G R E S H A M

C O L L E G E

YESTERDAY'S EDUCATION FOR TOMORROW'S BUSINESS

Lecture 2

MASSACRE OF THE ARISTOCRATS

by

PROFESSOR TOM CANNON CIM FInstEx FRSA FCIM
Mercers' School Memorial Professor of Commerce

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Gresham College was established in 1597 under the Will of the Elizabethan financier Sir Thomas Gresham, who nominated the Corporation of the City of London and the Worshipful Company of Mercers to be his Trustees. They manage the Estate through the Joint Grand Gresham Committee. The College has been maintained in various forms since the foundation. The one continuing activity (excepting the period 1939-45) has been the annual appointment of seven distinguished academics "sufficiently learned to reade the lectures of divyntye, astronomy, musicke, and geometry" (appointed by the Corporation), "meete to reade the lectures of lawe, phissicke, and rethoricke", (appointed by the Mercers' Company). From the 16th century the Gresham Professors have given free public lectures in the City. A Mercers' School Memorial Chair of Commerce has been added to the seven 'ancient' Chairs.

The College was formally reconstituted as an independent foundation in 1984. The Governing Body, with nominations from the City Corporation, the Mercers' Company, the Gresham Professors and the City University, reports to the Joint Grand Gresham Committee. Its objectives are to sponsor innovative research and to supplement and complement existing facilities in higher education. It does not award degrees and diplomas, rather it is an active collaborator with institutions of higher education, learned societies and professional bodies.

Gresham College, Barnard's Inn Hall, Holborn, London EC1N 2HH
Tel no. 0171 831 0575 Fax no. 0171 831 5208

THE MASSACRE OF THE ARISTOCRATS

Tom Cannon,
Mercers' School Memorial Professor of Commerce
at Gresham College

The contemporary and emerging business environment is dominated by change, faces the challenge of sustainability and calls for new approaches to partnership. Each of these phenomena effects the nature and form of education for business. This theme was addressed recently by the Council for Industry and Higher Education.

"In a world of constant change, individuals will need to take greater responsibility for their own development and training. Employers must help them and work ever closer with universities and colleges so that learning can be developed which meets the general needs of society and the practical requirements of the world of work. Key skills should be embedded to varying degrees in every course. A form of "applied learning" needs to be further developed for students with a practical rather than an academic focus. Institutions should be more explicit as to how graduates will be better equipped for the world of work. Greater explicitness will better inform customer choice and support the diverse system of course offerings and flexible study modes (which the Council advocates)"[1].

Although the Council's work focuses mainly on Higher Education, its concerns extend to all forms of education for business. At the heart of its argument is the notion that a world of constant change requires people who can cope with change. These people will find ways to capitalise on the opportunities created by change rather than bemoan the challenges it poses. Learning is not a peripheral feature of this response. The creation of appropriate learning styles, acceptance of life long learning and embracing diverse learning opportunities and environments are three building blocks of the transformation of attitudes that central to this shift.

The Evidence

There is some evidence that some people in business acknowledge these shifts and their implications. A study by the Institute of Management noted that a significant number of managers understand the implications of change for them.

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[1] Council for Industry and Higher Education (1996) *A Learning Nation* London, Council for Industry and Higher Education

The Reasons Why Qualifications Are Becoming More Important

Base 3,000 IM Managers of whom 724 responded	%
Managers will need more broadly based business knowledge with the breakdown of business functions	70
There will be more competition for jobs	69
Manager's responsibilities will grow e.g. with flatter organisations	68
The demands of managerial jobs will be greater	54
Employers will demand more qualifications	48
Individuals will be more concerned about personal development	46
There will be reduced career advancement opportunities	40
Managers will need to change jobs more frequently	37

Many of these issues are as real for all members of the workforce - current and potential - as they are for managers. The positive aspects of the study indicate that managers recognise the challenges facing them. There is some evidence that awareness of change and some of its implications exists across the workforce.

There is, however, a paradox within these figures. Seventy per cent of managers recognised the increased demands on them but less than fifty per cent acknowledge their need for personal development or the pressure from employers for a more competent, better qualified workforce. In a sense many of these managers and business leaders mirror the attitudes of aristocrats and leaders in the past.

The End of The Romanoffs

The most dramatic symbol of revolutionary change is the destruction of old aristocracies and elimination of some of the most glorious leaders of the old regime. The French Revolution saw the end of the Bourbon aristocracy. The Russian revolution destroyed the Romanoffs. There are distinct echoes of the proliferation of redundant posts and the indulgences of the old aristocracies in the life styles of the corporate aristocrats. Louis the XVI had 406 offices whose only task was to attend to the ceremonial at Versailles. When they were abolished “away went 13 chefs and 5 assistants of the Grand Pantry; away went the 20 royal cup bearers (not to be confused with the 4 carriers of the royal wine), the 16 “hasteners” of the royal roast, platoons of tasters, battalions of candle snuffers, brigades of salt passers and (most regrettably) the 10 aides speciaux for the fruits de provence[2]."

Ross Peterson of RJR Nabisco seemed to be trying to match with his fleet of company jets, sports stars on call. "The top thirty-one executives were paid $14.2

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[2] Schama, S. *Citizens* New York Alfred A Knopf 1989

million ... No expense was spared in decorating the new headquarters ... The top floor's backdrop was an eighteenth century $100,000 lacquered Chinese screen, complemented by a $16,000 pair of powder blue Chinese vases from a slightly later dynasty. Visitors could settle into a set of French Empire mahogany chairs ($30,000) and ogle the two matching bibliotheque cabinets($30,000)[3]." Even the royal tradition of giving gold livres to the poor was matched by the Peterson and his cohorts habit of dispensing $100 tips.

The victims of industrial and business revolutions do not pay the same price as French or Russian aristocrats but their fall from grace can be just as dramatic. Just days before John Aakers was toppled at IBM he talked confidently of the backing he expected from his fellow directors. 'This IBM board supports this management. The board supports me. And I do not plan to stand aside.' After Aakers was sacked, a board member said 'There is going to be change. This is a tough board. This is not American Express.' Louis XVI of France and Czar Alexander of Russia were just as confident of the support of their people - until it was too late.

The dismissal of one Chief Executive might be a dramatic event but it hardly symbolises a revolution on its own. It is the number, seniority and range of the dismissals that shows that the greatest centres of power and privilege are affected. General Motors is the largest corporation in the world. This did not save Robert Stempel when a series of failures to understand the way technologies and markets were evolving cost him his job. He had reached the top because he was a skilled and capable manager - of the old regime. He failed largely because the thinking, policies and skills acquired during his earlier career were inappropriate. The Hamtramck robot factory was the logical extension of the traditional GM approach of throwing resources at problems but the nature of the problem and the character of the solution had changed. Without fundamental changes in thinking, the plant was almost doomed to failure.

In the UK, British Petroleum has similar status to General Motors. It is almost the establishment company. The notion that its chief executive could be sacked was almost laughable - until it happened. The list get longer almost by the week. James Ross had served a long apprenticeship at British Petroleum. His track record, training and skills seemed to fit Cable and Wireless's needs perfectly. He failed, however, to cope with the new political economy of modern business and was toppled. The list seems endless. Kay Whitmore at Kodak, James Robinson at American Express, Rocco Forte at Forte Group and John Nevin at Firestone are just some of the more prestigious names that have fallen from grace.

Even former stars are not protected by their reputation. John Scully had no sooner written the story of his triumphs at Apple[4] than his plans started unravelling. Soon he was following his mentor - Steven Jobs - out of the door.

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[3] Burrough, B. And Helyar, J. (1990) *Barbarians At The Gate* London, Arrow

[4] Scully, J. (1987) *Odyssey From Pepsi to Apple* New York, Harper Collins

Even the bastions of stability and security - the professions are affected. Duane Kullberq's tenure at Arthur Anderson was brought to an abrupt end. Past entreprepreneurial success is not guarantee of security as Ken Olsen at Digital found out. Boards, institutional investors and shareholders are casting about so anxiously for solutions to seemingly intractable problems that Fortune magazine was obliged to comment in 1995 that "a roll call of the largest computer companies - DG, IBM, Unisys, Bull, DEC, Olivetti, Siemens, Prime - reads like the waiting list in the emergency room."

The Safest Job in Town

Nothing in the previous experience or training of these corporate leaders or their armies of sub-ordinates prepared them for the kind of changes that have occurred over the last decade. Mary-Francis Mitchell a former IBM staffer in marketing services spoke for thousands like her when she commented that 'In January, I was told that my job was the safest in the nation. In February we were told that half the jobs would be gone, People can't handle this stress: a lot have given up.' Antony Sampson the British social commentator summed up the process[5].

' The assumption of a lifetime job had long been the pattern of professional and public service careers, at the heart of the middle class. The unemployment of the thirties had made security still more valued in the post war decades, while war had encouraged quasi-military attitudes and loyalty, making public and private service seem more alike ... But by the nineties many people had little choice about their destinies as global competition stepped up, boom was followed by recession, and the state felt little responsibility for employment. Even accountants and lawyers are no longer felt confident of their jobs.'

Mirrors On Our World

The patterns of managerial behaviour, the skills and attitudes which served people and businesses well during times of relative stability were a disadvantage when turbulence was the dominant feature of business life. From the second quarter of this century to the last quarter, technological change was broadly linear and markets shifted in broadly predicable ways. Managers who thought in straight lines and were as predicable as their markets were right for their times. Their times were coming to an end by the end of the nineteen eighties. Boeing, one of the success stories of the later era, cultivated a different kind of manager. Larry McLean, Boeing's Director of Human Resources described the change. 'As a young man I'd stood in line to work overtime. I'd often work seven days a week. Suddenly, the new employees are challenging authority, complaining about the eight layers of management and wanting empowerment. They had new values.'

These new values are a better reflection of the current environment than the old straight line, search for stability and security that characterised the old style

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[5] Sampson, A. (1995) *Company Man* London, HarperCollins

manager. The most vivid illustration of this point of view is the constant call by traditional managers for 'time to consolidate.' They want to slow or stop change so that they can consolidate their gains before moving on. It is the mentality of the military of WW2. Move your army forward, consolidate your position then at a time of your choosing move on.

Modern business competition, like modern warfare is not like this. Change is so quick, the rules change so fast and rivals attack from all sides. While you are trying to consolidate, they are changing the rules. So you find that you have consolidated your position on quicksand. The collapse in the Anglo-Saxon countries is so dramatic that some commentators wonder if there anything of substance behind the mystique. Robert Locke[6] argues that the business tone in North America and Britain was set by people who deserted the heartland of the enterprise.

The Heartland

Business and its leaders became dependent on tiers of managers to deliver the information and control while providing access to the operations of the enterprise.

"Because top managers concentrated on the dynamics of money rather than product management, they required staff that could deal with corporate finance and marketing. They required managerial accountants who could oversee money flows through the various corporate divisions because this information was much more vital to decision making in multifaceted strategic setting. Moreover, emphasis on Return on Investment (ROI) at headquarters required financial reporting from the engineers below, accounting information that, if it satisfied the money men upstairs, did not serve the needs of the technocratic-minded shop floor. They needed physical measures more than monetary measures. And so we entered the era when comptroller, financial experts and accountants dominated the firm. While in the workshop skilled workers had lost control to the system's managers of Taylorism, in the big corporation the owner-manager lost control to the professional money managers at the top. Since engineers' influence waned outside the factory proper, the money managers at corporate headquarters set the new managerial tone."

The debate on the managerial revolution has widened to a more sustained critique of the changes introduced into the priorities and preoccupations of top management. Their focus shifted from an engineering, whole firm perspective to a financial, partial view.

This was predominantly an Anglo-US phenomenon. Engineering retains a leadership role in German corporation. This is vividly illustrated by the high technical standards of German firms and their continuing investment in technical development. Seimens, for example, can claim to be the most innovative large

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[6] Locke, R. (1996) *The Collapse of the American Management Mystique* Oxford, Oxford University Press

company in the work. It currently holds about 40,000 patents across a workforce of 400,000. Germany holds a powerful position in world rankings of patents held per capita with 264 per capita versus 117 for the USA and 140 for the UK. The clash of values contains some echoes of the shift from entrepreneurial capitalism to managerial capitalism. In a film which summarised some of the clearest symbols of change and decay at the end of the 1980s. Oliver Stone uses his character Gordon Gekko to articulate the conflict.

"Now in the old days of the free market when our country was the top industrial power, there was accountability. The Carnegies, the Mellons, the men that built this great industrial empire made sure that it was - because it was there money that was at stake.

Today, management has no stake in the company. All together, these men sitting up there own less than three per cent of the company. And where does Mr. Cromwell put his $million salary? Not in Teldar stock. He owns less than one per cent.

You own the company, that right, you the stockholders and you are being royally screwed over by these bureaucrats with their stock lunches, their hunting and fishing trips, their corporate jets and their golden parachutes.

Teldar Papers, Teldar Papers has 33 Vice Presidents each earning over $200,000 per year. I have spent the last two months analysing what these guys do and I still can't figure it out. One thing I do know is that our paper company lost $110 million last year and I'll bet that half of that was spent on the paperwork going between all these Vice Presidents[7]."

Gekko was right to highlight the failures of the managerialist model. He ignored, however, the shifts which centred on two terms which are central to his argument - accountability and involvement. Accountability has a meaning which extends at the one extreme to the individual's sense of accountability for him or her self and at the other extreme to business's accountability for wider social and environmental issue. This demands a sense of involvement or accountability for personal capabilities or competences and a wider involvement in capacity building for others inside and outside the enterprise. The responses to this challenge highlight the confusion that exists among commentators.

Management by panacea[8]

It was easy to define the features of education for business when there was broad agreement about the best way forward for management and business. Managers became better educated, more professionalised and more specialised.

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[7] Oliver Stone dir. (1987) *Wall Street* Twentieth Century Fox

[8] Gill, J. and Whittle, S. 'Management by Panacea: Accounting for Transience' Journal of Management Studies, Vol 30 No 2 March 1993

In the Anglo-American world business education was separated from other areas of education in Business Schools or dedicated faculties of business or commerce. These, in turn, became pre-occupied with increased specialisation. The purpose of education for business was according to Westhead[9] to reduce internal uncertainty. Managers are trained and developed to ensure that they follow consistent practices and produce "predicable" and "sustainable" outcomes. the division of labour was designed to achieve the same goals.

Businesses made progress by learning to control their environments, concentrating on incremental improvements, minimising risk and specialising. Bigger was better because it gave more control to the corporation and greater opportunities for the new managerial bureaucracies. Anomalies like shareholders - especially those who believed they owned the firm - could be marginalised and controlled. Even customer dissatisfaction could be contained because they had no-where else to go. This mind-set was underpinned by a combination of technological, market and economic forces.

The dominant technologies of mass production produced massive advantages for scale especially in the major industries of vehicle, chemical and raw materials production. Massive corporations like Standard Oil (Exxon), General Motors tapped into these technologies and developed management systems to exploit their capabilities[10]. The new consumer, retail and corporate markets grew rapidly. They accepted the mixture of incremental change and employment security the giants offered.

The first anomalies probably emerged in the 1960s. The Volkswagen Beetle succeeded in the USA despite challenging virtually every conventional belief of the US car makers. The number of anomalies grew during the 1970s. The British and US motor cycle industries virtually disappeared under a flood of Japanese imports. Neither size nor highly sophisticated, traditional management systems were a defence. RCA had dominated TV production in the USA since the introduction of colour television. Its management cadres were full of MBAs while its labs were full of PhDs but it could not stop the erosion in its US television market. The process was even faster in Britain. Lacking either the MBAs or the PhDs, the giants of UK television and domestic appliance production soon disappeared as significant players. Many British companies were still locked in the even older nineteenth century management paradigm of family and social network preference. This proved totally unable to resist to the new competition. By the 1980s, the old style managerialism was in crisis.

Two different views summarised this crisis. At his lecture to the White House Conference on Small Firms in 1988, Tom Peters attacked the growing pressure for protectionism in the USA. He highlighted the Japanese commitment to quality

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[9] Westhead, P and Storey, D.1996 "Management Training and Small Firm Performance: Why is the Link So Weak" International Small Business Journal 14,4;13-25

[10] Chandler, A. A. The Managerial Revolution

with the comment - "The Japanese produced the first cars that did not require a built in mechanic." The Japanese challenge goes far beyond the specifics of technical superiority in particular goods and services. Japan's success undermines the separated, managerialist consensus on the second industrial revolution. The division of labour and its management from outside by specialist, managerial bureaucrats justified the reward system which were skewed heavily in favour of management. They were the main source of high output, low costs and added value. Management's rewards should reflect this disproportionate contribution.

Small and Medium Sized Firms

The Japanese experience suggests a more equal partnership in creating wealth. "The essence of the Japanese company is in the people who compose it. It does not, as in the American firm, belong to the stockholders and the managers they employ to control it, but it is under the control of the people who work in it[11]." An enterprise based on group-leadership struggles to justify the disproportionate distribution of rewards to on group of specialists. The economic justification of old style managerialism was undermined by its limited role in the two most successful economies in the world - Japan and Germany. The small or medium sized firm is emerging as the dominant for of enterprise in industrial economies.

In the European Union firms employing less than 250 people:

- Were 99.8 per cent of the 15.8 million enterprise with 14.7 million having less than 10 employees and 7.9 million have 1 employee.
- Accounted for 2/3 of sales and employment
- Consumed 50% of investments.

[11] Abegglen and Stalk, G. *Kaisha: The Japanese Corporation* New York, Basic Books, 1985

Despite the scale of the SME population and the increasing proportion of the labour pool employed in this sector, education for business pays little heed and takes little account of their needs. The dominant paradigm marginalises these enterprises. In SMEs, the operational and psychological gap between the proprietor, manager and worker is so narrow that consistency, predictability and sustainability are achieved through direct supervision.

The priority for SMEs is to reduce external uncertainty, for example; reducing the risk of failure, improving market power, cutting costs, enhancing organisational capacity[12]. Business education's contribution to reducing this external uncertainty lies in the external business benefits it generates[13]. Paradoxically, investment in existing forms of business education by SMEs might increase their internal uncertainty by increasing the freedom of movement of trained subordinates. This private gain has greater value for the more mobile, professional managers of the large firm than the less mobile, dedicated managers of SMEs. Previous researchers have addressed both aspects of this paradox - the willingness of owner managers to invest in training and developing non-owner managers and the business benefits from this investment[14].

The Environment for Education

According to John Macey, cofounder and chief executive of Whole Foods in the largest natural-foods retailer in the USA;

"The team, not the hierarchy, is the defining unit of activity. Referenda among team members extends to crucial decisions like recruitment. It takes, for example, a two thirds vote of the team an applicant hopes to join for a candidate to get a permanent job. Openness extends to areas like salaries. "Every Whole Foods store has a book that lists the previous year's salary for all 6,500 employees by name[15]." The consistent message from these and other successes is that major changes are occurring in the optimum business form and the best way to education people throughout their lives for business.

Four features of the new environment dominate the new Industrial Revolution. These are; globalisation, diversity, computers and telecommunications and information and knowledge. Each affects the nature of the enterprise and its

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[12] Segal Quince Wicksteed (1995) Management Training for Growth SMEs Final Report to the UK Department of Trade and Industry

[13] Winterton, J and Winterton, R (1996). *The Business Benefits of Competence Based Management Development* Sheffield, Department of Education and Employment

[14] Tovey, L.E.A. (1994) "Meeting Business and Management Training and Development Needs Through Competency Assessment" Journal of Strategic Change, 3, 26-37

[15] Fishman, C. "Whole Foods Teams" Fast Company, April May 1996

management and the kind of management structures most likely to produce success.

Globalisation

Globalisation goes beyond the growth of markets outside the rich, Northern industrial markets. East Asia's share of world economic output grew from 4 per cent to 25 per cent between 1960 and 1990. The same region is expected to account for 40 per cent of world economic growth during the 1990s. The sphere of growth is extending beyond Japan, South Korea, Hong Kong, Singapore and Taiwan to include Malaysia and the giants India, China and Indonesia. North American and European corporations cannot afford to ignore these markets.

Learning to compete where it matters is one of the most important and difficult challenges facing organisations and their learning systems. Audit and diagnostic skills come the fore and require continuous development and up-dating. The main outcomes of this education are; awareness of emerging opportunities, understanding capabilities, flex and the ability to deploy capabilities against opportunities. The difficulties lie in filtering out the noise and turbulence that cloud assessments while avoiding the easy route of interpreting opportunities in terms of preconceive beliefs or assumptions. IBM were not ignorant of the personal computing revolution. Their problems were cause by the assumption that it produce few real changes and change the computer market in ways IBM hoped it would change.

Entrepreneurs succeed because they take a minimum of assumptions into an environment. Besides this, the ratio of start-ups to successes is so high that the odds shift in favour of some successes. Competing where it matters, requires that managers select markets on the basis of real and substantial potential. In effect, if you want to be the best - you have to compete with the best.

Successful globalisation goes to the heart of the organisation's values and mission. The policies, skills and attitudes of managers in a global corporation show an inclusive world view not the exclusive world view that characterises many executives today. An inclusive world view recognises the distinctive nature and value of different world views. North American and European firms tend to adopt a Judeo-Christian world view. Increasingly this needs to be tempered by an appreciation of the Shintoist, Hindu, Confucian and other ways of viewing the world. The pressure imposed by many companies for homogeneity and conformity is gradually getting replaced by an acceptance of the positive features of heterogeneity and diversity.

Diversity

This shift to a global view affects every aspect of business education - from its view of markets to the kind of control systems it operates. It is linked with a renewed awareness of the diversity of the business environment and a wish to recognise this diversity in the firm's culture and operations. Control systems, where all members of the team speak the same language, expect the same rewards and punishments and share the same values are different from those in firms in which none of these assumptions hold good.

In the Economist Intelligence Unit's study of the Successful Corporation of the Year 2000 almost forty per cent of business leaders identified "increasing diversity" as a major feature in the developing business environment. Culture, gender and ethnicity are just the most visible aspects of the increasingly diverse, external environment that is reshaping the internal and operational environment of firms that seek to prosper. There is growing evidence that enterprises that try to ignore this diversity are cutting themselves off from talent, missing major market opportunities and creating resistance to their development in home as well as overseas markets.

Computers and Telecommunications

The computing and telecommunications revolution makes it practically easier and conceptually harder for firms to design, develop and implement the changes require in the new global, heterogeneous and diverse environment. Advanced computer systems provide corporations with the capacity to manipulate far more data and variable than in the past. This often produces manipulation myopia or a sense that manipulating vast qualities of the data is the same as managing useful information or knowledge. Computing power is dropping in price while systems are more accessible. The integration of computing and telecommunications systems allows providers, users and intermediaries to open up new ways to communicate, manage operations and innovate.

These changes give managers access to information on the different aspects of the firm's operations and the ways in which it interacts with markets and others. It enhances their ability to understand, control and direct resources. It is, however, easy to be concentrate on the superficial aspects of computing power and ignore their scope for improving information systems, enhancing knowledge and understanding and changing the nature of business. Novel developments in information systems will move the technologies out of the routine and the repetitive in areas that enhance the abilities of managers to develop and innovate. Korendo Shiotsuke, Fujitsu's director of public relations believes that 'most systems in the past were used to replace human beings. In the future, we see the role of systems as supporting the creative work done by human beings.'

This approach reinforce the credibility of leadership groups and provides a platform for trust building. Trust is reinforced by open lines of communication, greater sharing of benefits and more secure employment. The confidence goes both ways. Lindahl asserts that "people want to learn and are greatly motivated and satisfied when they do. The challenge facing those involved in education for business not only to help people develop but to ensure that they do so in ways that support and reinforce the organisation's objectives." In this process different tradition will be incorporate from the civic to the collegiate

Information and Knowledge

Tom Peters uses action imagery when he talks of 'liberation' and 'chaos' but behind these are persistent references to the need to 'understand the power of our smallest actions[16]' or mostly, its the dumb question followed up by a dozen even more elementary questions, that yield the pay dirt.' The search for, distribution of and use of coal and oil shaped the previous industrial and economic revolutions. The same will be true for knowledge during this revolution.

Education for Business

Those people that get closest to the primary source, learn to use it and manage the distribution of knowledge are those best placed to prosper. Management systems in successful firms will reflect this. Tomorrow's manager/ leader/ worker will not adopt a casual, fragmented approach to the search for, use and exploitation of knowledge. Manager/leader/ workers will seek knowledge with the same determination and systematic effort that oil, gas and raw materials companies now explore for oil. They will want to manage its distribution as much as Rockefeller wanted to control oil distribution.

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[16] Peters, T. *Thriving on Chaos* New York, Alfred A. Knopf Inc 1987