

# A Quest for Legitimacy: How Managers Can Shape the Future



RICHARD STRAUB

Continuing to focus only on shareholder value and short-term financial results will not be adequate to tackle the huge challenges of the future. Neither will quixotic fights against the momentum of governance systems nor romantic dogooder approaches. What we need, says Richard Straub, is for managers to build on the fundamental strengths of capitalism with its unmatched ability to generate wealth while infusing it with a new sense of ensuring performance and progress for all of society – creating value while maintaining our values.

Although corporations create much of the value in today's world, public trust in business and management is abysmally low. Only about 50% of the wider public in the Western world puts faith in the ability of business to do the right things, according to the 2011 Edelman Trust Barometer. (Governments are faring even worse in the realm of public opinion, with trust scores hovering around 40% in the West.)

Many consider executives to be narrowly focused on the bottom line, with little genuine concern for society. And although corporate social responsibility programmes have proliferated, they have failed to redeem management's legitimacy. Indeed, many see CSR initiatives as mere PR and marketing ploys, which have little impact on the way a company's core business is conducted.

Internally, things are not a whole lot better. According to the Corporate Leadership Council, by

the end of the first quarter of 2011 more than 20% of employees were highly disengaged and only 39% put a high degree of effort into their jobs.

It is tempting, of course, to blame the recent financial crisis and its reverberations in the real economy for stirring such strong negative feelings. To be sure, the recession did little to burnish the image of business. But these trends are hardly new, suggesting that there are some more fundamental, underlying issues to be resolved.

## Disenchanted with investor capitalism

Peter Drucker, for one, expressed his deep concern about the direction that capitalism began taking in the 1980s and 1990s with its increasingly narrow focus on "shareholder value". In particular, Drucker worried that financial engineering and short-term profit maximisation had led business executives to believe that employees were a variable expense (called "Human Resources") that could be cut ruthlessly in order to meet financial targets. Some 30 years after Drucker (pictured overleaf) first sounded this alarm, things seem to have only become worse. Today, more and more corporate leaders are driven by "the tyranny of short-termism", as Dominic Barton terms it in the March 2011 issue of Harvard Business Review.

By devoting a disproportionate amount of energy and resources to managing quarterly earnings results "by the cent", executives have reduced their

capacity for long-term value creation. No one is arguing that the pressure exerted by financial markets on management is not real. But it is also undeniable that these myopic corporate practices have had devastating effects, undermining trust inside and outside the organisation.

### **The future challenge is here today**

While these developments have been building up for decades, the recent crisis has propelled them into the public spotlight. It is therefore not surprising that a discussion about the future of capitalism and the legitimacy of management in society is now taking centre stage.

For all its shortcomings, capitalism is still widely considered the most effective economic system ever devised. Driven by entrepreneurial spirit and managerial action it has proven its ability to generate prosperity and wealth. Powered by successive technology cycles that have spawned waves of innovation, managerial capitalism has improved the lives of hundreds of millions of people. Though the term “globalisation” tends to rankle some activists, who paint pictures of exploitation and a race to the bottom, many across the world have seen their fortunes significantly improved.

And yet globalisation enabled by technological advances has also brought new challenges. It has made the world more complex, interdependent and hence more vulnerable and unpredictable. Shocks can easily spread from continent to continent, as the financial crisis made plain.

What’s more, things promise to get only more difficult from here. A rapidly rising world population, moving towards nine billion by the middle of the century, portends huge demographic and economic shifts between the developed world and emerging countries. It will put the highest strains on all sorts of resources in the quest to cover human needs across the planet. They range from food, water, energy, health and housing to higher-order needs such as education, jobs and social status.

Governments, civil society and businesses will all have to take on their share of responsibility to come up with new solutions. These will require a political, social and economic system of the highest performance and effectiveness. Just witness the popular uprising in the Middle East and Northern Africa to measure the magnitude of the task.

Can a revitalised managerial capitalism meet its part of this challenge? Can it mobilise the knowledge, creativity and innovation that are needed today and will be needed in the decades to come? Can our highly specialised, single-purpose institutions serve the common good without losing their economic clout

and efficiency? Can it contribute to attenuate the clash of cultures by accelerating economic development around the world?

### **The three key responsibilities**

Drucker concluded that the survival of society depends on “the performance, the competence, the earnestness and the values of their managers”.

This implies a huge responsibility for what managers actually do – be it in achieving the economic purpose of their business (which is the foundation for every other responsibility), be it in making work and people productive, or in managing social impact and social responsibilities.

The good news is that since Drucker wrote his 1954 landmark book *The Practice of Management* we have seen a host of new tools and concepts designed to make managers more effective.

Julian Birkinshaw and Michael Mol in their book *Giant Steps in Management* have identified some 50 innovations in the field. Among them: Lean Manufacturing, Balanced Scorecard, Activity Based Costing, Strategic Business Units, Matrix Organisation, Brand Management, Outsourcing, Performance-Related Pay, Open Innovation, Operations Research, Customer Segmentation and Enterprise Resource Planning. Significant progress has been achieved in applying these instruments to drive economic performance and efficiency.

### **Making work and people productive**

Nevertheless, are we really getting anywhere close to tapping the human potential in today’s organisations? Are managers actually succeeding in making people productive and in bringing their strengths to bear?

All indications are that the human element has been grossly underutilised in recent decades as corporations have implemented analytical frameworks and conceptual tools.

As we have seen all too often, as concepts such as Management by Objectives and “corporate re-engineering” are grossly misapplied, management innovations can quickly degenerate into weapons of mass destruction for human initiative, motivation and creativity if they are not accompanied by strong consideration for what really lies at the heart of any organisation: its people.

It is high time for management, across all our organisations, to create the conditions for unleashing the power of human knowledge and ingenuity.

With his bird’s-eye view, Drucker defined this as the key challenge for our current generation of managers.

“The most important, and indeed the truly unique, contribution of management in the 20th century was the fiftyfold increase in the productivity of the manual worker in manufacturing,” Drucker declared. “The most important contribution management needs to make in the 21st century is similarly to increase the productivity of knowledge work and the knowledge worker.”

To achieve this task within organisations managers have to act as treasurers of human capital and exercise stewardship for the development and effective deployment of people.

Once all the great management tools and techniques that have been developed during the past few decades are infused by a deeper understanding of the human factor, the results could be spectacular, far beyond today’s greatest economic achievements.

## Responsibility towards society

This much-needed refocus on people and their capabilities is closely tied to the third element that Drucker identified as a fundamental obligation for management: the responsibility of business and other institutions towards society.

Companies, after all, do not operate in a vacuum; they are part of society and operate within society. In the January-February 2011 issue of Harvard Business Review, Michael Porter and Mark Kramer promote the concept of “Shared Value” as a way to “reconnect company success with social progress”.

The essence of their idea is for corporations to take on social problems but in a competitive context; to look for ways to contribute to the larger community while tackling core business objectives.

While similar notions have been brought forward over the years by various authors, this may be the perfect moment for this approach to reach full flower.

Jed Emerson’s work on Blended Value; the Public Value initiative developed by the Institute for Values in Society at the University of St Gallen, under the leadership of Peter Gomez; and the case studies in Rosabeth Moss Kanter’s book SuperCorp, which show how companies can do well and do good at the same time, all indicate that momentum is building.

However, why should companies care? Why put funding in new risky innovation projects as opposed to staying on a path of more predictable incremental innovation and giving back more of their cash to their shareholders? This touches the fundamental question of what it means to be “in society”.

A situation in which corporations thrive while the societies in which they operate experience high and persistent unemployment, most painfully for the younger generation, and other acute social and environmental problems, will not be sustainable in the long run. This would gradually undermine the very foundation on which business operates. It goes to the heart of the value system of contemporary businesses.

In his book “The Hungry Spirit” Charles Handy speaks about “Proper Selfishness”, which means accepting a responsibility for making the most of oneself by, ultimately, finding a purpose beyond and bigger than oneself. Could such an orientation lead to what Handy has dubbed “a better capitalism”?

## The bottom of the pyramid

Struck by the huge disparities in income between different countries, the late C K Prahalad developed a powerful framework for business to take a leading role in integrating the four billion poor people around the world into the global economy and to bring the benefits of capitalism to those who have not typically been viewed as viable consumers for most multinationals.

This approach requires rethinking traditional business plans and strategies and creating new business models to address the big issues of our planet and its rising population. At the 2009 Peter Drucker Centennial Forum in Vienna, Professor Prahalad issued a challenge to corporate leaders. “Business, as the most powerful force in society, must be the instrument of social justice,” he asserted. More importantly, he argued that the disparities in society are a call to action and an opportunity for innovation.

Delivering goods and services profitably to the Bottom of the Pyramid (BOP) also demands that other important societal issues, especially sustainability and governance, be addressed in the process.



C K PRAHALAD

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CHARLES HANDY

The BOP framework outlines a means for the scale, expertise and technology that resides within large firms to be applied toward improving the lives of the poor through for-profit innovations.

This is not charity. Many of those who have engaged with these markets have found that doing so can rejuvenate and strengthen the innovative capabilities within their firms. Further, developing new business models has helped to improve their competitiveness in developed markets as well. Management innovation developed in the BOP can also create sustainable competitive advantage. The degree to which business can collaborate with NGOs, governments and the poor themselves will play an important role not only in the ability of companies to innovate on a global basis, but also to build trust and legitimacy.

### A perfect storm sweeping away old-style shareholder capitalism?

The dominance of shareholder primacy has weakened the role of managers inside and outside companies. In the meantime, the intensifying discussion about new ways of simultaneously creating economic value while contributing to the common good coincides with the entering of a new generation into the workplace for which purpose and societal impact are essential. To be just a “hired hand” as opposed to having “higher aims”, as Harvard’s Rakesh Khurana has put it, seems to be a path that many young people frown upon. And with a talent shortage looming, companies will surely have occasion to rethink how to attract the most talented people.

Business leaders will also have to understand better the strengths of alternative economic models that could complement pure capitalism such as co-operatives, partner models, social enterprises and public-private partnerships.

Conversely, non-business organisations such as hospitals, government agencies, NGOs and education institutions that have a much stronger sense of their greater mission in society fall terribly short in applying proper management processes and tools to achieve their purpose in an effective way. There should be much more mutual learning across the various models of value creation.

In short, there may now be a window of opportunity for management to reclaim its legitimacy. With a more clearly defined and better-understood professional status, its voice might be heard again. Still, there is a long way to go from simply talking about this big idea to actually realising a wholesale change in capitalism and the role of management within it. It is a thorny and tortuous route, with no shortcuts in sight.

The new model must prove to be as robust and self-sustaining as the current narrow shareholder-

value approach while eliminating its destructive tendencies.

As part of this makeover, management education and research will have to be fundamentally re-thought in close partnership between business schools and practitioners. Practical relevance must prevail over ivory-tower theory. As Srikant Datar, David Garvin and Patrick Cullen express so clearly in *Rethinking the MBA*, we must get beyond the tired tools and frameworks and start paying more attention to the practise of management (that is, the “doing”) as well as to the values, attitudes and beliefs that form managers’worldview (that is, the “being”).

Change is in the air. It may well prove a defining moment in modern business history that management should not miss. ■

#### About the Author

Richard Straub is director of EFMD Corporate Services and EU Affairs and President of the Peter Drucker Society Europe



The poster features a grey background with a white grid pattern. At the top left is the logo for 'The Drucker Institute' and at the top right is the logo for 'The Drucker Institute'. The main title '3RD VIENNA GLOBAL DRUCKER FORUM 2011' is written in large, bold, orange and black letters. Below the title is a quote: 'Economic expansion and increase are not aims in themselves. They make sense only as means to a social end. Peter F. Drucker'. The dates 'NOV 3 - 4' and the venue 'VENUE «HALL OF SCIENCES» AULA DER WISSENSCHAFTEN' are listed. At the bottom, there are logos for 'MCE', 'Intel Labs Europe', and 'INSTITUT FÜR WIRTSCHAFTSRECHT'. The website 'www.druckersociety.at' is also provided. An orange box on the left contains the text: '«A Quest for Legitimacy - How Managers Can Shape the Future»'. At the bottom, there is a black box with white text: '>REGISTRATION' and 'http://www.druckerforum-registration.org/register.php'.