

# MANAGING PERFORMING LIVING

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FREDMUND

MALIK

Managing  
Performing  
Living

Effective Management  
for a New World

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Malik is the founder and chairman of an institution carrying his name, which is now one of the leading institutions on managing complex systems. Having served as a member, chairman and advisor to several international boards, Malik is an acknowledged connoisseur also of the practice of corporate governance. His numerous distinctions and awards include the Cross of Honor for Science and Art from the Republic of Austria and the Heinz von Foerster Award for Organizational Cybernetics from the German Society of Cybernetics. With a habilitation in Corporate Management from the University of St. Gallen, Switzerland, Malik is a Special Professor of Management at the Capital University of Economics and Business (CUEB), Beijing, as well as at the Inner Mongolia Agricultural University (IMAU), Hohhot; he also serves as an honorary professor at Jilin University (JLU) in Changchun, China. Prof. Malik is married and a father of two, and lives in St. Gallen, Switzerland.

Fredmund Malik

# MANAGING PERFORMING LIVING

Effective Management for a New World

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

Campus Verlag  
Frankfurt/New York

This book is a completely revised and enlarged version of the book with the title *Führen Leisten Leben. Wirksames Management für eine neue Welt*, which was first published by Deutsche Verlags-Anstalt in 2000 and was published in a revised version by Campus in 2006 and in another revised version in 2014.

ISBN 978-3-593-50263-2

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Cover design: Hißmann, Heilmann, Hamburg

Design and Typesetting: tiff.any GmbH, Berlin

Printing office and bookbinder: Beltz Bad Langensalza

Printed in Germany

This book is also available as an e-book.

[www.campus.de](http://www.campus.de)

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## PREFACE TO THE NEW 2014 EDITION

*Managing Performing Living* is one of the most important books I have written. It deals with people's effectiveness in the increasingly complex organization setting of multinational corporations. The book addresses the kind of effectiveness that allows individuals to keep pushing their boundaries. Above all, it demonstrates that it is possible to learn to be effective—and it shows you how.

The book answers the question of what knowledge and what skills people need in order to be successful—both at work and in their private lives, both as managers and as experts in their fields. *Managing Performing Living* tells you what you need to manage yourself and others, at every organizational level and in every position, and thus to generate the right kind of performance that will enable you to lead a meaningful life. The much deplored work-life imbalance is thus dissolved.

Effectiveness means to do the right things and to do them right. This is the core competency of Right and Good Management: the profession of transforming resources into results and thus creating value.

In today's world, factors such as knowledge, talent, personal strength, creativity, innovation, and intelligence have become even more important than conventional economic parameters; the same goes for emotional energy and commitment, social responsibility, and the courage to think and act in new ways. In themselves, however, these factors – including the economic ones - just are potentials. It takes effective implementation—that is Right and Good Management—to transform these potentials into meaningful results that meet a specific purpose. Also, the “leadership” so often talked about these days depends particularly on effective management: Without it even the best leaders would remain unsuccessful.

So what has changed since *Managing Performing Living* first appeared in 2000? I have two answers: Almost everything has changed “out there” in business and society, and these changes have been more fundamental than most people could have imagined. Even so, the essence of what constitutes right management has remained unchanged.

It was in response to this fundamental transformation and the resulting management needed that *Managing Performing Living* was originally written. Back in 1997, I had already described and analyzed the imminent social transformation in my book on corporate governance, in a

chapter called “The Great Transformation 21.” It is no coincidence that the subtitle I chose for the first edition of this present book was “Effective Management for a New Era.”

Even back then, the stage was set for the deflationary debt and financial crisis that was to ensue; the revolution of science and technology (including digitalization) had begun; demographic and ecological change was inevitable, as was political and social instability. It was also plain to see that traditional management and existing organizations were less and less equipped to cope with the rapidly increasing complexity of their environment.

The Great Transformation of the 21<sup>st</sup> century has been underway ever since that time. It is affecting more and more spheres of life at ever-growing speed, and it is increasingly plain to see that what we are facing is actually more than a new era: A new world is on the rise.

In this new world, almost everything will be different. And yet there is no need to change anything about the theoretical foundations of *Managing Performing Living*. Effective management is not based on the economic and social sciences taught in conventional management training. Even though these are still needed, much more important are the three sciences of complexity—systems theory, cybernetics, and bionics—that have provided the theoretical foundations for my management theory ever since I embarked on my first research projects. Over the years these three fields of science have gained even more significance than when the first edition came out.

That is why in this new edition I have placed even stronger emphasis on the new application fields for management that this fundamental transformation generates. First and foremost, they include the exploding complexity of more and more tightly interconnected systems, as well as the increasing dynamics of global change and the resulting social, political, and economic turbulences. In a manner of speaking, these represent what is called “creative destruction” of the Old World and the birth pangs of the New World. To master the Great Transformation 21, virtually all societal organizations will need new, innovative tools and high complexity management systems.

At the heart of this new “functioning of organizations”—and the self-regulation and self-organization needed for it—is the effective individual. My cybernetic management systems offer the support needed

to develop and unfold full effectiveness. They provide tools for the right thinking and acting that have been designed specifically for that purpose.

The new methods and tools I have developed, and which are described in my other books, help the homo *effectivus* (in my definition a counterpart to the homo oeconomicus) to achieve the enhancement in power and intelligence that is needed to master the new and complex challenges.

Complexity, when uncontrolled, becomes complicatedness. At the same time, it provides the raw material for organizational intelligence. Releasing this intelligence and making it effective is key to managing major change, and to ensuring the adaptivity and evolutionary functioning of any kind of organization. Hence this book also leads the way to exploiting the immense opportunities contained in the complexity of globally interconnected systems and in revolutionary technologies.

The focus of this book was initially on managerial effectiveness. Over the years, it has spawned an entire, universally applicable social technology for mastering complexity: the social methodology of effectiveness. My contention is that the societal significance of this technology is even greater, even more revolutionary than that of digitalization. Without this “effectiveness technology” it would be impossible, for instance, for the “Industrial Revolution 4.0” to really take effect. The same is true for the revolution of the life sciences, which is certain to happen.

It is also true for growing trends such as the circular economy, economic resilience, mindful economics, and meditative schools of thinking. The social methodology of effectiveness addresses the target outcomes of these movements and ensures they will become effective at all organizational levels. Hence, it is evident that old ways of thinking and conventional approaches no longer suffice for effective management in today’s world.

For having had the opportunity to develop and test these systems, methods, and tools and to put them into practice, I owe sincere thanks to the many executives I have worked with, some of them for years or even decades, either as a member of corporate governance boards or on joint projects dealing with corporate development, strategic leadership, and governance. Particular thanks go to all my friends, partners, colleagues, and staff, who have dedicated enormous amounts of innovativeness, enthusiasm, and energy to the creation of our present man-

agement solutions. I also extend cordial thanks to the team of Campus Verlag. Last but not least, my heartfelt thanks go to Tamara Bechter, Jutta Scherer and Annaliza Tsakona for incisive suggestions and judicious support in revising this manuscript.

Fredmund Malik  
St. Gallen, February 2015

# RIGHT THINKING—RIGHT MANAGEMENT

Start with what is right, rather than with what is acceptable.

Peter F. Drucker

## The Key to Success

The best and only way for people to be successful is through Right and Good Management—the profession of effectiveness. It is the key to effectively transforming potentials into results, and to implementing decisions taken. It is the only way to make organizations functional, and societies viable. ‘Right and good’ means effective and efficient. This book explains why this is so, and what the key prerequisites are.

## Right, Not Wrong—Good, Not Bad

I have chosen these straightforward terms because, in the chaos of ever-changing fashions and errors in management I wanted to set a cornerstone for reliability and orientation: right management, so organizations can *function reliably*; right management, so that people can transform their strengths and skills into performance and success—allowing them to master their lives in an increasingly complex world.

Right management comprises both thinking *and acting*. That is why the management systems presented here are thought *and* action systems. Thought systems are needed for the proper organization of *knowledge*, and action systems are required for proper implementation. These systems comprise the principles, tasks and tools for right thought and action in organizations, as well as for the associated responsibilities. “Best practice” is not enough—what we need is “right practice.”

Perhaps it is impossible in a world dominated by the media to put an end to management fads and fashions. After all, they promise quick and

easy wins, a notion many people cannot resist. We all want to be successful. Books of the “effortless success” variety were bestsellers even back in the 1970s when I was a university student. Not much has changed since then. Books promising that you can “learn fluent Spanish in just five lessons,” “become a manager in 5 minutes,” or “lose weight overnight” or explaining how *Good Golf Is Easy* still hold enormous appeal. Granted, almost anybody can be successful—but hardly ever does it happen this way. The key to becoming successful is *making yourself* effective.

Peter F. Drucker was the first to express this insight, as early as 1967, in his book *The Effective Executive*. He was the first to write about effectiveness, and to explain the difference between effectiveness and efficiency: “Effectiveness means doing the right things; efficiency means doing things right.”

The key to becoming successful is making yourself effective.

Even the title of his book, which was so perfectly clear in English, was made to appear like a grave error in its poor German translation: What had been “The Effective Executive” was translated as “The Ideal Executive”—even though the author himself, in this very book, had given perfect reasons for why there can be no such thing as an “ideal” manager. It is a relief to see that a new translation has been provided where this is made clear in the title.<sup>1</sup>

Nevertheless, to this date the notion of the “ideal” executive blithely lives on and keeps popping up in HR systems and processes. I strongly suggest to every executive that they read Drucker’s work. He is often referred to as the one who “invented” management. Well, he did not actually “invent” it, but he was the first to recognize its significance for modern society and its organizations, and put it in comprehensible language.

In doing this, he created a clear, permanently valid terminology. In this book I have adopted many of his terms, and used them as a basis for my own considerations. Ever since we first met in the late 1980s, we have regularly corresponded and shared our thoughts—for instance, on questions such as: How can I become effective in an organization, and through an organization? How can I ensure I will do the right thing?<sup>2</sup>



### New or Right?

After years of research in the field of systems-oriented management,<sup>3</sup> from 1978 I headed the Management Zentrum St. Gallen, in addition to holding lectures at St. Gallen University. In this function, I gave a large amount of speeches and seminars on the subject of management every year. Participants were entrepreneurs and mid- to senior-level executives. Time and again they asked me what was new in management. My answer usually was, “I am happy to tell you what is new—but perhaps it would be even more interesting for you to know what I consider to be right?”

In almost 40 years as a management trainer and consultant, I have experienced new fashions in management every two to three years—a new guru, a new hype, a new wave of seminars, a new flood of books written overnight. For many media, these were irresistible topics. They needed content—and due to the authority of the printed word, they would rapidly disseminate what, in fact, was not much more than hot air. Two years later, the dust would have settled—but the next hype would follow. Meanwhile, tens of thousands of executives all across the country would have been sent—by well-meaning training officers—to multi-day seminars to acquaint themselves with these fashionable topics.

Especially executives with degrees in fields such as engineering, chemistry, physics, law, medicine, or economics often did not understand the use of such trainings as in many cases they were dealing with charlatantry. But how were they to know? Who was able to provide criteria for good or bad, right or wrong—as had existed for hundreds of years in other disciplines or professions?

In most university courses you will not find fashions, just hard-won progress—which has been made because scholarly criticism has uncovered and erased existing errors. In management, this motor of progress—well documented, systematic criticism—is almost non-existent. Other disciplines continually build on earlier insights. By contrast, most management authors consider it their noblest goal to create something “completely new”, without providing any reference to what has already been tested and proven.

In other disciplines, what matters is not the date of publication of a book but its content. The fact that Isaac Newton formulated his law of

gravitation as early as in 1686 does not change anything about its relevance to physicists. A three-year-old book on management, however, is usually considered outdated.

### Becoming Effective and Efficient

Apart from those who tend to choose ineffective means—that is, who try to learn how to ski or speak Spanish in three days, without practicing—there are also *effective* people: doers, implementers, performers.

However, effectiveness as such is invisible—just as management as a function is not visible. That fact alone explains many popular misconceptions. What we can see are the people who manage, as well as factories, offices, computers. We can also see the results of right management—but we cannot see the function of effectiveness required to transform resources into results.

It is almost like the substances we have in our organism, which, acting as catalysts, ensure that our metabolism becomes *effective*. If there is a lack of these substances, everything else in our organism is present—but nothing happens, or it happens slowly or poorly. When the “micronutrients” of effectiveness are missing, people and organizations become inefficient, poor performers, and unsuccessful. The “vital substances” of effectiveness then have to be added by way of qualification and training.

Some people achieve results that are visibly effective. Whatever they do, they do the right thing and they do it the right way.

However, they are not necessarily the same people who had the right ideas. For instance, the steam engine was not invented by James Watt—as is generally assumed—

There is no lack of ideas,  
but a lack of implementation.

but he was the one to *make it effective* so it could be put to industrial use.

Ideas are one thing; their implementation is another. What we are facing is not a lack of ideas but, much more often, a lack of implementation.

For every implemented idea there are thousands that are never carried through. Thus, grand and creative ideas are important, as are the so-called “great people” that fascinated me at an early age. But then I learned about the difference between *creative* and *effective*. From that point onwards, I was much more interested in *effective* people—ordinary people who have created extraordinary things—and the way they work. This book has been written to help people become effective.

## The Great Transformation 21

Ever since its first edition, the subtitle to *Managing Performing Living* has been *Effective Management for a New Era*.

While I was writing this book I was already aware that conventional ideas about management and the tools used at the time were outdated. That the kind of management dated back to the previous century—and thus to a much simpler world was clearly less and less suited for the rapidly increasing complexity and dynamics of societies and economies that would form the future global systems. Above all, the financial world's short-term thinking, which had quickly spread along with the shareholder value approach, would no longer suffice. Faced with the challenges of the ongoing centennial transformation, a management of that kind would be bound to fail. I had been describing the outlines of what I then called a “new era”—and which I now call a “New World”—in my monthly management letters since as early as 1993. Already in 1997 I summed up my views in my book *Corporate Governance*<sup>4</sup> in a chapter<sup>5</sup> entitled “The Great Transformation.” *Managing Performing Living* was first published in February 2000.

Only one month later—the millennium celebrations were still fresh in people's memories—the financial markets suddenly began to collapse and the first major fall in share prices took its dramatic course. As share prices had not declined in 20 years, this came as a shock to many. Within two days, the major stock markets fell by up to 70 percent. Most never really recovered. The so-called New Economy, which had emerged in the early phase of the internet boom, was collapsing. At a time when in an ironic way the internet really began to take off.

So, even in that crisis it was possible to see the great opportunities that existed. Today, the New World, with its main features and patterns is already visible. Mastering the new

**The New World demands maximum effectiveness from managers, and the ability to master complexity.**

challenges and exploiting the enormous opportunities is possible. In view of the complexity and speed of

change, a maximum of effectiveness and professionalism is required to manage it. The key to success lies in the effective implementation of solutions. *Managing Performing Living* has been written to provide help in mastering this enormous change.

## From the Old World to the New World

The economies and societies of almost all countries are undergoing one of the most fundamental transformations in history. What is going on “out there” by far exceeds the scope of a financial or banking crisis, an economic or Eurozone crisis. It is everything at once—and at the same time, it is something greater and completely different: something fundamentally new. We are witnesses to the fundamental transformation of the Old World, as we know it, to a New World of things yet unknown to us. A new order, a new way of functioning is emerging—it is a *societal* REvolution of a new kind. In just a few years, almost everything will be new and different. *What* we do, *how* and *why* we do it—how we build, transport, finance and consume, how we provide care, how we carry out research and how we innovate, how we share information, communicate and cooperate, how we work and live. And as a consequence it will also change: *who* we are.

Our societal mechanisms and structures are changing fundamentally, globally and irreversibly. Millions of organizations of all kinds and sizes will have to be reorganized in order to achieve viability and adaptability to the new conditions. Across generations, people will be required to rethink and relearn.

This once-in-a-century process of fundamental transformation is bound to change forms of government, the practice of democratic processes, opinion- and will-forming processes, and forms of communication, participation, and coordination, as well as the methods used to solve conflicts and problems. The change process will transform the business world and its organizations down to their capillaries, and it will also change people themselves the way they think and act, their purposes, goals and values, and the meaning of their lives.

## Birth Pangs of a New World

Economic thinking alone does not suffice to understand this transformation, as it is much more than a financial or economic problem. Some of the main change drivers are demographic development, ecological issues, and the enormous potential for progress that sciences and their technological applications have today. Add to this the economic side,

with the special and not-yet-fully-understood threat of a great *economic deflation and depression* as a result of several decades of excessive debt in the financial system. For all of 15 years, these facts were gravely misunderstood by mainstream economics, which thought it had hit upon a surefire way to wealth creation. In reality, what this approach created was a program for the greatest wealth destruction in history.

This 21<sup>st</sup> century transformation holds a danger not even imaginable to most people: the danger of a deep economic depression, the outlines of which are already visible all around the world—including the U.S. and Southern Europe—as well as, in part, a social disaster bringing the disintegration of civil order. At the same time, however, this transformation offers the chance of a new economic miracle and of flourishing societies with a new, stable basic order. The best way to understand this global, multidimensional transformation process in its entirety is to see it as the “birth pangs” of a new world. Figure 1 shows the universal pattern of the Great Transformation.

### The Law of Fundamental Change

Historically, transformation processes such as this one have happened in regular yet very long intervals. Since they stretch over much longer periods than government officials’ terms in office or managers’ tenures, they often are not fully recognized or understood.

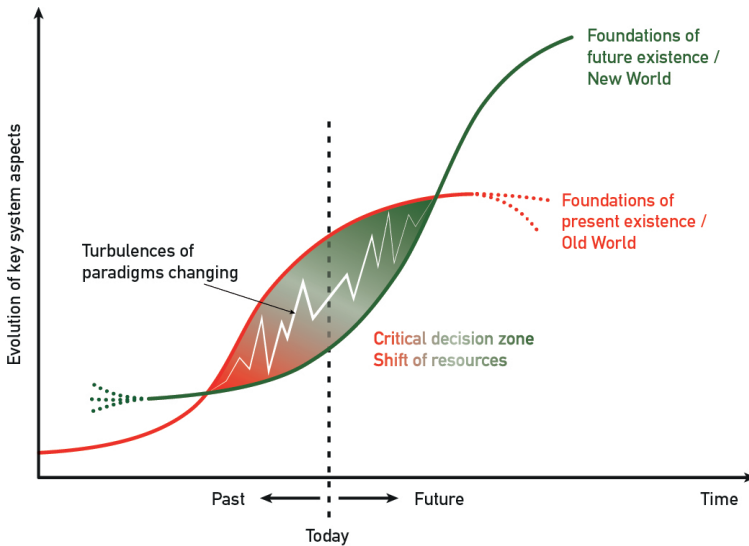


Figure 1: The Great Transformation 21—profound change by renewal

In processes like these, the existing is replaced with the new. The technical term for this change is *substitution*. One historical example is the transition from the agricultural to the industrial society some 200 years ago.

Substitution processes also occur in smaller dimensions. Consider, for example, the horse carriage being replaced by the automobile between about 1890 and 1930 or, more recently, the substitution of land-line telephony by mobile smartphone technology, or of analog photography by digital technology.

Processes like these have led to the irreversible collapse of prosperous, market-dominating business empires in short periods of time, but they have also caused new, even greater empires to emerge in their stead. Along the way, these substitution processes have fundamentally changed society. These were all effects of the implacable logic of an economy of innovative entrepreneurs, whom Joseph Schumpeter—alone among all economists to this date—included in his theories as essential economic drivers. The term he used for the substitution of the old by the new was “creative destruction.” Today—and this is something Schumpeter could not have foreseen—systematic innovation is considered to be one of the

topmost goals of modern management, even though it is vastly ignored by economic theory.

Once again, it was Peter F. Drucker who managed to build the bridge. He disassociated Schumpeter's theory from any elitist attitude (which might have been the result of a misunderstanding).<sup>6</sup> There is a basic strategic pattern all successful enterprises follow: *Always be ahead of change!* They actively create change, rather than wait for it to happen, as so many others do. Instead of fighting the forces, they use this relentless law of the economy and of our entire social reality to reach a new dimension of performance. This way, they keep the initiative and they set the rules. To them, change is what they want, not what they have to do. The enterprise takes its decisions actively, rather than letting itself being overtaken by events.

The parallels between the processes mentioned here and the evolutionary processes we can observe in nature are astonishing. For instance, when a caterpillar turns into a butterfly. This is a case where we can nicely see the reversion of causality: The butterfly does not emerge *because* the caterpillar ceases to exist. Rather, it is the other way around: The caterpillar has to perish because the butterfly wants to live. *The roots of the New World are encompassed in the Old World.* Here, causality works from the objective, not from the cause.

Using the methods of bionics, a rather young science, we can now apply the strategies of evolution to the design of management and organizations, as well as to the architecture of social and political institutions. In the technical realm this is already being practiced, for instance with materials and construction principles.

Some organizations are already successful in applying operating principles of the central nervous system in system regulation, and insights from brain research are revolutionizing the efficiency of communication in large groups of dozens up to hundreds of individuals.

### Mastering Complexity

The foremost characteristic of the global transformation process is the explosive increase in complexity. This complexification, which involves more and more areas of life, is a consequence of global systems becom-

ing ever more tightly interconnected, as well as of the dynamics of technological and social change.

To cope with this complexity, we need the right management—right in terms of both thought and action—and the reliable ability to not only master but take advantage of and profit from proliferating complexity.

An explosive increase in complexity is the foremost characteristic of the global transformation process.

At the same time, complexity is also a source of organizational intelligence. We need right management to be able to understand global interconnections and to control this self-accelerating change. Millions of executives will face new challenges in their managing profession, and they will have to forget old things and learn new ones. Most steering and control systems will have to be fundamentally realigned and revolutionized.

As a result, the form and inner function of most societal organizations will be rigorously questioned. This is true of all kinds of institutions: of companies, banks and government agencies, of hospitals, schools and media houses, of parties, associations, courts of law, and, above all, of their interconnection and interaction. To increasing extents they become unable to serve their purposes, while at the same time—and precisely for that reason—they keep consuming huge amounts of resources, including money.

What is complexity? *Complexity is diversity.* Being a genuine characteristic of nature, complexity has its own laws and dynamics. To understand them and use them for innovative solutions, we need to familiarize ourselves with three new fields of knowledge at minimum, which I refer to as the “sciences of complexity.” These are systemics (the science of coherent entities and what keeps them together), cybernetics (the science of function and control) and, as mentioned, bionics (the science of applying evolutionary solutions of nature to the way organizations operate).

Complexity has two sides: It represents a danger and an opportunity. On the one hand, for those who do not understand it, it is a cause of increasing overstrain and eventually the stress-induced collapse of systems; on the other hand, if used expertly, complexity can provide a raw material for information, intelligence and creativity. At present, most organizations are poorly equipped to master the challenges of complexity—as has been clear to see in the example of banks. This is not really



a surprise, as their structures and the way they operate date back to the relatively simple world of the past century. Due to their blindness to the process of complexification, many organizations have failed to proactively create the regulation and management systems they need to cope with current conditions.

*Managing Performing Living* has been devised to help master complexity (see figure 2): as a guide through the fundamental change occurring in the Great Transformation, to help take advantage of the immense opportunities the New World offers, and to achieve, above all the necessary managerial effectiveness.

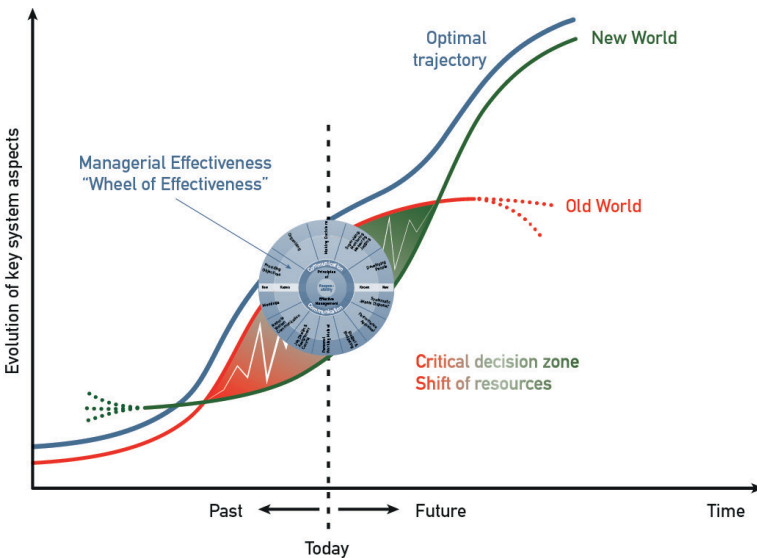


Figure 2: The Great Transformation 21: Optimal course of development

## How Effective Management Systems Are Built

In designing my management systems, I have applied a set of logical and content-related design principles. They are particularly important for the model underlying this book: the Standard Model of Effectiveness—also referred to as the Management Wheel. As mentioned above, it serves as a guide through this book.

### ***Profession and Professionalism***

I understand management to be a *profession* which basically has to meet the same requirements as any other profession. Thus, professionalism comes into focus, along with anything that can be learnt for this profession.

### ***Defining Selection Criterion***

The selection criterion for those elements that make management a profession and above all ensure its effectiveness is the following: What do *all* people need, *always* and *everywhere*, to become effective and able to manage? Only those elements are included in the model.

### ***Mini-Max Principle***

I make a point of selecting the *minimum* possible number of *elements* to generate the *maximum* possible number of *applications* through combination. This helps to ensure economical learning and short learning paths. Once you have learnt good management, you will be able to apply it anywhere and any time. Its elements can be configured according to the specific situation. Also, the model and its application are capable of constantly evolving.

### ***Distinction Between Operational Tasks and Management Tasks***

Operational tasks must be strictly distinguished from management tasks. The former are job related, they result from the type of organization or its specific purpose and may include things like personnel selection, marketing, or research. Management tasks, by contrast, are universal and result from every organization's need for *design and control*. They are used to guide and control the operational tasks. Along with this distinction between operational and management tasks, I also redefine the subject of organizational culture. More on the culture of effectiveness and functioning will follow later.

### ***Effectiveness Follows from System Cybernetics***

To master the immense complexity of the 21<sup>st</sup> century, completely different ways of thinking and acting are required. The foundations for them are provided by the sciences of complexity, in particular cybernetics: It is the science—of the reliable functioning of *highly complex* systems. Cybernetics is the science of effective, right and good control, regula-