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Building leadership capability for change: an interview with Gary Hamel - episode 32

Philippa Lamb: The Wall Street Journal recently ranked Gary Hamel as the world's most influential business thinker and when he published his latest book, *The Future of Management*, Amazon rated it as the best business book of the entire year.

An American, living in Northern California, Professor Hamel is visiting professor of strategic and international management at London Business School. His work as a consultant has taken him into companies as diverse as General Electric, Time Warner, Nokia, Nestlé, Shell, Proctor and Gamble, IBM, Microsoft and many many more. Governments turn to him when they're grappling with tough challenges such as innovation policy, entrepreneurship and industrial competitiveness, and his latest project is to build the world's first management lab. The 'MLab', as it's known, is sponsored by the CIPD and it brings together progressive companies and world class academics and it set itself a fascinating remit: To speed up the evolution of management knowledge and practice.

Professor Hamel, most of us work in organisation still where executives who are, hopefully, well informed and capable tell junior executives what to do and when and how to do it. You don't think that really works any more do you, why not?

Gary Hamel: Well I think it is working less and less well and I think the primary reason is that change is accelerating. The single reality of our age is we live in a world of discontinuity where change is becoming more seditious, faster paced, it's unexpected and the reality is that most organisations are not as adaptable as they need to be. If you look back and you say "Why does it so often take a crisis to change a large organisation?" (and it usually does) and it almost always takes a change in leadership as well. In most of our organisations the responsibility for creating strategy and direction is still highly concentrated in a few people at the top, so effectively those individuals can hold the entire organisation's capacity to change hostage to their own personal willingness to adapt and to change. Since many of those people have most of their emotional equity invested in the past, in decisions and business models and so on that maybe a decade or more old, it's often very hard for them to admit for the need to change because doing so forces them to write off their own depreciating intellectual capital and that's a painful thing for anybody to do. One of the things that social scientists understand is that the more concentrated political power in any system the less resilient that system is going to be. It's why that despite the current crises over the last several hundred years democracies have always outperformed totalitarian systems. There are few famines, fewer financial crises, less cataclysmic change and yet our organisations are still put together mostly like the Soviet Union circa 1970. I think we could live with the cost of that in a world where change was better behaved but we can't live with it today.

PL: As you say, most organisations are still managed in that rather antediluvian way but within this global recession we're seeing some of them are flourishing markedly better than others and clearly there are lots of reason for that but in terms of leadership, what do you think they're doing that's distinguishing them from their rivals?

GH: Well right now obviously the companies that are going to do best in this crisis are ones that have a strong balance sheet, have good cash flow, probably companies that already have a rock bottom cost structure and so they're the ones that can make products and services that customers can actually afford. This kind of a crisis tends to wash out the inefficient firms. It kind of has this purging effect, which in a way is good every once in a while, although certainly this is worse than we would have hoped, but I think you have to separate out what is a cyclical event (a deep recession) from these longer-term cyclical trends. Increasing pace of change, a growing competitive intensity, hyper competition if you want, which is going to put a much greater premium on innovation and the fact that knowledge itself is becoming a commodity and increasingly in what will less and less be a knowledge economy and be a creative economy, we're going to have to find ways to get our employees to bring their creativity and their passion to work every day. I think the companies that do well over the next few months, the next few years are going to have a very important set of skills but those may not be the same skills that will see them through beyond this crisis. For that we need organisations that are fundamentally more adaptable, more innovative and more engaging places to work than they are right now. Some companies I think are already moving in that direction, most have a long ways to go.

PL: On that theme, I know that last year you held what sounded like a really fascinating event at Half Moon Bay in California and you brought together business leaders and academics to talk about reinventing management for the 21st century. Now I know you came to the conclusion there (along with many other conclusions) that organisations are not human enough to allow the human beings who work for them to flourish, do you want to tell me a bit more about that?

GH: You know one of the arguments or one of the premises we had going into that event was that organisations are going to have to become much more adaptable as change accelerates, much more innovative as the competitive environment heats up and then much more engaging places to work if you really want employees to bring their creativity, their passion and their initiative to work. If you think about, human beings already have all those capabilities. They're amazingly adaptable, I'm sure people listening right now some of them have had to change careers midway through their life, they've had to deal with family tragedy, some have moved across oceans. So human beings are extremely adaptable, we're amazingly innovative (as the web is making more and more obvious every day), given the chance we'll write blogs and we will do mash ups and we will do podcasts and all the rest and, of course, people are just amazingly interesting. It's why we love to watch reality television, it's why as human beings we love stories but yet somehow our organisations are less adaptable, less innovative and less engaging and inspiring than the people who work there and so in that sense, yeah, they're not as human as they need to be so that was one of the big themes of this conference. Of course, the reason is if you go back and look at the invention of management a hundred years ago management was invented to solve one very specific problem and that was how do you get human beings to do the same things over and over again with perfect replication and ever increasing efficiency? And in that model human beings are semi-programmable robots and that was an interesting problem to solve, it was an amazingly valuable problem to solve, it's just not one that's very valuable anymore and so in that sense those early management pioneers were very much working against the grain of what it means to be human and those of us who care about reinventing management we're

quite lucky because we're working with the grain of what it means to be human. We want our organisations to be more humanlike and less machinelike.

PL: What you say is evidently true but – as one of the academics in the audience at that event pointed out – the difficulty lies in bridging the gap between theory and practice doesn't it? Eric Schmidt, the CEO of Google spoke at that seminar, he said what you would expect him to say; that people want to be empowered but most organisations don't allow that, but as we know, Google is utterly atypical as an organisation in terms of its employee profile and what it does. For more traditional organisations, how do they draw on those lessons you're talking about and introduce them without actually shredding their entire philosophy?

GH: I think that's a really great question because so often these companies that we hold up as examples of kind of 'Management 2.0', they're young companies, they started with a clean sheet of paper, their management models are even more differentiated than their business models but if you're in a company that's been around for a few decades and has bog standard management practices it's a very daunting kind of a problem and I would never give somebody advice that you just rip up what's there and start all over again, it's simply not practical. The really interesting question I think in organisations today is, 'We know in our hearts that we need revolutionary change in how we manage, lead, organise and structure and yet we have to find a way of doing this that is evolutionary in practice'. So revolutionary goals, evolutionary steps. The good news in a way is that human beings have actually learned how to solve that paradox and we call it experimentation. I think in management, people in human resources, people in finance and strategic planning in organisations, they don't think like experimenters. They don't start with some big bold new principle like how to dramatically increase the level of trust in an organisation, how to dramatically improve or enlarge the freedoms that people have to experiment and then how do you do something small, a little experiment that moves you in that direction? Instead we think every five or ten years we'll take some core management process, we do a complete rethink, redesign it (probably a big risk in doing that) or more likely we just increment our way year after year with tiny little tweaks to management as usual. Anyone who has responsibility for one of these key management processes they need to think about 'How do I become as experimental with that process as the people in R&D are or the people in new product development where I need to be building a portfolio of small experiments and how we compensate, how we measure performance, how we do appraisals? Constantly trying new things. The ones that work I scale up, the ones that don't we leave by the wayside' and I think as managers we're very uncomfortable with the word experiment. What we'd much rather say is "We're doing a prototype" or "We're doing a pilot" because the message there is 'I've figured 90% of this out and we'll do a little fine tuning at the edges'. If you saying I'm going to do an experiment you're admitting ignorance that anything could really happen, we're just going to try something but I think we're going to need that mentality.

PL: Because the difficulty is that even if people want to come forward with ideas from departments that perhaps aren't generally thought of as ideas departments, those ideas are often killed aren't they by the one person above them, their manager who says "Actually no, I don't like it" and that's the end of it. It's a very difficult process for those ideas that actually may lie within an organisation to come forward and flourish isn't it?

GH: It is difficult and I think anyone who's kind of a management activist if you like in an organisation has to learn about the principles of activism. There is a way and it's not a secret, I mean there are all kinds of books that are written about this, about how a lone individual with very limited formal power in an organisation can get things done. Typically the first principle is don't start by trying to sell your idea upwards. Start by trying to sell it horizontally. If you can get ten or 15 or 20 of your peers to say "This is a great idea – it makes sense" you have a lot more organisation clout than if you go in kind of metaphorically naked and say "This is my idea". Senior executives find it very easy to say no to individuals and often rightly so because the odds are that most ideas are not great ideas so you kind of say no go away but they find it much more difficult to do that when you bring a coalition together. I think the second principle there is you have to find a way of experimenting with an idea in a way where you don't need very many permissions to get started. One of the little experiments I talked about in my last book was a middle level executive in a large consumer electronics retailer who was distressed at the company's forecasting system and how wide of the mark they often were when forecasting Christmas or end of the year sales (a very critical thing in that industry) and so did his own little wisdom of the crowds experiment in that company, with nobody's permission, the only incentive we offer for people to throw in their forecasts for future revenues was a hundred dollar gift card for the best guess and they found out the first time they did this that the mass of several hundred people making this forecast were 99% right when the experts on average had only been 90% right and that simple little experiment, again, was done in a couple of hours, cost almost nothing, needed nobody's permission because you weren't disrupting anything that was already there, you were just trying something different. So we have to think in that way how do I build a coalition? How do I find ways of experimenting that don't require a lot of approvals or permissions but where we have the chance to learn something that will be very impactful?

PL: Google, of course, say that the shared vision is everything and that this is the root of releasing this creativity and innovative spirit we've talked about and that leaders need to be taught to listen; is that the key?

GH: Well I do think that innovation of any sort starts with an aspiration. You can't have innovation unless you have a dream and unless you're willing to kind of try things that other people say are a little bit stupid. For Google that's how do you raise the world's IQ? How do you connect people with information around the world? One of the sorry things for a lot of us who've worked in a management all of our lives, either in companies or in academia, is that we aren't romantics at heart. We don't start with this sense of what could be? How could our organisations be different? The first question when often you present a new idea to a manager is "Who else has done it? Show me the best practice guide. Show me the rules". Well that's not bad, sure let's learn from what's already there but that's a question that followers ask, that's not a question that leaders ask. I think this is where we are today with managers. I think of Bono trying to get governments around the world to take poverty in Africa seriously or you look at Nick Negroponte one laptop per child and close the digital divide or people that are struggling to reduce modern slavery and my question is, what is our equivalent as managers? What are these big new challenges, like dramatically improving the level of trust? Like depoliticising decision making? What are these big innovation challenges that we should be working on because I think Google understands that to release human

creativity, when people are working on something that is fundamentally exciting, fundamentally worthwhile and has no easy or apparent answers.

PL: There's a mismatch that makes your suggestion difficult for organisations isn't there which is that they are, by nature, almost all of them nowadays short-term in their thinking and what you're talking about demands

GH: Well I'm not sure it always demands a longer perspective temporally, a longer time horizon: It does demand more ambition. I'm not sure that all of these problems are going to take 20 or 30 years to solve, sometimes they simply take a new way of thinking. There's a lovely little company that I've gotten to know in Brazil that has really taken this idea of treating individuals like adults very seriously, they done a number of things but one of the simple things they did was they blew up all of the internal travel expense controls and in most companies they have really quite tight controls, now more than ever you often have to go up a level or two to get permission take a trip and then there's a whole set of rules about where you stay and how you fly and so on, they just blew all of that up in one go and said anybody who needs to travel on business do it, and when you travel any hotel, any airline, spend what you want and we'll just automatically pay it when you come back. Well if you gave that recommendation to the average finance director they'd have a heart attack. What makes it work in that organisation is they are organised into relatively small profit centres (30 to 40 people in a profit centre), half of their compensation depends on profitability so when you come back from your trip they'll pay whatever you said it cost, you still have to give receipts so they can look at that, but then they take that expense report and they publish it online for all your peers to see.

PL: So there is accountability.

GH: There is accountability but it's to your peers and it's much more efficient. That transparency is much more efficient as a control mechanism than a lot of one size fits all policies. To change that doesn't need five years, it's not some huge effort, it was a simple idea. Instead of having the bureaucracy let's have transparency. So I think a lot of these changes and the ones I described in terms of forecasting, they're not things that are so difficult to do that they're going to take forever, they just require a new way of thinking. And critically – and I think this is the hard part – they require a lot of managers to give up some of their traditional prerogatives because if you think about it historically what managers did was control and, in fact, in most languages if you look at the synonym for the word manage the synonym is control. Well we still need control. Control, discipline, alignment these are very very important but we have to find a way of getting those things that doesn't sacrifice imagination, creativity and so on and that seems to me where the innovation's required.

PL: And I think the difficulty that most middle managers would point to is that the expectation of their seniors is that they should not fail so that's very difficult for them isn't it, to experiment within that philosophy because if they fail to hit their very short-term goals, if they make mistakes that cost the company money then they are deemed to have failed across the board. So, for them to be brave that's tough isn't it?

GH: No I think it is often tough but again I think in general companies are starting to understand the fact that you can't innovate in any sphere – products, services, business models, management – you can't experiment without a certain number of failures. There's an inescapable arithmetic in innovation. I need a thousand whacky ideas to find a hundred things worth experimenting with to find ten things that can really make a difference to find one thing that in the end will transform my management systems, my business model and so on. People more and more understand that a certain level of failure is just an unavoidable price for adaptability for successful innovation and so on. The challenge, of course, is keeping those failures small and cheap and it's what Google is very good at. You throw something up on the web, you see if anybody comes, if it doesn't the project dies then and there. I think that is getting across and I think organisation their tolerance for small successful failures, meaning something where we learn something, it wasn't a stupid failure, we learn something and so on, I think that tolerance is going up. I think though in a sense the bigger challenge is that we have to become more comfortable with paradox. Really management is all about the tensions in the organisations, long-term/short-term, discipline/freedom, efficiency/innovation and a lot of times while all those middle managers may complain that somebody else is holding them accountable just to the short-term I think a lot of it is often we don't want to have the responsibility of thinking and of actually saying "Right now I have to decide, do I put today's effort, do I put my feet up on the desk and think about a new product, a new service, do I innovate or do I get out there and I try to sell something, I try to take some more cost out?" It's much easier for us in a way if somebody else is making those decisions and then just telling us "Right now we just want you to focus on cost" or "We just want you to focus on innovation" but we have to take the responsibility for managing that paradox moment by moment and for defending the choices we make in doing so. I would say the good news there is human beings are very capable of managing paradox when you give them the chance. You think about parents, as a parent the fundamental paradox with your children is love and discipline and nobody ever has to tell you "Today is a love day" or "For the next quarter we're just going to focus on discipline then we'll get that love thing by and by". You put the kid in a corner, you give them a time out and you give them the hug simultaneously, right? I think we often underestimate the ability of human beings at all levels in organisations, if you give them the right information, they understand the pressures on the organisation, we can let them make the trade offs – short-term/long-term, efficiency/innovation – we don't have to make them for them globally, we can trust them to make them themselves locally.

PL: The other difficulty here is that this is all happening so much faster isn't it? I know you're very preoccupied with this concept of speed, the speed with which we need to absorb new knowledge as individuals, the speed with which organisations have to catch up with new ideas; this is all getting faster and faster.

GH: Well it is and if you think about it, change has been accelerating for about thirteen billion years but the pace of change has gone hypercritical in our lifetime. The number of things literally that are now changing at an exponential pace – CO2 emissions, broadband connections, computer processing power, world population, number of genes sequenced. If you go back 150 years there was nothing that was changing on a sustained basis at an

exponential pace so we are both the authors and the victims of accelerated change. We're making it happen, given the new technologies and so on, but also as individuals and then in our organisational lives we're trying to figure out how we cope with all of this and it's extraordinarily stressful but I think what it will force every individual, every organisation, every society to really start to think about is how do we become capable of changing as fast as the environment around us? That, if nothing else, is going to require a profound transformation in how we think about organisations because the fundamental assumption in most companies is we have a business model that will last forever and we know that's not true. It's not true in music, it's not true in the pharmaceutical industry, it's not true in the newspaper industry and yet our organisational practices haven't caught up with that new reality. The good news in a sense is every organisation out there is struggling with this same problem and just as if you look back in the early years of the 20th century, the companies that figured out mass manufacturing, companies like Ford and General Motors and others, it set them up for a century of leadership. I think that companies, the organisations that figure out how do you compete in this new environment, how do you become more adaptable, how to get innovation out of every single person every day, these are the companies that are going to be set up for a lot of success a long time into the future. We don't know exactly how that model is going to sort itself out but we know enough now to get started. Here's a little example. You look at how the web has democratised innovation, one of my questions today is "So you have some management processes that you know are getting in the way of your company's capacity to change and adapt, so let's document that process. Let's put it up online – here's how we do employee appraisals, here's how we do our capital budgeting, here's how we do strategic planning. Put those up online – these are the people that get involved, these are the milestones, the timeframe, these are the decision tools we use – and ask people across an entire company "Alright, if we want to become more adaptable what would you change in that process?" I believe that we have to give every single employee the right to hack the management systems in a company. Not in a destructive way, good hacking like people building an open source, put in Linux, but everyone deserves to have the ability to influence and have a voice in shaping the evolutions of the processes that manage their everyday work lives and right now we're leaving that work to the experts and the experts – HR foremost among them – most of them are still stuck in the old models. I think this innovation in management is way too important to be left to the experts. It's going to have to be kind of an open source project where people all across the company have the that are more adaptable and more innovative. chance to hack these, to talk about how these should change if you really want companies

PL: And in your experience, do rank and file ordinary workers actually want to engage with that process – and I'm not talking about organisations like Google where everyone is hyper self motivated, I'm talking about real ordinary organisations – do they really want to do that or are they just in that mindset where it's a job? It's short-term, they just earn the money and go home.

GH: You know there are some that are for sure in that category but you go into any organisation there are a lot of people there who are frustrated. We know that from all the research data, we know that on average across the developed world less than 20% of people are highly engaged in their work. We know that millions of people every day are reading Dilbert and finding it like funny and also painful, right? I mean you wouldn't laugh if

you didn't care and if you didn't find it so painful and in a way our goal, what we're trying to do at the Management Lab, the measure of success would be that a generation hence people can't remember why Dilbert was funny. It would be like looking at some Victorian cartoon that seems completely out of context and what do people find so humorous about that?

PL: That's a very high aspiration.

GH: It's a high aspiration but as I said if you don't start with a high aspiration you won't make even modest progress. I think there are people in organisation who've had no where to go with those frustrations. We learned this some years ago when we started democratising the process for strategy creation of organisations. Now a couple of times IBM has hosted a global innovation jam where they've invited all of their employees, business partners to help IBM think about its future strategy. That was a very radical idea, that you would kind of outsource your strategy process. I think in a similar way we're going to have to not exactly outsource but we're certainly going to have to open source the process by which we redesign our management systems. I think people will be even more interested in doing that than in contributing to strategy because that's what gets in their way everyday of doing the job they'd like to do.

PL: It does strike me that all the ideas we've been talking about are much much easier to introduce in small organisations, particularly start ups as you've said but how do SMEs and larger organisations do this stuff?

GH: I think that's a correct observation. Having said that there are a lot of small organisations that get stuck with an initial business model are never able to change it and never grow into big organisations but definitely size is a barrier here. So how do you deal with that? Well first of all I think many organisations, if not the company itself the units in the organisation are too big. When you have a company that's made up of a few enormous divisions, within those units you tend to find a kind of intellectual hegemony – there's one way of thinking, one business model and so on – and I think what we're going to see over the next few years is every company is going to have to learn how to divide itself into smaller pieces. If you think about what makes human beings so capable it's cellular differentiation. Our cells divide and they differentiate, if not we'd be like one giant tongue or something worse, we wouldn't be able to do much but we have all these unique capabilities and organisations haven't really practiced that. There's a reason that at Google the average team size is three to five people and a lot of folks that I talk to today that think about this more deeply than I do say somewhere between five and seven and so I want an organisation that's organised into relatively small teams and then we can think about how do we aggregate those together but these large imperial divisions/units we have to break those things down. A second problem, particularly in large companies, is that those companies ultimately get into trouble because they tend to over invest in what is at the expense at what could be and often if you have a new idea in a big company it's very hard to get even a bit of time and some resource to experiment with that idea. You have to go through so much bureaucracy and it's so conservative and if you think about it, in most large companies there's only one place you can go with a new idea and that's up the chain of command and if it doesn't fit your bosses prejudices or biases the idea dies there. If you want an analogy,

imagine that in Silicon Valley we had a single venture capital company and there's one place to go with a new idea and of course there's be very little innovation. The average entrepreneur will try eight or nine times to raise funding and maybe they in the end do it or not. So what I think are the suggestions for large companies is you have to create a lot more places where people can get funding for ideas, so as example let's take a giant oil company. What if you said to everybody in that big oil company that has a discretionary budget of more than a few thousand pounds in a year that every year they can take one or two or five percent of that budget and they can invest it in any idea anywhere across the company that they think has merit, so they really are playing the role of angel investor. If you did that to several thousand people in a company that have those budgets now I have thousands of places to go for experimental funding instead of one and we know that that's what works in Silicon Valley, that's why it's this hotbed of innovation but yet in our companies we still have a resource allocation process usually that we borrowed from centrally planned economies. These are fairly simple things that can be done that can make companies that are large and still want to exploit the benefits of scale feel to the ordinary employee like you're much more intimate, much more malleable, much smaller and easier to get things done in. Again, it's managing that paradox.

PL: Professor Hamel, thanks very much indeed.