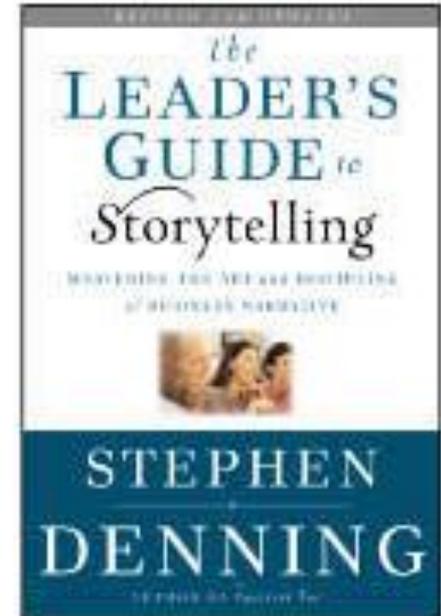
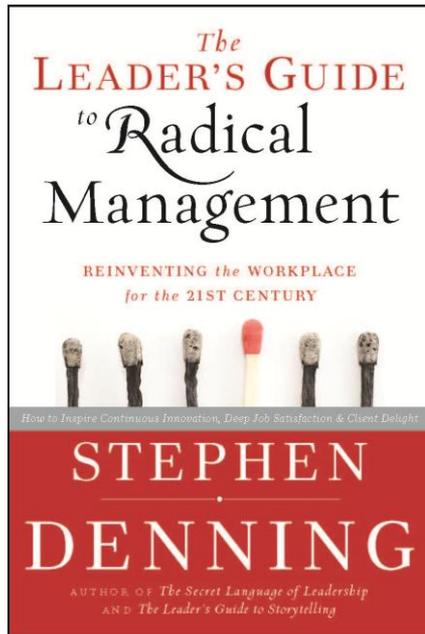


Making The Entire Firm Agile

Steve Denning

Steve's daily blog on Forbes

<http://blogs.forbes.com/stevedenning/>



These slides:

<http://www.stevedenning.com/slides/London.pdf>

Video

Radical Management

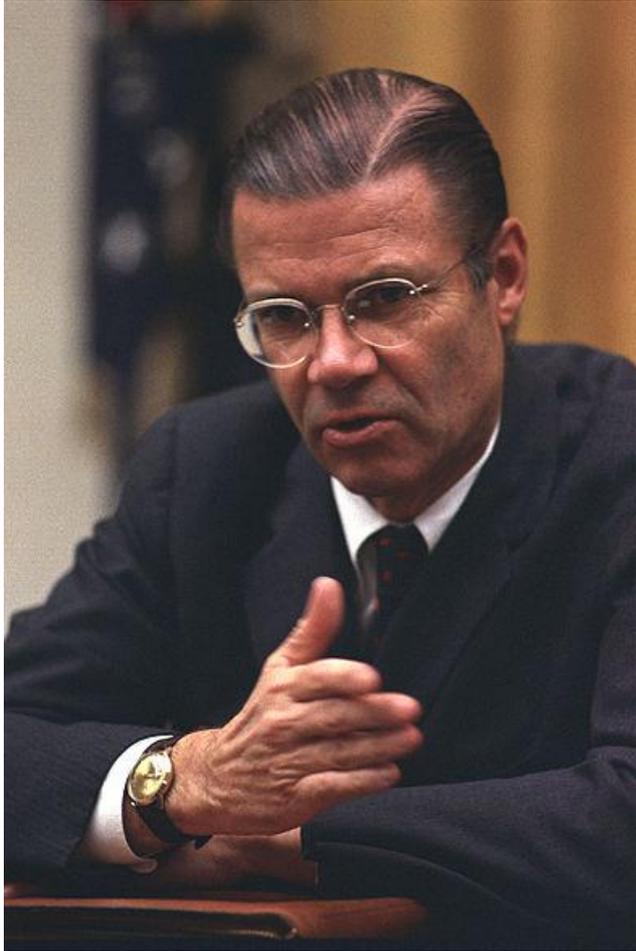
Explaining the idea in sixty seconds

How organizations surprised us all

Stephen Denning

Former Director, Knowledge Management, World Bank

1978



Robert McNamara

President, Ford Motor Company, 1960

Secretary of Defence, 1961-1968

President, World Bank, 1968-1981

“the smartest man I ever met”

John F. Kennedy

1996-2000



1996: A knowledge management program was launched

2000: The World Bank was benchmarked as a leading knowledge organizations

2000-2008

Teaching the Fortune 500
how to use
the power of
leadership storytelling

Why
doesn't it
stick?



In 2008, I began exploring:

**Why don't
management
innovations stick?**

(These are highly intelligent, educated people!)

One clue...

It's not just leadership storytelling!

Knowledge management

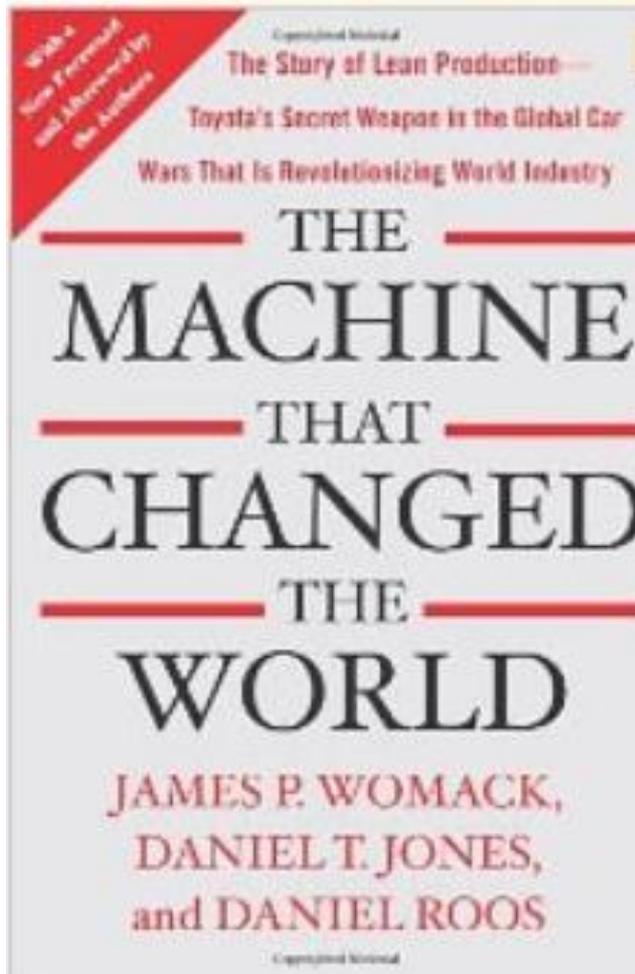


Not just the World Bank

- BP
- Ernst & Young
- IBM
- HP

It's not just leadership storytelling!

Lean Manufacturing

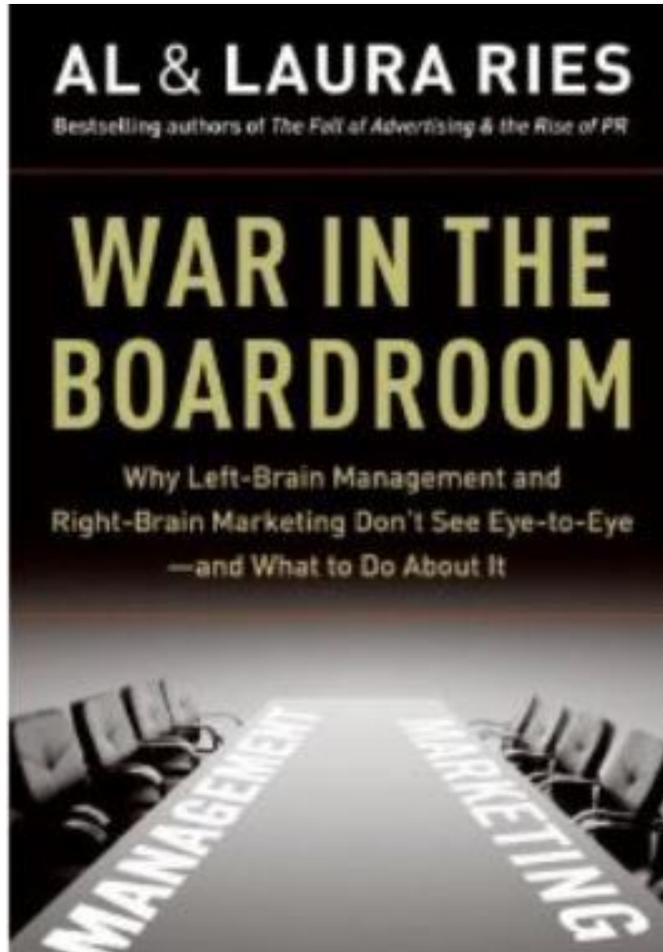


“Only 1% of lean initiatives meet their goals.”

Jeffrey Liker

It's not just leadership storytelling!

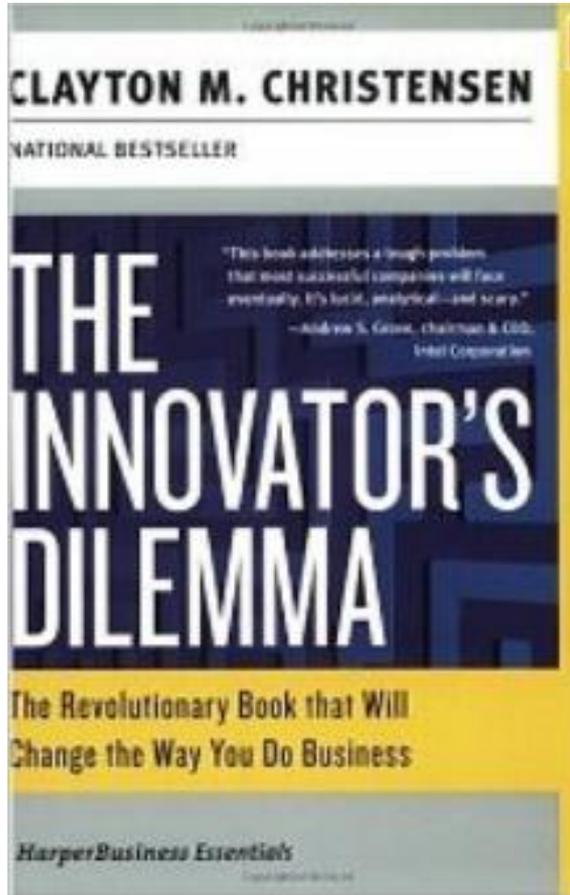
Marketing



25 ways in which traditional management systematically kills great marketing ideas

It's not just leadership storytelling!

Innovation



How management
systematically kills
disruptive innovation

2008

The question was broader



Why did management systematically kill all the creative things in organizations?

- knowledge management?
- lean manufacturing?
- innovation?
- marketing?
- leadership storytelling?
- Agile software development

Most management textbooks...

Most articles in Harvard Business Review ...

**Traditional
management
rests on
five interlocking
principles**

Five planks of traditional management

1. The purpose of a firm is to produce outputs that make money



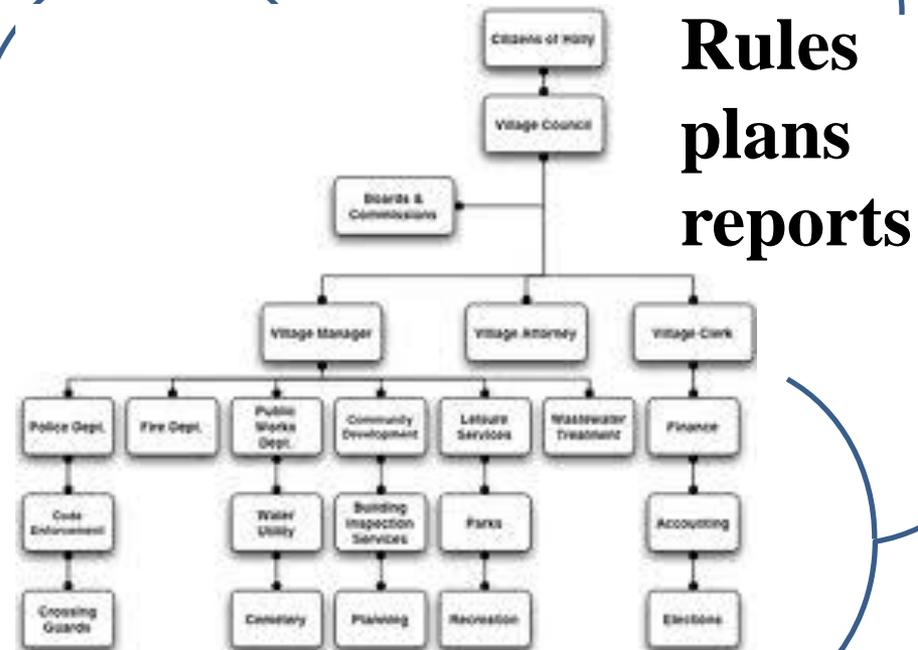
Five planks of traditional management

2. Managers act as controllers of individuals



Five planks of traditional management

3. Work is coordinated by hierarchy and bureaucracy



Five planks of traditional management

4. “The main value is efficiency”

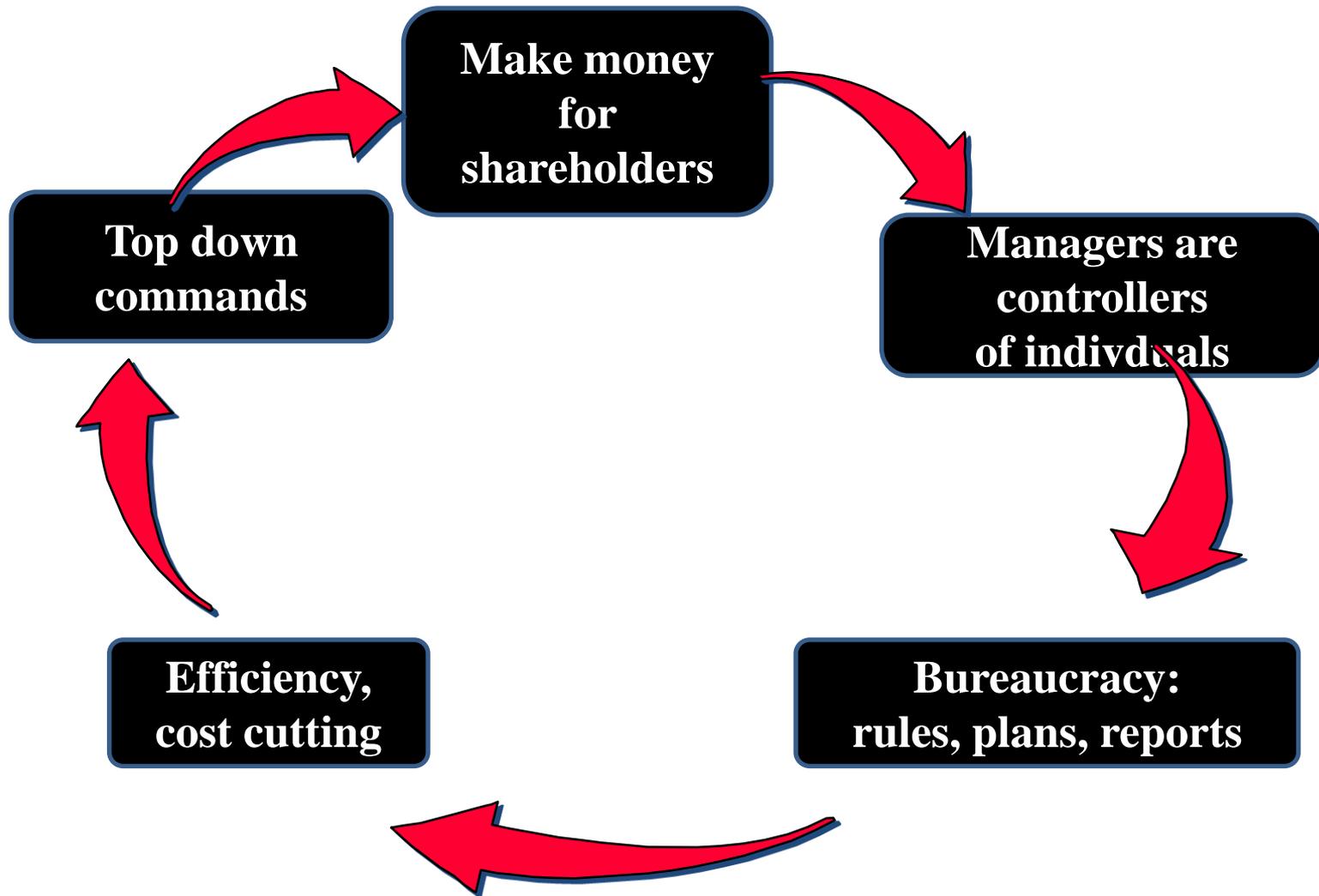


Five planks of traditional management

5. Communicate by directives



The shifts are interlocking & self-reinforcing



“Single fix” improvements don’t “stick”

Five planks of traditional management

“Traditional management practices are a success”



“the smartest man I ever met”
John F. Kennedy



CEOs & writers accept this mental model

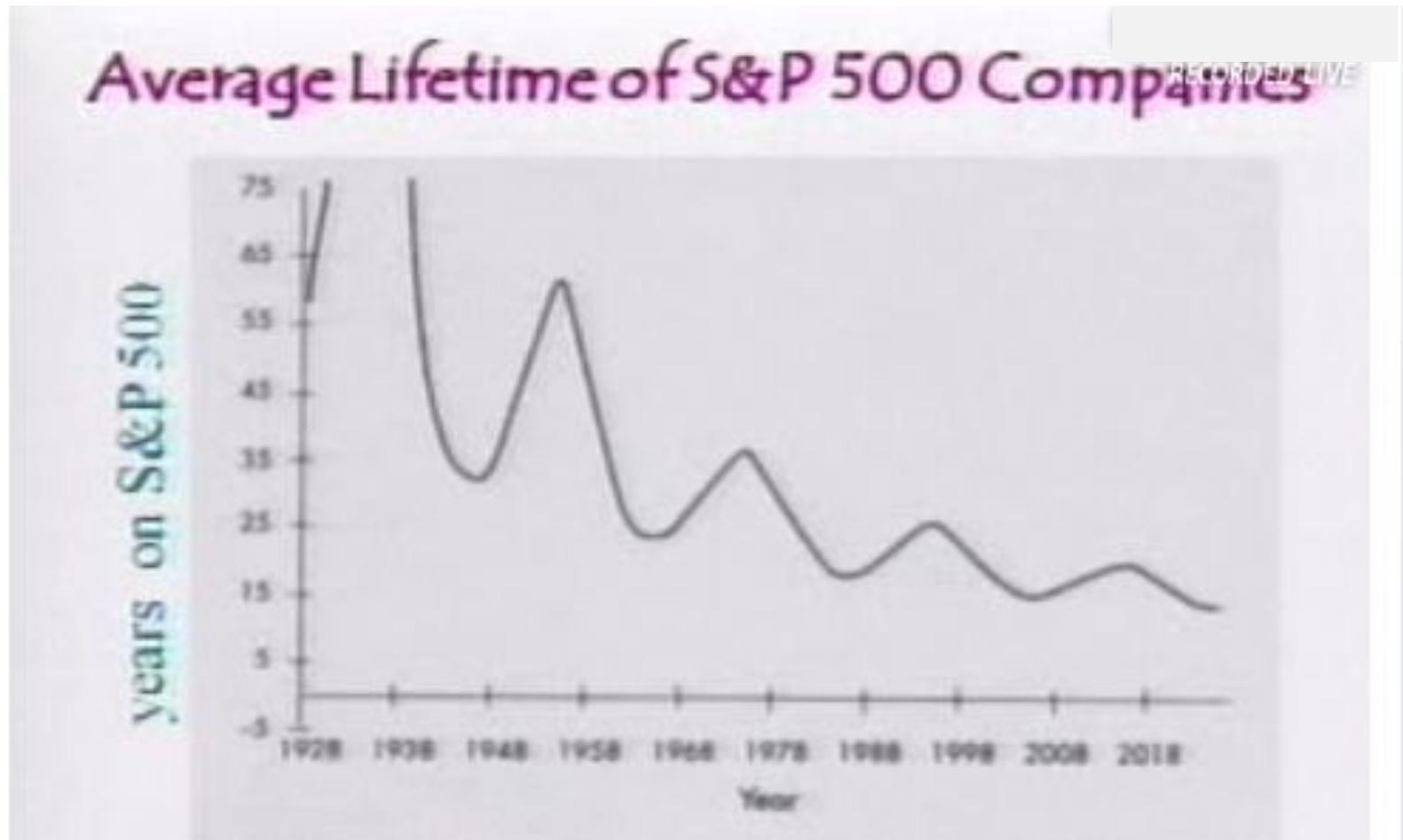
- *Business leaders*: Most CEOs still assume these management principles are sound.
- *Journal articles*: 90% of HBR articles propose modest adjustments to the traditional management model
- *Management textbooks*: Most management textbooks accept this as the default mental model of management, while noting “deviations”.

2009: Conclusive proof of the failure of traditional management

The rate of return on assets of large firms is one-quarter of what it was in 1965

Source: Deloitte's Center for the Edge: The Shift Index

2009: Conclusive proof of the failure of traditional management

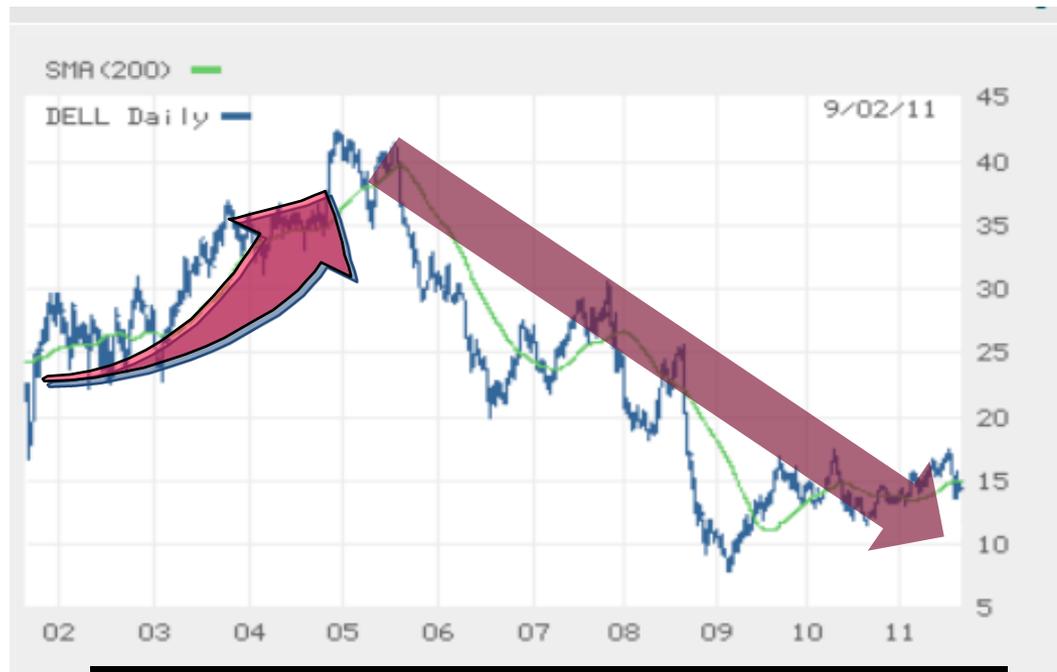


Source: Richard Foster Creative Destruction; McKinsey

2009: Management has destroyed whole sectors of the economy

Why Amazon can't make a Kindle in the USA

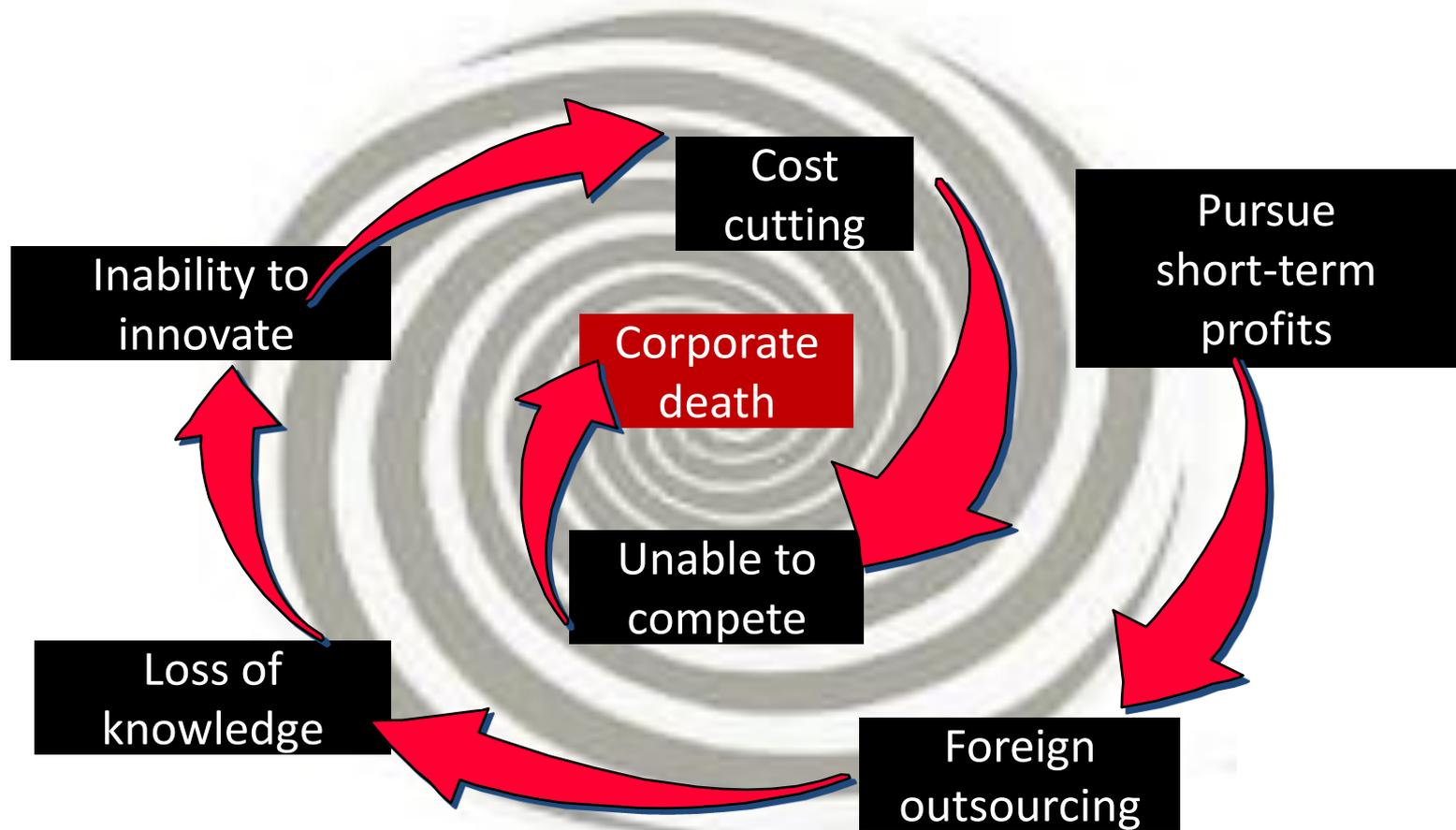
The story of Dell and AsusTek



Dell: Ten-year share price

2. Declining life expectancy hidden by quick profits

The early stages of the cost-cutting death spiral are profitable



The outsourcing death spiral

2009: The outsourcing death spiral

Why Amazon can't make a Kindle in the USA

Industries already “lost”

Compact fluorescent lighting;
LCDs for monitors, TVs
handheld devices like mobile phones;
electrophoretic displays;
lithium and NiMH batteries;
advanced rechargeable batteries;
crystalline silicon solar cells,
inverters and power semiconductors;

Desktop, notebook and netbook PCs;
low-end servers;
consumer networking gear
routers, access points,
home set-top boxes;
advanced composite;
advanced ceramics
integrated circuit packaging.

Even more industries are “at risk”

Traditional management has also failed in employee engagement



Only 1 in 5
workers is fully
engaged in his
or her work

Source: Deloitte's Center for the Edge: The Shift Index

Managers hate their own jobs!

The Three Most Hated Jobs in the USA

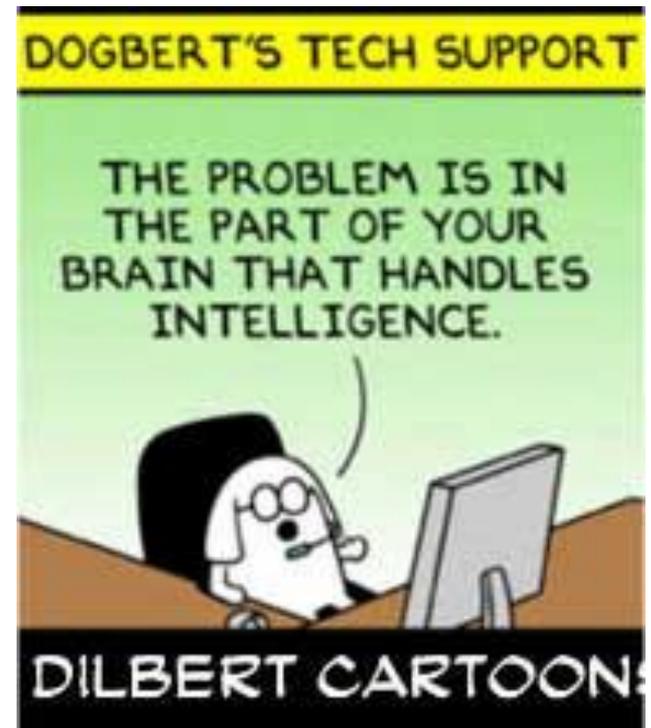
- 1. Director of Information Technology**
- 2. Director of Sales and Marketing**
- 3. Product Manager**

Managers hate their own jobs!

The Three Most Hated Jobs in the USA

1. Director of Information Technology
2. Director of Sales and Marketing
3. Product Manager

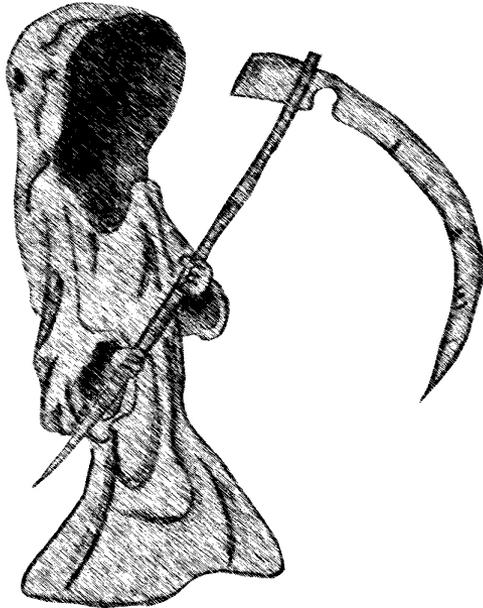
These are bad
situations,
not bad people



Management is not just ill

Management is fatally ill

Management is systematically killing the organizations it is meant to be helping



- knowledge management
- lean manufacturing
- innovation
- marketing
- leadership storytelling
- Agile software development

Why did
management
fail?

Unless we understand
a problem, we cannot
expect to solve it.

We have to get to
root causes

Root cause #1:

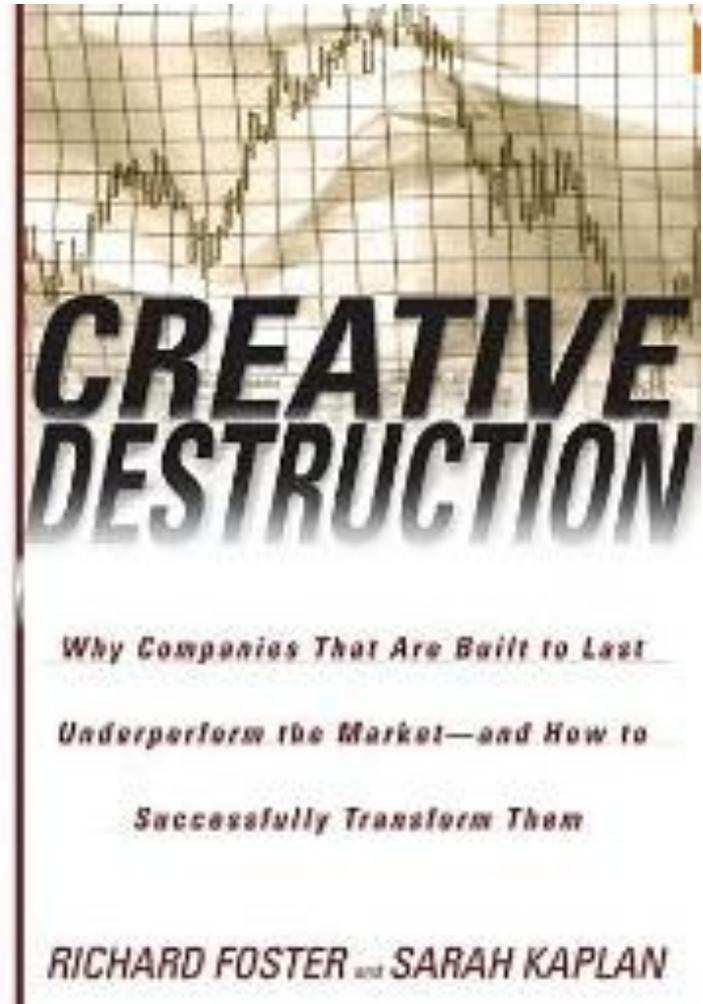
Discontinuity replaces continuity

“Corporations, which operate with management philosophies based on the *assumption of continuity*, are not able to change at the pace and scale of the markets.”

2001



2011



Root cause #2:

The marketplace has changed

Big firms used to own the marketplace

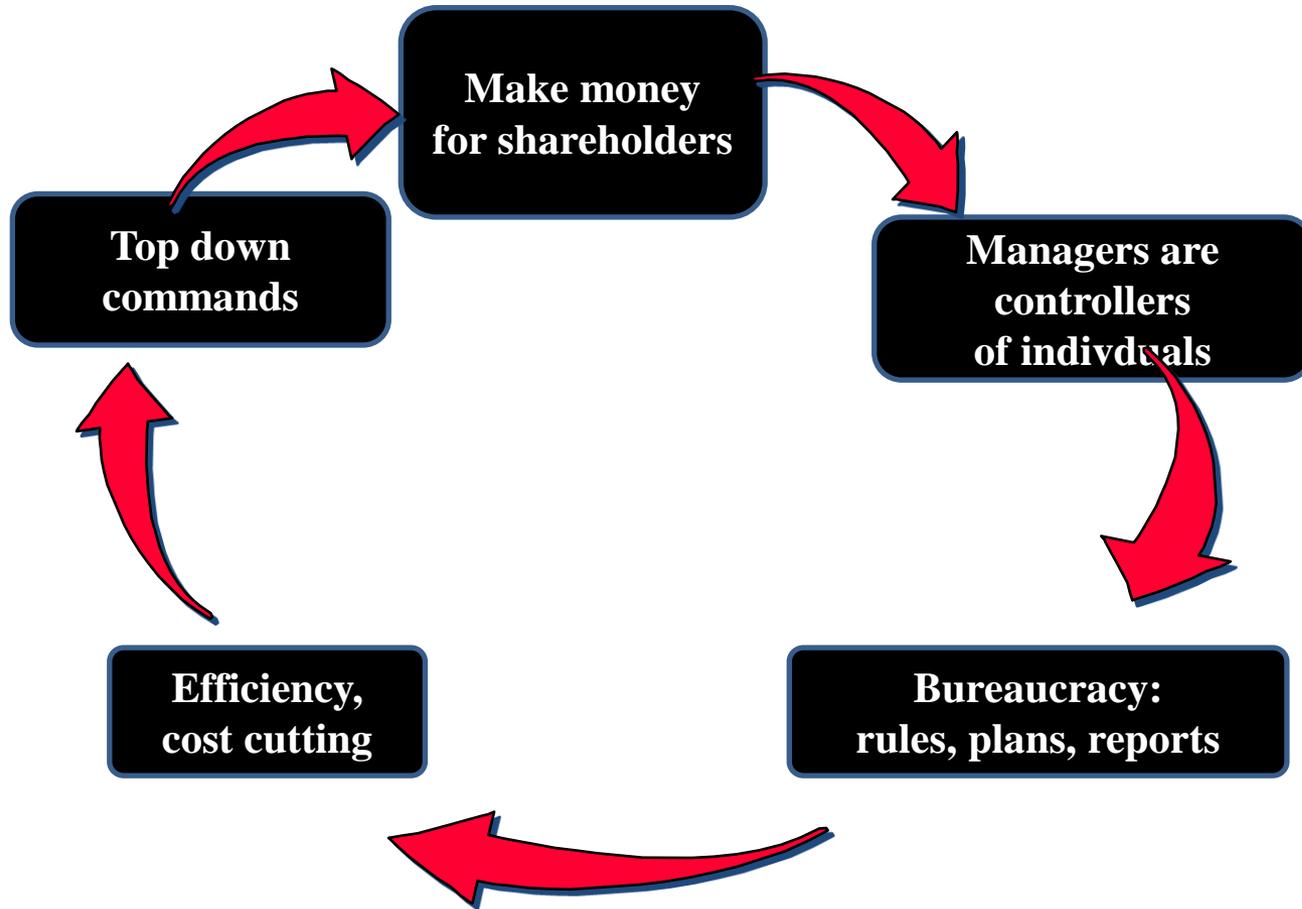
Global competition and instant information to customers changed the balance of power.

The customer is now the boss.

Many firms haven't yet grasped this

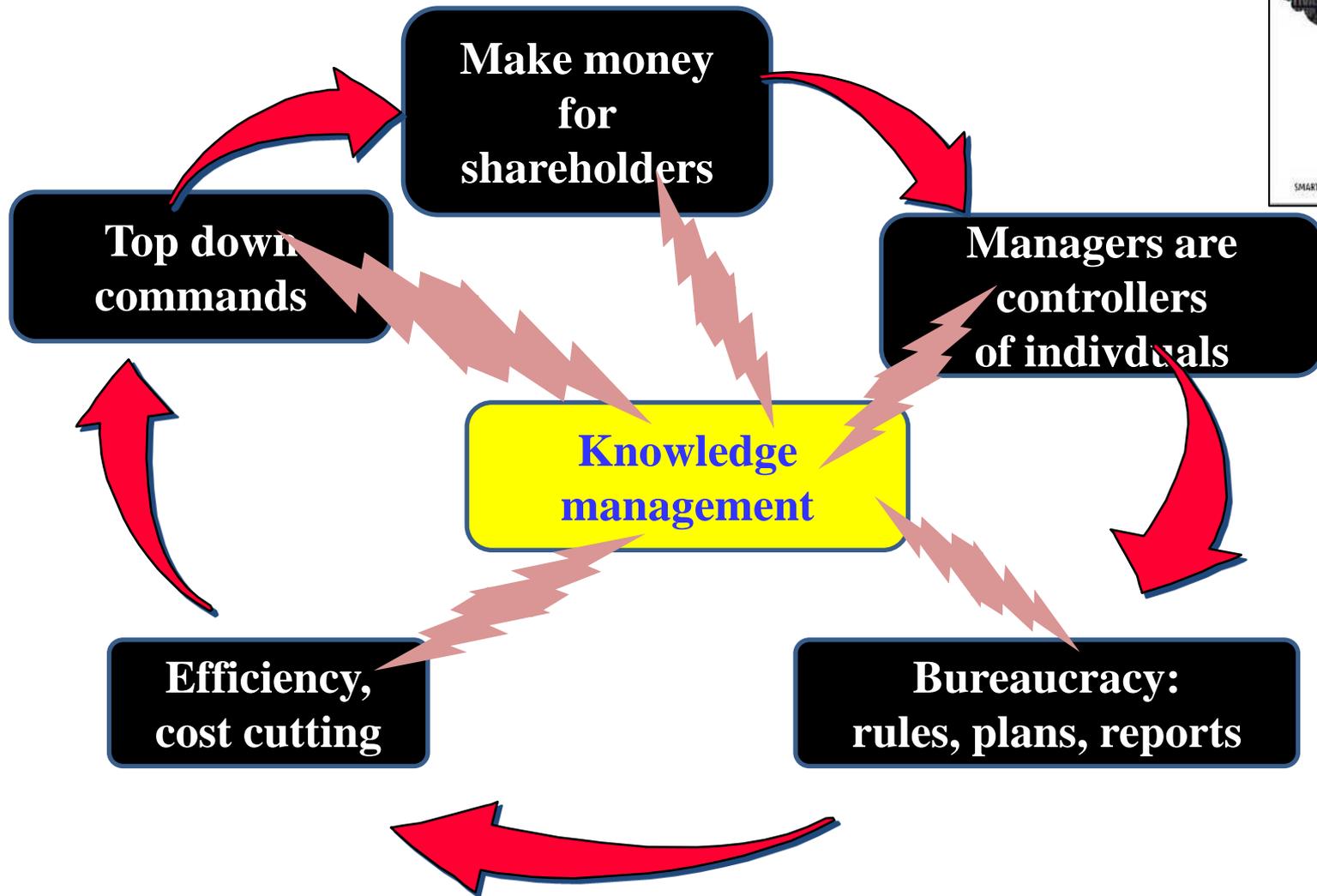
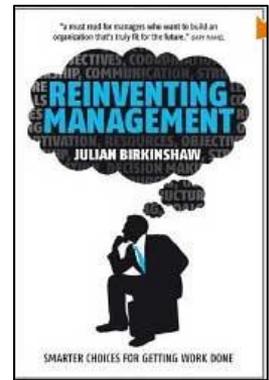
Root cause #3:

Partial fixes don't work



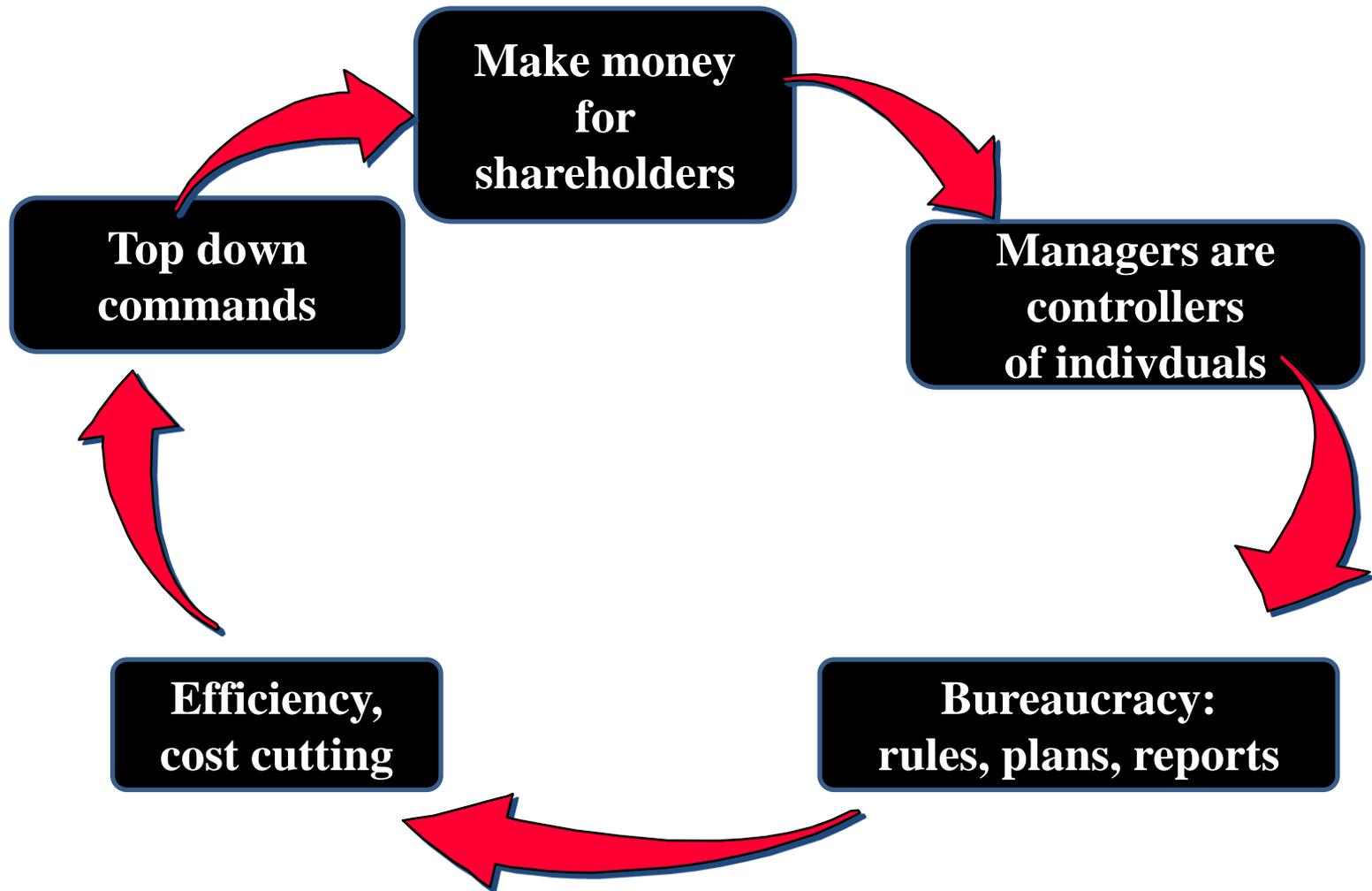
The elements are interlocking & self-reinforcing

Even successful experiments don't stick



“The interlocking culture prevails ...

This has proven to be remarkably resilient



We need systemic change!

This has proven to be remarkably resilient



Partial fixes don't stick!

“The significant problems we have cannot be solved at the same level of thinking with which we created them.”

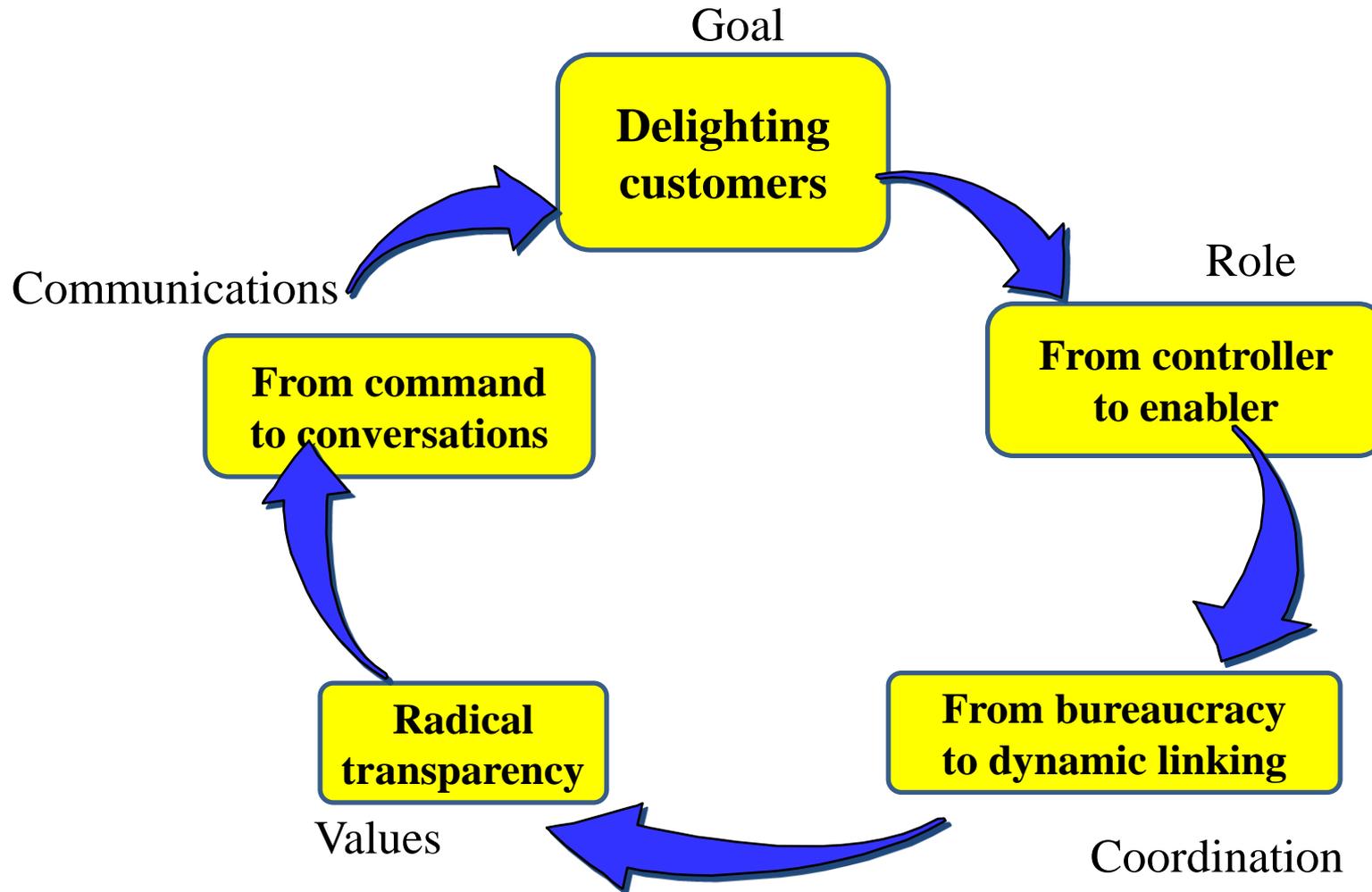
Albert Einstein

To get lasting change, we need all at once

1. **New goal** for the organization
2. **New role** for managers
3. **New coordination** mechanisms
4. Shift **from value to values**
5. New way to **communicate**

And 70+ practices

To get lasting change....



You have to change all five dimensions...

1

NEW GOAL: delight the customers

from outputs to outcomes

1. Delight
the
customer!

1

NEW GOAL: delight the customers

from outputs to outcomes

The bottom line of the firm
shifts from
**making money for
shareholders**
to
delighting the customer

Roger Martin: The Age of Customer Capitalism, HBR Jan 2010

1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

An epochal shift in the balance
of power in the marketplace:

The customer is now the boss!

Sorry
about
that!



1

NEW GOAL: delight the customers

from outputs to outcomes

Customer delight
is not a new idea:

Ancient Romans

*e.g. Vitruvius's treatise on
architecture*

1

NEW GOAL: delight the customers

from outputs to outcomes

Is “**customer delight**” a serious business proposition?

“**Customer delight**” =

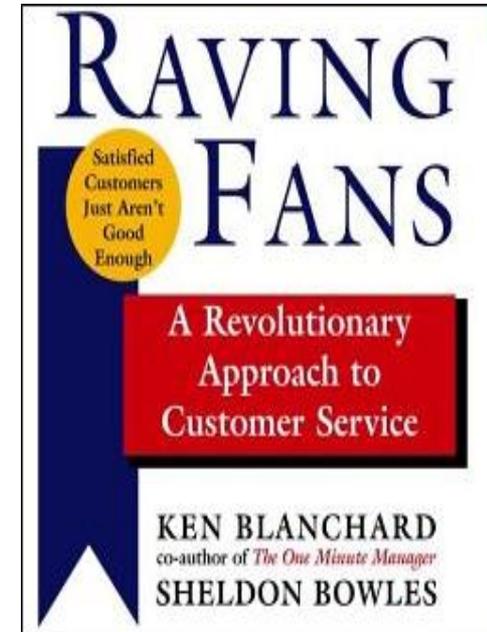
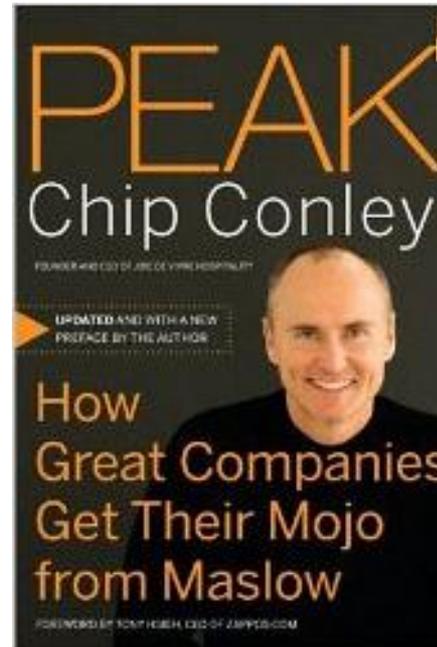
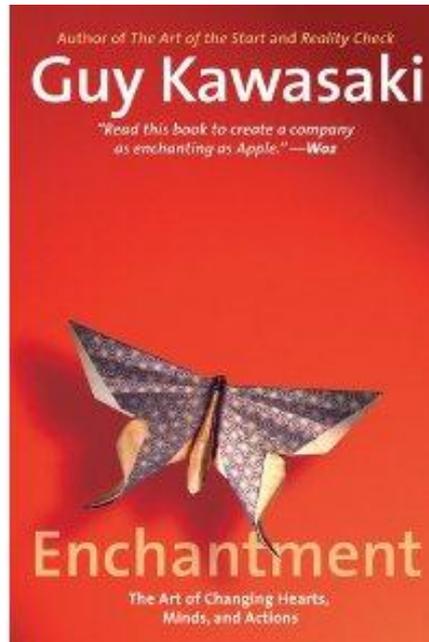
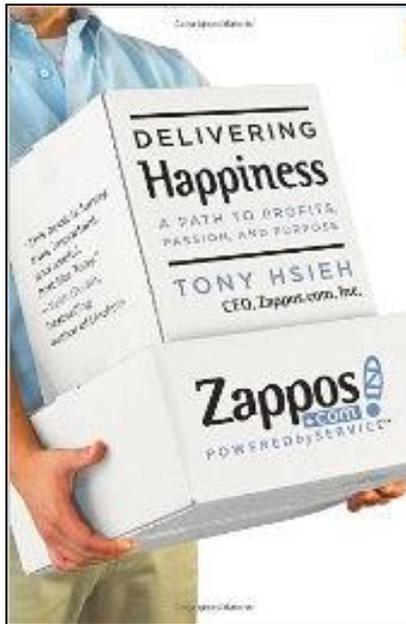
“Providing a continuous stream of additional value to customers and delivering it sooner”

1

NEW GOAL: delight the customers

from outputs to outcomes

Is “**customer delight**” a serious business proposition?



“happiness” “enchantment”

“joy”

“raving fans”

1

NEW GOAL: delight the customers

from outputs to outcomes

Is “**customer delight**” a serious business proposition?



- “customer success”
- “customer trust in us”
- Net Promoter Score

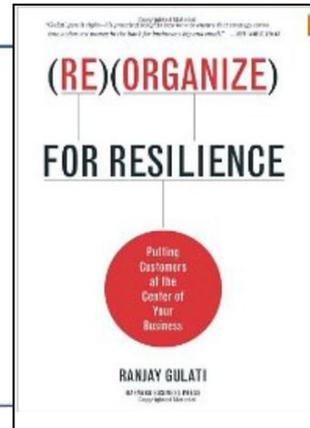
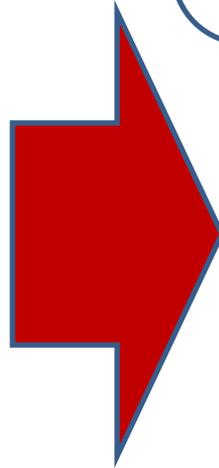
1

NEW GOAL: delight the customers

Shift from an inside-out to outside-in perspective

“You take what we make!”

“We want to understand & help solve your problems!”



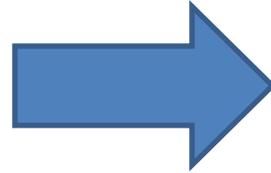
1

NEW GOAL: delight the customers

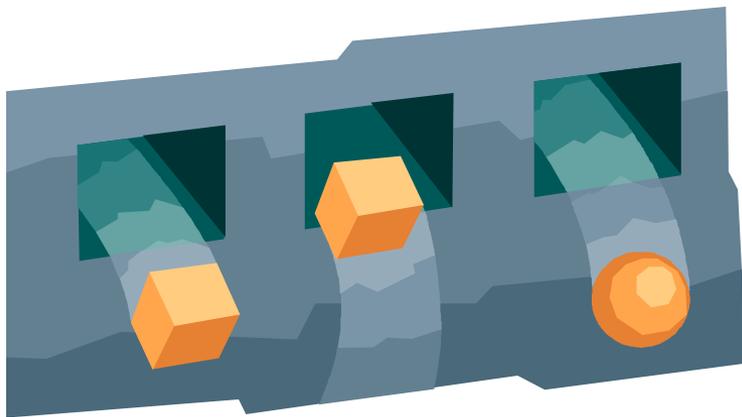
i.e. from outputs to outcomes

This changes the game completely

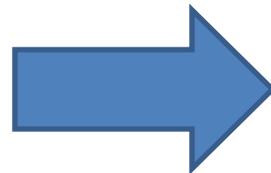
Outputs



Outcomes



Things



People

1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

The goal is: **delighting the customer**

- “Making money” is not the goal
- “Being agile” is not the goal.
- “Working software” is not the goal.
- Agile & Scrum & working software are means to achieving the goal.
- Everyone must focus on the goal

1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

Aim for the simplest thing!

LESS
IS
MORE!

20th Century

54 buttons
Complicated

DVD
controller



21st Century

4 buttons
Simple
Easy to use

iPod

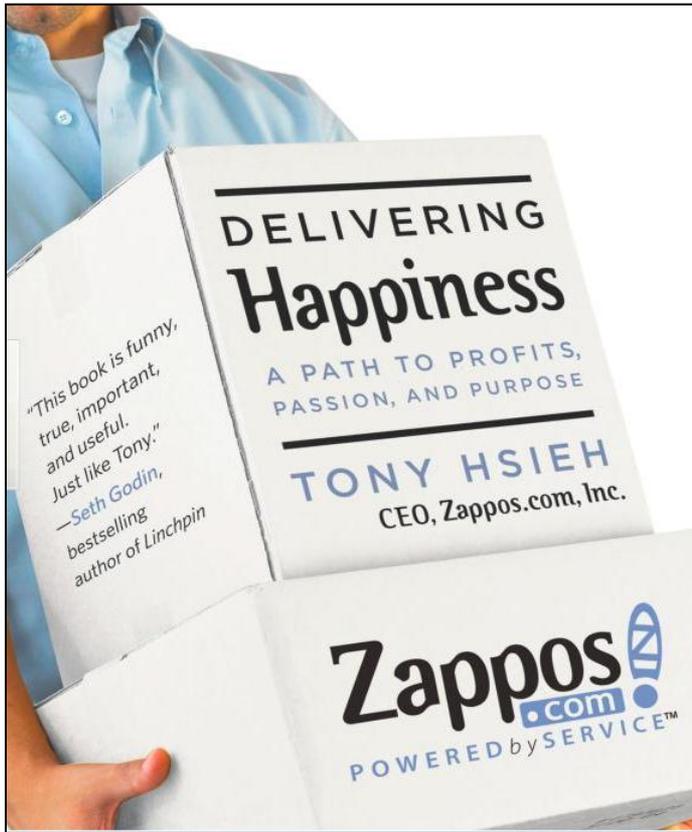


1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

Deliver it sooner !



**In a bureaucracy,
large amounts of
work wait in
queues**

1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

A paradoxical discovery!



Customer delight



Costs come down of
their own accord!

1

NEW GOAL: delight the customers

i.e. from outputs to outcomes

1. **New goal**: “Delighting the customer” means

a different way of running the organization.

2. **New role** for managers

3. **New coordination** mechanisms

4. Shift **from value to values**

5. New way to **communicate**

2

NEW MANAGER ROLE: from controller to enabler

2. Enable

self-organizing

teams

2

NEW MANAGER ROLE: from controller to enabler

Puzzles

What is the
square root
of 9?

**Single
right answer**

Mysteries

What will
be the next
really
big thing?

**No single
right answer**

2

NEW MANAGER ROLE: from controller to enabler

Puzzles

Making
money for the
shareholders

**Single
right answer**

Mysteries

Delighting
the
customer

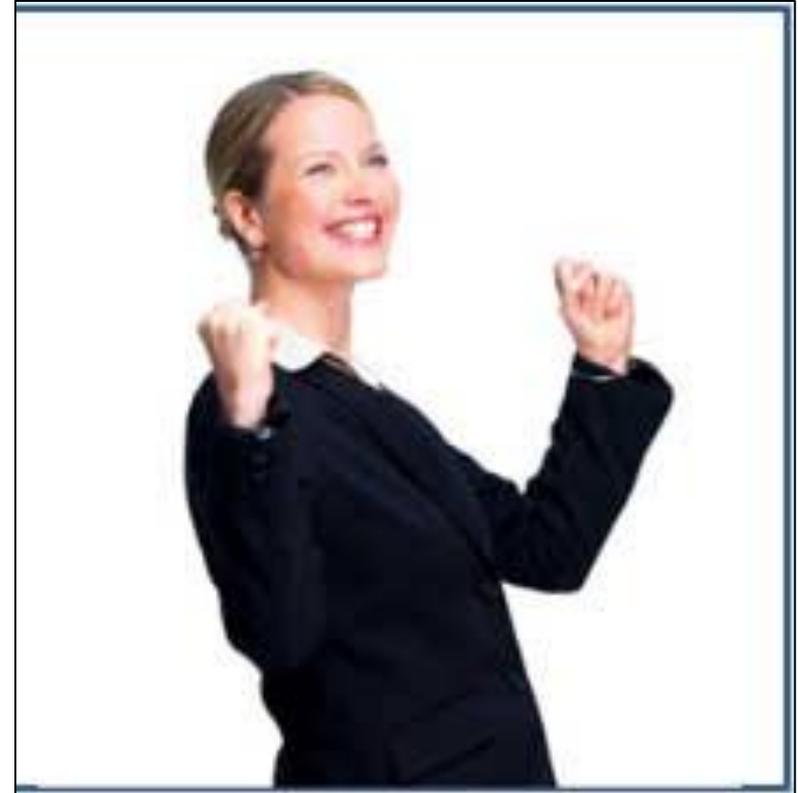
**No single
right answer**

2

NEW MANAGER ROLE: from controller to enabler



Controls can solve
puzzles

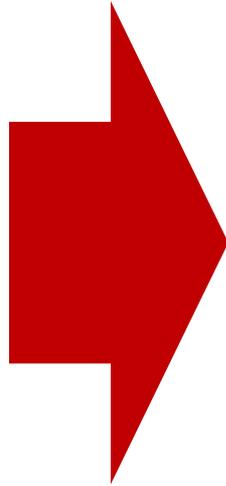


Controls cannot solve
mysteries

2 NEW MANAGER ROLE: from controller to enabler



Controller of
individuals



Enabler of self-
organizing teams

2

NEW MANAGER ROLE: from controller to enabler

Self-organizing teams
are a very old idea

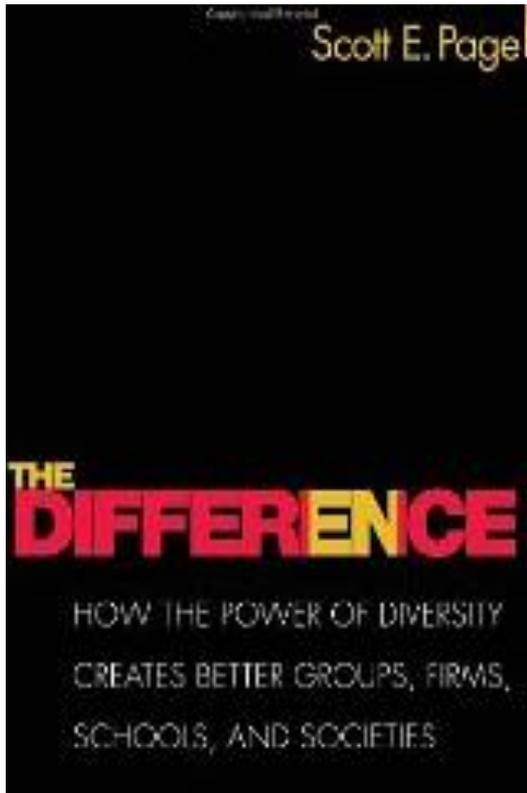
Legal juries in England, 1166



A diverse group of citizens
was preferred over decision
by one or more “experts”

2

NEW MANAGER ROLE: from controller to enabler



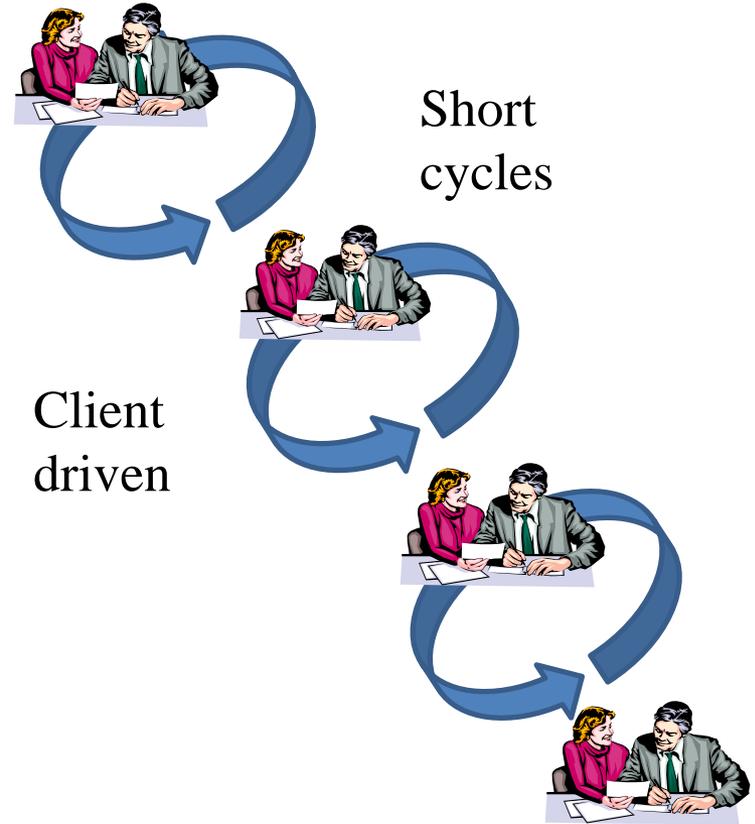
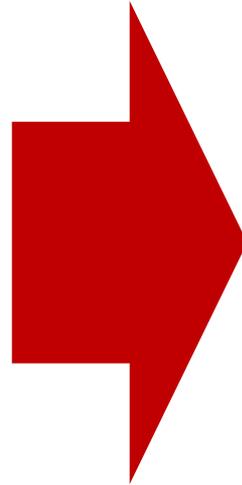
Diversity
defeats
intelligence!

The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies by Scott E. Page

3. Dynamic linking

3

COORDINATION OF WORK: Dynamic linking



Hierarchical bureaucracy

Dynamic linking

3. COORDINATION OF WORK: Dynamic linking

Dynamic linking: work in short cycles
direct customer feedback
the customer is the boss

In software

Agile

Scrum

Kanban



Thousands of organizations

Even “lumpy” work!

E.g. Quadrant Homes

Naval radar system

Polaris submarines

3

COORDINATION OF WORK: Dynamic linking

One of the biggest surprises for me:

- Learn management from geeks?

“If there was a Nobel prize for management, the founders of Scrum would win it.”

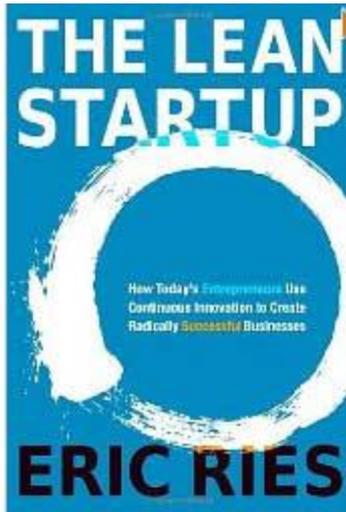
What on earth is Scrum?

- Yet HBR has never heard of Scrum



3. COORDINATION OF WORK: Dynamic linking

Progress is measured by *direct client feedback*



**The case of
the missing
button**

**“Most changes
make things
worse for the
customer”**

4

4. FROM VALUE TO VALUES: radical transparency

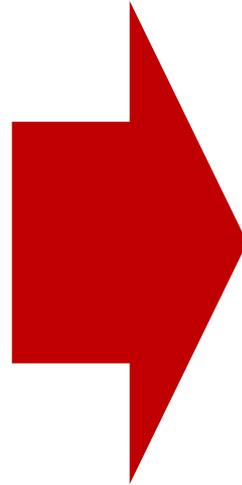
4. From value to values

4

4. FROM VALUE TO VALUES: radical transparency

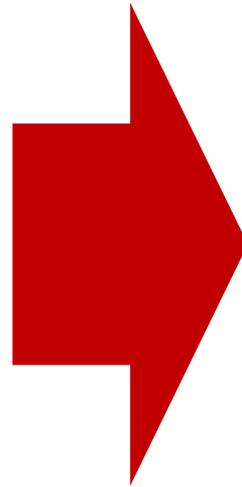


“Just do it”



Alan Mullaly CEO, Ford

4 FROM VALUE TO VALUES: continuous improvement



Get the product out

**The status quo is
never good enough**

5

INTERACTIVE COMMUNICATION: conversation

5. From top-down to conversation

5

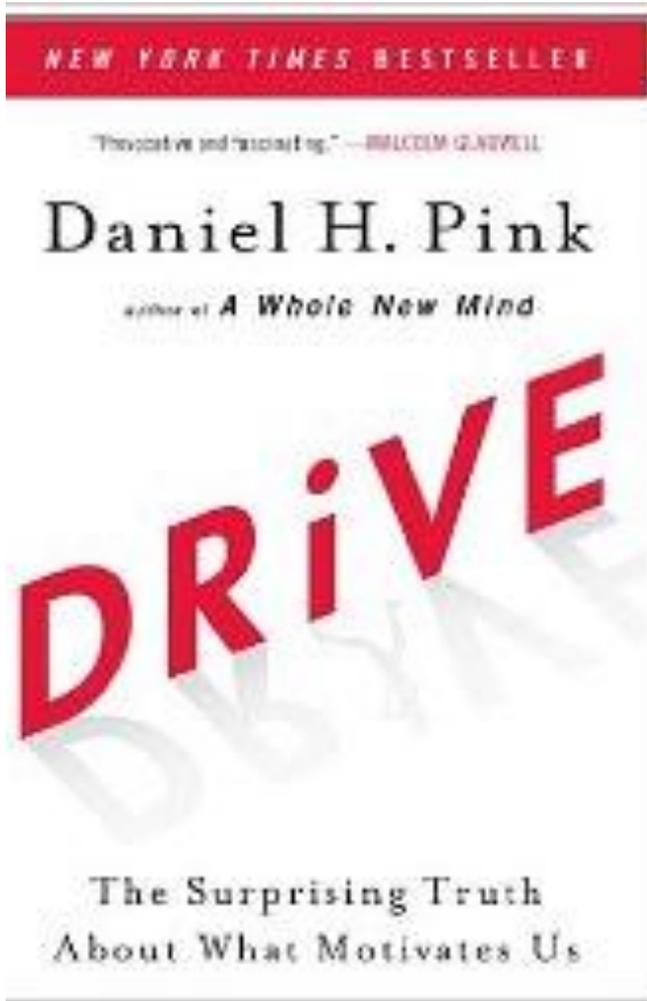
INTERACTIVE COMMUNICATON: conversation



Commands
kill
motivation

5

INTERACTIVE COMMUNICATON: conversation

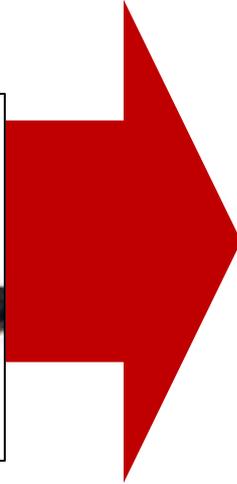


Money
kills
inspiration



5

INTERACTIVE COMMUNICATION: conversation



Top-down commands

Peer-to-peer conversations

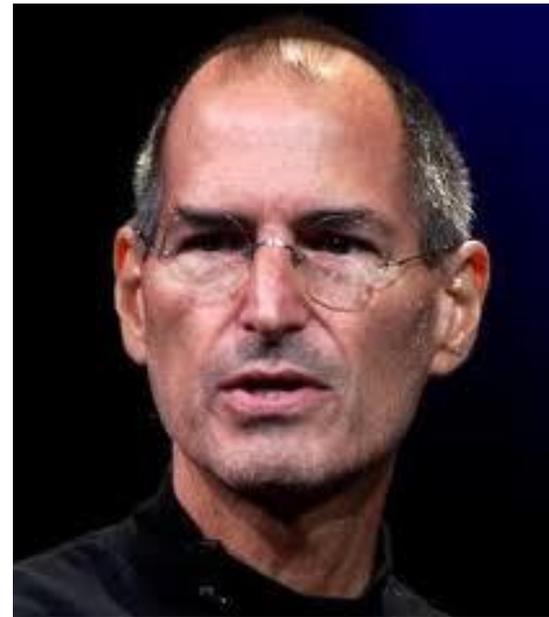
5 INTERACTIVE COMMUNICATION: conversation

How can Apple be a model when Steve Jobs was a tyrant?



Robert McNamara:

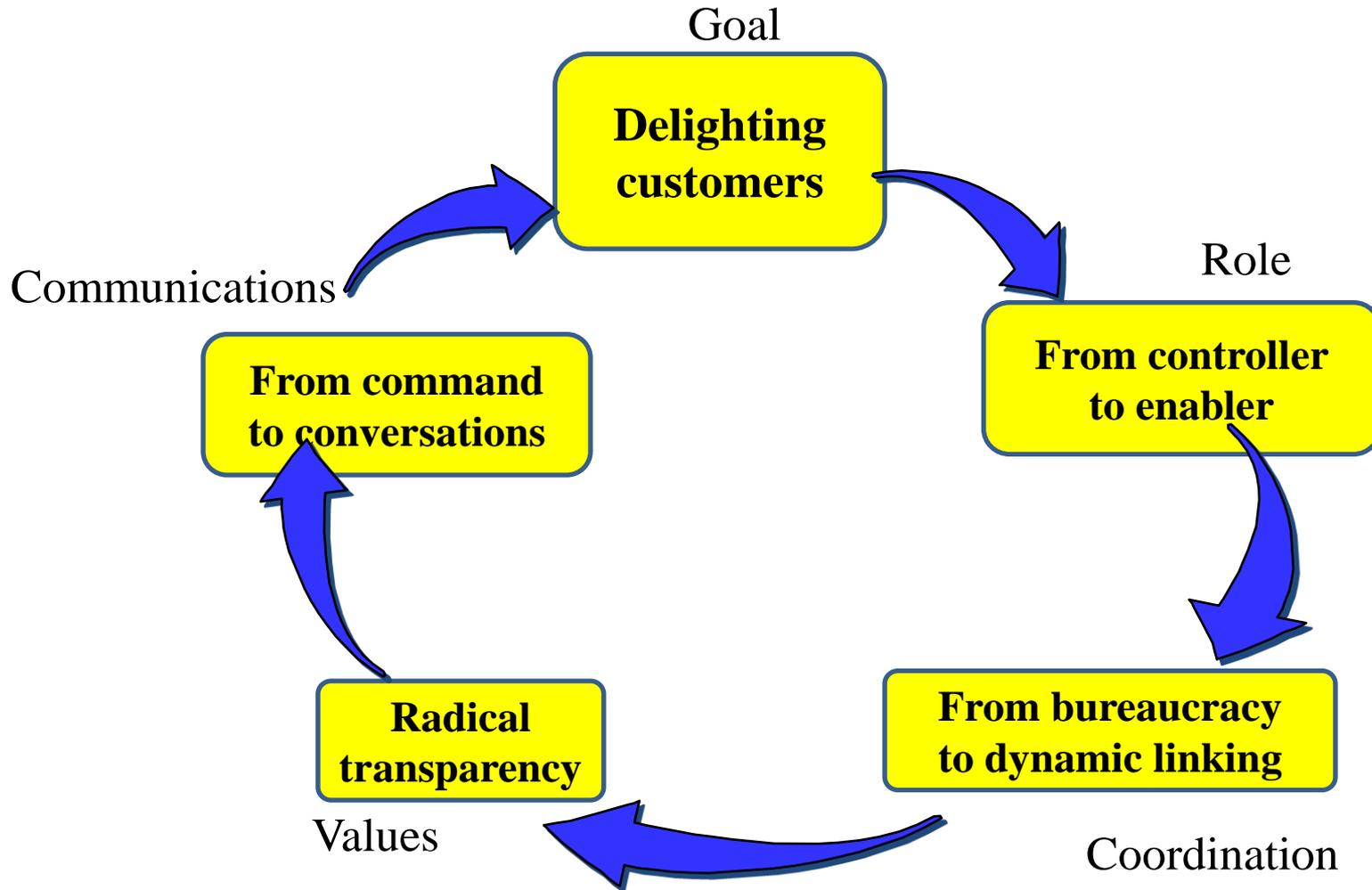
“Just get it out!”



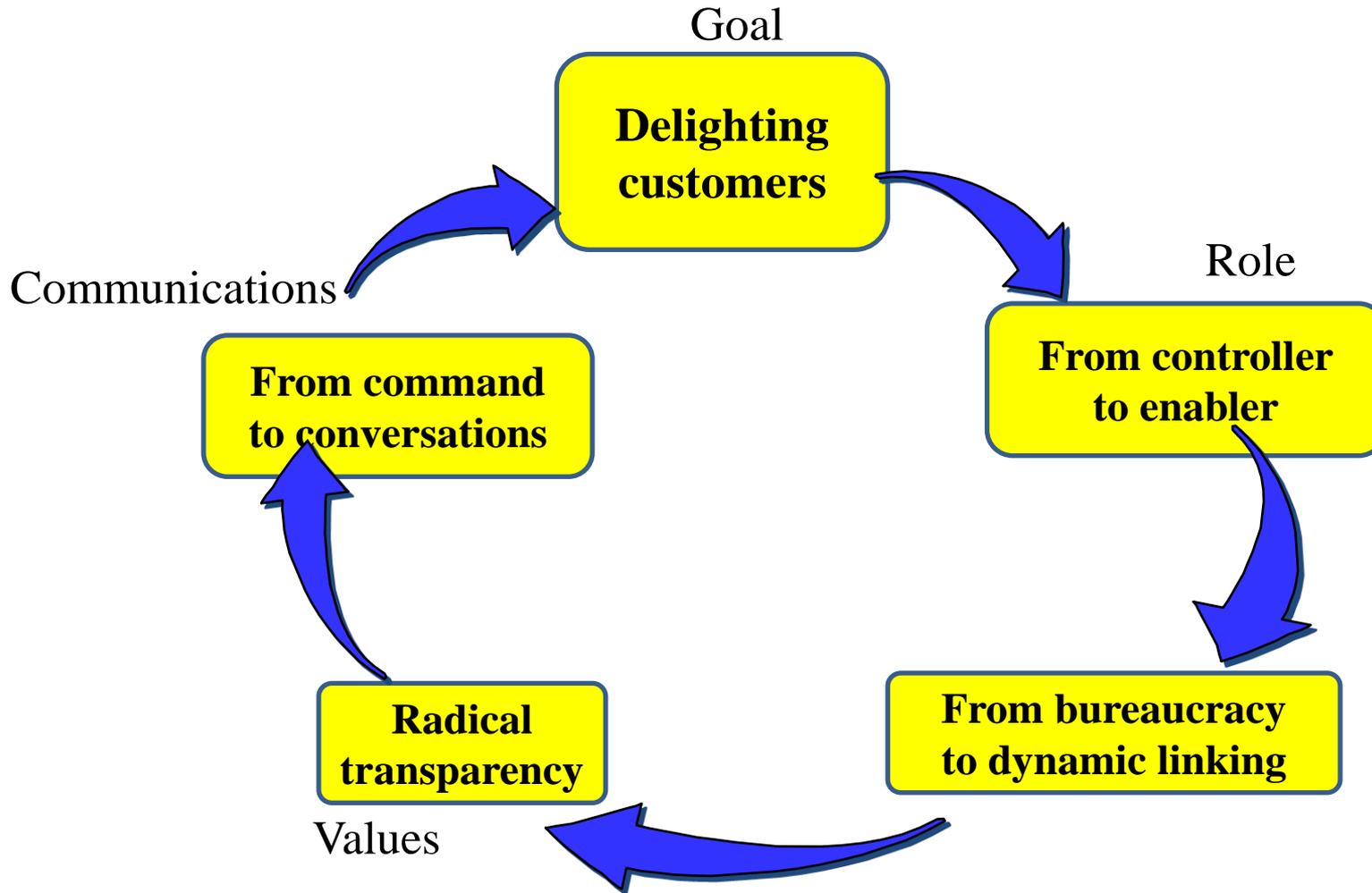
Steve Jobs:

**“Get it right for
the customer!”**

The shifts are interlocking & self-reinforcing

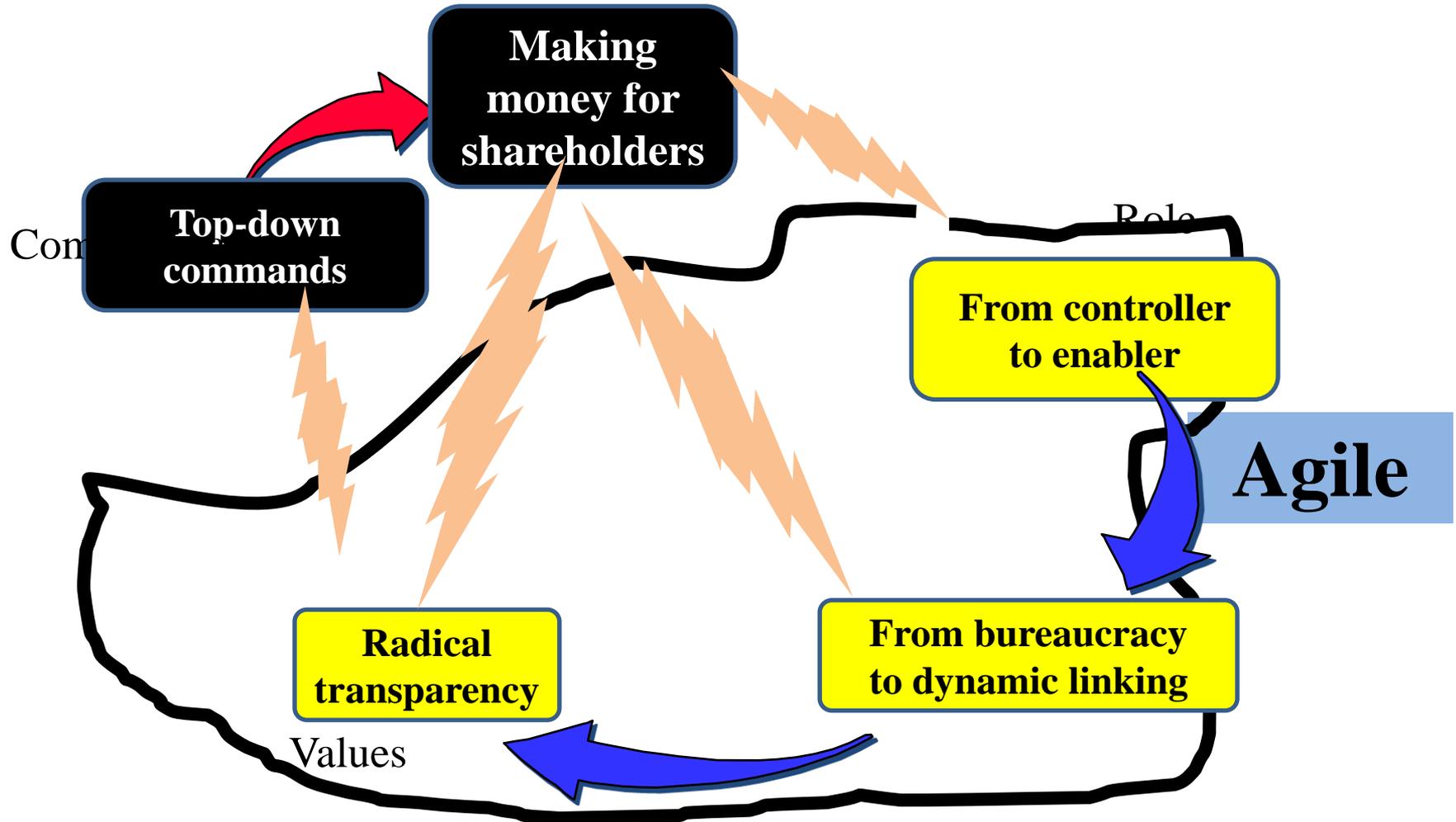


WHAT'S NEW: doing all at once



Individually, none of the shifts is new

Without all five shifts



... an organization is at war with itself

The transition is inevitable

Two- to four-times
gains in
productivity

Economics will drive the change!

Firms that delight their customers,
are also **HUGELY PROFITABLE**



Six-year share price 2004-2011

Firms that delight their customers,
are also **HUGELY PROFITABLE**

Apple (AAPL)



Firms that delight their customers,
are also **HUGELY PROFITABLE**



Ten-year share price 2001-2011

While the other firms

STRUGGLE just to **STAY IN PLACE**

Walmart (WMT)

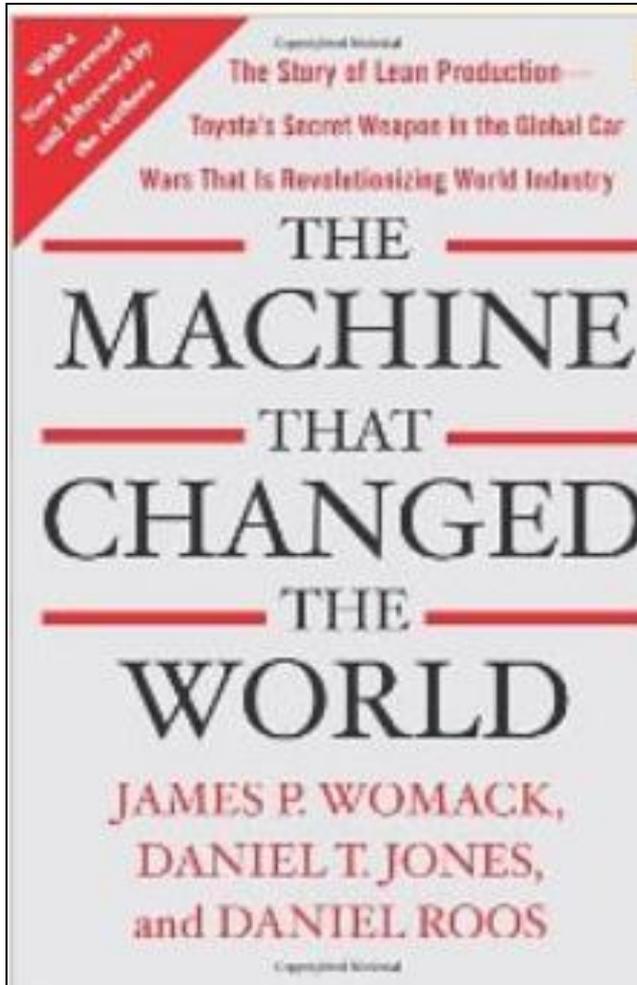


While the other firms

STRUGGLE just to **STAY IN PLACE**



The transition won't be easy



1990

The world's best plant:
Ford's Hermosillo plant
in Mexico

1990s: Ford's Romeo plant
in Michigan

2006: The new CEO,
Allan Mullaly, embraces it

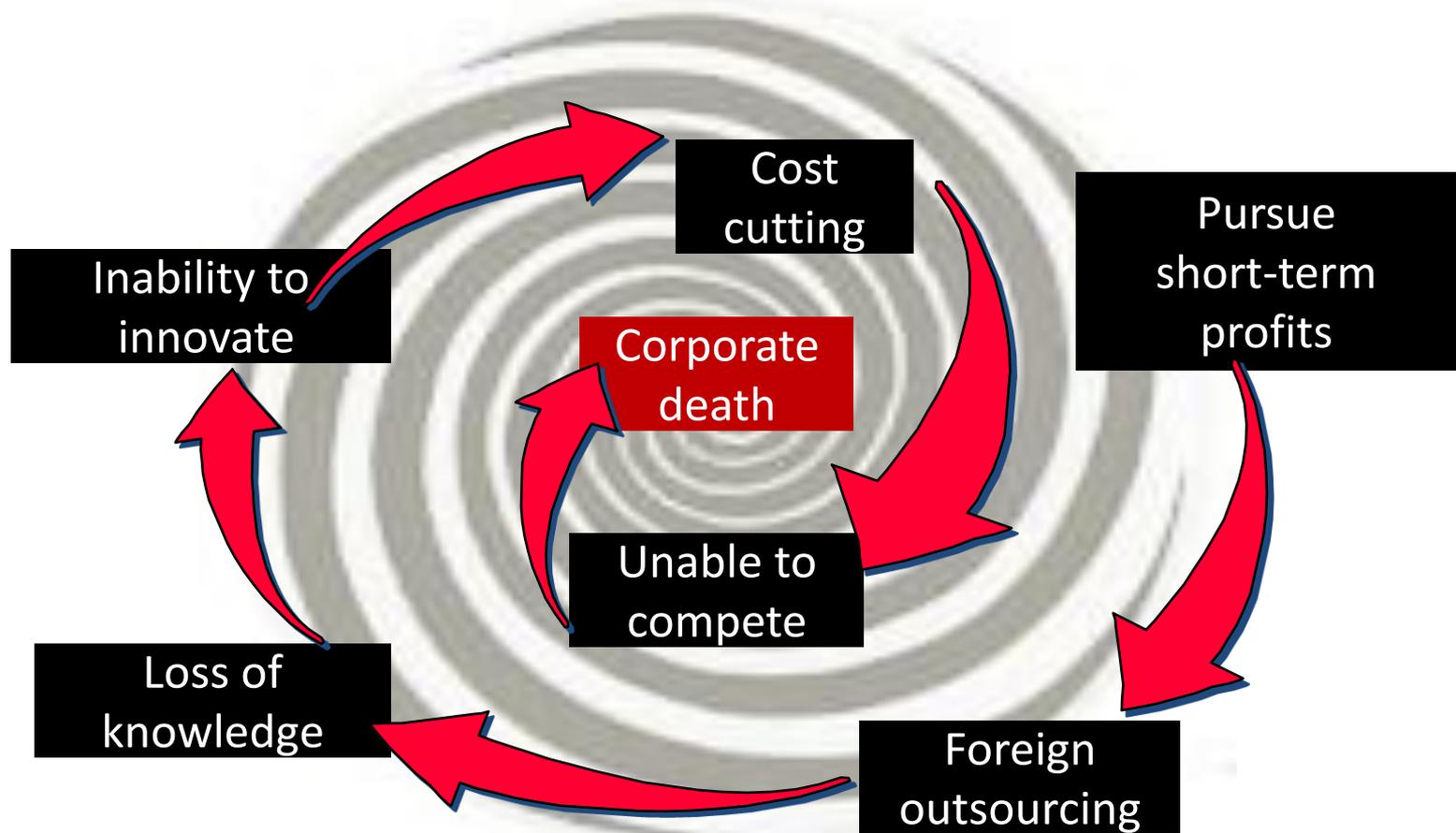
**How could
management have
failed when the
economy had
three decades of
growth?**

**It didn't
feel like
failure**



1. Declining life expectancy hidden by quick profits

The early stages of the cost-cutting death spiral are profitable



The outsourcing death spiral

2. The bubble economy: 1980-2008

Economic growth
fueled by consumer demand

The economy felt ok

Flat median salaries

2. The bubble economy: 1980-2008

Economic growth
fueled by consumer demand

Student
loan
bubble

Credit
card
bubble

Housing
bubble

Financial sector bubble

Median salaries are flat

In 2008, the bubbles burst

**The apparent
economic growth
of the last decade
evaporated**



The illusion of growth is now revealed

Economic growth stops
with little consumer demand

Student
loan debt

Credit card
debt

Housing
debt

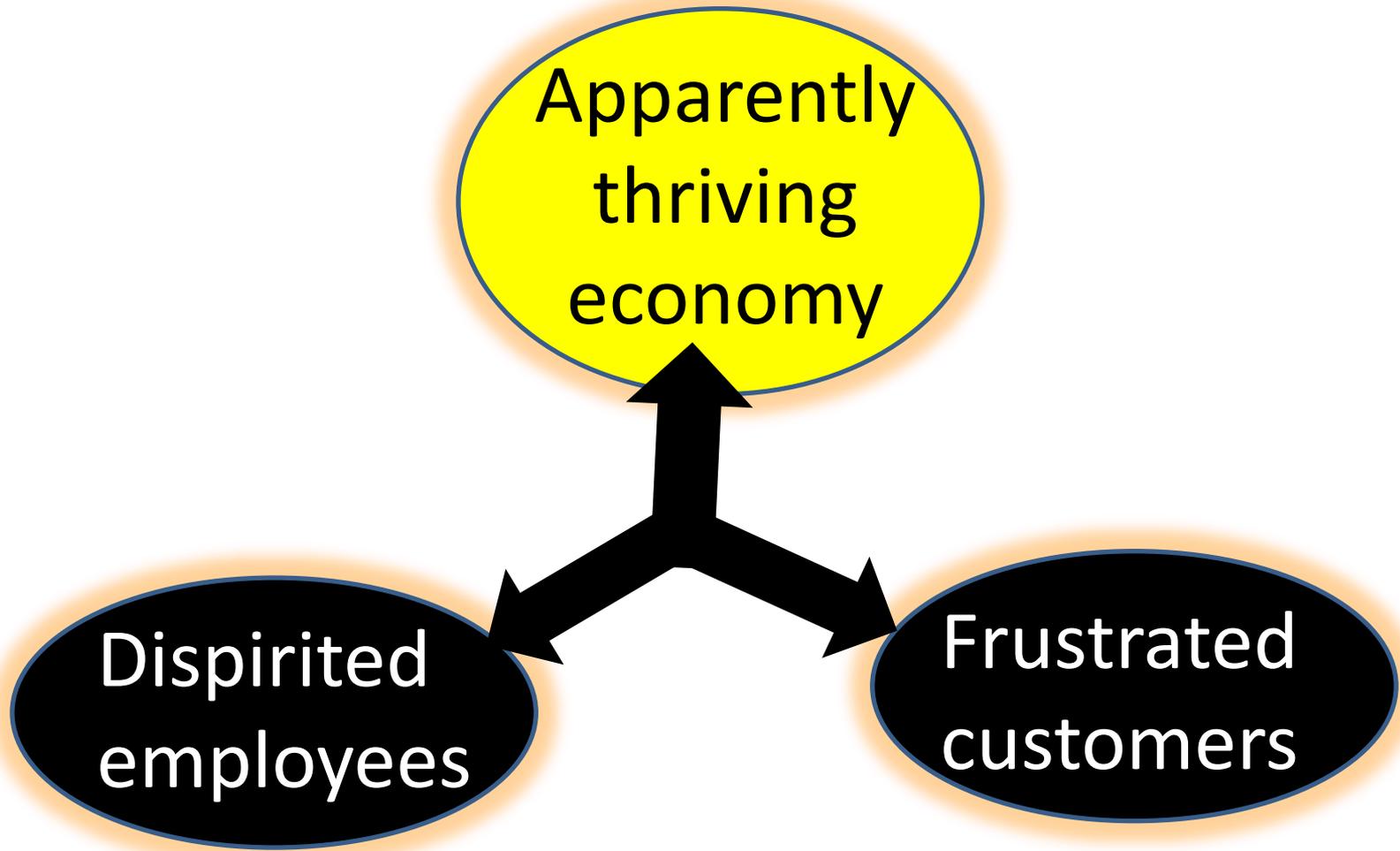
Growing public
sector deficits

Financial sector
debt

Structural
unemployment

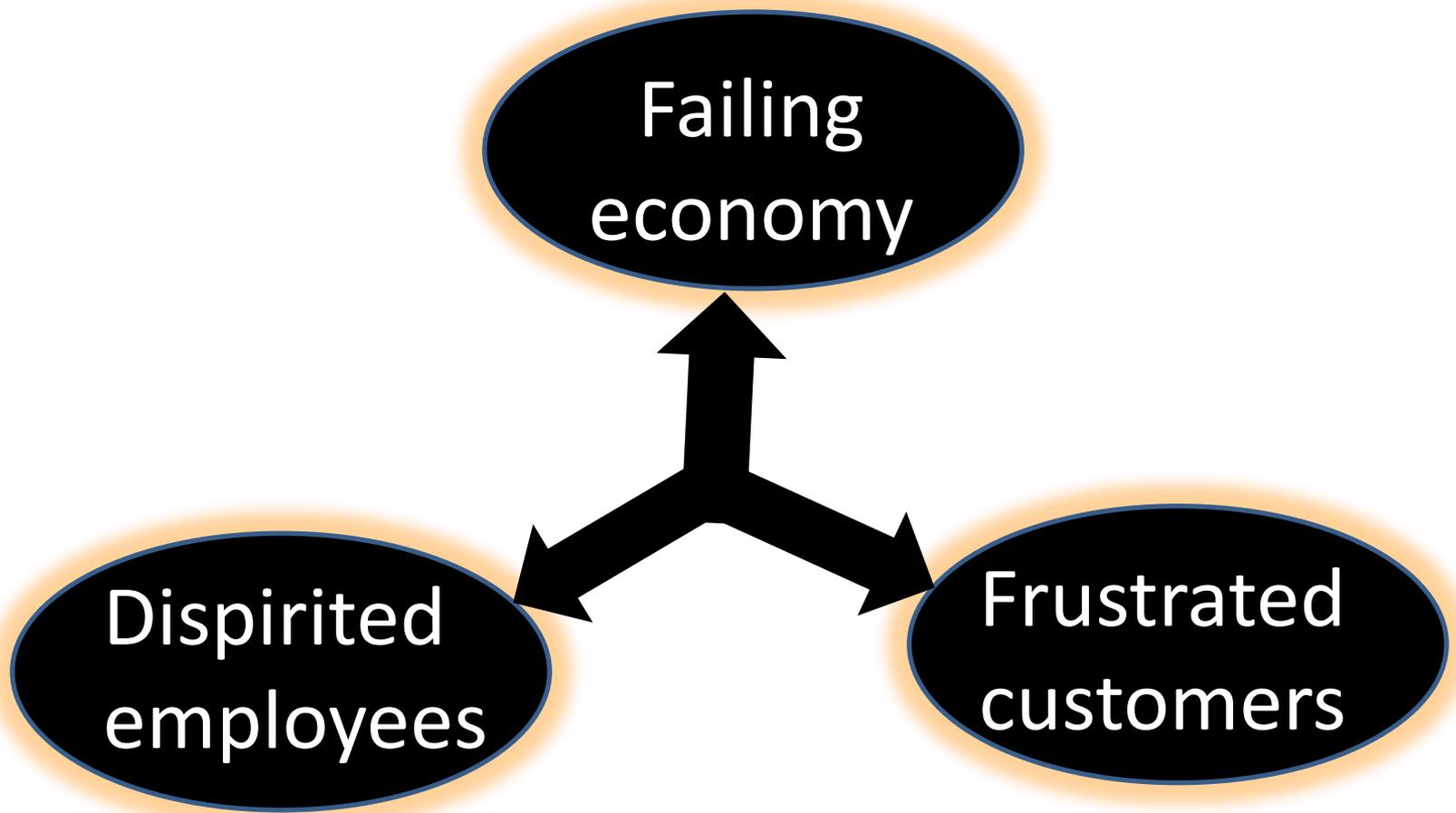
Declining median salaries

1980-2008



Society could live with this

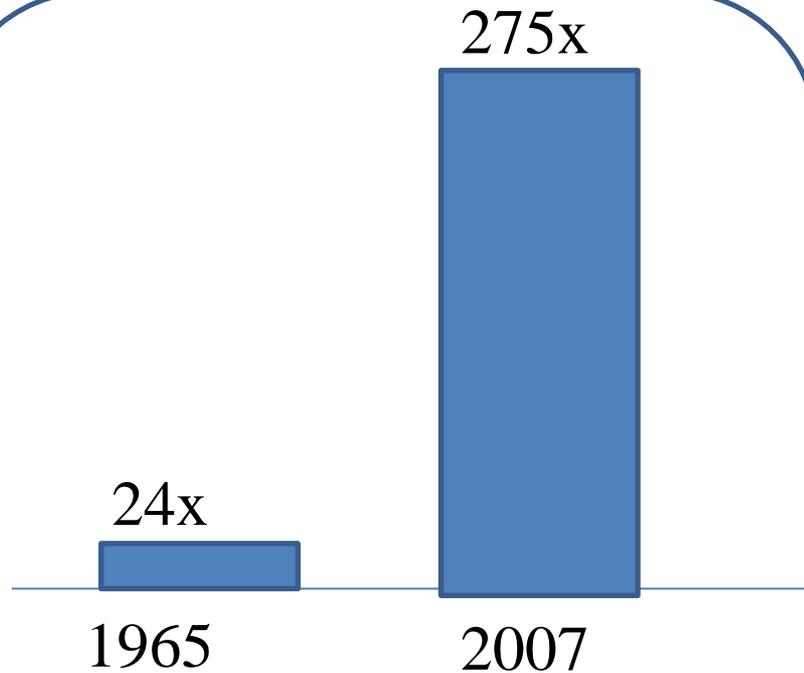
We may have reached a tipping point



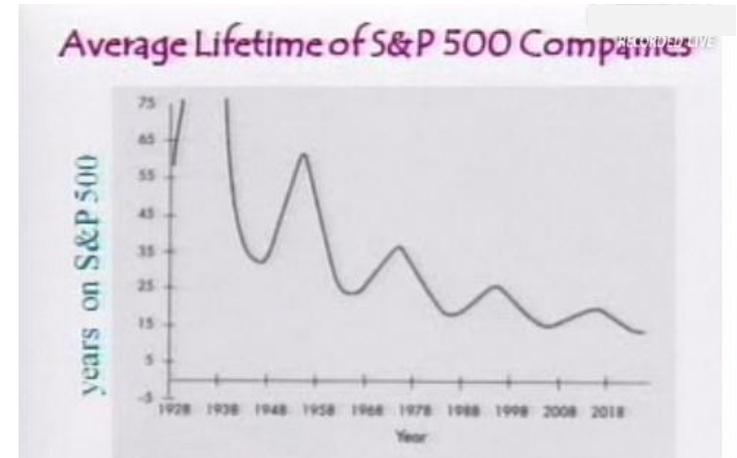
Society can't live with this

3. Executive pay hid corporate performance

No incentive for top management to change



Executive compensation
vis-à-vis worker pay
shows 10x increases



Fortune 500 have
4x declines in life
expectancy

3. Executive pay vs corporate performance

Little incentive for top management to change



Ten year market cap

Minus \$ 267 billion

Jeff Immelt, CEO, GE



Ten year compensation

Plus \$ 126 million

3. Executive pay vs corporate performance

It is difficult to get a man to understand something, when his salary depends upon his not understanding it.

Upton Sinclair

4. Firms may prefer to die than to change

“A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it.”

Nobel laureate Max Planck

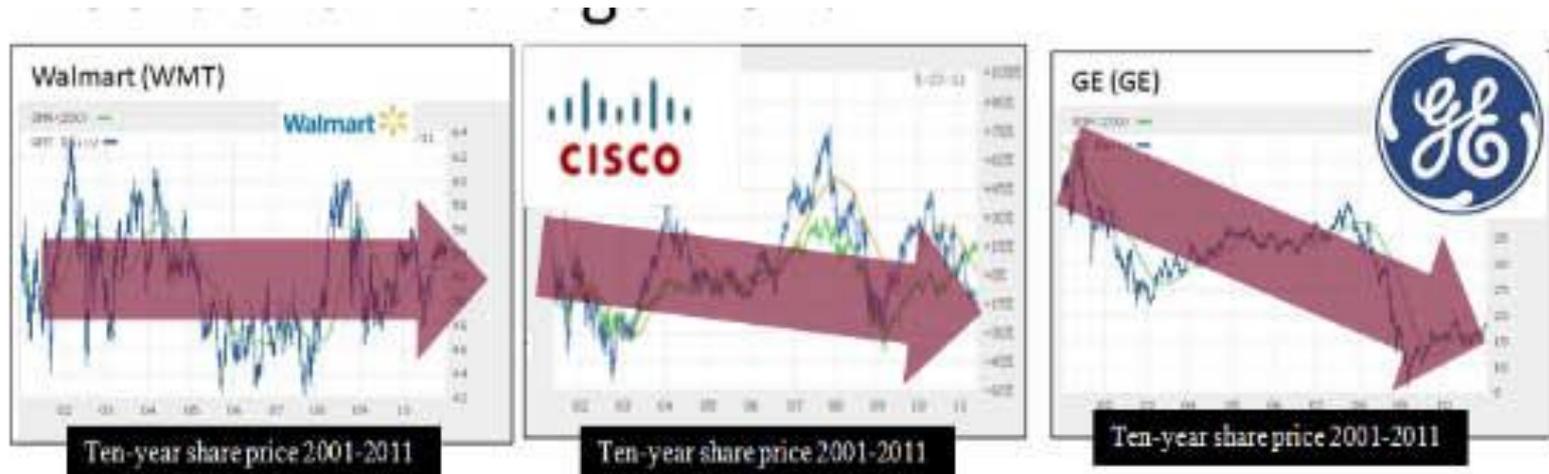


Company death rates will accelerate...

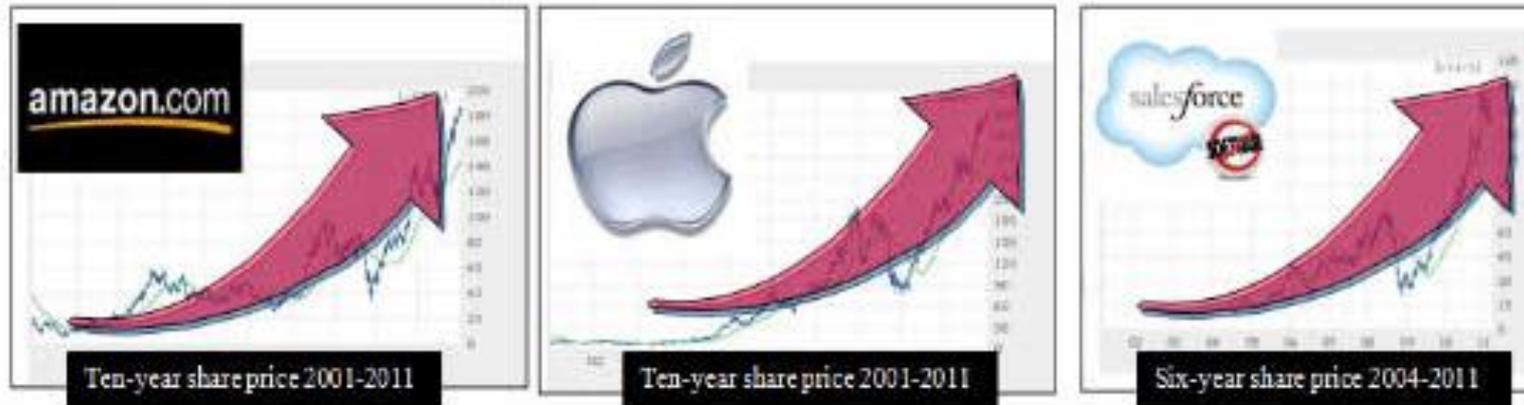
We are looking at:

Decade of low or no economic growth
Declining personal incomes
Low aggregate demand

Traditional management can't generate demand



Survivors : those who delight customers



Firms who delight their customers will survive

They generate their own demand

By 2020, more than half of the Fortune 500 will be new

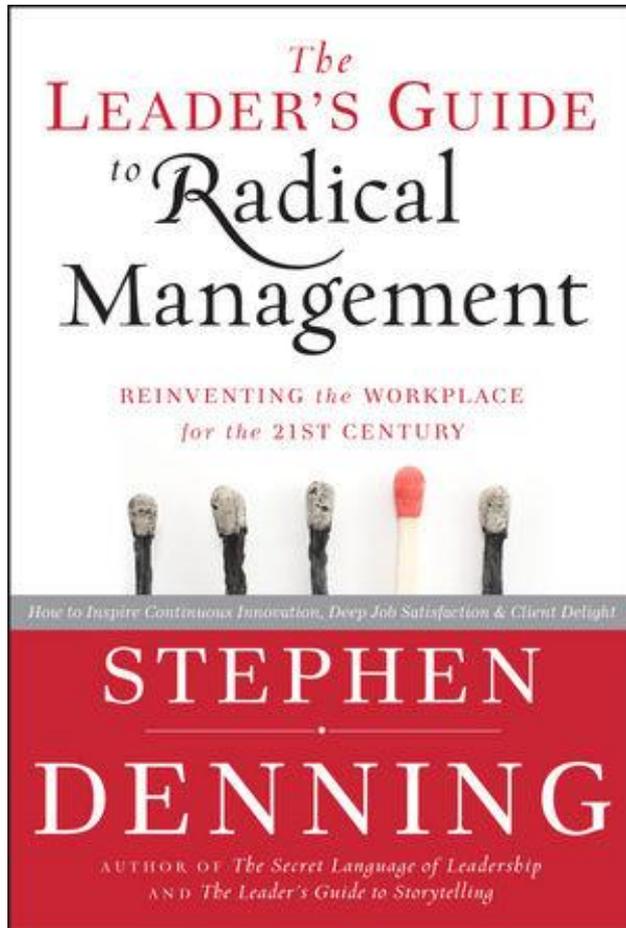
Lead the revolution!

- **Be the strategy** (not *support* the strategy)
- Master **leadership storytelling**
- **Educate** your bosses: what management is about
- **Join with others**
- **Take charge** of your future

**“Your time is limited: don’t waste it
living someone else’s life.”**

Steve Jobs

Reinventing management requires systemic change



“Once you introduce this, it affects everything in the organization—the way you plan, the way you manage, the way you work. Everything is different. It changes the game radically.”

Mikkel Harbo

VP, Systematic Software (Denmark)

More than a new set of management tools!

The real voyage of
discovery consists not in
seeking new landscapes,
but in having new eyes.

Marcel Proust