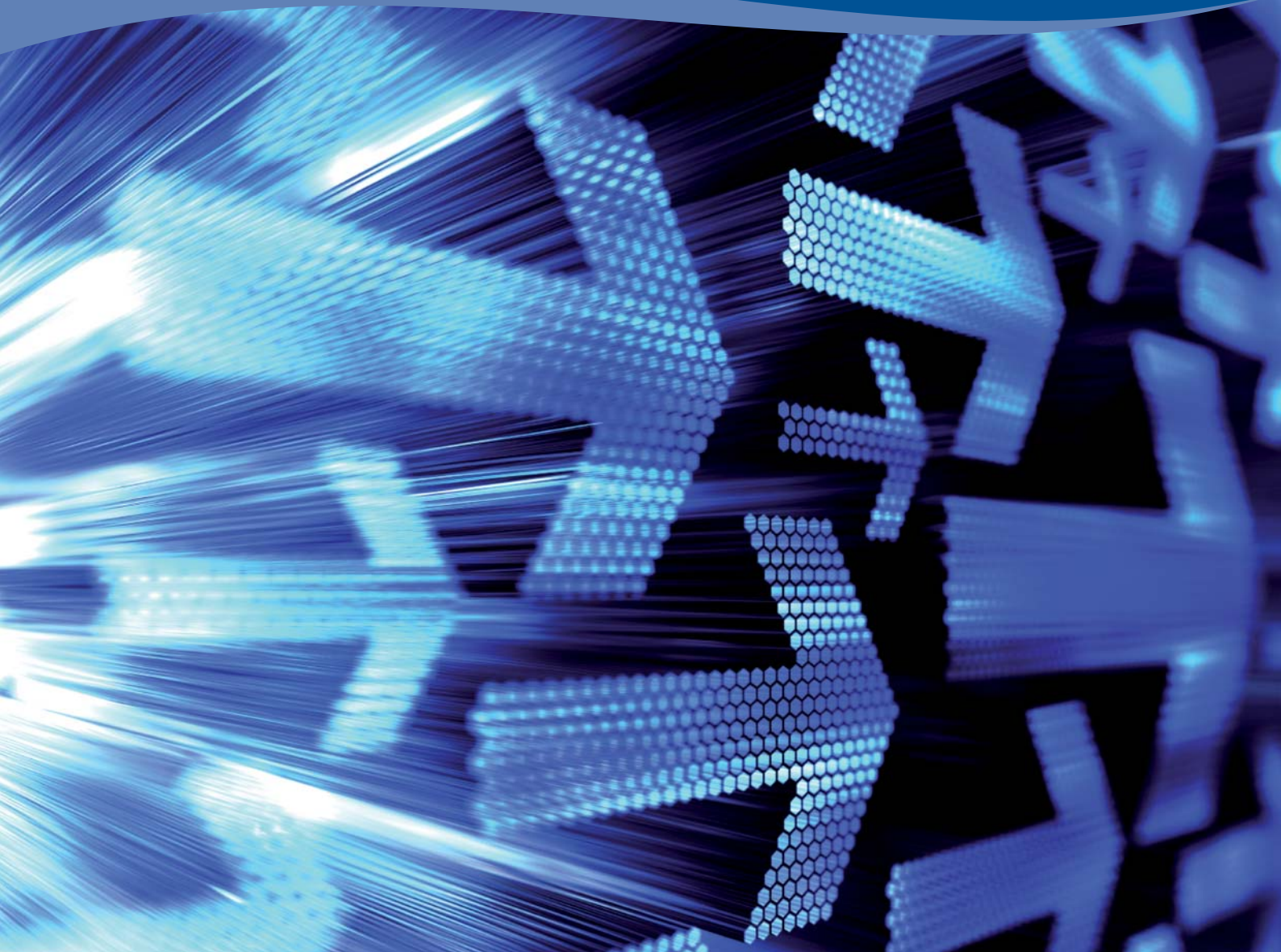


# Point of View

The future direction of the European  
management model

**Professor Christopher Bones**



## **The Alpbach Forum**

Every year since 1945, the 'European Forum Alpbach' has been held in the Tyrolian mountain village of Alpbach. For almost three weeks Alpbach becomes the village of thinkers or, as Otto Molden, the founder of the Forum, called it, the 'other magic mountain'. Speakers and participants from all parts of the world, from science, economics and politics, experienced experts and students, come together in Alpbach to discuss the current issues and to formulate interdisciplinary solutions. The open character of the events promotes a climate of tolerance for different opinions and contributes to the overcoming of national, ideological and disciplinary boundaries in a harmonious way. Since its inception, more than 3,000 people from over 50 countries have taken up the invitation to participate in the European Forum Alpbach. Participation is open to all those who are interested, and the events are carried out in the German or the English language.

<http://www.alpbach.org/index.php?id=252ef>

## The text of a special lecture given by Professor Christopher Bones, Dean, Henley Business School at the Alpbach Economic Forum on 2nd September 2009

Good evening ladies and gentlemen, and thank you so much for inviting me to give this special lecture on the future direction of the European management model.

In 1985, Peter Drucker<sup>1</sup> argued that management was the new technology: it would drive the social and economic innovation required to continue to deliver on our social promises, and it would do this through generating wealth that would benefit the many, not just the few. In my 2007 foreword to the new edition of *Innovation and Entrepreneurship*<sup>2</sup> I argued that this was a proposition whose time had come – today’s managers in a globalising world have the opportunity to transform our environment and to build a far more sustainable organisational model than that in evidence in many of today’s global corporations.

The trauma of the last two years has reinforced both the opportunity but also the size of the mountain we have to climb if managers are to deliver on their potential to act on behalf of the greater good and create value for society as a whole. The European model of management, in my view, has always accepted that management was more than acting in self-interest or on behalf of a narrow sectional perspective. This is in radical contrast to the individualistic model that predominates in North America and I will argue tonight that through reasserting that belief in business and business education in Europe we can take the lead in redefining the role of wealth creators in a sustainable society.

Jeffrey Pfeffer<sup>3</sup> from Stanford in a very recent paper asked the question: ‘Why are milk jugs more important than people?’

He did so referring to an incident in 2008, when a divisional CEO of Wal-Mart, expounded on innovation in milk jugs and his company’s introduction of a rectangular, and therefore stackable, jug. While the CEO was proudly noting how the new design extended the shelf life of milk, reduced costs by between 10 and 20 cents and eliminated more than 10,000 delivery trips, thereby saving the company money, research showed that Wal-Mart paid its employees almost 15 per cent less than other large retailers and, because of the lower pay, Wal-Mart employees made greater use of public health and welfare programmes.

Pfeffer argued that organisations have choices and are not compelled by some overwhelming competitive pressure to manage in ways that impose additional costs on the rest of society. He contrasted the treatment of sustainable environmental policy to that of building sustainable organisations: ‘whilst cost considerations are germane to labour issues,’ he said, ‘with respect to adverse effects such as pollution or the destruction of endangered species, governments have largely precluded using

‘today’s managers in a globalising world have the opportunity to transform our environment...’

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<sup>1</sup> Drucker, P. *Innovation and Entrepreneurship*. Butterworth-Heinemann (London 1985)

<sup>2</sup> Bones, C. J. Foreword In: Drucker, P. *Innovation and Entrepreneurship*. Butterworth-Heinemann (London 2007)

<sup>3</sup> Pfeffer, J. Research Paper No. 2017 *Building Sustainable Organizations: The Human Factor*. Stanford Graduate School (Stanford 2009)

economic necessity as an excuse for companies persisting in engaging in harmful actions’.

Here lies the paradox of 21st-century management: ensuring the long-term economic health for the enterprise as well as the long-term well-being of society as a whole. The opportunity for the European model to lead the world is in defining how we best meet both goals and how we make choices when faced with conflicting priorities.

Our business school believes that developing management capability is a key driver in the creation of wealth and it is that wealth, after all, that will keep our public services going as well as contributing to our private well-being. First and foremost we have to understand that, uncomfortable as it may be to some, without the market succeeding we are all doomed to fail. We also need to understand that the management challenge is not just one facing the private sector in Europe: it is just as much about reinventing public services.

In the UK over last ten years, public expenditure has doubled to over £600 billion per annum and we would be foolish to argue that this has led to a consequent doubling of public service performance. We know that some of it has been wasted on management and management reorganisations; on targets and testing regimes that meet the needs of politicians and no-one else; on IT projects that promised the world and cost it instead; and on a significant increase in public sector pay with little to show by way of productivity or significant improvement in capabilities.

Little of the entrepreneurship and innovation Drucker promoted has been evident in the UK’s performance. Indeed it is a great example of the why the challenge to create a management model that delivers to both shareholders and stakeholders is both complex and at times contradictory.

At Henley we describe this leadership challenge as a series of dilemmas. We chose this word deliberately – if you go back to the *Oxford English Dictionary* you’ll discover that dilemma is defined as a choice where either option brings with it an unpleasant consequence for somebody somewhere.

If you are faced with a dilemma you have to make a choice, and it is the process of choice that distinguishes a successful business leader from the rest. Our job as developers of management and leadership capability is to ensure that managers and leaders are able to make the right choices: right for themselves; right for their organisations; and right for the wider communities in which they exist.

Why choice? Let me explain by introducing you to my favourite modern philosopher, Albus Dumbledore. At the end of the second Harry Potter book, *Harry Potter and the Chamber of Secrets*, Harry discovers that he possesses the same skills, capabilities if you like, as Voldemort, who as you know is the villain of the series. It is Dumbledore, Harry’s headmaster, who comforts Harry by saying this:<sup>4</sup>

**‘Here lies the paradox of 21st-century management: ensuring the long-term economic health for the enterprise as well as the long-term well-being of society as a whole.’**

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<sup>4</sup> Rowling, J. K. *Harry Potter and the Chamber of Secrets*. Bloomsbury (London 1999)

*Ultimately it is our choices that show people who we truly are, far more than our abilities.*

The founders of Henley Business School put it another way, and in so doing gave us our underpinning core value: 'Character and integrity are as important in a manager as capability'. We believe that right choices require rigorous thinking and the combination of rigour and relevance should be held front of mind when thinking not just about what to do, but also about with whom to work on building the right capabilities managers require to succeed in the 21st century.

For management development is rapidly becoming the province of the charlatan, and we are often talked into buying support in the development of leaders from the modern-day equivalent of the village witch doctor. Just look at what you can buy off the bookshelves:

*The Leadership Secrets of Attila the Hun*

*Ghandi: the Heart of an Executive*

*Confucius in the Board Room*

*If Aristotle ran General Motors – and I thought the motor car was the physical incarnation of the pursuit of happiness*

*Moses CEO*

and my favourite:

*Make it so: Management Lessons from Star Trek the Next Generation*

**'Character and integrity are as important in a manager as capability.'**

In the United States the development of popular management thinking has not just filled up airport bookshops with this stuff, but it has also created their own gurus: paid, and still paid, tens of thousands of dollars a day to peddle the secrets of success. Tom Peters, Zig Ziglar, Anthony Robbins and Steven Covey, whose book *Giant Steps* has 365 lessons in self-mastery, of which lesson 364 is this: 'Remember to expect miracles... because you are one.'<sup>5</sup>

It is this sort of thinking that Sir Tom Stoppard, probably one of the greatest playwrights writing in the English language today, parodied in his play *Jumpers*. The whole play is an exploration of the absurdities that poor thinking can create. The central character is a professor of moral philosophy, who in this speech conjures with the concept of the divine and mathematics:

*Mathematicians will tell you that Cantor's proof that there is no greatest number ensures that there is no smallest fraction. There is no beginning. It was precisely this notion of infinite series that, in the sixth century BC, led the Greek philosopher Zeno to conclude that since an arrow shot towards a target first had to cover half the distance, and then half the remainder, and then half the remainder after that, and so on ad infinitum, the result was that though an arrow is always approaching its target, it never quite gets there, and Saint Sebastian died of fright.<sup>6</sup>*

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<sup>5</sup> The list and the Covey reference are quoted in Wheen, F. *How Mumbo-Jumbo Conquered the World*. Fourth Estate (London 2004)

<sup>6</sup> Stoppard, T. *Jumpers*. Faber & Faber (London 1986)

**‘...crossing the line is exactly what happened in global financial services.’**

Such thinking has given us much of the poor-quality consulting material that arrives on our desks every day; it gave us in education a retired teacher’s redefinition of failure as ‘deferred success’, and gave us in war the US Army’s redefinition of civilian death as ‘collateral damage’. Poor thinking drives poor decisions; poor decisions make poor people and they make poor people even poorer.

Now I’m not arguing against market economics or the virtue of private enterprise and profit – after all wealth cannot be created without them. But there is a difference between enterprise and self-interest.

This is well illustrated by the story of the shopkeeper who was dismayed when a brand new business much like his own opened up next door and erected a huge sign which read ‘BEST DEALS’. He was even more horrified when another competitor opened up on his right, and announced its arrival with an even larger sign, reading ‘LOWEST PRICES’. The shopkeeper panicked, until he got an idea. He put the biggest sign of all over his own shop. It read: ‘MAIN ENTRANCE’. That is enterprising – entrepreneurial if you like – but it didn’t cross the line.

However, crossing the line is exactly what happened in global financial services. Why? Well it’s my opinion that, simply put, two structural changes came together with a shift in values and the consequences were nearly disastrous for all of us.

The first structural change was the deregulation of financial services led by changes in the US and in the UK. Let me use the UK as an example I know well: nearly 30 years ago the Thatcher government set about a policy of significant economic liberalisation. While much of their reform has set the foundation for the country’s economic success over recent years, the liberalisation of the financial sector has been more controversial.

A dramatic example is the rise in level of personal debt. Let me illustrate this with a few statistics from 2007:<sup>7</sup>

- The average household debt including mortgages in the UK was just over **£56,000**.
- The average owed by every UK adult was nearly **£29,000**.
- Britain’s personal debt in 2007 increased by **£1 million every four minutes**.

Personal debt as a proportion of income in the UK has risen from 105% in 1997 to 164% in 2006 – the highest in the developed world. The increasing appetite for debt in the 1990s and the business opportunities this presented banks and other financial institutions were very tempting.

The second structural change was the emergence and acceptance of the myth that there was somehow a finite supply of talented people across the globe who were capable of running anything significant, and that they should be retained and ‘bought in’ through a substantial shift in remuneration practices that changed the basis of employment in public

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<sup>7</sup> [www.creditaction.org.uk](http://www.creditaction.org.uk)

and private companies.<sup>8</sup> This sense of an exclusive club of top talent is positively dangerous. It created the 20th century's equivalent to James Hogg's justified sinner, who ran around committing the most awful crimes on the basis that he had been chosen for paradise and as the chosen one he could do no wrong.<sup>9</sup>

In his follow-up novel to *Catch 22*, *Something Happened*, Joseph Heller presented a highly critical account of business life in the insurance industry in which he wrote:<sup>10</sup>

*Success and failure are both difficult to endure. Along with success come drugs, divorce, fornication, bullying, travel, meditation, medication, depression, neurosis and suicide. With failure comes failure.*

What is it about success that can sow the seeds of failure? What drives a chairman to endorse accounting practices that ultimately bankrupt not only himself and his associates but also thousands of suppliers and investors? What drives a chief executive to confuse his own assets with those belonging to his corporation, and use the latter to fund what today's press refer to as a 'playboy lifestyle'? What drives a successful oil executive to enrol colleagues in a cover-up of the misreporting of oil reserves?

Now I know the curse of success is not confined to business alone. We are all familiar with the stories of sportsmen who abuse drugs to achieve their goals; evangelical preachers who raise millions of dollars by condemning sex outside marriage in others while indulging in it themselves; and politicians who rail about benefit cheats while extracting significant benefits from a loose and poorly managed system of allowances. But while there have always been dishonest people in corporations, just as much as there have been in any other walk of life, we do seem to be seeing a shift on from white-collar crime, where the corporation is the victim of say fraud or embezzlement, to crimes where the corporation itself is the perpetrator.

'This sense of an exclusive club of top talent is positively dangerous.'

Enron, Tyco, Parmalatt, Worldcom, Shell, Apple, Hollinger and, now, RBS have all become bywords in today's world for unacceptable corporate practice. For some of these, such as Enron, their activities destroyed the lives of hundreds of thousands of people; for others, such as Apple, Shell, Hollinger and RBS, the activities of their senior executives have damaged their companies' reputations.

While it is always difficult to speculate on individual motivation for making unacceptable choices, one thing stands out as having changed in major corporations in the last 30 years: the structure and size of the financial rewards available to top executives compared to those of the average employee. Let me illustrate this with two statistics:

- In 1980, a CEO in the United States received 40 times the amount of compensation of the average employee. In 1990, this had risen to 85 times, and, by 2003, this had risen four-fold to over 400 times.

<sup>8</sup> Gladwell, M. *The Talent Myth: Are smart people overrated?*. The New Yorker, July 2002.

For an excellent development on this argument, I would recommend this reference

<sup>9</sup> Hogg, J. *The Private Memoirs and Confessions of a Justified Sinner*. Oxford World Classics (Oxford 2009)

<sup>10</sup> Heller, J. *Something Happened*. Knopf (New York 1974)

**‘In our model of management, corporate managers are not owners: they are stewards.’**

- In the UK the trend, while not as dramatic, is heading in the same direction. In 2005, an average chief executive was paid 98 times more than an average UK employee – more than doubling over ten years.<sup>11</sup>

In the rest of Europe the trends are there too, though not as pronounced as those of the UK.

While the continued growth in the disparity of reward must be of genuine concern to shareowners and other stakeholders in society, I have no problem with paying people market rates or with giving incentives to people to perform. However, if the value of the reward at stake is so significant and the ability to influence the outcome in your favour is in your control, then the temptation to make a choice where self-interest triumphs over the interests of owners, employees, suppliers and customers must be a very real one.

Now there is a very real difference here between successful entrepreneurs and corporate executives. It is the difference between ownership and stewardship. It is a very different thing to risk your own capital, your own reputation and to work hard for the rewards of success. If you are the owner then rightly you have the choice of whether to harvest the returns from your efforts or to reinvest them. Most of us, however, do not end up as owners: we end up working for corporations: public, private or in the third sector.

This notion of a steward is one tied up with our cultural and social development in Europe. It is an altruistic role, looking after and protecting the assets of others, and while there are benefits through doing this, to the steward the greatest benefit of good stewarding goes to others – the owners of the land and their tenants.

European literature is full of references to good and bad stewardship: from Homer through Shakespeare to Chekov and Thomas Mann. This shared cultural inheritance has helped to define a shared perspective of the responsibility to others that ownership of a key asset and its direction demands.

In our model of management, corporate managers are not owners: they are stewards. It is not their wealth, their property or their futures they put at risk.

This has not been the prevailing view in North American business and business education. Here the individual is more prominent, and this positive value has supported a proposition that managers themselves bring their ‘talent’ to the assets employed and that this talent is worth as much to any enterprise as the capital invested in it. The spread of this as a shared value, as the influence of North American corporations has spread across the globe, has driven a significant shift in the attitudes and behaviours at the top of many European businesses, particularly in the global arena of financial services.

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<sup>11</sup> ‘Where’s the stick’ *The Economist*, 11 October 2003, quoted in [gbr.pepperdine.edu/082/ceopay.html](http://gbr.pepperdine.edu/082/ceopay.html)

‘The pace of change of global trade, political structures and the very physical environment itself means that we have to change.’

What took these two structural changes and welded them into an unstable and combustible situation was a shift in public values that gave greater sway to the individual over society as a whole. The consequence was the establishment of an acceptance in this and other sectors that greed was good.

Today we face an opportunity as leaders facing challenging times to readdress this balance. We can only do this by espousing the right values and attitudes, and being held to account if we fail to live up to them. That these values work for business and for society is well illustrated by the work done by Hermann Simon<sup>12</sup> on what he has termed the ‘hidden champions’ – I guess best represented in this part of Europe by the ‘Mittelstand’ in Germany.

These organisations, he argues, hire more effectively at the outset of people’s working lives and then retain people for far longer periods with significantly lower levels of turnover compared to global multinationals. They do not retain through excessive incentive programmes or even the top remuneration packages but through giving their best people responsibility and space within which to act.

Interestingly enough, he points out that research shows these types of organisations as employing far more senior women than many global companies who base their approaches much more on the US model of management.

This US management model has influenced a great deal of the practices that today are being called into question as we look to build more sustainable longer term-oriented organisations: not just the excessive bonus culture, but also the increasing short-termism driven through performance management models with an overemphasis on financial indicators, exacerbated even further by quarterly reporting and reinforced by reward structures that fail to differentiate between success and failure.

In this model, innovation and entrepreneurship in the way Drucker defined them have no place: they are solely about products and cost reduction, while Drucker reminds us that innovation is the act that endows resources with a new capacity to create wealth. Entrepreneurs always search for change, respond to it and exploit it as an opportunity.

This is a model that assumes we can predict future performance from past practice, and that by capturing today’s best practice we can codify future success. Yet this proposition fails to understand that despite our progress in scientific understanding and material sophistication we still don’t know what the future holds for certain.

The pace of change of global trade, political structures and the very physical environment itself means that we have to change.

As Tom Stoppard<sup>13</sup> again points out, the irony of our modern world is that we’re better at predicting events at the edge of a galaxy or in the nucleus of an atom than whether it will rain three Sundays from now.

<sup>12</sup> Simon, H. *Hidden Champions of the 21st Century*. Springer (Heidelberg 2009)

<sup>13</sup> Stoppard, T. *Arcadia*. Faber & Faber (London 1993)

*Because the problem turns out to be different. We can't even predict the next drip from a dripping tap when it gets irregular. Each drip sets up the conditions for the next, the smallest variation blows prediction apart, and the weather is unpredictable the same way, will always be unpredictable.*

This is chaos theory:

*the future is disorder and for those who can embrace change it's the best possible time to be alive, when almost everything you thought you knew is wrong.*

Today's is a world where the future is even more uncertain than it has ever been and the European management model must be able to reflect this. Understanding that there is no certainty is a critical success factor for all organisations. Knowing how to manage through a world that is changing faster than we can learn is a key skill, and at the heart of this, a management ethos that puts personal gain well behind public good.

In today's world, leadership must be about rejecting self-centred individualism in favour of simple, age-old and proven values that create stable and prosperous societies. From our education systems through to how we develop people in organisations, we should be able to build on these values to develop people with the critical thinking capabilities that distinguish poor thinking from good and to build a real understanding of the world in which they operate rather than seeing their qualification as a route to easy wealth.

Yet what we have witnessed unravelling in front of our eyes are the consequences of operating in an environment where the driving value is personal greed. An environment where clever people, often with MBAs from fashionable institutions, were able to fool themselves and their bosses into believing that a bad risk sold on was a bad risk reduced. As they sold them on further so they believed that the risk was reduced further, until at the end the risk was infinitesimal and so a bad risk was, QED, a good one.

**'Yet what we have witnessed unravelling in front of our eyes are the consequences of operating in an environment where the driving value is personal greed.'**

In my view, the education they received clearly failed to deliver what the shareowners and, even more importantly, the customers of their businesses wanted. After all, if education is about anything, it is about the search for the truth. Through that search we acquire skills and knowledge that will help us perform better. But is it really, as the media hype would have it, solely about personal financial gain? Is that how we want to be measured? Is that the sole reason why we offer people the opportunity to acquire an MBA degree? This has never been part of the European model and is something we need to defend assertively.

The founders of Henley saw the development of management capability as the foundation required for the creation of wealth: not just personal wealth but wealth for many such that society as a whole would benefit through the funding of effective and modern public services.

Many of our own business schools in Europe adopted the North American model of believing that an MBA was a passport to untold wealth; they became complicit in the establishment of personal greed as the prime

mover in assessing success and have, as a result, created a climate where more and more people are questioning the value of their qualifications.

In any model of management should be the importance of fundamental values in business today. These values, I believe, sit firmly in the European tradition of thought and echo through the ages in the works of the likes of Aristotle, of John Stuart Mill and of Hegel.

We should have no time for executives who see the shareholders' wealth as their own; we should have no time for corporate kleptomaniacs who acquire assets that rightfully belong to others; we should have no time for executives who believe that it can ever be right to influence any public servant through bribery; and we should have no time for executives who use their education to find ways around proper governance and regulation.

Leadership without an ethical framework turns executives into fat cats, politicians into charlatans and the dispossessed into terrorists.

It was the Spanish American philosopher George Santayana who said: 'Those who cannot remember the past are condemned to repeat it.'<sup>14</sup> At the heart of the leadership dilemma that faces us today is how we learn from the past to ensure we build the capability we need for the future.

It is my contention that working hard to re-establish the importance of character and integrity, and to reassert the role of stewardship in the leadership of business, could be one of the single most important interventions we as current leaders could make today.

Peter Drucker believed that innovation and entrepreneurship held the potential to provide the key to sustainable wealth creation. He also believed that if applied to public services such as education and healthcare it could generate social innovation that could transform our ability to deliver the level and sophistication of public services to which our people increasingly aspire.

Embracing Drucker's ideas and joining them to the importance of the values and behaviours we expect from senior corporate managers could create the basis for a confident European model that recognises the importance of wealth creation for everyone in society, not just a privileged few.

Globalisation is not, after all, the extension of US practices around the world – but finding a model that can work across all cultures. Establishing a strong European perspective will provide a welcome balance to the excessive individualism in North American models and a bridge to the newly emerging economic leaders in Asia, South America and elsewhere. By doing this we will be better placed to deliver the dramatic changes that, I think, face all of us if we are to establish a sustainable economic and social environment that can secure the future of a stable and responsible society for the long term.

**'Leadership without an ethical framework turns executives into fat cats, politicians into charlatans and the dispossessed into terrorists.'**

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<sup>14</sup> Santayana, G. *The Life of Reason*. Volume I (1905)

## Professor Christopher Bones



Chris Bones is Dean of Henley Business School and a Personal Professor at the University of Reading. He was appointed following the merger of the University's Business School with Henley Management College on 1 August 2008.

Chris was appointed Principal of Henley Management College on 1st January 2005. He was previously Group Organisation Effectiveness and Development Director for Cadbury Schweppes, who he joined in 1999, taking responsibility for Executive Education and Development Culture, Communications, Change, Knowledge Management and Capability Development. In his 22 years in business Chris has worked for Shell, Diageo (both in GrandMet and Guinness) and Cadbury Schweppes. He started in industrial relations, working on the UK's largest oil refinery and progressing through management teams in brewing, retailing and property to board roles covering Europe, Africa and Asia Pacific. He has significant international business experience and a reputation as a leading practitioner in executive education and development, change and HR strategy. Chris writes a regular column for HR magazine and is a highly regarded speaker at international conferences on leadership and change, HR strategy and employment branding. He is an independent member Management Board of Skills for Government, the sector skills council for the UK Civil Service, an independent non-executive Director of the UK's Agricultural and Horticultural Levy Board, a member of the Advisory Board of Saville PLC and Chair of the Supervisory Group of AIESEC International. He has served on the Board Commission on impartiality in the business news coverage of the BBC and chaired the Party Reform Commission of the UK's Liberal Democrats.

He has advised UK Government departments, international companies, public and third sector organisations on leadership development, change, strategic HR and people aspects of mergers and acquisitions.

## Point of View

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