

The Need for New Management*

Vladimir Maslov

The present article reflects on the need for new management in the context of globalization. The author shows that within the emerging knowledge-based society and innovative economy it is only the labor of new-type, that is of intellectual employees (which sometimes are also referred to as talented employees), that can ensure the survival of corporations.

The new role of talented employees requires a reversal of Taylor's approach to ... and the transition to leadership at all levels, which implies a broad delegation and the development of entrepreneurial mind of all employees, not only its managers. The term 'heterarchy' is introduced to denote a new management paradigm which is neither market-oriented, nor hierarchical. The author also grounds the necessity for a new motivator which is the involvement based on the personnel's intellectual links and emotional adherence to values of the company. The article also gives a brief description of knowledge society which requires an innovative type of corporate culture. Finally, the author emphasizes the crucial importance of education for society's and company's competitiveness in the globalization era.

Keywords: *talented employees, knowledge economy, management.*

Introduction

The present article analyzes the new requirements for management in the twenty-first century, resulting from expanding globalization which demands a new approach to individual's position in the organization in order to build a competitive economy based on the employees' intelligence and knowledge. The main reason for the imbalance between traditional organization's management approaches and its personnel are the changes in society and economy brought by globalization. The essence of the newly emerging society is rather accurately described by the term *knowledge-based society*, and also by knowledge-based economy. Within this new type of economy the employees of a new type, that is the intellectual employees, start to play a critical role. One can hardly consider them only as company's resources (even the most valuable). The intellectual employees are both objects and subjects of modern management, where it is not the management of individual's performance as a function that is effective, but of individuals as a personality.

1. Problems in Management in the Twenty-First Century

Management in the twenty-first century faces new challenges. The practitioners expect theorists to answer the question 'What are we supposed to do in the contemporary flexible

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world?' The approaches that used to be effective, do not show any results nowadays. 'The reason for this situation is that the old-established management system does not work anymore, but most people still use it and will hardly change their minds in one night' – points Professor Peter Senge, business-guru of modern management. 'On the contrary, they will try to use these old methods again and again, putting much effort to them and using even more tough measures, pressing the employees and concentrating on current tasks.'¹ Such an approach can bring even flourishing companies to bankruptcy. In 2008, many corporations, including the giants of American automobile industry, proved Senge's statement.

However, the necessity of a new management paradigm was mentioned by the founder of Matsushita Electric Industrial Company Konosuki Matsushita as early as in 1988. He claimed, addressing the Western entrepreneurs:

We will win, and you will lose. And you will not be able to tackle this, because your loss will be the result of your inner problems. Your companies are based on Taylor's principles. What is more, your heads are also full of Taylor's methods. You strongly believe that the term 'management' means a manager from the one side and an employee from the other side, the first one thinks only and the second one works only. Management is from your point of view an art of free transmission of manager's ideas to the hands of workers.

We have passed Taylor's approach. We understand that business has become too complicated. Survival is something very uncertain in an environment that is full of risks, eruptions and competence... We know that the intelligence of some technocrats, even very capable ones, is absolutely sufficient to deal with this challenge. Only combined intelligence of all employees can enable the company to face all ups and downs in compliance with requirements of the new time. Yes, we will win and you will lose. You are unable to relieve your minds from old-fashioned Taylor's methods, you have never possessed (New Competition 2002: 9).

These words would seem firm, offensive, and unpleasant for the Americans or Europeans. But the further development proved that the forecast has been accurate. Ever more companies and countries realize nowadays that previous management approaches are ineffective within the new context of the twenty-first century. The crisis (economic, political, and financial) which has already lasted for seven years, favors the search for solutions not only within new management approaches, but also for changes in society's values. In 2013, at the Second World Cultural Forum in China it was pointed out that 'a deep moral and ethical crisis stands behind economic, financial and climatic crises, which influences large parts of the world' (The Results... 2013: 3).

In the end of the twentieth century, some European scientists paid attention to the necessity for new approaches to management. Thus, the German scholar Hans-Jürgen Warnecke wrote in 1999: 'One of the most important requirements to the future-oriented productions is the ability of all the departments and all the employees to think and act like entrepreneurs' (Warnecke 1999: 159). According to the German author, the entrepreneurial mind means answering four questions:

1. Why do I want (!!!) to create this new product?
2. What will I achieve by doing this? – To meet my urgent need. Thus, the main aim of management is to bring up creators, not executors.
3. How should I create this new product? – Therefore organizations educate professionals-innovators, implement the system of lifelong education and development of the personnel.

¹ <http://www.hhmagazine.ru/contents/publication.do?publicationId=617>.

4. What are the results of the entrepreneurial idea?

The practitioners all over the world did not receive any answers from theorists. As a result, the old management paradigm (which does not imply the presence of thinking and creative employees) has continued to prevail. It is executor-oriented mindset. Management means the domination of executives over subordinates. As Kenneth Cloke and Joan Goldsmith argue, 'traditionally management implies managers' egocentrism, authoritarian style of decision-making processes, incompetence of management, limitation of supervisors, and the employees' unwillingness to develop responsible labor relations. Management kills relationships, moral values and motivation' (Cloke and Goldsmith 2004: 31).

Nowadays/under the current conditions the significance of the most important factors of company's mission is blurred. Nowadays the priorities should be ranked in a different way: personnel, goods, and profit. Both Russian and foreign schools of management place the personnel according to its priority at best on the second place after profit (and this also happens in practice!). The concepts are usually prioritized in the following way: profit, goods, and personnel. The same refers to most Western organizations. As a result, Russia – as well as other highly developed countries – faces a crisis of personnel management.

First and foremost, the unwillingness to work is growing. The essential role of employee and organization has changed considerably. In the past an *employee* operated the *system*. This was exactly what Frederick Taylor's as well as Edward Deming's system of common quality management focused upon. In the knowledge-based society the *system* is supposed to 'serve' an *employee*. What does a successful university do? It attracts the best professors and scholars and, what is the most important, gives them an opportunity to develop skills, teach effectively and conduct scientific research. The motto of business in the knowledge-based society is 'Employees may be our greatest liability, but people are our greatest opportunity' – as Peter Drucker wrote (cited in Cloke and Goldsmith 2004: 102).

The requirements for innovative management have also changed in the knowledge-based society. Peter Drucker notices: 'Nowadays the organization should not only be innovative, but it should become a *leader in changes*. If nowadays the organization is not the leader in changes, it won't be able to aim constantly at innovations. And innovations should be permanent. By the way, often innovations are very unpredictable' (*Ibid.*: 83). It is very difficult and sometimes impossible for a manager to control them. Managers were not used to this situation since being subordinates they were under control. However, it is necessary to abandon the division between managers and executors. Employees in contemporary organizations are not subordinate specialists, but *personalities*. Business success depends on effective performance of intelligent workers and people which are fond of and involved in their activities. In this case the employees' energy works in a certain direction, they support each other and fulfill duties in a complementing way. D. Kunis and J. Ioffe, entrepreneurs from St. Petersburg, claim that the competitive advantage of a modern company is 'creative capacities of the employees being fully involved in work. It is likely to be the main resource in modern life, 'which is the reason for tough competence, and whoever "wins" it, becomes successful' (Cloke and Goldsmith 2004: 11–12). It is important that the Russian practitioners accept this as a fact.

All current problems in management are caused by changes both in economy and in society. Running a company with the help of old methods means dooming it to fail. Today old management methods create hierarchical relations and bureaucracy, autocracy and injustice, inequality and privileged positions of some groups. Cloke and Goldsmith state:

‘It can be predicted that management will block self-actualization, restrict personal freedom, and undermine the principles of ethics and identity. It oppresses the spirit, kills the soul, and tries to enslave and devastate the environment which is favorable’ (Cloke and Goldsmith 2004: 63).

Research conducted in Russia and abroad shows that new modes of management are based on leadership and delegation. Volker Jaute, one of the leading European specialists in the sphere of personnel management, says: ‘The most important thing for a manager is to imagine the whole picture of the company's situation. What type his employees belong to, whether they are independent and responsible for their decisions and actions, whether they can be partners. If there is partnership, mutual respect and responsibility, independence and innovations, we can call this a confidence-based management. If there are no such things and management is based on orders, the term “anti-management” can be used’.²

According to William Edwards Deming, *new management* is based on the delegation of responsibility and opportunity to teams in order to make products meet standards. According to his model, the leader encourages members of teams to achieve better results via supporting them by different bonuses. The rule ‘Quality depends on every employee’ becomes common practice.

One of the companies from ‘Fortune 500’ list has reorganized its production departments into self-governing teams. Modernization of the manufacturing processes helped to reduce the amount of operations required for producing one product from 387 to 4 in a year. Moreover, the quality of the products increased significantly. The enterprise owes this fantastic result to self-governing teams, which worked out and implemented absolutely independently a modernization plan, reduced the number of mistakes, waste and equipment failures almost to zero (Cloke and Goldsmith 2004: 95–96).

Actually the point is the new management paradigm, which is neither market nor hierarchy-oriented. According to American sociologist and economist David Stark heterarchy is a new kind of organization that overcomes limits of market and hierarchical approaches. Hierarchy implies dependence, while market implies independence, and heterarchy suggests interdependence (Stark 2002: 49–95). The peculiarity of heterarchy is the horizontal power formation unlike the usual vertical delegation within organization (hierarchy). The most common form of heterarchy is virtual organization, whose main advantage is the high speed of decision-making process. F. Kotler thinks that the most important principles of a virtual organization's ideal activity are:

1. Outsourcing some work or services to companies, that can do it cheaper and better.
2. Involvement of distance employees and implementation of programs, which automate conventional processes.
3. Consolidation of company's customers. Purchase of goods by virtual communities.
4. The main benefits of any virtual organization are intangible assets such as know-how and brand (see Gaisin 2005: 5).

The main aim of the transition to this new management paradigm is an effective management of new employees, who are the most important factor of company's activity within knowledge-based society. Let us consider this issue in more detail.

2. Peculiarities of Managing Modern Employees

The success of companies in the knowledge era depends on the managers' ability to cope with tasks of recruiting, managing and retention of intelligent employees. It is not enough

² <http://www.e-xecutive.ru/community/articles/741669/index.php?ID=741669>.

today to provide only material impetus; modern employees appreciate social recognition and promotion opportunities in the organization. It has become increasingly common that only significant changes in employee's status can make him or her stay in the organization. 'This can be achieved only by placing lower level subordinates into positions of senior managers, from position of an ordinary employee (even with a high salary) into position of business partner' – notices Peter Drucker (2007: 37). This has become common practice in the company *Instrum-Rand* (Pavlovo, Nizhegorodsky region, Russia) and also in many globally well-known companies working in different industries.

New Place of Employees in the Organization

Nowadays companies face staffing problems – the competence on the labour market is increasing, while there is a lack of professionally qualified personnel. According to the research of VTsIOM (February 28, 2008) 52 per cent of Russian companies say that qualified workers are hard to find. The situation even worsens alongside with continuing global talent crisis.

Across the globe we see organizations fighting to find employees with necessary skills and training. As the economic recovery continues, companies struggle to get the talent they need – particularly in science, technology, engineering, and mathematics. And with the widening skills gap likely to become worse before it gets better, we are facing something of a perfect talent storm. It is good to see that this issue has become a subject of mainstream debate for media, politicians and corporates alike.³

It becomes more difficult to attract talented people, but without them it is impossible to become a competitive organization. It is difficult to recruit new employees but it is even more difficult to make them stay with the company. It is necessary to show that you are the best employer. However, this is not simple for a company and requires the implementation of new approaches to personnel. Intelligent employees do not focus only on the proposed salary and remuneration package. They are much more interested in the opportunities that a company can offer (such as self-fulfillment and career growth) and in the corporate culture in this company. Respecting the employee's opinion, willingness to educate him or her and help to improve his/her performance is what new employees appreciate. An ideal company is a company where employees are glad to come to work every morning, a company where employees are delighted and have many opportunities. Modern companies should pay attention to such expectations of their employees and make everything possible to ensure loyalty and become more attractive for specialists. And these are not only words. Results of the survey 'The Best Employers' conducted in different countries by *Hewitt Associates*, show a direct correlation between most financial indices and the new factors of motivation, such as *personnel involvement*. Stakeholders of companies, where the average level of involvement exceeds 60 per cent, get a revenue that is 2.5 times larger than the revenue in other companies.

Research shows that companies know that engagement has vital implications for performance. Gallup's global research across industries shows that engagement leads to improved profitability, increased productivity, and better customer metrics while the turnover decreases.

But talent is also a prerequisite for success. Gallup's research reveals that about one out of ten employees can become a good manager if s/he engages team members and cus-

³ See <http://www.hays-index.com/2013>.

tomers and creates a culture of high productivity. And last but not the least, their contribution to the profit of their companies is about 48 per cent higher than the contribution made by average managers (Herway and Dvorak 2014). Gallup's research reveals that when companies add a well-being focus to their engagement, it has an accelerating effect. Together, these two approaches help establish a workplace culture which enhances employees' lives. In a company that supports employees' well-being and engagement, workers are more likely to be flourishing, which helps boosting their individual, team and organizational performance. We should recognize that it is necessary to implement the new approach to personnel: people management (McPheat n.d.). In 2012, Gallup reported in two large-scale studies that only 30 per cent of US employees are engaged at work, and staggeringly low 13 per cent worldwide are engaged. In the past decade little has changed (Sorenson 2013).

Personnel involvement is more than just an interest in working. It also does not only mean satisfaction with work. *Involvement is based on intellectual links and emotional adherence of personnel to the company's values.*

Firstly, involvement encourages behavior, oriented at achievement of the organization's strategic aims. Employees need to understand the essence of the strategy and its meaning in their day-to-day lives. This is the basis of the first of two main components: the intellectual link. It means that employees need to know what, why, and how they should work to achieve success within the organization.

Secondly, involvement motivates people. Nowadays companies value employees not only for their diligence. Creativity and imagination are important since they contribute to solution of problems, innovations and growth. Sense of purpose is also significant since it encourages employees to work in one direction as a team. Intellectual links and emotional adherence cannot be specified, controlled, and managed by job description. But when employees are involved in the working process, a company is full of energy.

We can define six main factors influencing the involvement of modern employees in the working process (see Fig. 1). There are no factors which can be considered as more important than others. All six factors should be optimized, and only in this case the involvement of intelligent employees in company's work can be achieved.

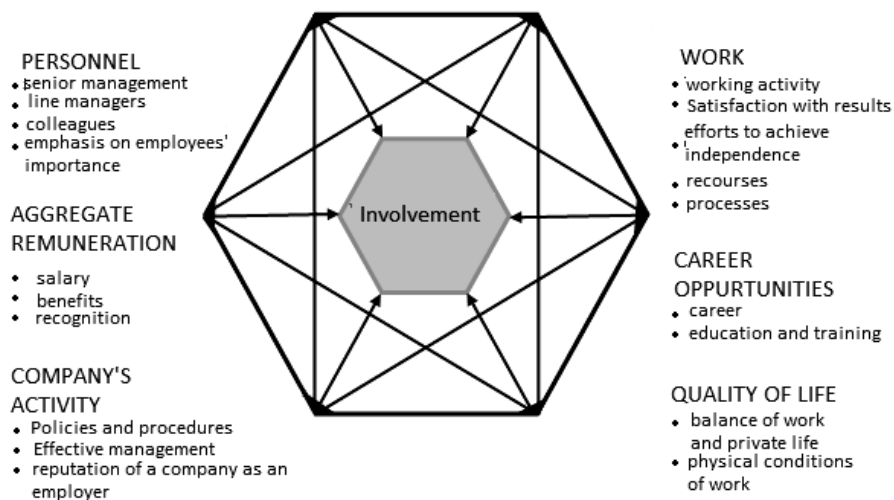


Fig. 1. Which factors do influence the involvement of employees?

The key to a sharp increase of company's efficiency is, on the one hand, an understanding and sharing of its goals and values, and, on the other hand, the activity performed to achieve these goals. Nowadays corporate culture is effective only when it involves and unites employees, providing answers to three questions which are of great importance for any company:

- Where do we want to be?
- Why do we need to be there?
- How are we going to get there?

The results of research on involvement are illustrated by Figs 2 and 3.

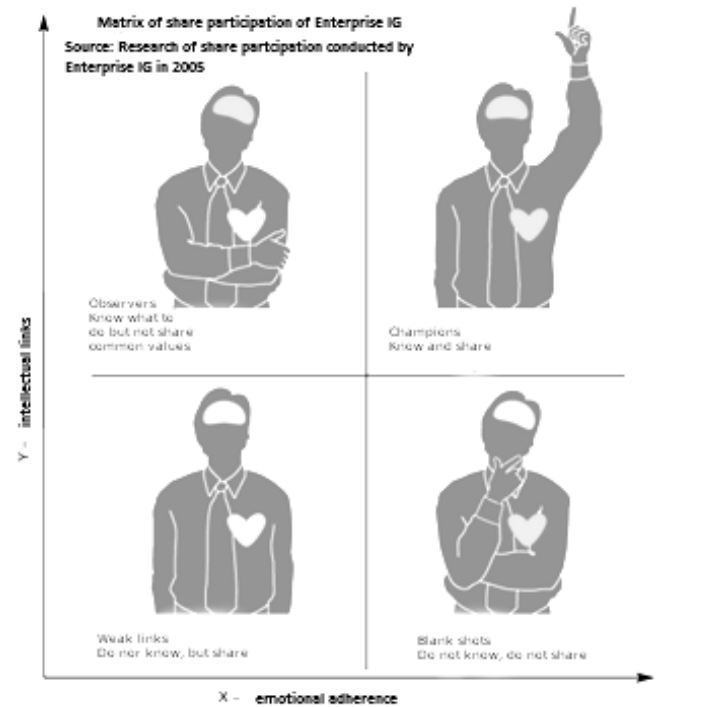


Fig. 2. Four main categories of intellectual and emotional involvement

Research conducted by Enterprise IG in 2005 has shown that nowadays only 29 per cent of employees know what they should do and share company's values, which means they are involved in their work (Fig. 2).

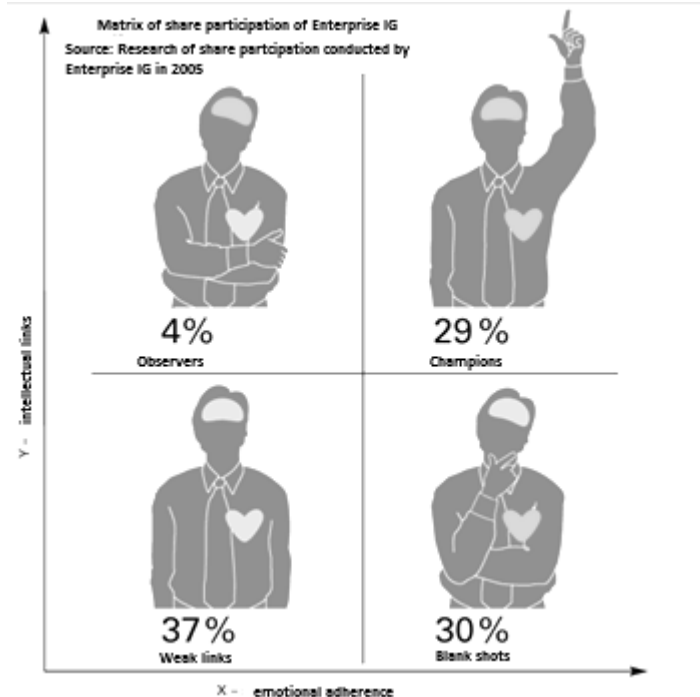


Fig. 3. The share participation

Research conducted by *Gallup* in 2004, shows that indifferent personnel costs the USA about 300 billion dollars annually in the form of drop in productivity. In Germany, according to similar research conducted in 2002, 69 per cent of German employees perform professional but have a disinterested attitude to labor. This led to economic losses of 220 billion Euros a year, which can be compared to the annual budget of the whole Germany (246.3 billion Euros).⁴ Thus, one needs an appropriate recruitment and motivation of employees. The key to increase the company's efficiency is its personnel's ability to understand and share company's goals and values and their *desire* to make everything possible in order to achieve current and strategic goals of the organization.

The idea to involve personnel in sharing company's aims and strategies has existed for decades. Different terms such as 'internal communications', 'internal marketing', and 'internal brand' have been introduced. A lot of time, money, and efforts have been spent to motivate employees, to build a corporate culture which would really bring workers together, making them energetic and enthusiastic.

Let us give the example of Senn Delaney, a *Heidrick & Struggles*, a company that is widely recognized as the leading international authority and successful practitioner of culture shaping that enhances the spirit and performance of organizations. Founded in 1978, Senn Delaney was the first firm in the world to focus exclusively on transforming cultures. Many Fortune 500 companies and Global 1000 CEOs have chosen Senn Delaney as their trusted partner to guide their cultural transformation. Senn Delaney has developed a com-

⁴ Mittelbayerische Zeitung, 11.09.2002.

prehensive and proven culture-shaping methodology that engages people and measurably impacts both the spirit and performance of organizations.⁵

But even today corporate culture separates managers from employees. Managers conceal the real situation from workers, and employees are no longer satisfied with being under control (subordinates). Therefore, in most companies the involvement in the management process is impossible. Thus, talented employees will at best be diligent. And of course, they will seek for a new job, where they would be demanded not only as professionals but also as personalities. Certainly, this implies a conversion from personnel management (or ever human resources management) to the management of the people in social organization.

In 2007, the study of involvement was conducted in Russia and covered 64 companies including 36 Russian and 28 international companies. Thus, we can analyze what issues are of great importance for the Russian employers and employees. Who is the best in the market today from modern employees' point of view?

According to the results of the research, the average level of involvement in Russia in 2007 was 59 per cent. Among the contributing factors, meeting the Russian workers' expectations most of all, one can name the relations with colleagues, company's reputation as employer, line management, and a non-hazardous workplace. The standard of received benefits, career opportunities, salary and emphasis on employees' importance for the company were named among the critical factors, which *practically do not* meet the Russian employees' expectations.

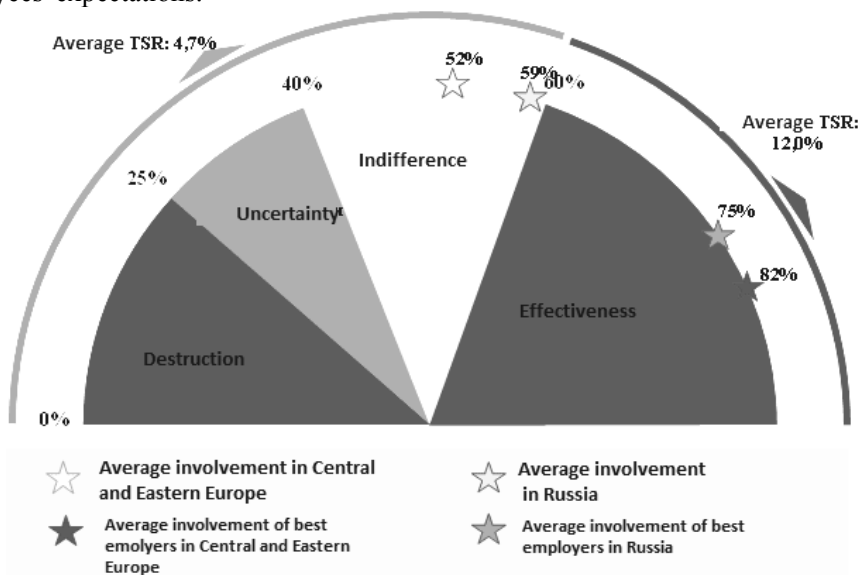


Fig. 4. Most critical factors causing the increase and decrease in the level of employees involvement

Note: * TSR (Total Shareholder Return) over a period is defined as the net stock price change plus the dividends paid during that period.

⁵ www.sennedlaney.com

Indeed, in compliance with the opinion of almost 60 per cent of employees, only the best Russian employers have well settled the most critical issues of corporate culture, such as the care of employees, recognition of workers and emphasis on their importance for the organization, and a fair remuneration system (Fig. 5).

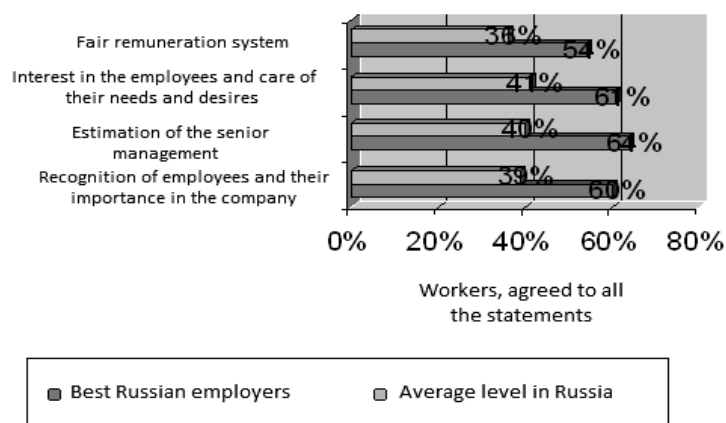


Fig. 5. Advantages of the best Russian employers (2007)

In accordance with a survey conducted in 2013 in Russia, in the opinion of 10,000 Russian students, the best employers are presented in Table 1. One may notice that four of ten best companies in Russia are oil and gas companies.

Table 1. Rating of the Russian companies⁶

Company	Business			Change in rank 2012 vs. 2013
	2013		2012	
	Place		Place	
Gazprom	1	0	1	0
Sberbank of Russia	2	0	2	0
McKinsey & Company	3	8	11	8
Google	4	3	7	3
Unilever	5	0	5	0
Lukoil	6	-3	3	-3
Rosneft Oil Company	7	-1	6	-1
VTB24	8	0	8	0
PwC	9	9	18	9
Procter & Gamble	10	3	13	3

⁶ http://www.e-xecutive.ru/knowledge/announcement/1831787/index.php?PAGE_NAME=read&FID=12&TID=16097

In the past decades, a *new management policy* plays the most important role in successful companies all over the world. This policy is based on an active involvement of the employees and their loyalty. A vivid example of a new management success, meeting the demands of modern intelligent workers, is *Toyota*, which has outranked the US giants of automobile industry – *General Motors* and *Ford* which in 2008 needed a large governmental aid to prevent their bankruptcy.

Many managers have not realized yet the end of the industrial era. In industrial economy all that was needed to increase productivity was to put workers to machines and control their performance. And it was normal when employees worked carelessly and have had a mechanist approach, because feelings and emotions would interfere with their technical functions. But nowadays more and more companies understand that machines can neither foresee the future and offer alternatives, nor work creatively, nor be sympathetic with others, nor be motivated and feel the destination, in other words, they lack characteristics that can strengthen companies and increase their competitiveness. In this case employees should get an absolutely new position within the organization. An employee today is not an object of management, but both object and subject of management, a business partner. However, the changes in the relations between a manager and an employee become evident; nowadays a manager depends more on intellectual employees and their features than the employee depends on his manager. The terms ‘superior’ and ‘subordinate’ characterize the outdated management style.

The guru of management Peter Drucker wrote: ‘Intellectual employees are a workforce, whose features are much more different from those of less professional workers. It is true that intellectual employees are minor in the whole working force structure. But they have already become the main producers of material goods. The success in business and even survival is more and more dependent on the effectiveness of this group performance’ (Drucker 2007). And furthermore: ‘*The task of a company in the intellectual era is to make ordinary people create exceptional things*’ (*Ibid.*: 139; italics in the original). Within the new management paradigm a strategic approach to management becomes the main task of companies’ administration. ‘The biggest success of Jack Welch, the ex-general director of General Electric is his ability to closely monitor the current development of the organization (a three-year long period is considered) and at the same time the ability to pay attention to strategic development of HR policy. He was making investments in personnel development for 7 years’, – noticed Drucker (*Ibid.*: 88–89).

Gallup’s assessment of 2,500 US entrepreneurs shows that the higher levels of entrepreneurial talent significantly increase the likelihood of the success of the enterprise. Highly talented entrepreneurs, compared with their less talented peers, are:

- three times more likely to build large businesses and to expand them significantly;
- four times more likely to create jobs;
- four times more likely to exceed profit goals;
- five times more likely to exceed sales goals.⁷

A battle for talents has been held everywhere – in the sphere of high and low technologies, in developed and developing countries. Managers face some difficult tasks: How to choose the best among applicants? How to keep valuable workers? What reasons and benefits will make people who can refer to various alternative options stay?

⁷ Business Journal, January 22, 2015.

Apart from demographic decline there are some other difficulties. First of all we see the *crisis of loyalty*. In the 1990s, many Russian companies reduced their staff and changed the structure. Many companies abandoned social protection of their employees, considering this to be burdensome. As a result, nowadays employees have no reasons to be loyal. They leave easily, accepting more profitable offers. Secondly, there is a gap between graduates' knowledge and requirements to the applicants. Even good educational establishments produce few scientists and engineers, and it is very difficult to find a specialist in ordinary schools. This means that any company will have to spend money to educate new workers. Having educated them, it is important to keep them without any compulsion, but with the help of attractive values of corporate culture. Otherwise, a company will appear to spend lots of money to provide valuable employees for competitors.

Nowadays effective corporate culture is not a luxury but a prerequisite in the changing world of knowledge-based society. Only those companies where employees work as if it is their own company have a chance to win in the tough competition in a globalizing world.

CEO and President of Senn Delaney Company points

What company in the world has not been going through sudden shifts wrought from major, disruptive change? IBM, Intel, HP, Nokia, RIM are just a few iconic brand names that spring to mind. These companies are all grappling with the need to radically change to survive and compete. They are responding in many predictable ways: changing CEOs and leadership teams, shifting strategies, rolling out new product lines, increasing innovation, cutting costs, restructuring. All good things to do to react to change, but these actions treat the symptoms of a chronic illness without curing the underlying cause. CEOs may be missing out on the most important strategy of all: creating a culture of agility (Hart 2013).

Without necessary changes at a behavioral and cultural level, no systems, processes and technologies will realize an organization's strategic ambitions for sustainable future success.

Besides, even nowadays intellectual workforce is the most important advantage of any country or company. New management is necessary to operate effectively, and it should be different from Taylorist approaches.

3. Main Features of Knowledge-based Society

The current problems in management are caused by a new type of economic growth. It can be described by several terms: scientific and technical or innovative. This type of growth caused the development of a new society, which is frequently called the knowledge-based society. The main features of such a society are:

- * common creative ability, changing the attitude to self-actualization, risks, initiative and search;
- * entrepreneurial behavior, aimed at mastering high technologies;
- * modification of ownership in large corporations (internal ventures);
- * transforming character of management.

The corporate culture has changed accordingly. Economic growth has to respect this shift towards the new context. *Traditional technocratic type of culture* is characterized by:

- * distinct chains of command and hierarchy in the management system;
- * dominance of regulated executor's behavior;
- * rational economic motivation;

* specialization of governing bodies in fulfilling organizational, economic, and creative functions.

This type of culture prevails in many organizations of Russia, Northern America, Europe and (partially) Japan. In the past such corporate culture enabled companies to manage personnel and organization.

Knowledge-based society requires innovations to become a principle which presupposes a different corporate culture.

An *innovative type of culture* is characterized by:

- * significantly higher levels of employees' education;
- * creative environment, innovation;
- * constant improvement and experimentation;
- * willingness to take risks; and
- * dynamism.

The corporate culture of new type is based on shaping an environment in the organization which encourages creation. To stay competitive in the knowledge-based society, it is not enough to perform settled instructions in a professional way and to reproduce something that already exists. The main value of new culture is the opportunity to work creatively. It is an important motivator for intellectual employees, because in this case they are motivated by the work process itself. At the same time the development of personnel within particular organizations is extremely important for the development and realization of new management. *Development of personnel* (not only education) is necessary, because knowledge should be updated every 3–4 years. New employees should *know* and *desire* to obtain new skills and knowledge. Only then will they be demanded. This must be the main purpose of higher education.

The condition for an *innovative culture* is first of all the development of a new *organizational structure of management*. It should be based on the principle of quick response, on the ability to perceive everything new, which is a prerequisite for surviving in terms of constant unpredictable changes of the environment. That is why project or result-oriented structures are developed which are integrated with traditional structures.

There are some peculiarities in management systems of innovative organizations:

* They are characterized by distinct and clear strategies going alongside freedom of search within the system. Such strategies help to restrict the field of research and alternative designations with real opportunities and needs of the company. Quantitative goals also motivate, for instance when the percentage of sales of new goods should not be lower than 25 per cent of all the sales.

* There is a need for the creation of a definite system (formal or informal) to collect specialized information, a system of laboratories' external links, the exchange of personnel, active search and estimation of new ideas. Therefore not only scientific departments become research centers, but also design, planning, marketing, and production departments, namely almost the whole organization.

* The support of developing temporary teams that are geared to fulfill a clearly defined task (as a rule it takes 2–3 years) – this is widely used, while the experience of scientific research is mixed with the groundwork of product or process engineers.

* The *system of motivation* is based on the satisfaction with the work process, its compliance with personal interests of employees, personality, prestige, and material incentives, depending in most cases on final results. Promotion and payment depend directly on creative capacities of employees, although the extent of this correlation is different in dif-

ferent cases. For instance, Japanese companies differentiate the salary according to the creative capacity of employees less than Americans. From my point of view Japanese experience is more suitable for Russia.

* Managing innovative activities on the internal level importantly depends on creating entrepreneurial autonomy, namely, to make certain structures of the company independent from each other in order to stimulate them to take risks when implementing innovations – this may also be called entrepreneurship on a sublevel.

In the highly developed countries such specialized departments are fully involved in creative work, established far away from the main line of production. They receive large amounts of money, comprising 3–10 per cent of sales volumes (*e.g.*, Hitachi spends 8.3 per cent, Canon – 9 per cent, Honda – 5.4 per cent). Japanese companies usually have these departments centralized and subordinated under the central management. This provides prospects for problem solution, independence of requirements of immediate profitability, and better opportunities for creating project teams for different periods of time for research.

Flexible forms of team work are also widely used. For instance, in *Canon* such groups consist of 10–15 people; they conduct research in new fields, work out the corporation strategy and design projects for production departments.

Table 2 describes the preconditions for innovations.

Table 2. Preconditions for innovations

Company characteristics	Management principles	The characteristics of managerial behavior
Social and psychological climate	High confidence; Culture of accepting mistakes	More impulsive, intuitive behavior; Taking risks and admission of probable mistakes; Active creative search and great potential response from efforts made by employees; Belief in one's own creative capacity and informal actions
Communication systems	Free flow of communication; Clarity of policies; Open strategy and planning process	More direct contacts; Opportunity of offering unconventional ideas and proposals; High emotionality and liveliness of conduct; Proper feedback in all aspects; Interaction and opportunity to promote one's own ideas.
Purpose setting	Allowing independent formulation of objections allowed and self-estimation of employees	Rewards for additional risk taking and creative activities; Sharing responsibilities and cooperative suggestion of new ideas; Variety of search efforts and decrease of conformism.
Control mechanisms	Connected with other management components; Internal self-control is allowed; Coordination with life-parameters of employees.	Use of alternative forms of working and organizing; Possibility of disagreement and functional conflict; broadening the scope of innovation; Priority of diversity and creativity to monotony and timeserving.

The main strategic motto of an ordinary enterprise can be formulated as 'More and better' (common motto of entrepreneurs in the twentieth century). The motto of innovative strategy should sound like 'New and different'. This is the motto of organizations in a knowledge-based society.

The main result of a culture of innovation is that an enterprise works in such a way that change becomes common practice. In terms of constant changes of environment such a culture can make a company competitive and adapted to the external environment.

Information Economy as a Material Basis of the Knowledge Society

Nowadays, the highly developed countries require staff development and intellectualization of labor, which is connected with implementation of high technologies and with the broadening scope of information services. The emergence of a new information economy (prior to the knowledge based economy) has led to the rise of absolutely new enterprises. The information economy forms the basis for the information society (Fig. 6).

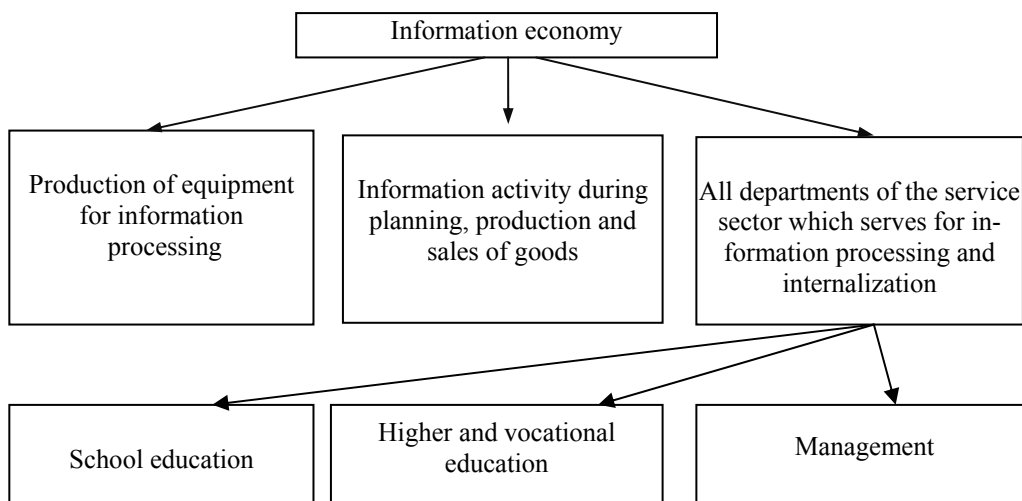


Fig. 6. Information economy

Creative activities including management alongside with different types of education play a peculiar role in the information economy. In recent years *commercial* significance has been acquired by the sphere of new knowledge, implemented in new technologies and equipment production, as well as training programs and the organization of work processes in the sphere of information economy. In Western countries they make up for more than 80 per cent of GDP growth. According to expert estimations, the annual turnover in the market of new technologies and science-intensive products is several times higher than the turnover on the market of raw materials, including oil, gas, and wood. In question are not just billions but trillions dollars.

This leads to serious social transformations. The number of people employed in industry and in farming decreases. According to some forecasts, in some years only one of ten workers will be occupied in industry in highly developed countries. The centre of gravity in the sphere of employment has shifted from industry to services, and in business activity – from material production to financial and some other transactions. Fictitious capital bub-

bles grow and advertising is artificially exaggerated while trade does not meet customers' needs, but overrides them and increase prestigious and in this case fictitious consumption. Many people are occupied in bureaucratic management what is also observed in Russia. Popular culture has been established which undermines human creative capacity instead of developing it.

By the way, as Alexander V. Buzgalin claims

the key problem of progress of human society in the twenty-first century is the separation of creative activity from forms imposed by the fictitious sector, expelling the latter and usage of resources for the advancement of creatosphere – the world of culture, generally accessible creative activity and correspondingly the spheres which create cultural values and create, educate and develop a human as an independent and comprehensively evolving personality (Buzgalin 2001: 83).

Many philosophers of the past claim the development of personality (going beyond education, training and retraining) to be the ultimate goal of society. Nowadays practitioners also speak about that. 'Only training and all-round education combined with the formation of all-round educated personality make real capital of our society' writes Eberhard von Kuenheim, the ex-President of automobile producer BMW (Germany). He also emphasizes that only the realization of this triple task will enable Germany to hold positions in the group of leaders in highly developed countries.⁸ Germany seems to ignore von Kuenheim's appeal. People continue to underestimate the importance of this trinity: education – training – construction of identity. As a result the quality of German graduates' education hardly meets the requirements of market. Besides, the quality of graduates' knowledge in German universities is very low. According to the results of international surveys ('Pisa-Studien') they take worldwide the 32nd rank. The manager of the German section of McKinsey, Jurgen Kluge, expresses anxiety: 'The situation with German education is critical. Even if we tomorrow - by magic - have the best education system, it would take us 20 years to get the results. For these years a young man would finish school and get a degree in university. That is why we must act quickly, because the backwardness of the German educational system leads us to a serious economic crisis' (Kluge 2003). Our scientist has a broader approach to the estimation of the role of education: 'Education and training become "the first" constituent of public activity in terms of culture' – says Alexander V. Buzgalin. Besides, education and training as a single process of human development will become 'the first field' of creatosphere to the extent, to which they will ensure the *formation of personality with creative capacity*. They are to assist in shaping an individual, capable to face problems and contradictions of the modern world, to find new combinations of well-known elements and to create new components, so that a creative flash of inspiration could give birth to new cultural activity. To borrow the language of Erich Fromm, such an individual should be, not have. Leontiev's School of Psychology (in Moscow State University) makes a particular emphasis on the active side of an individual, not only on the abilities to exist.

At the same time 'the formation of a professional, his or her activity, consumption of a pop culture or narrow-purpose knowledge become components of integrated operating process of pseudoculture, pseudoeducation and pseudotraining, or, to be more precise, culture, education and training in the artificial forms, which are characteristics of modern information society or professionals' society' (Kluge 2003: 91–92). Indeed, there are problems in the arising knowledge-based society. The division of labour goes further, profes-

⁸ Welt am Sonntag, 10.11.1996, S. 56.

sionalism of the minority increases alongside with the degradation of the majority (Schmidt 1998).

A worker employed in the tertiary sector nowadays means more to the economy than a worker occupied in the primary and secondary sectors. Those, who want to get power, do not only aim on possessing means of production, but also at possessing means of communication. This is the reason for political competition for new means of communication. Between 2000 and 2004, Russia faced this vivid competition between influential ‘oligarchs’ and the authorities. Nowadays this competition has only been increased.

In the mid-1980s, our scholars noticed that the third industrial revolution leads us to the new era. ‘Our descendants will live in an information-based society’, – wrote Gennady Vorobyov. – ‘This means that most future professions will be connected with information production and processing, and this will require great changes in terms and methods of labor, and even in the lifestyle’ (Vorobyov 1979: 3). We can conclude that *intelligence and imagination become the most significant productive factors in information-based society*.

Intelligence, information and engagement/identification with the tasks become the basis of information societies instead of land and labor (Maslov 2001). At the turn of the twentieth century, in highly developed countries the emergence of new society which was called at first post-industrial, than informational (with many varieties: society of professionals, knowledge-based society *etc.*), became almost general. According to Buzgalin, the main features of this society are the following: the ‘know-how’ production and especially the information technologies become the key factor of progress (economic flourishing, geopolitical power); services sector substitutes for the industry; the production structure changes; the institutional system is transformed (particularly, the new characteristics of companies and management systems); professionals and ‘production’ centers become the key parameters of development (Buzgalin 2001: 75).

Different fields of information economy gave rise to the demand for specialists of especially high qualification who are scarce in many countries of the world including Russia. In particular, most of new vacancies that will appear in ten years will demand applicants with higher education. This poses a new challenge for the society, which will have to move to *common higher education* as a critical prerequisite for further employment of its citizens and competitiveness of its economy in the global market. Certainly, all stages of education should be free of charge for students. Nowadays, the law about common higher education exists only in Japan. In 2011, the Free Higher Education Act was implemented in Turkey. Students of Germany have also ‘won’ the abolition of tuition fees, so from September 1, 2013 higher education in Germany is free.

‘Investments made in people are very important for growth, because an educated and healthy population is critical for the realization of all the advantages of society’s economic potential’, – report specialists of the US President’s Council of Economic Advisors (Economic Report... 2003: 372).

Thus, education and training become the main and necessary conditions of emergence of new managers and employees, who are innovators, creators, and not executors. In the era of globalization a country has no other alternatives.

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