CHAPTER FIVE

Management models for the future: An exploratory and critical inquiry into the nature of practiced contemporary concepts of the business enterprise

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Introduction

In the last decades a growing number of generic management models (e.g., EFQM, INK, ISO 9000:2000) has emerged. All these models are based on the ambition to stipulate the road to conventional and contemporary forms of organizational excellence. Some of the models aim to do so with regard to one aspect of the company’s operations such as processes; others are based on a holistic view of the organization. This paper is based on a book project (2006-2007) entitled “Management Models for the Future” aiming to harvest twelve new company-based models from around the globe. It will be published by Springer Verlag (Heidelberg – Germany) in 2008. Each of these models is described in a structured company-based story thus creating the backbone for the book at hand. The aim is to analyze these different kinds of institutional frameworks of excellence and discuss their nature, content and enactability. The result is a rich and inspiring set of models together with an analysis thus showing the building blocks of meaningful and applicable models.
Knowledge does not simply lie around waiting to be picked up. It must be concisely carved out of a continuous stream of ongoing events in reality, perceived within a specific frame of (theoretical) reference, measured with scholarly precision, interpreted in an way that the can be related to other relevant facts and existing knowledge. All this involves frames of reference and concepts (adapted from Rose and Peterson, 165:11).

More than 500 years a go, in 1494, Luco Bartolemeo Pacioli, a Franciscan friar and a gifted mathematician, became the first person to describe double-entry accounting, also known as the Venetian Method, in his famous book “Summa de arithmetica, geometria, proportioni et proportionalita”. This, then new, system was state-of-the-art, and revolutionized economy and business of that time as well as immortalized Pacioli as the “Father of Accounting”.

Since then five centuries have passed. The industrial revolution came and went and gave birth to the fundamental concept of the business enterprise. During the last half century we are witnessing the birth of a service economy where intangible aspects are dominating the tangibles. In recent years we have witnessed the start of what might turn out to be the downfall of traditional approaches to running an organization. Today the accounting system tells investors less and less about the actual value and values of a company exemplified by the book to market value ratio which is steadily increasing especially for companies belonging to the new economy. Intangible aspects such as reputation, image, contribution to the broader society etc. seem to receive more and more weight when assessing the value of a company. Many companies struggle with the question of how to design and organize these new demands leading to new organizational promises that are often difficult to grasp and live-up to. While roots of the contemporary organization can be found in a bygone industrial area, present market and societal demands are such that new designs, new concepts are imminent. No wonder then that many organizations are in need of renovation, innovation and reinvigoration.

If Pacioli’s established approach to organizing the business-proposition was still working effectively then the contemporary business would not offer so many examples of failure,
scandals, discontinuity, continuous struggle with change and lack of ‘fit’ with markets and consumers. While some companies are addressing these challenges, many do not: Often because they don’t know how to do so. New functional requirements often seem in opposition to each other. Trying to handle transparency, stock market performance, sustainability, innovation, responsibility, time to market, a growing array of stakeholders, business rationalization and many other issues and demands all at the same time is not an easy task. No wonder many managers – mentally equipped with organizational knowledge from a different era - struggle with question ‘how’ to realize this transition. Whatever will happen, all signs point in the direction of reinforcing revision of designs and concepts and models and realignment with novel needs and expectations inside and outside the organization. Fundamental strategic choices have to be made in that regard. A ‘one strategy fits all’ approach is outdated if not dangerous. Instead a multi-layer strategy map requesting internal and external alignment seems the way to go. It is clear that the time is right to re-conceptualize the business enterprise.

In a spontaneous attempt to address these issues in recent years a rapidly growing number of management models (e.g., EFQM, INK, ISO 9000:2000, SA 8000, AA 1000, GRI, QRES, Six Sigma, Balanced Score Card etc. etc.) has evolved: all stipulating the road to excellent organizational performance. A recent study in Denmark, for example, has shown that approximately 47% of all Danish companies use some sort of management model (Kristensen and Eskildsen 2006). ISO 9001:2000 is now firmly established as the globally accepted standard for providing assurance about the quality of goods and services in supplier-customer relations. Up to the end of December 2005, at least 776,608 ISO 9001:2000 certificates had been issued in 161 countries and economies; an increase of 18% over 2004, when the total was 660,132 in 154 countries and economies. Similarly, ISO 14001 confirms its global relevance for organizations wishing to operate in an environmentally sustainable manner. Up to the end of December 2005, at least 111,162 ISO 14001 certificates (1996 and 2004 versions consolidated) had been issued in 138 countries and economies; an increase of 24% over 2004, when the total was 89,937 in 127 countries and economies (source: http://www.iso.org, May 2007). The underlying claim here is that if companies apply one of these management system standards they
should *ceteris paribus* reach a higher level of performance and excellence than they otherwise would have been able to achieve.

**The “raison d’être” of management models**

Existence of organizations is based upon the production of outcomes such as “profit”, “common goods” or the production of ideologies. Outcome should by definition create value. Outcomes that only can be achieved respecting the wellbeing of organizational members and to take into account its ‘environment’ [the community and its customers] relevant for its existence (Jonker and Eskildsen, 2002). Organizations thus don’t exist because they are making profit; profit is a reward for creating value. The organization as such is ‘the instrument’ to achieve that outcome. The actual realization of this outcome can only come about in interaction with the context [or environment] in which the organization operates. To make a profit is based upon the fact that people buy products or services. The definition of appropriate products and services changes continuously over time and making the right choices at a given moment to fulfill the needs and expectations of people [be it employees, customers, suppliers, stockholders or society at large] can be done in a variety of ways. This is referred to as ‘contingency’ or ‘equifinality’ (Jonker and Eskildsen, 2002).

The term ‘management model’ describes a broad range of informal and formal models that are used by organizations to represent various (functional, social and emotional) aspects of a business, such as operational processes, organizational structures, and financial forecasts. Although the term can be traced to the 1950s, it achieved mainstream usage only in the 1990s. Many informal definitions of the term can be found in popular business literature. For example: “A business model is a conceptual tool that contains a big set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.” (Osterwalder, Pigneur and Tucci , 2005).
A model is by definition a representation of something else, something that is not – or cannot be - present or is not tangible. It is “a set of basic assumptions or fundamental principles of intellectual origin from which discussion and actions can proceed” (Popper, 1994). It should create a certain order from observable and measurable facts that might appear at first hand chaotic and unrelated. Here the focus is on models regarding organizations either as a whole, or focusing on a specific function (e.g., quality or corporate social responsibility). The first are often called ‘holistic’ models, the latter ‘functional’, or ‘function specific’ models. A confusion related to the business model concept is that many people speak about business models when they really only mean parts of a business model (Linder and Cantrell 2000). What also raises confusion is the maxim that many models are useful in various situations – in whole or in part. This is also known as the ‘contingency theory’. In essence this implies that a management style and organizational structure are influenced by various aspects of the environment; the contingency factors. There is not "one best way" for leadership, or design of the organization. Usability depends on the context and providing guidance for managers in relation to creating desired improvements. All this of course raises the question of the applicability of these management models, or in other words the raison d’être of management models in general.

A management model provides a “stable” theoretical framework that can be used to observe, create and assess a real life organizational ‘situation’ in order to make desired (future) improvements (Eskildsen and Jonker, 2001; Rüegg-Stürm, 2005). As a whole a model offers [implicit] research-methods and standards to make a comparison between the present and future possibilities through an organizational self-assessment. In that respect it is a tool for comparison – between the present situation and a desired situation in the future - based upon its own values, structure, methodology, methods and techniques. Guillen (1994) argues that in the history of management science three overriding models of management have been developed; (a) scientific management, (b) human relations and (c) structural analysis. Adopting one of the models or using elements of the models in conjunction is dependent on the contextual setting in which the organization operates. Managers tend to combine elements of the three models given a
certain context. In other words, there is not one best way of organizing, designing or managing.

**Building blocks of models**

Models are (abstract) and concise representations of a set of interrelated real-life organizational issues, challenges and choices. Models are closely related to theory since they are based upon a coherent set of concepts and the relationships between. Theory may be viewed as a system for ordering concepts in a way that produces understanding, insights or knowledge. A theory includes more than one concept and how these concepts are interrelated with each other (adapted from Zaltman, et al., 1977).

Key characteristics of a model are:

1. **Representation**; a specific phenomenon is represented by the model – the model is not the phenomenon itself;
2. **Simplification**; a model simplifies reality by reducing the number of concepts and definitions included. This done to make things understandable since talking everything into account often is impossible and unworkable;
3. **Relationship(s)**; between the concepts included (adapted from Ghauri and Gronhaug, 2005: 47 and 48).

A theory is a set of interrelated concepts and definitions leading to a series of propositions and assumptions that together present a systematic view of specified relations among those with the purpose of explaining/predicting certain phenomena (adopted from Ghauri and Gronhaug, 2005: 39 and 40). It is important to note the purpose (role) of a theory that is to predict (forecast), or to frame a particular phenomenon in order to enhance understanding. It is also important to note the notion of ‘proposition’ that is an assumed relationship between two or more concepts. The above definition of theory also claims it should present a systematic view of certain phenomenon in order too enhance understanding and knowledge – and even enable action – meaning that concepts and their relationships involved should represent a coherent ‘whole’. Any theory is furthermore limited in the perspective it represents. It can only
take into account a limited number of specific aspects of the phenomenon it aims to describe. This implies that some aspects are by definition left out.

Concepts are the building blocks of any model. “A concept is an abstraction representing an object, the property of an object, or a certain phenomenon”, (Ghauri and Gronhaug, 2005: 37). Concepts are the crucial elements in the process of building a model. They have a number of important roles:

- Concepts are the foundation of communication; without a set of agreed upon concepts, any meaningful communication is impossible;
- An interrelated set of concepts construct a perspective: a way of looking at the organization;
- Concepts serve as means of classification and selection;
- Concepts are the components of theories providing structure, explanations and possibly predictions;

“Concepts are the most critical elements in any theory, because they direct what is captured” (Ghauri and Gronhaug, 2005: 37). Even though many concepts used in organizational life are ambiguous (e.g., ‘structure’, ‘strategy’ or ‘sustainability’) they are unavoidable ‘tools’ to capture and construct what matters for those involved. Clarification of concepts given their ambiguous nature is achieved through definitions. A distinction in that respect can be made between two types of definitions, conceptual and operational. Definitions that describe concepts by using other concepts are called conceptual definitions. An operational definition is a set of methods and activities that that need to be performed in order to establish empirically the existence, or degree of existence of what is being described by a concept (adopted from Ghauri and Gronhaug, 2005: 38).

A useful definition is that a concept should:

- Point out unique attributes or qualities of whatever is defined;
- Not be circular i.e., must not contain any part of the thing being defined
- Be stated positively i.e., contain the properties of the concept being defined;
- Use clear terms.
Self-assessment

The use of management models as a means to identify opportunities for improvement and change within organizations is called organizational self-assessment. Self-assessment in an organizational setting refers to a comprehensive, systematic and regular review of an organization's activities and results referenced against a model. It allows the organization to discern clearly its strengths and areas in which improvements can be made and culminates in planned improvement actions which are then monitored for progress. Organizational self-assessment is defined as a first-party evaluation that has the following characteristics:

- It is improvement and not conformance oriented
- It is based on a framework that relates every aspect of the organization’s operations to the performance of the organization
- It is a diagnostic tool that can identify internal and external performance gaps by means of systematic approaches
- It is a tool that initiates improvements actions which are then monitored for progress
- It is an ongoing and regular activity in the organization

The main purpose of organizational self-assessment is to aid the organizational quest for superior or new performance by enabling the identification of the drivers for performance. Research has shown that companies using these frameworks experience many gains from the self-assessment process ranging from increased employee involvement to improved bottom-line results. Increased focus on the customer and on continuous improvements has been pointed out as a major benefit from the self-assessment process and management models originating from the quality field (quality award, ISO 9000, balanced scorecard, etc.) have gained increasing attention from companies - there are more than fifty national quality awards, and more and more large corporations have implemented quality certification programs for their suppliers.
Some findings also indicate that it makes good financial sense to apply a holistic reporting system. The largest study of this phenomenon was conducted in the USA where approximately 600 quality award winning companies were studied over a five-year period (Hendricks and Singhal, 2001). This group of award winners was then compared to relevant benchmarks such as the Standard and Poors 500. This analysis revealed that the award winning companies outperformed the benchmarks and all the financial indicators included in the study (Hendricks and Singhal, 2001). This kind of research does however not support any statistical generalizations concerning the effect of holistic management models in industry at large.

Management models tend to be complex because they need to address two intertwined issues at the same time: (1) the functional task of organizing – what should be done by whom and in what order; and (2) establishing, maintaining and justifying a system of authority. One could call the latter also a ‘future perspective’ – one that guides the way towards a nearby future. The way in which managers perceive, assess, and interpret problems is partially shaped by some ideology, i.e., a set of assumption about how the world works and how it ought to work. Management models are in this respect useful to managers because they allow the interpretation of a problem and provide practical guidelines for action leading towards a desired future, (Guillen, 1994). Its possible contribution can thus be “…a contribution … in the creation of concepts and tools that help manager to capture, understand, communicate, design, analyze, and change the business logic of their firm. As such they: “… help to capture, visualize, understand, communicate and share the business logic (Osterwalder, Pigneur and Tucci , 2005:19).

**Application of management models**

When talking about management models it is important to remember that they are not a miracle cure in the sense that application will guarantee organizational success. Models can be used for a variety of purposes. In general a distinction can be made between: description, explanation, forecasting and guidance of activities. Applying a management model is hard work that requires dedication, persistency and courage but if these three prerequisites are present the desired changes are possible. An organization may apply a
management model for a variety of reasons. It could be with the aim of mapping the value chains of the organization or because the organizations choose a more structured approach to corporate social responsibility. No matter what the specific motivation may be the overriding theme is organizational change. The important thing to remember is that the application of a management model will bring about other unforeseen consequences for the organization.

In this sense management models are tools to guide these processes of choice[s] within organizations. Management models differ from the most common everyday tools – such as hammers, knives of pans - that they are not physical by nature. They are a systematized whole based upon methodological, methodical and instrumental choices focusing on a particular subject [organizations] of a manageable property [e.g., quality or corporate social responsibility]. They differ also from common tools that they are not an object or “a thing” that can be observed or measured. The “tool” only comes “alive” once a person starts using the model (Jonker and Eskildsen, 2002).

Usage cannot however be a goal in itself. The true measure for the sustainability of any management model is whether or not the model can be a used to guide rational decisions about future actions based on a causal model structure. A management model never gives a complete description of an organization and its context. The whole idea of management models is to provide a condensed version of reality – one by which managing complexity is facilitated. The search for the one true model is thus a futile quest since it does not exist. As the famous quality-guru Deming said: "Every theorem is true in its own world. The question is, which world are we in"?

**The Case of Denmark**

More and more people in industry realize that a company’s condition cannot be summarized merely by a financial analysis. If operational improvements are made the financial measures will automatically follow so there is a need for ways to measure and analyze the company’s ability to make operational improvements. This has made many organizations search for alternative measures and models of performance and there now
exist a smorgasbord of organizational models that describe various aspects of organizational performance.

The effect of organizational models in industry at large has been the focus of a Danish study conducted five times from 1998 to 2003. In this longitudinal study approximately seven hundred CEO’s answered a questionnaire related to their company’s use of management models. This information was then linked to actual financial results (Kristensen et al., 2002). The results of this analysis are shown in Figure 1 where control charts for operating profit for users and non-users of different generic management models are shown for all companies and for companies with less than 50 employees. On the horizontal axis of these charts is the model in question and the average financial result is on the vertical axis. The dotted lines indicate the 2-sigma control limits.

![Figure 1: The financial effect of holistic management models](image)

The figure clearly shows that when looking at industry at large there is a clear positive effect of both the Balanced Scorecard and the EFQM Excellence Model, while companies using one of the remaining models do not show any significant effect different from companies that are not using any model at all. Strictly this is not a proof that the balanced scorecard and the excellence model actually produce better results than other models. The effects may be confounded with other factors and it will take further study to resolve this problem. Furthermore, Figure 1 shows that the EFQM Excellence Model has
no financial effect for companies with less than 50 employees. In this case it is only the Balanced Scorecard that shows an effect. Apart from giving an indication to small companies concerning choice of model this also gives an indication that the EFQM/SME model is not sufficiently simple for small companies to use. This conclusion is supported by a number of case-studies focusing on the applicability of management models in relation to small and medium-sized companies.

The Danish study implies that organizations change their view on the way the organization operates when they apply a management model. In other words they gain a better understanding of the world they operate in and how they achieve their results. The perceived importance of the “people” dimension of the organization increases and this might be due to the fact that organizations that apply a management model have realized the importance of the employees with respect to embarking on continuous improvements. Not only do CEO’s of organizations that apply management models put more emphasis on the “people” dimension they also report significant better human resource (HR) performance than non-users. This HR focus can also be seen in their willingness to apply performance related pay. There is a clear tendency towards the use of performance related pay increases among users of management models and for that approach to include all employees.

**Lessons from the business community**

So far we have argued that the history of management science shows three overriding models of management; scientific management, human relations and structural analysis. However, the search for alternative measures and models of performance has resulted in a vast variety of organizational models that describe various aspects of organizational performance. Furthermore the process through which management models are applied to identify opportunities for improvement becomes rather crucial. Companies that apply a management model experience a lot of challenges, but also gains ranging from increased employee involvement to improved bottom-line results. In the following chapters twelve organizations from around the world, operating in totally different markets, provide insights into their ‘customized’ approach in dealing with one or more of these
requirements as well as their experiences and benefits of applying a specific management model. These contributions were written by the companies themselves on the author’s request.

a) Cilag (Switzerland)
Cilag AG is one of the leading Swiss firms in the pharmaceutical industry. In this chapter the company describes how demands for new and better management support has led to an organizational process whose emergence has been brought about with the help of management models at different levels of the business. The focus is on lessons from creating and implementing innovative management models.

b) Henkel (Germany)
Henkel is headquartered in Düsseldorf, Germany and operates in three business areas: Home Care; Personal Care; and Adhesives, Sealants and Surface Treatment. In the latter activity Henkel is one of the world leading producers. Henkel’s social commitment is firmly embedded in its corporate values and its corporate history and in this chapter the company offers insights from one of the most comprehensive social commitment initiatives.

c) Danske Bank (Denmark)
Danske Bank is the leading financial institution in Denmark and one of the largest and highest rated in the Nordic region. Danske Bank has for many years measured and analyzed various aspects of business performance. In this chapter Danske Bank shares some of their insights with respect to mapping the value-chain in a commercial bank. The emphasis is on the relationship between employee satisfaction and motivation on one side and customer loyalty and customer satisfaction on the other.
d) Agrofair (Netherlands)

AgroFair applies a business model that might provide an answer for gaining market access for small producer organizations from developing countries. One of the central pillars of the company is the concept of co-ownership in a vertically integrated supply chain. The credentials are embedded in its vision statement of A Fair Price, A Fair Say and a Fair Share. This chapter describes the history of the AgroFair business model and analyses the crucial elements that have contributed to its success.

e) ABN AMRO Real (Brazil)

Since 1998, ABN AMRO Real, the third largest private bank in Brazil, has relentlessly worked to create a ‘sounder bank for a sounder society’, integrating social, environmental and economic aspects into the business. Its management model dates back to 2001 and is used to guide the organization towards achieving its ambitious vision and mission. In this chapter ABN AMRO Real demonstrates that the integration of sustainability into its model is a win-win-win strategy for shareholders, clients, employees and other stakeholders.

f) Danish Post (Denmark)

In 1998 Post Danmark launched a massive change process based on the TQM philosophy. This entailed systematic measures to steer the organization away from the traditional government service culture developing it towards a more modern and dynamic organizational culture. This chapter describes the process that lead to Post Danmark winning the Danish Quality Award in 2004 and being a finalist for the European Quality Award in 2006.

g) Australian Water (Australia)

The Water Corporation of Western Australia is a State Government-owned corporatized water utility, which operates over the huge 2.5 million square kilometer land area of Western Australia. The Water Corporation has embarked on a journey of business transformation, with environmental, social and financial
sustainability as the prime conceptual and ethical drivers. In this chapter the company describes lessons learned and benefits achieved.

**h) Triodos Bank (Netherlands)**
The Triodos Foundation was founded in 1973 with the aim of financing projects and ventures that had a societal cause. The Triodos Bank was established in 1980 in the Netherlands with the overriding goal to foster societal renewal. As an organization with a clear mission the Triodos Bank is built on human capital and deploys a management model that places the individual at its heart. The Triodos Bank takes up a bridging role between the individual and society at large. It is a place where individuals connect and collaborate to achieve things that cannot be done alone.

**i) Vandemoortele (Germany)**
Vandemoortele Deutschland GmbH is part of a Europe-wide food manufacturer (margarine, bakery-products, soya-products). The company supplies mainly German food retail chains which are dominated by discounters. In this chapter the company describes how the German system of resolving conflicts of interest through employee participation has not only served the country well during the period of post-war economic growth but also provides the ideal framework for a management model designed to minimize costs and resist fierce competition.

**j) Lloyds TSB (England)**
Lloyds TSB is a major banking and insurance group, predominantly UK-based, but with operations in some 30 countries around the world. The corporate vision is to make Lloyds TSB the best financial services company, first in the UK then across borders. In this chapter Lloyds TSB describes how their corporate responsibility strategy supports the corporate vision by helping to build a great place for people to work, a great place for customers to do business, and generating great returns for shareholders.
The experiences recorded are wide-ranging. They cover national quality award models, management models for fair trade, corporate social responsibility, organizational excellence and various aspects of organizational value-chains. The twelve models can be split into four different segments depending on whether or not they are internally or externally developed and whether or not they have a holistic focus or a single issue focus. This spilt is shown in Table 1.

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**Table 1: Grouping of models**

It is evident that the majority of the models have been internally developed which is in line with the previously mentioned notion that the whole idea of management models is to provide a condensed version of reality – one by which managing complexity is facilitated. In this sense management models are organizational ‘disposables’. They serve a purpose at a given moment in time – inside and outside the organization. They facilitate communications about matters at hand. They also help to translate issues for different stakeholders. Depending on their degree of ‘maturity’ they can be just drawings with some unspecified arrows and suggestions of relationships.
More elaborated models focus on different aspects. It is assumed that models have at least the function of deliberately constructing and enacting the language about organizational design and direction. Besides their communicative function, models can support managers in steering the operations by reducing complexity. It is fascinating to explore how -and if- these models underlie the foundations of organizational design and operation, and in what way they actually provide ‘help’ to structure and manage day-to-day operations.

**Concluding remarks**

The presented management models seem to be based on an amalgam of (implicitly and explicitly used) theories. Some of these are so-called ‘grand’ theories such as social constructivism and system thinking and dynamics. The nature of these theories is such that they can be applied to almost any phenomenon. Others such as organizational learning, decision making, organizational development or value creation apply more strictly to organizations.

We assume that management models are an intrinsic part of a three step organizational process. Step one is the formulation of a policy, often translated into a business strategy. Such a policy is a complex statement about what the organization wants to be, how it wants to act and be known to its suppliers, its customers and society at large. Since a policy is most often a document leaving ample room for interpretation a step needs to be made towards ‘translation. Such a translation can take the shape of directives, guidelines or codes of conduct. Yet the same declaration can also be used to elaborate how different elements and issues hold together. This leads to activities of structuring. This structuring not so much focuses on the structure of an organization but is a way of sense making. The result of this often iterative and collaborative process is a ‘picture’ naming and framing those elements that seem to be of importance of the (organizational) actors involved.

The *process* of creating a management model can often be more important then the result. It is in the process that people involved have to give meaning to different, often qualitative and broadly typified, complex constructs. Drilled down to its bare essence the
‘product’ of the process of creating a management model is a contextual interpretation of what matters, here and now and for the future.

Although the existence of management models within the business community is apparent, scholarly academic research on the nature and function of these models is scarce. Given the absence of more fundamental research the ontological and epistemological status of the concept of management models remains unclear, to say the least. Questions such as: “What constitutes a (good) management model?” “What role and function do management models have?” and “What elements and issues do management models address, and why do they address them?” are wide open to investigation. These questions are relevant because management models are an intrinsic part of the organizational landscape. They appear in all shapes and sizes, very often claiming to be the solution to current and pressing problems. They are so common in organizational media, business literature, annual reports, corporate websites and internal memo’s, that one wonders why not more often questions are being raised regarding their nature, role and function. As such they provide a splendid opportunity for more scholarly research. The authors consider the outcomes of their present book - on which this paper was based - as a first step in that direction. But – as usual – more research is needed. So far we just scratched the surface.
References


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