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PROF. DR. OEC. HABIL. FREDMUND MALIK
is a pioneer of management in complex systems. As such, he advocates the need for a complete change in approach, 180-degree turn: from the false doctrines and theories of the past to a nature, system, and brain-friendly conception. As a scientist, author, consultant, and management coach, Professor Malik has been teaching, advising, and influencing the thinking of executives and managers across all levels, organizations, and industries.

For decades, the St. Gallen, Switzerland based professor has been an entrepreneur in his own right. He is the owner of Malik St. Gallen and the employer of around 250 people in St. Gallen, Zurich, Vienna, Berlin, London, Shanghai, and Toronto. He is also a member of several supervisory, administrative, and foundation boards. Fredmund Malik stands for the unparalleled integration of practice and science. His latest publication with Campus was the new edition of his bestseller Managing Performing Living. Effective Management for a New Era.

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"Fredmund Malik has become the leading analyst of, and expert on, Management in Europe… and a powerful force in shaping it as a consultant. He is a commanding figure – in theory as well as in the practice of Management."
Peter Drucker

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Süddeutsche Zeitung

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Fredmund Malik

Management

The Essence of the Craft

Translated from German by Jutta Scherer, JS textworks
(Munich, Germany)

Campus Verlag
Frankfurt / New York

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Author's Preface to the English Edition 2010

In this book I am presenting a new kind of management for a new kind of world. It is my concept of right and good management for functioning organizations in functioning societies of exceeding complexity.

The need for such a concept arises because conventional management – by which, basically, I mean the US-type management theory and practice now applied worldwide – has come to its very limits as it is unable to deal with the consequences of its own success. The result of its tremendous achievements is a world of inextricably interrelated dynamic systems which are incomprehensibly complex. This has largely been ignored by the dominating US management approach because it was never designed for such conditions. It now fails exactly for this reason, thereby causing the present crisis. I have actually been predicting this for years in many of my publications, including the German version of this book which was first published in 2005.

The fact that success almost inevitably breeds its own failure is often overlooked, although it is well known in many fields and in particular in those that accept complexity explicitly as their research subject such as biology or ecology. Albert Einstein already remarked that one cannot solve problems with the same methods which produced them.

Failure to manage complexity as the major cause of the world-crisis

What, at present, a majority – at least in the West – considers to be a mere financial crisis can probably be much better understood if it is looked at from an altogether different perspective: the failure to understand and manage complexity.

Business and society seem to be undergoing one of the most fundamental transformations in history. Only on the surface, and only if perceived in conventional categories, do present changes appear to be financial and economic in nature.

What is happening might better be understood as an Old World dying because a New World is being born. There will hardly be any bridges back to the old state of affairs. Perhaps the most practical premise to navigate by is that whatever can change will change.

If so, we are witnessing no less than the almost complete collapse of the formerly so efficient US management approach, which was developed mainly in the context of business administration and taught in business schools as the ultimate wisdom with regard to the running of corporations in a world where its premises applied to an ever lesser degree. Its realities have already been changing for quite some time but this went largely unnoticed because most people tend to see only the old familiar patterns in the new realities.

We are experiencing in particular the failure of the US-type of corporate governance and the kind of top management which is dominated almost exclusively by financial variables only. We see the collapse of the shareholder value approach, which due to its short term profit orientation is largely ignoring the customer and is hostile to future-oriented investing and innovating, thereby systematically misdirecting the allocation of societal resources. The failure of the US-approach is, among other aspects, the consequence of mistaking financial investment for real investment, thereby undermining the former strengths of the US-economy, of confusing mountains of bad debts with sustainable wealth, and of failing to distinguish between healthy and pathological growth.

Ironically, what collapsed first was the financial system which appeared to be the most highly developed and sophisticated system ever designed. It was believed to be free of systemic risk by most experts and run by the world's most excellent executives educated in what were thought to be the best universities and business schools worldwide.

However, complex systems have properties and laws of their own. Their driving forces – if systematically ignored – make them inevitably go out of control. Such systems are incomputable and unpredictable in principle and incomprehensible to the conventionally educated mind. They are non-linear, self-dynamic and continuously self-changing and self-restructuring in unforeseeable ways. They are largely self-organizing and self-regulating.

Nevertheless, they can be – up to a degree – controlled and regulated albeit only by a fundamentally different kind of thinking, a new approach for managing complexity and by applying the right methods and tools which are the subject of this book and its companion volumes.

Reliable Functioning by Wholistic Management Systems

Economic and financial measures on the macro level alone will hardly cure the crisis. What it takes on the level of societal institutions is a new way of functioning which is described in my six volume series *Management: Mastering Complexity* in which I present my Malik Wholistic General Management Systems. This first volume contains an overview of the system as a whole whereas the other five volumes will describe the constitutive parts of the system. The second volume "Corporate Policy and Governance: How Organizations Self-Organize", was published in 2008 in German and will be available in English soon. The third volume on strategy is still due in 2010. The remaining three volumes will be dedicated to the new structure for functioning complex organizations, their appropriate culture and the kind of executives who have to be able to understand and master complexity.

Together these six volumes will contain the essence of the most comprehensive General Management System worldwide. To the best of my knowledge my Wholistic General Management Systems are globally the only ones explicitly designed to ensure reliable functioning under conditions of exceedingly high and dynamic complexity.

For this reason and because my Management Systems are universally applicable conventional business administration plays a limited role in my book. For practical reasons, however, I am going to illustrate the application of my systems mainly in the context of the business enterprise. Familiar concepts and terms are left unchanged wherever possible in order to avoid confusion for the practitioner whereas their meaning and most contents are new and different.

The important new knowledge for mastering complex systems does not come from economics or business administration but from what I call the Complexity Sciences, i.e. Systemics, Bionics and Cybernetics, which can also be called the Sciences of Functioning.

For the term "Functioning" I often use the synonym "Right and Good Management" as opposed to wrong and bad management. By this I want to point to the need to understand management as a true profession with its own standards of craftsmanship as indicated in the subtitle of this book.

If the institutions of today's and more so of tomorrow's societies are supposed to function, management needs to liberate itself from fashions and fads and has to become a profession of the same status as for example the profession of the surgeon, the aircraft pilot or the lawyer all of which have as a matter of course their standards of professionalism. The foundation for a profession of effective management for functioning institutions is to be found in my earlier book *Managing Performing Living*.

My General Management Systems – with the support of the experts of my own organization – have been developed, tested and implemented in numerous cases over more than 30 years in all sorts of institutions in business and non-business areas mostly in Europe and particularly in the German speaking world including their worldwide subsidiaries. What works in the complexities of these areas will almost certainly work worldwide. Having discussed the structure, functioning principles and effects of my systems with tens of thousands of executives of all levels I have strong arguments that there is only one kind of management that works effectively, namely Right and Good Management as I present it in my books, and that it is – contrary to mainstream thinking – universally valid and culturally invariant. Fashionable arbitrariness which so often characterizes management should not be given any place in what is one of the most important social functions.

In most respects my Wholistic Management Systems for Functioning are the opposite of what is taught in most business schools. That they will have to change fundamentally as a consequence of the global crisis is hesitatingly becoming apparent to some – among them also a few leading ivy league schools. But it might be a long and hard way for them to recover from the fallacies of their own teachings and partly from the application of wrong management to themselves. At the same time, however, if they manage to change radically and fast it is one of the greatest opportunities for them to show effective leadership in the service of a functioning society in times of great change.

Fredmund Malik

St. Gallen, January 2010

Preface to the New German Edition 2007

"Two roads diverged in a wood,
and I – I took the one less traveled by,
and that has made all the difference."
Robert Frost

If the genome is the code to human life, good management is the code to man's ability to master life. It determines both the ability of the individual to survive in society, and the ability of society and its institutions to function and perform. Few things could be more important. Few raise so many questions. Few are as complex.

But what is management? Concepts abound. If they all worked reliably there would be no failures. Unfortunately there are many, as the worldwide crisis tragically makes visible – which, in my view, is primarily a crisis of functioning, which in turn is synonymous with a crisis of management. Obviously it does not suffice to ask what management is – the question must be more precise: what is right management? And, proceeding from there: what is good management?

So what is right and good management? This first volume of the six-volume series "Management: Mastering Complexity" provides an overview of my concept of a wholistic, systemic, cybernetics-based general management theory in the sense of right and good management. In the following volumes[1] I will elaborate on and define the different topics pertaining to right and good management.

1 The second volume on "Corporate Policy and Governance" was published in 2008 in German. The third on "Strategy" will be published in the fall of 2010. The English translations are expected in 2011.

Critical readers may wonder about the principles and characteristics of the management theory presented here. Management, in my view, is not an empirical science in the usual sense but an application-focused discipline – or, in other words, a practice. It does, however, draw on numerous empirical sciences and their findings. The best evidence of management being practiced rightly is when it works. This book was written for German-speaking countries. Most of its content is contrarian to mainstream thinking in these countries and even more so in the Anglo-Saxon world. The crisis shows that conventional mainstream management is dead wrong and caused the mess we are in. So, my approach may prove to be the best solution for getting out of this mess.

My views on the subject, set forth in this book and in the following volumes of the series, have evolved in over thirty years of research on management, of developing management systems, and of employing them in my own as well as in other businesses, organizations and institutions, both in German-speaking countries and internationally. What has been particularly valuable is the feedback I obtained from my ongoing interaction with thousands of managers in different functions and at different levels, as well as with many of my readers.

In addition, I make a point of drawing on the insights of other management thinkers who, like me, focus on management in its entirety – that is to say, on general management. Among them I consider the works of Peter F. Drucker, Stafford Beer, Hans Ulrich, Aloys Gälweiler, and Frederik Vester to be my most valuable sources, along with the essential publications existing on cybernetics. To answer the question of what right and good management is, proven findings and reliable principles must be amalgamated, as this is the only way to achieve further insights. By contrast, the widespread trend in management literature – starting from scratch every time and reinventing the wheel over and over again – is a roadblock to progress.

My publications on the subject of management are designed for thematic continuity and for consistency of content and language. They are based on my application of cybernetics, as described in my book *Strategie des Managements komplexer Systeme* ["Strategy for the Management of Complex Systems"]. Readers familiar with my previous publications will immediately realize this. Others may find it difficult to view some of my remarks in the context of right and good management. This series of books, therefore, is an attempt to provide an overview of essential issues and interrelations and depict them in a comprehensible way.

My sincere thanks go to my colleagues at Malik Management for many helpful discussions. I also thank Linda Pelzmann, professor of business psychology, for her invaluable feedback, Tamara Bechter for the critical review of my first draft and numerous suggestions for improvement, Maria Pruckner for helping with the new edition of this book, and the staff of the Campus Verlag publishing house. Last but not least, I thank my wife Angelika for her limitless patience.

Fredmund Malik

St. Gallen, August 2008

Concept and Logic of the Series "Management: Mastering Complexity"

This six-book series entitled "Management: Mastering Complexity" has a modular structure. The first volume, *Management. The Essence of the Craft*, lays the foundation, giving an overview of the overall layout of my model for right and good management. The remaining volumes elaborate on the topics of each chapter.

In other words, each of the volumes to follow deals with a subject matter en bloc. They can be read independently of one another and in random sequence. However, readers of succeeding volumes may find it useful to consult this introductory volume *Management. The Essence of the Craft*, as this will enable them to put the individual subject matters in context (as visualized in figure 1).

A key concept for this series of books is my Basic Model of Right and Good Management, frequently referred to as "The Management Wheel" due to its shape. In my book *Managing Performing Living*[2] it is described in detail. The statements I make in this book are an essential prerequisite for correctly understanding the contents of the series "Management: Mastering Complexity".

The basis for all my books and essays is my book *Strategie des Managements komplexer Systeme* ["Strategy for the Management of Complex Systems"][3], a considerably expanded version of my habilitation thesis. It was based on *Systemmethodik* ["System Methodology"], Volumes I and II[4], the joint doctoral thesis by Peter Gomez, Karl-Heinz Oeller, and myself. These books lay out the theoretical principles of cybernetics and system sciences which represent the cornerstones of all my deliberations.

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2 *Managing Performing Living* was published by Campus Verlag in 2006.

3 Meanwhile the 10th edition has been published in 2008.

4 Both volumes were published in 1975.

Figure 1: Structure of the series "Management: Mastering Complexity"

The dynamics of a cybernetic system are best explored in dialogue-like interaction. To familiarize yourself with the *Malik Management System* and the way it works, please visit www.malik.ch.

Introduction

"The very first step
toward success in any occupation
is to become interested in it."
Sir William Osler (1849–1919), physician

Our increasingly complex world cannot function without management, and it can hardly function without precise management. This is true for all kinds of societal institutions, be it commercial enterprises or other organizations. The purpose of this book is to help their managers and employees fulfill their demanding occupational tasks in a professional manner.

In the midst of a jumble of doctrines, ideologies, and true innovations, this book will provide the overview required to distinguish right from wrong and useful from useless. These distinctions are indispensable for meeting both individual and shared responsibilities at each stage of a professional career. They are also crucial for successful and productive interaction.

This book is a compact compendium for right and good management – for *general management* – in that it provides the necessary overview of what it entails. In the following volumes of this series, each of the elements of right and good management will be described in greater detail, including both theoretical content and recommended implementation approaches. Interested readers will be able to familiarize themselves with the tools and practices of the craft, along with numerous practical examples. As such, the present book is a prelude to a practical, comprehensive guide to what the management craft and managerial professionalism must entail.

Sound general management is not about doing something new, modern, or fashionable. What matters is that it is right, that it works, and that it

helps practitioners fulfill their tasks to the best of their abilities. The subject of this book – and of the rest of my publications – is not the "management thinking of today". Rather, all my books are practical guides to effectiveness. They point out my personal opinions on different matters, which are often not in sync with mainstream thinking.

Management. The Essence of the Craft continues, enlarges upon, and complements my book *Managing Performing Living*. While the latter deals with the conduct and actions of the individual manager, the present book goes much further in that it deals with the institution as a whole – with system-oriented *general management*.

The book contains a series of propositions which, compared to mainstream thinking, may be regarded as provocative, unusual, and frequently even wrong – at least initially. In this book, and the books to follow, I am putting my arguments forward for discussion.

Central Propositions

1. Management is society's most important function. The functioning of society depends on management. Only management turns resources into results.
2. Management can largely be acquired by learning. It is a profession and a craft. It follows the same rules of professionalism that are known and have proven useful in other professions. Talents are useful but not essential.
3. The only kind of management a person needs to learn is right and good management. Right and good management is universal, invariant, and independent of culture. It is equally valid for all kinds of organizations and all countries. There is no need for international, multicultural, or global management. All effective institutions function in the same way. They employ the same functional principles.
4. Apparent differences are not related to management but to the nature of the different tasks to be fulfilled in different organizations.
5. Not everyone can manage just any organization. This is not due to management skills but to the difference in operational tasks.
6. All managers in all organizations and across all hierarchy levels need the same kind of management skills. Not all, however, need them in the

same degree of comprehensiveness and detail. Disregarding this principle leads to a lack of orientation and direction, which, in turn, means the end of communication and function.

7. In my view, most of the management ideas prevailing over the past fifteen years or so are false, misleading, and harmful. This is true in particular for anything related to the doctrine of shareholder value and its consequences – such as value-increasing strategies and a way of thinking that focuses predominantly on financial aspects. The stakeholder approach is equally wrong.
8. The economic difficulties of our time, which I believe will inevitably deepen, are largely due to factors other than political errors. They are results of misguided management, of faulty and poor management. As a result, the question as to what right and good management is gains all the more importance.

A Word on the Terms Used

In management – as opposed to other, more advanced and mature disciplines of learning – there is no such thing as uniform or common parlance. Quite to the contrary: most authors attempt to impress readers by inventing their own terms and slogans. This is a roadblock to progress and to acquiring management skills. For this book, I essentially draw on the terms used in the St. Gallen Management Model, the first and so far only wholistic, system-driven management model, as well as on the linguistic usage of Peter F. Drucker, the doyen of management theory. As far as cybernetics and system sciences are concerned, I draw on the terms used by Stafford Beer, the originator of management cybernetics, and my own book *Strategie des Managements komplexer Systeme* ["Strategy for the Management of Complex Systems"].

1. The terms "company", "organization", and "institution" are largely used in the same sense. Certain variances in meaning relate to the degree of generality, or the special limitation to a segment of society. The most general terms are "institution" and "organization". They refer to all organizations existing in a society, no matter what kind or legal form. The term "company", in essence, belongs to the business sector. When-

ever no specific pointers are provided, it will be clear from the context what I mean when using each of these terms.

The term most frequently used in this book is "company" and other terms related to it, such as "corporate policy". The statements made will generally be applicable to all kinds of institutions. Depending on the field of usage, the terms might need to be adapted somewhat, as in "educational policy" or "health policy".

2. The term "management" itself can be understood in several ways:

   Firstly, as a function that exists in any kind of organization and is indispensable for its functioning. This is the so-called functional dimension of management. It is neither linked to specific persons nor to organizational elements. This function is not perceptible to our senses. It is incorporated in certain actions taken by individuals and in this way its impact is perceived.

   Secondly, the term "management" can be understood to be the sum of the legal and/or organizational authorities in an institution. Examples include the executive board of a private company, the executive committee of a public company, a national government, or a university's board of directors. This is referred to as the institutional dimension, and it also includes expanded boards of managers, group management, management circles, or partners' conferences. As far as mandatory and/or higher-level authorities are concerned, the respective responsibilities, rights, obligations, and accountabilities are governed by laws, articles of incorporation, or statutes. Those of other organizational entities are determined by common sense and habits.

   Thirdly, management can be understood to include the persons that belong to the institutional authorities mentioned. This is the personal dimension of management. In particular the terms "top management" and "top manager" frequently carry that meaning.

3. I use the term "management" in the same meaning as its German equivalent "Führung". Both terms mean the same. In all my German-language publications, I use the two terms synonymously. By contrast, the terms "management" and "leadership" do not mean the same.

4. In the chapter on structure, the term "organization" carries two different meanings: the first, as mentioned above, is what we refer to when we speak of an institution *being* an organization; the second is what we

mean when we speak of an institution *having* an organization. Which one of the two meanings applies should be clear from the particular context.

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