The credit crisis of 2007–2008 can be blamed on a failure of regulation, a failure of macro-economic policy, even a failure in the working of our entire market system. However, the demise of traditional investment banking was also a spectacular failure of management, which has been all but overlooked.

When a company fails, the CEO must take responsibility for the failure. CEOs are rightly dismissed when the scale of the problems in their organizations becomes known. But, beyond the story of a few CEOs losing control of their organizations, this “failure of management” in investment banking is far larger. It is the story of a deeply flawed business model that encouraged bankers to pursue opportunities without regard for long-term consequences and to put their own interests ahead of those for whom they had responsibility – their employers and shareholders.

Ban of brothers
Consider what happened over time at Lehman Brothers (Lehman). Dick Fuld had been the head of Lehman (perhaps the institution that saw the greatest amount of value destroyed in the shortest period of time) since 1993. He was a legendary figure on Wall Street and a “textbook example of the command and control CEO”, according to an article in the Sunday Times (December 2008). His management team was loyal to him, but they agreed that his style was aggressive and intimidating. In the words of a former employee, “His style contained the seeds of disaster. It meant that nobody would or could challenge the boss if his judgement erred or if things started to go wrong.”

And go wrong, they did. The company made a record profit in 2007 ($4.2 billion) by chasing low-margin, high-risk business without the necessary levels of capital. When the sub-prime crisis hit, the company found itself exposed and vulnerable. Fuld explored the possibility of a merger with more solvent competitors, but he refused to accept the low valuation they were offering him. Consequently, on 15 September 2008, the company filed for bankruptcy.

While Fuld’s take-no-prisoners management style certainly didn’t help the company, we need to dig into the company’s underlying management model to understand what happened. Contributory factors include the following:

Inadequate risk-management procedures and policies Like most of its competitors, Lehman failed to understand the risk associated with an entire class of mortgage-backed securities. But more importantly, no one felt accountable for the risks they were taking on these products. By falling back on formal rules rather than careful use of...
As is so often the case, the seeds of GM’s failure can be linked directly to its earlier successes. GM rose to its position of leadership thanks to Alfred P. Sloan’s now-famous management innovation strategy – the multidivisional, professionally managed firm. Sloan established semi-autonomous divisions with profit responsibility and built a cadre of executives concerned with long-term planning at the corporate centre. Under his leadership, GM was able to deliver economies of scale and scope that were unmatched. The company was heralded as the model of corporate organization, a bureaucracy with formal rules and procedures, a clear hierarchy and standardized inputs and outputs. This worked well for years. GM became dominant in the automotive industry and gradually took control of its supply chain and its customers, as well.

So what went wrong? As long as the Big Three automotive companies dominated the industry, the model worked well. But the 1973 oil-price shock, the rise of Japanese competitors and the rediscovery of consumer sovereignty changed all that. At that point, GM’s strengths as a formal, procedure-driven hierarchy turned into liabilities. The company was too slow in developing new models, its designs were too conservative, and its cost base was too high. A famous memo written by former Vice Chairman Elmer Johnson in 1988 summarized the problem very clearly:

…[O]ur most serious problem pertains to organization and culture…. The meetings of our many committees and policy groups have become little more than time-consuming formalities…. Our culture discourages open, frank debate among GM executives in the pursuit of problem resolution…. Most of the top 500 executives in GM have typically changed jobs every two years or so, without regard to long-term project responsibility.

Ross Perot, a former US presidential candidate, offered a similar, more succinct, diagnosis when he sold his company, EDS, to GM in the 1980s: “At GM the stress is not on getting results – on winning – but on bureaucracy, on conforming to the GM System.” Thus, the very things that allowed GM to succeed in the post-war years – formalized processes, careful planning, dispassionate decision making and an entrenched hierarchy – contributed to its decline.
This story is now well known. Here’s the point: GM’s bankruptcy was caused in large part by a failure of management, just as Lehman’s was. But the mistakes made by GM were completely different from the mistakes made by Lehman:

- Lehman motivated its employees through extrinsic material rewards and used incentives to encourage individualism and risk-taking. GM paid its employees less well, hired people who loved the car industry and promoted risk-averse loyal employees.
- Lehman used mostly informal systems for coordinating and decision making. GM emphasized formal procedures and rules.
- Lehman had no clear sense of purpose or higher-order mission. GM had a very clear and long-held vision – to be the global leader in transportation products.

Like Lehman, GM’s demise was caused by a number of factors, some of which were purely external, such as Japanese competitors and rising oil prices in the case of GM, and poor regulation and policy making in the case of Lehman. Yet we have to look at the companies’ underlying management models, whether adopted intentionally or not, to find the root cause of their failure. A well-chosen management model can be a source of competitive advantage, just as a poorly chosen model can lead to ruin. Lehman and GM provide striking examples of the downside risk of sticking with a management model that is past its sell-by date.

Management’s tarnished reputation
Today, we can see evidence of a creeping disenchanted with management as a discipline. Here are some examples:

Not well respected In a 2008 Gallup poll on honesty and ethics in 21 different professions, only 12 percent of respondents felt business executives had high/very high integrity – an all-time low. With a 37 percent low/very low rating, the executives came in behind lawyers, union leaders, real estate agents, building contractors and bankers.

Unhappy employees Economist Richard Layard provides compelling evidence for this from his studies of happiness. He found that people are most happy interacting, first, with friends and family and, last, with the boss. In fact, people would prefer to be alone, Layard showed, than spend time interacting with their boss. This is a damning indictment of the management profession.

Few role models “Dilbert” comic strips have been made into the best-selling business book series of all time, and “The Office” sitcom has been a big hit on both sides of the Atlantic – because they ring true. The Pointy-Haired Boss in Dilbert is a self-centred halfwit; the boss in “The Office” is entirely lacking in self-awareness and is frequently outfoxed by his subordinates.

Management has failed at the big-picture level, as the employees and shareholders of Lehman and GM will attest. Management has also failed at the personal level, as every one of us has observed. We need to rethink management. We need to figure out the best way for managers to manage and for employees to get the managers they deserve.

According to Wikipedia, “Management is the act of getting people together to accomplish desired goals and objectives.” There is a lot of detail missing from this definition – no mention of planning, organization, staffing, controlling or any of the dozen other activities that are usually associated with management. There is also no mention of companies or corporations and absolutely nothing about hierarchy or bureaucracy. That is precisely the point: management is a social endeavour, which simply involves getting people to come together to achieve goals that they could not achieve on their own.
Whether accurate or not, this is a sentiment everyone can recognize, although it is a very restrictive view of the nature of management. And such sentiments also feed back into the workplace, further shaping the practice of management in a negative way. Why has this corruption taken place? There are two major reasons. First, large industrial firms became dominant, and their style of management became dominant as well. In 1850, nine out of 10 white male citizens in the US worked for themselves as farmers, merchants or craftsmen, and the biggest company in the UK had only 300 employees. But the industrial revolution in the latter part of the nineteenth century, and the growth of large companies, sparked a wholesale change in the nature of work and organization, as emerging mills, railroads, steel manufacturers and electricity companies required more workers.

This industrial management model was a spectacular success, and became one of the key drivers of economic progress in the 20th century; but it had an insidious effect on the concept of management, because the term came to be associated exclusively with the hierarchical, bureaucratic form of work practised in large industrial firms. For many people today, the word management conjures up images of hierarchy, control and formal procedures, for reasons that have nothing to do with the underlying meaning of the term. “Management” and “large industrial firm” became intertwined in the 1920s, and they are still tightly linked today.

Narrow blinded
Such a narrow model of management blinds us to the range of alternative management models that exist. Sports teams, social communities, aid organizations, even families, operate with very different principles from large industrial companies, and these alternative principles are potentially very useful today.

This narrow definition also leads us to assume, incorrectly, that large industrial companies are inherently superior to other forms of organization. Yes, there are certain industrial processes that are best suited to economies of scale and scope, but we would be misunderstanding history if we assumed that mass production was the only feasible model of industrial organization. We need to recognize that management models other than the hierarchical, bureaucratic organization have their own important merits.

The second body blow to “management” was the apparently inexorable rise of “leadership” as a field of study. While the classic texts on business management are now more than a century old, books on business leadership are a more recent phenomenon, emerging in the post-war years and really taking off in the 1970s. Today there are more business books published on leadership than on any other sub-discipline.

It’s very clear what happened. To promote leadership, which in the 1970s was a poorly understood phenomenon, business writers felt compelled to diminish the role of management. Managers, in this new worldview, were passive, inert and narrow-minded, while leaders were visionary agents of change. Consequently, people flocked to this new, sexy way of working, while management took a step backward.

The issue of leadership versus management is often debated. Two of the most influential business authors, John Kotter and Warren Bennis, compare the roles of leaders with those of managers: Kotter sees managers as being those who plan, budget, organize and control, while leaders set direction, manage change and motivate people. Bennis views managers as those who focus on efficiency, follow the rules and accept the status quo, while leaders focus on effectiveness and challenging the rules. Needless to say, I believe this dichotomy is inaccurate and, frankly, insulting. Why, for example, does “motivating people” lie beyond the job description of a manager? And “doing things right” versus “doing the right things” is a nice play on words but a rather unhelpful distinction. Surely we should all be doing both.

Now, Kotter and Bennis are smart, thoughtful people who are more often right than they are wrong. And they have a logically flawless response to my critique: namely, that “leadership” and “management” are roles that the same individual can play at different times. I can put on my leader hat in the morning when speaking to my team

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about next year’s plans and then, in the afternoon, put on my manager hat and work through the quarterly budget. This makes sense. But I still think the aggrandizement of leadership at the expense of management is unhelpful, because management – as a profession and as a concept – is vitally important to the business world. We should be looking for ways to build it up, rather than tear it down.

In my view, leadership is a process of social influence concerned with the traits, styles and behaviours of individuals that cause others to follow them. Management is the act of getting people together to accomplish desired goals. To make the distinction even more stark, one might almost argue that leadership is what you say and how you say it, whereas management is what you do and how you do it. I don’t want to fall into the trap of making one of these seem important at the expense of the other. I am simply arguing that management and leadership are complementary to one another. Or to put it really simply, we all need to be both leaders and managers. We need to be able to influence others through our ideas, words and actions. We also need to be able to get work done through others on a day-to-day basis.

In sum, the concept of management has been gradually corrupted over the years, partly because of the success of large industrial companies and their particular model of management, partly because of the popularity of leadership, which has grown at management’s expense. To make progress, we need first to reverse out of the cul-de-sac that management has been driven into. We need to rediscover the original meaning of the word, and we need to remind ourselves that leadership and management are simply two horses pulling the same cart.

Looking forward

So what is the future of management? In the face of all these challenges, can management be reinvented to make it more effective as an agent of economic progress and more responsive to the needs of employees? There are two schools of thought on the subject.

One school of thought says management cannot be reinvented. That argument can be summarized as follows: management is fundamentally about how individuals work together, and the basic laws of social interaction have not changed for centuries, if ever. While the business context will evolve, the underlying principles of management (how we set objectives, coordinate effort, monitor performance) are never going to change. For example, Henry Mintzberg argues in Managing (Berrett Koehler, 2009) that the nature of managerial work has hardly changed for
decades: “Managers deal with different issues as time moves forward, but not with different managing. The job does not change.” Indeed, it is interesting to note that most of the major innovations in management (such as the industrialization of R&D, mass production, decentralization, brand management and discounted cash flow) occurred before 1930. Most of the recent innovations (such as Six Sigma, the balanced scorecard and re-engineering) have been little more than incremental improvements on existing ideas, rather than entirely new ideas in their own right. If we extend this train of thinking, we could conclude that the evolution of management has more or less run its course.

But we haven’t. Of course there is some validity in arguing that the basic laws of human behaviour are not going to change. But the practice of management is enormously context-dependent, and as the nature of business organizations evolves, so too will management. Yes, there will always be the need for some sort of hierarchical structure in a large organization, but the nature of that hierarchy has the potential to change dramatically.

The other reason I disagree with the argument that “management cannot be reinvented” is that there must be a better way of running large companies. The first part of this article documented some of the problems with management as it functions today, and I believe we cannot just accept that our current model is as good as it gets.

Another school of thought says we are on the cusp of inventing an entirely new model of management. The argument runs as follows: management as we know it was developed for the industrial era, in which capital was the scarce resource; but, today, knowledge is the scarce resource. Firms gain advantage not by working efficiently, but by harnessing initiative and creativity. And, most vitally, the information technology revolution is making it possible for entirely new ways of working to emerge. MIT Professor Tom Malone made this case clearly in The Future of Work (Harvard Business School Press, 2004):

We are in the early stages of another revolution ... that promises to lead to a further transformation in our thinking about control. For the first time in history, technologies allow us to gain the economic benefits of large organizations, without giving up the human benefits of small ones. This revolution has begun.

Many other writers have made similar claims. For example, Wired editor Jeff Howe argues that the Internet-driven phenomenon of crowdsourcing “will change the nature of work and creativity”. His argument is persuasive and one to which we can all relate as we come to grips with the ramifications of Internet technology.

However, I am concerned that this is déjà vu. All the arguments around decentralization and empowerment have been debated for a long time. Fortune magazine ran a series of articles on “The New Management” in 1955 in which these themes were discussed. Every generation of management writers since, including such luminaries as Peter Drucker, Gary Hamel, Rosabeth Moss Kanter and Sumantra Ghoshal, has also argued for its own version of revolutionary change in the years ahead.

A third way?
Is there a third way here? Can we identify a useful way forward that avoids the extreme positions of these other two schools of thought? I believe there is. We don’t need to despair that management has developed as far as possible, because that would mean accepting the failures of management as something we must live with. And we don’t need to create a new model of management; we have plenty of ideas from the world of theory and insights from the world of practice to guide us.

We need to develop a more comprehensive understanding of what management is really about to make better choices. By going back to a basic definition of management, the act of getting people together to accomplish desired goals, we can frame our discussion of the activities and principles of management much more explicitly. Armed with this new understanding, we can help managers make better choices within the universe of known possibilities, rather than suggest they invent something original.

For example, why should we assume that important decisions get made by the people at the top of the organizational hierarchy? Traditionally, this was certainly the case, but is it possible that important decisions might be made in less-hierarchical or non-hierarchical ways? Yes, in fact, it is. Entire books have been written on the wisdom of crowds and crowdsourcing techniques for aggregating the views of large numbers of people to make better decisions. So it would be wrong to assume that all decisions made in the future will be made exclusively by those at the top of the hierarchy, and it would be equally wrong to assume that crowdsourcing will entirely replace traditional decision-making structures.

The prosaic truth is that the right model for a company depends on a host of contingencies, including the nature of the decision being made, the company’s size and background, the interests and capabilities of the employees and so on. The right management model for your company is the one based on the most appropriate choices you
make within known boundaries; between, for example, the principle of hierarchy on one hand and the wisdom of crowds on the other.

In the field of business strategy, it is often argued that there are two different and complementary pathways to success, devising a distinctive strategic position or implementing a particular strategy effectively. Southwest Airlines, Dell Computer and IKEA have prospered because they developed and protected a distinctive strategic position. Toyota, McDonald’s and Tesco have prospered by executing their plain-vanilla strategy better than anyone else in their industry.

The same logic applies in the field of management: you can make distinctive choices about the management model you are going to use, or you can have high-quality managers who simply do their jobs well. Ultimately there is no trade-off needed between these two approaches. High-performing companies typically do both well. But I make the distinction to emphasize that I am interested primarily in the former, in how you choose the best management model for a given situation. We make these choices through four linked steps: understanding, evaluating, envisioning and experimenting.

Understanding Be explicit about the management principles you are using to run your company. These principles are invisible and often understood only at a subconscious level, but they drive the day-to-day processes and practices through which management work gets done.

Evaluating Assess your company’s management principles to determine whether they are suited to the business environment in which you are working. There are risks associated with whatever principles you employ, so you need to understand the pros and cons of each in order to choose wisely.

Envisioning and experimenting Be prepared to try out new practices as a way of reinforcing your choices. Your management model can only become a source of advantage if you find ways of working that make your company stand out from the crowd. It is important to take a creative approach to management by envisioning new ways of working and experimenting with them.

There is no recipe book for reinventing management. While these steps suggest a process for evaluating and rethinking your management principles, there is only so much you can learn from the mistakes made by Lehman Brothers, GM and a host of other troubled companies. The right choices depend entirely on the specific circumstances and opportunities facing your company and on your willingness to experiment with unproven practices.

Resources

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