



# LEADERSHIP AND ORGANIZATION IN THE INNOVATION ECONOMY

*Jon-Arild  
Johannessen*

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**BY**

**JON-ARILD JOHANNESSEN**



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# Foreword

In this book, we have developed 45 student reflection tasks followed by some business case letters to help students understand the material in the book and hopefully become better leaders. The student reflection tasks are based on process pedagogy. This means here that the students learn by working with the reflection tasks in the book.

This book represents directly, but most indirectly, a critique of, and part of a drive to replace, goal-driven management and new public management. For at least two reasons, this is a Sisyphean task. Firstly, this is a large and ambiguous field. Secondly, a powerful norm police operating at multiple levels is intent on protecting this technocratic approach to management and control. Perhaps the most significant level of norm police is made up of the “men in suits.” These bureaucratic apparatchiks are strapped into the armor of liberal economics. They will use every means at their disposal to retain goal-driven management and new public management, for reasons including the fact that this type of management logic has served them very well.

We do more than simply criticize: we also introduce a new concept to replace goal-driven management and new public management. Our main hypothesis is that goal-driven management and new public management hamper creativity and innovation, even though they may increase productivity. High levels of productivity are no use if your product or service cannot compete with something creative and new.

New public management is a term that originated in the 1980s to describe the transfer of private-sector management principles to the public sector. The goal was to increase the efficiency of public-sector bureaucracy, which was traditionally managed by senior professionals in the various fields rather than senior management executives. The overriding aim was to make the public sector more market oriented. Various processes were employed to achieve this, including competitive tendering, privatization, unit pricing, internal pricing, the purchase-provider model, etc. The most important technique employed to implement these processes was goal-driven management. There was a general assumption that this type of management had few side-effects.

Since the 1980s, society has undergone enormous change. There has been a transition from an industrialized society, focused on efficiency and productivity, to a globalized knowledge society, focused on creativity and innovation. In this book, our main point is that goal-driven management promotes efficiency and productivity, but hampers creativity and innovation. In order to introduce a new

element that could replace the goal-driven approach with regard to creativity and innovation, we have developed a new concept: strategic innovation management. We clarify this concept in the course of this book, such that the reader will be equipped to apply strategic innovation management in practical settings in both the public and private sectors, as well as in civil society, in order to promote creativity and innovation.

In the four chapters of this book, we describe, analyze, and debate what is demanded of the new leadership role, of employees and of organizations. We also examine what needs to be jettisoned in order to achieve this. The changes that have occurred in the world around us mean that the basic experiences on which leaders and others have based their competence are currently collapsing, or in some cases have already collapsed. This has led to a situation where leaders at all levels, in private- and public-sector organizations, in government bureaucracies and politics, have used their basic experiences and acquired competence without achieving their aims. What they often experience is that they meet a wall. To put it metaphorically, they find that leadership is like shouting in space – no one can hear you and no one changes their behavior.

In this book, we attach particular emphasis to four elements that will replace goal-driven management and new public management with regard to creativity and innovation. These four elements are strategic innovation management, moral courage, prosocial behavior, and curiosity.

We have also included a chapter dedicated to describing and explaining the concepts employed in this book.

## Acknowledgments

I am greatly indebted to two Danish professors for their ideas and contributions to this book. Firstly, I would like to thank Professor Svend Brinkmann for his clear views and his courage in asserting them, despite extremely strong opposition from a “norm police” consisting of economists and technocrats. I would recommend his books to anyone interested in the types of leadership roles that are emerging in the new global economy. In particular, I recommend his book *Ståsteder [“Standpoints”]*, published in Danish in 2016. In this book, Brinkmann shows what goal-driven management, performance management, and new public management all fail to measure in their eagerness to count, without understanding what it is that really counts. Brinkmann writes about goodness, human dignity, good faith, the importance of honesty, taking responsibility, love, forgiveness, and freedom. One might ask: What does this have to do with the new leadership role. The answer is simple: EVERYTHING.

I would also like to recommend Svend Brinkmann’s book: *Stand Firm: Resisting the Self-Improvement Craze*, published in 2014. This is not because I agree with everything Brinkmann says in this book, but because he presents an alternative to my own thinking. I am convinced that positive leadership based on the concept of positive psychology, which was launched in 1989, and introduced into organizational theory by Professor Cameron shortly thereafter, is the only valid way to convert today’s leaders from counting machines into individuals capable of taking on leadership roles in the new global economy, where what really counts is often incapable of being counted. In any event, thank you Svend for your commitment and courage. On the other hand, I entirely support Svend’s view that if one is to study leadership, then one must go back to philosophical ideas about leadership, as many philosophers devoted their attention to this topic long before everything started to be about utility, benchmarks, and performance indicators, and leaders were elevated to become the new gods of business.

I would also like to thank Professor Ove K. Pedersen for his book *Konkurrencestaten [The Competitive State]* published in Danish in 2015. Pedersen is Professor of Comparative Politics at Copenhagen Business School (CBS) and has done the field of leadership studies a great service by increasing the porosity of the distinction between political leadership and business leadership. In addition to Professor Pedersen, I would like to mention the philosopher who wrote the best book ever on leadership, according to Peter F. Drucker. To get to grips with this book, one must travel 2,500 years back in time to the era of the philosopher Xenophon. I am talking about his book *Cyrus the Great: The Arts of Leadership*

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*and War*, which I recommend highly to anyone interested in leadership and who is looking for some historical background to leadership as a scholarly area of research, and not only as a course topic, or as one of the hyphenated management courses that have emerged in business schools in Norway, and elsewhere in the Western world because people have become so obsessed with counting that they have forgotten what really counts.

Last, but not least, I am greatly indebted to the American psychologist Adam Grant. There are two books by Grant that I recommend very highly to anyone teaching leadership studies, as well as to new leaders in the public and private sectors. These are *Give and Take* and *Originality*. If the norm police think that I have aligned myself too closely with Grant, then they are correct. This was my intention because it is crucial to make new leaders aware of his teaching and insights.

I would also like to thank Assistant Professor Siri Hopland for her linguistic input.

# Prologue: Some Reflections on New Public Management

Goal-driven management is one of the tools used in new public management. This is the tool that we examine and replace in this book. We replace goal-driven management with strategic innovation management.

In this book, we have not made any distinctions between the public and private sectors and civil society because goal-driven management is used in all three sectors. We chose not to make such a distinction because in our opinion, strategic innovation management is important for the new leadership role, regardless of sector, industry, or context.

We use the word “organization” as an umbrella term to cover private- and public-sector activities, as well as local and central government administration.

Few if any people are against setting personal goals or goals for an organization. People have been setting goals ever since Homer wrote the *Odyssey*, Xenophon wrote *King Cyrus*, and Sparta developed a system to educate its citizens. It is measurements, measurement indicators, and audit items that distort activities and processes in an unhelpful direction, at a time when creativity and innovation are in demand.

Goal-driven management is about something rather different than simply setting goals. The first question one should ask when seeking to replace goal-driven management is this: What purpose is the organization intended to serve? The second question is: What is the organization designed to do? The third question is: What is the organization actually doing? Once we know the purpose of the organization, what it is designed to do, and what it actually does, we have the first tool that we need in order to implement strategic innovation management: measures to correct our course so that we return to what the organization was designed to do, which is its core purpose.

We live in an age when the most important leadership parameters are goal-driven management results measurements, performance-boosting measures, key performance indicators, contract discussions, and so on (Van Dooren et al., 2010). In its day, goal-driven management was an organizational innovation compared to bureaucratic, rule-bound forms of management.

Although goal-driven management could be seen as an organizational innovation in its day, the following question becomes ever more pressing: How do those approaches promote and/or hamper innovation? To understand what is

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happening, we must introduce two relatively unfamiliar concepts. The first is “precise ambiguity”. Briefly, this concept means that goals and desired outcomes are established with extreme precision, but there is complete ambiguity as to how these goals/outcomes are to be achieved. In general, only results that can be measured are of interest. The second is “requisite variety” (Ashby, 1961). Briefly, requisite variety means that a person who is to carry out an activity or perform a task must always have opportunities to vary his or her approach, in accordance with variations in the surrounding environment.

If we combine precise ambiguity with requisite variety, we get the type of leadership behavior that we see in organizations where ideas about leadership are based on goal-driven management, performance management, contract discussions, and so on. What is happening is that these leaders are constantly concerned with reducing uncertainty, both for themselves and the department or organization they lead. To this end, they introduce measures to keep control over absolutely everything that can be measured or audited. This approach may easily result in a “staccato organization,” i.e., an organization that tries to be so stable that it ends up being rigid.

A problem of management in the public sector has been that the use of new public management has created more turbulence and goal displacement than has been the intention (Andersen & Tanggaard, 2016, pp. 9–31). Empirical research conducted in England over a 30-year period has shown that new public management has not led to greater efficiency, but rather become more costly than expected and led to numerous grievances (Hood & Dixon, 2015). New public management has come to influence thinking about public administration and the management of organizations in the public sector.

New public management came as a reaction to bureaucratic public administration and emerged at the same time as neoliberalism took hold in the 1980s. Central concepts in new public management include competitive tendering, privatization, unit pricing, internal pricing, the purchase–provider model, etc. New public management was introduced in the 1980s in Australia and New Zealand by social democratic governments and spread to other English-speaking countries in the 1990s (Christensen, 2010, p. 215). The transfer of private management practices via new public management into the public sector is thoroughly described by Kjell Arne Rørvik (1998).

In private companies, goal-driven management has long been a key management tool. Techniques and indicators used to measure and quantify are common in both the private and public sectors. However, it is often the case that we do not count what really counts (Brinkman, 2014, 2016). This has been one of the problems of goal-driven management and other new public management techniques, i.e., what really matters is often ignored because it cannot be measured, weighed, and quantified.

The ideology behind goal-driven management and new public management can be expressed in one sentence: *You cannot control what you do not measure*. There are at least two objections to this ideology. Firstly, it is erroneous. Secondly, it may be the case that you set up wrong or inadequate goals. Thus, this stimulates behavior that in its consequences does not focus on what the

organization is designed to do. The purpose of any organization is to do what it is designed to do. Therefore, it is not goals that have the first priority, but delivering what the organization is designed to do. To achieve this, one must first focus on the purpose of the organization. Furthermore, it is implicit in goal-driven management ideology that if we want to control, then we need to develop measurement indicators and use these for measuring. Most organizations use goal-driven management systems of one type or another, such as key performance indicators, performance-based management, performance-based contracts, performance-related pay, etc. (Loew, 2015; Rock & Jones, 2015). A significant objection to goal-driven management and all the management techniques that are used in new public management is that whatever you measure, you will often not measure what really matters before goal displacement has come to the point that it is obvious to everyone that something is wrong. It is then often too late because the behavior and purpose of the organization has turned away from what counts and toward what it is possible to count (Hood & Dixon, 2015). What happens is that goals are changed to match the techniques that have been used (Pflueger, 2015).

We wish to increase productivity, quality, and the ability to deliver and to promote innovation in organizations. However, the majority of organizations are knowledge organizations that employ knowledge workers. How can you measure the productivity of knowledge workers? It is most probable that one will run into problems here because we know little about how to measure and improve the productivity of knowledge workers. The organizations that use goal-driven management and other new public management tools to promote the productivity of knowledge workers will thus not be successful in this endeavor. This will occur because they do not know what they're measuring and they definitely do not know if what they measure increases the productivity of knowledge workers (Hood & Dixon, 2015). It may be possible to measure what you think is linked to the productivity of knowledge workers, but you cannot reflect on what you measure, because you do not have any theory or models that say something about this relationship. On the other hand, by applying these measurement tools, you may harm working relations, the working environment, and the creativity and the innovative ability of the organization. Many leaders express that it is the employees in knowledge organizations that are the greatest asset. On the other hand, there are few leaders who have a clear theory, model, or idea about how to improve the commitment and performance of these knowledge workers; and neither do they have ideas about how to remove obstacles to promote innovation in the organization (Hlupic, 2014, pp. 1–15).

In this book, we will offer theory, models, and specific management tools that will enable leaders and managers in private and public organizations to promote the performance of knowledge workers while also increasing the rate of innovation in the organization. We will provide alternatives to goal-driven management and new public management. What is needed is a shift in understanding of what are the new roles of leaders and managers at a time when robotization, rate of change, innovation, globalization, and the pursuit of talent are all important issues on the agenda.

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# Chapter 1

## The Future Role of Leaders

### Learning Goals

- In this chapter you will learn how the new role of leaders can address creativity and innovation processes.
- The objective of the chapter is to foster understanding of the new role of leaders and to contribute to the replacement of goal-driven management.

### Evaluation

The learning goals of the chapter are evaluated through student reflection tasks 1–8.

### Introduction

In this book, we not only criticize new public management, we also propose an alternative to this way of thinking, such that leaders will possess specific management tools at a time when creativity and innovation are the most important parameters of success (Brynjolfsson & Saunders, 2013). This is a new way of thinking, or as Hlupic (2014) puts it, a leadership paradigm shift. Just as Hlupic focuses on a systemic approach to the problem, this book is structured along systemic lines.

There is a clear difference between having goals and managing with the help of goal-driven management techniques. Goals are motivating in many respects (Ackoff & Emery, 2007). Goal-driven management is not necessarily motivating, however (Brinkmann, 2016; Pedersen, 2015). Businesses must of course pay attention to their results, but there is not necessarily any link between good results and performance management (Rock & Jones, 2015). Like goal-driven management, performance management is oriented toward control, often right down to a micro-level (Hood & Dixon, 2015).

When people have a purpose for what they are doing, and thoroughly understand what this purpose is, then it is not always necessary to develop performance-tracking indicators to achieve a good result.

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Should we develop goals and performance indicators for friendliness, generosity, helping others, sharing knowledge, curiosity, moral courage, enthusiasm, and the act of giving? Most people would answer “no” to this question (Brinkmann, 2016). Our point is, however, that all the qualities listed above give rise to creativity and innovation, according to empirical studies conducted by researchers including Grant (2014), Grant and Berry (2011), and Grant, Parker, and Collins (2009).

By counting what doesn't count, and not counting what really counts, a business loses opportunities it could have had by not counting to start with. In the global knowledge economy, what really counts is creativity and innovation (Rock & Jones, 2015). Therefore it is important that the new leaders motivate to make this happen.

Leaders often argue that they use goal-driven management to promote quality, efficiency, safety, and better results. A considerable body of research shows, however, that this is not the case (Grant, 2014; Grant et al., 2009; Grant & Berry, 2011). Performance management is also a concept that has been applied in parallel with goal-driven management. It is possible that goal-driven management and performance management have something to recommend then in the context of industrial enterprises that produce nails and concrete in a working culture of “heat and beat.” In a knowledge business, however, these management tools often work against their intended purpose because we do not know how to improve the creativity of knowledge workers (Wong, 2013). We do know, however, that knowledge workers are not motivated by performance-tracking systems (Drucker, 1999a, 1999b, 2007; Wong, 2013).

Goal-driven management has resulted in standardized working processes, even in contexts where working processes should not be standardized (Andersen & Tanggaard, 2016, p. 10). In many cases this leads to a lower-quality result because variation rather than standardization is the norm in interpersonal relations (Boyatzis, Murphy, & Wheeler, 2000; Post, 2006, p. 1–10).

There is an absence of empirical data concerning goal-driven management and performance management, so these approaches are based on assumptions, opinions, and the belief that people can be enticed with a carrot or chased with a whip (Hildebrandt, 2015).

Goal-driven management and performance management hinder, among other things, the application of context, situation, experiences, circumstances, expertise, tacit knowledge, implicit knowledge, and hidden knowledge, in a manner that is appropriate for the tasks at hand (Elmholdt, Birk, & Børgesen, 2015; Pflueger, 2015).

Most people endeavor to achieve whatever goals are being used to assess them. Goals are not necessarily used, however, to assess people at what they are good at and what they have a burning passion for. As a result, goal-driven management and performance management on the whole tend to result in mediocre performance (Wiedemann, 2016). If one is to encourage people to be successful, one must let them do what they are passionate about and what they are good at because that will foster commitment, creativity, and the ability to innovate (Duckworth, 2017; Grant, 2014).

There is an alternative to goal-driven management and performance management. We present the alternative in this book. Instead of a means/goal approach, we are proposing an objective/goal approach. The objective is what the business is designed to do. It is the objective, together with a burning desire to make a difference that really makes a difference, which is the overarching idea behind the new role of leaders in private and public-sector organizations.

This chapter attempts to answer the following question: How can the new role of leaders address creativity and innovation processes?

The subquestions that we investigate in order to answer this main question are the following:

Q1: How can strategic innovation management replace goal-driven management in relation to creativity and innovation?

Q2: How can we use moral courage to replace goal-driven management in relation to creativity and innovation?

Q3: A. How can helping other people promote innovation? B. How can givers promote innovation within businesses?

Q4: How can leaders use curiosity to replace goal-driven management in relation to creativity and innovation?

Fig. 1.1 summarizes the introduction and shows how the rest of the chapter is organized.

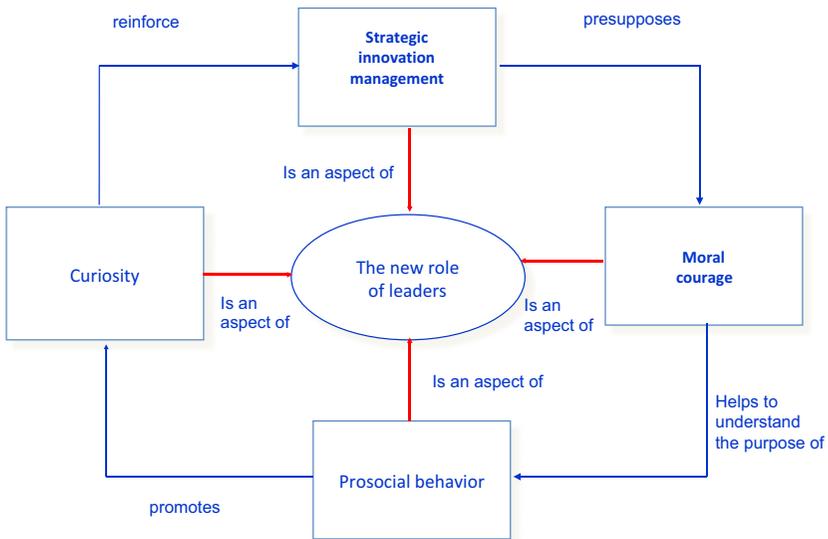


Fig. 1.1. The New Role of Leaders.

## **Strategic Innovation Management**

The question we examine here is: How can strategic innovation management replace goal-driven management in relation to creativity and innovation?

Strategic innovation management is defined here as the science of effective organization with the aim of promoting creativity and innovation.<sup>1</sup>

Innovations often emerge where (Drucker, 1999a, 1999b; Hamel, 2002, 2012):

- (1) the relative quality falls;
- (2) the relative income falls;
- (3) the relative costs increase;
- (4) the relative productivity falls;
- (5) the diffusion of innovation is greatest;
- (6) new knowledge has the potential to become new technology;
- (7) the relative competence increases the most.<sup>2</sup>

These seven areas have a large potential individually and in combination to provide fertile ground for innovation. To discover where innovations emerge and how businesses can create their future on the basis of these seven points, we need leaders who understand the importance of strategic innovation management, i.e., who are able to design an idea system that can capture what is happening, choose ideas, and implement the ideas that have the greatest potential for breakthrough.

### ***Student Reflection Task 1***

Use the seven areas where innovation may emerge and discuss where in your environment innovation most probably will happen.

### ***The Collapse of Fundamental Experience***

Strategic innovation management is based on the collapse of fundamental experience in the global economy and where robots, informats,<sup>3</sup> and digitalization accelerate.

Strategic innovation management is based on the idea that innovations are driven forward by the presence of problems and deficiencies. Where there are problems or deficiencies, one should look for innovations close to the boundaries between various areas of knowledge because that is where innovation is most

---

<sup>1</sup>Strategic innovation management is used here in analogy to Stafford Beer's viable system model (1985).

<sup>2</sup>Honor to the one who deserves it: point seven was argued for by an MBA student of Innovation Management at Nord University (spring 2017).

<sup>3</sup>Informats are robots that are in contact with each other and with information and knowledge online.