

# Managing the Company of the Future

Julian Birkinshaw



# Defining your Management Model

## Part 1



## Dimensions of Management

Henri Fayol	Peter Drucker	Henry Mintzberg
<ul style="list-style-type: none"><li>• Forecasting and Planning</li><li>• Organising</li><li>• Commanding</li><li>• Controlling</li></ul>	<ul style="list-style-type: none"><li>• Setting objectives</li><li>• Organising</li><li>• Motivating and communicating</li><li>• Measurement</li><li>• Development</li></ul>	<ul style="list-style-type: none"><li>• Framing and scheduling</li><li>• Communicating and controlling</li><li>• Leading and linking</li><li>• Doing and dealing</li></ul>

# Business Model vs. Management Model

## *Business Model*

Choices firms make about:

- Sources of revenue
- Cost structure
- What to make / buy
- How to make a profit



## *Management Model*

Choices firms make about:

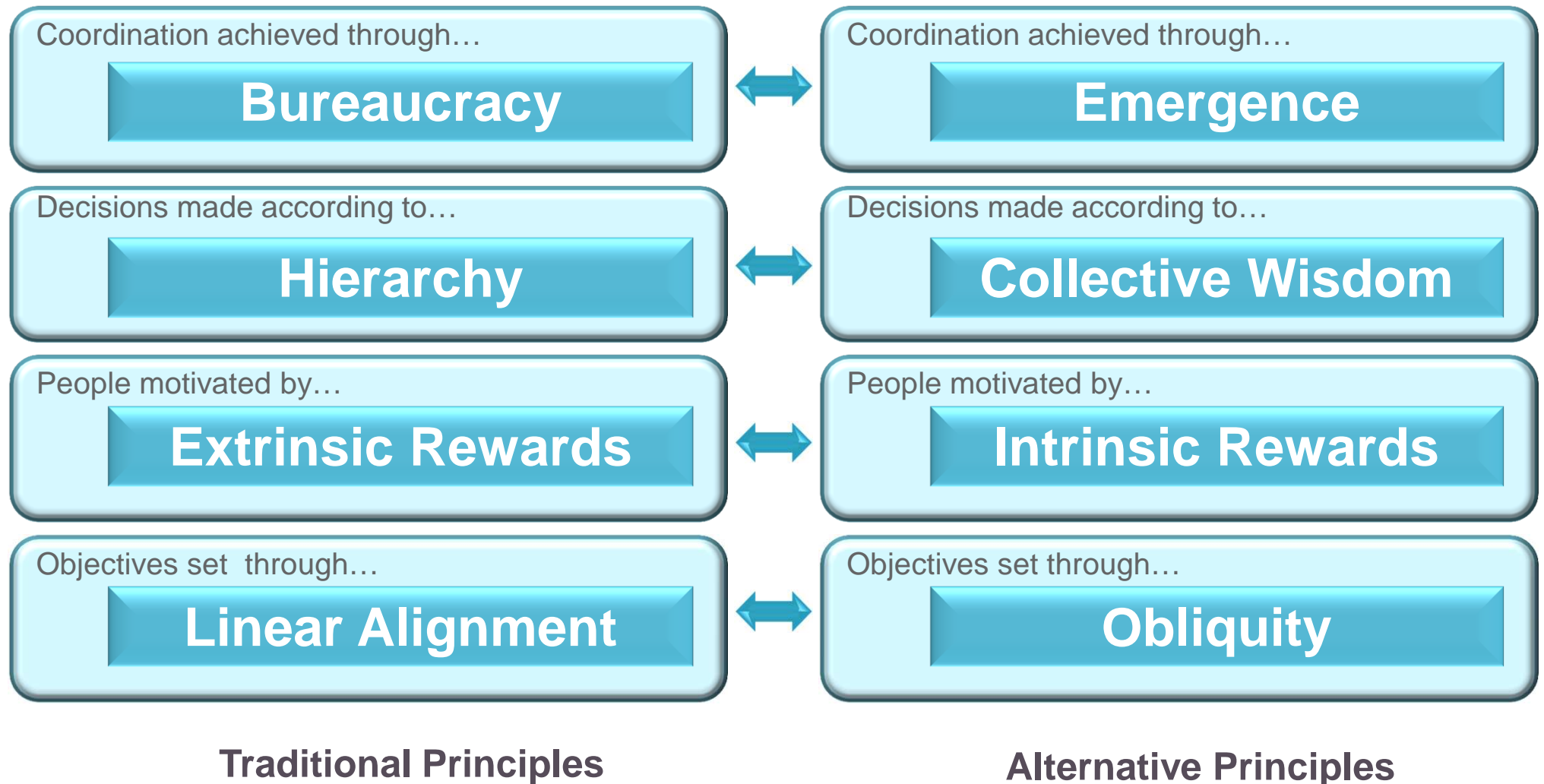
- Coordinating activities
- Making decisions
- Motivating employees
- Defining objectives

# Defining your Management Model

## Part 2



# Traditional and Alternative Models



# Traditional and Alternative Models

## Four key points

- 1. Your management model is the choices you make on these four dimensions**
- 2. Each principle is manifested in a specific set of practices and processes**
- 3. There are no “right” or “wrong” choices – the model you use should reflect your company’s circumstances, and there are pros and cons to any option**
- 4. The changes in the business environment are making the alternative principles on the right side more attractive – we will discuss in later weeks how to change your management model**

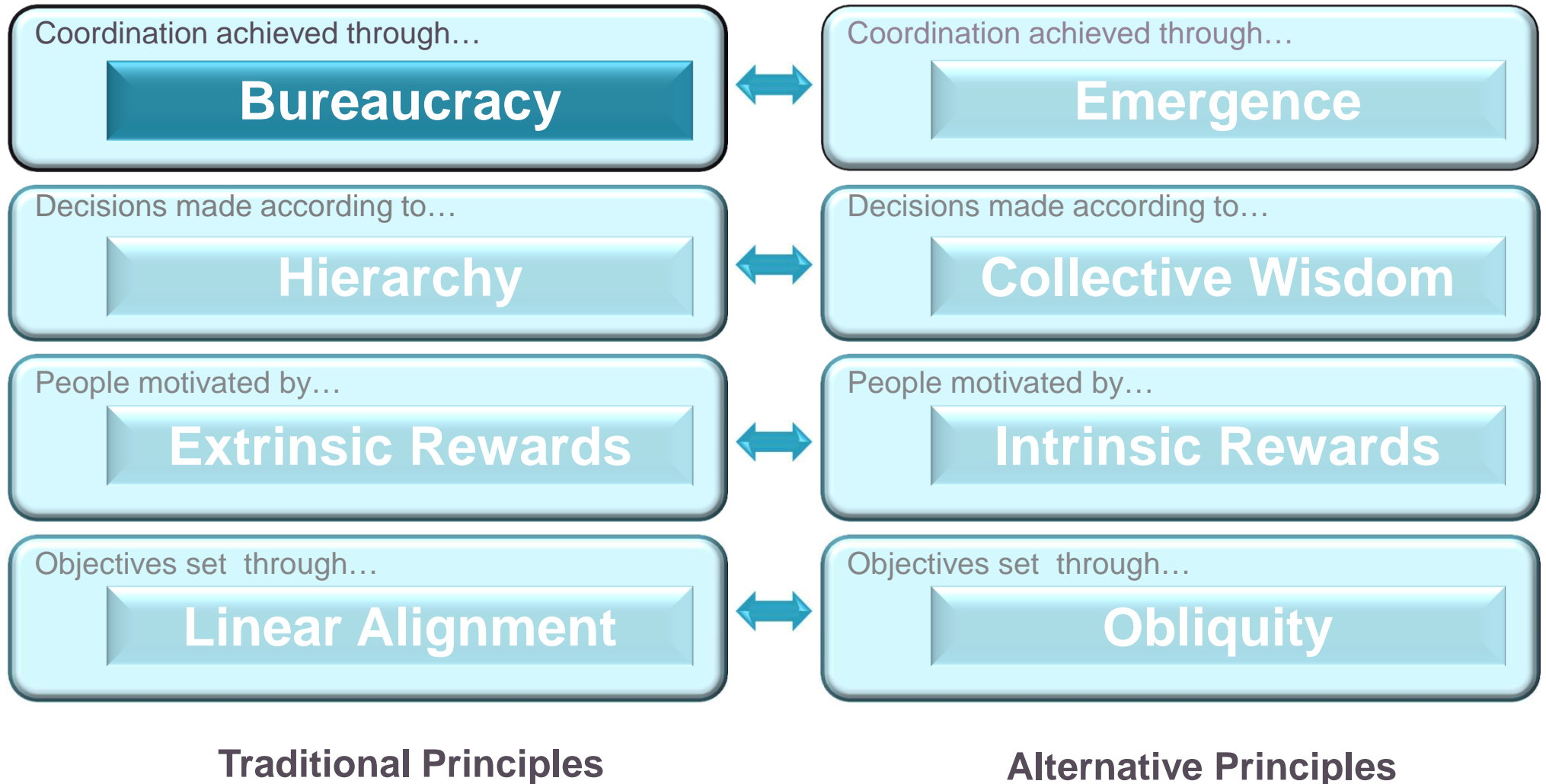
# Principles of Coordination

Managing “Across”





# Traditional and Alternative Models



## Bureaucracy defined

# Coordination through formal rules and procedures

### Benefits:

- Rules and procedures create efficiency
- People are given roles according to expertise
- Favouritism is eliminated



Max Weber, German Sociologist, 1864-1920

## Weaknesses of bureaucracy



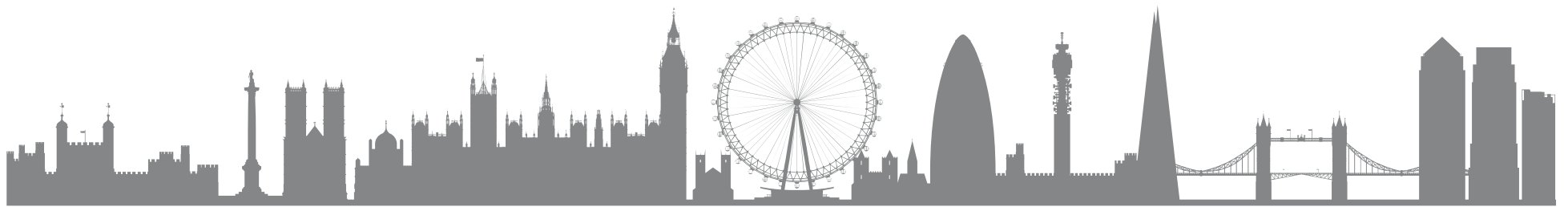
- Slow moving
- Internally-focused
- Disempowering
- Little room for creativity

“The successful bureaucrat understands that taking action on anything is risky, so there should never, ever be any sense of urgency to act.

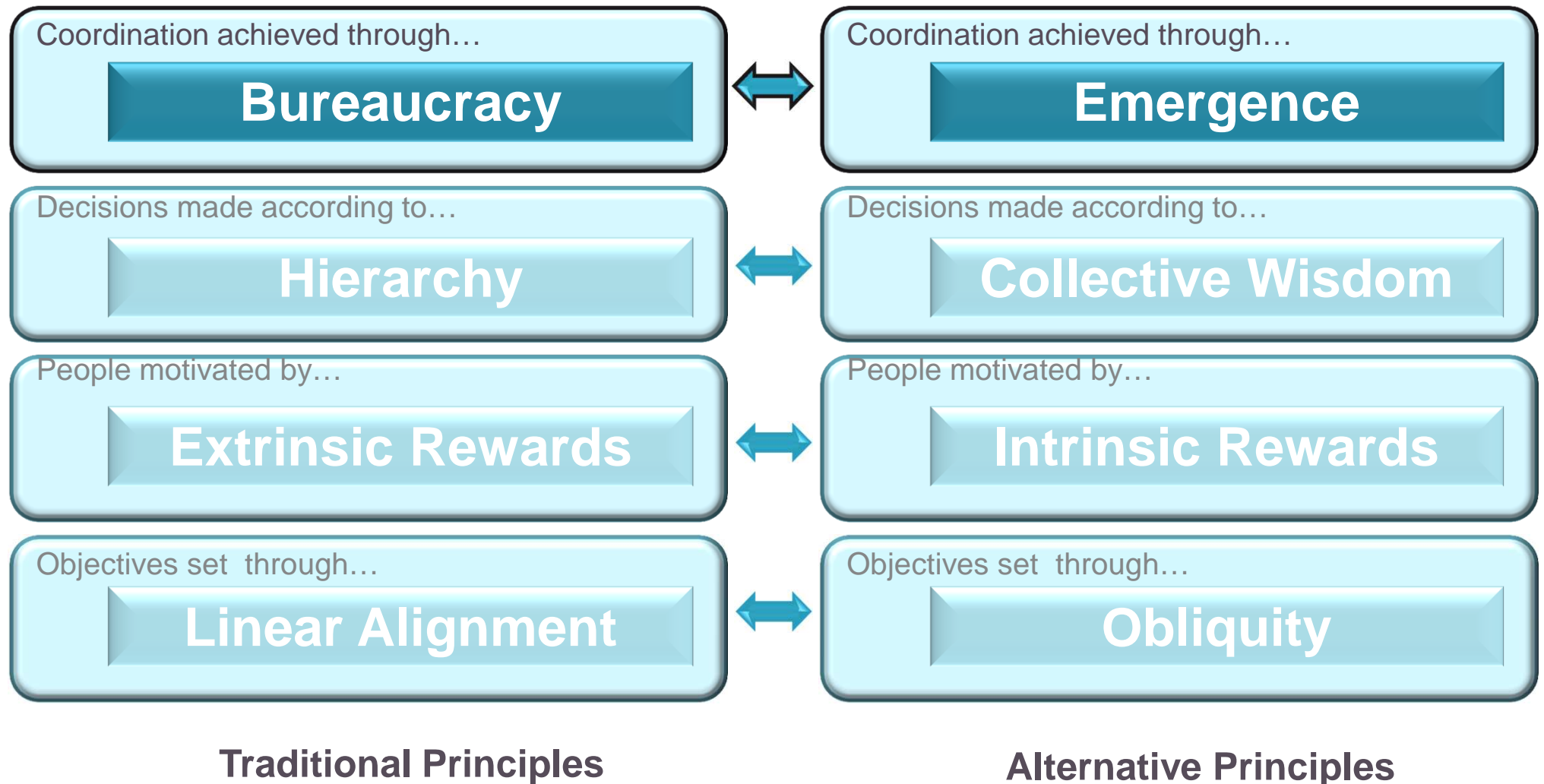
For the bureaucrat the objective should be to do what can be done to delay getting something done”.

# Principles of Coordination

## Emergence (Part 1)



# Traditional and Alternative Models



## Emergence defined

**“Spontaneous coordination through the self-interested behaviours of independent parties”**

***As a management principle:***

**“The guiding structures that stimulate individuals to coordinate their activities, in a focused way, of their own volition”**

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### Benefits

- Responsive to changing demands on the system
- Energising for those involved
- Enables creativity



## Emergence in a non-business context



Photo: Jerry Michalski



**Hans Monderman – the “Shared Space” model**

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## Another perspective on Emergence



Photo: citris-uc.org

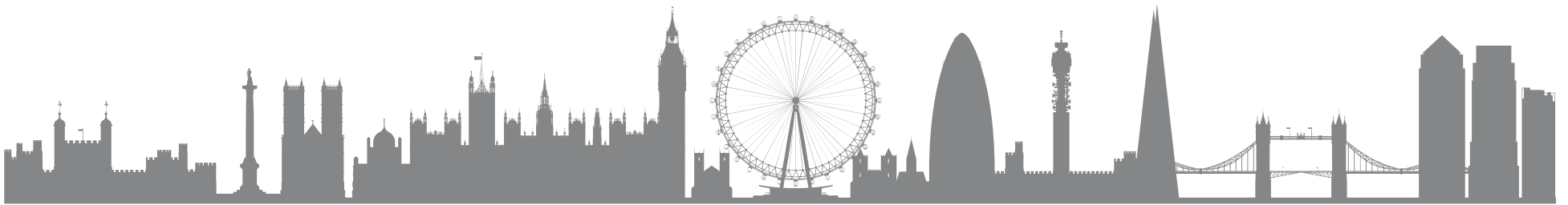
**Steven Weber,  
University of Berkeley**

**Video clip: Making our  
actions visible to others  
enables better coordination  
and overall social welfare**



# Principles of Coordination

## Emergence (Part 2)



## Emergence in modern companies

**Agile development**

**Self-organising teams**

**Organisational learning**

**Strategy as simple rules**

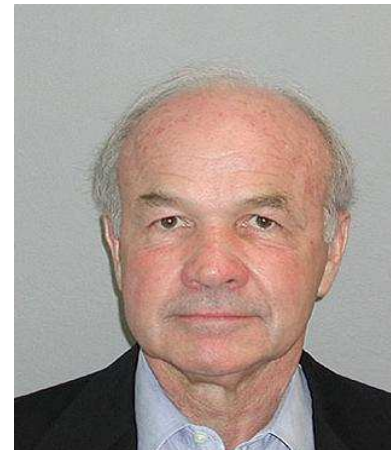
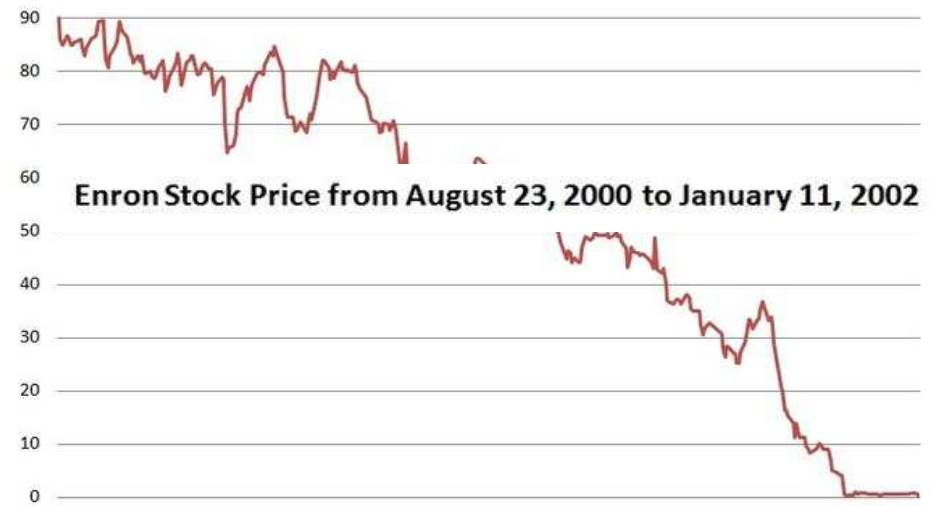
**Open space technologies**

**Managing at the edge of chaos**

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## Enron's internal market system

- Not enough clarity on where to focus effort
- Too much freedom to experiment, too few boundaries
- Lack of supporting systems



Ken Lay, Chairman



Jeffrey Skilling, CEO

# Moving from Bureaucracy to Emergence



## Example: Oticon's Spaghetti organisation



Lars Kolind, former CEO



Oticon "in the ear" hearing aid

## Example: Beyond budgeting



### Traditional budgeting model

- Emphasis on top-down control
- Incentives for delivering “on budget”

### “Beyond budgeting” model

- Greater front-line accountability
  - Light-touch from the top, more flexible
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# The Waterfall Model vs. Agile Development

## The Agile Manifesto (2001)

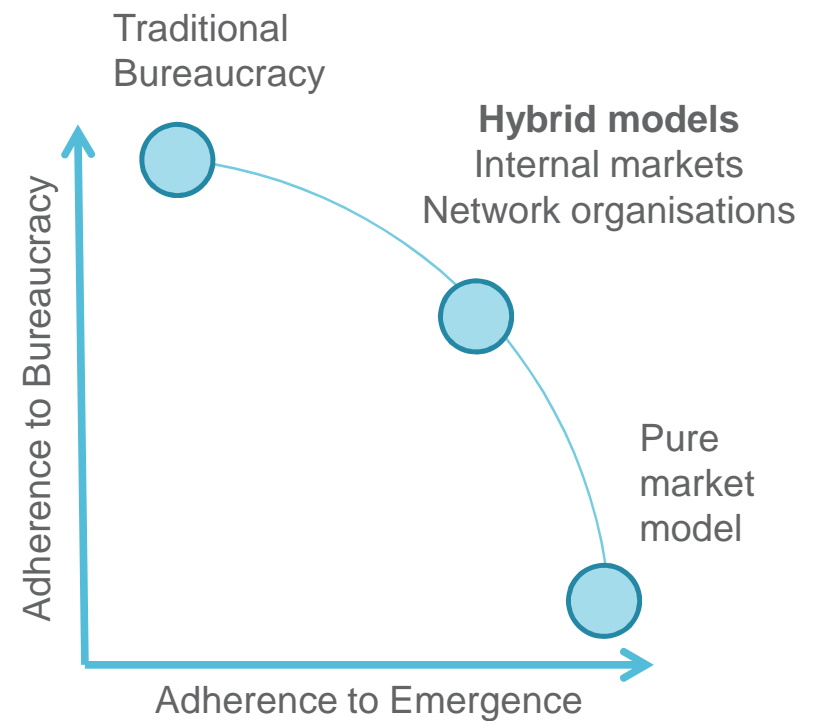
We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:

- Individuals and interactions over processes and tools
- Working software over comprehensive documentation
- Customer collaboration over contract negotiation
- Responding to change over following a plan

That is, while there is value in the items on the right, we value the items on the left more.

## Coordination: Summary points

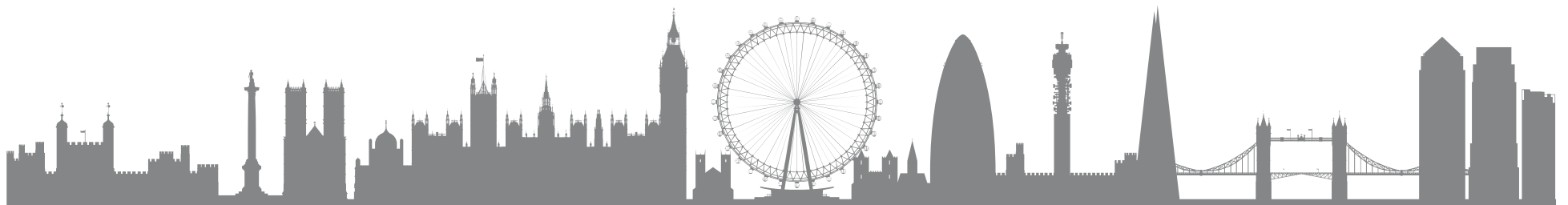
- Bureaucracy and Emergence are opposing principles for how coordination is achieved in organisations
- There are benefits and costs to both, so many companies end up moving back and forth
- There are also hybrid models available that seek to get the “best of both worlds”
- Two case studies in the course-room provide detailed examples



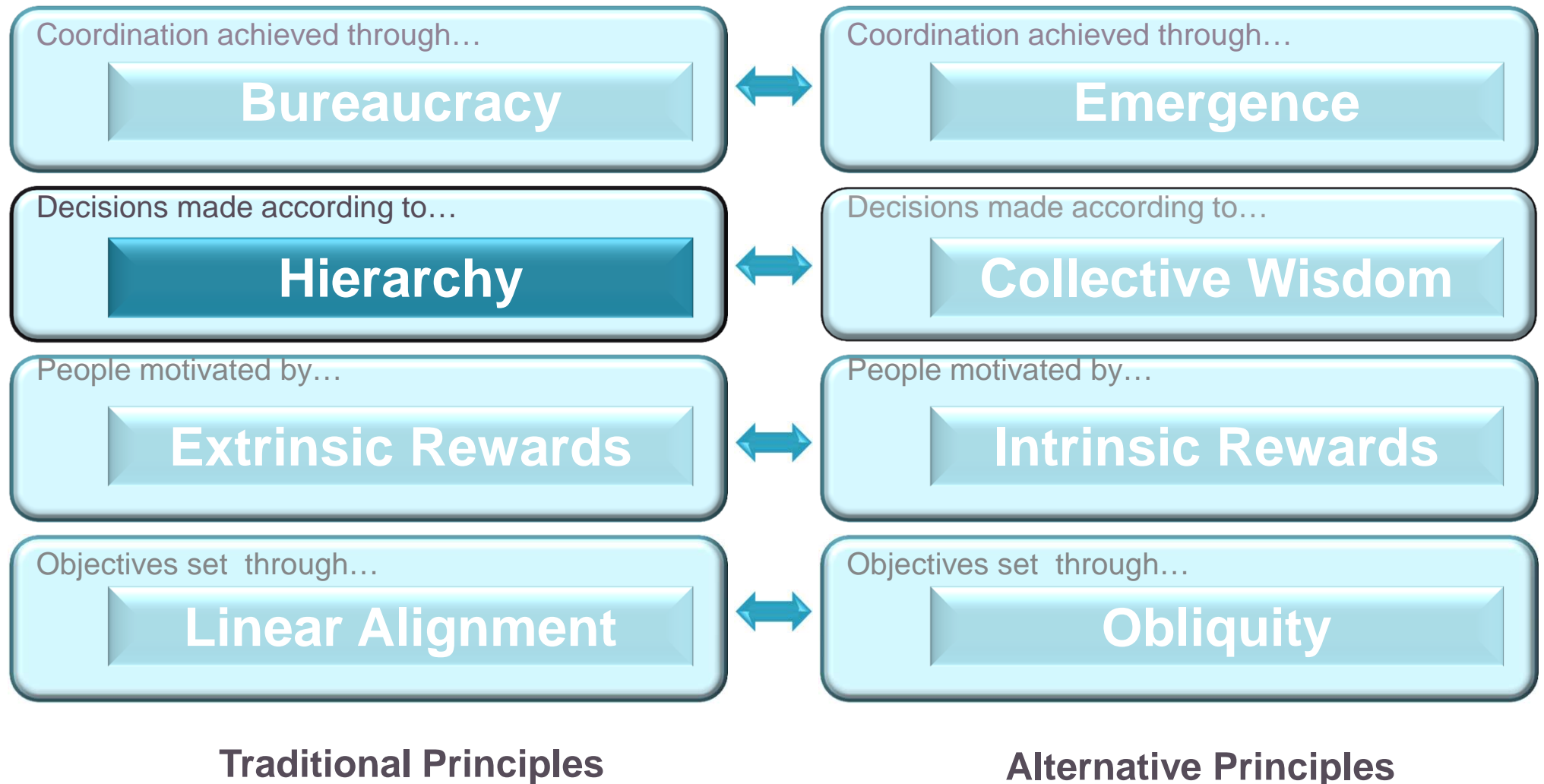


# Principles of Decision Making

Managing “down” (Part 1)



# Traditional and Alternative Models

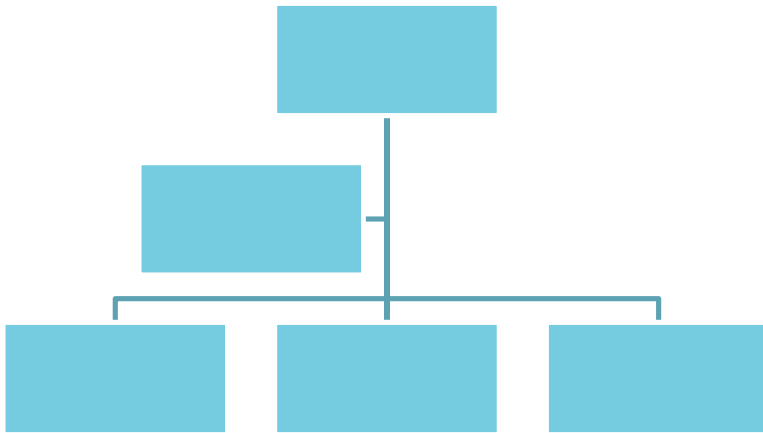


## Hierarchy defined

**Hierarchy provides managers with legitimate authority over their subordinates**

### Benefits

- Provides structure for large organisations
- Enables rapid decision-making
- Ensures alignment between power and accountability

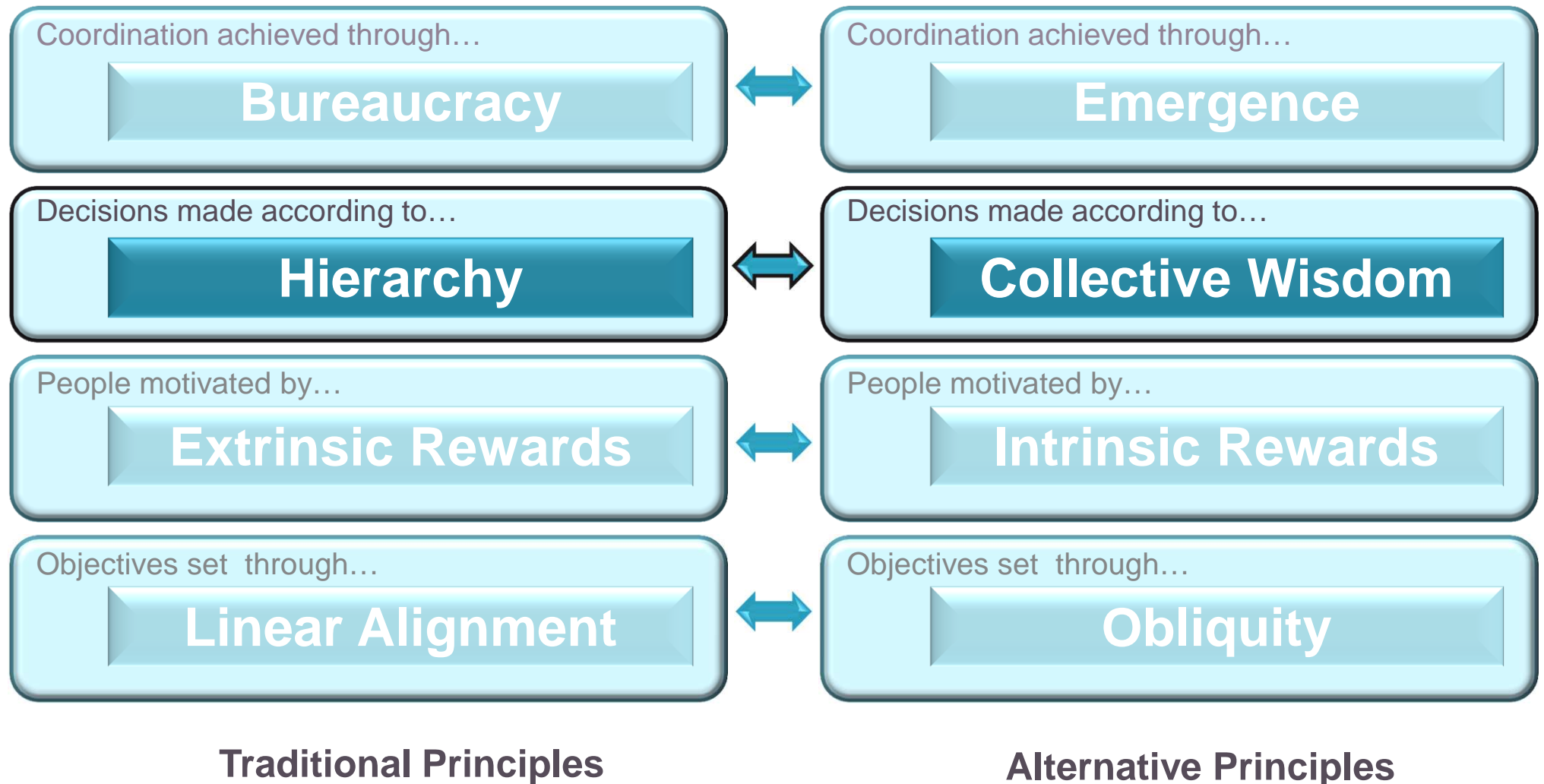


## Weaknesses of hierarchy



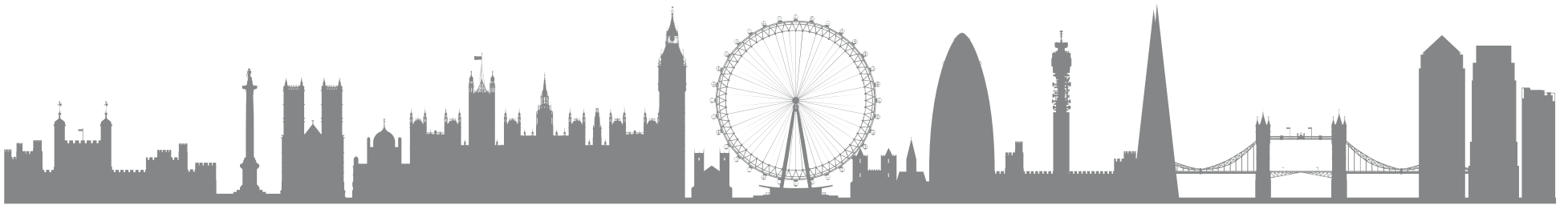
- Hierarchy assumes the boss knows best
- Information does not flow freely between layers
- Not enough managers add real value to their subordinates
- Employees at lower levels in the hierarchy often feel alienated and disempowered

# Traditional and Alternative Models



# Principles of Decision Making

## Managing “down” (Part 2)



## Collective wisdom defined

**Collective wisdom is the aggregation of inputs from a large number of individuals**

Under certain conditions, collective wisdom can produce more accurate forecasts and better decisions than those from a small number of experts.



™ Wikimedia Foundation, Inc.



Photo: Howard Duck

## Forms of Collective Wisdom

### Commons-based PRODUCTION

Wikipedia

**Aggregation of inputs  
from the crowd to  
create a new and  
valuable output**

### Crowd-based DECISION MAKING

Millionaire quiz show

**Aggregation of views  
from the crowd to  
inform a decision**

### Collective “BUY-IN”

Red Hat's  
Open Strategy

**Aggregation of views  
from the crowd to  
mobilise effort and  
action**

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## Another perspective on collective wisdom



**Gary Hamel,  
London Business School**

**Video clip: A crowdsourcing  
approach to getting new  
ideas funded in large  
companies**

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# Principles of Decision Making

Managing “down” (Part 3)



## Limits to collective wisdom



**Myfootballclub.com  
bought Ebbsfleet United,  
a soccer team, in 2007**



### CITIZEN'S BRIEFING BOOK

*To*  
President Barack Obama

*From*  
The American People

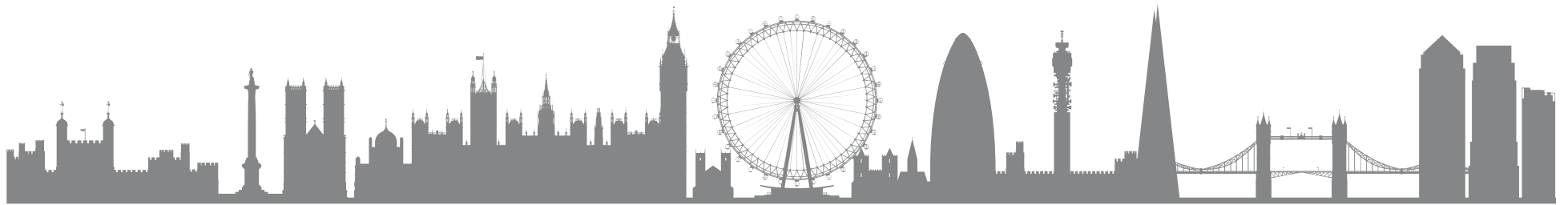
**Barack Obama launched a  
“citizens briefing book”  
before becoming President**

## Under what conditions does collective wisdom go wrong?



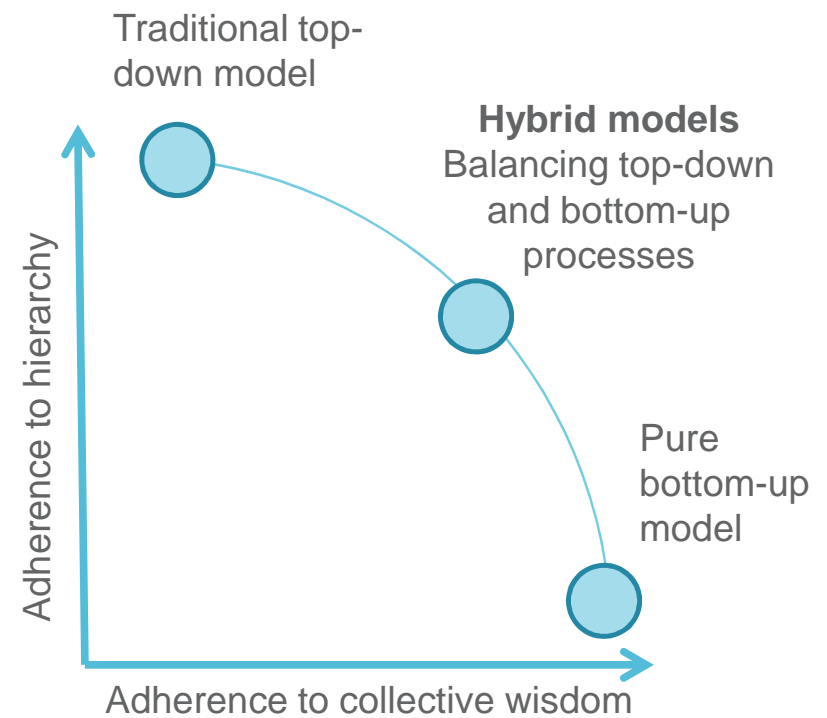
- The “crowd” feels no accountability for their ideas
- The crowd doesn’t have the knowledge to contribute
- Members of the crowd are not offering independent views
- The crowd lose interest

# Moving from Hierarchy to Collective Wisdom



## Decision making models

- Hierarchy and collective wisdom are opposing principles for how decision-making is achieved in organisations
- As always, there are benefits and costs to both approaches
- Many companies are experimenting with hybrids that seek to get the “best of both worlds”
- Two case studies in the course-room provide detailed examples



## Example: Jamming at IBM

### Values Jam: Summer 2003

72 hours, 10,000 comments

### Innovation Jam: Summer 2006

150,000 participants

Stage 1: 46,000 posts

Stage 2: 9,000 posts



Sam Palmisano, former CEO, IBM



## Example: Open strategy at Red Hat

**Leading provider of open-source software**

**Management model reflects its business philosophy**

**Strategy process:**

- Eight priority areas defined by CEO
- Five month idea generation phase, online chats with CEO
- Nine strategic priorities emerged, teams fleshed them out, empowered to execute
- Revisions on on-going basis



Photo: Katherine Welles / Shutterstock.com



## Open strategy at Red Hat

**“It takes us so much longer to make decisions because so many people are involved, but once a decision is made, we have no problems with execution.”**

**“It took me about a year to really understand the open source way, and another year to realize that as a leader I need to be an internal catalyst.”**

**“Open source is not about democracy at all. It’s a meritocracy.”**

**Jim Whitehurst, CEO of Red Hat**

# Advice on managing a collective wisdom based process

## The Crowdsourcing Process *In Eight Steps*



Image by Daren C. Brabham | [www.darenbrabham.com](http://www.darenbrabham.com)

## Key risks:

### Poorly defined process

- Task framed too widely, no idea how contributions will be distilled

### Loss of control

- Sometimes incoherent outputs, harder to make the tough decisions, content is not proprietary any more

### Disenchantment of crowd

- Lack of feedback or recognition, overexposure and exhaustion