

PREFACE & INTRODUCTION

BACK COVER

A Radically Different Management Model for 21st Century Leaders:

Established organizations today face a crisis. The crisis is of long standing and its signs are widespread. Productivity is one-quarter of 1965 levels. Innovation continues to decline. Workers are disgruntled. Customers are frustrated. Brands are unraveling. Executive turnover is accelerating.

Certain firms in a variety of industries have discovered a radically different way of organizing and managing innovation that constantly increases the value of their products and services to their clients. In some organizations, this radical approach to management has spread enterprise-wide, generating continuous innovation in processes and functions as well as products. To achieve this goal requires a fundamentally different way of organizing, thinking, speaking and acting in the workplace.

The book describes the inter-locking principles that these organizations are implementing: focusing the entire organization on delighting clients; working in self-organizing teams; operating in client-driven iterations; delivering value to clients with each iteration; fostering radical transparency; nurturing continuous self-improvement and communicating interactively. The principles lead to continuous innovation, deep job satisfaction and client delight.

The book:

- Defines the seven basic principles of continuous innovation
- Describes over 70 supporting practices
- Rethinks management from first principles.
- Is written by the author of *The Secret Language of Leadership*—a Financial Times Selection in Best Books of 2007.

WHAT PEOPLE ARE SAYING ABOUT THE LEADER'S GUIDE TO RADICAL MANAGEMENT

This masterful book is a delight to read—articulate, provocative and illuminating. It isn't merely radical, it's revolutionary!

Peter Guber
CEO, Mandalay Entertainment Group

Denning has written an original and brilliant book which transforms "radical management" into doable and, more important, indispensable management. Also an indispensable read!

Warren Bennis
Distinguished Professor of Business,
University of Southern California
& author of the just published:
Still Surprised: A Memoir of a Life in Leadership.

This is a wonderful book. It's like having an extended conversation with Steve Denning, who is one of today's most acute and creative critics of traditional management thinking. You would ignore the ideas in this witty, candid and erudite book at your own peril. Denning shows how to re-invent management based on a more accurate and effective understanding of how humans work best together. This book makes a great text for any extended discussion about how we should be doing things.

Laurence Prusak
Author of *Working Knowledge* and *What's the Big Idea?*

Denning goes to the root of the management issues confronting companies today. Focusing on seven core principles, he lays out a pragmatic roadmap for shifting the corporation from a focus on scalable efficiency to a focus on delighting the customer and each other, while achieving even higher levels of productivity. In the process, he creates a space where we all can more fully achieve our potential.

John Hagel,
Co-Chairman, Deloitte Center for the Edge

The Leader's Guide to Radical Management delivers. It delivers insight into why today's broken institutions don't work. It delivers the principles and practices that can reinvent them. It delivers powerful examples of organizations that are doing it—and some that aren't—and it delivers the tools to help you start digging a new foundation.

Jim Kouzes, award-winning coauthor of the bestselling *The Leadership Challenge* and *The Truth About Leadership*; Dean's Executive Professor of Leadership, Leavey School of Business, Santa Clara University

To reinvent America and the world, we desperately need radical, new leadership and management. Stephen shows the way.

Mark Victor Hansen
Co-creator of the series *Chicken Soup for the Soul®*

TABLE OF CONTENTS

INTRODUCTION

CHAPTER 1 –MANAGEMENT TODAY

CHAPTER 2—A BRIEF HISTORY OF MANAGEMENT

CHAPTER 3— RADICAL MANAGEMENT—WHAT IT MEANS

THE SEVEN PRINCIPLES OF CONTINUOUS INNOVATION

CHAPTER 4— PRINCIPLE #1: DELIGHTING CLIENTS

CHAPTER 5— PRINCIPLE #2: SELF-ORGANIZING TEAMS

CHAPTER 6— PRINCIPLE #3: CLIENT-DRIVEN ITERATIONS

**CHAPTER 7— PRINCIPLE #4: DELIVERING VALUE TO CLIENTS IN EACH
ITERATION**

CHAPTER 8— PRINCIPLE #5: RADICAL TRANSPARENCY

CHAPTER 9— PRINCIPLE #6: CONTINUOUS SELF-IMPROVEMENT

CHAPTER 10—PRINCIPLE #7: INTERACTIVE COMMUNICATION

IMPLEMENTATION

CHAPTER 11—A RIVER OF CASCADING CONVERSATIONS

CHAPTER 12— EPILOGUE

BIBLIOGRAPHY

PREFACE

Remarkably, the return on assets for U.S. firms has steadily fallen to almost one quarter of 1965 levels . . . very few [workers] (20 percent) are passionate about their jobs . . . executive turnover is increasing. Consumers are becoming less loyal to brands . . . the rate at which big companies lose their leadership positions is increasing.

Deloitte Center for the Edge¹

Total Attorneys is a rapidly growing Chicago-based company that provides services and software to small law firms. As a startup in 2002, Total Attorneys was highly energized: work was done on the fly, new products were developed, new markets opened and new customers were identified. But as the firm grew, so did bureaucracy. Departments were formed, processes and structures were put in place, work slowed down, and the staff morale deteriorated. In some cases, Total Attorneys moved so slowly that by the time its software was completed, the client wanted something different. By 2008, with around 160 employees, Total Attorneys was still making money but it had gone from being an exciting place to work to a bureaucratic logjam.

Up to this point, Total Attorneys was a depressingly familiar story. But Total Attorney's CEO Ed Scanlan began asking himself: "Why were we able to get more done in 45 days with three guys than I had just accomplished in the last six months with several departments? Why are our tires stuck in the mud?"

So Scanlan decided to change the story and recapture some of the startup energy and excitement. He replaced departmental silos with small cross-functional teams which themselves decided how to do the work and even how much work to do. The teams began working in cycles, implementing a prioritized series of tasks that reflected what clients wanted to see developed. At the end of each cycle, the work was demonstrated to clients and their feedback was incorporated in the next cycle. In this way, the work was always focused on tasks of high priority to clients.

Scanlan started the approach with the software developers, but it was so successful there, he soon extended it to the call centers. For instance, the 85 call center employees were divided into 15 teams and co-located on the same floor as the software developers to enhance direct communication.

More recently, the approach has spread spontaneously to sales, marketing, accounting and the general counsel's office. Now the whole firm is buzzing with energy and excitement and laughter again.

"This way of managing appeals particularly to the new generation," says Scanlon. "They want autonomy. They want ownership. They want purpose. It makes sense to them. But it also resonates with older workers."

Many firms are now discovering what Total Attorneys discovered: that a revolutionary way of organizing and managing work is emerging that can generate continuous innovation, deep job satisfaction and client delight. It is very different from the practices of traditional management—hierarchy, command-and-control, tightly planned work, competition through economies of scale and cost reduction and impersonal communications.

Traditional management practices, which continue to be taught in business schools and described in management textbooks, worked well enough for much of the 20th Century but are poor fit for today's economic context.

The signs of the misfit are widespread. The rate of return on assets keeps on its decades-long decline. Innovation continues to falter. Workers are disgruntled. Customers are frustrated. Brands are unraveling. Reorganizations, downsizings and outsourcings proliferate. Executive turnover is accelerating. Institutional life expectancies are less than two decades. In the last 25 years, startups created 40 million jobs in the US, while established firms created almost none.^{2/}

Early in 2008, I set out to understand the source of these problems and to discover what could be done about them. This book tells the story of that journey.

There must be workplaces, I thought, where work is highly productive, new ideas are embraced and jobs are deeply satisfying. Could the conditions that had enabled that to happen be identified? Could those conditions be reverse-engineered? Is it possible to create an environment that was congenial to ideas that are vibrant, exciting, or different, in a sustained way, not just in isolated cases?

I began by asking people if they knew about any such workplaces. My expectation was that finding them would be difficult—like searching for needles in a haystack. Few people would know about them, I thought, let alone have personal experience of them.

My first surprise was that I had no difficulty at all in finding them. In fact, almost everyone I talked to could tell me about an experience that they had had, although typically it wasn't in their current workplace.

The second surprise came when I noticed that an unusually high proportion of these extraordinary experiences had been in software development. Initially I didn't pay this any attention. After all, these were geeks, and they talked with a

strange vocabulary. What could I possibly learn about management from people who had, I imagined, gone into computing because they preferred machines to people?

My third surprise was what was going on in these companies. When I checked it out, I discovered a way of managing that was much more productive than traditional management and where the people doing the work were having serious fun.³

The fourth surprise was that it wasn't limited to software development. Once this different way of managing got under way in one part of the company, it tended to spread to other parts of the company, even the entire firm. It was also widespread in some parts of auto manufacture and in successful startups. In fact, once I understood the principles, I started to see signs of it in many different sectors.

The final big surprise was that when I joined the dots and fully understood the elements, I realized that what I had stumbled on was more than a management technique. The idea was larger, with far-reaching economic, social and ethical implications.

Overall, this was very different from the way most companies are currently run. As Mikkel Harbo, director of business development and operations at the Danish company Systematic Software, told me, "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 fundamentally."

It is for this reason that I call it *radical management*.⁴ It goes to the root of what makes things happen in the world. The workplaces that it creates are drastically different from traditional management. It implies fundamental shifts in how we think, speak, and act at work.

In this book, I am inviting you to take the journey that I have taken and learn what I have learned. It will mean spending time to think about what we are doing in organizations today and why. It will entail considering what kinds of organizations we want to create, as well as imagining why and how they could be very different from most organizations today—providing work that is much more productive and much more satisfying.

This book doesn't offer a quick fix, because the nature and scale of the issues that we are dealing with in today's workplaces are not susceptible to a quick fix.

Nor is this a book about what's new, even though that is an eternally intriguing topic. When pursued exclusively, it results in a pre-occupation with fads and trivia.

In this book, I am concerned with the questions: What is good? and Who is it good for? Is it good for the organization? Is it good for those doing the work? Is it

good for those for whom the work is done? Is it good for society at large? These are questions that cut deeply. They involve examining: What is true productivity for an organization? What is its source? What is needed to sustain it? What is responsibility? What does it mean to be genuinely authentic? What lifts up the human spirit and makes it sing?

The principles I describe in this book constitute a radical change from the way most organizations are currently managed. Standard managerial practices today systematically lead to organizational underperformance, disgruntled workers, and frustrated customers. Most proposals for reforming management advance one of those elements at the expense of the other two. The principles set out in this book magnify human capacity and simultaneously inspire high productivity, continuous innovation, deep job satisfaction, and client delight.

August 2010

Stephen Denning
Washington, D.C.

INTRODUCTION

If a factory is torn down but the rationality which produced it is left standing, then that rationality will simply produce another factory.

Robert Pirsig¹

This is a book about a radically different way of managing. It's about pulling apart the black box of traditional management and putting the pieces together in a way that creates continuous innovation and client delight. It involves a wholly different way of thinking, speaking, and acting at work. It leads to workplaces that are more productive and more fun. These workplaces *feel* different.

Given the deep change that has taken place in both the marketplace and the workplace, should we be surprised that we need different management today?

The Marketplace Has Changed

In the marketplace, what worked yesterday—satisfying customers by offering average products or services with zero defects—is no longer good enough. Absence of defects is expected and lacks luster. Unless clients are delighted, they can—and will—go elsewhere. The bar has been raised.

To ensure long-term growth, firms must forge relationships with their customers and turn them into long-term supporters and advocates of the firm's goods and services. They must continually find new and economical ways to provide goods or services that are differentiated, noteworthy, surprising, or remarkable. They need constant innovation.²

Delighting clients goes beyond reconfiguring the marketing department.³ It means committing the entire organization, and everyone in it, to delighting clients as the firm's principal goal *and* putting in place the management principles and practices needed to accomplish that goal.

The Workplace Has Also Changed

“Management was originally invented,” management theorist Gary Hamel has noted, “to solve two problems: the first—getting semiskilled employees to perform repetitive activities competently, diligently, and efficiently; the second—coordinating those efforts in ways that enabled complex goods and services to be produced in large quantities. In a nutshell, the problems were efficiency and scale, and the solution was bureaucracy, with its hierarchical structure, cascading goals, precise role definitions, and elaborate rules and procedures.”⁴

With the continuing shift from semiskilled work to what economists call knowledge work, hierarchical bureaucracy is no longer a good solution. Its consequences are well known. It results in the talents, ingenuity, and inspiration of the workforce not being fully tapped. Only one in five workers is fully engaged in his or her work.⁵ For the organization, this means that the energies and insights of four out of five people in the workplace are being needlessly squandered. When the firm’s future depends on what knowledge workers can contribute, leaving talent unused becomes a serious productivity problem.

For the customers of these organizations, the situation is similarly grim: a firm full of people who are not fully engaged in their work is not much fun to deal with. Although firms talk about customer service and responsiveness, they are more often engaged in one-way communications. The recorded message might say, “Your call is important to us,” but customers know that it isn’t.

The System Is the Problem

I argue in this book that the problems of today’s workplace are not the personal fault of the individual managers. They are largely the fault of the system they are implementing, which relentlessly constrains the capacity of people to contribute, limits the firm’s productivity, and practically guarantees that clients will be dissatisfied. The mental model of management that these companies are pursuing, with interlocking attitudes and practices, methodically prevents any individual management fix from permanently taking hold.

In the chapters ahead, I introduce a very different way of managing. I offer one extraordinary example after another: software developers, car manufacturers, house builders, staff in a call center, and songwriters, among others. And I will show people having serious fun in their work and becoming steadily better at doing it.

The emerging approach to managing is proving to be not only more productive than traditional management. It also liberates the energies, insights, and passions of people. It creates workplaces that enable the human spirit. It delights clients and creates shining eyes among the people doing the work.

This is not about firms becoming more productive by having people work longer hours or by downsizing or outsourcing. It's about deploying energies differently. In some areas, managers have to do more. In other areas, they need to do less. Overall they will have to act on the basis of principles that are quite different from those of today's traditional managers.

The Seven Principles of Radical Management

The seven principles I describe form a self-reinforcing sequence (Figure I.1). Radical management begins by getting the goal right: the purpose of work is to delight clients, not merely to produce goods or services or make money for shareholders (Principle #1).

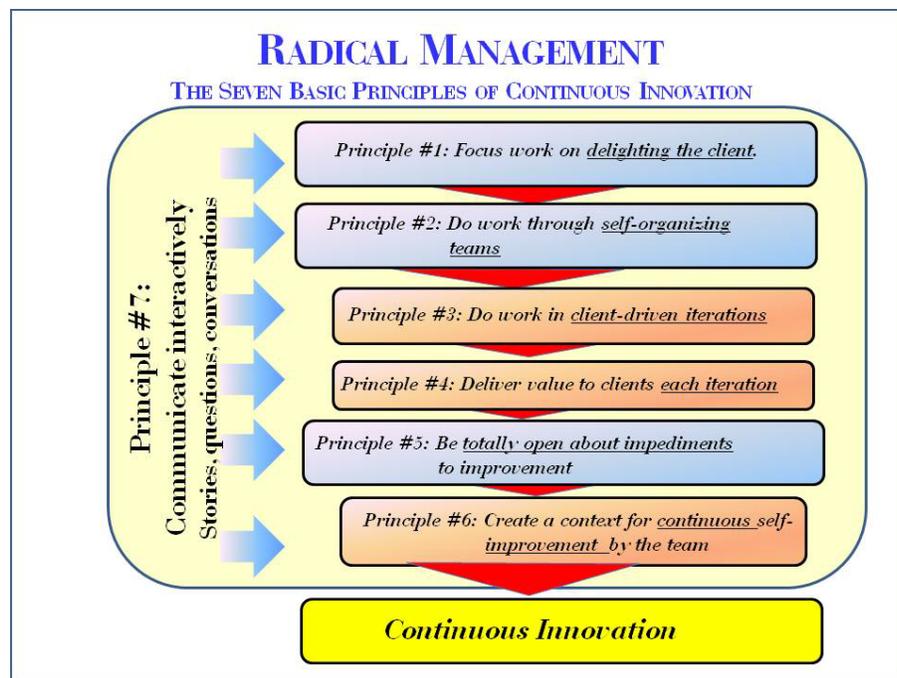


Figure I.1 Radical Management: The Seven Basic Principles of Continuous Innovation

Focusing on client delight leads to self-organizing teams, because client delight requires continuous innovation, and a self-organizing team is the management arrangement most likely to generate continuous innovation (Principle #2)

This leads to working in client-driven iterations, because delighting clients can be approached only by successive approximations. And self-organizing teams, being a life form that lives on the edge of chaos, need checkpoints to see whether they are evolving positively or slipping over the edge into chaos (Principle #3)

Similarly, client-driven iterations focus on delivering value to clients by the end of each iteration. They force closure and enable frequent client feedback (Principle #4).

Self-organizing teams that are working in an iterative fashion both enable and require radical transparency (Principle #5) so that the teams go on improving of their own accord (Principle #6).

An underlying requirement of all of these principles is interactive communication (Principle #7). Unless managers and workers are communicating interactively, using authentic narratives, open-ended questions, and deep listening, rather than treating people as things to be manipulated, none of the other principles work.

When self-organizing teams are set up and supported by implementing these principles, they naturally evolve into high-performance teams that are significantly more productive than the norm and deeply satisfying to workers.

Together the principles constitute a radical shift in the practice of management and an approach that is well adapted to meet the challenges of the twenty-first-century organization.

Principles and Practices

These principles comprise the seven most important elements of radical management. At the end of each chapter, I describe a large number of practices—more than seventy of them in total—that offer some of the ways to go about implementing the principles. Some practices support more than one principle.

The principles are more fundamental than the practices. If you think about the principles enough, you should be able to deduce the practices from them. If you keep the seven principles steadily in mind, you shouldn't go too far wrong.

Thus, in implementation, it's important to focus on the spirit of radical management and not get lost in the fine print. Even if you're not doing all of the seventy-plus practices yet are living the seven principles, that's still radical management. However, if you are doing lots of the practices but not living some of the principles, then you should probably ask yourself whether you still have at least one foot in the land of traditional management.

This is not a book about praising famous firms or the current media darlings. Instead I discuss how ordinary people become extraordinary and how every firm can continuously reinvent itself. Rather than talking about prodigies or celebrities, I describe a way of working that is broadly available to all.

The organizations that I cite in the book are organizations that have embarked on journeys. They are all at different stages of the journey. None of them has in any permanent sense "arrived." We will see more than one company that implemented the principles for a period, and then lost its way. Implementing the principles requires constant energy and attention.

I rarely use Japanese terms like *kanban* or *kaizan*, although Japanese firms have made an enormous contribution to management thinking and practice. My goal is to communicate certain truths that transcend any particular country or culture.

I also make sparing use of the terminology that is widespread in software development, under the labels of "Agile" and "Scrum," with terms like *scrum-masters*, *product owners*, *burndown charts*, and *sprints*. Software developers deserve credit for advancing some of the thinking described in this book to its fullest extent. Their terminologies were deliberately chosen to differentiate this way of developing software from the roles and practices of traditional management.⁶ The terminology has been helpful in software development. My goal here is to explain in plain language how the underlying managerial principles and practices have roots in many different fields and apply to all sectors of the economy.

Some critics will say that the principles and practices I describe are not possible, that they embody an unbelievable utopia, or that they have already been tried and shown not to work. They will give a thousand reasons why we have no choice but to keep on managing the way we always have, with stunted productivity, dispirited workers, and frustrated customers.

It would be easier to accept that version of events if scores of organizations were not already practicing the principles of radical management and achieving extraordinary performance.

Who This Book Is For

This book is intended for:

- Leaders and managers who want to reinvent the workplace and inspire extraordinary productivity, continuous innovation, deep job satisfaction, and client delight—all simultaneously.
- Leaders and managers who want to lift their game and create organizations that buzz with extraordinary energy, excitement, innovation, and genuine high performance.
- Leaders and managers who want to run established organizations with the energy and innovativeness of a startup.
- Anyone trying to understand how software developers practicing Scrum and Agile or manufacturers implementing lean production achieve extraordinary gains in productivity, and how to apply what they do to general management.
- Anyone who wants to make leadership storytelling an integral part of the culture of an organization.

In short, this book is intended for those who wish to enjoy a life filled with passion, excitement, and productivity and create that for others. This is about taking charge of your life and experiencing the spirit and the exhilaration of extraordinary performance.

Sidebar

The Differences Between Traditional and Radical Management

The differences between traditional management and radical management are stark. They flow from different goals. They involve different modalities. They have different consequences. They are summarized in the following table:

	Traditional Management	Radical Management
Goal	The purpose of work is to produce goods or services.	Focus work on delighting clients.
How work is organized	Work is done by individuals reporting to bosses.	Do work through self-organizing teams.
Plan	Work is done in accordance with a comprehensive plan.	Do work in client-driven iterations aimed at continuous innovation.
Measuring progress	As work proceeds, provide progress reports of what is under way.	Deliver value to clients each iteration.
What is communicated	Communications cover what people need to know.	Be totally open about impediments to improvement.
Improvement	Bosses are responsible for productivity.	Create a context for continuous self-improvement by the team itself.
How it is communicated	One-way communication: send people messages, and tell them what to do.	Communicate interactively through stories, questions, conversations.
Principal focus of competition	Cost reduction: economies of scale, downsizing, outsourcing.	Time: deliver more value to the client sooner.
Consequence	Rates of return on assets steadily decline. Innovation is stunted. Four in five workers are not fully engaged in their jobs. Customers receive average products and services.	Continuous innovation: self-organizing teams normally evolve into high-performance teams, focused on delighting clients, with above-average productivity and deep job satisfaction.

NOTES

Preface

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