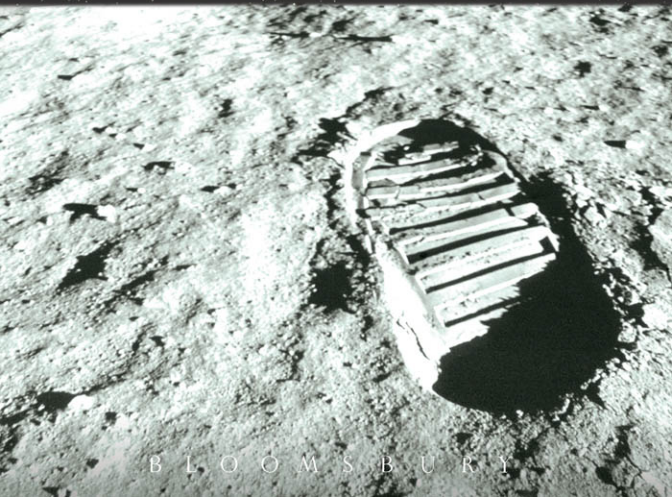
CHARLES-EDOUARD BOUÉE

LIGHT FOOTPRINT MANAGEMENT

LEADERSHIP IN TIMES OF CHANGE



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This book is dedicated to my beloved wife Valérie
and to my two darling daughters,
Laure-Victoire and Charlotte-Alicia.

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Acknowledgements

This book is a distillation and synthesis of my own experiences as a consultant working for two decades in over 20 countries, and the ideas, curiosity and bafflement of many other people: colleagues, clients, friends and chance acquaintances in Asia, Europe and the US, some of whom I met and talked with at my own crossroads in the sky, the Shanghai–Paris shuttle.

My thanks to all of them, particularly to Laurent Chouraki and Olivier Le Grand, for sharing their insights and running real-life, large-scale experiments with me. I hope that this book does justice to their observations and goes some way towards drawing lessons from our collaboration. My partners, Christophe Angoulvant, Patrick Biecheler, Pierre Reboul and Anne Bioulac, have all been invaluable sounding boards: I am grateful to them for corroborating my ideas and reviewing early drafts. Any mistakes that remain are my own.

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Preface

This book didn't start out this way. My original plan was to write a book about Accelerated Zero-Based Budgeting (AZBB), a consulting product we had developed at Roland Berger by accident in the summer of 2003. It had been such a success that in May 2012 colleagues suggested that we should write a book about it.

Later that summer, a client and friend asked me what I thought the next big thing would be in management. He was a great fan of AZBB. He said it was 'powerful'. But he thought most of the conventional ideas and models and some new ones – he mentioned Smart Simplicity – seemed to be missing the point, somehow. They weren't addressing the new challenges he and other managers were facing. My friend is as interested in art and philosophy as he is in business. I knew his question encompassed more than economics. For him, the next big thing would have to address the spiritual and emotional, as well as the rational and material, impacts on ordinary people of such aspects of the modern world as time-lag compression and ubiquitous acceleration.

I had no answer at the time, but I found his question intriguing.

I asked our Infocenter to find material on the history of acronyms and products in management consulting. They sent me a large stack of reading matter, which I waded through on a flight from Shanghai to Paris in September 2012.

I saw what my friend meant: I had a reasonably good understanding of what he saw as his main challenges and there was nothing in my pile of articles that seemed to offer much help. I decided to read one more article before abandoning my research and going to sleep.

My first thought, on reading the opening paragraphs, was that this article had slipped into my pile of reading material by accident.

I had been interested for some time in the US military's acronym VUCA (Volatile, Uncertain, Complex, Ambiguous) as a description of the new

context of warfare. We had used it successfully with some clients as a way to characterise the new context for business and had published an article about it in Roland Berger's 2011 year-end booklet. In August 2012, a Stanford alumnus who had read the piece in a French magazine sent me an article about Barack Obama's so-called 'Light Footprint' military doctrine. It caught my eye, but since I had had no time to read it then and there, it was copied and included in my usual pile of reading for the flight to China.

This was the interloper article. I read it and, seven miles high, on the edge of sleep, things slotted into place. In a VUCA-world Light Footprint (LFP) was the answer my client was seeking – the answer for business as well for the military. It was why AZBB had been so surprisingly successful; it was part of a solution to a problem we were all facing. Other ideas came crowding in: the book on Chinese management I had published two years previously, the challenges of speed, 'big data' and human commitment. The glitches in the matrix of business that conventional management ideas seemed unable to explain suddenly became explicable and, therefore, manageable.

I don't pretend there is anything radically new about LFP. But for me, a consultant who has visited over 50 countries, worked for clients in 20 of them, and who has lived in the US, the UK, France and China it has been an epiphany that has given a new clarity to the previously confusing relationships in the VUCA world between structure, strategy, tactics, operations and leadership.

I hope it does something similar for readers.

Charles-Edouard Bouée
Shanghai
February 2013

Introduction

To say that part of a company leader's job is to ensure his or her organization adapts appropriately to a changing environment, is to state the obvious. Without thinking of it in that way managers are constantly nudging, guiding, tuning and cajoling their businesses or organizations into better fits with their environment. When their efforts are successful, their companies survive and thrive.

The trouble is that these days adaptation is not easy. There is so much to adapt to, and it has become impossible to ensure that an adaptation in one part of the business won't have knock-on effects in another, varying from the merely inconvenient to the disastrous.

But changing nothing, or changing very little, isn't an option.

Everything must be flexible now. There can be no sacred cows or 'no go' areas. In an environment growing more volatile, uncertain, complex and ambiguous by the day, the whole organization must adapt constantly. Organizational structure, routines and habits of mind, processes, business models, assumptions, approaches, modes of operation, and conventional wisdoms; all must play their part in meeting the adaptive challenge. No stone can be left unturned. Nothing can be taken for granted.

In some cases this requires looking back. The conventional idea of a 'strategy' as a plan is less relevant in the new world than the old concept of the 'strategus' as an army with a leader. And although Unique Selling Points and Value Propositions are of limited use in a world where nothing remains unique for long, a deep-seated brand identity can be a raft of stability in storm-tossed seas.

The changes in the environment have become very demanding. Harvard Business School professor John Kotter believes they 'will force us all to evolve toward a fundamentally new form of organization' – a form better suited to an unpredictable, fast-changing environment.

We're entering unchartered territory that is, at once, frightening and dangerous, but also beautiful and exciting.

In the Chinese culture, change is a stream of events flowing on forever. But above the stream there are immutable laws ruling all change. This is the 'Dao', the way, the circle of light and dark, the *yin* and the *yang*.

This book will argue that right now, in the early 21st century, the Dao for business, the way to the new form of organization demanded by today's environment, is the quality of 'lightness'. This is not to be confused with the quality of 'simplicity', a quest for which can be hazardous in a complex world where nothing is quite what it seems.

The adaptive theme for organizations of all kinds is shedding mass and weight; doing more and more with less and less. Being lighter has a number of attractions in a volatile, unpredictable world. It makes an organization more agile, accurate and precise in its movements; by shedding low grade work, it increases value-added per employee; it allows the organization to tread more lightly and so cause less disruption.

The book draws inspiration from two unconventional sources. Barack Obama's 'light footprint' military doctrine, and what the author has elsewhere called China's 'management revolution'. Both are of interest to western civilian organizations, for different reasons. The former is a pure, no-holds-barred, no-expense-spared response to the challenge of 'Protecting America' in a turbulent world. The latter is a real-life experiment in how business organizations and management approaches evolve in such a world.

The book begins in Chapter 1 with a brief survey of the origins of the conventional management wisdoms, and the roles played in their evolution by business schools and management consulting firms. The chapter goes on to suggest the conventional wisdoms are struggling to accommodate recent changes in the business environment and that 'glitches in the matrix' are occurring that suggest the need for a new conceptual framework.

Chapter 2 describes the competitive dynamics of the 'arms race' in the military domain, suggests the same dynamics drive competition in the

business area, and argues that three components of Barack Obama's 'light footprint' military doctrine (use of drones, cyber weapons and special forces) can, therefore, be seen as presages of business competition.

The question of why the US has adopted a light footprint approach to warfare is addressed in Chapter 3. The answer proposed is that it was invoked by VUCA (Volatile, Uncertain, Complex, Ambiguous); the acronym used by the American military to summarise the main features of its operating environment. VUCA is then related to the sciences of complexity, and complex adaptive systems, and it is argued that it also characterises today's operating environment for business.

It is suggested in Chapter 4 that the new management style emerging in China should also be seen by western company managers as a presage, because, unlike the occidental management approach that traced its origins back to the US in the mid-19th century, it began its evolutionary journey at the dawn of the VUCA age and therefore should be seen as having been invoked by VUCA to some extent.

Informed by these military and Chinese 'presages' Chapter 5 begins to explore their implications for management. Business equivalents of these three light footprint stratagems are described and elements of the approach detected in the Daoist management style of Apple's Steve Jobs.

Chapter 6 focuses on four distinctive characteristics of the Light Footprint (LFP) organization: its structure, which is at once both centralised and decentralised; its propensity to collaborate with, rather than hire or acquire, others, and its associated predisposition to trust; its reliance on surprise as a competitive weapon; its awareness of all the consequences of its actions.

The LFP organization is seen in Chapter 7 as being balanced on the edge of instability and as reconciling a number dualisms: hope and fear; change and continuity; the vertical and the horizontal; the individual and the organization. Its essence, and the focal point of its management, is its organizational or 'Gemba' power (as it's known in Japan). And the LFP organization is 'data friendly'.

Chapter 8 contrasts the management approach in an LFP organization with conventional management, and uses a recently developed,

high-speed management tool, Accelerated Zero-Based Budgeting (AZBB), as an example of a VUCA-adapted management intervention.

It is suggested in Chapter 9 that the LFP organization requires an 'enlightened' leadership style. Enlightened leaders focus on what their organizations are, rather than what they would like them to be. They are aware of the prevailing social and political contexts of business. They take an essentially pragmatic approach.

In the final chapter, the argument is summarized and 10 practical steps are described for the gradual, piecemeal transformation of a conventional organization into an LFP organization.

Adaptation is, of necessity, a piecemeal process. The organization is, by definition, already well-adapted. Major changes are almost sure to be disadvantageous. The 'Hopeful Monster' and other non-gradualist theories of evolution have never successfully countered the objection of Darwinian gradualists; namely that a mutant won't survive in an environment to which its parents are adapted, unless it is very similar to its parents.

The LFP organization is very like a conventional organization; the differences are more a matter of emphasis, than substance; more to do with philosophy, than structure. But these marginal differences all add up, if not to the 'fundamentally new form of organization' John Kotter advocates, at least to something that feels different to those who work for it, and deal with it as customers, suppliers or partners – it feels lighter, quicker, more agile, more trusting and more worthy of trust.

The focus in the pages that follow is on business institutions and networks, but LFP-type organizations are likely to spread beyond the business and military worlds; the VUCA qualities that are invoking them are becoming evident in all walks of life and in every institutional nook and cranny.

Chapter 1

Unfit for purpose

There is something wrong with conventional management wisdoms and with the way the arts and sciences of management are taught these days. Their concepts and models don't seem as useful as they once were and the assumptions and principles on which management thinking rests seem less plausible. It is as if the development of the management theories has reached some temporal or spatial limit; that they are out of date, or less generally applicable than was thought.

To get an idea of what might have gone wrong with what the English biologist C. H. Waddington called the 'conventional wisdom of the dominant group' (COWDUNG) in management, we need to recall where it has come from.

Its origins lie in the mid-19th century and the birth of the modern company on the American railroads. As the distinguished historian Alfred Chandler pointed out in his Pulitzer prize-winning book *The Visible Hand*, the birth of the 'multi-unit business enterprise', as he called it, was a response to an accident on the Western Railroad on October 5, 1841. According Chandler, the implementation of the structural recommendations inspired by the accident created, 'the first modern, carefully defined, internal organizational structure used by an American business enterprise' and, 'the first [company] . . . to operate through a formal administrative structure, manned by full-time salaried managers'.[1]

Chandler argued that the multi-unit business enterprise (MUBE) and its managerial system were invoked by circumstances: by 'the rapid pace of technological innovation and increasing consumer demand in the US during the second half of the nineteenth century'.

But it didn't emerge unique or fully formed. It inherited many of its characteristics from existing organizations, particularly the military. Its hierarchical shape aped the military's class system, which concentrates power at the top, and its system of bureaucracy was based on that of the

'armed' European trading companies of the 17th and 18th centuries (see box below).

European trading companies

In December 1600, England's Queen Elizabeth I granted a charter to 'The Governor and Company of Merchants of London Trading into the East Indies', conferring on them a trading monopoly in Asia, Africa and America. The only restriction imposed was that the company should not contest the existing trading rights of 'any Christian prince'.

The new company was managed by a governor and 24 directors, chosen from wealthy aristocratic investors trading with 'joint stock'. On its early voyages, it ventured as far as Japan, but established its first 'factories' (trading posts, run by 'factors') in Madras and Bombay in 1610 and 1611 respectively. Having absorbed several rival companies and acquired more rights from the Crown, the English East India Company (EEIC) established itself as a major power in India at the end of the 17th century.

In retrospect, the EEIC and the other European trading companies of the time can be seen as proto-companies, as the agents of mercantilist states. They were part trading companies, part private armies, using military power to secure and protect commercial interests.

The EEIC became the dominant power in India following the victories of the EEIC officer, Robert Clive, over the French at Arcot in 1751 and the Bengali prince, Suraj-ud-Dowlah (perpetrator of the 'Black Hole of Calcutta' massacre), at Plassey in 1757.

After Plassey, the EEIC had a monopoly in the production of Indian opium and saw China as an attractive market, despite the fact that the drug had been prohibited in China since 1729. The EEIC evaded the ban by buying tea in Canton (Guangzhou) on credit, offsetting these debts by selling opium at auction in Calcutta (Kolkata), and then smuggling the narcotic into China.

The Qing government re-affirmed the prohibition in 1799, and again in 1810. By 1838 the British (by then, the EEIC had lost its monopolies of the Indian and Chinese trades) were smuggling 1,400 tons of opium a year into China. The first Opium War broke out the following year after the emperor tried, unsuccessfully, to enforce the ban.

Some senior EEIC 'officers' became so fabulously rich during their tours of Indian duty that they acquired the nickname 'nabobs' (the English version of the Indian 'nawab'). Clive amassed a fabulous personal fortune before his 35th birthday. His share of the reparations for the Black Hole of Calcutta massacre extracted after the battle of Plassey was £90m in today's money, and that was not the half of his wealth.

But military prowess was no defence against the EEIC's position as the chartered holder of sovereign rights. Its charter was renewed several times during the 18th century, but each time it was obliged to make financial concessions to the Crown. In 1773, government appointed Warren Hastings the governor-general of India and greatly reduced the company's administrative role. An 'India Department' of the British government was created by the 1784 India Act, to assume political, military and financial control of the EEIC's affairs.

The company continued to play a significant administrative role in India until the Sepoy Mutiny of 1857-8, but the Act for the Better Government of India of 1858 transferred its governmental duties to the Crown and absorbed its 24,000 troops into the British Army. On January 1, 1874 the company was finally dissolved by the East India Stock Dividend Redemption Act.

The MUBE has been the focus of the evolution of management thought and of two other groups of institutions – the business schools and management consultancies – that serve them, ever since.

Business schools

As Harvard Business School professor John Kotter has pointed out, the new companies began complaining about shortages of qualified staff to run their organizations as early as the 1860s.[2]

The University of Pennsylvania responded to this skill shortage in 1881 by founding the Wharton School of Finance and Commerce, which offered an undergraduate 'management' degree. Similar schools were set up in California, Chicago and elsewhere before the end of the 19th

century. In 1908 the Harvard Business School (HBS) was founded to offer a master's degree in business administration (MBA).

George Baker, head of what would become Citicorp, was impressed by the Harvard school and in 1925 gave it the money to construct an eight-building campus. The following year, 58,000 students, taught by 2,500 faculty at 132 American schools, majored in business. Most of them joined large companies on graduation.

It was inevitable, given the inspirations for the schools and the destinations of their graduates, that intimate relationships would develop between the 'B-schools', as they are now known, and large companies. This was particularly true at HBS. The library is named after George Baker, the MBA classrooms are Aldrich and Rockefeller (Standard Oil), the dining hall is Kresge (K-Mart), the executive programs are taught in Cumnock (J. P. Stevens) and the main office building is Morgan (Morgan Guaranty and Stanley).

The American business schools played a vital role in the evolution of managerial capitalism and of the 'practice' of management. They provided the skills Chandler's MUBEs needed and became the main repositories of management knowledge and the principal laboratories for research, as well as key hubs for the development of management models, principles and techniques.

But the business school has long since ceased to be an exclusively US institution.

According to the *Financial Times* 'Global MBA rankings' of business schools, half of the top 100 by starting salaries of MBA graduates in 2012 were in the US, 13 were in the UK, five were in Canada and four were in China. Spain had three. Australia, France, India and Switzerland had two each, and several other countries had one. The erosion of US dominance will continue as new schools are opened.

Three of China's top four business schools are in Hong Kong, the China Europe International Business School (CEIBS, China's second-ranked school) is in Shanghai, and the Cheung Kong Graduate School of Business (CKGSB – see box opposite) is based in Beijing.