



# THE GREAT TRANSFORMATION

We are at the beginning of a set of gigantic changes in society – for better or for worse. The future is open; nobody knows what it will hold. One thing we know says **Richard Straub**: on this stage, managers will surely be of pivotal importance for shaping it

In his landmark book *Innovation and Entrepreneurship*, Peter Drucker quotes Thomas Jefferson: “Every generation needs a new revolution.” But Drucker quickly makes clear that, as much as he admires Jefferson, this particular comment is off the mark.

In truth, Drucker notes, most of the revolutions that we have witnessed in recent history failed to deliver on what they had promised. As Alexis de Tocqueville, the French philosopher and political theorist, pointed out, revolutions do not demolish the prisons of the old regime; they tend to enlarge them.

The conditions that lead to revolution in the first place are typically oppressive leadership, the bankruptcy of ideas and institutions and, above all, a failure by society to renew itself. Achieving large-scale social change without going through the upheaval of a violent revolution is obviously the better option. The term “transformation” well describes this preferable path.

Hence, a key question that faces us today is whether we have the regenerating capacity in the Western world to achieve a transformation for regaining growth and prosperity as opposed to moving inexorably toward social and economic decline – and, quite possibly, facing the wrenching trauma of a citizens’ revolt along the way.

### **Dangerous trends**

Evidence of the need for change is strong. A number of factors have converged to make the picture especially daunting. Taken together, they indicate that we are heading towards decline rather than prosperity:

- ***Economic stagnation and financial instability***

Even though some indicators have improved since the global financial meltdown of 2007/2008, the structural problems that are bogging down our economies are by no means resolved. American economist Larry Summers talked in a recent interview about the probability of secular stagnation as a “base case” for decision makers. In addition the debt crisis in developed economies severely limits the ability of governments to provide further stimulus.



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- ***Growing income inequality***

The French economist and academic Thomas Piketty argues in his much-discussed book, *Capital in the 21st Century*, that capital has essentially won in a fight over labour. With returns on capital growing faster than the economy overall, the share of capital is increasing at the expense of labour, resulting in widening income disparities. Piketty’s profound fact-based analysis points to a long-term trend. Henry Mintzberg, a leading management thinker, comes to a similar conclusion when he analyses the imbalance in our society in his recent online pamphlet *Rebalancing Society*.

- ***Unemployment and underemployment***

Unemployment and underemployment are at stubbornly high levels. Youth unemployment remains a huge concern. Some Western trade unions make things worse by opposing flexibility within labour markets (though Drucker, for one, believed that unions represent an important “countervailing power” to that of large corporations and thus “modern society... needs an organ such as the labour union”).

- ***An ageing population in Western countries combined with low birth rates***

One billion people around the globe, demographers tell us, will be above the age of 65 by 2035. At the same time, falling birth rates in developed economies have meant a decline in the number of people who can support this older population. The implications for funding retirement and social protection systems are striking. The financial burden for those in the workforce is on a course to becoming unbearable.

- ***Untamed Leviathan***

The state almost everywhere is big, inefficient and broke, *Economist* editor John Micklethwaite remarked in 2011. Since then, things have only got worse. With a suffocating bureaucracy, the state too often deprives advanced economies of the oxygen they need for innovation and growth.

### • *Increasing corporate autism*

Since the 1980s, corporations have increasingly set aside concerns for a broader set of stakeholders – customers, employees and communities – in favour of the supposed interests of shareholders. This trend has accelerated after the financial crisis and led to a significant reduction in value-creating investments with a long-term horizon.

Will these steadily worsening trends be tomorrow's reality or do we still have an opportunity to shape a better future? How to escape the vicious cycle we seem to be caught in?

Obviously, levers need to be pulled at both the macro and the micro levels.

At the macro level, monetary and fiscal policy, labour markets, social security, tax regimes and rules governing competition all need to be addressed. Policymakers should be focused on removing obstacles and creating incentives in the right direction.

This approach can be summarised, at least in part, as "Management by Getting Out of the Way," which means refocusing regulations in fields where they are essential and otherwise enabling productive forces to act without artificial and counterproductive burdens.

The micro level is, of course, the heart of management – where actual value is created and destroyed. It is where specific decisions are taken that lead into world-changing innovations or a waste of productive resources.

Before growth figures for a country are calculated, the actual growth happens in individual organisations that are successfully "managed". While politicians and other experts are obsessed with aggregations and ratios, they tend to forget that the action happens in real life and not in the abstractions of economics.

Management is a real-world practice dealing with people and organisations. Managers can make all the difference in the world with their knowledge, their creativity, their emotions and their values. Management, in this broad (and very Druckerian) sense includes commercial players, non-profit organisations and public-sector bodies. Each has the mandate to create value and to achieve its mission.

Management, the American author and journalist Walter Kiechel wrote in *Harvard Business Review*, has come to "shape the world in which we work" amid "an era of global triumph, measured by agreement on certain key ideas, steadily improving productivity, the worldwide march of the MBA degree and a general elevation of expectations about how workers should be treated".

Drucker was a key figure in the rise of management as a discipline. He "laid out a vision of the corporation as a social institution – indeed, a social network – in which the capacity and potential of everyone involved were to be respected," Kiechel asserted.

### Management – a track record with big question marks

Once we accept the importance of good management for the economic and social well-being of today's world, it is legitimate to ask a critical question: are managers equipped – in terms of skills, competencies and courage – to lead us towards the Great Transformation?

We have indeed learned a lot about management. It has become a focus of education, research and practice. Great thinking has gone into the development of the discipline of management, into tools and methodologies and, increasingly, into specialised fields such as marketing, operations, finance and human resources.

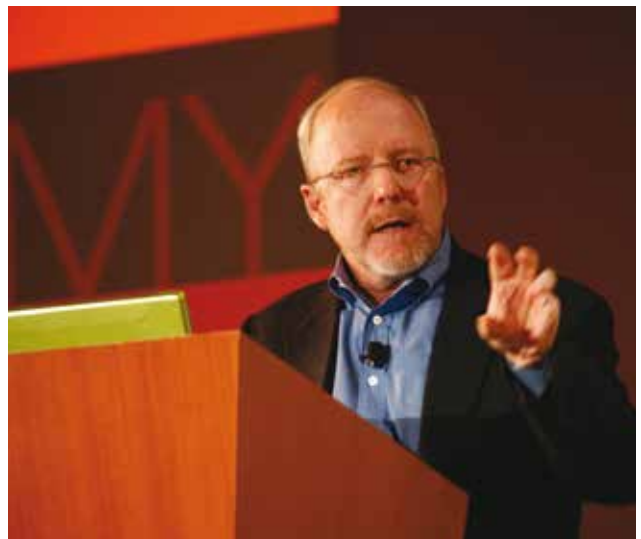
Thousands of books proclaim the latest breakthroughs and show the progress of management thinking and research. For example, Julian Birkinshaw, a professor at London Business School in the UK, suggests in his book *Reinventing Management* four main dimensions along which management has been steadily, if slowly, evolving:

- (1) co-ordinating work with a shift from bureaucracy to emergent practices
- (2) making decisions by drawing on collective wisdom
- (3) setting objectives that rely on the principle of obliquity rather than direct alignment
- (4) motivating employees by intrinsic rather than extrinsic methods



# 65

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Pictured clockwise from left:  
Clay Christensen, Gary Hamel,  
Roger Martin, and John Hagel III



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Yet a reality check shows that, despite considerable progress in making management more effective, many fundamental challenges remain. Bureaucratic hierarchies, in the form of control-oriented, top-down structures, are still highly prevalent.

In his book *What Matters Now*, American management thinker Gary Hamel argues that innovation, particularly disruptive innovation, is unlikely to flourish when a few executives have a chokehold on resource allocation.

The overwhelming internal complexity of large organisations causes a tendency to focus internally rather than taking the outside-in perspective. This brings a loss of customer focus and, as a consequence, more energy is spent on resolving internal issues rather than finding new ways of delighting customers.

The overemphasis on short-term gains at the expense of long-term prosperity has become the new normal despite its negative consequences.

A recent McKinsey survey of 1,000 corporate board members and C-suite executives found that 63% of respondents claim that the pressure to generate strong short-term results has increased over the past five years. This was despite the fact that 86% declared that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways, including strengthening financial returns and increasing innovation.

Regrettably the shareholder value creed still has a tight grip on corporate executives and their governance.

And when one looks behind the gadgetry of corporate finance, the results are not nearly so impressive. The rates of return on assets and on invested capital of US firms in 2011 was only one-quarter of what they were in 1965. And the effectiveness of management to win the hearts and minds of the workforce is even worse. According to the latest global *Gallup State of the Global Workplace* survey only 13% of employees are engaged in their jobs. That is, they are emotionally invested in and focused on creating value for the organisation every day. They are outnumbered by those who are negative and potentially hostile to the organisation at a rate of nearly 2:1.

Clayton Christensen, an HBS professor and recognised as number one Management Thinker in the Thinkers50 ranking, has maintained that management's misallocation of capital is putting capitalism itself at risk.

With a constant drive to achieve short-term cost reductions, most corporate innovations have centred on improving efficiency. Yet the capital freed up by increasing efficiencies is not being used to generate what Christensen calls “empowering innovations”, which would create new business or even whole new industries, spurring growth and jobs.

Instead, corporations are hoarding cash on their balance sheets like never before and some of the capital generated by efficiency innovation is reinvested in even more efficiency innovation.

The picture is not rosy, either, in the management of mega-scale initiatives initiated by political decisions. Government leaders may be good at communication and managing the pure political process. However, when it comes to execution and the ultimate value creation for the citizens, things easily get out of control.

High-profile projects such as the German energy transition (*Energiewende*) show deep management flaws ranging from strategy to execution. Everyday projects, which do not typically capture the headlines, are also mismanaged.

A recent report in the US, for example, found that the federal government has 77,000 empty or underutilised buildings across the country, costing taxpayers more than \$1.5 billion a year.

Such troubles may be related to the fact that those in the political class have not yet embraced management skills as a success factor for their political careers. Yet the damage that flawed management of such initiatives can produce is huge.

To sum up, the overall track record of management effectiveness and leadership is rather mixed. But there are enough bright spots to give us confidence that managers can still form the basis upon which we forge the Great Transformation.

### **The Great Transformation for the better is within our reach**

It is an exceptional moment in history. We are at the beginning of a set of gigantic changes in society – for better or for worse. The future is open; nobody knows what it will hold.

However, it is not destiny. Myriad actors will shape the future and some of them will have more impact than others. One thing we know: on this stage, managers will surely be of pivotal importance.

“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,” Drucker wrote in his 1993 book *The Ecological Vision*. “What managers are doing is therefore a public concern”.



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This seems to be the moment to take Drucker's statement seriously, to live up to our responsibility as managers and leaders. To do so will require courageous and decisive action.

The Great Transformation starts with revisiting the fundamental commitment of managers towards society – namely, innovation and value creation. Of course, done well, this is also good for the company and its bottom line over the long term.

Failing to invest in innovation means putting the future of the whole organisation at risk. No company that goes out of business can be a good neighbour, good employer and a good citizen. Even worse – by failing to keep its business viable it creates significant damage due to the human suffering it causes and the need to kick-in social programs at the expense of society.

At the same time, it cannot be acceptable that CEOs continue to earn 300 times or more the income of their average employee. Trust must be rebuilt.

#### **From scalable efficiency to scalable learning**

Despite great new management ideas and concepts, the issue of scalability and broad-based application of innovative management practices is far from resolved. Instead of liberating the creative and innovative energy of employees as well as those of supply-chain partners and others who are part of a corporation's overall ecosystem, blind processes and rigid hierarchies still hold them down.

In effect, the emergence of a Taylorism of a sort in non manufacturing business operations has been enabled by digital technology. However, we can do much better than that...

John Hagel III and John Seely Brown (Co-Chairmen of the Deloitte Centre for the Edge and authors) have described the shift toward a massive transformation from institutions designed for scalable efficiency to institutions designed for scalable learning.

This relates not so much to formal, classroom-based learning but learning from the ongoing experiences, projects and initiatives that are occurring in various parts of an organisation. The key is to foster learning by connecting minds for value creation and knowledge sharing for innovation across the organisation. Enterprise social media along with traditional means of communication provide a new infrastructure for scalable learning.

#### **Towards a human-centric paradigm**

Digital technology is an unprecedented game changer due to its continuous exponential development. As such, it can lead either further down the efficiency-enhancing and cost-cutting route or up the innovation path. It can replace brawn via robotics or augment brains with artificial intelligence.

And many organisations will undoubtedly be tempted to use technology to replace human beings wherever and whenever possible. But this would be a terrible mistake, leading to a certain downward spiral for both society and economy.

Instead, the emphasis should be on educating and empowering workers so they can leverage new technologies, while it is understood that technology is always meant to serve people and enhance their capabilities.

The leader of a prominent gaming company put it to me this way: the primary task of management in his organisation is to eliminate obstacles and provide tools for his workers so that they can improve their access to knowledge and collaborate across functions and even beyond the company's walls.

Great talent engaged in organisations will make the difference between stagnation and growth. Attracting and developing talent will be the basis for competitiveness of companies, regions and states. Focusing on people and leveraging their strengths for the organisation remains a fundamental management responsibility, despite all the great technology that becomes increasingly available to our fingertips.

#### **Management as a Liberal Art**

For this kind of vision to be realised, the humanists must be given prominence alongside the technologists. The grossly reductionist idea that almost any expert can be replaced by an "expert system" does not take into account profound human capabilities like intuition, creativity and empathy. It is also naïve to assume that knowledge is objective and in a way disconnected from the human condition; in fact, it is largely determined by the values of those producing and applying it.

Drucker had this in mind when he called management a liberal art: it is "liberal", he explained, because it deals with the fundamentals of knowledge, self-knowledge, wisdom and leadership; "art" because it is practice and application.

Managers draw upon all of the knowledges and insights of the humanities and social sciences on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results.

This is something that management education institutions should seriously consider if they do not want to become ever-more specialised engineering-type schools for management techniques.



# 2:1

Only 13% of employees are engaged in their jobs – every day emotionally invested in and focused on creating value for the organisation. They are outnumbered by those who are negative and potentially hostile to the organisation at a rate of nearly 2:1

## A Second Renaissance?

In a time where technologists and technocrats dominate much of the conversation, the rediscovery of the essence of being human is more important than ever. Indeed, in order to benefit from what MIT's Erik Brynjolfsson and Andrew McAfee have dubbed "the Second Machine Age," we also need a Second Renaissance powered by humanities and knowledge across disciplines as posited by Drucker.

Otherwise we run the risk of ending up in a technocracy, where technology becomes the new faith and the top technocrats are the new masters who determine the fate of those subject to their technology-driven world. What financial technocrats might do in such a world does not need further comment.

Equally, the Transhumanists and Kurzweills Singularity adepts seem to have lost the connection to the roots of human existence and uniqueness.

When Roger L Martin, former dean of Rotman School of Management in Toronto, Canada, talks in his book *The Design of Business* about the knowledge funnel and shows the progress from mystery to heuristics and then to algorithms he does not imply that the world is going algorithmic. As scientific progress has demonstrated – each new discovery and each new algorithm opens up new mysteries. The deeper we drill the more mysteries we seem to unlock.

## A Tsunami of Innovation

Done right, a new marriage between the human spirit and the most powerful technology that humanity has ever developed (and that is still in the early stages of deployment) could produce truly incredible results. Just think about the unbelievable waste that is created in today's organisation in terms of people's ideas, creativity, motivation and engagement.

Releasing just 10% of this latent value would mean a jump in innovation, value creation – and, in turn, the world's prosperity. Gallup estimates that the actively disengaged workers in the US alone cost the economy half a trillion dollars each year.

With a human-centric approach, serviced by the best that technology has to offer and supported by smarter government policies and regulations, our organisations can create new infrastructures enabling knowledge, communication and collaboration. And we can trigger a *tsunami* of innovation and value creation.

Luckily we can see already today cases that show the tremendous potential for achieving massive and deep transformation in short time-spans.



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# 1.2bn

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India's Aadhaar project led by former Infosys CEO Nandan Nilekani is such an example: a project aimed at providing a fake-proof ID to each of the 1.2 billion people who reside in India. Five years after its inception 650 million people have enrolled for the unique online-authenticated Aadhaar biometric ID, potentially giving access to social benefits, bank services and the labour market.

The implications are enormous – for India and potentially the whole developing world. It is the classic example of advanced technology serving fundamental human needs (500 million Indians live below the poverty line). It also shows how the application of sound management practice can bring the two streams together – leading-edge technology and the deep commitment to improving the human condition.

## In transition towards the Great Transformation

The Great Transformation will not happen overnight. However, we are already in a state of transition where sound, existing management knowledge can be applied. We find a lot of this in the legacy of great management thinkers whose ideas are based on a human-centric worldview: Peter Drucker, Henry Mintzberg, Charles Handy and CK Prahalad among them.

Based on these foundations, many new concepts and methods are being introduced that fit our time even more precisely.

We don't know what the future will be. But we can determine the direction in which we want to go. We can, that is, take purposeful steps toward the Great Transformation, creating a world that embraces technology but that keeps the human being at its core, conscious of our culture, our history, our spirituality and our unending quest for self-realisation.

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### FURTHER INFORMATION

*The Great Transformation will be the theme of the 6th Global Peter Drucker Forum to be held in Vienna from November 13 to 14, 2014.*

### ABOUT THE AUTHOR

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