The Management System
Why the way we manage entraps performance

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At A Glance

The systems that organizations use to manage people, resources, and capital are based on a century-old philosophy. Although organizations have grown in effectiveness, the management system has become the next bottleneck.

Century-Old Management Remains
A comparison between today and the 20th century shows that the management system has halted its progressive evolution.

The Clash of Worlds
Restrictions in management and new exponential problems have created a resistance strong enough for Fortune 500s to crash.

The Awareness Solution
The next evolution in management will be able to handle expanding complexity through new systems of awareness. These systems will translate mounds of data into actionable insights.
The invention of new technology has shaped our world since the dawn of civilization.

When compared with the tremendous changes we have lived through in the past half century in lifestyles, technology, and human geography, the practice of management seems at a standstill. A resurrected industrial tycoon, like John Rockefeller, would find today’s systems of management familiar. Major changes such as effortless global communication and the universal 24/7 customer service would not be outside an industrialist’s realm of understanding.

In the midst of our changing world, many fundamental organizational principles remain. As our pace accelerates, these constants are becoming bottlenecks to the way we do business. Many businesses that have achieved rapid growth have stalled out and failed, like web startups during the dot-com tech bubble. Other firms have been able to leverage their capital to achieve momentous profits, but at the same time run out of capital, like banks in the financial crisis.

This whitepaper seeks to discuss management trends by reviewing the past and present management system in order to draw conclusions on how to address today’s unique challenges.

A Short History of Management

The advent of management was a response in the 1890s to a growing demand, for the then agricultural economy, to manufacture and produce modern products to meet the demands of industrial customers. At the time, manufacturing companies were simple, produced one product, and had a few employees. The labor force was unskilled and untrained.

The goal of early management was to establish a model that could drive productivity and consistency across a large population of workers. Early manufacturers needed to workers to arrive on time and to produce on schedule; acting like semi-mechanical cogs in a production machine.

In this production environment, between 1900 and 1920, the tools of modern management were conceived and implemented in successful companies like Standard Oil and the Ford Motor Company. Managers were able to organize thousands of people to operate machinery and supervise production processes. Tools to drive productivity emerged in the form of pay-per-performance, capital budgeting, task design, and division of labor. And, early managers built command-and-control, hierarchal business empires to support their large scale industrial development.

Century Old Management Philosophy Remains

Over the past 120 years, management evolved. Companies and economies became more complex and information became a new medium of exchange. The original notion of how management should be accomplished stayed ingrained in the system.
And, the reduction in the cost of transactions allowed the world to flatten as traditional boundaries were bridged by the internet and international commerce.

Technology has allowed managers to optimize the machine. Enterprises are able to expand their production capacity and financial leverage. Banks are able to leverage their assets 30 times over and manufacturing companies are able to build products with almost no inventory through Lean and Six-Sigma. Notwithstanding, advances in the “productivity of the machine” have not carried over to the people in the machine or the structure of the machine itself. Minor variations have enabled managers to assess the organization through unstructured, impromptu checks or Management by Wandering Around. However, as a whole, managers have evolved a dense matrix of bureaucratic practices to minimize variances from the plan and maximize adherence to policy. These practices have been created across industries and company scales. The ideas have even remained dominant in “creative” industries where employees spend most of their time producing ideas instead of physical goods.

Despite new demands and high-minded rhetoric about leadership, organizations continue to repeat their modest beginnings as top-down, mechanistic organizations.

The Clash of Worlds: Challenges with Old Management
The current management model is not adept to handle the unique challenges of this century. Due to their management systems, Fortune 500 organizations have disappeared overnight. Even the *Good to Great* companies, like Circuit City, are not immune. The following changes understate the need for a solution to the old system of management:

**Challenge #1: Exponential Change**
The citizens of the 21st century are in a world where the rate of change is evolving. In this world, companies are like passengers in an accelerating racecar. Product categories like PCs that used to have a cycle life of three or four years have been replaced by laptops that change every one or two years; and by cell phones that can be updated as quickly as every nine months. In this world, we have exponential change. There are exponential increases in internet connections, mobile devices used, and genes mapped. Antiquated management styles that rely on communication up and back down the chain of command act as bottlenecks to product and service development.

**Challenge #2: Hyper Competition**
We live in a global economy. Oil harnessed by Saudi Aramco can be refined by Lukoil in Russia for DuPont, an American plastics supplier, which will provide the raw material for another global value chain. This global economy is populated with educated, capable workers available to work at any time of the day.
Management needs a system to collectively integrate and realize changes in trends to find insights in data.

Changes in supply chains caused by natural or human disasters (e.g. the Japanese tsunami or American oil spill) can have far reaching consequences. A start-up located on another continent or solely online has the possibility to make your business irrelevant, similar to what happened between Amazon and Borders. A management system without an ability to predict encroaching concepts is a blind management system.

**Challenge #3: Global Knowledge Sharing**

Knowledge is globally available. Best practices and technologies once safely held in the vaults of corporate R&D centers are now accessible. Global turnover, industry consultants, and partner networks make the best ideas available on demand. Open source software can at times provide a more satisfying solution to proprietary solutions that took years and millions to develop. Traditional organizations with central command stations, departmentalized silos, and regional divisions could miss key insights of their field workers. Meanwhile, competitors may purchase these insights from consultants to gain a strategic advantage for their next product launch.

**See Change as it Happens: The Awareness Solution**

The problems of generations maintain a common thread: management of organizations is based on a century-old model that is not able to handle the complexity and overwhelming information of organizations. Companies run transactional databases with millions of transactions and billions of computations on a daily basis. These transactions mean nothing in their siloed and scrambled state across thousands of computers and in the heads of hundreds of people.

Management needs a system to collectively integrate and realize changes in trends to find insights in data. Managers need a way to virtually walk around their entire organizations. The challenges of our time need to be examined and solved with a tool to provide awareness to management and enable them to experiment with new models.

Reflecting on the problems with a new tool can empower management to discover alternatives. Exponential change can be addressed with systems that can leverage exponential performance. Companies need to replace down-the-chain communication with up-the-chain awareness systems and employee autonomy. Hypercompetition can be solved with monitoring systems that combine organizational data and employee data to give the company external vision. Global knowledge sharing can be challenged by organizational systems to measure and rapidly adapt to new best practices.

While these century old problems will not disappear overnight, technology can lead the way for companies to move in the right direction. Awareness systems can help to create insights into static top-down organizations. These tools will help managers make decisions for the future.
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