A Force for Good in Financial and in Human Terms

The most brilliant leaders in the world can't predict the future. But they can ensure we are heading in the right direction. It takes wisdom and judgement, not the ability to count. It is about innovation and value-creation.

Richard Straub

The Stock Markets have a party – the world does not. Many of us would rather see a perfect storm brewing wherever we look – with regional wars (albeit undeclared), religious fanatism and terrorism raging, economic stagnation, deflation and other ills menacing the world. These challenges seem to increasingly outgrow the leadership and management capabilities that appear to stagnate or rather diminish. Business shares responsibility for driving us into this ditch – can we now legitimately assume that they can help to get us out of it?

Regrettably for the last 40 years, even the question would have been taboo. After all, hadn't Milton Friedman entitled his famous 1970 essay, "*The Social Responsibility of Business is to Increase its Profits*", expanded later into the even more explicit, "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible"?

It's a measure of changed times that in 2014 not only is it permissible to ask the question, it can be credibly answered (although not without qualification) in the affirmative. Management could change the world for the better. Indeed, it's hard to put forward an alternative candidate. International organisations? Hardly.

Governments, meanwhile, are "big, inefficient and broke", as the *Economist* put it in 2011, politicians geared more to managing communication and the electoral cycle than execution or value creation for citizens.

All this implies that if management is to save the world, it too must change. A balance sheet for the first management century would of course feature extraordinary achievements – a spectacular rise in living standards and the raising from poverty of important parts of the world's population, and the equally remarkable transformation of lives through organised medicine, education and telecommunication to name a few. But the liabilities column has been lengthening, too. This is no accident, many of the debit items having their origins in managers' intensifying focus since the 1980s on maximizing shareholder value to the exclusion of other stakeholders: widening income inequality, with some leaders paid 300 or more times those at the bottom; anaemic growth, to a large extent the result of short-termism as companies slash investment to boost dividends and stock buybacks; un- and underemployment; increasing financial insecurity and instability, culminating in the orgy of value-destruction in 2008; and hovering over everything the perilous overexploitation of the carrying capability of the planet largely driven by the explosive growth of the world population during the last half century.

> "It believes in high trust, not in high control, and in management as a force for good."

This is a massive agenda in anyone's book. But there are two reasons for cautious optimism. The first is that management doesn't need wholesale reinvention: it just needs to rediscover its true vocation and priorities.

McKinsey's global head, Dominic Barton, has dated the moment that management veered off course to 13 November 1970, the day when the *New York Times* published the Friedman essay referred to above. Of course, management before that date wasn't blameless, but at its heart was acceptance of a wider social obligation. At bottom there was a conviction, perhaps best expressed by HP's co-founder David Packard, that "profit is not the proper end and aim of management – it is what makes all the proper ends and aims possible". This was reflected in an implicit compact that profits would be reinvested in innovation and capital assets, creating jobs and security for employees, returns for stockholders and value for society as a whole. For leaders, a re-commitment to those values – accepting the truth obvious to everyone else that companies prosper when they simultaneously look after the interests of customers, employees, shareholders and the communities in which they operate – is today's starting point.

In his book *The Ecological Vision*, Peter Drucker wrote: "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". Their discipline, he believed, was a "liberal art". Classically the liberal arts were all the areas of learning that make up a complete education, humanities as well as natural science – but it was the humanities that guided the sciences, not the other way round. It was also art, being a skill requiring practice and application.

It will need both art and priorities firmly anchored in human-centred leadership to confront what is perhaps management's greatest ever challenge: handling the gigantic changes inherent in the technological and scientific capabilities resulting from Moore's law, the unprecedented business opportunities driven by network effects resulting in the "winner takes it all" situations that make Silicon Valley startups masters of the universe almost overnight. Conversations about the world's future are increasingly dominated by technology and technologists. Nanotechnology, Robotics, Biotech, Big Data and the "internet of things" are tantalisingly advanced as the enablers of vast new markets as well as efficiency savings for companies and governments – for the latter in fields ranging from medicine and disease control to transportation and public administration.

This too is a reason for hope. But such gains are not automatic and fraught with dangers. A contributor to the crash of 2008 was overconfidence in the ability of computer technology to identify and control risk. In general, managers have a poor record of handling complexity, partly because of their resistance to thinking in terms of systems. Conversely, technologies capable of liberating human initiative and spirit can also be used for the opposite. Thus we have seen the emergence of modern-day sweatshops based on a form of IT-driven neo-Taylorism in some service operations.

A recent article in *Strategy + Business* noted the "devastating" organisational effects of conventional performance management, leading to high attrition, falling productivity and weak collaboration. Yet this only emphasizes the size of the prize. Whether we like it or not, management has a to play a central role in how the new technologies are applied. Using them to leverage even a small proportion of the human energy now going to waste could itself bring about a great transformation in human affairs. We know what good (in both senses) management looks like (not least by comparison with the ever-present bad). It is about wisdom and judgment, not the ability to count. It is about innovation and value-creation, things that only human organisations can do, not about stealing other stakeholders' lunch. It is human, not technology-centric. It believes in high trust, not high control, and in management as a force for good, in both financial and human terms.

The most brilliant leaders in the world can't predict the future. But by reasserting these values they – and perhaps only they – can ensure we are heading in the right direction.

ZUR PERSON

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