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RESEARCH NOTES AND COMMUNICATIONS

COMPETING IN THE NEW ECONOMY: MANAGING OUT OF BOUNDS*

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This commentary was distributed at the Mexico City meeting of the Strategic Management Society, and forms the basis for the Call for Papers made for the 1996 SMS meeting to be held in Phoenix, Arizona, USA, November 10–13, 1996 at The Pointe Hilton Resort. The Editors of the SMJ *thought it worth drawing to our readers' attention and offer it here as an interesting perspective on our field, the issues it now faces, and by implication, what research and practice must confront over the years ahead.*

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As we careen from the machine age into the information age, the more questionable become the traditional practices and precepts of management. A horse-drawn plow is useless on a factory floor. Management tools developed in the machine age may turn out to be as irrelevant in the information age as agrarian tools were in the machine age.

No one has yet reinvented the practice of management for the information age. There are, as yet, few answers. What we need are better questions. After all, for any company aspiring to leadership, it cannot be enough to repeat someone else's answers. Leadership is about addressing questions others have yet to contemplate. So what are the new questions?

With the machine age came a technocratic view of management. From Frederick Winslow Taylor's 'scientific management' to the disciplines of operations research to the current fad for business reengineering, managers have seen themselves as engineers more than artisans. Managers were analysts—left brain people. A manager's job was to reduce the imponderable to the calculable. ('Give a price inelasticity coefficient of 0.81, we believe this new pricing formula should take our market share to 27% over the next 36 months.')

In the machine age, a manager was a professional (the AMA refers not only to the members of the American Medical Association, but to the American Managment Association as well). Managers were credentialed (certified accountants, MBAs, or alumni of Harvard's Advanced Management Program). A manager was an analyst (break-even analysis, value chain analysis, segmentation analysis, cost structure analysis).

In the machine age, the act of management took place within the boundaries of industry convention, company tradition, vested authority, national con-

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text, functional specialization, the demonstrably feasible, and the here and now. Management was by the rules, by the numbers and by the book. That was then, this is now. The boundaries are gone. The game has changed. The rule book is out-of-date.

Consider:

THE SHIFTING BOUNDARIES OF AUTHORITY

Traditionally, authority was vested top-down, from shareholders to corporate officers, from officers to managers and then to staff. Levels of authority were delineated in terms of discretionary spending limits and the scope for autonomous action. Practical power derived from the control over resources, the proprietary information one possessed, and the sanctions one could impose.

That was then, this is now.

In the knowledge economy, the only employees that are worth having are those with many other choices of employment. They bore easily if not challenged. They look for work that is consonant with their own interest. The most capable knowledge workers are less inclined to think of themselves as loyal soldiers and more inclined to view themselves as sought-after faculty members. It's not HQ anymore, it is the corporate 'campus.' So, a few questions: *How effective are sanctions in a world of 'independent labor contractors?' How does one exercise authority in the absence of dependency?* For the brightest and the best 'take this job and shove it,' is not a country & western song; rather, it is an option.

Occasionally authority can command compliance, but it can never command commitment. Beavis and Butt-head aren't the only ones who have a problem with authority—try winning the fealty of a whip-smart 32-year-old bond-trader or brand manager on the basis of raw, positional power. It cannot be done. The generation entering the workforce at the end of the 21st century is as unconvinced by authority as any generation in history. *In the absence of positional authority, how does one build legitimacy around decisions? How does one actually 'get things done?'*

Personal computers, networks and corporate-wide E-mail systems are creating, in many companies, something close to an information democracy. The information boundaries that delineate corporate authority are more permeable than ever. *If every decision can be previewed, if relevant facts are broadly accessible, can't every occasion be challenged? What is the meaning of authority if authority can never be idiosyncratic, can never be capricious?* 'Just do it' may be a great advertising slogan, but it does not carry much weight when employees are in possession of all the facts, are capable of making their own judgment, and more than willing to challenge the judgment of those they work for.

THE BLURRING BOUNDARIES OF CONTROL

In the machine age, control was everything. Managers were allergic to surprises. The results of that obsession were painfully detailed reporting systems, endless review meetings, brusque phone calls when budget variances were spotted, a temptation to second-guess operating managers, and a seemingly unquenchable thirst on the part of HQ for more data.

There was an equally strong tendency for managers to try and bring all the resources important to success within their direct control. Business unit boundaries were defined to minimize resource interdependencies across the portfolio. Companies integrated backwards to gain control of critical inputs. Joint ventures were OK so long as you ended up with 51% of the equity. If you ran a big national subsidiary in a multi-national company, you worked damn hard to get critical development resources located in your country.

That was then, this is now.

Control is often illusory. To measure is not to control, as every weatherman knows. In our fast forward world, product life cycles can be shorter than accounting cycles. Accounting data is great for autopsies but lousy for direction. And it's not just a question of timeliness, it's also a question of appropriateness. Do control systems actually measure the right things: competitors' intentions? emerging market needs? subtle regulatory shifts? Typically, no. *Where are the dials, and what are the controls that give management the ability to anticipate and proactively respond to incipient opportunities?* What is needed is over-the-horizon radar. And where anticipation is impossible, flexibility must be built in. *Shouldn't managers work as hard to make things flexible as they do to make things controllable?*

Speed and unpredictability are not the only enemies of control. In the emerging world of networked, global organizations, it is inevitable that more and more of the resources critical to the success of the firm will lie outside the direct control of the firm's managers. The hierarchy is giving way to the network. De-integration brings greater dependence on suppliers. The scale of R&D investment demands risk sharing with alliance partners. New opportunities transcend business unit boundaries. Geographic specialization leaves national subsidiaries dependent on far distant affiliates for critical resources. As the boundaries of the firm become more imprecise, so do the boundaries of mangerial control. *How can managers 'control' resources when those resouces lie outside their firm or business unit? How can a manager be asked to take responsibility for that which he or she doesn't control? Is it managers that are needed or influencers?*

THE SHIFTING BOUNDARIES OF LOYALTY AND AFFILIATION

It was once the case that unless you were caught with your hand in the till, or publicly slandered your boss, you could count on a job for life in many large companies. Loyalty was valued more than capability, and there was always a musty corner where mediocrity could hide. Entitlement produced a reasonably malleable work force and dependency enforced a begrudging kind of loyalty.

That was then, this is now.

Managers have gleefully abrogated the social contract between the firm and its employees. The entitlement culture is dead. A job for life? You must be kidding! Employees are asked to be flexible, to retrain, to bring their brains to work, to take responsibility for their own development, to enlarge their jobs. In one sense, large companies are asking employees to take on the same responsibilities and risks, they would take on in a start-up, but are denied the corresponding entrepreneurial freedom. No wonder so many bright young things are turning their noses up at big company jobs. In all the talk about the new responsibilities of employees, there is little talk about the new responsibilities of managers. Talk all you like about building a high commitment organization, but isn't commitment reciprocal? No wonder loyalty ain't what it used to be!

Many managers will avow that 'people are our most important resource,' but how many employees actually *feel* this to be true? The fact is that most employees feel like they are the company's most expendable resource, substituting the word 'associate' for employee, or redrawing the organizational pyramid with top management at the bottom is a vapid exercise if employees still feel they are treated as simply one more item of variable cost.

Employees today are urged to love customers, to have a passion for quality, to work ceaselessly for the benefit of shareholders—laudable goals. But it is unlikely their commitment to these goals will exceed the commitment shown to them by the company and its executives. Hence the real costs of diminished commitment are likely to be seen not just in plummeting employee satisfaction measures, but in anemic customer satisfaction measures as well. *In a world of downsizing, rightsizing and reengineering, what should be the nature of management's commitment to employees? If a job for life breeds lethargy, what kind of commitment will breed excitement? Managers know how to reengineer, do they know how to re-energize?*

Extraordinary effort springs from a deep sense of affiliation with an organization and its goals, whether the organization is Greenpeace, Save the Children or an evangelical church. Yet much of what managers have been doing over the last several years has been weakening, rather than strengthening the bonds of affiliation between employee and employer. Of course companies should be intolerant of mediocrity; of course there should be no room for slackers. *But is it possible to build a sense of affiliation and belonging in an organization that relentlessly prunes away the under-performers? If so, how?*

THE CRUMBLING BOUNDARIES OF EXPERIENCE

Experience brings authority. A young mountain climber has much to learn from a veteran who has led an expedition up and down Everest. The assumption has been that the same is true in companies. Hierarchical superiority rests on the supposition that people at the top 'know more' than people at lower levels, that two or three decades of industry experience make a person wise.

Of course, experience is of value only to the extent that the future is, more or less, like the past.

Historically, industry boundaries were relatively stable, as were the rules of competition within any particular industry. Soft drinks were soft drinks, not fancy foreign waters and exotic flavored teas. Individuals were savers, not investors and certainly not international investors. Telecommunications meant universal service brought to you by a monopolist, not value-added services delivered by an upstart. The regulatory environment could be taken as a given. Oligopolists had little to fear from interlopers. Barriers to entry seemed absoute. In the machine age precedents were guideposts, not millstones. There was little to devalue a manager's experience base from year to year, or even from decade to decade.

That was then, this is now.

In industry after industry the terrain is changing so fast as to make experince irrelevant, or dangerous. Do the recipes that guaranteed success a decade ago in retailing, banking, telecommunications, or airlines still bring success today? The people at the top may know more, but what do they know more about? Too often, it's the past.

It is ironic that it is often those managers who have the greatest emotional equity in the past—those with the greatest seniority—that possess the most formal authority. On the other hand, those that live closest to the future—the young people—are expected to acquiesce to the accumulated wisdom of older and wiser heads. Companies seldom miss the future because the future is unknowable, they miss the future because experience blinds them to new opportunities. Those that are most blind typically have most power. *Shouldn't authority be as much function of foresight as of hindsight? In a world of discontinuous change, shouldn't authority rest not only on experience, but also on the capacity to learn and adapt?*

Industry boundaries are in a state of flux. The utilities industry is undergoing the same cataclysmic changes that rent the telecommunications industry into myriad pieces. The boundary line between computers and consumer electronics is fast-disappearing as computers become lifestyle appliances. Cosmetics and pharmaceuticals are being wed into 'cosmecueticals' Retailing, banking, and publishing are all going on-line. It is what the head of one (in)famous software company termed the convergence of everything.

One can get a mortgage from GE Capital, a check book from Merrill Lynch, a credit card from General Motors and a retirement account at Fidelity Investments. Just where does the financial services industry, along with many others, begin and end? Today, telephone network operators must understand the world of video games. A computer company must enter the world of strategy consulting. A Japanese gadget maker must come to terms with Hollywood. *In such an environnent, what is the value of experince gained solely within one industry context?* As industry boundaries meld, industry specialization may be a handicap. *Might the capacity to think across industry boundaries—to spot opportunities at the juncture of two or more industries; to draw relevant analogies from seemingly unrelated industries—be as valuable as deep experience on a single sector? If so, how does one breed managers with the capacity to escape the conventions of the past and build entirely new industries?*

THE IRRELEVANCE OF NATIONAL BOUNDARIES

Multinational companies were traditionally built around countries—the German subsidiary, the Italian operation, the outpost in Australia. The basic organizational unit was the national subsidiary. Typically the home market was assumed to be the 'lead market'—the source of innovation and executive leadership. This was true for Japanese consumer electronics companies, for American computer companies for European chemical companies, and so on.

Not surprisingly, most managers operated in a largely national context. An American manager on a two-year assignment in Paris was still an American manager. And his company, wherever it operated in the world, was still an American company. A Japanese manager starting up a factory in Thailand was still unmistakably Japanese in outlook and demeanor. And while a 'European manager' might feel equally at home in London, Amsterdam, and Frankfurt, he or she would have been hard-pressed to understand the business culture in Silicon Valley or Osaka.

That was then, this is now.

To a geriatric multinational suffering from a 50-year legacy of strong and fiercely independent national subsidiaries, 'global' means 'transitional;' it means trying to catch up with the forces of economic and market integration. To a young start-up, 'global' means 'supranational;' it means being a driver of economic and market integration, not a bystander. Nike, Sega, Acer, MTV and many others are defining, for the first time, what 'global' really means: they are welding together a generation of global customers; they are linking capabilities across the globe to produce unique products and services. For these and other supranationals there is no single 'lead' market. The most sophisticated customers may be in one country, the fastest growing market in yet another, key development resources in another, preferred suppliers in another, and critical alliance partners in yet another.

Whatever the rhetoric, there are few managers, and even fewer companies, that approach opportunities with anything close to a global point of view. It is not enough to put a global 'patina' on a manager who spent the first 20 years of his or her career in a single country or looked upon an overseas assignment as a mildly interesting, but lateral career move. It is not enough to create global business teams where members come as representatives of their particular geography. It is not enough to develop cultural chameleons who adapt easily to national traditions. The goal must be to create managers with the capacity to transcend culture, to find the universals and build multi-billion dollar businesses around them.

The task for tomorrow's supranational is not simply to share learning within an extant network of national subsidiaries, but to access and integrate a set of differentiated national skill sets. The challenge is to access Asia's mass manufacturing capabilities, borrow technology and software skills from U.S. partners, tap into underutilized talent pools in India and other developing countries, and leverage Europe's aesthetics and world class design capabilities. The most successful managers in the 21st century may well be those that carry the least national baggage. More questions: How does one create a globalist? What will the new supranational organizations look like? How does one discover transcendent general solutions when presented with competing national solutions?

THE CHANGING BOUNDARIES BETWEEN THE PHYSICAL AND THE INTELLECTUAL

The machine age was a physical world. It consisted of things. Companies made and distributed things (physical products). Management allocated things (capital budgets); management measured things (the balance sheet); management invested in things (plant and equipment). Accounting, the language of bookkeeping is a language of things. In the machine age, people were ancillary, things were central.

That was then, this is now.

In the information age, things are ancillary, knowledge is central. For more and more companies, the ratio of market value to book value is a multiple of 3, 5, 10 or more. A company's value derives not from things, but from knowledge, know-how, intellectual assets, competencies —all of it embodied in people. And none of it is on the balance sheet.

Let the economists and public policy makers debate whether it is somehow more honest and rewarding, to make and sell things than to make and sell knowledge. The debate is irrelevant. The transition from a world of atoms to a world of ideas, captured and distributed in bits and bytes is unstoppable. Madonna may be the material girl, but it is her immaterial assets—copyrights, royalty agreements, digitized images and sounds—that allow her to satisfy her material appetities. Another not unimportant point is that while making too many things will destroy the planet; making too much knowledge won't.

So, a few questions: *Companies have spent years perfecting capital allocation; but what about competence allocation? How can a company be certain that its best talent is lined up behind its biggest opportunities and not stuck in some moribund division? Intellectual assets don't appear on the balance sheets, there is no funds flow statement for knowledge, but shouldn't management, and shareholders, know whether intellectual capital is being created or destroyed? One can secure things (a padlock on a warehouse), but how do you protect knowledge assets? How do you do an inventory of knowledge?*

THE CHANGING BOUNDARIES BETWEEN THE PRESENT AND THE FUTURE

Few managers are visionaries. Look up the synonyms for management and you will discover administration, supervision and governance. Managers live in the here and now. The long-term is someone else's problem (an understandable view when one's expected tenure is two to three years and then on to the next job). Making the numbers is more important than making a vision. Doing counts for more than thinking. Managers are, above all, operators.

And why should one bother looking further out? No one can predict the future, can they? After all, the challenge is a bit more difficult than asking what will happen if the price of oil hits $12 a barrel. In a world of discontinuous change and relentless pressure for enhanced efficiency, one can hardly be asked to spend time star gazing. It is not surprising that over the past decade many companies blew up their strategic planning departments; nor that strategy consulting companies refocused their efforts on operational improvement.

That was then, this is now.

Why was it CNN and not the BBC that envisioned a world of global television news? Why was it IBM and Compaq that understood the significance of the personal computer and not DEC or Unisys? Why was it Viacom that created MTV and not CBS or Bertlesmann? The problem is not one of prediction, it is one of imagination. There is not one future, there are as many potential futures as companies. But any company that can't imagine the future is unlikely to be around to enjoy it. Living in the here-and-now, caught inside industry conventions, and concerned only about next quarter, many managers fail miserably at the task of imagining the future.

Many are unwilling to invest the enormous energy required to delve deeply into the emerging trends in technology, lifestyle, regulation, demographics and globalization that point to new opportunities. But unless one has built a unique and compelling view of the future, one will be caught within the orthodoxies of the past. If the goal is to shape the future, rather than be its victims one must live in the future. It must be as real and tangible as the present.

The present and the future do not abut each other. They are not neatly divided between the five-year plan and the great unknown beyond. The present and the future are intertwined. Every company is in the process of becoming—of becoming something anachronistic and irrelevant to the future, or of becoming the harbinger of the future. The long-term is not something that happens someday, it is what every company is building, or forfeiting, by a myriad of day-to-day decisions.

Even when it is well understood, the future takes time to assemble. Interactive television, video telephony, home banking, electronic publishing, intelligent vehicle and highway systems—as concepts, all these have been around for decades. And in each case it may well be another decade before they become part of the fabric of our life. But any company that has not been working assiduously for years to build the needed competencies, understand the exact needs, and assemble the required partnerships is unlikely to have a share of the spoils when these opportunities finally blossom into mega-markets. Getting to the future first is more like a marathon than a sprint. You cannot enter at mile 25 and hope to win. One's view of the future will be imperfect but a view one must have.

More questions: *How to create an organization that really, truly lives in the future, and then interprets today's decisions in that contexts? How does one unleash corporate imagination? How does one turn technicians into dreamers? How does one turn planners into strategizers? Is there no recourse except to sit back and wait for the visionary to emerge?* Planning may be discredited, and strategists on the run, but managers must not shirk from the responsibility of leading their organizations to the future.

So, just how relevant is the corpus of knowledge we call 'strategic management' to the new information economy? As strategic management 'professionals', what value do we bring to companies wrestling with the issues of the next millennium? How would Andy Groves (Intel), Rupert Murdoch (News Corp), Ed McCracken (Silicon Graphics), or Richard Branson (Virgin) rate our collective contributions? Are they looking to us for answers? Do we even understand their questions?

We hope that in SMS Phoenix '96 we can work together to set the research and practice agenda for the field of strategic management in the year 2000 and beyond. Let's break out of old paradigms; let's challenge received dogma; let's have the courage to ask new questions; let's rekindle our passion for relevance. We look forward to sharing perspectives on 'competing in the new economy.'

We will see you in Phoenix!