



LUKAS MICHEL  
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# THE QUEST FOR INNOVATIONS

## IN MANAGEMENT AND ORGANIZATION

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## THE QUEST FOR INNOVATIONS IN MANAGEMENT AN ORGANIZATION

It's like taste – we only notice it when it is not there. We assume that management and organisations function as intended. And faults with management and organisations always fall back on people – those that manage organisations. In times of higher risks, management is in everyone's conversation. We notice its malfunction of organisations at scale with our inability to eliminate a virus or stop a sudden war. We are fast in pointing at people. But what we observe is that risk management fails to prevent crisis, engagement management does not motivate people, change management fails to alter how we operate, and project management does not get things done, and organisations don't perform. We have been coping with failing management by separating it into functions. Risk management replaces management through sophisticated analysis. Engagement management replaces people leadership. Change management replaces management through sophisticated methodologies. And project management replaces management through doubling structures. We believe that separation gets us out of trouble. We have added more detail, more precision, more sophistication yet to recognize that we are back at square one. Management is in trouble. It's time to finally get it right.

Renowned scholar Henry Mintzberg has defined management as the art, science, and craft to get work done. If that's so, then management touches everyone, everywhere, anytime. Most of us perform some kind of work. That's why we need to care about management and what it does to people and organisations.

We are living in uncertain, volatile times, and have grown uneasy with traditional management. Risks have emerged that weren't on our radar, closer to home than we have ever seen, to an extent we've never experienced. The VUCA phenomenon (volatility, uncertainty, complexity and ambiguity) suddenly has become everyone's personal experience. Poor management is an everyday conversation. Crisis management has taken over normal management, which seems insufficient in dynamic contexts. Traditional ways of managing — 'the way we've always done it' — seem to have reached their limits.

In the headline of a recent article, INSEAD business professor Gianpiero Petriglieri asks us, '*Are Our Management Theories Outdated?*' (*Harvard Business Review*, 2020). He blames management for the harm of ultra-capitalism, "the unquestioned practice of a dehumanized view of how management works and should work. It's an instrumental view that casts it as a technology of sorts, a means to an end, a tool to maximize efficiency, alignment, and performance — even when seemingly acting with concern and care for people." Theories and tools seem to help with instrumental managerial questions. But, they seem of little help when we're confronted with existential challenges, like the disruption of Covid and war.

Petriglieri links it to a human midlife crisis: "Trying to change the world without wanting to change our world is a classic sign of midlife and common defence when our worldviews collapse." To change management, he suggests, we need to change our concept of management. We need to replace it with truly *human* management that makes room for our bodies and spirits alongside our intellect and skills. An approach that cares for what work does and feels like and means to us, not just for what we can do at work, and how. This is management that abjures the relentless pursuit of efficiency and alignment. Petriglieri concludes that management as we know it has to die. "There is no other way," he insists. "Because, in truth, it does not have a problem. It *is* the problem."

There are three reasons for management to be the problem. First, the art of management needs a new spirit. Second, there is a problem with management theory. Third, the new context requires a different management craft.

**The art of management needs a new spirit.** Sumatra Ghoshal's in his seminal article, *Bad Management Theories Are Destroying Good Management Practice*, wrote that "Our theories and ideas have done much to strengthen the management practices that we are all now so loudly condemning." (2005) He refers to ideas espoused by business schools 30 years ago, such as agency theory, transaction costs and competitive strategy, and calls them 'negative theories.' Their underlying assumptions are that people need motivation to do things; control and tight monitoring is required; and businesses must be competitive in nature to survive. Negative problems then focus on how organisations need to be managed to prevent 'bad' people from doing harm to others. He says these ideas have dominated much of past management research and practice. To reinvent the art of management, we need more of the *spirit of performance*, as Peter Drucker called it—sparking and supporting the entrepreneurial mindset that finds opportunities at all levels and drives the constant renewal of enterprises, and ultimately of society itself. (Drucker 1954)

**We have a problem with management theory.** Traditional management has been built on the Anglo-Saxon view of scientific management that people need control – being told what to do. People are seen as mere resources that serve the profit purpose. Much of the early 20th century management theory was based on that one fundamental principle. The traditional management dominance is so strong that it survived up to today and transcended throughout the world. Just about every manager has been trained in command & control with business schools teaching what once was successful. Efficiency, scale, standardisation, and reliability were the result. It is important to note that these are extremely valuable outcomes. They continue to be relevant. But they are not the critical features that make firms competitive over a long period of time. For new management theories, we need to change our assumptions about people.

**The new context requires a different craft of management.** Researchers and practitioners have observed that the rate of change caused by technology, globalization, and complexity has been increasing for years. (Salmador and Bueno, 2007) The digitalization fundamentally changes the nature of work, how we organize and how we lead people. Just about every company engages in digital transformation projects. But to a large extent, management remains the same. Businesses remain in the efficiency mode whereas efficiency is becoming less and less effective. To address the opportunities of the future, businesses require a different operating model, one that scales learning. "In a rapidly changing world, the most powerful and necessary form of learning is learning in the form of creating new knowledge." (Hagel, 2021) Scalable learning helps to expand the focus beyond efficiency. Knowledge is the primary resource for individuals and for the economy overall. The traditional production factors such as land, labour and capital become secondary. (Drucker, 1992) In that kind of context, we need management practices beyond traditional efficiency, productivity, and risk prevention.

**Why we are where we are.** Many of the traditional management 'innovations' of the past failed because of this predominant rational mindset. It assumes and transcends an impoverished and

inadequate view of humankind. The scholar and educator Sumantra Goshal (2008) called it the negative assumptions that underlie traditional management. This mindset is practiced as what the Harvard Business School's Chris Argyris called 'theory-in-use.' It is not the philosophical views that are expressed when you speak to managers.

The prevailing scientific managerial mindset focuses on the rational, the known, the executive 'I' in pursuit of efficiency. As a result, people are treated as a means rather than an end. In that mindset, management innovations need to appeal to efficiency. This makes approaches with a focus on experience, awareness, the unknown and the 'we' hard to sell. And we get more of the same efficiency – linear, mechanical, process-oriented.

People-centric management has emerged from a different history, with a different mindset. It's a mindset that is closely related to the humanist view of the world. Goshal (2008), who we cited earlier regarding negative assumptions, would summarize this ethos as the set of positive assumptions that make up people-centric management.

People-centric needs to be experienced. Only then can the learning be translated into action. I truly believe that managers should research, learn more about and embrace elements of the Reformation and Humanism, to better understand the ways of thinking needed to grasp agility. Unfortunately, as mired as they are in the rational mindset, it's unlikely that many will make that shift without a change in identity, and existential change in the way of looking at the self.

But there's hope. In recent years, with Nobel prizes being awarded to the scientists and economists associated with the discipline, behavioural economics has been 'discovered.' Kahnemann was awarded the prize in 2002 for integrating psychology into economics when people make decisions under uncertainty. In 2013, Robert J Shiller received the award for his work on asset pricing through behavioural finance. And, in 2017, Robert Thaler received a Nobel Prize for establishing that people are irrational in ways that defy economic theory. *Homo Economicus*, the rational human decision-maker who acts in his own interest, is being fundamentally questioned.

It is interesting to note that in overviews of key innovations over the past 200 years, management is never mentioned as a radical innovation that gets the respective recognition. Andrew Hill (2021), the Financial Times management journalist put it as follows: "Take any middle manager from 2011, or 1991 or even 1961, he would still belong to a large corporation, have an office with a desk, is somewhere on the org chart, has an incentive plan, is part of the hierarchy, follows a bunch of sociopaths with high-sounding titles giving orders." One of the reasons for missing innovation is that 20<sup>th</sup>-century traditional management systems still work. Hierarchy offers structure in a complex world. Offices provide a hub for face-to-face interactions. But the systemic inertia is to blame for the slow pace of change. "Rigid hierarchies can become bloated, timid, complex, insular, arthritic, and highly politicised" to quote Gary Hamel talking at a workshop held at the 2021 Global Drucker Forum in Vienna.

**Have we reached the tipping point?** Are positive assumptions about people changing management? The thinking has passed the tipping point to management that separates us from the bureaucratic past. 21st Century organisations are at the cross-roads: remain stuck in power & hierarchy or turn thinking

into action and create value through network relationships and people-centric leadership. The signals are strong that we have overcome traditional management based on the negative assumptions so we can put people back into management art, theory and practice. It's time to "spark the entrepreneurial spirit". (Drucker 1954)

**The time has come for innovations in management and organisation.** There is a desperate need for innovations in management and organisation. Real managers know that it is their task to change the way they lead people, how they organize themselves and how they get work done. Better management is every manager's primary job.

Better management and organisation are not merely about adding new labels to the current ways of doing things. It is much broader than efficiency and alignment. It's what is embedded in the much broader perspective of culture, as management expert Edgar Schein explains in *Organisational Culture and Leadership* (2010). He describes how "a set of basic assumptions defines what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations." Better management is a different way of thinking about work. Better organisation is about creating an environment where people can apply their knowledge and skills. Some of it is very much the opposite of what we are used to.

There are many ways to look at what 'new' means. The challenge with this is that comparisons shift our attention. We look at the features and attributes of other companies and get distracted by the infinite number of differences. But, as psychologist Barry Schwarz, author of *Paradox of Choice: Why More is Less* (2004), explains in his 2005 TED Talk, when we have many options, our choice is limited, as it is difficult to make that choice.

That's why we have long been arguing that innovations in management come with people-centric, agile and dynamic capabilities. People-centric adds the art of enabling people – or leading in ways to make others shine. Agile comes with the assumption that people are self-responsible and principally don't need control. Dynamic addresses the context of the digital economy.

**The ultimate test of management is the performance of organisations.** (Drucker 1954) We have agreed that management permeates everything. "The performance of modern society depends on the performance of its institutions—the businesses, universities, hospitals, research institutes, labour unions, government and other civil organisations that perform its essential functions. And the performance of these institutions depends on the performance of their people." Therefore, it makes sense to think about the performance of management.

**What performance matters?** Work is always work for clients. Without a client, work is not work. That clearly defines the performance of work. If management is the art, science, and craft to get work done, then management performance needs to get work done, create value, be unique and hard to copy.

To evaluate the performance of management, the criteria for competitive advantage offer the logic for its measurement. In line with strategic management professor Jay B. Barney's resource-based view of the firm (1991) and the VRIN criteria for competitive advantage (valuable, rare, inimitable, and non-

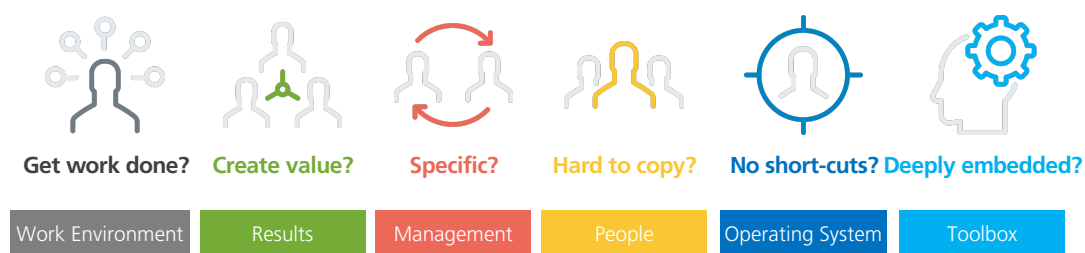
## THE QUEST FOR INNOVATIONS IN MANAGEMENT AN ORGANIZATION

substitutable), we have identified a model with six features to signal whether management and organisation out-perform others to qualify as a competitive advantage.

Management and organisation must fulfil all six criteria to qualify as a competitive advantage.

### SIX KEY METRICS

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The criteria and their components are as follows:

*Does the work environment enable people to get work done?* Our model uses culture, purpose, relationships and collaboration to size up the work environment. An engaging work environment is a competitive advantage because it enables people to get work done.

*Does your organisation keep promises and create value?* Our model uses performance, innovation, growth and success to determine organisational outcomes and reveal whether management creates value. Keeping promises is a competitive advantage because it establishes trust with clients which is of greatest value.

*Does your management create unique value?* Our model uses ten questions to review whether management applies a control-based (traditional management) or an enabling-based (people-centric management) approach to leading people. A people-centric management approach is a competitive advantage because it mobilizes resources in ways that make the client offering specific.

*Do people use their talent to exceed expectations?* Our model uses awareness, trust, choice and focus of attention as the means for people to experience flow, perform at their peak and learn. Achieving flow more often – the state of high performance – is a competitive advantage that is hard to copy.

*Is your operating system read for VUCA?* Our model reviews the operating system to evaluate whether it has a design for a traditional or a dynamic environment. A dynamic operating system is a competitive advantage as it prevents short-cuts.

*Is your toolbox deeply embedded in culture?* Our model looks at systems and leadership with interactive and diagnostic features. Their usage tells us whether the toolbox is rooted in the culture and is a competitive advantage.

**Innovations in management matters.** With these six features, management fulfils the 'better' criteria. Better is the yardstick for management with agile, people-centric and dynamic features. As such, it turns management into a competitive advantage – one of the few advantages left in a time where advantages dissolve faster than ever before. That's why every manager needs to worry about management. The evidence is paramount: Organisations with better management score 25% higher on the management score as compared to organisations with traditional management. The management score summarizes up to 102 factors that our Diagnostic uses to assess the features of management.

Overall, better managed organisations make a difference. They are considerably more agile, people-centric and ready for a dynamic market environment. And they are better off competing in the future: Performance is 21% higher, innovation 25%, and growth 28% as compared to traditionally managed organisations.

Better management increases an organisation's intangible value. The responsiveness to customer needs is up by 17%, alignment +16%, capabilities + 18%, employee motivation + 15%, and cleverness +20%.

**Can we rely on movement for innovations in management and organisation?** The Anglo-Saxon mindset is hard to overcome. "Of course, the Cartesians have an answer: 'It takes a conscious choice.' This ignores the fact that mindset is a multi-layered concept," writer and educator, David Hurst (2014) said. "A mindset can be an explicit model or a broad worldview. As we learn, the process of logic breaks down. Knowledge becomes wisdom. The Cartesian 'I' becomes incapable of standing outside the self. From this point on, a change in mindset demands a change in identity, an existential change in the way of being. Changes at that deep level take compelling experiences, not intellectual choices. This will take a social movement and more."

Better management is a movement. It will take time. There's no reason to wait for it; it won't *just happen*. It's an opportunity to turn traditional management into management with people-centric, agile and dynamic capabilities and make it your competitive advantage (your rational decision). For some executives, a mindset shift is necessary to make that shift (your trust in your organisation's capabilities and experience). The objective is a sustainable transformation with impact.

**It's hard to leave traditional management.** Management plays an important role moving to better management. (Crocitto and Youssef, 2003) The key is what is needed to fix is what happens at the top of the organisation. (Denning, 2021) Few managers are willing to abandon their comfort zone for the chaos of uncharted territory. It's a risk. And the Dunning-Kruger effect (Dunning, 2011) points to many leaders overestimating their own capabilities, and those of their organisation, in making the shift. For leader, self-confidence is essential; it is part of any leader's DNA. But overconfidence and risk-aversity are like boomerangs. Demotivation and the feeling that change is impossible spread like a virus in teams. That leader gets very lonely, giving rise to the conviction that it's the leader who "has to do all the work." And so, there we are, stuck in a vicious circle.

**Measuring management is dynamic capability monitoring.**

Monitoring is the discipline to observe and alter capabilities. By observing (scanning) capabilities, potential faults and malfunctions can be spotted at an early stage. By becoming aware of critical signals,

potential design requirements can be identified. With this, leaders can decide whether or not to address the issues. As such, monitoring initiates changes in capabilities.

People-centric principles, agile capabilities and dynamic capabilities are not directly observable. They require indirect measurement. Monitoring as institutionalized, rules-based reflection is a non-routine practice. If such monitoring is to succeed, it must be kept open; it must not become subject to closed-down routinization. Only then is it possible to detect extraordinary signals that call the validity of current design and capabilities into question.

**From traditional to better management and organisation.** The shift to better management first needs the awareness that management needs change. That's why we diagnose management with six criteria of the better features. Awareness is the first step to learning. The shift to better management is a transformation where no one has the answers on the specific tools and practices that guarantee success. It's a process that requires individual design, to fit management to the specific needs of the organisation and the context within it operates. As such, the shift to better management follows design thinking. Then, these ideas need to translate into action. Experience is the best teacher when it comes to learning new ways of doing things and performing at the peak.

Diagnostic Mentoring is the methodology to shift to better management. It follows three steps: collectively raise awareness, act on insights and learn fast.

1. **Raise awareness.** Diagnose current management, create awareness.
2. **Act on insights.** Identify better management with new features, offer choice.
3. **Learn fast.** Enable better management with new capabilities, trust those that are responsible.

Better is within your reach. Know where you are coming from. History shows the way forward. Shift to the new spirit of performance. Engage the new theories. They are readily available. Apply practices that fit with the right design. Adopt diagnostic mentoring, the methodology that helps you develop better management faster.

Over the last years, I have actively documented the foundations of better management in our books.

- *The Performance Triangle* (2013) describes the model for agile organisation with people, organisation, work, operations, and management as its dimensions.
- *People-Centric Management* (2020) describes the levers of self-responsibility, delegation, self-organisation and attention.
- *Diagnostic Mentoring* (2022) describes the three-step process with raising awareness, acting on insights and learning fast.
- *Management Design* (2021, 3. Edition) describes the canvas tool the documents the results of the entire process.
- *Agile by Choice* (2021) offers 12 nudges and 22 exercises for your self-guided learning.
- *Better Management* (Expected 2022) defines six standards for fitness as competitive advantage.



- *The Leadership Scorecard* (Expected 2023) presents typologies of organisations with distinct capability patterns.
- *The Transitions of Organisations* (2023) identifies typical transition strategies to master systemic crisis and return to growth.

Every day, better management contributes to a better world, one by one.

Why would you guess if you can know?

**Lukas Michel** is author and founder of Management Insights with its global network of management experts.

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