

Chapter 2

A New Model for a New World: Why It's Needed and What It Consists of

Abstract Today's business world is one in which "change itself has changed," becoming more rapid, pervasive, and ongoing. For most firms, this requires a fundamental re-invention of management, as the typical corporate bureaucracy cannot respond well to rapid changes. This chapter outlines the shortcomings of old-style management and reviews the multiple forces of change that prevail today: technological change, demographic and social change, globalization, and energy and environmental factors. These in turn point to a need for "dynamic capabilities" (per David Teece): the ability to sense and seize new opportunities while reshaping the enterprise accordingly. The chapter closes with some characteristics that a new management model should have, including a people-centric innovation culture, flexible and ambidextrous structures, and active engagement with the firm's larger ecosystem.

Why is a new management model needed at all?

The simplest answer is that the world has changed. The deeper answer, as researcher and management consultant Gary Hamel put it, is that "change itself has changed": the nature of it is different than it formerly was.¹

Certainly, people who lived in past eras knew about major, "disruptive" change. The first Industrial Revolution, a combination of technical and organizational innovations (steam engines, factories, etc.), disrupted the basic patterns of work and life for many. The Second Industrial Revolution brought automation and mass production to new heights, introduced dramatic new forms of transportation and communication—and amplified the massive disruptions that the first one had triggered.

That period, from the second half of the 1800s into the early 1900s, was when truly large corporations emerged. They included big, multi-location oil and steel companies; long-line railroads; mass-market retailers and communication firms. For the first time, there were manufacturers aiming to sell *millions* of units of complex products, from boots and light bulbs to automobiles, along with companies making packaged foods and medicines in even greater quantities.

¹Hamel (2012), p. 85.

That period was also when the Industrial Age management model took shape, to coordinate and direct these large enterprises. The model was designed to achieve *control and efficiency*, at high volume.

Then as now, competition could be won by coming up with a product that was judged to be distinctively “better” in some way. But once such a product became a dominant design,² success depended on making *more of the same thing* to the same specifications, as rapidly and cheaply as possible. Companies like Ericsson with its early telephones and Ford with its Model T cars rose to prominence by using this approach, and some products from that era (Bayer aspirin, Coca-Cola) remain market leaders even now.

In order to develop, deliver and produce at scale, companies developed a management model with features that still characterize it today:³

- Standardized work roles and procedures, spelling out what people should do and how to do it.
- Hierarchical structures that lock these systems in place, and allow branching layers of management to monitor every aspect.
- A well-defined *but often narrowly defined* concept of the company’s purpose. An example would be the narrowing of Ford’s original purpose, which was to make a reliable car at ever-lower prices—but in a design that didn’t change with the times, and in “any color that [a customer] wants as long as it is black.”⁴
- Strategic decision-making done by small groups at the top.
- And, performance at every level judged and rewarded by the standards of control and efficiency: *Did you stick to the company’s standards and meet your targets?*

The features of this model have persisted for so long that to many people, they seem the “natural” way of managing a big corporation. And indeed the model is very good at doing what it was meant to do—coordinating large numbers of people to carry out prescribed tasks at high volume, with good quality.

But when the task becomes to *change* the task—seeing new market openings, pivoting quickly, developing new products or business ideas and mobilizing people around them—almost every feature of this traditional management model becomes a negative. The strategists at the top are few in number, and may have limited perspectives that cause them to miss threats or opportunities. The formal, bureaucratic structures are hard to reconfigure and not flexible enough. *The people in them* get conditioned to thinking and acting in narrow channels, with a focus on current business that may exclude new approaches.

There are numerous examples of unfortunate results. Ford Motor stayed with its basic Model T concept for too long, and though the company eventually rebounded

²A concept introduced in Utterback and Abernathy (1975).

³For a scholarly summary of these features, see Henry Mintzberg’s description of the “Machine Bureaucracy” model in Mintzberg (1980).

⁴Ford and Crowther (1922), pp. 72–73.

to survive and grow, it lost its market lead. Decades later, Nokia, as the world's leading cell-phone maker, stayed for too long with its proprietary operating system and wound up dropping out of the market entirely. Kodak had an R&D operation that *invented a number of the core technologies for digital photography*, but hesitated to bring them to market for fear of cutting into its film business—and then made the move too late, and the film business dried up anyway, and only fragments of the company have survived.⁵

One could argue that this is mere anecdotal evidence. One could point out that many companies still do well with the traditional management model.

Yet the evidence against the old model continues to mount. IBM, for instance, executed a successful turnaround: shifting its strategic emphasis from hardware to software and services, while selling off its PC business to focus the remaining hardware effort on mainframes, all of which have seemed to be smart moves thus far. But IBM made the turnaround only after ditching some key aspects of its old bureaucratic model, such as dramatically revamping the strategic planning process to make it less top-down and more responsive.⁶

Meanwhile, despite the many cases in which the traditional model still “works” (i.e., keeps companies afloat), there is a growing chorus of grumbling within the ranks. People who range from bright young professionals to top executives and consultants complain that the bureaucratic culture stifles innovation and is unpleasant or de-motivating. The researcher Julian Birkinshaw of London Business School called most of today's big companies “miserable places” where “fear and distrust are endemic” and “creativity and passion are suppressed.”⁷

The American management expert Gary Hamel convened a panel of distinguished CEOs, scholars, and consultants who agreed that the old model's day are numbered—“tomorrow's business imperatives lie outside the performance envelope of today's bureaucracy-infused management practices,” Hamel wrote in his summary—and the panel compiled a list of urgent recommendations for re-inventing the model, published in the famous *Harvard Business Review* article titled “Moon Shots for Management.”⁸

Moreover, as noted in the previous chapter, many of the world's most dynamic newer-generation big firms are *not* built on the Industrial Age model. They use a management model *that is its polar opposite*, and some of the firms expressly state that they do not wish to hire people who think and work in the traditional corporate style: the mindset won't fit.

And finally, we come back to the argument stated briefly at the front of this chapter: the model has to change because “change itself has changed.” Let's now consider how and why this is so.

⁵Kodak's decline has been extensively documented and analyzed. See for example Hamm and Symonds (2006).

⁶Harrell et al (2006).

⁷Birkinshaw (2016).

⁸Hamel (2009).

The Changing Nature of Change (and What It Means for Management)

To start by characterizing the differences generally: In the past Industrial Age, companies had to deal with—and try to capitalize upon—big, dramatic changes such as the introduction of electric power. Compared to how things are in today's world, however, these “big” changes were relatively fewer in number; they happened more gradually, and it was usually easier to see where they were headed. Everybody knew the race was on to build a railway from one point to another, or to win the war of currents between AC and DC systems in the early electric power industry.

Today the situation is better described as a constantly swirling, buzzing cloud of change. In Richard Florida's words, change is “pervasive and ongoing,”⁹ and business is less a matter of fighting pitched battles and more like guerilla warfare. With surprises popping up everywhere—unpredictable innovations here, sudden market shifts there—it can even be hard to tell whom you are competing against, and a strategy that worked last year may now be a formula for disaster.

How has the world gotten to this state of constant, swirling buzz? One way of answering that question can be found in Lynda Gratton's book *The Shift*, where she speaks of five broad “forces” that are shaping the future of work: technology, demographics, globalization, society, and energy resources.¹⁰ Each is a source of change *and they all interact and combine*.

While it is not universally true that *technological change* now happens at an “exponential” rate, one key set of technologies has in fact been changing very rapidly: the power of computer chips has grown by leaps and bounds throughout the Moore's Law era.¹¹ And computing happens to be a protean technology—it can be, and has been, applied to almost anything—so the *impact* of rapid Moore's Law growth has been widespread and profound. Faster, more powerful chips can run more powerful programs for doing all sorts of tasks in new ways, even being combined with new business models to change how things are done in areas from stock trading to brain surgery.

Demographic and social changes are often discussed in terms of comparing one generational cohort to the next, within advanced societies: e.g., how are Millennials different from Baby Boomers? How will these differences in values and preferences affect the markets for products, or the nature of the workplace? Here again we may be facing a broad misconception, as some comprehensive research has found that there really isn't much difference between the various postwar generations.¹²

But all generations that have grown up since World War II are part of a major and ongoing shift. They've come to maturity during a time when economic growth

⁹Florida (2002), p. 5.

¹⁰Gratton (2011), pp. 23-48.

¹¹See for example Friedman (2015).

¹²IBM Institute for Business Value (2015).

keeps making more of the world's people more prosperous. And as the long-running World Values Survey has shown, prosperity correlates with changes in values. People move up the scale in Maslow's classic hierarchy of needs. In the Survey's terms, they move from a "Survival" mindset to a way of thinking that values "Self-expression" more.¹³

The impacts on market demand alone are tremendous. To mention just one effect that Richard Florida and others have observed, people's lives become more complex and fragmented as they seek multiple forms of novelty and fulfillment.¹⁴ The result is a constant demand for any new goods that promise to save time or help people express themselves, in areas from work to active outdoor pursuits to social networking.

The effects of *globalization* do not need much explaining—everyone should be familiar with the basics of how an interconnected world generates new market opportunities along with hyper-competition and volatility. And, what Gratton calls *energy resources* relates to the broad area of growing environmental concerns. Here, there are constraints and regulations that require changes while they also create expanding, evolving market opportunities in the green industries.

Add the combined impacts of all these forces together, and it's not hard to see how they produce today's VUCA (Volatile, Uncertain, Complex, Ambiguous) business environment.

'Dynamic Capabilities'—The Key to Managing in a Dynamic World

The emergence of this VUCA environment has led to a re-thinking of what it takes for companies to survive and succeed. During the late 20th century, for instance, common school of thoughts were that firms could differentiate themselves strategically by choosing the right industry and strategically position themselves within this sector—e.g., via Porter's Five Forces model¹⁵ or later by identifying and developing their "core capabilities" (also called "core competences") in particular areas. But industries are disrupted and as the researcher Dorothy Leonard-Barton pointed out, one downside is that in times of change, core capabilities can become "core rigidities" that inhibit the development of new products or processes.¹⁶

A more advanced view has been put forth by David Teece and his colleagues. They state that in today's world, a firm needs *Dynamic Capabilities*. They have defined the term formally as follows:

¹³World Values Survey (2017).

¹⁴See for example Florida (2002), pp. 152–154 and 166–176.

¹⁵Porter (1979).

¹⁶Leonard-Barton (1992).

The ability of an organization and its management to integrate, build, and reconfigure internal and external competences to address rapidly changing environments¹⁷

That is concise and accurate, though some readers may wonder exactly what it means in practical terms. Most people can better grasp Teece's three-part breakdown of the concept, which says that Dynamic Capabilities consist of "sensing," "seizing," and "transforming" capabilities.

- Sensing "means identifying and understanding opportunities and threats"
- Seizing is "mobilizing your resources to capture value from those opportunities," and
- Transforming is "continued renewal"—that is, constantly re-orienting the company for the next opportunities to come.¹⁸

These three points spell out clearly what a company must be able to *do*. The question then becomes: What are the key elements of a management model that enables a company to *have* Dynamic Capabilities? Below, some management concepts will be described that all support, or even are necessary, in order for a firm to build Dynamic Capabilities. These key management concepts and the overview of each are based on the author's research and her previous books.

Core Pillars of Dynamic Capabilities

Companies with Dynamic Capabilities are *people-centric* (or *human-centric*)¹⁹. They have a culture that values, encourages, and rewards innovation, adaptability and speed. More succinctly: the culture does not breed conformity; it breeds creativity. The companies then become like ever-evolving biological systems: constantly putting forth new "life forms" (ideas for new products, business methods, etc.) and choosing the best by methods of "selection" (which in the companies include, for instance, rapid test-and-learn cycles). And, fittingly, these companies don't regard people as interchangeable parts or cogs in a machine. They live the slogan to which many companies only pay lip service: "people are our most important asset." They have systems for recruiting and hiring people who they believe will fit the culture well, and become key contributors. To a large extent, they often let these people find or create their own roles within the company, instead of forcing them into pre-defined slots. The chapters ahead will say more about the particular kinds of people these companies value, and how the firms treat them.

Dynamic companies are also *ambidextrous*.²⁰ They're organized and led in ways that enable them to "exploit" and "explore" at the same time—exploiting current

¹⁷Teece et al (1997).

¹⁸Kleiner (2013).

¹⁹Gary Hamel (2009).

²⁰O'Reilly and Tushman (2013).

business for maximum value on the one hand, while exploring new revenue streams on the other.

Further, dynamic companies recognize that they are part of a larger *ecosystem of innovation* and behave accordingly. They practice *open innovation*²¹ in many forms. Far beyond just having external supply chains and distribution networks, they engage with vast networks of users, partner firms, and others to innovate across boundaries.

In addition, dynamic companies must be viewed (and designed and managed) as a complete system. A system is defined here as “a collection of components with certain properties, with connections among the components and among the properties of those components.”²² For companies to fully realize their innovative abilities and become fast-moving, they must move to a “systems” perspective.²³

Finally, underlying the whole dynamic enterprise is the possession of—and expertise in using—advanced *information technologies*. The technologies are foundational for several reasons. They facilitate and open up communication, which, as the scholar Homa Bahrami has noted, greatly reduces the need for layers of middle management to mediate and monitor things.²⁴ The technologies are used as tools to analyze data and develop new products, which (a) facilitates “sensing” and “seizing,” and (b) empowers individuals within the company to learn and innovate. There is more to say about these technologies; suffice it for now to say that companies such as Google are literally immersed in their everyday use: for these companies, it is like water to the fish.

To Sum Up

The four pillars together with a strong information technology foundation support Dynamic Capabilities. The result is a management model radically different from the traditional one—built from the ground up to succeed in different ways, in a different environment.

And, since the author’s research indicates that a highly developed model of this type has emerged in Silicon Valley, the next chapter takes us to the Valley to begin a closer investigation.

²¹Henry Chesbrough (2003).

²²Professor Eric Rhenman, a pioneer in systems thinking, introduced this definition.

²³Skarzynski and Gibson (2008).

²⁴Bahrami (1992).

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