MANAGEMENT
RESET

ORGANIZING FOR
SUSTAINABLE
EFFECTIVENESS

RESET

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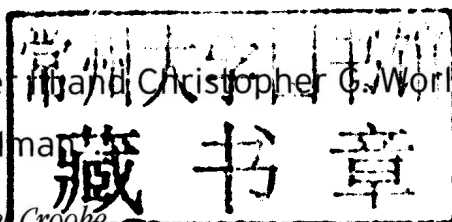
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WITH DAVID CREELMAN

MANAGEMENT RESET

Organizing for Sustainable Effectiveness

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with David Creelman

Foreword by Michael Crooke

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Foreword

When I was first introduced to integrating environmental concerns into a company's thinking, I was working for a private lumber company in Northern California. The company had been family owned for over a hundred years. Clear-cutting (removing all of the trees in one area) was not allowed. Instead, the company left the biggest, most prolific trees to seed the land after the other trees had been taken. The result of this century-old silviculture prescription was a business that worked in every way. The land produced a steady, sustainable volume of trees to keep the mill running near capacity. The small company town of Scotia was a robust center of commerce where the well-paid and motivated employees intertwined their lives with the company and the sacred land with which they coexisted. Hunting, fishing, hiking, and camping were all regular weekend activities.

The day that a large financial company purchased our lumber company was a sad one. Within a month of the purchase we were directed to write timber harvest plans to cut down the very trees that were giving life to the next generation of trees. Clear-cutting became the standard method of extracting as much, as fast as we could. In an instant a previously sustainable company began maximizing short-term growth and profits to pay off the leverage that was used to gain control of the hundred-year-old firm. We all know the rest of the story: a quick rise of wealth creation for the raiders and bankruptcy for the company.

Unfortunately, this story and many like it are all too common. I do not think that short-term financial engineering is what Milton Friedman had in mind when he wrote of management's goal to "maximize shareholders' wealth." I'm convinced Mr. Friedman would not have sanctioned the actions of the lumber company.

It is time for us to be clear that there are right and wrong ways to maximize shareholder value. It is time to embrace a new way of thinking, or, as Lawler and Worley posit, a *reset,* that brings social responsibility and environmental stewardship to the mission of the organization. The authors also argue that organizations are designed for stability, not change. This puts the focus on a different kind of sustainability—the ability of an organization to sustain itself in a tumultuous world. Put the need to see beyond short-term profit together with the need for organizational structures that are built to change and you are talking about the need for a complete management reset.

After my forestry experience I went to business school to find out what had happened and why. I wanted to understand leveraged buyouts and their value to society. Who, exactly, did this one-time wealth creation event enrich? It certainly was not the employees. It was not the company's suppliers, who also had a short-term spike in sales for a few years, after which the revenue stream ended. It was not the company's customers, who started getting inferior-quality product after the virgin trees were gone. Unsurprisingly, those who were enriched turned out to be a few financial engineers who "cracked the code" and optimized their personal financial situation to the detriment of society at large.

We are at the crossroads. Will we evolve Friedman's message to include a long-term perspective or will we fail to glean the wisdom of our recent history and continue to follow a path that is not sustainable? We need to accept business models that don't destroy the forest in an attempt to get more trees. We need business models in which being nimble and future-focused is coded into the organization's DNA so that change does not threaten the survival of firms. This book presents one that does just that.

In another chapter of my career I was the CEO of Patagonia, Inc. Patagonia, much like the lumber company in Northern California, is a private company that makes all of its strategic decisions with a long-term perspective. The founders, Yvon (YC) and Malinda Chouinard, handcrafted the corporate culture in a mirror image of themselves. They are the antithesis of the financial engineers who bankrupted the lumber company. YC is committed to "the best product possible" and to the product being made "with the least amount of harm to the environment."

Malinda is committed to social responsibility and understanding and preserving the wisdom of the past (architecture, indigenous cultures, customs, and so on). Together they synergistically developed a unique culture, which has propelled their company to the top echelons of successful organizations worldwide.

There was something at Patagonia that was "magic." Something about the value alignment between the stakeholders and the organization. Customers had a strong emotional connection to the brand. Internally, job satisfaction (happiness) was very high. We had over nine hundred applications for every job opening in the organization, and we were moving up *Fortune*'s "Best Companies to Work For" list on a regular basis.

I started referring to this "magic" as FLOW, as defined by Mihaly Csikszentmihalyi. I had read his ground-breaking book describing a condition in which an individual becomes so involved in an activity that nothing else matters; as the task becomes harder, the individual skill set increases and the feedback mechanism delivers motivation to keep the activity escalating. Often this state is described when paradigm-breaking creativity is launched.

Serendipitously, Mihaly came to Patagonia in 2000 to interview YC and me for a book he was writing, *Good Business*. When I got the chance to talk to him directly, I surmised that FLOW (and the motivation associated with it) could be a by-product of alignment around powerful values guiding shared goals and objectives. I had "come under its spell" at the lumber company pre-buyout and at Patagonia. I wondered out loud if this FLOW had anything to do with our high job satisfaction and overall success. Mihaly was intrigued. I entered the PhD program at Claremont Graduate University within months, and Mihaly and I started working on the IV Forces model.

The IV Forces (IVF) is a model of contemporary values. It is hoped that this model could be thought of as an "update" to Mr. Friedman's model. The IVF model captures the relevant "macro-values" of society today: environmental stewardship, corporate citizenship, product or service quality, and financial strength.

These four macro-values encompass the most pressing issues facing organizations today and were the bedrock beneath the lumber company and Patagonia. I refer to them as macro-values or forces because they are essentially broad categories that encircle

numerous related values. For example, the macro-value of envi-
ronmental stewardship refers to the need for organizations to
recognize and mitigate their impact on the natural environment;
it also represents the ultimate goal of integrating environmental
concerns into product (and service) design in order to develop
closed-loop manufacturing processes that eliminate waste. Corporate
citizenship represents the social realm and the organization's rela-
tionships with stakeholders, ranging from employees to suppliers
to neighbors in the local community to government entities. Product
or service quality echoes Patagonia's mission to make the best
product and relates to the need to excel at the organization's core
competency. Finally, financial strength refers to the need for orga-
nizations to be financially sound; without this, the other values
become irrelevant.

The main point of the IVF model is that none of the four
forces can be ignored without massive degradation of the orga-
nization's output. The values do not operate in isolation; rather,
they function as a system and feature many areas of overlap and
interaction. Decision making is rarely, if ever, guided by one of
the four forces individually. For example, product or service
quality is defined as striving to achieve the best possible product
with the least possible social and environmental harm. Financial
strength is integrally related to the other three values, which
cannot function without an economically viable organization.

Furthermore, the four forces are mutually reinforcing: each
of the elements is important individually, but when leveraged as a
collective group the relationships are synchronous. The power of
environmental stewardship is amplified when financial strength
is realized, and vice versa. The same can be said of any of the
values. For example, when an organization is financially success-
ful, it can invest in environmental innovations, such as new recycled
and recyclable fabrics or not having to harvest trees close to a
stream, which prevents erosion and increases biological activ-
ity in the stream; these are examples of activities that ultimately
reduce long-term expenses and enhance long-term financial
performance.

So how do we begin to develop an organization that wants
to embed and integrate these values or forces into an organiza-
tion? How do we create structures that not only respect those
values, but are robust in the face of disruptive change? I believe
that reading *Management Reset: Organizing for Sustainable Effectiveness*

is a mandatory prerequisite. Edward E. Lawler III and Christopher G. Worley have, without question, developed the building blocks of executing an IV Forces model. The book not only captures the spirit of the moment but also interprets that spirit into a guide on how to design sustainably effective organizations. The authors outline exactly how a sustainably effective organization takes these principles and converts them into company initiatives.

Reading *Management Reset* was so refreshing. There are hundreds of "eco-groovy" business books that have very little real-world understanding of the complex conditions that organizations must face on a day-to-day basis. There are many "pure play" business books that do not deal with the complex conditions that organizations face. *Management Reset: Organizing for Sustainable Effectiveness* is a pragmatic, research-backed text that delivers a compelling message. In short, it has the right message at the right time.

So what would Milton Friedman say about companies that subscribe to the sustainable management approach? My guess, and hope, is that he would acknowledge that in order to "maximize shareholders' wealth" an organization must look at all the market forces and optimize for the long term.

I am an optimist, and as such I will continue to believe that we can turn the tide and build a society in which aligning one's personal values with those of their chosen work will not only increase the probability of FLOW, it will lead to sustainable effectiveness.

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Preface:
From Change to
Sustainable Effectiveness

When we published *Built to Change* in mid-2006, the economy was still growing. Shortly thereafter, the signs of a deep financial crisis appeared, and soon there was a global recession. Not surprisingly, many corporations had difficulty adjusting to the dramatic changes the recession created. To our relief, organizations that had many of the agility features we described in *Built to Change* fared better than most other firms. Because they had routines for looking into the future, cultures and reputations that supported change, flexible human resource practices, and effective change capabilities, change was easier for them. Adapting to the economic crisis was just another change, not something that required new behavior.

Watching corporations struggling to adjust to the recession prompted us to do something we were considering doing anyway—write an updated version of *Built to Change*. *Built to Change* was a research-based vision of what an agile organization should look like. Our idea was to write a new book that was more results-based, that put more "meat on the bones," and that described how organizations were actually implementing our agility design ideas. We felt that because our research post–*Built to Change* had given us new insights into and ideas about how organizations can effectively respond to change, it was time to write a new book on agility. But our next book on agility will have to wait; *Management Reset* is not it.

In *Built to Change* we focused primarily on financial performance, in particular how to achieve consistently above-average financial performance. As we began to discuss our new book on

change, we realized that this focus was seriously limited and out of date when viewed within the context of the dramatic changes that have taken place recently. It is now clear that financial sustainability is a necessary but insufficient organization objective.

Organizations must perform well financially, but they must also address at least two other kinds of performance in order to be viable in the long term. In today's global economy, organizations also need to focus on their social responsibility bottom line and their environmental bottom line. Simply stated, we no longer agree with Milton Friedman that organizations should be only concerned about their financial performance and that they should only do "good" when it leads to financial gains and the creation of shareholder value. What was once a compelling argument in the capitalist world is no longer valid, and as a result, organizations that follow it ultimately will be obsolete.

Because of our changing views on organizational effectiveness, we decided to write a book about how organizations can be designed and managed so that they are economically, socially, and environmentally sustainable—in our words, sustainably effective. *Management Reset* is not about convincing you that organizations need to be sustainably effective; it is a book about how organizations can be sustainably effective.

We feared that spending time on why organizations need to change would result in an overly judgmental tone and take up valuable space that is better dedicated to describing how to move toward sustainable effectiveness. It may also be unnecessary, as a recent UN global survey of CEOs found that 93 percent believe that sustainability issues are critical to the future success of their companies. We believe there is too much sensational and emotional rhetoric about why there is a need to change and not enough discussion about how to change. Thus we will leave to others the arguments about whether it is the right objective for organizations at this time.

What we won't leave to others is the writing of a useful guide to how organizations need to be managed and designed to deal with the complex issues involved in achieving sustainable effectiveness. Creating a sustainably effective organization is clearly a major challenge, greater than that of designing organizations that are built to change. Thus we begin the book by making the bold statement

that what is needed is a major management reset, not merely an approach to organization design that allows for rapid change.

Just to be clear, we believe that being agile is an important part of being sustainably effective. We use and adapt many of the principles from *Built to Change* in this book. But being agile isn't enough. A sustainably effective organization must also adjust its strategy, organization design, and leadership practices to support goals that include social justice and environmental health.

We believe that the management reset we present is long overdue and should be the third major management reset since the beginning of the twentieth century. We realize this is a bold position and in some respects an arrogant one. For over a decade, management gurus have been calling for and trying to develop a new approach to management that deals more effectively with today's business environment. We don't claim to have all the details worked out on what that management approach should look like, but we do believe that in this book we identify the key design features that will support organizations in achieving sustainable effectiveness.

We wrote *Management Reset* with an eye toward three types of readers. We want it to be readable and read by managers who are interested in a new approach to management. We want it to be read by consultants whose business it is to advise organizations on strategy and organization change. Finally, we want it to be read by academics who are concerned with organization design, organization development, and strategy.

Writing a book that is credible and readable by managers, consultants, and academics proved to be a significant challenge. We decided to present rational, logical, and credible arguments that are based on research and consulting. But we didn't stop there. We decided to go beyond rational arguments and include a personal element and perspective. We also decided to put more emphasis on showing people what is possible than on telling them what they should do. In trying to balance good solid thinking about organization effectiveness with what is interesting to a diverse audience, there were times when in the early drafts of this book we slipped into an academic, preachy tone. We think we corrected this in later drafts, and hope that as a result our book is both helpful and compelling. That is the ultimate goal we set for ourselves.

Of course, *Management Reset* is grounded in good research and thinking, but we found ourselves needing to push beyond what researchers have studied. We also had to ignore some research that was interesting but simply was not useful because it focused solely on financial performance. We have included numerous examples and some personal experiences in order to make it clear that there is a reality to our ideas and suggestions, not just academic theorizing.

We think we can guarantee that what we have written will raise your awareness of the issues and the challenges that are involved in creating sustainably effective organizations. Even if you don't agree with us that organizations need to pay attention to sustainable effectiveness, we think you will find our arguments and suggestions about how organizations should be designed intriguing, thoughtful, and in some instances radical.

We don't believe anyone who has been a careful observer of today's business world can make the argument that current management approaches are effective and represent the best way to organize and manage complex organizations. All too often, an organization that has outstanding financial performance today ends up being a mess tomorrow. All too often, the best financial performers are the ones that have poor social and environmental records. There has to be a better way.

Our society needs approaches to organizing and managing complex organizations that produce consistently good financial performance and contribute to the well-being of the planet and those who live on it. The old ways of managing organizations simply are not good enough. We think we have made a strong case in this book for a management reset that changes the very essence of how organizations are managed and as a result positions them well to deal with a broader definition of effectiveness than we used in *Built to Change*.

As we wrote this book, we frequently paused and thought to ourselves, "Who are we to claim that we have the insights and expertise to develop a major management reset?" It was, and is, an audacious target. But we are more and more confident that most, if not all, of our shots are on target. We may not have all the pieces in place, and we certainly don't know all the details of how to make sustainable management work, but we believe that

we have gone a long way toward identifying the major elements of an approach to management that will achieve sustainable effectiveness. We hope you agree and will share your comments—both affirmative and critical—with us. Sustainable effectiveness is something that everyone needs to learn more about and get better at. There is a lot riding on our being successful.

Contents

Time for a Reset

The time for a management reset has come. A management reset is needed that is not simply a matter of making leaders more effective or adopting the latest twist on how to engage employees. It must be a seismic change, a complete rethinking of what an organization's objectives are and the way they are achieved, the kind of reset that has happened only twice in the past century.

What will this new world of management be like? Consider the following scenario. Your work week begins with you walking into a company meeting of 150 people. While many people are physically present, many are attending virtually. Everyone has gathered to design a new product or service solution to reduce water use in rural homes—an issue your futuring process has determined will soon become a huge environmental issue in Southeast Asia. Included in the meeting are company employees as well as members of nongovernmental organizations, governments, health officials, and potential customers.

For the next two-and-a-half days you work in a series of small groups, describing and designing a solution that everyone agrees will generate a reasonable profit, a positive impact on the natural environment, and an improvement in the quality of life in rural communities. At the end of the meeting you are exhausted but delighted by the outcome of the meeting. You wish you could go to "your office" to decompress and catch up on what has happened in the past two days, but like almost everyone else in your company, you do not have an office. Instead, you access your

video mail via the link in your car and arrive home in time to spend an evening with your family.

Will environmental and social issues really be a front and center issue in the next management reset? Absolutely. The next reset will require companies to be as keenly tuned to a range of societal stakeholders as they are now to a range of investors. Just this orientation already exists at Patagonia, PepsiCo, and Unilever.

Will you really get a chance to think ahead and address issues before they become crises? Yes, and it won't be just you and a few key managers involved in futuring processes. It will include most members of your organization and key stakeholders. Such broad involvement in thinking about the future is the only way organizations will be able to keep up with the pace of change.

Will your job description call for you to participate in large-group design meetings? The answer is no because job descriptions lost their usefulness years ago, and the next management reset will acknowledge that jobs themselves are an obsolete notion. Instead, work will be defined by the projects and initiatives that drive current effectiveness and create future strategies. And don't count on your place in the hierarchy to give you power—there are many leaders in your organization because people rise to the occasion when leadership is needed.

Will offices be a thing of the past? Yes—to a large extent they already are. They are an expensive artifact of an era when the Internet did not exist and office size and location was a source of status and a valued reward. In the next reset, where you work will be determined by what you are doing and who you are doing it with. It is just as likely to be conducted in virtual space as it is in physical space.

A Brief History of Management

To understand the future of management, you first have to understand the past. We cannot successfully build the nimble, future-oriented, and socially savvy organization of tomorrow if we don't understand why new management approaches are created. Let's look at the first two resets so we will be able to drive the next one.

In the early 1900s, Western civilization had reached a developmental tipping point.[1] A shift in consumer demand was driven by

population growth and an expanding number of social classes that multiplied the range of products and services that people wanted. At the same time, mass production technology burst onto the scene thanks to Henry Ford's development of the assembly line.

The first management reset occurred when the rational principles of bureaucracy—the only management framework available—were married with the scalable technology of mass production. It was a match made in heaven and led to the development of what we call *command and control organizations* (CCOs). Buoyed by the certainty of demand growth, the ability of CCOs to meet customer demand fostered an era of unprecedented economic growth.

Business and social changes also triggered the second management reset. The growing complexity of work, the rising education level of the workforce, and innovations in management practice led to the creation of organizations committed to employee involvement. In contrast to the assumptions embedded in CCOs, people were considered sources of creativity and innovation and not just mindless dolts needing autocratic supervision.[2]

The second reset led to the development of high involvement organizations (HIOs) and showed that people could be an important source of competitive advantage when they are managed in the "right way." Buoyed by the certainty of long-term productivity improvements, the high involvement approach to management garnered a lot of attention and generated significant increases in profitability. However, it did not replace command and control management as the dominant approach to managing large organizations.[3]

The economic success that accompanied both resets reinforced the management principles used by CCOs and HIOs. While GM and Exxon conjure up images of mechanistic bureaucracies, Whole Foods and Procter & Gamble are associated with visions of employee involvement. We are not going to debate whether the CCO and HIO management principles served us well; instead, we are going to argue that they are now obsolete for three reasons.

The first reason is the way social and business environments are changing. In the past, both the rate and complexity of environmental change were manageable using CCO and HIO principles. The luxury of growth in demand covered up mistakes