



Capitalism 2.0: implications for management 2.0

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Abstract

Purpose – The purpose of this paper is to introduce a collection of articles representing the best papers and invited contributions from attendees at the 4th Annual Global Drucker Forum, an international conference focused on future challenges facing management.

Design/methodology/approach – The recent financial crisis has presented twin challenges confronting the next generation of management: a transformation toward a new environment in which market-driven efficiency and the concern for a functioning society are better aligned, and the nature of management practice that successfully addresses this alignment. Dimensions of these challenges are discussed in five articles in this special issue. This summary of the articles and underlying themes is provided by a professor whose teaching and research focus on strategy and entrepreneurship in free markets.

Findings – The articles in this issue discuss the need in organizations for adaptive flexibility, new ways of thinking, leadership behaviour at the individual and system level, and systems thinking to overcome short termism. Themes underlying these challenges include the challenges of managing in the present for the future, the need to create a learning organization, and the complexity of managing holistically.

Research limitations/implications – The paper suggests themes that might benefit from future management research.

Originality/value – This paper summarizes cutting-edge issues for management that were discussed at a recent international conference, and synthesizes six authors' research contributions that address dimensions of these issues.

Keywords Management, Learning, Flexibility, Leadership, Performance, Peter Drucker, Capitalism

Paper type Literature review

Progress, far from consisting in change, depends on retentiveness [...] Those who cannot remember the past are condemned to repeat it (Santayana, 1905).

We live in a turbulent world marked by dynamic global change and the uncertainty associated with unprecedented economic, technological, and social challenges. Amidst the recent global financial crisis that reflects this turbulence, the very practice of management has been placed under a microscope. The usually-clear division between business and government has been disrupted, intense discussions have been sparked about the unresponsiveness of corporations to society, the shareholder-maximization approach to management is under attack for its supposed purely self-interested dimensions, and critics speak generally of the lack of human grounding in much of the world's corporate activity.

Historically, scholars point to organizational innovations – such as governance, open systems, internal processes, and enlightened models of leadership – as having helped



management navigate turbulent environments in the past. But recent events reveal that proposed solutions for organizations have not been forthcoming as managers themselves have become less respected, and even the legitimacy of management and the power it has enjoyed in society has been questioned. Look no further than the halls of government, the editorial pages of daily newspapers, and blistering social media for finger pointing at corporate excess springing from senior management who appear to be amorally (and sometimes immorally) tone deaf to society (Handy, 2002; Reich, 2007). Along the way, business schools also find themselves critically under the microscope for their educational programs that groom these types of managers (Khurana, 2007; Wooldridge, 2011).

There is much public discourse about the need for change in order to address perceived shortcomings that led to the crisis. At the broadest level many suggest the system of free markets and capitalism is at the core of the problem and must be further regulated. On the other hand ample evidence demonstrates the positive effects that free markets have on economic development, such as increasing per capita output, job creation, GDP growth, enhanced opportunities for entrepreneurship, and overall improvements in the quality of life (Acs, 1996; Birch, 1979; Jackson, 2005; Kirchhoff, 1991; Phelps, 2006; Romer, 1990; Scully, 1988). Then there are criticisms directed at the business level of analysis. But for every firm whose business practices have been associated with the financial crisis (e.g. Lehman Brothers, Citi, AIG), there are tens of thousands of firms whose business practices did not in any way contribute to market failures. So then, the argument goes, one must conclude it is senior managers and employees where “fault” lies. Yet even within firms that have been associated with the crisis, there are also tens of thousands of executives and individual employees who went about their work seriously, with laudable intent and commendable morals, who in no way contributed to practices that led to market disruptions – or even knew that this other sort of behavior was in fact occurring. These sorts of fragmented, multi-level influences and effects make understanding the problems and the solutions a very complex undertaking. Nevertheless, it is incumbent on those of us who study and teach aspects of management to sort through the complexity in the hope of avoiding any future crisis.

In November, 2012, an international group of business executives, managers, and scholars came together at the 4th Annual Global Drucker Forum in Vienna, Austria, to focus on the implications for management in the twenty-first century that have been raised by the recent crisis. The focus of the conference was on the twin challenges confronting the next management horizon: a transformation toward a new environment in which market-driven efficiency and the concern for a functioning society are better aligned, and the nature of management practice that successfully addresses this alignment. The conference is held annually in memory of management consultant Peter Drucker, who was born in Vienna; sessions within the conference occasionally called upon Drucker directly, while more often the heritage of ideas he often discussed was invoked. The ideas shared at this conference explored critical questions about what went before, and highlighted new ideas for the future of management practice.

This special issue of *Management Research Review* includes best papers and invited contributions from attendees at the conference that speak to “Management 2.0,” the shorthand used to describe future management practice that can address the twin challenge mentioned above. Collectively, the papers in this volume focus on individuals and behavior within organizations. This reflects the fundamental view of the majority

of attendees at the conference that if we get managers and their behaviors right, then organizations will perform in such a way that they reward shareholders and stakeholders of the organization while simultaneously responding to societal needs and reinforcing the positive contributions of a free market system.

Readers of this journal, and the academic audience more broadly, may wonder about using the ideas of Peter Drucker as a fulcrum for this sort of important conversation. There are two reasons – his ability to discern principles of management of utmost, consequential, and universal application, and his surprising influence within the academy. Drucker wrote early on about decentralization (1940s), management as a discipline (1950s), outsourcing (1970s), the rise of the knowledge worker (1970s), corporate entrepreneurship (1980s), and the morality of discrepancies between CEO and worker pay (1980s) – all of which became central conversations within the academy decades later. Kantrow (2009, p. 10) describes how pervasive his influence has been on scholarly thought and practice, “how remarkably familiar” his ideas therefore are today, and the “terrible urgency of moral purpose” exhibited in his work. This is one reason why a Social Sciences Citation Index search of his name yields nearly 35,000 hits, even though Drucker seldom published for the academic audience. In one of his earliest and most popular books Drucker (1954, p. 4) anticipated future criticism of management emanating from the likes of the recent crisis, and wrote “Management, its competence, its integrity, and its performance, will be decisive both to the United States and the free world in the decades to come.” He believed that management was one of mankind’s “noblest inventions” and could be used to solve many of the most intractable social problems around the world. It is for these reasons that this special issue begins with a short article by Rick Wartzman on Drucker and the academy.

One of the recurring themes in Drucker’s work, and one of central interest to twenty-first century management, is the balance between continuity and change. The second article by David K. Hurst picks up this theme. Just as organizations must balance continuity and change, a new generation of management must discover an effective balance between acting as rational agents and drawing on an “ecological rationality.” The new global and social contexts that organizations confront demand that management contextualize how organizations act. This in turn may often call for experimentation, for learning how to learn, and for flexible managerial cognition that enable reconceptualizing the relationship between the firm and the external environment.

An interesting account of Drucker’s own early educational experience follows. Growing up in Vienna at the time of a rich intellectual “discussion circle” culture, Drucker was also exposed to a method for learning that he practiced later in life as a management consultant and writer. This enabled him to discover ways to distinguish the important from the less important, to iterate between the conceptual and the practical, and thus to develop deep intuition about causes and consequences. Can managers learn to think like Drucker, and if so how can such an approach make a difference? Siemsen and Reschke explore these ideas.

The next article builds on these ideas by examining the behavior of managers as they lead knowledge workers. Moving from a Taylorist world to a new age dominated by knowledge work, Bildstein *et al.* discover that leadership entails different dimensions and behaviors. Finding an effective balance between direction of work and allowing workers to self-organize to a greater extent is critical. Context matters in forging an effective internal relationship between senior management and workers, just as it

matters in forging a relationship between the firm and its external constituencies. Knowledge workers are, by definition, thoughtful and knowledgeable in what they do, and therefore the relationship created with knowledge workers by leaders is a more social – and less top down – affair. The importance of sharing information, especially mission and goals, can contribute to continuous learning among workers, quality, and innovation. At the Drucker conference senior executives stressed the importance of this new type of relationship and style of leadership especially as it relates to the younger generation of workers, on whom corporations increasingly depend.

The final article in this issue also addresses a holistic approach that results from the aggregation of individual behaviors. Here Fusso tackles the rampant problem of short termism in companies and the patchwork of remedies to address it, none of which is particularly robust because the problem is systemic. As such, a systemic solution is warranted and this paper proposes a systems thinking model. Application of the model can result in experimentation and learning by individuals and the organization, and thus facilitates flexible adaptation to changing circumstances. Thus, at a higher organizational level of analysis, this article returns us to individual-level ideas discussed in the earlier contributions in this issue.

Several important themes underlie this collection of papers. The first is that many issues impacting the efficacy of management, and which presently subject the practice of management to criticism, have an underlying temporal dimension to them. Management of organizations is – and always has been – fraught with what Knight (1921) called “true uncertainty,” that is, the dislocation between the present and the future and its unknowable character. This is a central and enduring issue in management research, teaching, and practice.

Inter-temporal dimensions play themselves out across multiple levels within organizations (Bluedorn and Denhardt, 1988) – individual (Bird, 1988; Hurst *et al.*, 1989), organizational (Anderson and Tushman, 1990; Bowman and Hurry, 1993; Tushman *et al.*, 1986), and environmental (D’Aveni, 1994). At the core, management acts in the present to secure future resources and wealth. How well does management theory and practice address issues that are rooted in the dislocations between the present and the future? I mention but a couple examples here.

Resource base theory (Barney, 1991) represents one of the more compelling frameworks adopted by strategy scholars to understand the development of sustainable competitive advantage. Yet identifying in the present what constitutes resources conferring future advantage is problematic because of their intangible nature and causal ambiguity (Reed and DeFilippi, 1990). Understanding how to measure returns on resource investments over time (Winter, 2003) remains unexplored. Thus, a central theoretical framework may not be particularly useful for management (Priem and Butler, 2001), even as it appears to dominate the academic literature in strategy.

Advances in technology have made management for the long term even more challenging. Technology development has facilitated advances in worldwide commerce and instantaneous communication, where competitive pressures and important decisions are ever-present and demand immediate attention (Hitt, 1998). The need for fast decisions (Eisenhardt, 1989) conflicts with the need for reflection based on context and experience. One response of modern management has been to use increasingly sophisticated quantitative tools, such as options models (Black and Scholes, 1973; McGrath, 1999), as a substitute to guide decision-making behavior. The advent of these

quantitative techniques has led to withering criticism of management for its reliance on calculated metrics to make decisions and gauge performance in the interests of only stockholders (Khurana, 2007), as well as for problems of volatility associated with instantaneous electronic trading.

Managing for the long term is challenging because senior management notoriously has a short term orientation (Hamel and Prahalad, 1994). Management is often pressured by financial markets to deliver expected quarterly results, leading to short term decision-making. The focus on delivering financial performance often leads to criticisms that management does not adequately address the needs and values appreciated by a wider group of organizational stakeholders. At the extreme this leads to public critiques of business and management for greed and unethical behavior (as in conditions leading to the recent financial crisis and recession). In turn, governments then feel pressure to bound the range of managerial discretion through legislation and regulation.

The second theme underlying this collection of papers is the veritable complexity of the task of managing organizations, which in the twenty-first century demands a special suite of skills and best practices. Globalization, technology, progress in less developed countries, and other trends create a competitive environment in which change is rampant. Organizations must respond quickly to – better yet anticipate – such changes, or they will be out-competed quickly. For example, recent research shows the average life expectancy of a Fortune 500 company has been declining for decades and is now only 15 years (Denning, 2011). The dynamically evolving marketplace requires enhanced ability to learn and better skills in managing the flexible adaptation of the complete enterprise. Better contextualizing the view of the organization in its social and competitive setting, developing methods for experimentation to iterate rapidly between concept and practice, enhancing communication (feed-forward as well as feed-back) with employees at all levels – together these can lay a foundation to become a learning organization. More work is needed still for companies to learn how to learn (West and Meyer, 1997).

Understanding how to become a learning organization is an incredibly challenging undertaking. Companies are not organized this way. Ask most managers to describe their position, or the organization of work in their companies, and the usual reply will resemble some variant of a functional position and structure. Where in the typical organization are the capabilities embedded for cross-functional communication and coordination? The usual answer is at the highest levels of the company, which has the effect of damping flexibility and response time to exogenous changes and shocks.

When explorers discovered the New World, for decades the settlements tended to stay near the coasts. After all, at the time there was plenty of coastline to settle on, and it was far easier to develop and trade the riches of the new lands with this convenient coastal access back to the mother countries. It would have been far more challenging and dangerous to delve deep into the interior of the new country, as it would have required new and expensive investments in infrastructure and practice. I speculatively wonder whether the relatively recent reliance on financial analysis techniques, quantitative optimization tools, and technology-facilitated financial markets innovations (e.g. tranches of securitized debt obligations; derivatives) simply represent a form of low hanging fruit for senior management to pick in their pursuit of enhanced company performance in the relatively short term? It was there, it was easy! It would have been so much more complex and difficult to re-engineer organizational structure and holistic

business practice, in order to produce a flexible learning organization that can achieve the same performance goals. Going forward, that challenge still remains.

Finally, if managers find that the challenges of retooling management practice are complex and fraught with danger, part of the reason is that management education has largely failed to address this need. Management education shies away from developing deep knowledge about historical developments and the integrative complexity of organizations (Mintzberg, 2004; West, 2012). The current education regime is usually organized along functional lines. Students must acquire skills and proficiency narrowly within finance, marketing, operations, accounting, etc. and only rarely have an opportunity to focus on cross-functional challenges and management approaches. Business education does not value “knowing how” so much as “knowing that.” “Knowing how” comes from experience and immersion so that one can appreciate context and the situated character of work. “Knowing that” depends on a rote analytical understanding of various theoretical frameworks (Bower, 2008) or quantitative techniques, and a broader “technocratic/meritocratic view of education [that] treats it as instrumental [...] for getting ahead [...]” (Crawford, 2009, p. 145). Students of business become pliable generalists unfettered by any single set of skills. For these future knowledge workers the opportunity for deep dive into the minutiae of how a complex organization actually works is not likely, and thus mastery of the system – which leads to problem discovery, creativity, and the ability to craft valuable solutions – is attenuated. Although a few initiatives show some promise for engaging the academy to rethink its usual model of management education (Colby *et al.*, 2011; Schiller, 2011), much more is also needed here.

The articles in this special issue move in a different direction, tackling an agenda for Management 2.0 in the twenty-first century. Like the annual conference that bears his name, Peter Drucker’s work should be read because it provides an appreciation of context, exposes the reader to a sharp logical approach in examining business issues, and elevates moral concerns as part of the role of management (Kantrow, 2009). Drucker’s body of work is fundamentally about management – what managers do, how to make work and people productive, how to manage the social responsibilities of business (Straub, 2011), and how to do this through proper leadership and governance (Zahra, 2003). The body of Drucker’s work over 50 years can inform managers today about key inter-temporal issues such as sources of long term competitive advantage, disenchantment with investor capitalism, and responsibility toward society, and can thus provide an integrative and holistic perspective on management. By reading Drucker’s past work and emulating his style of thinking, we can tackle important questions going forward.

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