

What Management Ought To Be

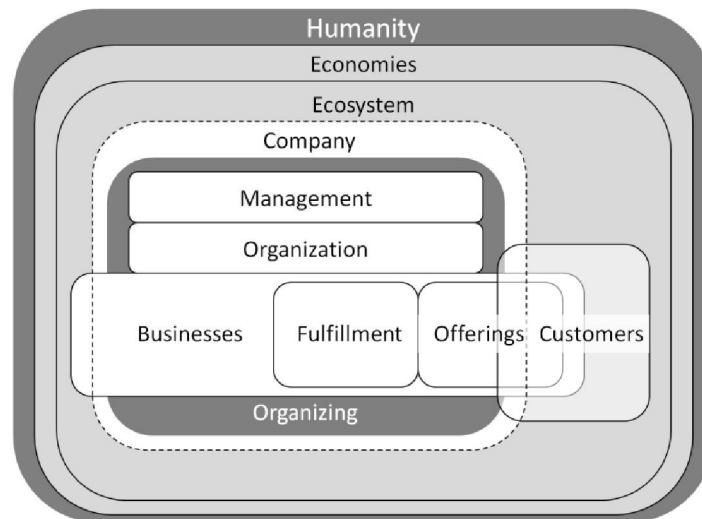
An Introduction to Regenerative Management through Business Architecture

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Businesses leaders struggle now more than ever to create and maintain vital, relevant, and profitable companies. Seeing the command and control of conventional management fail to address their companies' challenges time and time again, they seek a better way of management. These leaders find a host of alternative solutions beckoning to them, but lack a cohesive framework for figuring out what they should adopt and what they should avoid. This whitepaper proposes a new model for business architecture as the means pointing to the end of what management ought to be, which we call regenerative management. Embracing this concept frees executives, managers, and employees to immerse themselves in meaningful pursuits while leading their companies in achieving persistent advantage.

Business Architecture



The end of faith in conventional management. As company leaders wrestle with finding their way in today's turbulent business world, many realize that, despite its obvious and great success throughout most of the twentieth century, conventional management rarely produces thriving companies anymore. Executives long accepted the tenets of command and control without a second thought. Because its validity went unquestioned, its near universal application persisted for decades, even as evidence mounted of its declining efficacy. Today, exploding

technology, rampant innovation, business globalization, and morphing economies erode all but the most obstinate business leader's belief and comfort in conventional management's familiar and comfortable prescriptions.

While it may still have legitimate applications in a few, rather stable, arenas, the conventional way of management no longer passes muster. But while we know what doesn't work, we have neither discovered nor become practiced in what will work. Since people, like nature, abhor a vacuum, a torrent of new ideas, guidelines, and prescriptions rush in to fill it. Instead of fostering bold actions, this turbid pool of disorganized, disconnected, discordant, and even untested ideas produces confusion, uncertainty, and vacillation. The sheer abundance of potential prescriptions gives us hope for addressing our current challenges, but does little to offer us the coherent guidance we need to choose wisely. Knowing we need to take action, too often we feel more like gamblers than the management sages we're expected to be.

There has to be a better way. These circumstances parallel Vince Lombardi's situation in 1959 as the new head coach of the chronically losing Green Bay Packer football team. As the tale goes, in early season practice Lombardi became so frustrated he stopped the training and gathered the team to proclaim: "Let's start at the beginning. This is a football. These are the yard markers. I'm the coach. You are the players."¹

As with football, we make sense of the whole of management by starting with the basics. Management guides a company's team of employees to compete on a playing field of offerings, fulfillment processes, organizations, business models, organizations, customers, competitors, communities, and economic systems. Its preeminent objective: to produce a company that thrives. Indefinitely. That is the essential task of management. And your job as coach—not a bad term for leaders today—is to regularly create new advantages before existing ones fade away.

The first question to answer in order to make sense of all this: what ought management *achieve* in order for companies to thrive indefinitely? As Peter Drucker famously put it, management ought to create customers.² It ought to create value for those customers and its ecosystem. It ought to capture that value to produce profits, the oxygen of business. It ought to discover new ways of creating and capturing value again and again, as any particular competitive advantage eventually fades. It ought to tap the full potential of employees, freeing them to create those advantages by pursuing their own and their company's best interests by their own means. And it ought to align all these activities to evolve every aspect of the company such that it remains a vital organ of its ecosystem in pursuit of a meaningful purpose. So given that, what ought management *be*?

Redomains management. W. Brian Arthur, the noted economist, sheds light on the issue. Arthur concisely defines technology as “a means to fulfill a human purpose.”³ Recognize, therefore, that *management itself* is a technology, the means we use to fulfill the human purpose of creating economic value. To that end, management does not just play on the field of offerings, fulfillment processes, etc., it encompasses them—and any and all things “business”—as related technologies.

Arthur further introduces the concept of “technology domains,” coherent groups of technologies—families of devices, methods, and practices—that form around sets of phenomena.⁴ For example, Arthur identifies the electronics domain as the set of technological devices based on the function of electrons. This electronics domain serves many human purposes, including communication transmission. Think of how communications leapt forward when the underlying technologies shifted—what Arthur calls a “redomains”—from the domain of paper and ink to that of electronics, starting with the telegraph in the 1800s. At the same time, companies began developing and adopting the principles of conventional management shortly thereafter.⁵ Employing new technologies such as standardized work, hierarchical command structures, and performance measurement, this management domain took shape to make the scale, scope, and dominance of the great corporations of the early twentieth century possible.

Technologies also advance within their domains, as it long did for electronics because all the components and systems “spoke the same language” of the electron. Similarly, conventional management advanced into the latter half of the 20th century by incorporating such technologies as capital budgeting, management by objectives, and total quality management. These innovations all followed the same trajectory, progressing naturally because they all shared the common tongue of the conventional management domain.

No matter how much improvement occurs, however, technological domains may still be usurped, whenever significantly better technologies emerge, based on different phenomena.⁶ Such a redomains happened yet again in communications transmission with the rise of photonics, based on the phenomena of photons (think light and fiber optics).⁷ While electrons interact in close proximity to each other, photons pass right through one another without being altered.⁸ Imagine if all the cars on the LA freeway system could pass through one another like photons, forever eliminating automobile collisions and traffic jams! That’s what it’s like inside a fiber optic cable.

In the case of management, no new management technologies based on newly discovered phenomena have yet appeared to revolutionize management. But something equally powerful has happened. Two radically different *views* of the phenomena of humanity, organizing, and economies serve to redomains management every bit as much as photonics did

communications. Our view of people switches from the once-dominant illusion of rational economic man requiring carrot-and-stick motivators to the reality of the irrational and yet purpose-seeking and intrinsically motivated human being we all are. Organizing comes into focus as an *a posteriori* organic emergence of structure moreso than *a priori* manmade design. And the free market economy's dynamic nature, with its continual creative destruction and complexity, becomes all too clear as its naïve portrayal as an inherently stable and simple system interrupted by occasional discontinuities falls into disrepute.

Reframing the underlying phenomena of business management in fact leads to this redomaining. Copernicus's reframing of the phenomena of our solar system, along with a little help from Newton and others later on, ultimately took Mankind to the moon, gave us satellite TV, and enabled GPS on our phones. This Copernican-like reframing of business management phenomena simultaneously invalidates conventional management while pointing toward what management *ought to be*.⁹

Whether with communications, cosmology, or management, redomaining results in changes—neither incremental nor trivial, but radical and revolutionary—which enable previously unimaginable or dormant capabilities to become reality.¹⁰ Our new view of people, for example, drives us to realize humanity's three innate needs—autonomy, pursuit of a meaningful purpose, and the desire to achieve mastery.¹¹ If management truly meets these needs, people immerse themselves in their work while any further attempts to explicitly motivate them dampens, and can even extinguish, their intense self-directed pursuit of purpose and mastery.

Unleashed in this way from the bonds of being told what to do and how to do it, self-motivated employees garner intrinsic rewards in collaborating with others to achieve a higher purpose than they would ever be able to attain on their own. Conventional management's hallmarks of command and control end up in the trash bin of obsolete management methods while the new management hallmarks of *purpose and collaboration* rise up to take their place.

Such workers, freed to collaborate on simultaneously achieving the company's ends along with their own, engage *both* their right and left brains.¹² The unleashing of the whole mind brings about a new pattern of organic activities woven into the fabric of a healthy company:

- *exploration* that leans on the right brain to learn about new possibilities—to hypothesize, experiment, discover, and invent in order to create value in the future;
- *exploitation* that taps the left brain to learn more about current certainties—to optimize, refine, and extend—in order to create value today; and
- *orchestration* that depends on whole-brain functions to maintain a healthy balance and integrate the two.¹³

These three activities account for this new way of management's most defining characteristic—its *regenerative* capability. Exercised together, they orchestrate the continual exploration and

exploitation of new value, which continually regenerates the company. Companies that self-regenerate their competitive advantage over and over, indefinitely, achieve persistent advantage. That's why we label this new way of management *regenerative management*.

In supplanting conventional management, regenerative management finally makes sense of what management ought to be. Now we can—explicitly define the object of management—the entire business enterprise—to reveal its elements and structure.

The architecture of business. All technologies, including companies, have an architecture—a function and structure of elements to carry out that function.¹⁴ For example, a company manages an organization to carry out one or more businesses that fulfill offerings to customers. This tells us a company consists of the technological elements management, organization, business(es), fulfillment, and offerings. Explicitly representing this architecture helps us understand it, develop it, refine it, add new functions, employ it, and upgrade it whenever needed by replacing a component. Business enterprise, and company management, thus encompasses:

- dealing with all of humanity, as people permeate all elements of business as employees, as customers, as citizens in society, and as economic actors;
- creating customers by being of value to them;
- providing offerings to generate that value;
- executing fulfillment processes to create the offerings;
- developing businesses to create and capture economic value for the company;
- organizing all the resources of the company (including defining the organization itself);
- guiding the company to engage and compete in its ecosystem;
- participating in one or more economies; and
- managing all of the above to build a company capable of achieving persistent advantage.

These factors define the nine fundamental elements of business architecture shown in Figure 1. Delineating the company as one element in this overall structure, including its internal vs. external elements as well as the previously mentioned phenomena, helps to make sense of management. Of course, much work remains in further defining and developing the domain of regenerative management, but now we have an overarching, universal framework from which to proceed. Focusing now on just the management element of the overall business architecture, we next look into its structure.

Business Architecture

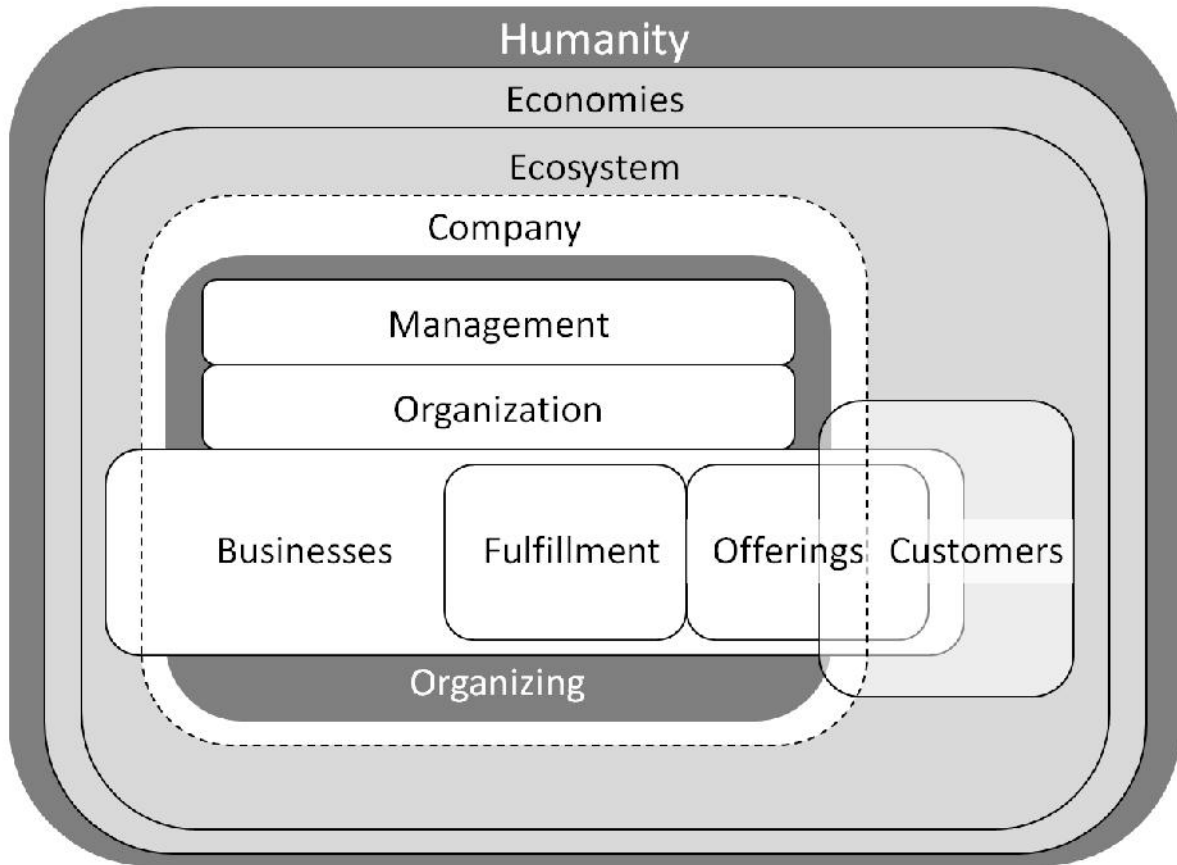


Figure 1 – Fundamental Elements of Business Architecture

Defining regenerative management. Up to this point we posited what management ought to achieve, represented its scope with business architecture, characterized the phenomena of business underlying the domain of regenerative management, and defined its characteristic organic regenerative activities. A framework for identifying and organizing the elements of regenerative management takes us the next step in defining what management ought to be. This hierarchy, illustrated in Figure 2, begins with the Laws of Management derived from the characteristics of the business architecture. It then flows to the principles and universal frameworks of management that follow from those laws. These first three elements of regenerative management prove essential for all companies. Individual companies then tailor the remaining aspects to their particular circumstances, beginning with any proprietary frameworks that confer unique advantage and concluding with the specific processes, procedures, and activities required to create value.

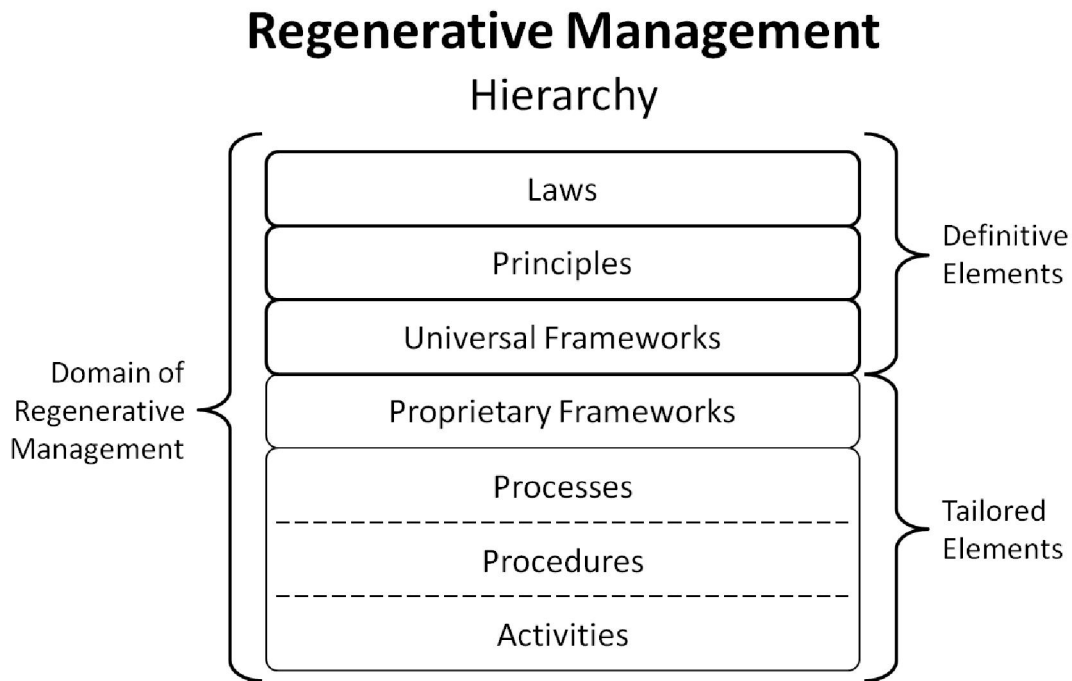


Figure 2 – Regenerative Management Hierarchy of Elements

The five Laws of Regenerative Management given in Figure 3 derive from the business phenomena. While the derivation of these laws will be fully developed elsewhere, note that the 1st Law of Management harkens back to our initial premise: Effective management creates persistent advantage. Because companies are an integral part of their ecosystem and greater economic system(s) in which they operate, all three shape and are shaped by one another. For a business enterprise to be part of the evolution of these external entities, it must stand athwart the gales of creative destruction by creating advantage again and again—essentially producing its own ongoing destructive recreation—in order to retain and gain customers. Every level of the management architecture must be held accountable to this law, from its highest-level principles to its lowest-level activities.

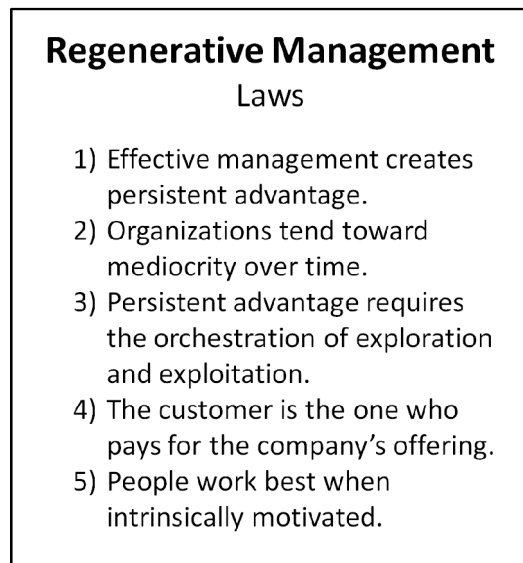


Figure 3 – Laws of Regenerative Management

Regenerative management principles, shown in Figure 4, follow from the Laws of Management to define the second level of the management structure. These, too, will be derived elsewhere, but for now note the stark contrast with how conventional management is practiced today. And what makes management truly regenerative is its adherence to these laws and principles in the lowest levels of the management structure—all management processes, procedures, and activities.

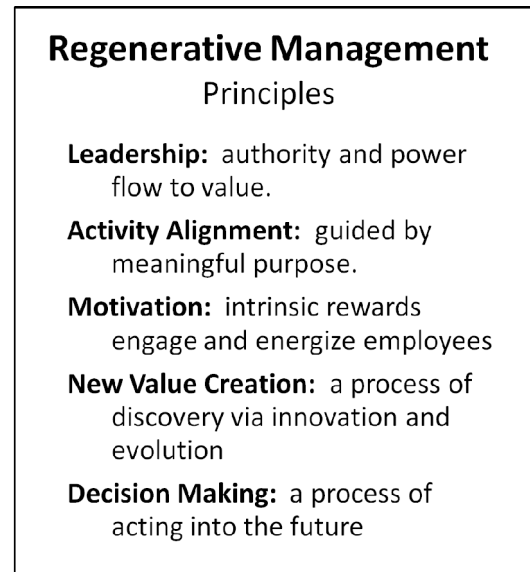


Figure 4 – Regenerative Management Principles

In the middle we find the connective tissue of two types of frameworks. Again, universal frameworks apply to all companies in all situations while proprietary frameworks apply only to individual companies in order to take advantage of their specific situations. One key universal framework, shown in Figure 5, brings together the three whole-mind activities briefly discussed earlier—exploration, exploitation, and orchestration—as the way to think about *all* activities of the company. Only management developed in accord with regenerative management’s three imperative value-creating activities produces a healthy balance of and integration between new discoveries (investing in the future) and existing operations (profiting in the present).

The Three Imperatives of Regenerative Management

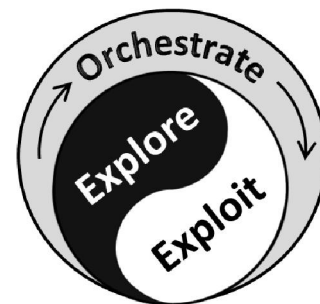


Figure 5 – Regenerative Management’s Three Value Creating Activities

Figure 6 provides a second universal framework that shows the structure of management activities forming the virtuous cycle that *originates* new possibilities, *formulates* their application, *executes* known opportunities, and *evaluates* to stimulate origination. Note that this cycle is just another form of the universal activities shown in Figure 5, with Originate providing exploration, Execute supplying exploitation, and Formulate and Evaluate orchestrating the two. This congruence between frameworks should be expected—even sought out—as it validates consistent

interpretation of the laws and principles of management. These different perspectives facilitate and enrich your understanding of regenerative laws, principles, and frameworks.

This then equips you to develop the unique management prescription best suited for your company's needs. Once you acquire the sense-making power of the business architecture and regenerative management, you will gain the acumen to establish the next generation of management in and for your company. Moreover, you will finally be able to decode the endless bombardment of new advice streaming from gurus, academics, and fellow practitioners and thereby quickly determine which to adopt and which to ignore.

Open architecture. Successfully adopting regenerative management requires understanding the nature of the business architecture. First, remember that it encompasses the *whole scope* of all things business. Second, see how it brings coherence to the elements of business by basing their definitions on the reality of business phenomena. Third, recognize that its stable essentials—its structure, laws, principles, and universal frameworks—provide us with an open and modular architecture where infinite possibility exists to further develop, innovate, and prepare your unique management and company prescriptions. This satisfies the paradoxical needs for stability and flexibility that enable you to perpetually regenerate your company in a chaotic world.

Whenever better management technologies come along—a better method of strategy formation, say, or a new fulfillment process—simply replace that element within the broader structure. Of course, whenever one element changes, anywhere from a ripple to a tsunami forms (depending on how interconnected it is to the other elements and how well they integrate). But once your company fully adopts regenerative management, all the elements of

The Regenerative Management Cycle

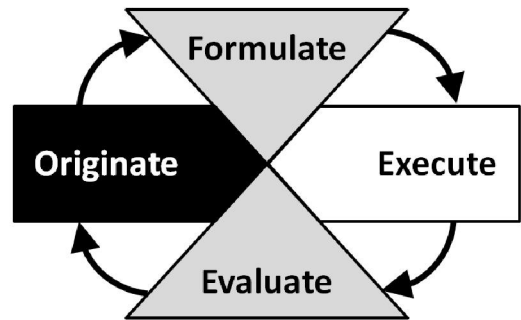


Figure 6 – Regenerative Management's Virtuous Cycle of Activities

its architecture will speak the same language, greatly reducing the chance of tsunami-type impacts.

Taking Performance to the Next Domain. In the case of electronics, no amount of reworking, refining, or reengineering would have enabled the leap forward in communication capabilities powered by photonics. In the same vein, no amount of reworking, refining, or reengineering of conventional management will move you toward regenerative management or achieve its performance potential. They comprise two different domains.¹⁵

Given photons will not run through copper wires, nor electrons through fiber optic cables, special arrangements must be made to tie together electronic and photonic devices to form a coherent communication system. The adoption of regenerative management requires similar skills and care, as conventional and regenerative management are discordant technologies and must be buffered from one another, even though they may need to be integrated at certain points. This is especially true during the initial stages of transformation, where forethought, rapt attention, and strong leadership shepherd the march forward. At the other end of the transition, great discipline and diligence root out the last vestiges of conventional management to avoid it limiting the potential or unraveling the gains of regenerative management. In the isolated cases where conventional management methods must be applied, for some particular area of the company, it must be judiciously contained to just that area.

Take control of your destiny. Identifying and building on the fundamentals of football, Vince Lombardi—taking over a team that had won only one game the year before—transformed the Green Bay Packers into a winning team in his first year, a postseason contender the next, then winner of its next nine postseason games, and eventually champion of the first two Super Bowls. Today's business leaders find themselves in a similar situation. Past management practice does not have a great track record. Evidence shows that company lifespan continues to dramatically decline,¹⁶ while the number of companies achieving advantage does not even exceed random chance.¹⁷ Producing such lackluster results after over 100 years of refinements and improvements means conventional management has run its course. Now is the time to transform your company's management with regenerative management.

Adopt the guidance of business architecture to extinguish the angst that comes with not knowing in which direction to head. Follow the coherent laws, principles and frameworks of regenerative management to overcome the disorienting cacophony of the management advice industry. And act with the confidence of knowing that your actions will bear fruit because you are applying the right processes, procedures, and activities to your situation. By adopting and tailoring regenerative management to your circumstances, you can actually go beyond what even Vince Lombardi, a heroic leader if ever there was one, could ever do. You can make the company capable of regenerating itself, its fate no longer hanging on the next heroic leader (as

the Green Bay Packers waited many long years after Lombardi retired for Brett Favre to come along and build another Super Bowl-winning team).

Unlike football, however, business does not have to be a zero-sum game where one's winning record depends on someone else's loss. Every company has the opportunity to win by creating unique value and capturing some of that value for itself. A company that learns to regularly regenerate itself and perpetually create new unique value thrives indefinitely, independent of other companies that also have the chance to create persistent advantage.

For those business leaders willing to accept the challenge to create and maintain a vital, relevant, and profitable company, regenerative management stands ready.

Notes

This paper covers an enormous scope in brief form. As more whitepapers, articles, and presentations come forth that focus on various aspects of regenerative management and business architecture—and eventually a book that covers it all—they will be noted below. Here are the resources available now:

- For more on business architecture, see the Business Architecture—A Deeper Look white paper (coming soon).
- For further regenerative management definition, see the Laws of Management white paper (coming soon).
- For more on regenerative management imperative, see the Management Artistry white paper at (coming soon).
- For a perspective on overall business enterprise innovation, see Enterprise Innovation—The Progression of Innovation Value (coming soon).

About the Authors



Kim Korn helps companies unlock their potential to create and sustain advantage. As a management practitioner, Kim has been responsible for invention, innovation, strategy, operations, reengineering, information systems, product development, and business creation. During this time he honed his skills in guiding strategic innovation and corporate transformation. Applying his knowledge and skills built-up over this career to the challenge of competitive advantage, Kim has discovered what we now call regenerative management. Prior to forming BAI, Kim held several positions at Andersen Corporation (Andersen Windows) and Andersen Consulting (Accenture). Kim earned an MBA in Finance and Information Systems from the University of Iowa and attended architecture school for two years at Iowa State.

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Joe Pine is an internationally acclaimed author, speaker, and management advisor and a Visiting Scholar with the Design Lab at MIT. Mr. Pine recently co-wrote *Authenticity: What Consumers Really Want*, which was named one of the top ten business books of the year by Amazon.com and featured in a cover story in *TIME* Magazine on “10 Ideas that are changing the world.” It follows the best-selling *The Experience Economy: Work Is Theatre & Every Business a Stage*, which demonstrates how goods and services are no longer enough; what companies must offer today are experiences – memorable events that engage each customer in an inherently personal way. It was named one of the 100 best business books of all time by 800ceoread. Joe also authored *Mass Customization*.

See more about Joe at <http://www.strategichorizons.com/joePine.html>.

Endnotes

- ¹ This quote is widely attributed to Vince Lombardi and whether precise or not, has become part of his lore. One example of its many mentions: Ken Keller, "Three Things I Learned From the NFL," *The Signal*, Dec. 2, 2008, <http://www.the-signal.com/news/archive/4384/> (accessed Feb 19, 2010).
- ² Peter F. Drucker, *The Practice of Management* (New York; Harper & Row, 1954), 37.
- ³ W. Brian Arthur, in *The Nature of Technology: What It Is and How It Evolves* (New York: Free Press, 2009), 28, provides three definitions of technology, including this one. The other two are "an assemblage of practices and components" and "the entire collection of devices and engineering practices available to a culture." Drucker also noted, in *Innovation and Entrepreneurship* (New York; Harper & Row, 1985), 14-15, that management is a technology, defining the latter as the application "of human knowledge to work," 11.
- ⁴ In *Ibid*, Arthur explains technology domains (70) and their basis in phenomena (145).
- ⁵ Alfred D. Chandler, in *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Massachusetts: The Belknap Press of Harvard Business University Press, 1977), 12, observed that the "Modern business enterprise was thus the institutional response to the rapid pace of technological innovation and increasing consumer demand in the United States during the second half of the nineteenth century."
- ⁶ Thomas S. Kuhn, in *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1962, 3rd ed., 1996), 3-11, explains how we live by paradigms that frame our interpretations of the world around us. Advances in management up from the 1800s through the turn of the 21st century have largely been in the conventional management paradigm. True to form, as with other scientific advances, or lack thereof, the anomalies where conventional management did not apply were dismissed until very recently as the anomalies have come to overwhelm the established management paradigm.
- ⁷ Arthur, *The Nature of Technology*, 69.
- ⁸ Kevin Kelly, "George Gilder: When Bandwidth Is Free," *Wired*, September/October 1993.
- ⁹ The shift in management is of the nature of the Copernican revolution when we came to realize the sun does not revolve around the earth. The phenomena did not change, but our interpretation of it did. And this new interpretation opens the door to radical advances in technology, like Copernicus's new interpretation of the solar system eventually made going to the moon possible.
- ¹⁰ Arthur, *The Nature of Technology*, 73.
- ¹¹ Edward L. Deci and Richard M. Ryan's research of human motivation, presented in "The 'What' and 'Why' of Goal Pursuits: Human Needs and the Self-Determination of Behavior," *Psychological Inquiry*, Vol 11, No 4, October, 2000, 269-318, reaches radically different conclusions from what has been the generally accepted paradigm for over a century. Their research provides a basis for both Brian M. Carney and Isaac Getz, *Freedom, Inc.: Free Your Employees and Let Them Lead Your Business to Higher Productivity, Profits, and Growth* (New York: Crown Business, 2009) and Daniel H. Pink, *Drive: The Surprising Truth About What Motivates Us* (New York: Riverhead Books, 2009), which provide insights for transforming companies to this new way of thinking and managing.
- ¹² Daniel H. Pink, *A Whole New Mind* (New York: Riverhead Books, 2005, 2006), 17-23. Roger Martin covers the same idea in *The Opposable Mind: How Successful Leaders Win Through Integrative Thinking* (Boston; Harvard Business School Press, 2007) and *The Design of Business: Why Design Thinking Is the Next Competitive Advantage* (Boston; Harvard Business Press, 2009).
- ¹³ James G. March, in "Exploration and Exploitation in Organizational Learning," *Organizational Science*, Vol 2, No 1, February 1991, defines the two types of learning in organizations as "exploitation of old certainties" and "exploration of new possibilities," 71. He elaborates further on p. 85: "The essence of exploitation is the refinement and extension of existing competencies, technologies, and paradigms. Its returns are positive, proximate, and predictable... The essence of exploration is experimentation and new alternatives. Its returns are uncertain, distant, and often negative." We have generalized that concept to include all activities of a company when a third type, *orchestration*, is added to balance and integrate exploration and exploitation.
- ¹⁴ Arthur, *The Nature of Technology*, 33-34.

¹⁵ Ibid, 74. Arthur points to redomains as the primary means of leaps forward in technological progression—versus the technological progression within a domain that tends to be more incremental and of relatively less increase in value. He further states that redomains are discontinuous technology, as the new technology is not compatible with the previous one.

¹⁶ Jerker Denrell, in “Random Walks and Sustained Competitive Advantage,” *Management Science*, Vol 50, No 7, July 2004, 922-934, demonstrates that the frequency of outstanding performance of a few companies in a population of organizations can be explained by purely random events. Further, Robert R. Wiggins and Timothy W. Ruefli, in “Sustained Competitive Advantage: Temporal Dynamics and the Incidence and Persistence of Superior Economic Performance,” *Organizational Science*, Vol 13, No 1, Jan-Feb 2002, present a study of 6,772 firms in 40 industries over 25 years from which they conclude superior economic performance rarely exists for more than a decade. Also, Wiggins and Ruefli, in “Schumpeter's Ghost: Is Hypercompetition Making the Best of Times Shorter?,” *Strategic Management Journal*, Vol 26, No 10, October, 2005, 887-911, further found that the periods of sustained competitive advantage have been getting shorter over time. This change is not restricted to any subset of industries.

¹⁷ Richard Foster and Sarah Kaplan, *Creative Destruction: Why Companies That Are Built to Last Underperform the Market—and How to Successfully Transform Them* (New York: Currency Doubleday, 2001), 10-13.