

*Managing the Company of the Future*  
has been developed collaboratively by  
University of London and London Business School.



**UNIVERSITY  
OF LONDON**



# Managing the Company of the Future

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Week 3

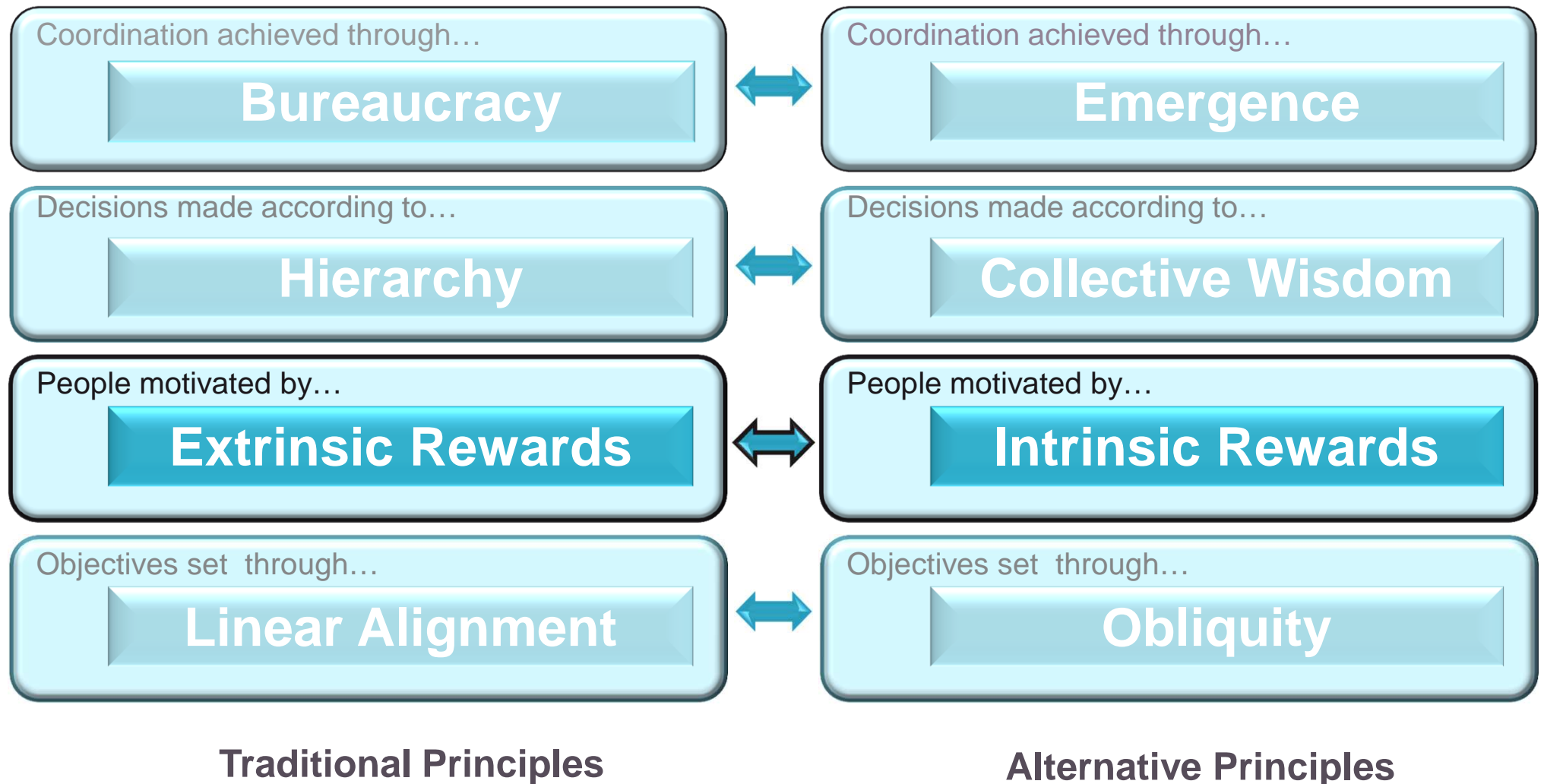


# Principles of Motivation

Managing “within”



# Traditional and Alternative Models



## Motivation defined

- Motivation is the internal condition that activates behavior and gives it direction
- There are many “drivers” of motivation, and they vary in their importance depending on the person and on the specific circumstances
- Choosing the right balance between these different drivers is the key



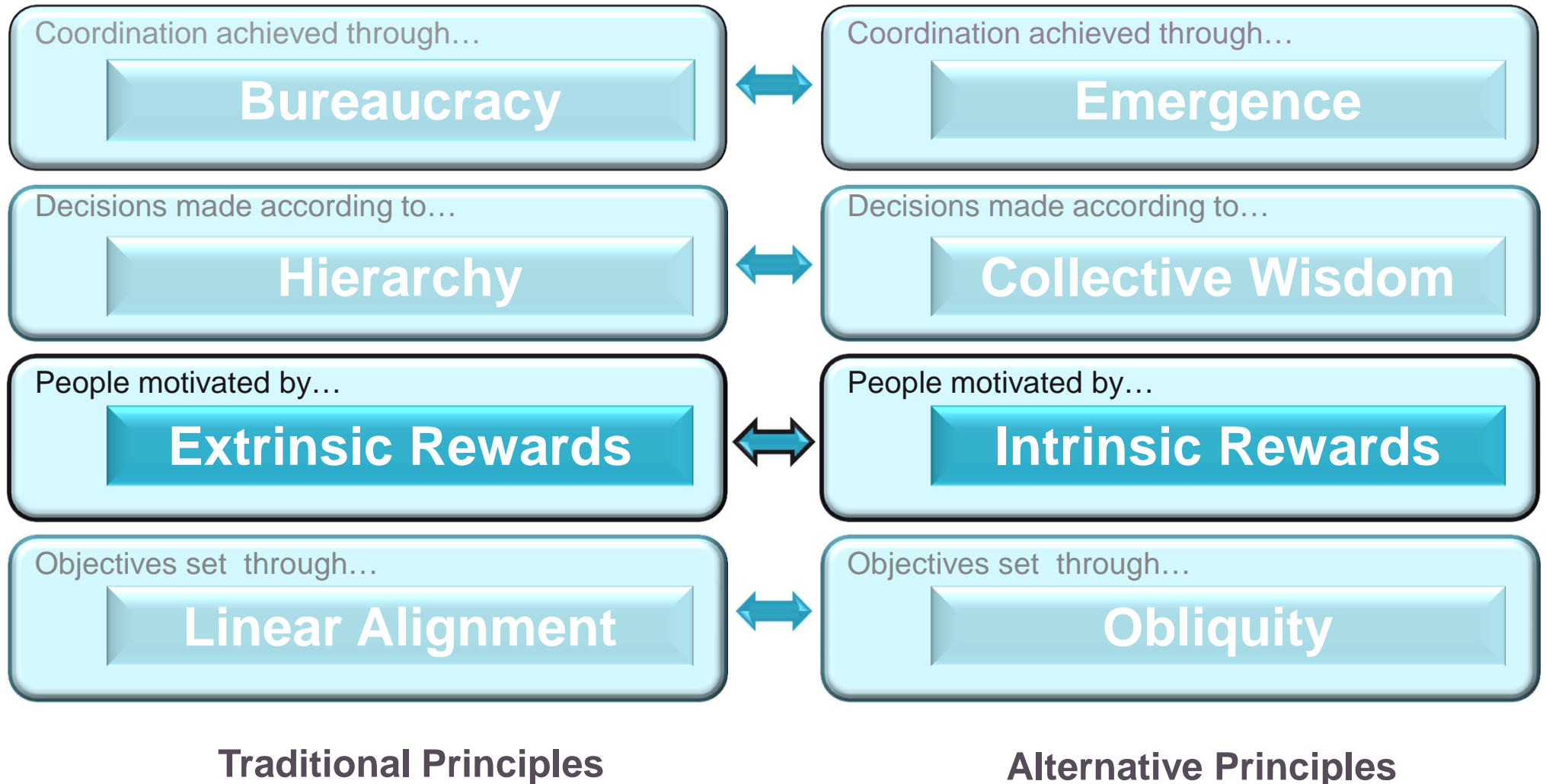
# Motivation: Some key principles

## Three landmark contributions to our understanding of motivation

- Abraham Maslow: The Hierarchy of Needs
- Frederick Herzberg: Hygiene versus Motivational factors
- Douglas MacGregor: Theory X versus Theory Y



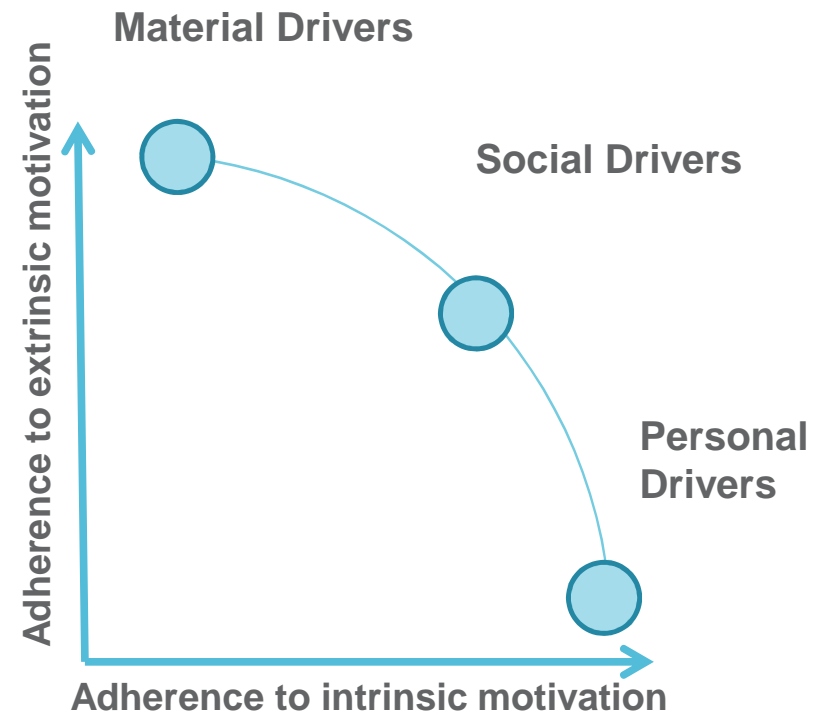
# Traditional and Alternative Models



## Mapping the spectrum of drivers

### How do we increase discretionary effort?

- Extrinsic Motivation comes from “without” – it is based on *Material Drivers*
- Intrinsic Motivation comes from “within” – it is based on *Personal Drivers*
- There are many hybrid cases with intrinsic and extrinsic elements – we call these *Social Drivers*
- Two cases studies in the course-room provide examples





## Material Drivers (Extrinsic)

Pay directly for performance



### Benefits

- They can be very effective when narrow outcomes are required
- They provide a direct link between input and output, which some people like
- They are easy to use

### Weaknesses

- They can drive out intrinsic interest
  - They can incentivise the wrong behaviour
  - They lack flexibility – they focus on a narrow set of activities
-



## Personal Drivers (Intrinsic)

Make work more interesting

### Benefits

- People give more discretionary effort when work is interesting
- They are likely to be more creative and collaborative
- Issues around pay are typically less of a concern

### Weaknesses

- Many jobs are just not *that* interesting, so there are limits to how far this approach can be taken
- People doing this sort of work don't like to be directed or controlled

## Social Drivers (extrinsic + intrinsic)



**Increase the focus on affiliation**

### Benefits

- Many people get social value from being part of a team
- Having a clear purpose is important
- Visible recognition is also a motivator

### Weaknesses

- Social drivers are not easy to maintain
  - It is hard to know how much to invest in them
  - Too much emphasis on social drivers can result in zealotry or “cult-like” behaviours
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## Another perspective on motivation



**Andrew McAfee, MIT**

**Video clip: How do we  
tap into everyone's  
“slice of genius” in an  
organisation?**

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# Moving from Extrinsic to Intrinsic Motivation



# The rhetoric-reality gap in motivation

## A puzzle for you to ponder

- Executives in most companies talk about the importance of intrinsic motivation
- But the vast majority have performance evaluation systems built on extrinsic motivation
- Why the gap?



## Getting the right mix of drivers

- Topcoder is a software company without its own developers
- Code is written by volunteer teams working in “contests” with each other
- The winning teams get prizes and recognition
- Coders take part largely for the chance to prove their skills among their peers



## Getting the right mix of drivers

- Costa developed a brand new “third generation” coffee machine in less than one year
- The vast majority of the team worked for partner firms (not Costa) and signed up “on a handshake”
- They were inspired by the project team’s vision, and the opportunity for recognition for a job well done





## Summary points

1. **Companies are actively seeking ways to tap into the intrinsic drivers of motivation**
    - **Social changes make this important**
    - **Technological changes make it easier in many cases**
  2. Changes in the drivers of motivation occur at two levels
    - The individual boss/subordinate relationship
    - The business as a whole
  3. The biggest challenge facing established companies is how to move away from the status quo, which is typically focused on extrinsic drivers
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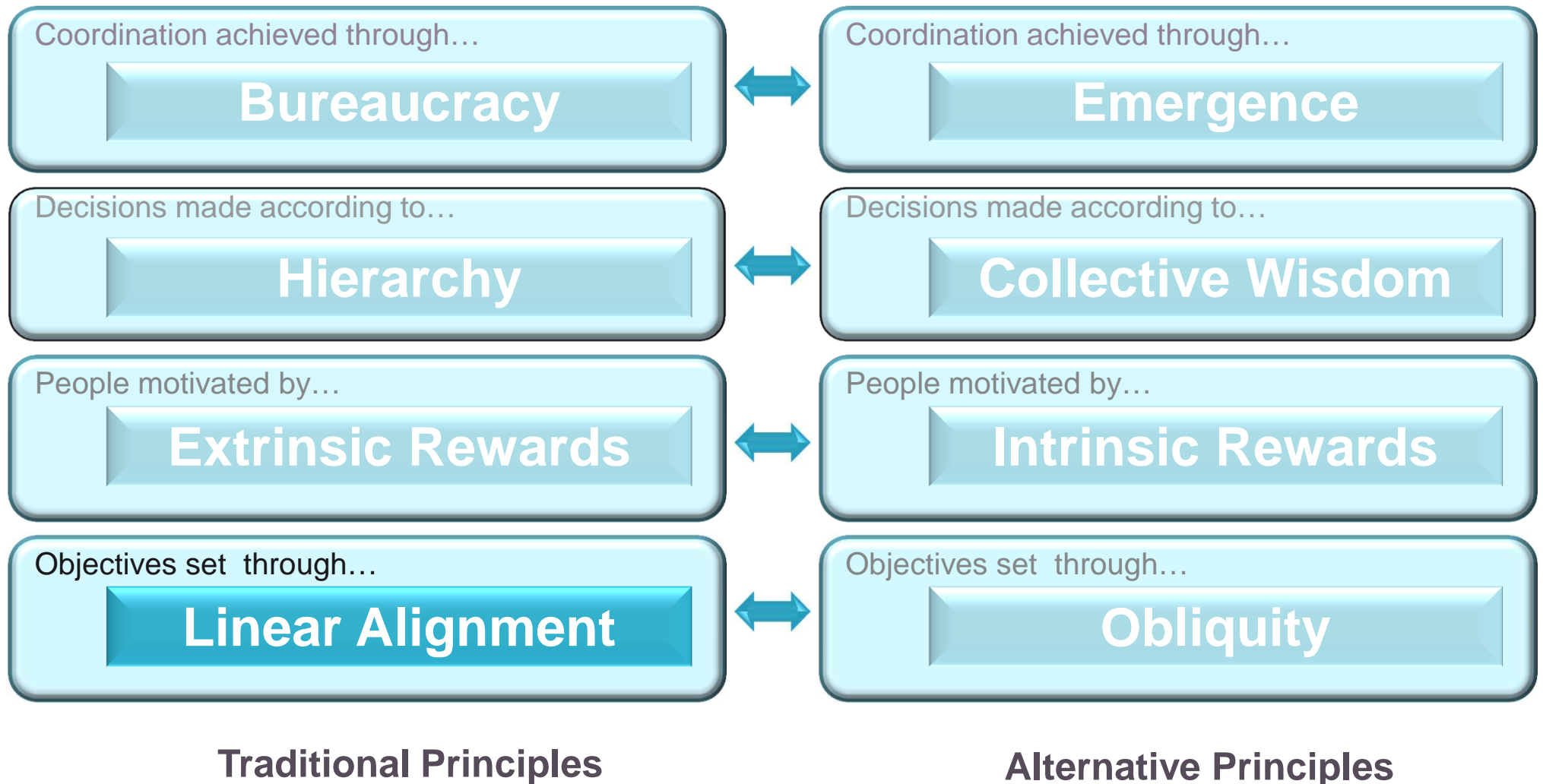
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# Principles of Objective-Setting

Managing “out”



# Traditional and Alternative Models



## Linear Alignment defined

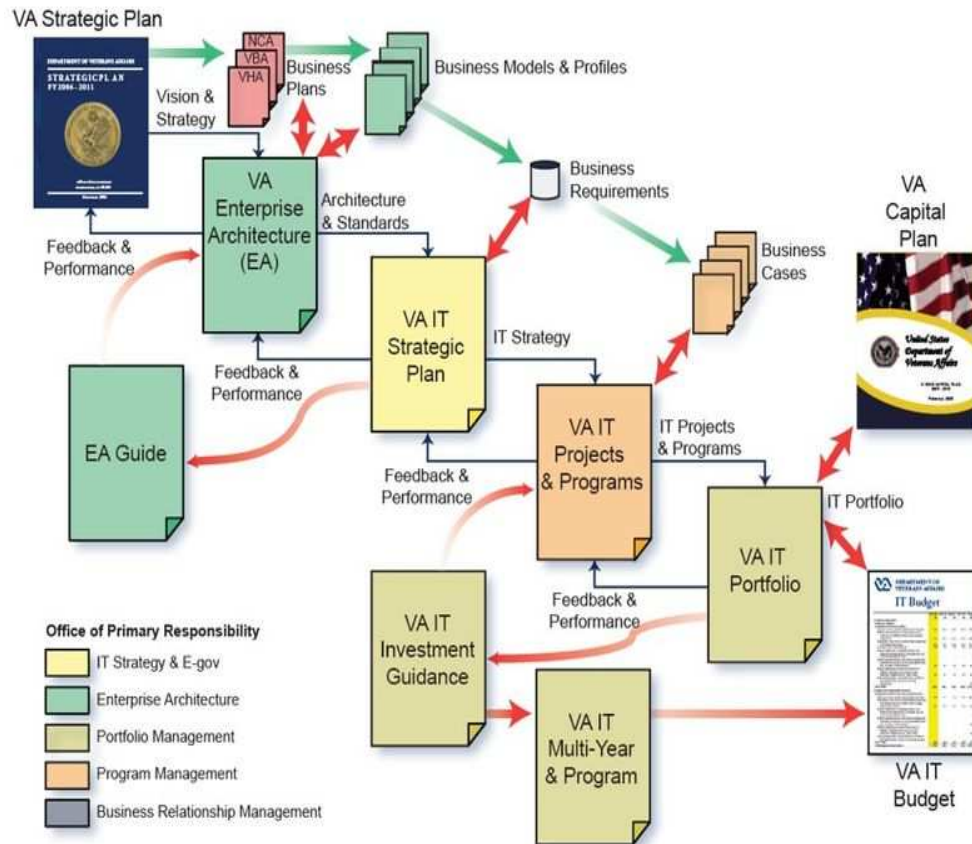


The process of ensuring that all employees are working *directly* towards an explicit objective

### Benefits

- Simple to manage; gives employees clear targets
- Easy to identify where there are shortfalls

# Weaknesses of linear alignment



- Drives out innovation and creativity
- Tends to focus on quantifiable objectives (mostly financial ones)
- Typically short-term biased
- Does not reflect the complexity of multi-functional organisations

## Another perspective on the weaknesses of linear alignment

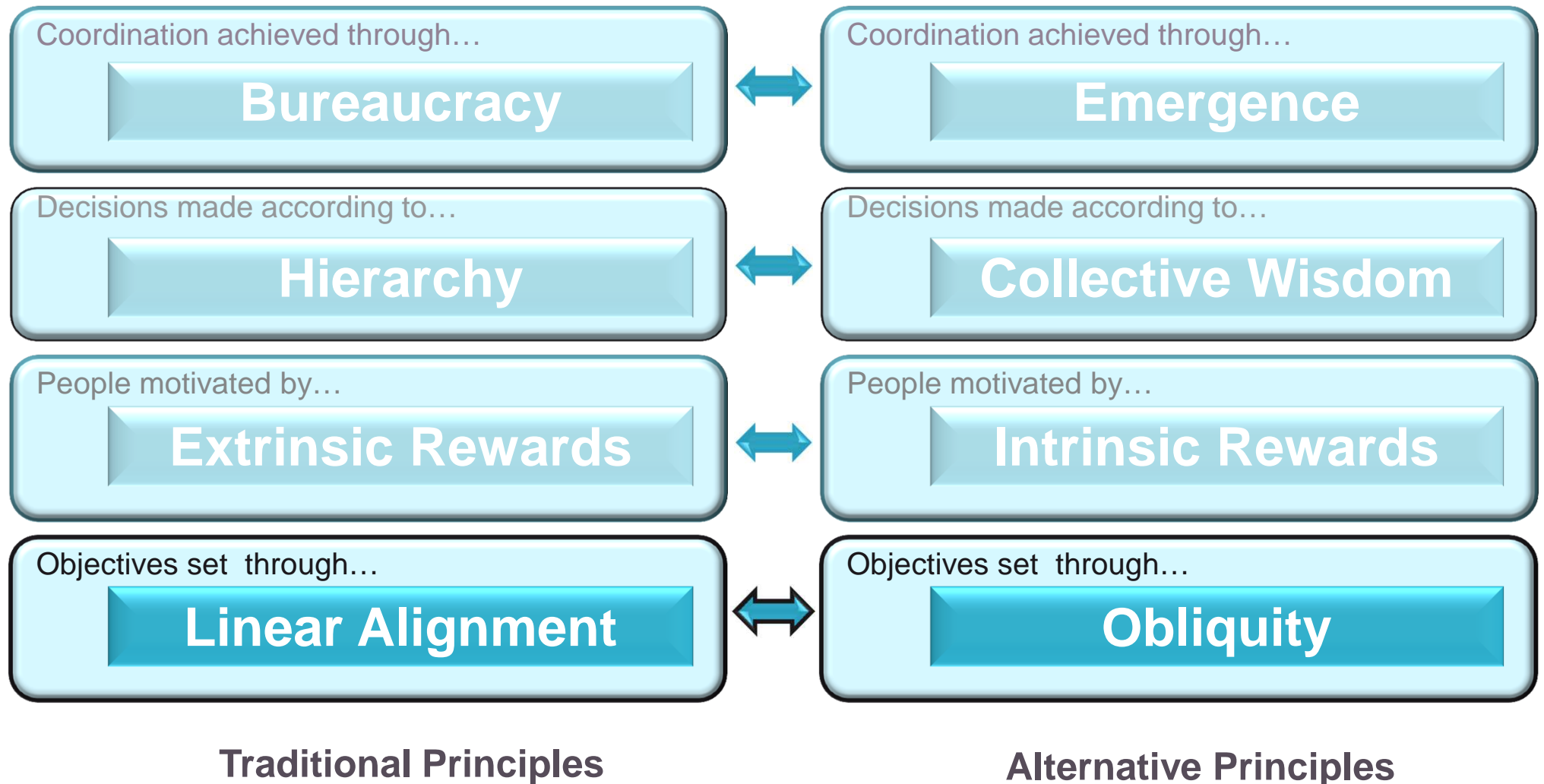


**Jeffrey Pfeffer, Stanford  
University**

**Video clip: The problem  
with traditional measures  
in large organisations**



# Traditional and Alternative Models



## Two perspectives on objective setting



“We must continuously achieve superior financial and operating results while simultaneously adhering to high ethical standards.”

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“To improve the quality of life for the communities we serve.”

# Goals are best achieved indirectly

## If you want to get to point A, aim at point B

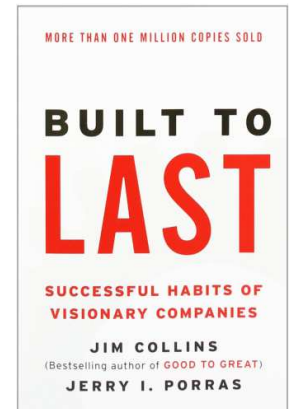
*Don't aim at success — the more you aim at it and make it a target, the more you are going to miss it. For success, like happiness, cannot be pursued; it must ensue, and it only does so as the unintended side effect of one's personal dedication to a cause greater than oneself.*

*Viktor Frankl, Holocaust Survivor and Philosopher*

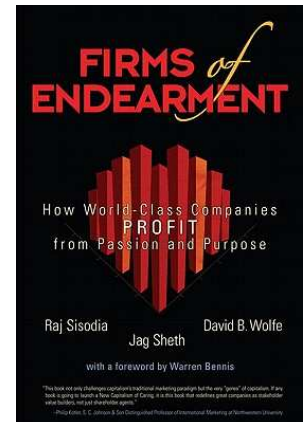
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## Evidence for the value of oblique goals

*Built to Last* by Collins and Porras: “Visionary” companies put less emphasis on profitability in their stated objectives but their financial performance was better than a control group.

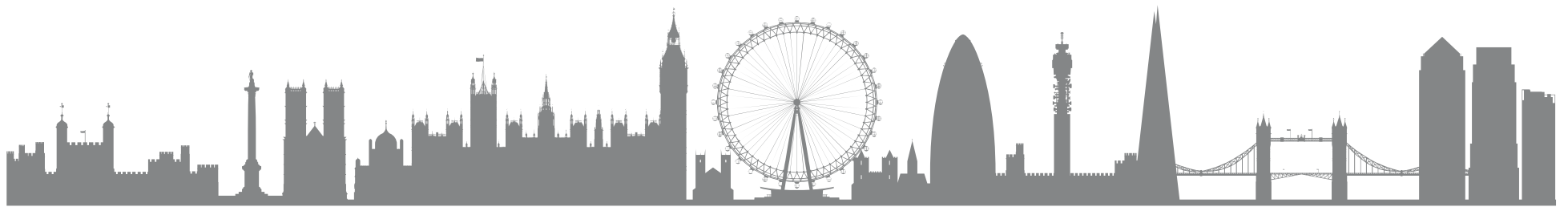


*Firms of Endearment* by Sisodia, Wolfe, and Sheth: Companies that focusing on how business adds value to society gave a much higher return to investors than the S&P 500 as a whole.



Alex Edmans showed how the “Best Companies to Work For” earned a significant premium for their investors over the general stock market index.

# Moving from Linear Alignment to Obliquity

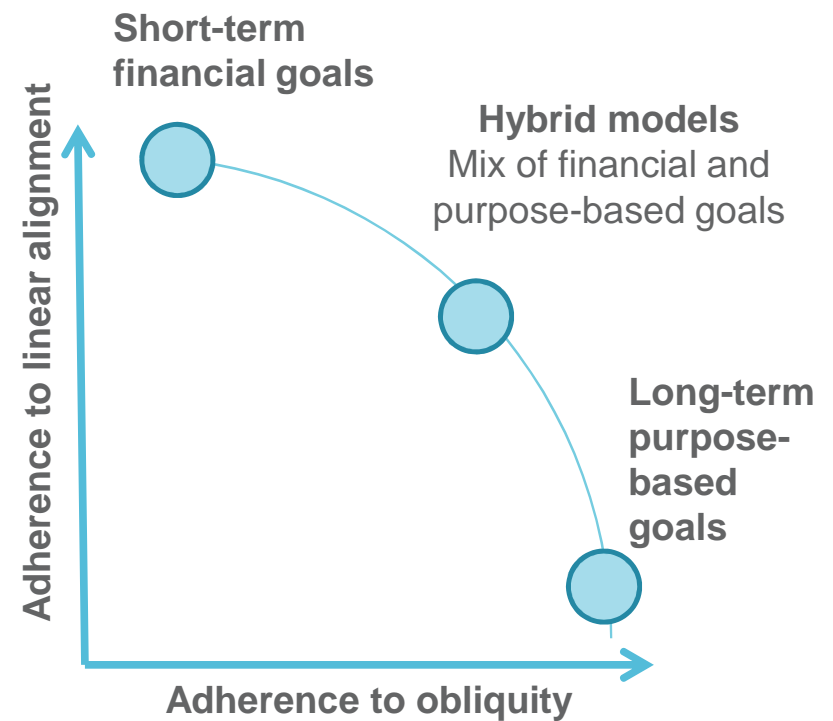


## Under what conditions does obliquity go wrong?

- **Oblique goals create ambiguity for employees**
    - Not everyone is comfortable with this
  - **Oblique goals create uncertainty for shareholders**
    - This makes some very nervous
    - Privately-held companies are better at taking a long-term view
  - **Oblique goals often involve a significant amount of risk**
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## Objective setting approaches

- Linear alignment and obliquity are opposing principles
- Some companies focus purely on short-term financial goals
- Those that focus on long-term purpose based goals *also* have financial goals because they need to stay in business



“Purpose with Profits”

## Three examples of companies working with oblique goals



**Vineet Nayar, ex-CEO,  
HCL Technologies  
“Employees First,  
Customers Second”**



**Handelsbanken  
Decentralised and  
Customer-Focused**



**Ratan Tata, ex-CEO  
Tata Sons Ltd.  
Focused on the  
“communities we  
serve”**



## Key points about oblique goals

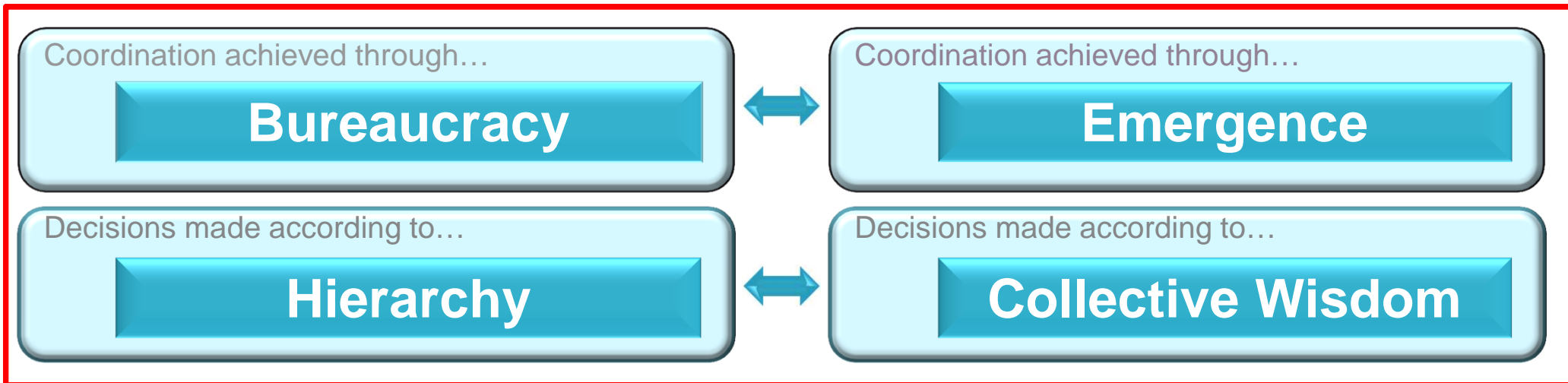
- **They don't have to be elaborate or novel**
  - **They need supporting systems to stick**
    - Explicit measures
    - Clear and consistent communication
  - **In particular a “counterweight” is useful**
    - Tata Sons: Family controlled trusts
    - Handelsbanken: Oktogonen profit share scheme
  - **Oblique goals can be implemented at multiple levels**
    - Not just at the company-wide level
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# Putting the four dimensions together

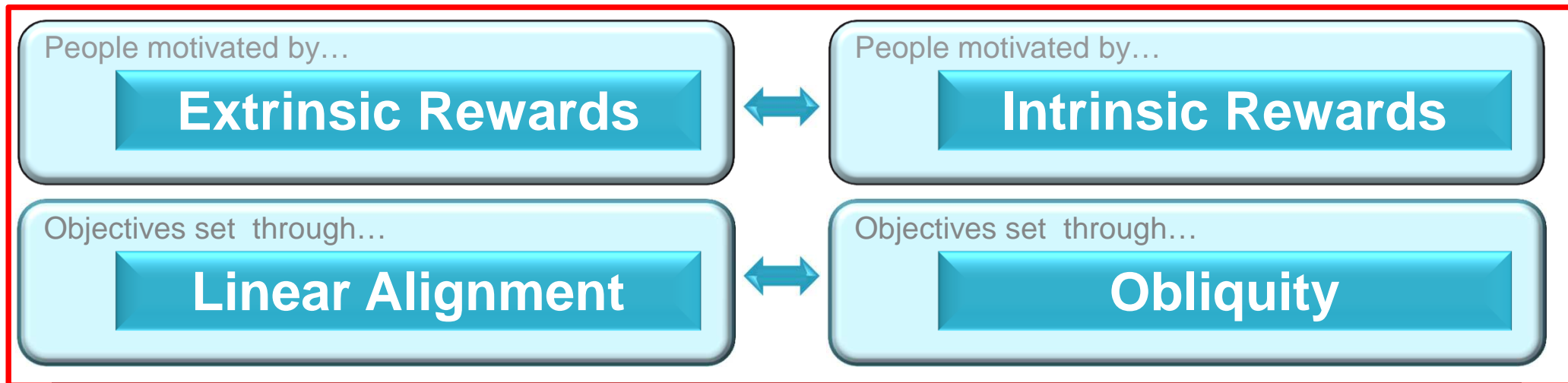


## Separating means and ends

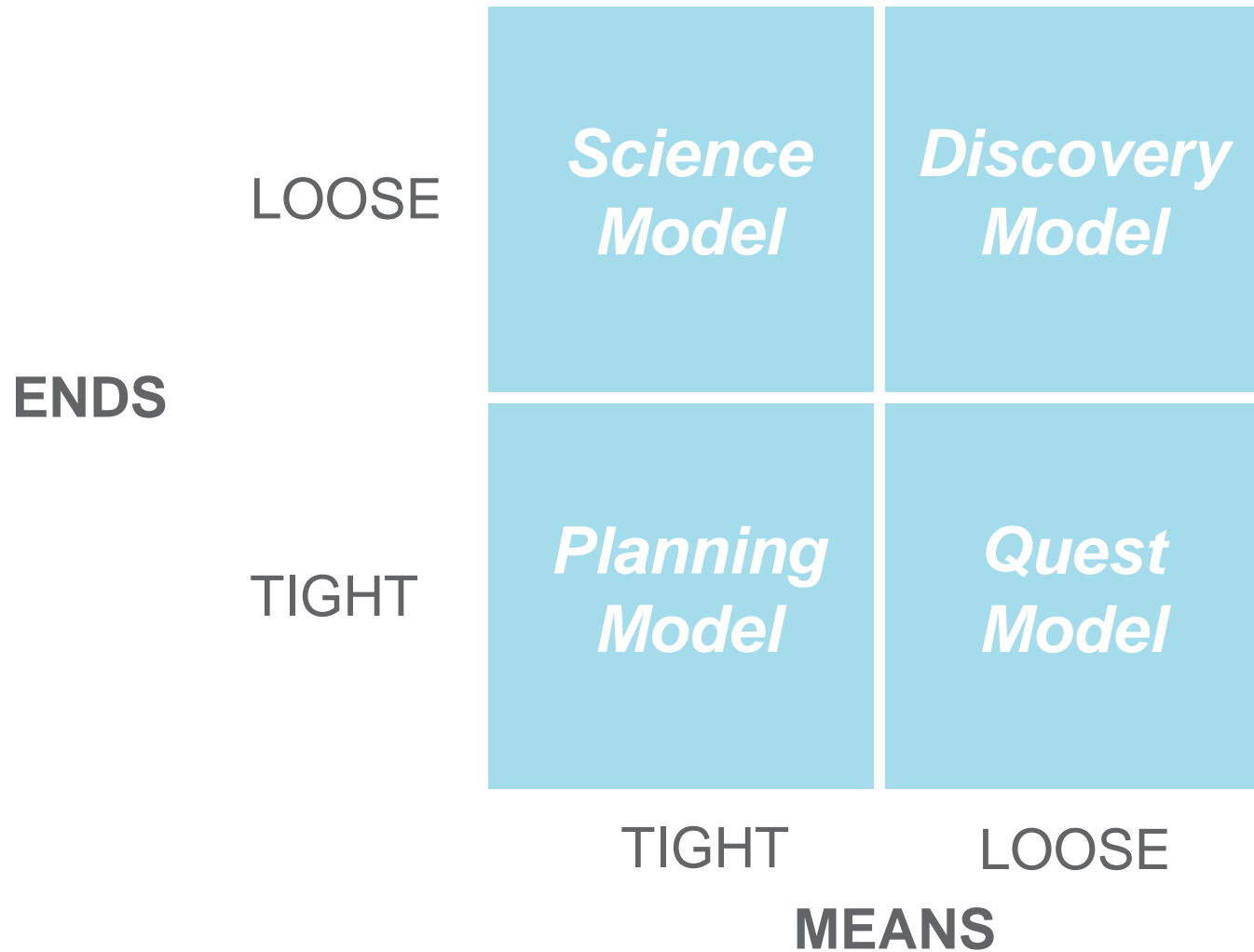
### MEANS



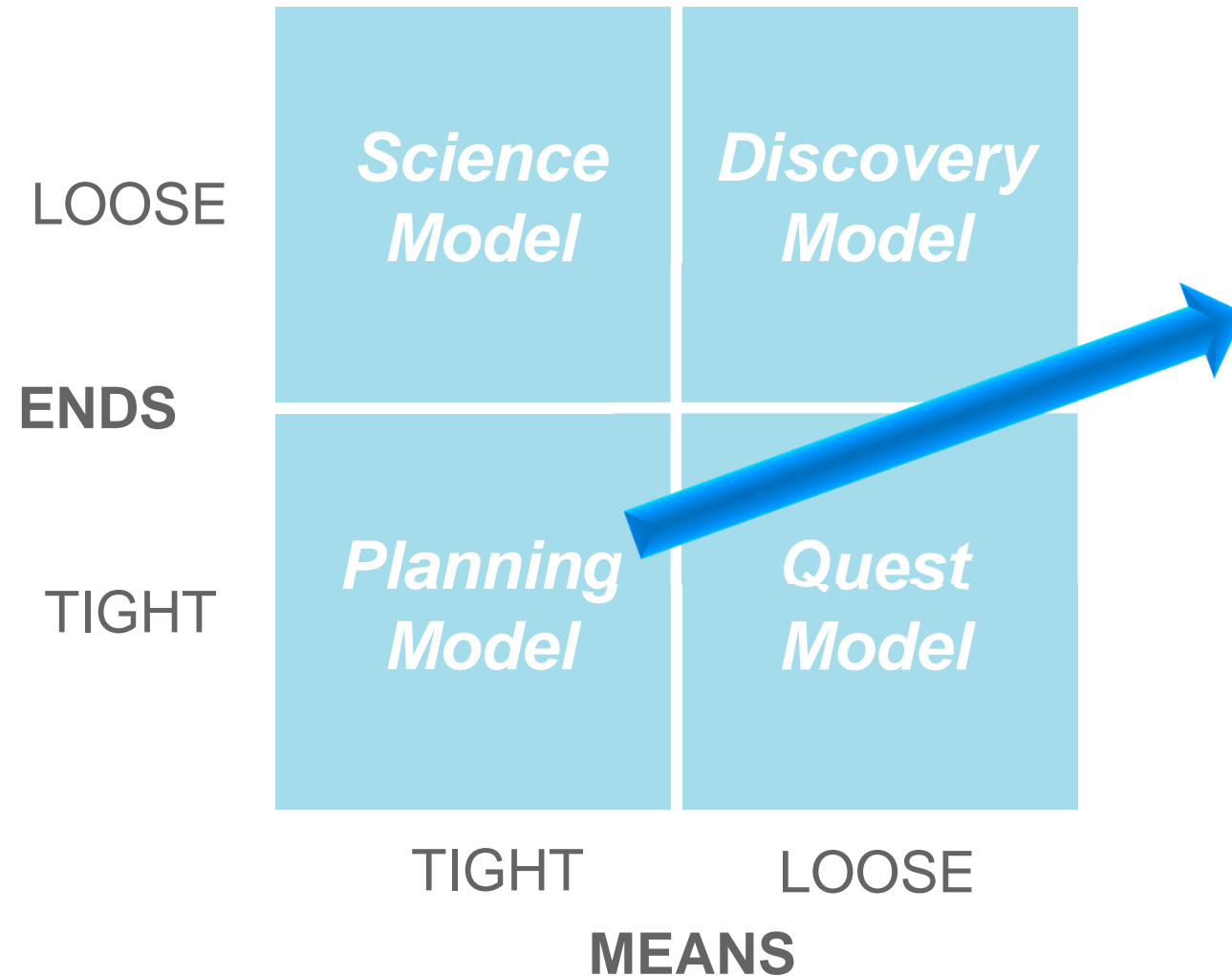
### ENDS



## Four management models

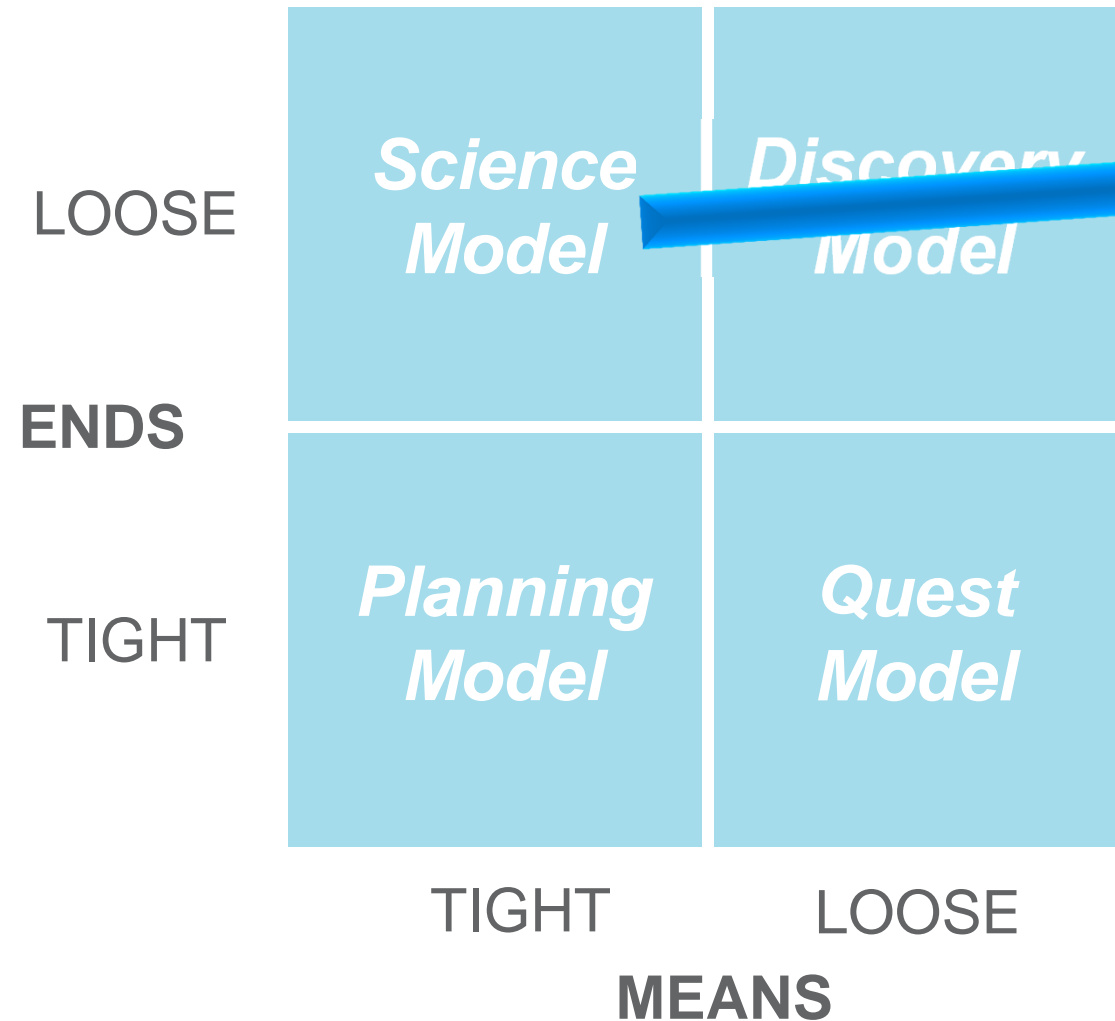


## Four management models



- Clear objectives and incentives for achieving them
- Tight control from the top, carefully-designed processes for getting work done

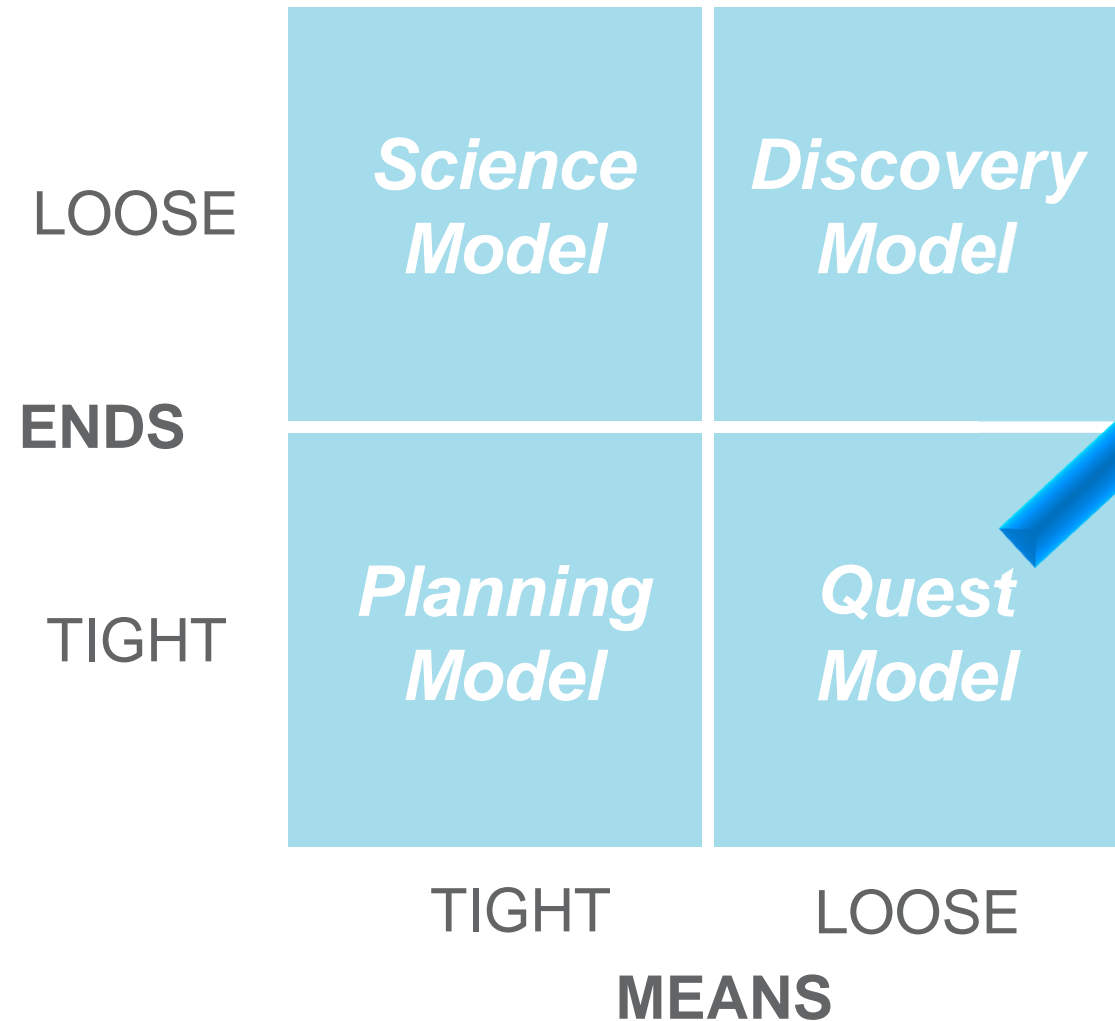
## Four management models



### OVE ARUP Ltd.

- Broad purpose, emphasis on intrinsic motivation
- Well-understood methods for making progress, professional norms

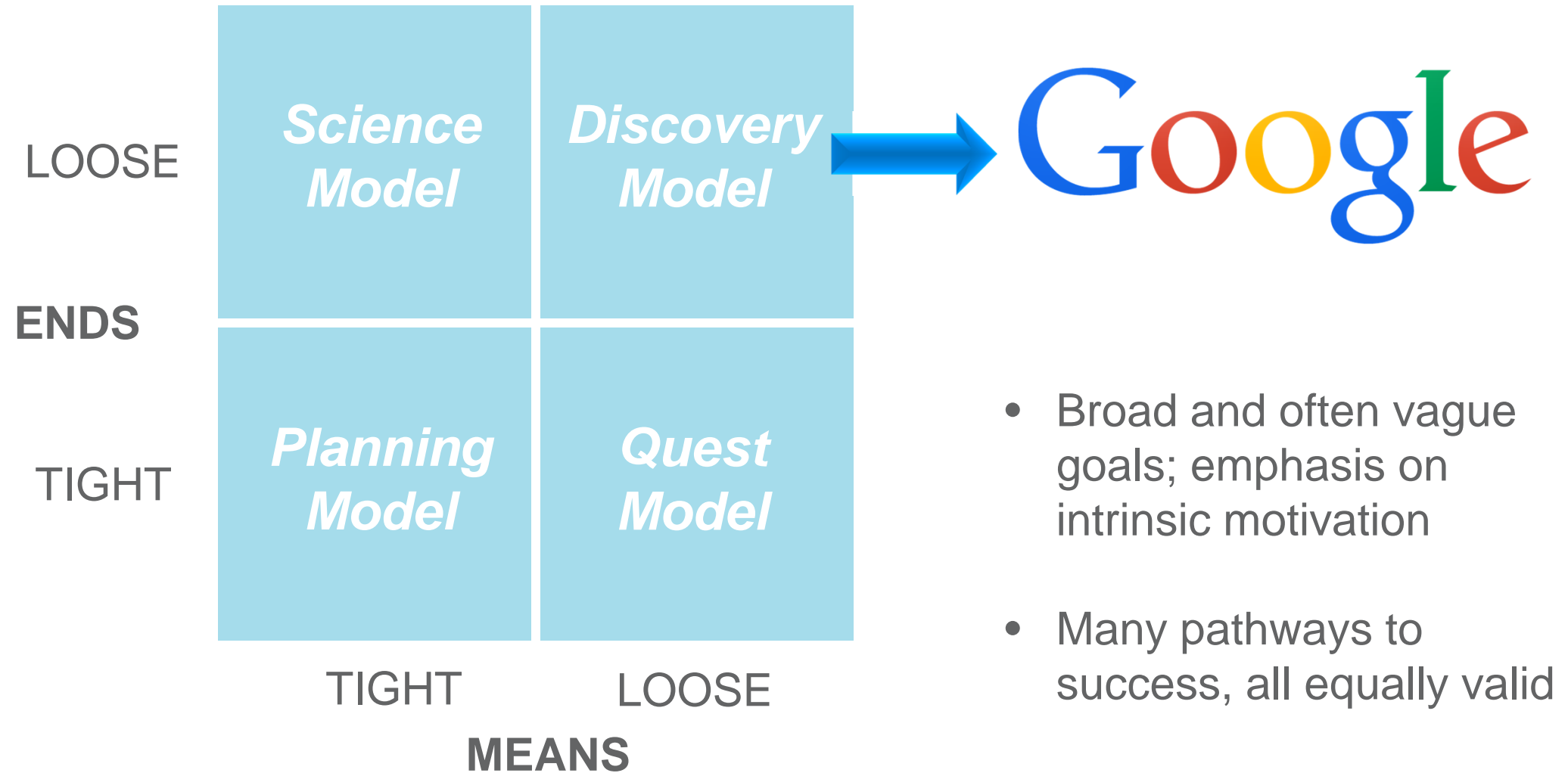
## Four management models



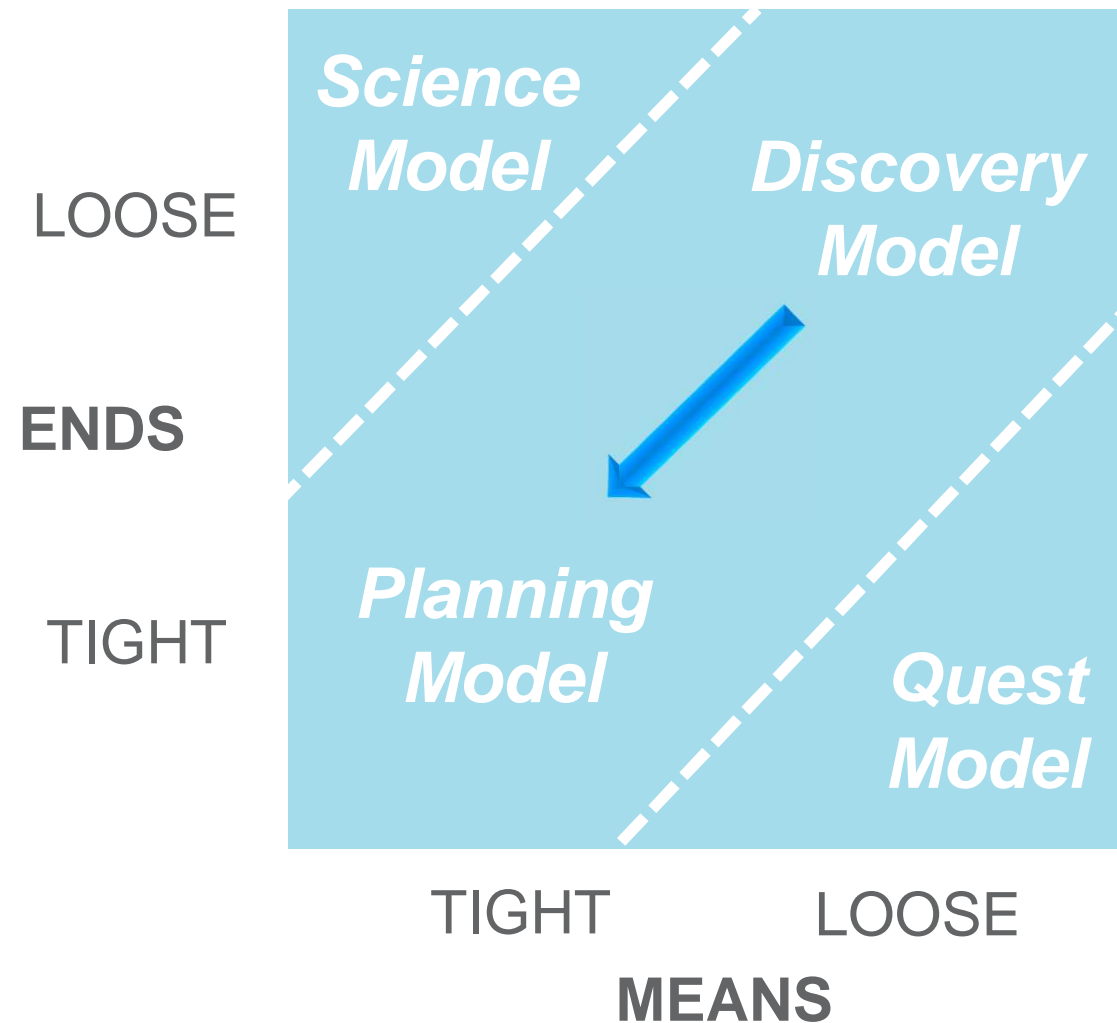
**The X Prize**

- Clear objectives, clear incentives for achieving those objectives
- Enormous degrees of freedom in *how* objectives will be achieved

## Four management models







- In practice, most companies are hybrids of these four models
- You can also see variation by functional activity within the same company
- Having said that, there is also a clear drift over time as companies grow, from Discovery to Planning