Hard-nosed executives

- **Core Message**
  - Managers often dismiss “theory” as abstract and impractical, but every managerial action is implicitly based on some theory of cause and effect.
  - The danger comes when managers copy practices that worked for others without understanding *why* they worked.
  - Good management theory helps leaders predict outcomes under specific circumstances, not just describe correlations.
- **Lucent Technologies Case**
  - In the 1990 s, Lucent reorganized into 11 independent “entrepreneurial” units to mimic successful start-ups.
  - This decentralization slowed responsiveness, added costs, and failed because Lucent’s customers needed complex, integrated system solutions that required coordination, not fragmentation.
  - The theory (decentralization aids speed and innovation) was misapplied to the wrong circumstances.
- **How Good Theory is Built**
  - **Stage 1: Observation** – Carefully describe phenomena (e.g., why some innovations succeed).
  - **Stage 2: Categorization** – Classify into meaningful categories (e.g., types of diversification).
  - **Stage 3: Hypothesis/Theory** – Identify causal mechanisms and explain why outcomes occur.
  - **Iteration** – When anomalies appear, refine categories and improve the theory (similar to how Porter refined trade theory with clusters).
- **Key Insights**
  - Correlation ≠ causation. Many management fads are based on correlations without understanding mechanisms.
  - Failures matter. Learning when theories *don’t* work is critical for refinement.
  - Good theories are **circumstance-contingent**, predicting outcomes in specific contexts.
  - Managers must become discerning consumers of theory, asking: *Under what circumstances does this apply?*
- **Bottom Line**
  - There is no universal formula for success. Effective management requires applying the *right theory to the right circumstances*.

Discussion Question Response

Q: Can you think of industries or companies where the “theory of business” no longer applies?

- **Global Examples**
  - **Telecom providers**: The old “minutes and SMS revenue” model collapsed with the rise of internet-based communication (WhatsApp, Messenger, Zoom).
  - **Print media & newspapers**: Long-standing theory of advertising-driven revenue has been eroded by Google, Facebook, and digital platforms.
  - **Automotive industry**: The traditional model of combustion engines and dealership-based sales is being disrupted by EVs (Tesla, BYD) and direct-to-consumer models.
  - **Retail**: Department store chains (e.g., Sears, Debenhams) built on physical foot traffic have been undercut by e-commerce and logistics-driven models (Amazon, Alibaba).
- **Norwegian Examples**
  - **Telenor**: Once dominant with traditional mobile subscriptions, now forced to rethink around data services, streaming partnerships, and IoT.
  - **Norwegian newspapers (VG, Aftenposten, Dagbladet)**: The old circulation + print ad model has given way to digital subscriptions and paywalls.
  - **Norwegian oil & gas (Equinor/Statoil)**: The “theory” that fossil fuels will remain the foundation of Norway’s prosperity is under pressure from the green transition, EU regulation, and renewable energy investment.
  - **Norwegian retail (Coop, Rema 1000, Meny)**: The long-standing model of price and location is being reshaped by online grocery delivery services (Oda/Colonial. No).
  - **Norwegian transport (NSB/Vy)**: Traditional rail as a slow, bureaucratic service is challenged by competition, electrification, and new customer expectations for seamless digital booking and multimodal travel.

Takeaway for Business Leaders

- A company’s “theory of business” can expire when customer needs, technology, or regulations change.
- Leaders must constantly ask: *What circumstances have shifted? Does our old theory still fit?*
- The risk is greatest for firms relying on stability, hierarchy, and legacy revenue streams.