

Innovative management: A conversation with Gary Hamel and Lowell Bryan

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"Sometime over the next decade," warns renowned strategy guru Gary Hamel in his new book, *The Future of Management*, "your company will be challenged to change in a way for which it has no precedent."¹ What's even more worrisome, he argues, is that decades of orthodox management decision-making practices, organizational designs, and approaches to employee relations provide no real hope that companies will be able to avoid faltering and suffering painful restructurings.

McKinsey partners Lowell Bryan and Claudia Joyce, in their recently published book, *Mobilizing Minds*,² arrive at a similar conclusion from a slightly different perspective. They find that the 20th-century model of designing and managing companies, which emphasized hierarchy and the importance of labor and capital inputs, not only lags behind the need for companies today to emphasize collaboration and wealth creation by talented employees but also actually generates unnecessary complexity that works at cross-purposes to those critical goals.

Forward-looking executives will respond to this looming challenge, these authors conclude, by bringing the same energy to innovative management that they now bring to innovative products and services.

The opportunity is substantial. Against the backdrop of the digital age's dramatic technological change, ongoing globalization, and the declining predictability of strategic-planning models, only new approaches to managing employees and organizing talent to maximize wealth creation will provide companies with a durable competitive advantage. It won't be easy. As companies discard decades of management orthodoxy, they will have to balance revolutionary thinking with practical experimentation to feel their way to new, innovative management models.

Hamel recently joined Bryan for a conversation on the subject of management innovation. Joanna Barsh, a director in McKinsey's New York office, moderated their discussion.

Joanna Barsh: What is the opportunity both of you have identified and how did you spot it?

Gary Hamel: For almost 20 years I've tried to help large companies innovate. And despite a lot of successes along the way, I've often felt as if I were trying to teach a dog to walk on his hind legs. Sure, if you get the right people in the room, create the right incentives, and eliminate the distractions, you can spur a lot of innovation. But the moment you turn your back, the dog is on all fours again because it has quadruped DNA, not biped DNA.

So over the years, it's become increasingly clear to me that organizations do not have innovation DNA. They don't have adaptability DNA. This realization inevitably led me back to a fundamental question: what problem was management invented to solve, anyway?

When you read the history of management and of early pioneers like Frederick Taylor, you realize that management was designed to solve a very specific problem—how to do things with perfect replicability, at ever-increasing scale and steadily increasing efficiency.

Now there's a new set of challenges on the horizon. How do you build organizations that are as nimble as change itself? How do you mobilize and monetize the imagination of every employee, every day? How do you create organizations that are highly engaging places to work in? And these challenges simply can't be met without reinventing our 100-year-old management model.

Lowell Bryan: I arrived at the same point from a slightly different perspective. McKinsey asked me about 12 years ago to try to understand the impact of technology and globalization on our clients. We

concluded that these forces were creating a fundamental discontinuity. Or to put it differently, that technology and globalization were creating a set of opportunities that didn't exist before.

We observed that companies were struggling to take advantage of the opportunities created by digitization and globalization because their organizations were not designed for this new world.

Joanna Barsh: Is this a topic that CEOs are eager to hear about?

Gary Hamel: Not necessarily. The Internet is making it possible to amplify and aggregate human capabilities in ways never before possible. But most CEOs don't yet understand how dramatically these developments will change the way companies organize, lead, allocate resources, plan, hire, and motivate—in other words, how new technology will change the work of managing.

Throughout history, technological innovation has always preceded organizational and management innovation. Think back to the end of the 17th century, when muskets started to be introduced into European warfare. At the time, battle formations were very deep, very square, with the archers in the middle of the formation shooting over the heads of the archers in front of them.

Eventually, those formations changed in size and scope to better reflect the capabilities of muskets. But it took almost 100 years for this to happen. Why? Because a couple of generations of generals had to die off before military planners were able to use this new weapon in a productive way.

It won't take 100 years this time. Still, if we're going to fully mobilize human minds, to borrow Lowell's phrasing, we're going to have to turn a lot of our legacy management beliefs on their head. The old model was, "How do you get people to serve the organization's goals?" Today we have to ask, "How do you build organizations that merit the gifts of creativity and passion and initiative?" You cannot command those human capabilities. Imagination and commitment are things that people choose to bring to work every day—or not.

Lowell Bryan: I think the technological revolution that occurred in the past 15 years was basically equivalent to the industrial revolution—a fundamental discontinuity. And just as technologies have *S* curves, the technology of management also has an *S* curve.

If you look at the big management innovations that Gary has talked about—from, say, Taylor in the 1890s up to [Alfred P.] Sloan in the 1920s and then popularized by [Peter F.] Drucker and [Marvin] Bower—you could argue that the maturity of the 20th-century management model didn't come until the 1960s and 1970s. Only then did what we view as modern management become pervasive throughout the world. In other words it took 50 to 60 years. Modern management itself was basically an effort to deal with the aftershocks of factories, which were created over 100 years before Frederick Taylor was born.

In other words, we are in the early stages of a very long innovation of organizational design that will eventually go to places we can't yet see. But you can see enough to identify huge opportunities for companies to take advantage of what is already known. Innovation in organization is occurring all over the place, but a lot of those innovations go nowhere. There's lots of experimentation going on, but organizational barriers prevent the adoption of good innovations throughout the company.

Gary Hamel: There are three reasons the technology of management may well change as radically over the first few decades of this century as it did during the adolescence of the last one. First, as Lowell says, is the impact of new technology. The availability of powerful new tools for coordinating human effort will profoundly change the work of management over the next few years. And then we have that new set of challenges I mentioned earlier: the increasing demand for companies to be adaptable, innovative, and exciting places to work. A third force for change is a revolution in expectations. Take a look at our kids—the first generation that has grown up on the Web. Their basic assumption is that your contribution should be judged simply on the merits of what you do rather than on the basis of your title or your credentials or providence or anything else. This is the lesson they've drawn from the experience with what I call the "thoughtocracy" of cyberspace.

Joanna Barsh: Are the thinking-intensive industries driving what Gary is talking about?

Lowell Bryan: New organizational models are needed in all industries because all companies engage in thinking-intensive work. The traditional, hierarchically based 20th-century model is not effective at organizing the thinking-intensive work of self-directed people who need to make subjective judgments

based upon their own special knowledge. Such people work in all companies, in all industries, and in the digital age it is these people who create wealth. We need a model for such work—a model that uses hierarchical decision making only for activities that need that authority, such as allocating resources, appointing people to jobs, or holding people accountable—but at the same time enables self-directed professionals to collaborate with their peers continuously. And that's where you need to adapt the model: by creating mechanisms to enable such collaboration to be efficient and effective. Such mechanisms can help the organization to work horizontally as well as vertically.

Every large company, even a retailer or a mining company, has large numbers of thinking-intensive employees who need to collaborate with one another. That's where the value is today. The winners will be those that enable their thinking-intensive employees to create more profits by putting their collective mind power to better use.

Joanna Barsh: You both talk about talent and human beings as a company's biggest asset. Are CEOs on that wavelength?

Lowell Bryan: Part of the issue is the definition of talent. Everybody says they want more talent, so it's almost uninteresting to ask people what their biggest challenge is; it's always going to be talent. But to be very clear, it isn't just intrinsically talented people you need. You can hire all the intrinsically talented people you want. There's a market for talent, and as long as you're willing to pay what that marketplace demands, you can attract talented people. The real challenge is making profits off those talented people. That's where the big opportunity is. The leading companies today are combining talent and technology and organizational design to generate much higher profits per employee than was possible in the past. So the trick becomes, "How do I hire talent that I can profit from?"

Gary Hamel: In a market where talent is largely a commodity and can be bought anywhere, the secret sauce is creating an environment in which you push that frontier out, in which you can steadily raise the returns on human capital. The combination of technology and talent is a powerful catalyst for value creation, but to take advantage of the Web's capacity to help us aggregate and amplify human potential in new ways, we must first of all abandon some of our traditional management beliefs—the notion, for example, that strategy should be set at the top. So I think Lowell is 100 percent right: in terms of managing creative-thinking people, you have to separate the work of managing from the notion of managers as a distinct and privileged class of employees. Highly talented people don't need, and are unlikely to put up with, an overtly hierarchical management model.

Increasingly, the work of management won't be done by managers. It will be pushed out to the periphery. It will be embedded in systems. I think we're on the verge of what I would call a postmanagerial society. The idea that you mobilize human labor through a hierarchy of overseers and bureaucrats and administrators is going to look extraordinarily antiquated a decade or two from now.

Lowell Bryan: These thinking-intensive people are increasingly self-directed. In fact, they're directed as much by their peers as they are by supervisors. The management challenge is akin to urban planning. The art of it is that you must enable people to make thousands and thousands of individual decisions about how to live and work, but you have to create the infrastructure to make it easy for them to do so. You've got to have the sewer lines, you've got to have the four-lane highways, you've got to have the pedestrian malls thought through in a way that individuals find it natural and easy to work either by themselves or with others.

Gary Hamel: There's a danger too, I think, of creative apartheid. Too many executives seem to believe that while a few people in the company may be really clever and creative, most folks aren't. When you look at companies like Toyota, you see their ability to mobilize the intelligence of so-called ordinary workers. Going forward, no company will be able to afford to waste a single iota of human imagination and intellectual power.

Joanna Barsh: Let's discuss what management innovation looks like. Gary, your book talks about experimentation as the key, and Lowell, you've got a number of ideas that are very, very different from what is actually going on in companies today. What really gets you excited as you start to innovate?

Lowell Bryan: What I find exciting are ideas that already exist in practice, that have been innovated over the past 10 or 15 years on a small scale, but have not been integrated together on a large scale. The necessary innovation is to adapt the specific organizational-design ideas that enable individual companies to perform better.

So it might be bringing talent or knowledge marketplaces inside a company or building formal networks or introducing dynamic management principles to a company. These are all ideas that have been tried somewhere; they just haven't been integrated together, at scale, in very many companies.

Gary Hamel: The outlines of the 21st-century management model are already clear. Decision-making will be more peer based; the tools of creativity will be widely distributed in organizations. Ideas will compete on an equal footing. Strategies will be built from the bottom up. Power will be a function of competence rather than of position. In terms of the future of management, we're at the beginning of what will be a fairly long journey. You can see some of the pieces starting to come together, but we're not there yet.

To become inspired management innovators, today's executives must learn how to think explicitly about the management orthodoxies that bound their thinking—the habits, dogmas, and conceits they've never taken the trouble to challenge. For example, many people believe that it takes a crisis to change a large organization, and when we look at the evidence this seems to be the case.

And yet it's important to dig underneath that belief and ask, "Is this a law of physics? Is crisis-driven change the only way to change a large company, or is this reality the consequence of something we designed into our management system 100 years ago?" I would argue it's the latter. It often takes a crisis to change an organization because in most companies the authority to set strategy and direction is highly concentrated at the top. As a consequence, a relatively small group of people at the top can hold the organization's capacity to change hostage to their own personal willingness to adapt and to change.

So the orthodoxy is that it takes a crisis to change. OK, but in order to change that reality you have to change the distribution of power in large organizations. Some of these things are not going to happen overnight.

Richard Florida, who wrote a wonderful book called *The Rise of the Creative Class*,³ argues that some of the most bruising battles that will be fought over the next 15 to 20 years will pit the forces of organization against the forces of creativity. One model is not going to simply surrender to the other. To go back to Lowell's idea about the S curve, I don't think you shuffle your way from one S curve to the other. You have to jump.

Frederick Taylor often talked about the need for a mental revolution when he was trying to move organizations from the craft-based model to the factory model. Today we need a new mental revolution. Some companies will lead and some will follow, but we won't be able to reinvent management for this new century without some trauma and some risk taking.

Joanna Barsh: So how should companies change as they jump to this next S curve?

Lowell Bryan: I like the notion of designing a managing concept or master plan—a master architecture, if you will—for every company. Such a master plan should lay out the big foundational elements to get your organization to work differently, including, for example, what is your fundamental metric for performance? Should it be return on capital or profit per employee?

Once you've designed your master plan, you can launch a series of initiatives aimed at achieving your goals. Part of this process is to stage-gate the initiatives in order to manage the risks of innovating. The thing that really stops innovation is risk. CEOs can be terrified of organizational disruption because it can put at risk a company's ability to meet quarterly earnings, which in turn is often what causes CEOs to lose their jobs. So part of what you need is a bridge so that they can be innovative but also keep their jobs.

I think if you take the principles of private equity, venture capital, and R&D and bring them inside the company to stage-gate your investments in organizational innovation, you can first learn what works and then scale it, without taking excessive risk. None of us are smart enough to see in advance the ultimate answer, because the real answer lies in discovering the operating detail to make new ideas work in practice. You can see the broad directions, but you can't see how it's going to really work. You can't even understand the secondary and third-level consequences of the design decisions you make. Those have to be discovered through trial and error.

Gary Hamel: When it comes to reinventing management, you must have the courage to set seemingly aggressive objectives—like GE's goal of growing at twice the rate of GDP, net of acquisitions. But the actual work of reengineering our musty old management practices will be more evolutionary than

revolutionary. You don't take a large, complicated company and tear up all the track at once. To do so would expose a company to an intolerable level of operational risk. Yet companies must become as purposefully and creatively experimental in thinking about their management systems and processes as they already are in thinking about R&D or new-product development.

Joanna Barsh: Who in companies should spawn that portfolio of experiments that Lowell was referring to?

Gary Hamel: The folks who are responsible for the big management processes: the executive vice president for human resources, the CFO, the director of planning, and so on.

Lowell Bryan: In terms of companies that are really pushing innovation and mobilizing mind power, some of the best examples are private-equity players. With private equity, you have principals who are activists, and they're really shaking up many industries.

Joanna Barsh: OK, I've got the courage, I've got the architecture. I can't believe that's all a company needs.

Gary Hamel: Most of all, there is a lot of discipline and work needed to migrate from one management model to another. I don't think it's obvious to a lot of companies that it's really possible to experiment with management.

As in any scientific experiment, you have to set some very clear boundaries around what kind of risks you're willing to take and then challenge people to test new ideas within the boundaries. That's a new skill for most organizations. A lot of the inspiration will come from looking entirely outside the world of large organizations and management—and understanding how experimentation is used in the sciences to engender new insights will minimize risks.

Lowell Bryan: The real opportunity that companies have today is to take control of their own destinies and begin to consciously innovate. By that I mean they need to take on strategic initiatives and organizational initiatives at the same time. The scarce resources in any company today are discretionary spending, talent, and the ability to focus. You need the ability to focus in order to be able to allocate the resources. Like it or not, in order to really create any innovation and scale it, you've got to deploy some resources. How do you do that? The issue is not just raw innovation; it's actually being able to scale the innovation through at a large company. That's where the wealth will be created.

Gary Hamel: In this experimentation it's critical to have what I call the voice of the user very much front and center—the individuals, throughout an organization, whose work is heavily influenced by a company's core management processes. These people know which processes choke off innovation, impede adaptability, and frustrate employees.

Joanna Barsh: So I'm a CEO. What do I do? I have the courage; I've got the audacious goal.

Lowell Bryan: Assuming you're well managed, the direction that most companies need to go in is improving how they enable their people to collaborate with one another at much lower cost by dramatically reducing unproductive search and coordination costs. And that means deploying such devices as talent marketplaces, knowledge marketplaces, and formal networks to make intangible assets flow throughout the company, as opposed to going up and down vertical chains of command.

I will say that the ideas on how to organize for the 21st century have now reached a stage of maturity where people are ready to consciously innovate. It isn't like ten years ago, when we were still trying to figure out digitization and globalization.

Gary Hamel: I would argue there's not 1 company out of 1,000 today that has created an organization in which innovation is truly everyone's responsibility.

CEOs tell me, "Gary, we're really serious about innovation"—and what CEO isn't these days? My response is to go down to first-level employees and ask them a few questions. The first question I ask is, "How have you been trained as a business innovator? What investment has the company made in teaching you how to innovate?"

The second question I ask is, "If you have a new idea, how much bureaucracy do you have to go through to get a small increment of experimental capital? How long is it going to take you to get 20 percent of your time and \$5,000 to test your idea? Is that a matter of months or is it very easy for that to happen?"

The third question is, "Are you actually being measured on your innovation performance or your team's innovation? Does it influence your compensation?"

And finally I'll ask, "As you look at the management processes in your company, do they tend to help you work as an innovator or get in the way?" When you ask these questions of first-line employees, you quickly discover that in most companies there's still a big gap between the rhetoric of innovation and the reality.

Joanna Barsh: Final thoughts?

Gary Hamel: In any field of human endeavor you ultimately reach a point where you can't solve the new problems using the old principles. I think we've reached that point in the evolution of management. When you go back to the principles upon which our modern companies are built—standardization, specialization, hierarchy, and so on—you realize that those are not bad principles but are inadequate for the challenges that lie ahead.

Lowell Bryan: More economic integration has taken place in the past 30 years, you could argue, than in the previous 10,000 years of human history. And the organization of companies, as Gary has said, is lagging behind the changes in the world economy. But to my mind, it's just an incredibly exciting opportunity for the world at large because, for the first time, the ability to create wealth is being liberated from the inputs of labor and capital.

Ideas are being monetized in ways never before possible, and the world is a richer place. I'm not just talking about creating financial wealth; I'm talking about a much more stimulating work environment, with more interesting jobs for employees to create more valuable products and services for the world's consumers. It is just an incredibly exciting time to be alive. 