Welcome to Our New Era In Management

A few days ago, I visited a friend who is pioneering a new course at the Berkeley's Haas School of Business. The objective of the course is to train graduate students in critical thinking – framing difficult management problems in creative and innovative ways.

The course is designed to shift their thinking from "how to do it" to "why to do it." It is only by thinking creatively about the "why to do it" that a manager can design powerful new solutions and approaches that transform management. She is focusing on the most important objective of business education – to move beyond teaching students how to do the things that others have already figured out, and instead to teach them how to create the next generation of innovations that others will study.

After our conversation, I reflected on a panel discussion in which I participated earlier in the week. The subject of the panel was managing supply chain transformations, and the panel also included top supply chain executives from P&G, Chiquita, and Pepsi.

These three leading companies shared the same strategic dynamic. They were creating important gains in market share and competitive positioning because they were capable of partnering with their best customers to jointly create more and more powerful supply chain efficiencies. These efficiencies increased the customers' profitability, which in turn drove large revenue increases for the suppliers. At the same time, they dramatically improved their own supply chain productivity. They were rapidly increasing their market share and profitability, even in a stagnant economy.

The discussion quickly turned to the question of how they did it: How can a company's supply chain managers shift their focus from inward-looking cost control to the critical task of creating a much broader host of financial benefits through supply chain integration with the best customers? I have been asked the same question in various forms in discussions with CFOs, CIOs, and top executives in every functional area, who wonder how to shift their managers' attention from narrow technical issues to broader, high-payoff matters.

The underlying problem is that we are shifting from one era of business to another. A great guide to the management implications of this shift is the classic work on organizational design and management by Paul Lawrence and Jay Lorsh. They investigated the question of whether the best form of organization was for a company to be centralized, with separate functional "smokestacks" that only came together at the top of the company, or to be decentralized with a high degree of interdepartmental integration at the local level. To figure this out, they looked at high vs. low performing companies in a few different industries.

What did they find? They found that it depends – on whether the company was in a stable, homogeneous environment or a rapidly-changing heterogeneous environment.
I always picture two polar extremes: a brewery and a plastics company. A brewery (before the days of craft beers) is in a relatively stable environment. The objective is to carefully set the operating policies of each department – operations, advertising, distribution, etc. – and not let the departments interfere with each other. Hence, the wisdom of a centralized "smokestack"

organization where important changes in operating policies are tightly controlled and coordinated at the top.

A plastics company is at the other extreme. Every customer is different, and every project is different. Here, the company needs to form relatively independent teams for each project or cluster of projects. Each team needs to have representation from sales, engineering, manufacturing, distribution, etc., and the locus of coordination must reside at the team level.

When I talk to the managers in a company about their organization, in the back of my mind is the question: Should it look more like a brewery or a plastics company?

Our whole economy has shifted from one era of business to another. In the prior era, the Age of Mass Markets, the fundamental objective of most companies was to drive down costs through economies of scale, and this involved distributing as broadly as possible through arm's length relationships. The markets were relatively stable and homogeneous, and most companies correctly were organized like the brewery. In this context, most managers were focused on the rather technical tasks in their own department – the "how to do it" issues. Most of our management processes were formed in this earlier era.

Today, we have shifted to a new era, which I call the Age of Precision Markets. Leading companies form different relationships with different customers, each with very different operating characteristics and vastly different profitability. My new book, *Islands of Profit in a Sea of Red Ink*, describes this transition in detail. The most successful companies have learned to organize like a plastics company – account teams that are multi-functional and highly coordinated at the local level. This is exactly the solution that the leaders of P&G, Chiquita, and Pepsi described in detail, and credited with creating their stunning success. (Think about P&G's account team at Wal-Mart: representation from sales, supply chain, IT, and finance.)

In today's era, the essential management task has shifted from the narrow, inward-looking technical skills of a mass-market-era manager, to a new set of tasks. Today's successful managers have to be broad-gauge creative thinkers that can work with colleagues across departmental boundaries in a rapidly-changing world.

Managing this transition is the most important management challenge today. More than anything, the key success factor is for managers to shift their focus from "how to do it" to "why to do it" – exactly the need that my colleague's innovative new course is designed to address.

The managers who master this essential understanding will be the leaders who guide their companies to ever-greater success, while their competitors who remain mired in the past fall further and further behind.