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Featured article

Beyond strategy:
management style for the
knowledge economy

Guru interview

Jim Champy: OUTSMART the
competition



Welcome to Management Focus

... and welcome to the July/August issue.

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Large and complex organizations have lost the capacity to operate in ways from which the seeds of the new are sown. Their core is rapidly becoming yesterday's core, both outdated and open to competition from the very low wage areas on which they rely. This calls for a new style, a new approach to management. Find out more in our featured article.

Jim Champy, Chairman of Perot Systems consulting practice, is recognized throughout the world for his work on leadership and management issues and on organizational change and business reengineering.

At Perot Systems, Champy provides strategic guidance to the company's team of business and management consultants and plays a pivotal role in furthering the firm's goal to create an approach to services design and delivery unlike any in the industry.

Champy's latest book – *OUTSMART!* – shows how to achieve breakthrough growth by consistently outsmarting your competition. Find out about this and his day-to-day role at Perot Systems.

In this issue of *Management Matters*, our expert discusses sustainability and Corporate Social Responsibility, and their roles within business today.

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Best wishes,

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Beyond strategy: management style for the knowledge economy

Large-scale Western commerce has been greatly affected by the almost-universal management orthodoxy, a set of practices which took root in the 1990s. The then-prevalent model of shareholder value was seen to span all of the possible concerns of management. Any action which enhanced shareholder value was worth considering; any that did not should be avoided.

During the 1990s managerial styles tended to the minimalist. Organizations fell back on their “core business” both as a response to increased complexity and also to take advantage of the new infrastructure which had emerged in the 1980s. Firms farmed out security, laundry and distribution to start with and, by the end of the period, product and process design, IT assessment and upkeep, corporate strategy and human resource management. Staff were given increasingly focused jobs (“re-engineering”) and set numerical targets that revolved around cost, volume and quality. Productivity increased, although not as fast as might have been expected, and the increasingly modular nature of work made it ever-easier to extend supply chains into low wage, high productivity countries.

A particular kind of individual has thrived in this environment. (Commonly called Hedgehogs, beings who have one big secret and are psychometrically distinct from Foxes, who know many little secrets.) Organizations have ironed out the comfortable, necessary wrinkles in which the necessary Foxes could pursue latent

potential to its fruitful conclusion. The upshot has been that many large and complex organizations have lost the capacity to operate in ways from which the seeds of the new are sown. Their core is rapidly becoming yesterday’s core, both outdated and open to competition from the very low wage areas on which they rely.

This calls for a new style, a new approach to management. The new style is not, however, a reversion to the past. It is rooted in knowledge, in the identification of potential by the widely-connected middle management of large organizations and in the anticipation of how the system in which the organization is embedded operates, changes and develops.

Restructuring

Humanity is undergoing a second wave of integration. The first wave began with the seafaring Europeans, their settlement and eventual cultural, political, economic and military domination of much of the planet. The second wave is driven less by the ambitions of nations than by patterns of economic order, by abstract knowledge such as science and economic insight and by the consequences of a finite world.

Analysis suggests that there are a number of “engines of change”, which can be broken down into six rather arbitrary categories:

- (1). human resource and demographics;
- (2). an unending explosion in connectivity;
- (3). the rapid expansion of technical capability;

- (4). scarce natural resources and environmental limits;
- (5). exceptional competition and swift commercial change; and
- (6). increased stress on the often-weak mechanisms of government.

Many of these interconnect in ways which create interactions that are, of course, far more powerful than any one of these taken alone. An explosion in capable individuals feeds upon extended knowledge and connectivity. Economic expansion exacerbates environmental impacts, as do weak international institutions. It follows that there are no clear solutions to any of the problems which these issues present, nor are there simple prescriptions for how to take advantage of the potential which they represent.

Companies are, therefore, confronted with a complicated situation which is likely to become much more complex, faster moving and ever-more demanding of those who trade in it. It is safe to say that very few companies know how to respond to this. Indeed, the fashion of the past ten to 15 years has been to focus, to cut out peripheral activities and to set staff targets which keep their attention entirely on the immediate situation. Many organizations have discarded their capacity or inclination to think about long-term positioning. This does not fit them for the world to which they are now exposed.

“As companies open up to the vast, complex infrastructure that global integration creates, so the people who have intimate contact with this learn more and, if properly primed, detect potential opportunities”

What are the characteristics of an organization which is likely to thrive in the world which seems to be upon us? It is plain that this is not entirely or even predominantly an industry-specific question. There is not a particularly “chemical” or “pharmaceutical” response to be made. Rather, it is a style of operation – and specifically, a style that is required of senior management – which seems to transcend sectors, and indeed overlap between the public and private sectors.

The characteristic of this style is that it entails processes which are designed to connect the perception and understanding of and reaction to the operating environment much more closely together. The organization needs to learn to think, collectively, clearly and concisely about the operating environment in which it is

embedded. It needs to be clear where it is located relative to others within this space – for it is a state space, with principal components, lags and phases, attractors and characteristic orbits – and it needs all of its people to be clear about this. People need to know this reality as reflexively and directly as a hunter knows the forest. There needs to be a consensus as to how this space is changing.

All of this is a substantial task. It goes a great distance beyond what used to be called “strategy”. It is a process which repeats, and which gains insight with each cycle that it undertakes. It uses relatively junior staff – who are close to their training, and who know “what is possible” – in conjunction with senior people, who “know what is wanted”. Middle management are the antennae through which information flows in this new form of ordering, for they are in contact with suppliers and customers,

regulators and technology vendors. As companies open up to the vast, complex infrastructure that global integration creates, so the people who have intimate contact with this learn more and, if properly primed, detect potential opportunities.

Finding a path through this complexity is an increasingly demanding matter. It is possible to show that salaries earned in an industry are directly linked to the complexity of the activity undertaken by it. High earning organizations are those which solve these issues of navigating in complexity. They do this repeatedly, and do not depend on a past *coup* to define their future profitability. They do this at all levels, not depending on an intellectual centre from which orders and insight radiate out to the “toilers in darkness”. They do this with an eye to what might be, and not only upon what happens to be the case today. They are future-oriented in this sense, and also in the optimism and confidence with which they meet the many engines of change with which this article began. □

This is a shortened version of “Beyond strategy: management style for the knowledge economy”, which originally appeared in *foresight*, Vol. 10 No. 2, 2008.

The author is Oliver Sparrow.

Guru interview: Jim Champy

Interview by Alistair Craven



Jim Champy, Chairman of Perot Systems consulting practice, is recognized throughout the world for his work

on leadership and management issues and on organizational change and business reengineering.

At Perot Systems, Champy provides strategic guidance to the company's team of business and management consultants and plays a pivotal role in furthering the firm's goal to create an approach to services design and delivery unlike any in the industry.

His first book, *Reengineering The Corporation: A Manifesto for Business Revolution*, sold more than three million copies and spent more than a year on the *New York Times* bestseller list. He is also the author of the bestseller, *Reengineering Management: The Mandate for New Leadership*, which was recognized by *Business Week* as one of the top ten best business books of 1995.

Champy's latest book – *OUTSMART!* – shows how to achieve breakthrough growth by consistently outsmarting your competition.

Q: Can you tell us about your day-to-day role at Perot Systems?

A: My title at Perot is Chairman of Consulting. I divide my time equally between consulting to the Executives of our Clients (mostly advisory work), overseeing the strategy for our Company, and writing and speaking.

I also have two outside boards on which I am active, Analog Devices, a world leader in high performance signal-processing solutions, and the Corporation of the Massachusetts Institute of Technology (MIT), the school's Board of Trustees. I learn a lot about governance from work on these boards. And I consider my active consulting important to my writing and speaking. It keeps me focused on the real issues that companies face.

Q: Your book *Reengineering the Corporation* has been described as “the bible for executing process change.” How do you reflect on this achievement today?

A: If you will excuse my immodesty, I think that reengineering is the biggest management idea of the last 20 years. It was a major achievement to get so many managers to see how the work of their companies had to change. But I am both praised and criticized for the reengineering ideas – praised by people who see how companies must change and criticized by people who do not understand real reengineering. The term became synonymous in some circles with downsizing. That's not what it is: it's about the fundamental redesign of work with a process perspective. I believe that the age of reengineering is just beginning. Technology, particularly the Internet, now enables companies to operate in ways that were not available when we wrote the reengineering book. Now the Internet enables dramatic process change across company boundaries. I wrote about that in one of my “follow-up” books, *X-Engineering the Corporation*.

Q: You say that business has never been more “complex, volatile and demanding, yet so full of opportunity.” Can you elaborate?

A: Tough economic times (like those now being experienced in the USA) provide opportunities for high-performing companies. If you want to grow in an economy that is flat or shrinking, you have to be able to *OUTSMART* your competitors – as my new book argues. You can grow by taking away

your competitors' customers, and you do that by offering new and better products/services and delivering those products and services in more efficient ways. (Read the Minute Clinic and Shutterfly cases in *OUTSMART!* as good examples of how companies are doing this.) Customers are also looking for better propositions and are willing to change their suppliers for a better deal. So it's time to be bold, not to shrink into a corner.

Q: You note that companies that outsmart the competition make strategic choices “based largely on intuition” as opposed to “getting bogged down in research and analysis.” Can you illustrate this with any examples from your research?

A: In many companies, if a snake appears, a committee is formed to kill the snake. This is a condition in almost all large companies. In *OUTSMART* companies, people just kill the snake. They are inclined to action, adopting the Nike approach of “Just Do It”. One of the best – and most visible examples – of a company that, for years, has failed to act is General Motors. Everyone outside the company could see that GM just had too many makes and models and that the market could not support all the models that it was trying to sell. But only after years of study and debate did GM decide to close down one – and only one – of its divisions. Challenging economic times – the kind we are now experiencing – require fast, sure-footed actions by executives who know what they are doing. You have to trust your judgement and recognize that risk is part of the game. If you don't trust your intuition and judgement today, ask for early retirement.

Q: Do you have any closing comments you would like to make?

A: You can look at these days as a time of threat or opportunity. If you do the former and get defensive, your business will shrink. This is the best time to step back and assess the quality of what you are producing and how you are operating – and make changes. The business case for change is much easier to make – and the opportunities are around to support that change. So just go *OUTSMART* the competition. □

To read the full interview with Jim Champy visit <http://first.emeraldinsight.com> and select the “Strategy” community.

Management Matters

Welcome to our Q&A section – *Management Matters*, where you can find actionable advice on current management topics. In this issue our resident expert answers your question on sustainability and CSR.

Q. Sustainability and Corporate Social Responsibility (CSR) are all over corporate agendas. What is your take on social responsibility and its role in business today?

“We view environmental sustainability as one of the most important opportunities for both the future of our business and the future of our world...” “...ExxonMobil has an unwavering commitment to high ethical standards, operations integrity, and flawless execution...”

These striking quotes from the websites of the top two in the 2008 *Fortune* 500 – Wal-Mart and ExxonMobil – go some way towards illustrating the prominence of social responsibility. Simply put, CSR encourages a commercial enterprise to look beyond its primary pursuits of shareholder return and profitability towards a much wider remit involving multiple stakeholders and environmental impacts. Increasingly, investors are seeking socially responsible firms and the proliferation of corporate CSR reports illustrates how the trend has caught on.

Initially, at least, adoption of CSR can burden a company financially. But investing resources in environmental protection and ethical practice is beneficial for corporate reputation. A good name can help to enhance business in good times, and protect it during a crisis.

Fine, you may be thinking, but all of this seems intangible, “woolly”, and hard to measure, so why bother in the first place? According to *Strategic Direction*, executives are increasingly aware that they are “expected” to offer some sort of benefit to the wider world, but recognizing the demand and fulfilling it are two completely different things. Indeed, companies feel compelled to act without really knowing why. Is this a good position for a business to be in? Interestingly, Peter Frankental of Amnesty International found that there is no overwhelming evidence

that a company’s share price is affected by a *lack of* social responsibility, even when this results in reputational damage.

Where does this leave us? It seems that CSR under duress, and CSR as a PR-led add-on to the annual report, simply will not suffice. Making CSR really work means finding ways in which to consider social issues that are *directly relevant* to your business and making this count on your bottom line – making ethical business good business. Starbucks has devised a set of CSR “key performance indicators”, such as pounds of unroasted coffee purchased from Fair Trade-certified cooperatives, and specific targets for the reduction in the use of electricity, water and paper. This appears to tackle the problem of accountability somewhat, but in the USA there is little in the form of concrete legislation to enforce responsible business. By contrast, Denmark follows a system of heavy government responsibility for social services. So until a useful universal framework for ethical corporate behaviour arrives, the level of contribution is likely to remain in the hands of individual executives and the importance they attach to responsible business.

To end with some harrowing last words of warning, “*We work with customers and prospects openly, honestly and sincerely. We are satisfied with nothing less than the very best in everything we do.*” These words came from a section of the 2000 Enron annual report entitled “Integrity and excellence”. Proof, if ever there was, that there is much, much more to social responsibility than glossy rhetoric. □

If you would like our resident expert to answer your question, write an e-mail to Web Content Manager Debbie Hepton at dhepton@emeraldinsight.com and the best submissions will be featured in a future issue of *Management Focus*.

point of view

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