Moving towards the great transformation

You have talked openly in the past about “huge structural issues” looming post 2008. Can you explain a bit more?

Yes. There is a cycle of growth, stagnation and recession. Evidence of the need for change is strong and a number of factors have converged to make the picture especially daunting. Taken together, they indicate global economies could be heading towards decline rather than prosperity.

I wrote an article for the European Foundation for Management Development (EFMD) Global Focus magazine earlier this year, where I said that even though some indicators have improved since the financial meltdown of 2008, the structural problems that are bogging down economies are by no means resolved. I believe the debt crisis in developed economies severely limits the ability of governments to provide further stimulus.

Since the 1980s, companies have set aside concerns for a broader set of stakeholders – customers, employees and communities – in favour of what they believe to be the interests of shareholders. This trend accelerated after the financial crisis and led to a significant reduction in value-creating investments with a long-term horizon.

The state is big, inefficient and broke, according to Economist editor-in-chief John Micklethwait. Since 2011, things have got worse. With a suffocating bureaucracy, the state too often deprives advanced economies of the oxygen they need for innovation and growth. If you’re in a crisis, it’s hard to reform without avoiding more damage, so you find yourself firefighting.

With unemployment and, in particular, youth unemployment reaching historic dimensions, the idea of progress and continuous improvement of our living conditions is giving way to increasing angst about the future. What are your thoughts on this?

The economist Thomas Piketty argues in Capital in the 21st Century that capital has essentially won in a fight over labour. With returns on capital growing faster than the economy overall, the share of capital is increasing at the expense of labour, resulting in widening income disparities. Piketty’s analysis points to a long-term trend: unemployment and underemployment are at stubbornly high levels. Youth unemployment remains a huge concern.

One billion people around the globe will be over the age of 65 by 2035. At the same time, falling birth rates in developed economies have meant a decline in the number of people who can support this older population. The implications for funding retirement and social protection systems are striking. As a result of this, the financial burden for those in the workforce is becoming unbearable.

What is the future of work? How can companies contribute to create job opportunities for the generations to come? Can we finally set free the human potential embedded in organizations?

A great transformation will not happen overnight, but the world is already in a state of transition where sound, existing management knowledge can be applied. Based on these foundations, new concepts and methods are being introduced that fit our time more precisely.

I don’t know what the future will be. But leaders can determine the direction they want to go. They can take purposeful steps toward the great transformation, creating a world that embraces technology, but that keeps the human being at its core.

It appears we have arrived at a turning point where either the world will embark on a route towards long-term growth and prosperity or we will manage our way to economic decline. Is the very coherence of our societies at stake?

I think so. Managers need to ask themselves the fundamental question: how far are they looking towards a bigger
We need entrepreneurs at the top of large companies

endeavour – society. Yes, there is a change and managers are waking up gradually – but their environment is breaking down and businesses can only be healthy in a healthy society.

If you take large corporations, the idea of shareholder or stakeholder value is still an ongoing debate. But in practice, shareholder value has become the dominating ideology – almost a religion. Yet, as Peter Drucker said so well, free enterprise cannot be justified as being good for business. It can be justified only as being good for society. Harvard Business School professor Clay Christensen calls the split between diverging pressures and incentives “the capitalist dilemma”.

It is a root cause for the lack of economic growth because businesses are primarily investing in efficiency to achieve fast returns. This is what those shareholders, who consider their stock holdings as financial investments, appreciate. They are not acting like family owners would be – with a concern for the long-term prosperity of the enterprise. They are welcome corporations taking on huge amounts of new debt – not to invest in entrepreneurial projects, but to buy back stock as a way to push up share prices. These strategies run counter to any genuine concerns for the employees (the usual lip-service is “they are our most important asset”) and society at large. Corporate responsibility towards society would mean ensuring the long-term viability of the enterprise by investing into its future, which entails risks. This is why we need entrepreneurs, not “financial engineers”, at the top of companies.

The challenge is not cutting cost to the bone, but creating new business models, new markets and even new industries.

**How can policy makers in conjunction with investors, boards and top managers create a framework that overcomes short-termism and puts human capital and community in the frontline of long-term company valuation?**

I want to add a new perspective to the idea of corporate social responsibility (CSR) – not the one shown in glossy brochures. CSR should be a natural, inherent element of business to keep it viable. As discussed before, this can only work through value creation and innovation. Empowering innovation, as Clay Christensen calls it, creates growth and jobs – it’s not about “doing a CSR programme”. Businesses cannot and must not focus on the short term – although they need to be aware that long-term innovation will not pay back tomorrow.

In order to prove the success of the CSR and innovation framework, managers need good metrics. Engagement metrics, for instance, can be a strong indicator of how healthy a business really is.

Cost-cutting will look good on initial profit and loss reports, but it could mask a cancer within the business – where the people on the ground could have been disengaged for 10 years or more. It is important that these people on the ground within business report that things are going well. Investors are blind to this, because they are happy if the share price is going up. But it is important that they are aware of what’s happening within business that is not shown on the balance sheet.

But then incremental changes will not suffice and it is about changing the very nature of our organizations and the way they function in a new world. Surely this is easier said than done?

It is management that creates actual value – or destroys it. Management’s decisions lead into world-changing innovations or may cause a massive waste of productive resources.

Before growth figures for a country are calculated, the actual growth happens in individual organizations that are successfully “managed”. While politicians and other experts are obsessed with aggregations and ratios, they tend to forget that the
growth happens in real life and not in the abstractions of economics. Management is a real-world practice dealing with people and organizations. Managers can make all the difference in the world with their knowledge, their creativity, their emotions and their values. Management in this sense includes commercial players, non-profit organizations and public-sector bodies. Each has the mandate to create value and to achieve its mission.

Once we accept the importance of good management for the economic and social wellbeing of today’s world, it is legitimate to ask a critical question: are managers equipped – in terms of skills, competencies and courage – to lead us towards transformation?

Leaders have learned a lot about management. It has become a focus of education, research and practice. Much great thinking has gone into the development of the discipline of management, into tools and methodologies and, increasingly, into specialized fields such as marketing, operations, finance and HR. But despite considerable progress in making management more effective, many fundamental challenges remain. Bureaucratic hierarchies (control-oriented, top-down structures) are still prevalent.

The track record for transforming organizations, whether companies, non-profits, social security agencies, educational institutions or providers of government services, is poor, to say the least. Why do you think this is?

It is down to overwhelming internal complexity of large organizations, which causes a tendency to focus internally rather than taking the outside-in perspective. Internal thinking can lead to a loss of customer focus and value creation, and, as a consequence, more energy is spent on resolving internal issues than on finding original ways of delighting clients. The over-emphasis on short-term gains at the expense of long-term prosperity has become the new normal, despite its negative consequences.

What are the management skills and leadership competencies required to achieve continuous innovation and transformation within organizations? How can businesses establish a fresh balance between economic and human values?

Done right, a marriage between the human spirit and technology could produce exciting and incredible results. Just think about the unbelievable waste that is created in today’s organizations in terms of people’s ideas, creativity, motivation and engagement.

Releasing just 10% of this latent value would mean a jump in innovation, value creation and, in turn, the world’s prosperity. Performance management research company Gallup estimates the actively disengaged workers in the US alone cost the economy half a trillion dollars each year.

But I can see already today cases that show the tremendous potential for achieving massive and deep transformation in short time spans.

With a human-centric approach, serviced by the best that technology has to offer and supported by smarter government policies and regulations, businesses can create fresh infrastructures enabling knowledge, communication and collaboration.

This could trigger a tsunami of innovation and value creation.

Richard Straub is president of the Peter Drucker Society Europe and director of Corporate Services and EU Affairs at EFMD.

To book your place, visit: http://www.druckerforum.org/registration/

THE DRUCKER FORUM 2014

The 6th annual Drucker Forum will take place on November 13 and 14 at the Hall of Sciences in Vienna, Austria. The focus of the conference is The Great Transformation - Managing Our Way to Prosperity.

- Expert speakers and moderators including Roger Martin, Gary Hamel and Clay Christensen will ask:
- Does the practice of management need fundamental change?
- How can economics and management be repositioned as complementary disciplines to create change?
- What are the leadership competencies required to achieve continuous innovation and transformation within organizations?
- How can technology be leveraged more effectively for growth?
- What is the contribution of educational institutions (from schools to universities) to create an understanding of the vital role of management and leadership for business and non-business institutions and organizations?
- What can we learn from SMEs in terms of change-management and adaptability?

... And much more.

**Managers can make all the difference in the world with their creativity**


**FURTHER READING:**

**The Great Transformation** is Richard Straub’s new book, due to be published in early 2015. It provides a compelling argument for the need to transform management in order to achieve sustainable growth and prosperity. It is based on a lifetime of experience as an educator, consultant and business leader, and draws on the latest research and thinking in the field of management.

**Further Reading:**