

Managing in the 21st Century

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I. Introduction

As the centers of gravity in terms of economics, demography, and geopolitics become increasingly diverse, most of today's managerial practices will be found lacking by the second decade of the 21st century. The world economy is changing at the speed of light with hundreds of millions of people entering as active participants who seek more meaning in their work environment. Executive failure to sense these trends will bring, if it has not already brought, the most dramatic economic collapse in two centuries.

We need new management practices that will take into account the diverse stakeholders and the vast knowledge held by people at all levels of organizations. Put in another way, we need a new management system that can operate in an environment where all participants are encouraged to be involved in the decision making processes.

Such will be beneficial to all types of organizations, whether for-profit or not-for-profit.

II. The Need for a New Management System

Most of today's managerial practices still belong to the beginning of the 20th century when Frederick W. Taylor introduced *Scientific Management*. The well-known story was that he preferred workers to leave their minds at the gate and come to work with their hands. These practices are similar to *communism* and are characterized by the traditional command and control mechanisms and the traditional strategic and budgeting processes. They reflect the notion that the few know better than the many. "We will plan and the rest of you will execute because, as you are well aware, we know better." In most cases, the "smart guys" either from the CEO suite or from consulting services, are called in to shape the organizational strategies. This phenomenon ignores the vast knowledge and experiences already available within organizations.

People these days, however, seek meaningful working experiences. Nobody wants to be a cog. If more than 33% of their lives are to be spent in creating value, they want to influence the processes, each in their own capacity. They do have the capacity except that the current managing practices do not allow them to utilize their knowledge.

The consequences are dire: people feel their voices are not heard and they feel detached from the organization in which they work. Hence, they doubt that their potential will ever be fully realized.

The second decade of the 21st century critically needs a new management system. The contemporary capitalist regime is losing its attraction due in large part to the economic tsunami we have all experienced the past four years. It is afflicted with greedy executives and with narrow-minded strategies that do not take into account other stakeholders: the environment, the society, and the new types of people who make up the work force. We need a *framework* that will enable people to participate and feel that their contributions matter to their organizations and the entire stakeholder community, as illustrated by Figure 1.

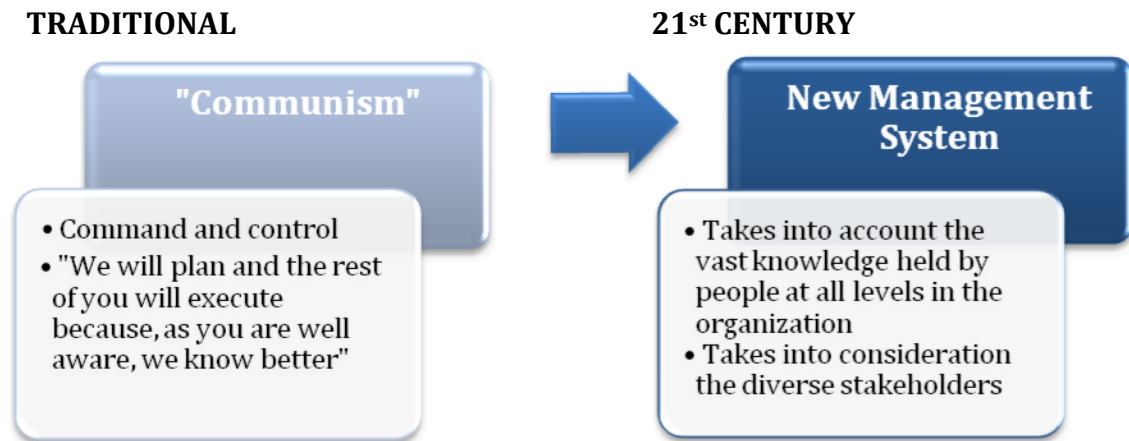


Figure 1. The Traditional vs. the New Management System

III. The Logical Framework (LogFrame)

The *Logical Framework* or *LogFrame*, developed by Prof. Joseph Ben Dak, Larry Posner, and Leon Rosenberg in the 1980's, can serve as a starting point for the new management system mentioned above. Ben Dak, et al. developed the framework with the aim of having a robust strategic process that could deal with complex environments from the very first stages of planning to the execution stage and would take into account the many stakeholders and interests. The LogFrame was first applied to mega projects managed by the military and to the seemingly very different international NGOs in developing countries.

We have decided to take the LogFrame one step further by embedding a unique managerial system of measurement and compensation and then applying it to more of the for-profit organizations. With a *value creation mindset*, which would be explained in detail later, what the LogFrame aims to do is simple to understand: *involve the workforce, measure correctly, and compensate correctly to achieve the right sense of ownership and meet the expectations of the entire stakeholder community*. One might call the LogFrame the "Trust and Respect" framework: You *trust* your people and gain genuine *respect*. Once you break in, this "flywheel" gains speed and relationships change accordingly. The managing environment is put on a different platform.

A. The LogFrame Process

The LogFrame frees managerial discussions of strategic jargons and converts common sense and executive intuition into a logical framework. At first glance it appears to be a rather simple framework but correct implementation demands an ongoing intellectual effort, as illustrated by Figure 2. Executives are strongly encouraged to make sure that most managers take part in the process. The idea is to get people involved and exert influence in designing new strategies.

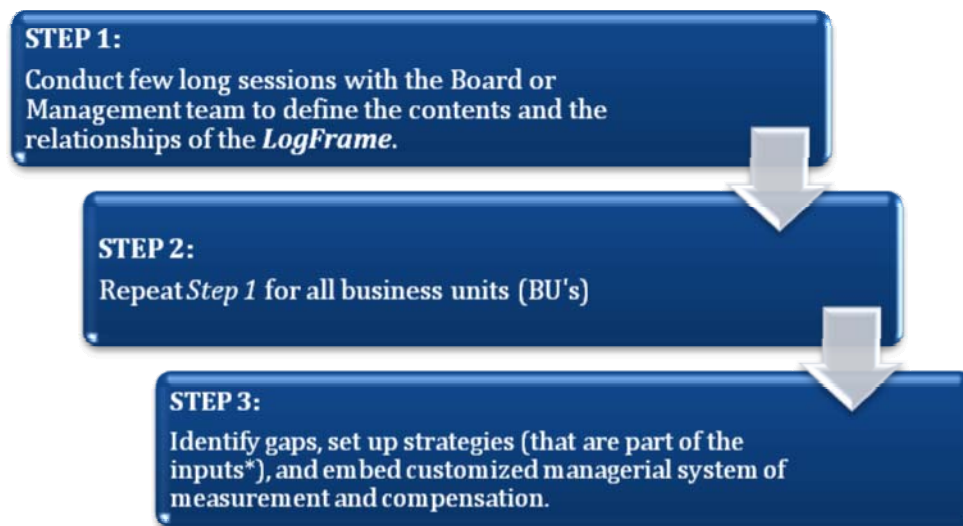


Figure 2. Designing a New Management System

B. The LogFrame Components

The LogFrame components, shown by Figure 3, must be logically connected to each other. Each component can be defined as follows:

1. Goal / Vision

This is the prime goal of the organization. Others might call it vision.

2. Purposes

These are the prime goals of the Business Units (BU). Every organization has a number of BUs or departments and each has to have a purpose. Others might call it mission. By achieving its purpose, the BU directly helps the organization to achieve its goal.

3. *Outputs*

These are the measurable indices. Inputs are converted by the people into outputs.

4. *Inputs*

These refer to the activities, efforts and resources in the organization. Inputs are converted into outputs by allocating scarce resources. The core process is the optimization that will achieve the desired ratio between inputs and outputs.



Figure 3. The LogFrame Components

C. Steps in Defining the Contents and the Relationships in the LogFrame

For each LogFrame component, the *narrative summary*, *objectively verifiable indicators*, *means of verification*, and *assumptions* must be well-defined in the order shown by Figure 4.

The details for each step are described below.

1. ***Narrative Summary***

This gives a short description of each component. For instance, we say that the goal of the firm is *sustainable value creation*. Any organization should aim to do well—for the shareholders who risk their money; for the employees who invest part of their lives; for the lenders who want to earn interest; for the surrounding society, which supplies the organization with services; for the broader society, which wants to benefit from the taxes the organization pays to the government; and for the natural environment, which should enjoy protection from wrongdoing.

2. ***Objectively Verifiable Indicators***

These are the indicators that reflect the narrative summary in numerical values. These indicators are at the heart of the framework. Choose the wrong indicators and you miss the picture!

At the *Goal* level, the indicators can be of two types: *external* and *internal*. An external indicator should benchmark organizational performance (1) against the market, taking into consideration the risk associated with the company (technically speaking via the WACC); or (2) against the peers.

An internal indicator should measure *value creation* in the form of economic profit or the *Economic Value Added (EVA®)*. EVA takes into consideration a number of elements:

- The cost of the money the shareholder has invested, ascertaining that the executives are taking into account the risk associated with the operation of the firm
- A long-term approach that sees intangible assets as the main generator of growth
- Replacing the bias of the accounting framework with the economic framework (which reflects the economic reality of the firm) as a springboard for decision-making

At the *Purpose (BU)* level, the indicator can be the EVA® of the BU. This has a clear and direct connection to the EVA® of the organization.

At the *Output* level, the indicator can also be in terms of EVA®. If this is not possible, the EVA® value drivers (drivers that boost the EVA®) can be used, preferably in the form of operations indices combined with financial indices. For example, in the media industry, we combine viewership or reach measures with either revenue or costs, depending on whether the current strategy is to boost revenue or reduce costs. Such combination provides the people at the operational level with the right perspective on how to create value.

3. *Means of Verification*

This refers to the data sources. *External* data can be obtained from such sources as Bloomberg.

Internal data can be obtained from the accounting system of the organization. These data can be transformed into economic data using state-of-the-art techniques.

4. *Assumptions*

Assumptions can be *internal* or *external*. *External* assumptions are expected or unexpected events that are beyond an organization's control and have dramatic influence on performance. This should be the starting point of the Risk Management Plan, an essential part of any project.

Internal assumptions are for the most part changes in the behavior of the teams as a result of the managing environment, usually with a negative connotation. They provide the executives with good insights and clues for better management.



Figure 4. Defining the Contents and the Relationships in the LogFrame

By applying the state-of-the-art *Business Performance Measurement (BPM)*, which is based on the best practices from economic and financial disciplines that convert accounting data into meaningful economic knowledge, we assume we have the right control system. BPM takes care of the monitoring phase and aims to compare Inputs to Outputs. However, we also need an evaluating system that will expose the relationship of Output to Purpose and the relationship of Purpose to Goal. BPM can also address this need and serve as the springboard for the evaluating process. The LogFrame, together with BPM, equips us with a coherent framework that enables executives and the entire community of stakeholders to explore the results and hindsight, and to steer the ship in a better direction.

D. Integrating the Value Creation Mindset with the LogFrame

Once we have put the LogFrame in place, the next question is what sort of performance and behavior can we expect from the new framework? This is a crucial question as in too many cases when a new managerial system is implemented, we do not seek a change in the behavior of the people.

We must bear in mind that one of the classic definitions of management is “seeking desired outcomes by allocating scarce resources and by working with people.” Our scarcest resources nowadays are the time of our people; and the people’s sense of ownership: their willingness to invest heart and mind in the organization because they feel it is their business.

Agency Theory has taught us a good lesson lately: People tend to behave in unexpected ways if you mistreat them. The secret to changing the behavior of the entire workforce lies in creating a *sense of ownership* for all. People do act differently when they are doing something for themselves—it's only human. If you earn a sense of ownership, then you can expect a different level of performance from the very same resources.

The *value creation mindset* involves three essential steps that must be integrated with the LogFrame to create a sense of ownership in the workforce:

1. *Measure performance correctly.*

Here we measure the *economic performance* of operations. The difference between economic and accounting measurements is that economic measurement looks into opportunity cost and benefits, such as capital, land, time, and risk. In moving from accounting principles toward economic principles, there are many adjustments that should be made. However, one must define those adjustments that have the most meaningful impact. In most cases, five to ten adjustments are sufficient. This requires expert knowledge of the industry and company levels, as well as of the specific DNA of the organization. Coupled with extensive economic and financial expertise, this knowledge will make the framework reliable and effective.

2. *Remunerate the entire workforce appropriately.*

Motivating people falls in a huge gray area between art and science: the art of understanding the specific needs of a specific group of people; and, the science of understanding the principles of what makes people tick. The combination is unique if one can mix and match all these in a way that will make the people happier, the organization wealthier, and the environment a better place to live. It is a huge mission. The scientific approach must be based on aligning the interests of the entire stakeholder community. It must solve the agency phenomenon. People must see their workplace as their own; hence, they must earn a piece of the action. If they earn a piece of the action, they will change their behavior on a permanent basis, and will constantly seek improvement. The compass for seeking improvement is the *economic management system*. Here we gain the multiplier effect: people act in their own self-interest and of course the organization benefits.

3. *Manage less. Yes, manage less!*

If people are working for their own benefit, the manager can relax: he/she does not have to micro-manage the teams. Because they are doing it for themselves, people will feel they have more freedom to innovate. Frederick Taylor would be shocked to see people using their brains, and not only their hands! In all seriousness, the workforce of the 21st century seeks freedom, self-fulfillment, and a meaningful life. By “managing them less,” the management can gain a huge boost in performance and human satisfaction and will be able to manage the future and act as mentors and coaches to their workforce.

IV. Conclusion

The combination of the LogFrame and the Value Creation Mindset creates a powerful tool. Managing becomes much more effective in terms of holistic results in the (1) firm, (2) human environment, (3) physical environment, and (4) entire stakeholder community.

Figure 5. Execution Schedule / Timeline

(next page)

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Identify gaps, set up strategies and embed customized managerial system of measurement and compensation.

