required in regulatory frameworks, flexible work arrangements, life planning, work ethics, lifelong learning and a culture where generations re-learn to care for each other.

The slowness and inertia that resist change are a major obstacle to confront. Business has been struggling to become more nimble under the pressure of unforgiving markets – in particular with regard to a big increase of volatility and complexity during the last decades. Will those who act outside market conditions be able to change their culture and to adopt similar approaches?

Yves Doz and Mikko Kosonen in their book *Fast Strategy* (Wharton School Publishing 2008) have analysed how companies achieved what they called “strategic agility” – putting them

in a position to take advantage of change and disruption. How can this be applied to public services, education and non-profit organisations?

There is another major challenge to deal with – it is the assessment of risk in today's society. With an ambiguous and vaguely defined precautionary principle there is a capacity to stop innovation under the banner of a zero-risk policy. This principle has been imposed with a vengeance to parts of the “real” economy. However, it has been virtually ignored in the financial services sector, where toxic innovation created huge environmental damage – to humans, who are also part of the habitat of our planet. To re-inject some sound business judgement and more commonsense in this field may be something to consider.

Today, information and communication technology (ICT) pervades all fields of our lives and has already had a deep impact on business and society. With new architectures such as “cloud computing” we should get to the point where it becomes a true utility and enabler for innovation. It has the potential to make us much “smarter” in dealing with our environment, with our institutions and with each other.

ICT provides us only with tools and infrastructures. By applying the “social technology” called management we can create value from technology based solutions such as intelligent cities, smart grids, cost-effective social services, personalised health care and telemedicine, technology enhanced learning and new open innovation approaches.

There is significant experience and a considerable body of knowledge from business research and education that managers can draw on. However, a reorientation of academic institutions towards practical relevance without giving up scientific rigour should be of high priority along with adequate funding schemes for management research that have been provided only for “hard” technology oriented research so far.

Another silver lining is the new generation of people arriving in the workplace. For them purpose and meaning are of the foremost importance. They tend to look at the bigger context. As digital natives they are interacting with technology in a natural way. With a strong sense of ownership for their personal development they seem to have significant entrepreneurial genes in their DNA. These attitudes will be essential in a society that will have to become more entrepreneurial to sustain itself.

As the American magazine Business Week pointed out in June 2009, innovation performance as a driver of economic growth was not brilliant in the last decade. The bubble economy may have resulted from insufficient innovation in the “real” economy. Now there is a realistic chance that some new technologies will at last achieve breakthroughs and create new growth industries – such as miniaturised silicon-based machines (MEMS), biotech, alternative energy and tissue engineering.

Even so, much will depend in the 21st century on our progress in nontechnological innovation with deep changes in how companies operate and how society functions.

John Kao in *Innovation Nation* (Free Press 2007) defines innovation as the ability of individuals, companies and entire nations continuously to create their desired future. Matthias Horx has recently launched a call to action in his “creative manifesto” (*Das Buch des Wandels*, DVA 2009) to all those who are passionate about creating a new society in an evolutionary and peaceful manner.

This is perfectly in line with Professor Drucker’s famous quote:

The best way to predict the future is to create it.

– PETER F. DRUCKER

which summarises well the challenge for management in the next society.