

“Creating a Global Management Revolution”

By

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There is increasing recognition that most of current management theory is weak or empty.¹ The weakness of most of current management theory results from a very simple cause: the failure to apply the scientific method of empirical research to the creation and testing of management concepts, frameworks, methods and tools.

Management Theorists who got it Wrong

There are many examples of management theorists or so-called gurus who got it wrong, including Tom Peters, William Ouchi, and Kaplan and Norton to cite just a few of the well-known theoretical failures.

Peters and Waterman In Search Of Excellence

Peters and Waterman famously wrote the now largely discredited and ignored book *In Search of Excellence*.² The book was a best seller, but many of the so-called excellent companies identified by Peters and Waterman soon ran into difficulties. Peter followed up with another book, that might have been titled “Son of Excellence” or “Excellence Version 2” that purported to correct what was initially

¹ Matthew Stewart, *The Management Myth*, (2009).

² Peters and Waterman, *In Search of Excellence*, (1982).

missed and to identify the another stronger set of Excellent companies.³ Some of these too experienced difficulties. This, in turn, led Peters to write a third tome titled "*Thriving on Chaos: Handbook for a Management Revolution*" which implicitly and/or explicitly repudiate all of Peters previous ideas and called for a revolution in management thought⁴.

Although the initial book by Peters and Waterman (then consultant for McKinsey) first and Peters second book were at least loosely based upon some degree of "empirical" research in the sense that they actually looked at companies, the final book was Peters philosophical attempt to create a "new (?)" approach to management. Unfortunately, his basic premise was spurious, *because no organization "thrives on chaos"*!

Peters did make a contribution. He attracted a great deal of attention to management theory and his call for a revolution was prescient, even if the content of his proposed approach was fallacious.

William Ouchi and Theory Z

Another theorist who got it wrong was William Ouchi, who wrote a book titled Theory Z.⁵ This was a clever play on the ideas of the Late Douglas McGregor who had formulated a framework called "Theory X and Theory Y."⁶ Prior to the

³ Peters with Nancy Austin, *A Passion for Excellence*, (1985).

⁴ Tom Peters, *Thriving on Chaos: Handbook for a Management Revolution*, 1987.

⁵ William Ouchi, *Theory Z: How American Management can Meet the Japanese Challenge* (1981).

⁶ Douglas McGregor, *The Human Side of Enterprise*, (1960).

publication of Theory Z, Japan was “eating the lunch” of the United States Businesses. Ouchi’s idea was that we needed to learn from the Japanese, and applied Japanese management approach to US organizations. The book was a blockbuster in sales, but the fundamental premise was flawed. Ouchi made no attempt to analyze the differences in the people, culture, situation and environment of the USA *Vis a Vis* Japan. His prescription for the application of management methods from Japan soon proved not only superficial, but his presumed superiority of Japanese management methods was soon understood as a **mirage** when the “Japanese bubble economy” collapsed.

Kaplan and Norton and the so-called The Balanced Score Card

Another management idea that was appealing in concept but fundamentally flawed was the so-called “Balanced Score Card” proposed by Kaplan and Norton⁷. While the notion of a multi-faceted (or “balanced”) approach to measuring organizational performance rather than using just financial measures is intuitively attractive, the approach actual proposed by Kaplan and Norton was fundamentally flawed.

Specifically, the so-called “Four Perspectives” proposed by Kaplan and Norton were never empirically tested or supported by empirical research.⁸ Indeed, as stated by Marshall Meyer in *Rethinking Performance Measurement: Beyond the Balanced Scorecard*, Kaplan and Norton “suggested” three categories in addition to financial

⁷ Kaplan, Robert and Norton, David, “The Balanced Scorecard—Measures that Drive Performance, *Harvard Business Review*, (January-February, 1992).

⁸Flamholtz, Eric, (2003). Putting Balance and Validity into the Balanced Scorecard. *Journal of Human Resource Costing and Accounting*, 7 (3), 15-26.

performance.⁹ Meyer also discusses the various problems of applying the Balanced Scorecard approach in an actual organization.¹⁰ As Meyer concludes, “Balanced performance measurement is an attractive idea that can be difficult to implement.”¹¹”

The Fundamental Problem

The Fundamental Problem common to these and other management theorists is ***their failure to support their frameworks and methods with rigorous empirical research***. Another classic example of this is Ichak Adizes, who clearly states that he has proposed a theory; but never states that that theory has been subjected to empirical research for its validation.¹² In fact it has not been subjected to empirical validation; rather, as Adizes has stated, it “...grew out of 20 years of experience working with several hundred companies around the world.”¹³”

Need For an Alternative Paradigm of “Management Science”

Clearly there is a need for an alternative Paradigm for a science of management. Based upon my review of the management literature and my own experience working with companies over a period of more than 45 years, I propose that the

⁹ Marshall W. Meyer, *Rethinking Performance Measurement: Beyond the Balanced Scorecard*, Cambridge University Press, 2002, p. 101.

¹⁰ *Ibid*, pp. 86-107.

¹¹ *Ibid*, p. 107.

¹² Ichak Adizes, *Corporate Lifecycles*, Prentice Hall, 1988, pp. xiii-xiv.

¹³ *Ibid*, p. v.

management must be “science based”; that is based upon the application of the scientific method. This means that we should strive for empirically based management theory and practice.

This was also the view of my mentor Rensis Likert at the University of Michigan’s Institute for Social Research more than a half century ago. It was the core idea underlying Likert’s work.¹⁴

In this regard, then, the practice of management is perhaps most like medical practice; it is, or at least should, be based upon a combination of “Management Science” and practical experience, and not just the latter.

The Development New Paradigm of Management

During the past two decades, I have been engaged in a long-term program of empirical research on the determinants of organizational success and failure. The objective was to identify a set of core variables that can determine either organizational success or failure.

Based upon this research, we have developed a conceptual lens that identifies the set of core variables that can determine either organizational success or failure. Our unique contribution was to view them as a system of variables (or interrelated set of components) that, taken together, impact organizational success and failure. Specifically, these determinants of organizational success and failure have been

¹⁴ Rensis Likert, *The Human Organization: Its Management and Value*, 1967.

combined into a framework called the Pyramid of Organizational Development, or for brevity simply "The Pyramid."¹⁵ This pyramid is shown in Exhibit 1.

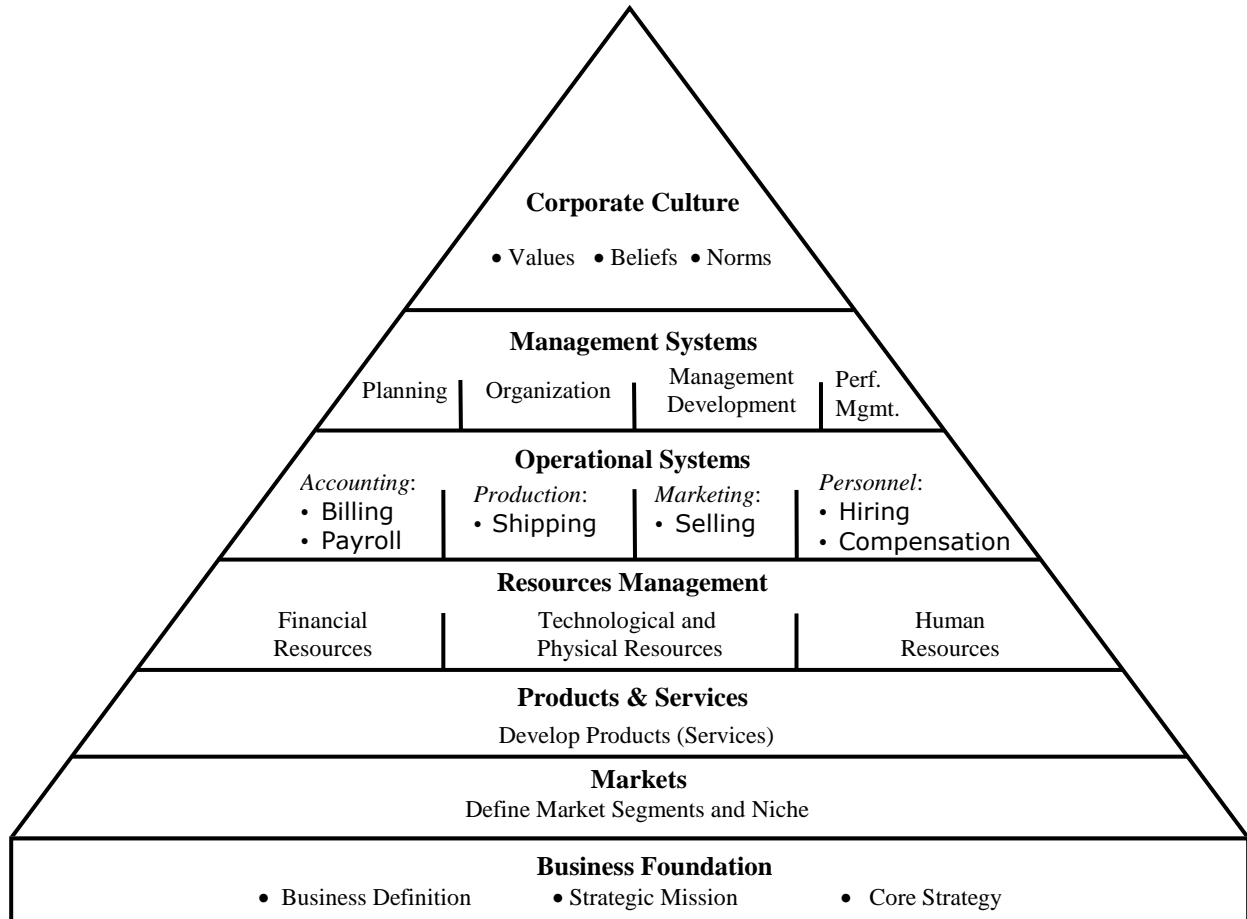
There has been a significant amount of empirical research designed to assess the predictive validity of the proposed framework.¹⁶ The primary criterion variable that has been used in validation was financial results. All of this empirical research has consistently shown that the model and its variables are statistically significant predictors of financial results.

¹⁵ Flamholtz and Randle, *Growing Pains: Building Sustainably Successful Organizations*, Fifth Edition, Wiley, 2016, p. 28.

¹⁶ See Flamholtz and Randle, *Ibid.* chapters 2-4. See also Eric Flamholtz, "Towards an Integrative Theory of Organizational Success and Failure: Previous Research and Future issues," *International Journal of Entrepreneurship Education*, Vol. 1, Issue 3, 2002-03, pp. 297-319; Flamholtz and Aksehirli (2000); Flamholtz and Hua (2002 A); Flamholtz and Kurland (2005).

Exhibit 1

Pyramid of Organizational Development¹⁷: The Six Key Building Blocks of Successful Organizations



Applications of the New Paradigm by Affiliates

Since 2011, we began a program designed to license, train, and certify a group of global affiliates to enable them to apply our frameworks, methods and tools in their nations. Our affiliates are in effect “partners” who embrace our paradigm and related methodologies.

¹⁷ Flamholtz and Randle, *Growing Pains: Building Sustainably Successful Organizations*, Fifth Edition, Wiley, 2016 p. 28.

Currently we have affiliates in Argentina, Bulgaria, Canada, China, Indonesia, Italy, Kazakhstan, Malaysia, Poland, Russia, Singapore, and Vietnam as well as the USA.¹⁸ Our affiliates are actively applying our paradigm and methods in their countries.¹⁹

One of the distinctive things about all of these applications is that they have been based upon a framework and methods that have been tested and supported by empirical research. This is in sharp contrast to the most of current management theory (including the examples cited above of Tom Peters, William Ouchi, and Kaplan and Norton) which have failed to apply the scientific method of empirical research to the creation and testing of management concepts, frameworks, methods and tools.

Our ultimate intent is quite simply to create a revolution in managerial thought and practice so that practicing managers can be assured that the theory and methods being applied in their organizations have been subjected to rigorous testing and validation and are not simply the “pipe dreams” of some “Ivory Tower academic.”

Our frameworks and methods have been applied at companies including Starbucks, Amgen, Neutrogena, Granite Construction, Simon Property Group, Movenpick Restaurant Group (Europe), The Kusto Group (Kazakhstan, Russia, and Vietnam),

¹⁸ For information about becoming a global affiliate of our group, please see our web site: www.mgtssystem.com.

¹⁹ For examples of these applications, see: Eric Flamholtz *et. al.*, “Building Sustainably Successful Organizations,” *International Journal of Human Resource Management and Organizational Behavior*, Volume 2, Issue 2, 2016: (<http://www.ijhrmob.com/CurrentIssue.php#1>). See also: Flamholtz and Randle, *Growing Pains: Building Sustainably Successful Organizations*, Fifth Edition, Wiley, 2016, chapter 13.

The Riverside Group (China), Ballistic Cell (Bulgaria), Tambour Paint (Israel) and Techcombank (Vietnam), to cite just a few.

The founder and CEO of Starbucks, Howard Schultz, cited our contribution to his company's development in his book about how he built Starbucks into a global leader.²⁰ Schultz also provided the forward to one of our books²¹.

A Call to Action

This article is a call to action for several groups. First, it is a call to action among management theorists, who must adopt an empirically-based scientific approach to management science and abandon arm-chair theorizing! It is also a call to other potential affiliates to join us in the effort to apply frameworks and methods that have demonstrated empirically validity and proven value in its applications. Finally, it is a call to corporate leaders to avoid the "intellectual flavor of the month" and require that the theory and methods applied to their companies have demonstrated empirically validity and proven value in its applications.

If this is done, we will not only have created a revolution in managerial research and practice, we will also have made real difference in "building sustainably successful organizations"TM!

²⁰ Howard Schultz with Dori Jones Yang, *Pour Your Heart Into it: How Starbucks Built a Company One Cup at a Time*, Hyperion, 1997.

²¹ Flamholtz and Randle with a Forward by Howard Schultz, *Changing the Game*, Oxford University Press, 1998.