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

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Managing the Company of the Future

Julian Birkinshaw

Week 4

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Diagnosing your current and future models

Part 1

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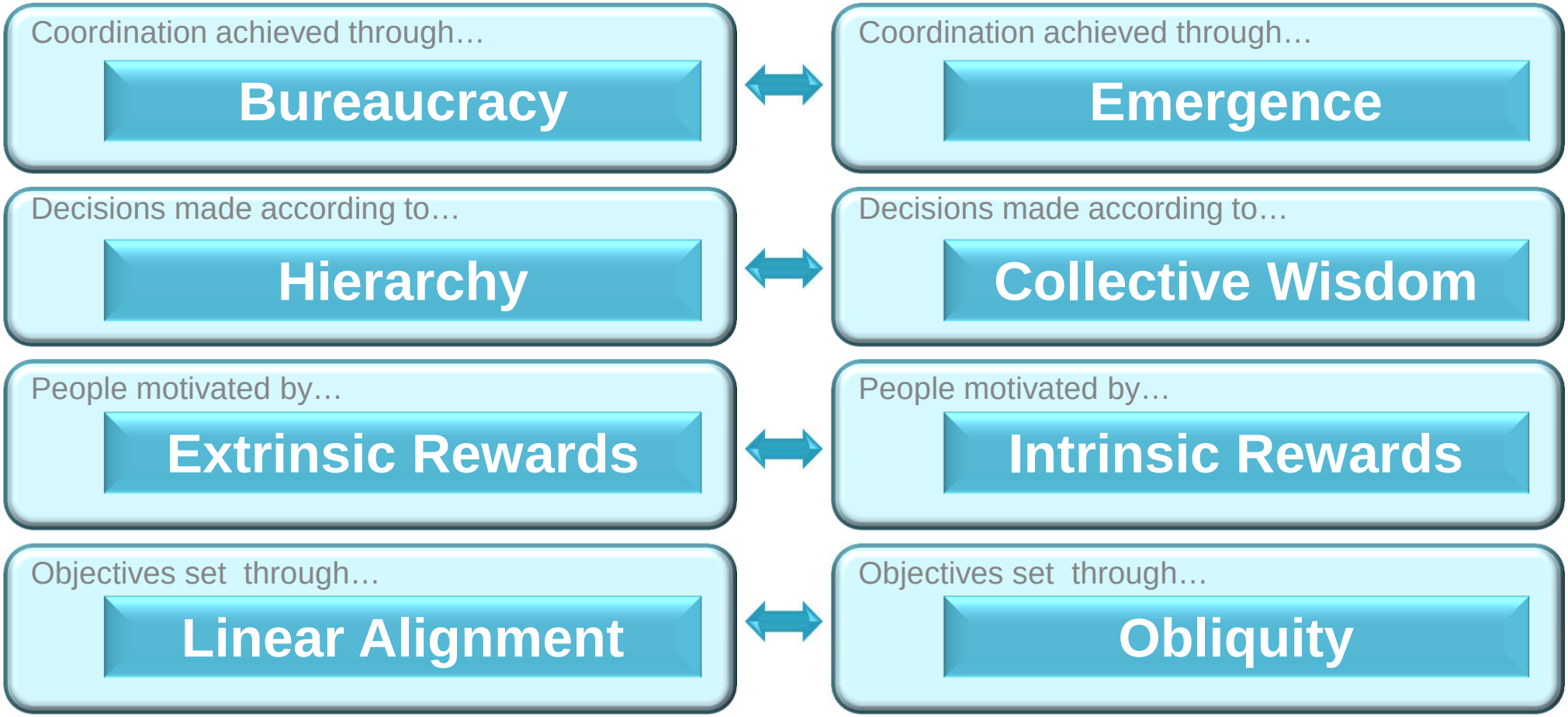
Traditional and Alternative Models



Traditional Principles

Alternative Principles

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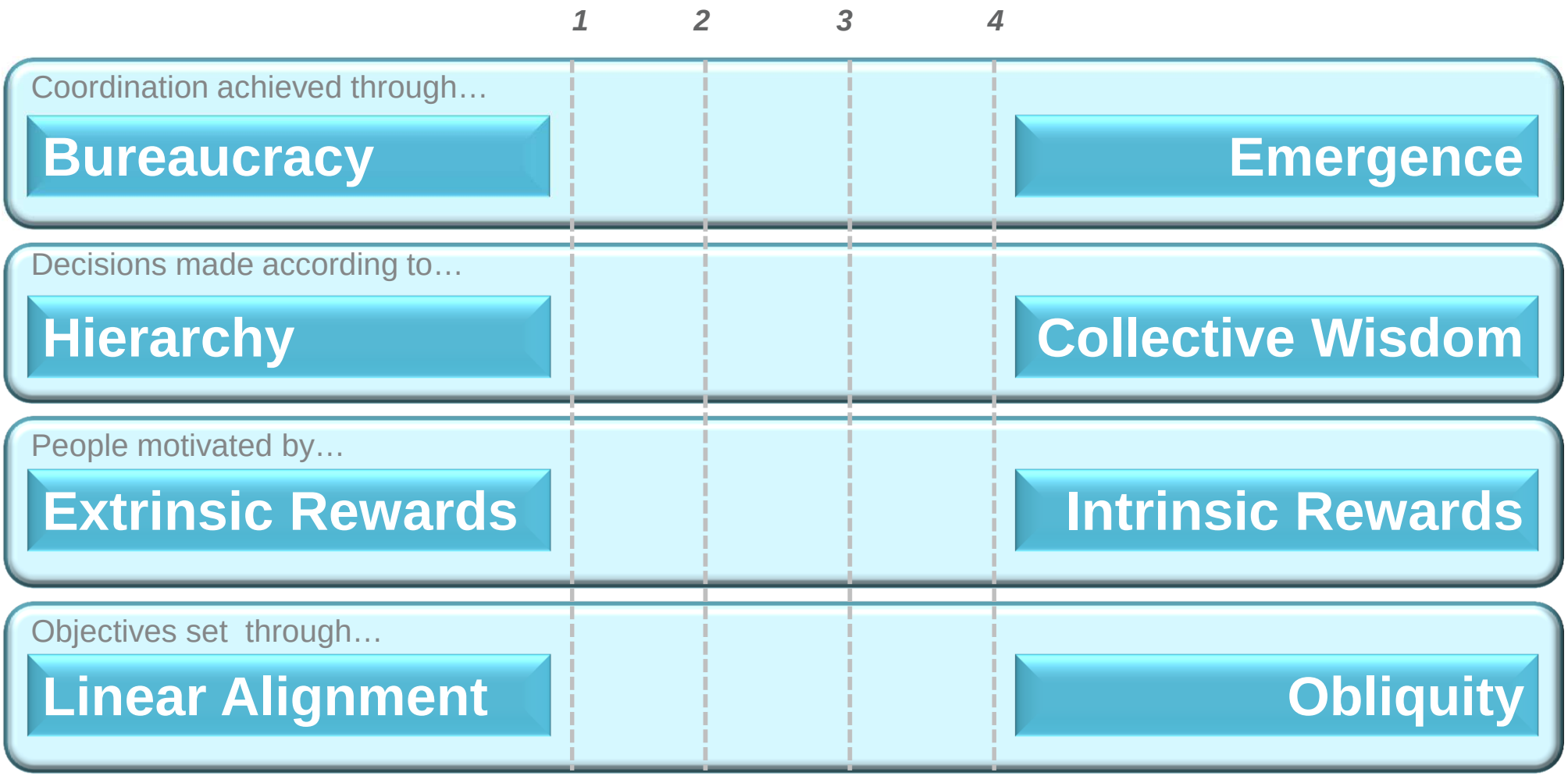
Where are you located on each dimension?



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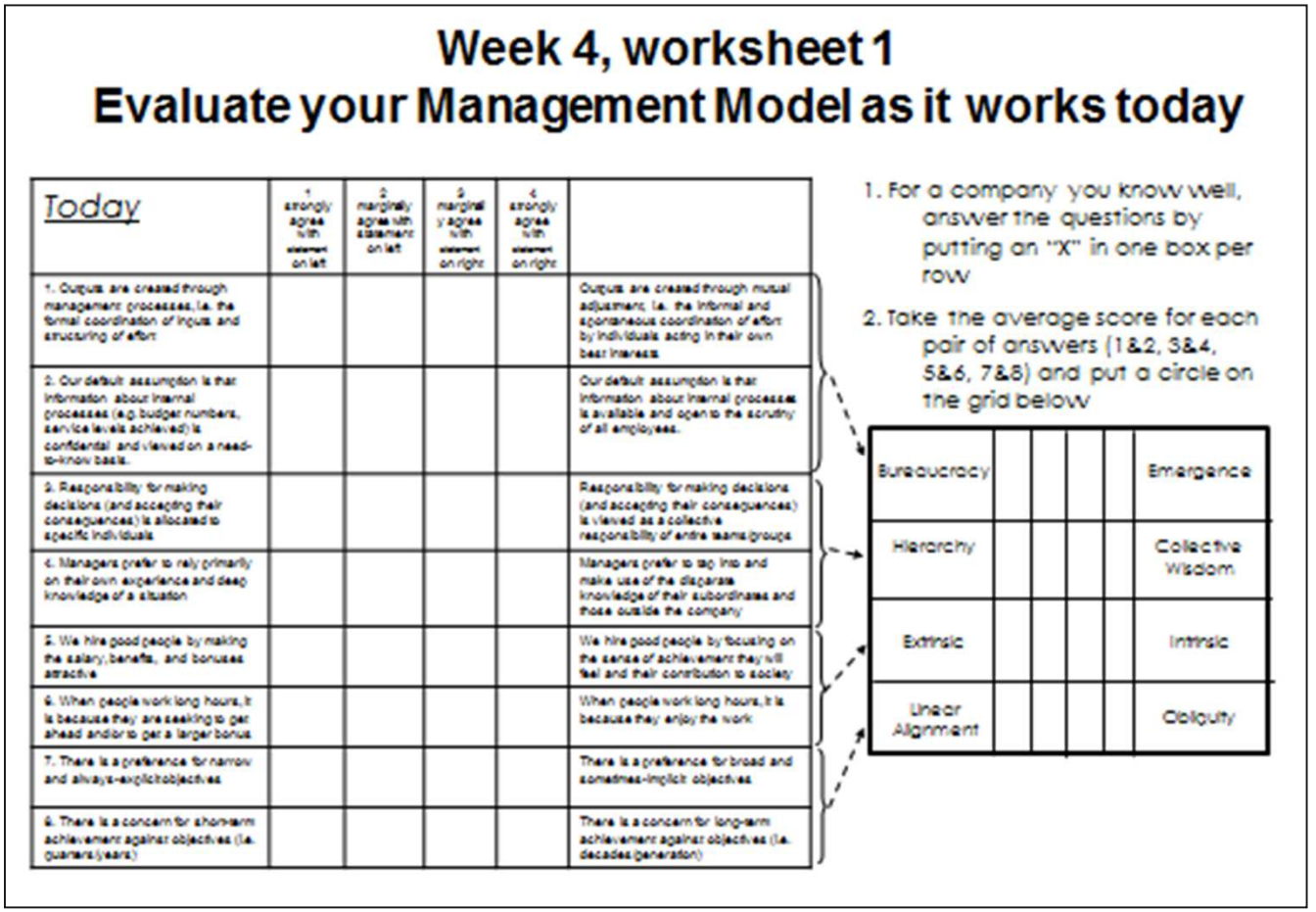
Evaluate your current management model

Consider the company you work for, or a company you know well, and evaluate its current management model. Download Worksheet 1 from the courseroom (see image below) and answer the eight questions.



Week 4, worksheet 1

Evaluate your Management Model as it works today

Today	1 strongly agree with statement on left	2 marginally agree with statement on left	3 marginally agree with statement on right	4 strongly agree with statement on right	
1. Outputs are created through management processes, i.e. the formal coordination of inputs and structuring of effort					Outputs are created through mutual adjustment, i.e. the informal and spontaneous coordination of effort by individuals acting in their own best interests
2. Our default assumption is that information about internal processes (e.g. budget numbers, service levels achieved) is confidential and viewed on a need-to-know basis.					Our default assumption is that information about internal processes is available and open to the scrutiny of all employees.
3. Responsibility for making decisions (and accepting their consequences) is allocated to specific individuals					Responsibility for making decisions (and accepting their consequences) is viewed as a collective responsibility of entire teams/groups
4. Managers prefer to rely primarily on their own experience and deep knowledge of a situation					Managers prefer to tap into and make use of the disparate knowledge of their subordinates and those outside the company
5. We hire good people by making the salary, benefits, and bonuses attractive					We hire good people by focusing on the sense of achievement they will feel and their contribution to society
6. When people work long hours, it is because they are seeking to get ahead and/or to get a larger bonus					When people work long hours, it is because they enjoy the work
7. There is a preference for narrow and always-explicit objectives					There is a preference for broad and sometimes-implicit objectives
8. There is a concern for short-term achievement against objectives (i.e. quarters/years)					There is a concern for long-term achievement against objectives (i.e. decades/generation)

1. For a company you know well, answer the questions by putting an "X" in one box per row
2. Take the average score for each pair of answers (1&2, 3&4, 5&6, 7&8) and put a circle on the grid below

Bureaucracy					Emergence
Hierarchy					Collective Wisdom
Extrinsic					Intrinsic
Linear Alignment					Obliquity

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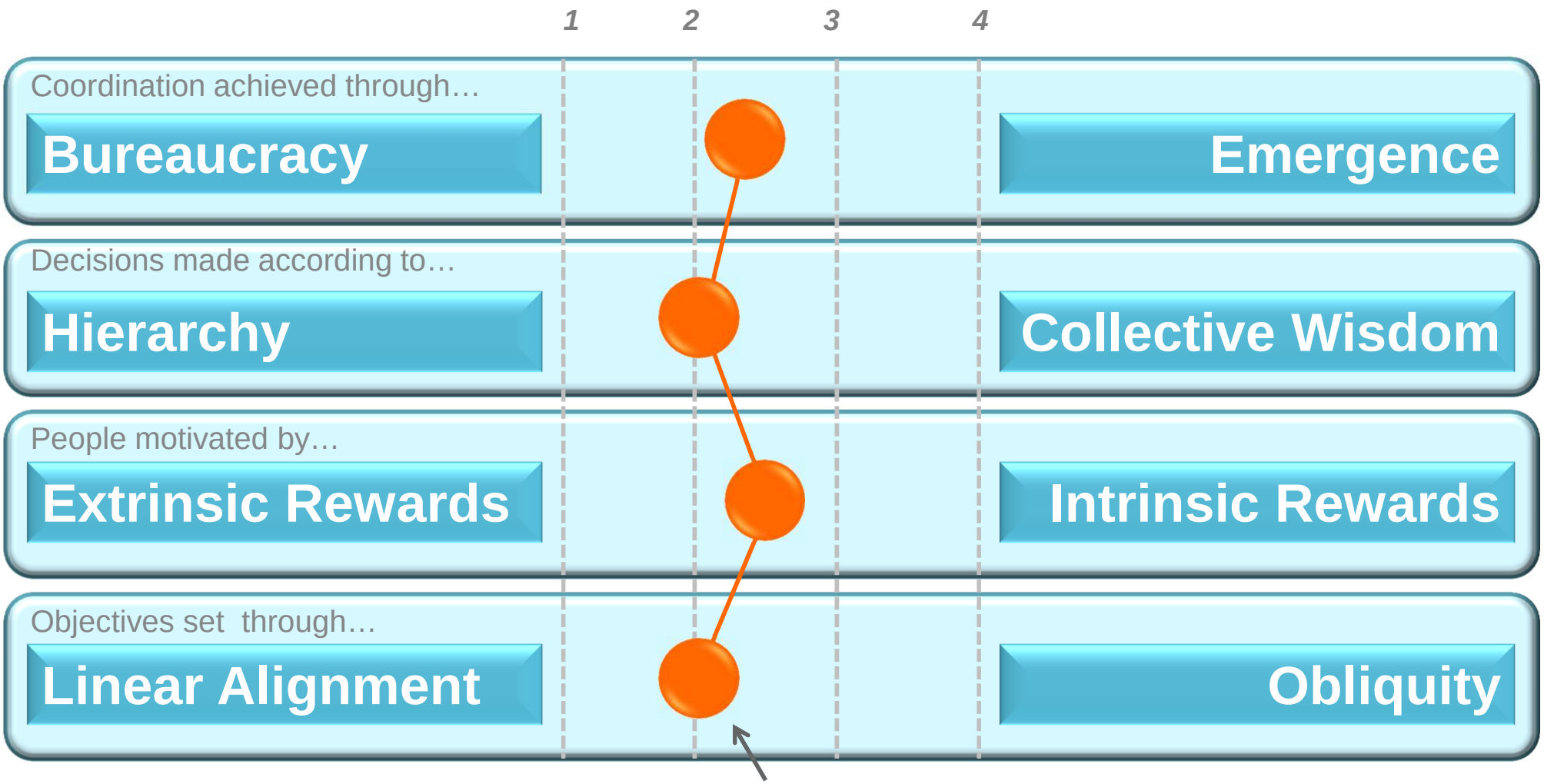
Where are you located on each dimension?



Average ratings for companies plotting their management model today

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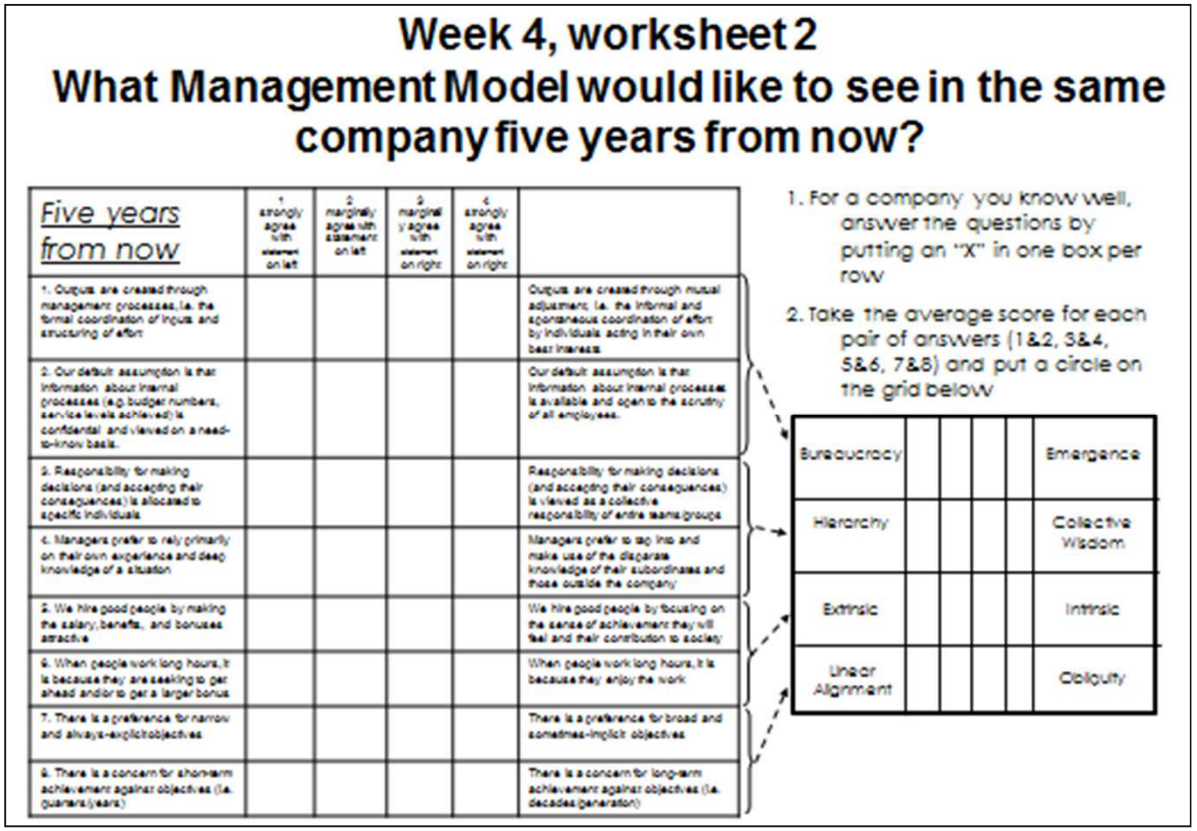
Define your 'wanted' management model

Consider the company you work for again, and this time answer the questions about how you would like it to managed five years from now. The questions are on Worksheet 2 in the courseroom, it looks like this:



Week 4, worksheet 2

What Management Model would like to see in the same company five years from now?

Five years from now	1 strongly agree with statement on left	2 marginally agree with statement on left	3 marginally agree with statement on right	4 strongly agree with statement on right	
1. Outputs are created through management processes, i.e. the formal coordination of inputs and structuring of effort					Outputs are created through mutual adjustment, i.e. the informal and spontaneous coordination of effort by individuals acting in their own best interests
2. Our default assumption is that information about internal processes (e.g. budget numbers, service levels achieved) is confidential and viewed on a need-to-know basis.					Our default assumption is that information about internal processes is available and open to the scrutiny of all employees.
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1. For a company you know well, answer the questions by putting an "X" in one box per row
2. Take the average score for each pair of answers (1&2, 3&4, 5&6, 7&8) and put a circle on the grid below

Bureaucracy					Emergence
Hierarchy					Collective Wisdom
Extrinsic					Intrinsic
Linear Alignment					Ambiguity

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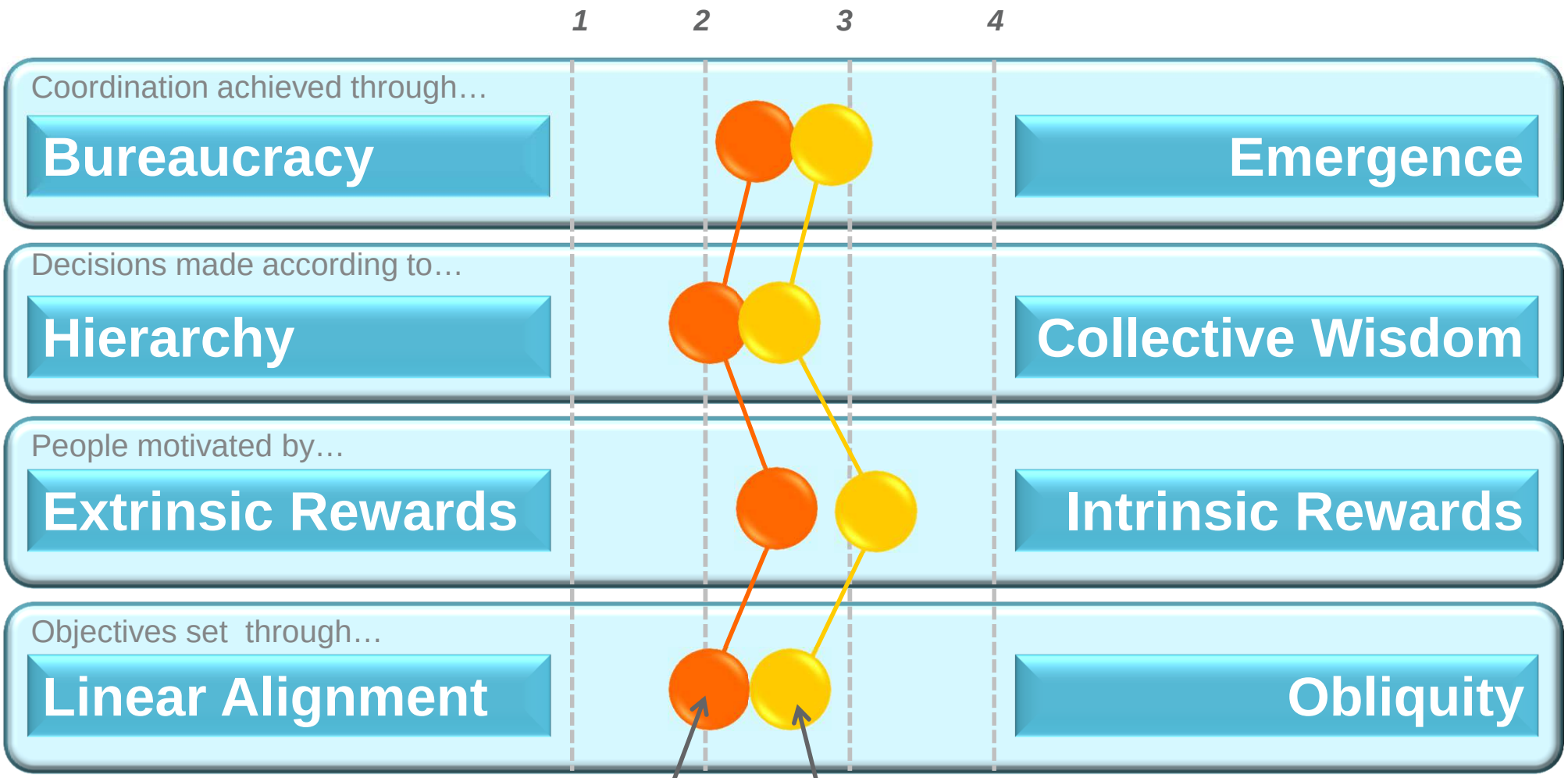
Where would you like to be in five years?



Average ratings for companies plotting their management model today

Average ratings for where respondents would like their management model to be five years from now

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Diagnosing your current and future models

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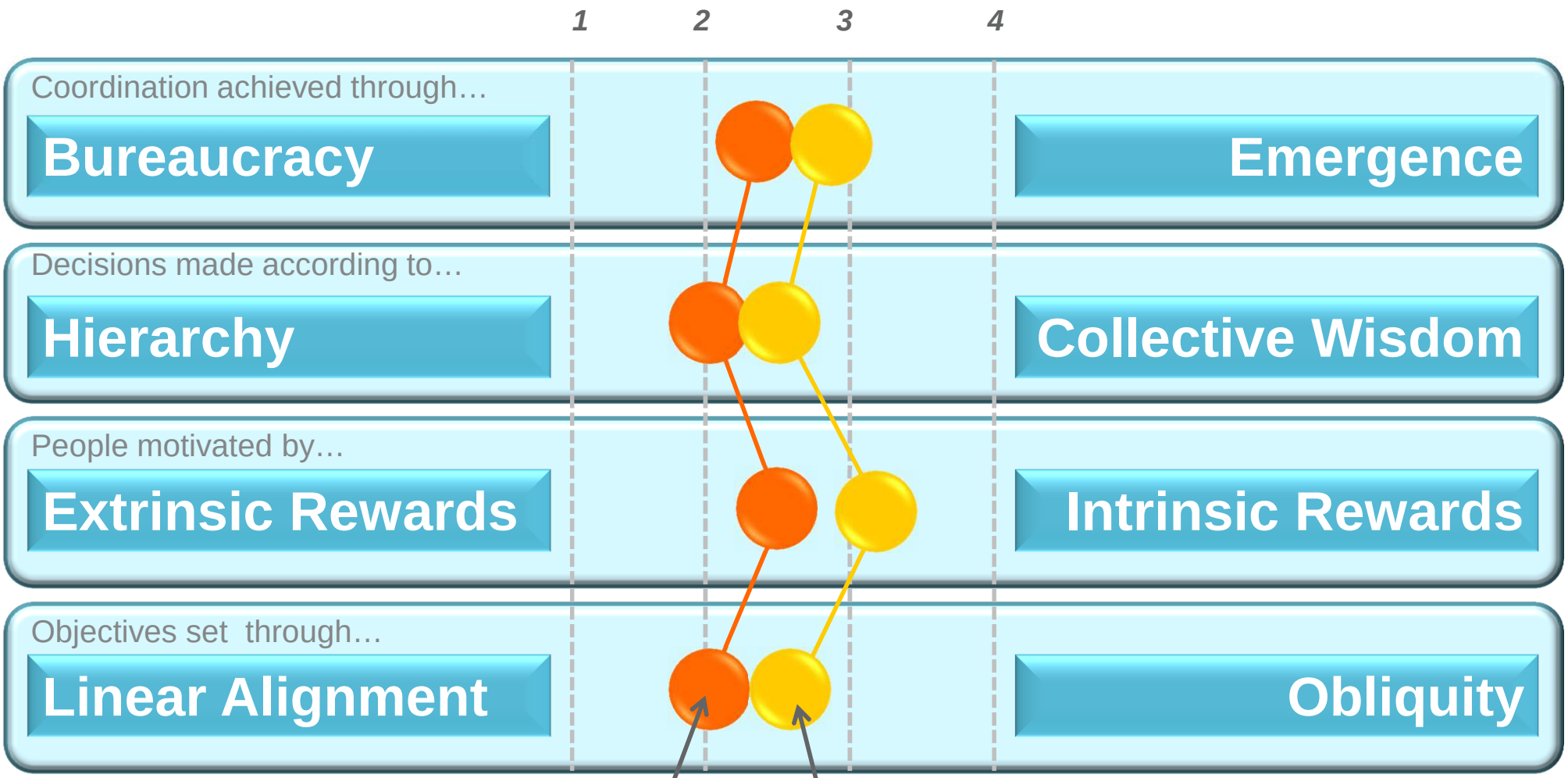
Where would you like to be in five years?



Average ratings for companies plotting their management model today

Average ratings for where respondents would like their management model to be five years from now

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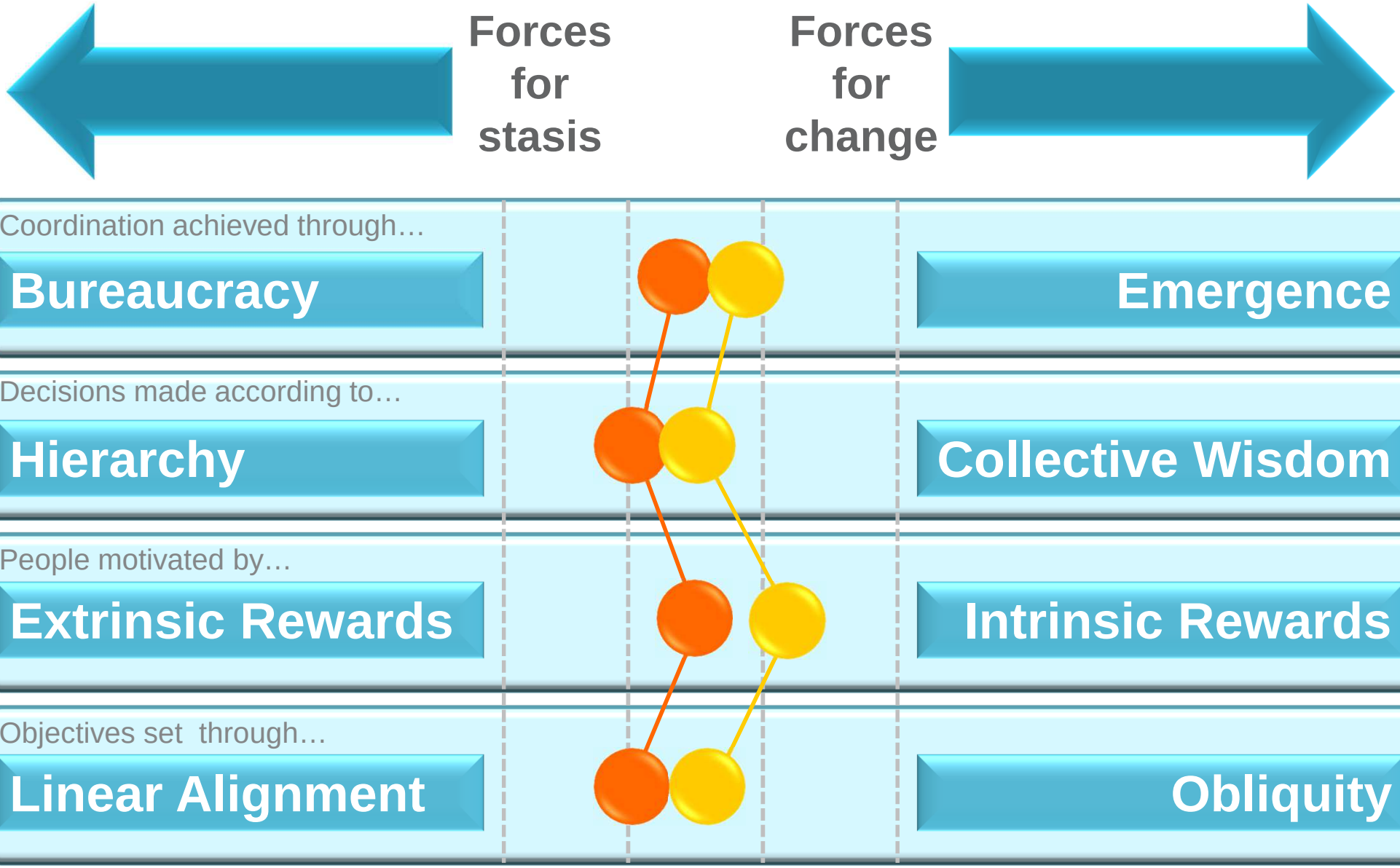
Forces pulling companies in both directions



Discussion question

1. What are the major forces pulling companies to the left side of the framework (towards the ‘traditional’ principles)?

2. What are the major forces pulling companies to the right side (towards the ‘alternative’ principles?)

3. Which forces do you believe are stronger?

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The future of management – 20 years ago

Flat

Decentralised

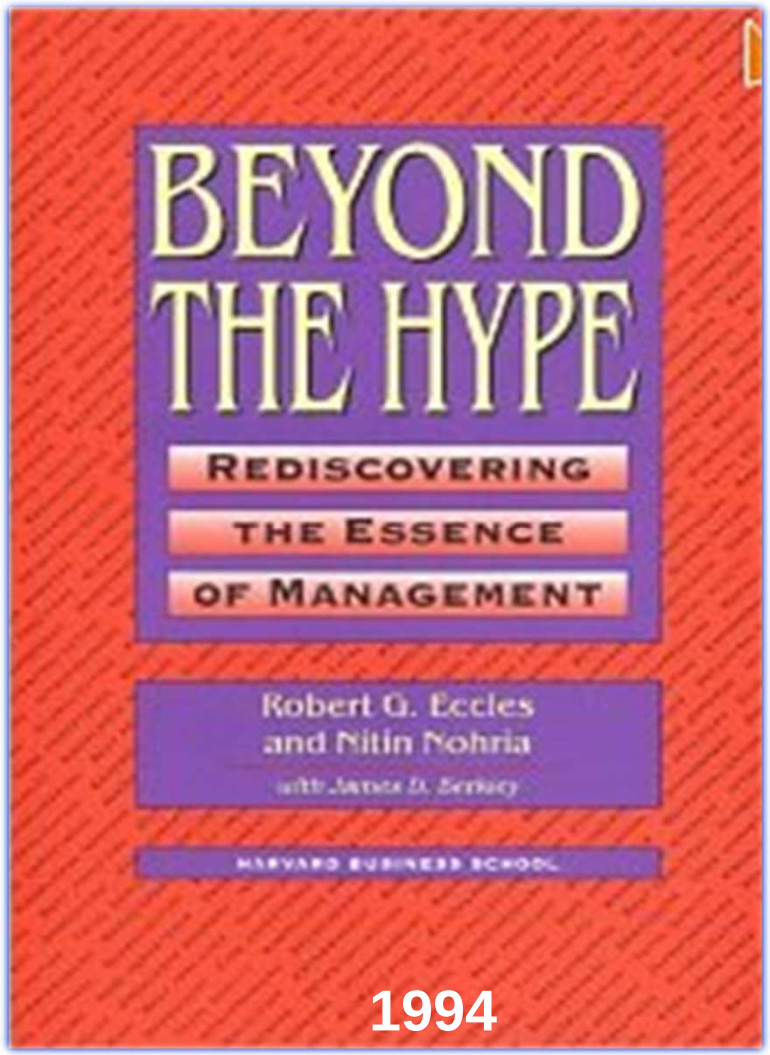
Empowered

Self-organised

Values-driven

Virtual

Engaged



In summary

- The framework is a good way to map your “current” model – but remember the ratings you give are subjective and depend on many factors
- The framework also allows you to map your “wanted” model –the gap between the two profiles tells you where the biggest opportunities for change are
- It is important to be realistic that there are forces “pulling” companies to the left, even though they typically want to move to the right

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How can you change your management model?

Part 1

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Three different approaches to developing an innovative management model

1. The start-up approach: Invent a distinctive model from the start, and sustain it
2. The top-down approach: Decisive change led by the CEO
3. The bottom-up approach: Experimental change from below

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1. The start-up approach: invent and sustain

Examples of the start-up approach

Photo: Joi Ito

Google

- Informal work environment, generous perks
- Innovation Time Off (20%) for developers
- Small project teams
- Rapid prototyping
- Weekly all-staff meetings: high transparency
- Founders (Larry Page and Sergey Brin) have voting control

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How can you change your management model?

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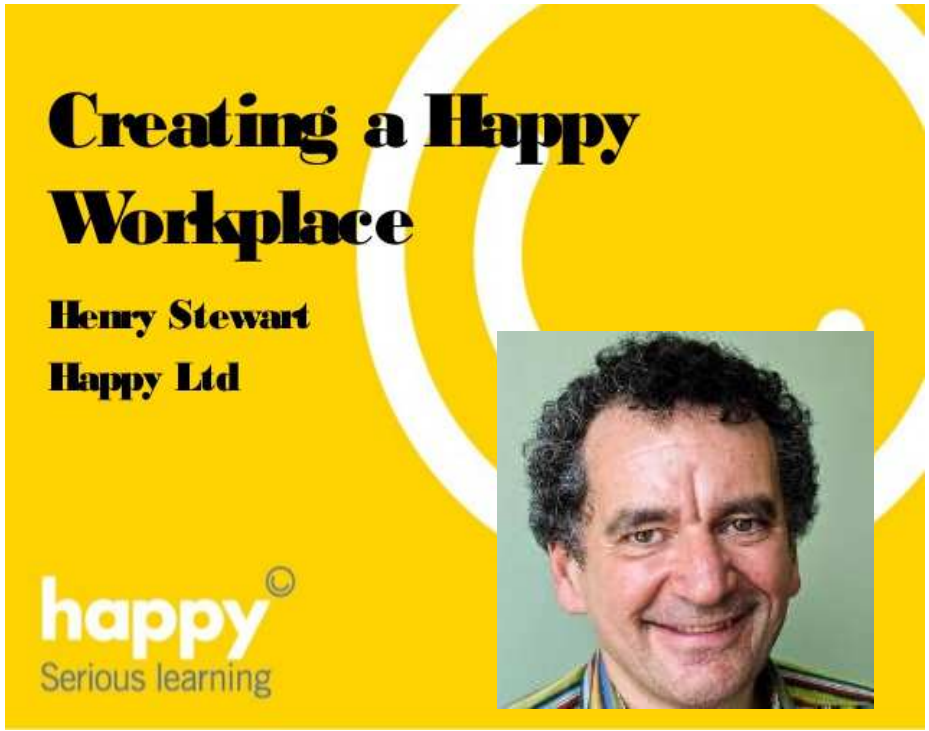
Examples of the start-up approach



Happy Ltd.

- IT Training company in London, 30 employees, winner in “best place to work” awards
- Founder Henry Stewart’s management principles:
  - People work best when they feel good about themselves
  - Hire for attitude, train for skill
  - Celebrate mistakes

Key elements

1. Starting with a clean sheet of paper allows founders to impose their values

2. Getting the “governance” right is important

3. Finding the right colleagues, and the right successors, is also critical

4. Sustaining a distinctive model is challenging
   - You can stay small and unique
   - Or you can adapt (slowly) as you grow

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How can you change your management model?

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2. The top-down approach: Decisive change

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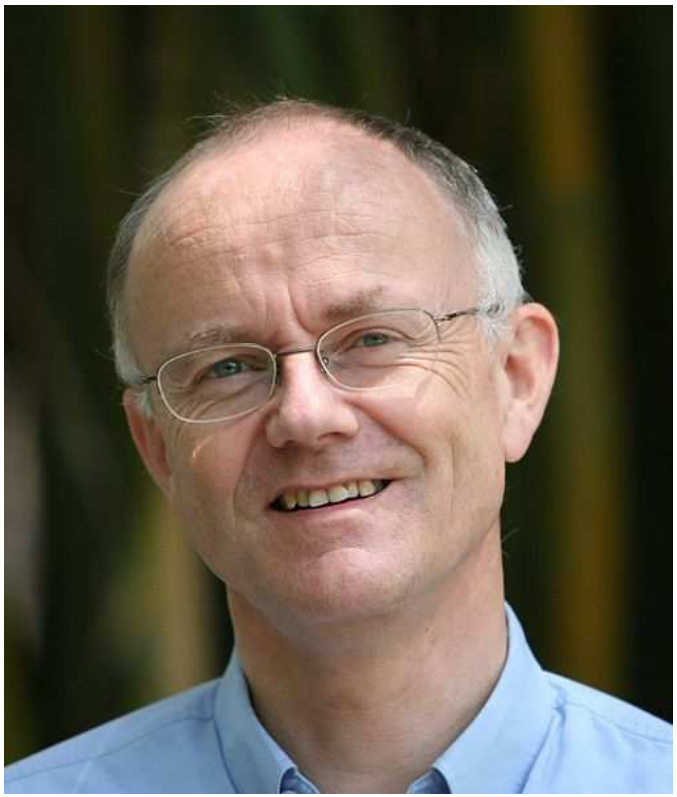
Examples of the top-down approach



Oticon – Lars Kolind
Emphasis on emergence

- Oticon's 1990 change programme: Kolind asked employees to "think the unthinkable"
- Spaghetti Organisation – project teams allocated resources on a bottom-up basis, people sign up for multiple projects
- Symbolic change to a 'paperless' office, traditional fixed desks taken away

Examples of the top-down approach

Photo: Proctor & Gamble

P&G – AG Lafley
Emphasis on collective wisdom

- Drive for innovation led to launch of *Connect + Develop*
- Target of 50% of innovations to come from external sources
- Innovation through:
  - Partnerships with top 15 suppliers
  - 70 technology entrepreneurs
  - Links to external platforms, Yourencore, Innocentive etc.

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How can you change your management model?

Part 4

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Examples of the top-down approach

Photo: World Economic Forum

Photo: DFID - UK Department for International Development

HCL - Vineet Nayar
Emphasis on motivation

Unilever - Paul Polman
Emphasis on obliquity

Key elements

1. CEO secure in role, with a mandate to make decisive change

2. A clear focus or guiding theme

3. Explicit activities or practices that give ‘teeth’ to the overarching theme

4. Follow through – a recognition that change in a large company typically takes 3-5 years

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How can you change your management model?

Part 5

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3. The bottom-up approach: experiment and build

Examples of the bottom-up approach

Photo: Microsoft

Ross Smith at Microsoft

- Ross Smith was a director of software testing at Microsoft, responsible for a team of 70
- He launched an initiative, *42Projects,* to develop creative ways of testing software and working in a more collaborative way
- When the division needed restructuring, he instituted a *We-Org,* with employees taking responsibility for the new structure

Examples of the bottom-up approach

Photo: www.managementexchange.com

- Jordan Cohen was director of organisational development at Pfizer
- He was frustrated by the amount of time people were wasting on low-value work
- He pushed an initiative, *PfizerWorks*, for outsourcing this work to a team in India

Jordan Cohen at Pfizer

Key elements

1. Align with an existing strategic priority
2. Put it in the language of business ($)
3. Experiment, learn, adapt
4. Build partners, build capabilities
5. Stay under the radar as long as possible
6. And don’t expect to be appreciated…

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A methodology for experimenting with new ways of working

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Experiment not pilot

Examples of experiments

1. Tapping into “collective wisdom” to solve scientific problems

2. Using transparency rather than top-down control to manage expense claims

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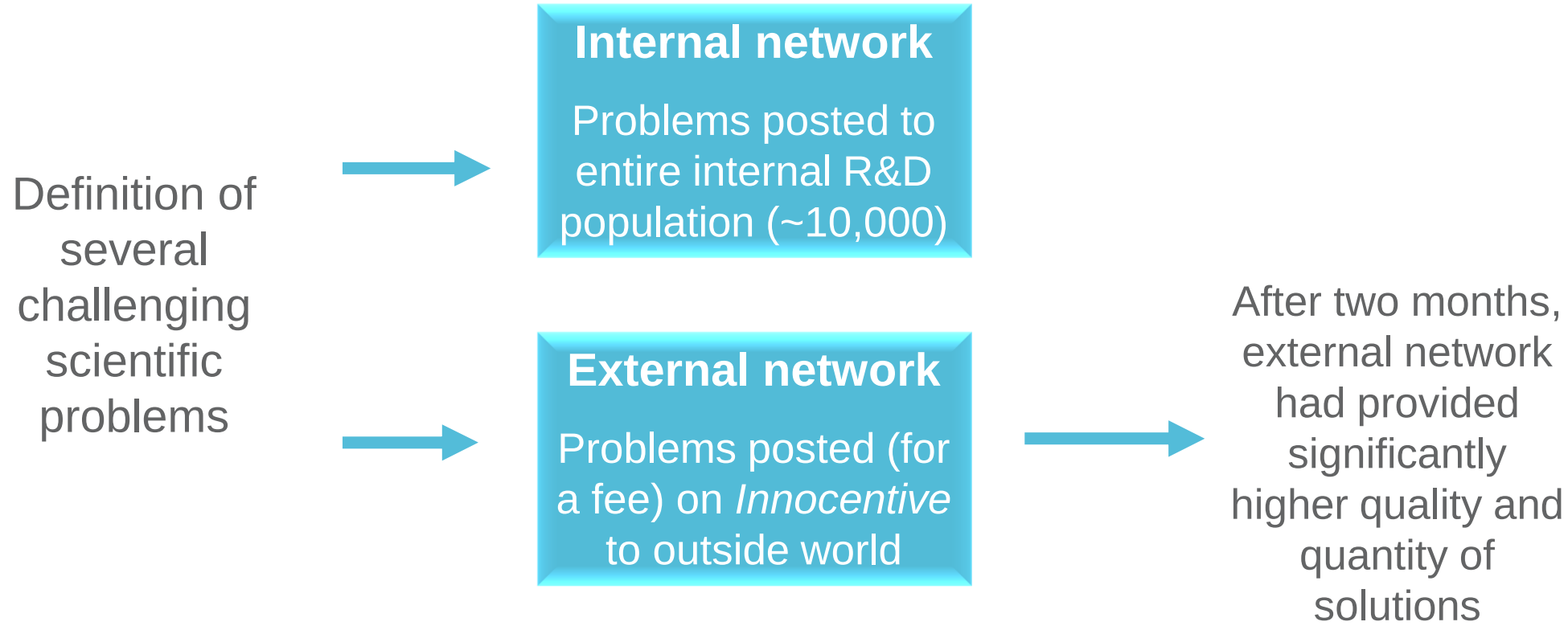
1. Problem solving using collective wisdom

Hypothesis: An internal network of R&D employees will solve scientific problems better than an external network



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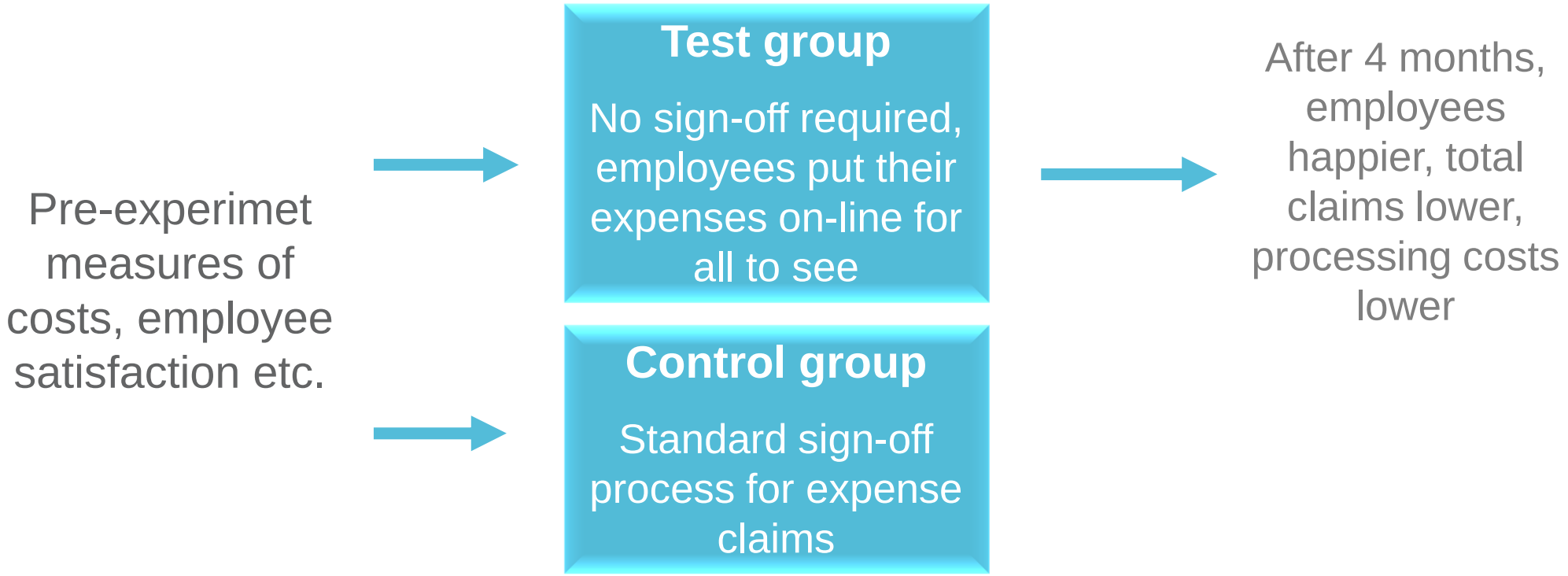
2. Peer reviewed expense claims

Hypothesis: Peer review is more effective than bureaucracy for managing expense claims



Key principles of management experimentation

1. Focus on causes, not symptoms
2. Make your hypotheses explicit
3. Limit the scope of your experiment
4. Run the new in parallel with the old
5. Start at home
6. Use volunteers, if possible
7. Iterate

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The rise and fall of "outlier" companies with unusual models

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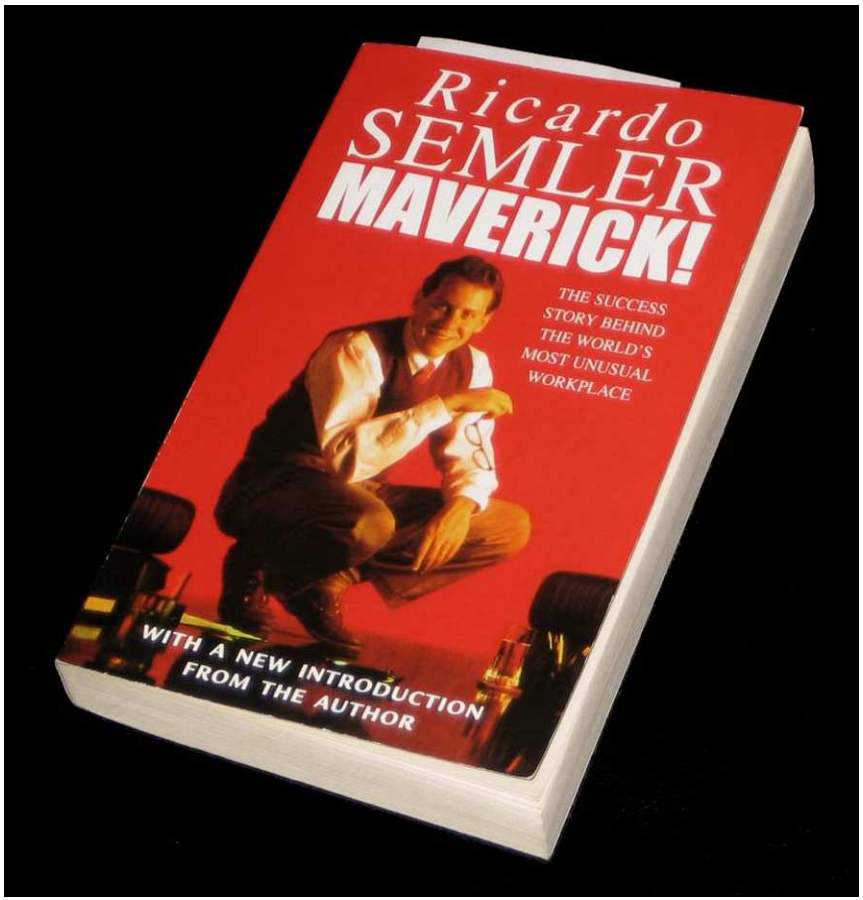
Every now and then, a company comes along with a highly unusual management model…

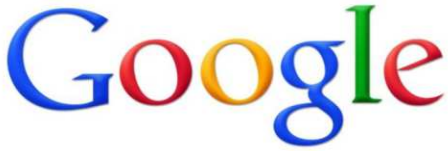


Ricardo Semler, CEO of Semco, a Brazilian industrial products company where:

- **Employees set their own work hours and pay levels**
- **Subordinates hire and review their supervisors**
- **There are no org charts, no five-year plans, no corporate values statement**
- **Employees elect corporate leaders**

What often happens to outlier companies?

1. They grow up



2. They revert

3. They get in trouble

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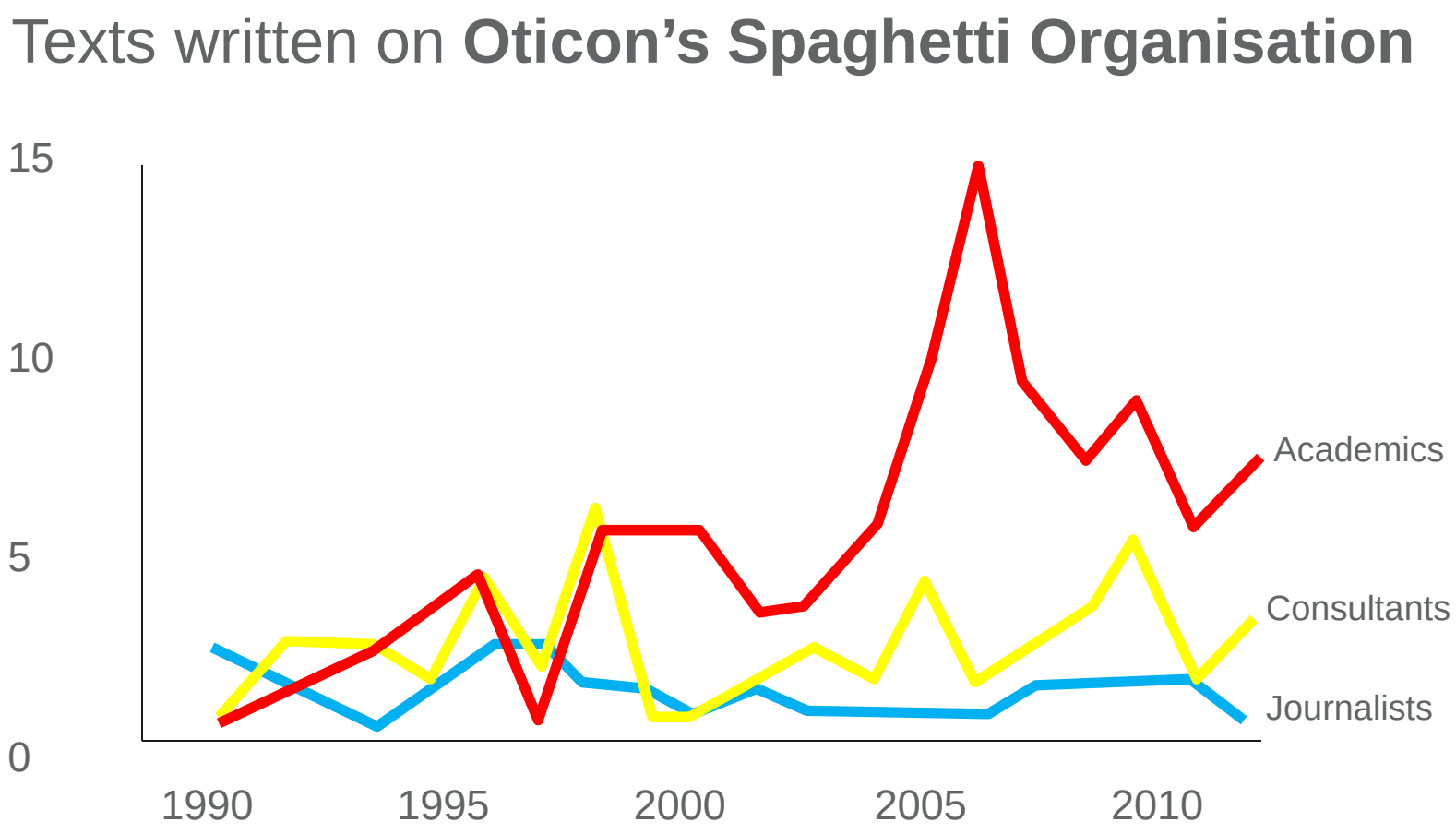
How does our perception of these companies change over time?



Data collected and analysed by Rahul Kumar

A very common pattern…

The outlier company doesn't perform well, or it drops the unusual practice

Interest in the company and its practice wanes, attention goes elsewhere

The Company is Discredited

The Innovative Practice is Tarnished

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Learning from outlier companies

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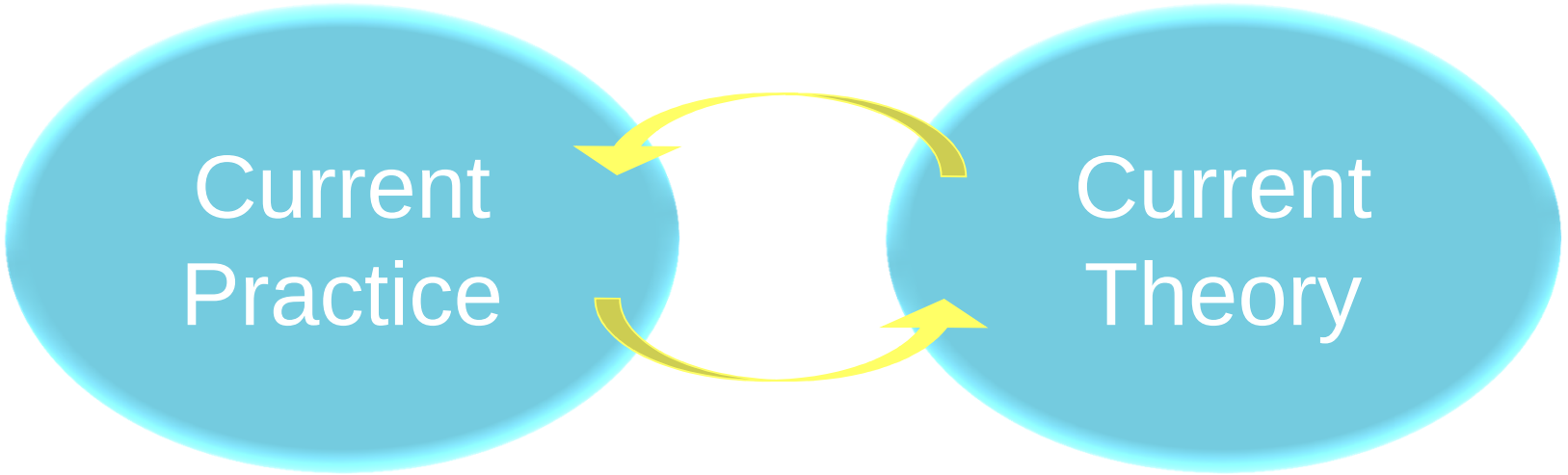
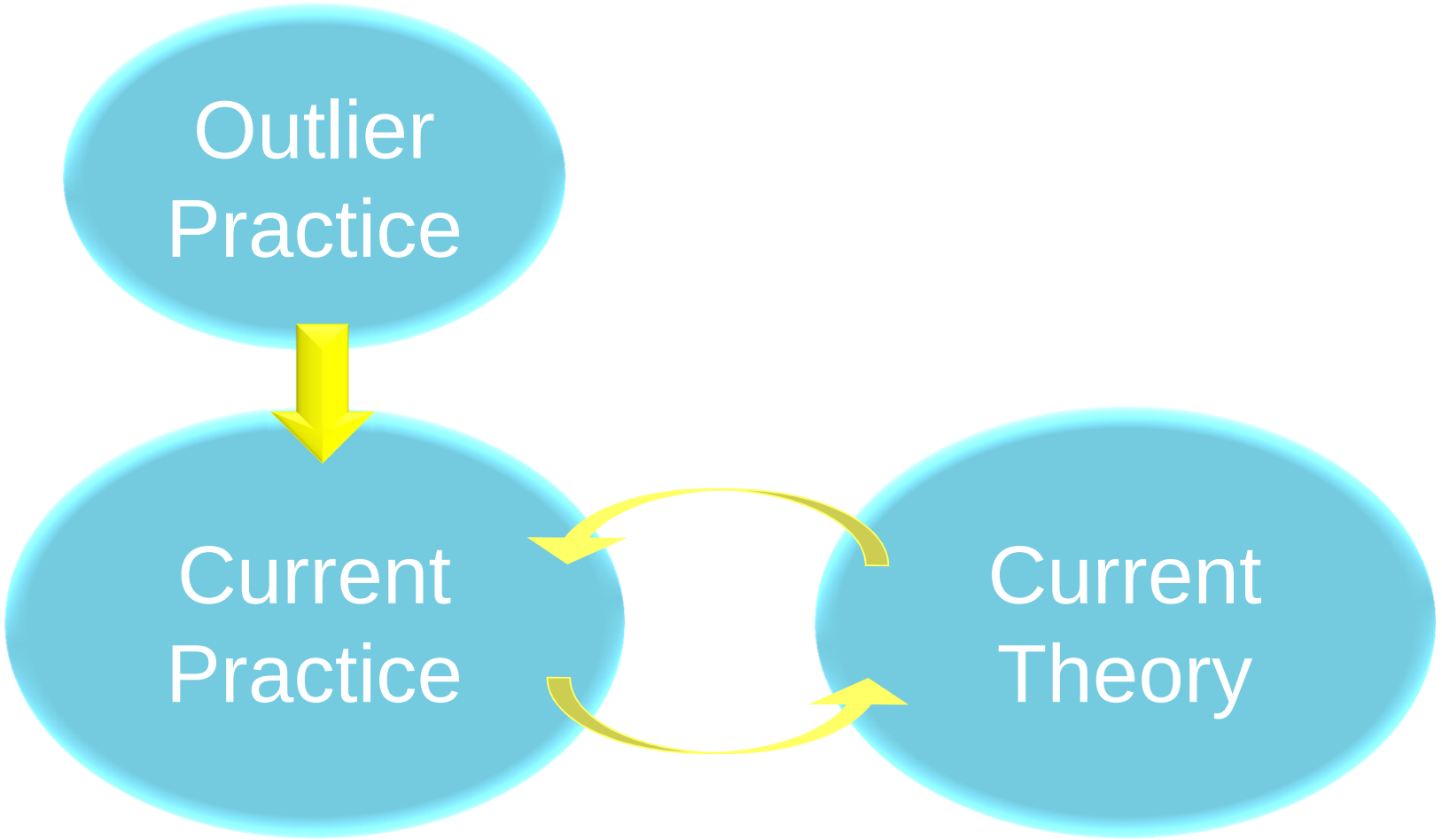
How to learn from outliers



How to learn from outliers? #1: Observe and Apply



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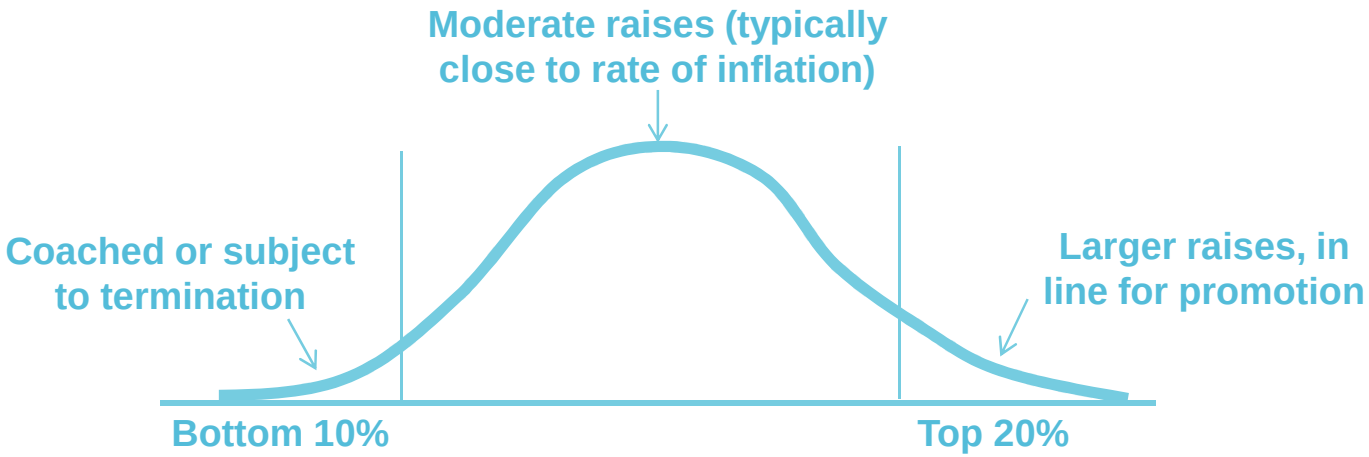
GE's Forced Ranking ("Rank & Yank")



All employees in a unit are force-ranked on a curve from worst to best performer

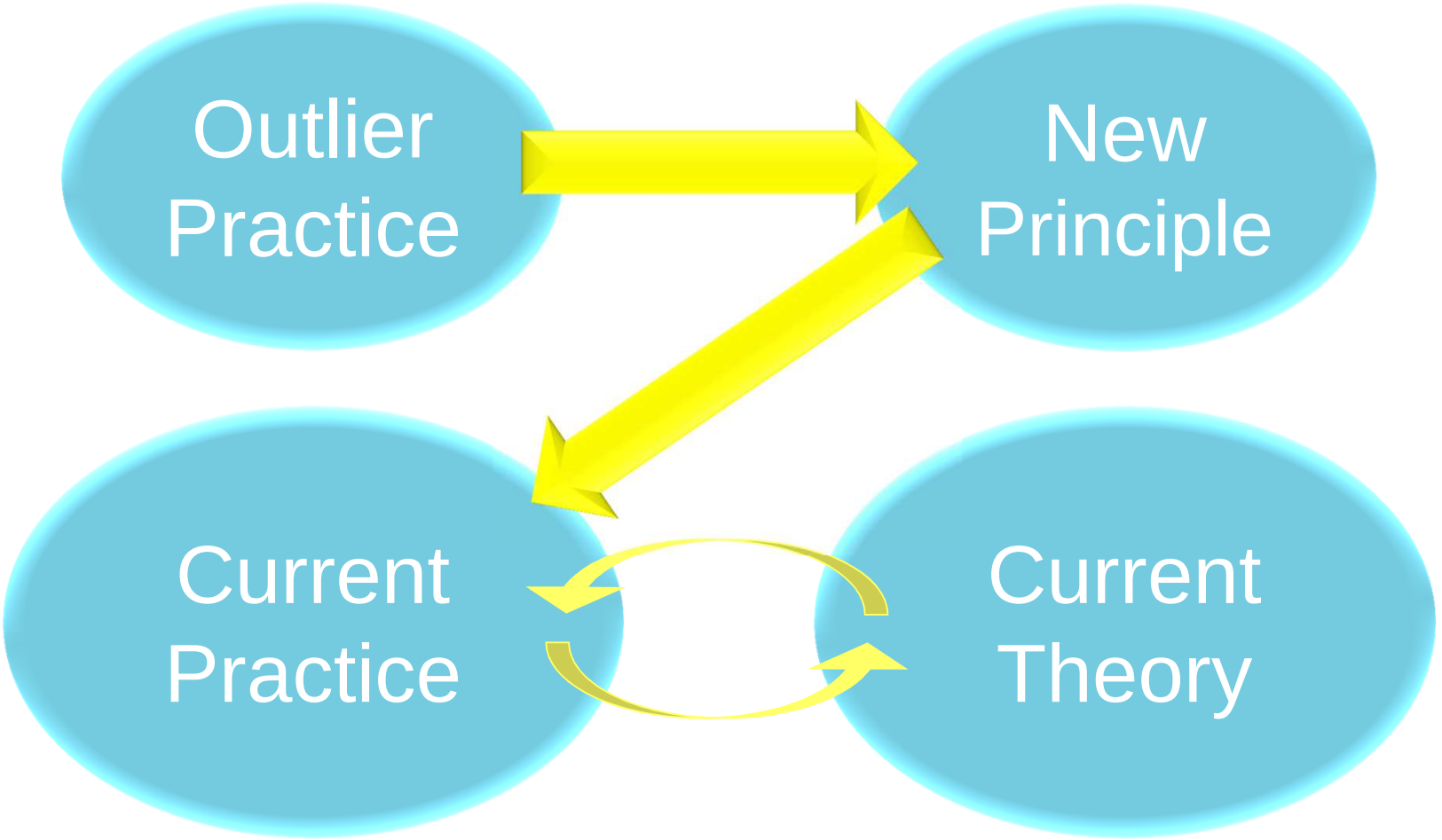
"Every current and former Microsoft employee I interviewed—every one—cited forced ranking as the most destructive process inside of Microsoft …It leads to employees focusing on competing with each other rather than competing with other companies."

Vanity Fair, July 2012.

Why companies often struggle with “observe and apply”

1. Complementarities between practices
2. Special circumstances
3. Not invented here

How to learn from outliers?
#2: Focus on Principle not Practice



Focus on principle not practice

Given all the challenges facing the pharmaceutical industry, how should a "big pharma" company develop drugs?

Genentech

AMGEN

Centres of Excellence for Drug Discovery at GSK

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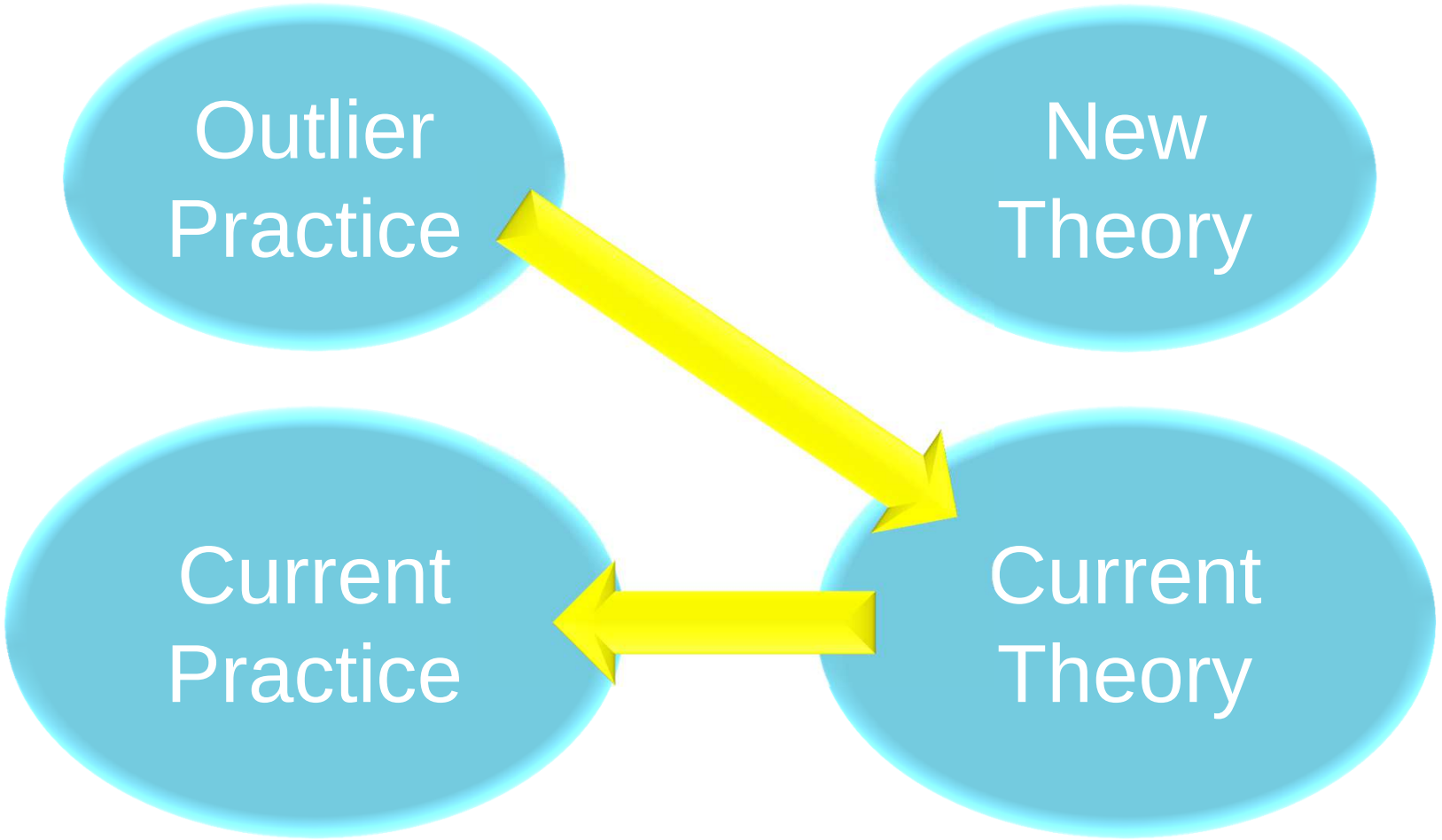
How to learn from outliers? #3: Improve understanding of current practice



Improve understanding of current practices

One company's experience of open innovation:

- They tried Innocentive as a platform for accessing external ideas
- Ideas for process innovations were successful, ideas for product innovations were not
- This insight helped them to reformulate their entire approach to external sourcing

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Summary: Beware the next big idea

1. **There is a lot we can learn from "outlier" companies that are managed in unusual ways**

2. **But they should be handled with care:**

   - Bide your time
   - Deconstruct the management model
   - Understand the hypotheses
   - Look for results
   - Experiment!