Throughout the post-WWII period, innovation has been a key to U.S. leadership in the global economy. From the 1950s through the 1970s, Asian and European competitors sought to emulate innovative U.S. managerial techniques as well as leadership values and styles in order to match the productivity and the quality of U.S. firms. Unfortunately, for many U.S. firms in traditional industries such as automobiles, steel, and appliances, the dedication and creativity of their foreign pursuers proved to be effective and that U.S. leadership in those industries today is, at best, shared—and, as some fear, on its way to being irretrievably lost.

In the newer industries, those driven primarily by the research capabilities of universities and many high-profile corporations, U.S. leadership in technological innovation has remained an important source of national income and pride. Indeed, recognizing that advanced economies compete primarily on the basis of innovation, U.S. scholars were among the early leaders in studying and describing effective organizational approaches to knowledge creation, sharing, and utilization. Nevertheless, despite their established capabilities, U.S. firms apparently still make use of only a fraction of their available knowledge, and the U.S. may also be in the process of losing its role as the unquestioned innovation leader in the global economy. Indeed, in the annual Global Competitiveness Report released by the World Economic Forum in September 2006, the U.S. slipped for the first time from the number one position it had held from the beginning of the WEF annual surveys to sixth behind Switzerland, Finland, Sweden, Denmark, and Singapore.

While this ranking, compiled from available statistics and interviews with over 11,000 business leaders from 125 countries, is open to question, it is clear that business leaders around the world are no longer in awe of U.S. business policies and managerial processes, and they recognize the growing competencies...
and achievements of other economies. The U.S. still has the world’s leading research universities and many world-class firms that champion technology and innovation. Nevertheless, there are growing concerns, reinforced by the WEF report, that the business values and practices essential to the creation and sharing of knowledge and its full utilization in innovation initiatives may not be evolving at the same pace in the U.S. as they are in some of its leading foreign competitors. Having researched and written about U.S. management values and business approaches for over forty years, I share these concerns. This article examines the current criticisms and concerns about management practices in U.S. firms and discusses the management theories and behavioral prescriptions that research suggests are essential components of leadership in innovation-based competitiveness.

Recent Criticisms of Business Education and Management Practice

Over the past ten years, criticism of the values and concepts taught to managers has both accelerated in pace and become more searing. These criticisms were recently expanded upon, questioned, and enlightened in a set of invited contributions by prominent scholars in the Academy of Management’s journal Learning & Education (March 2005). The focal point of the commentaries was a posthumously published essay by Sumantra Ghoshal, a long-time professor at the London Business School and a strident critic of what he called “bad” theory, which he believed led to bad management practices. Especially bad theories, Ghoshal argued, were agency theory, transaction cost economics, and the five forces model of industry and competition. Agency theory, he argued, overemphasized both shareholder rights and the virtues of stock options. The focus on transaction costs economics, he claimed, placed too much stress on the need for tight monitoring and control of people to prevent “opportunistic behavior.” The five forces model, he noted, pictured firms succeeding not only by cleverly outwitting their competitors, but their customers and suppliers as well.

Following Ghoshal’s article, commentaries were offered by Professors Kanter of Harvard, Pfeffer of Stanford, Hambrick of Penn State, Mintzberg of McGill University, Donaldson of the Universities of New South Wales and Sydney, and John Gapper, a columnist for the Financial Times. While all of the commentators recognized many of the concerns expressed by Ghoshal, Pfeffer, following up on a nearly concurrent prize-winning article, was the most outspoken supporter, arguing that MBA programs had become captives of economic philosophies that were damaging to their long-term health, and to that of the firms and the economy their graduates served. Among the other commentators, columnist Gapper offered one of the most pointed observations: “If we treat managers as financially self-interested automatons who must be lured by the carrot of stock options and beaten with the stick of corporate governance, that attitude will
become self-fulfilling.” Kanter pointed out that the messages criticized by Ghoshal proved particularly appealing to managers and students of management in the 1980s when U.S. President Reagan and United Kingdom Prime Minister Thatcher were promoting free enterprise economic values and the Soviet Union’s centrally planned economic system was showing the strains of competing with the Western economies.

Whatever the precise causal forces, it is clear that the research topics focused on by management scholars teaching MBAs changed from the 1960s through the 1990s. In a 2003 review, Walsh and his colleagues examined forty years of research published by Academy of Management journals and concluded that “interest in human welfare” as an outcome of firm performance peaked in the late 1970s. They noted that “in 1978, 32% of all articles on firm performance examined some form of human welfare as an outcome, whereas in 1999, only 19% did.”

Following Walsh et al.’s observation of the changing focus of academic research, I sought to determine if a related shift was visible in the attention given to leadership styles and management values. I scanned the titles and abstracts of articles across all issues in alternate years (e.g., 1963, 1965, 1967, and 1969) from the 1960s through the 1990s in four journals: Academy of Management Journal, Administrative Science Quarterly, Harvard Business Review, and California Management Review. The general pattern across the journals showed the number of articles focused on leadership values and styles beginning to increase in the late 1960s and jumping dramatically in the 1970s before falling off again in the 1980s and 1990s. A recent, more sophisticated study of journal topics from the mid-1980s to the present shows growing attention being given to the topics of teams, alliances, and knowledge, but a decline in focus on leadership styles and values.10 Thus, attention to leadership has given way to a growing concern about the relationships among technology, strategy, and industry and organization structure.11

Whether or not academic research and teaching had any impact, it is clear that firm practices, particularly in the U.S., also changed in the 1980s and 1990s. The dramatic increase in managerial salaries in the U.S. (spurred in part by the inclusion of options recommended by agency advocates), the massive layoffs and closures in manufacturing industries, and the dramatic decline in union strength (as the result of a combination of company actions and government policies) clearly changed the face of the U.S. economy. Within the space of a decade or so, an economy that had been lauded as a leader in recognizing and utilizing human capabilities at all levels began to receive attention primarily for the relative declines occurring in pay, benefits, and working conditions among lower-level managers and employees. The question is whether or to what extent the changes that have occurred in business policies, values and practices, and the ideologies underlying them have adversely affected the success of U.S. industries dependent on high rates of innovation driven by knowledge creation and sharing.
Values and Practices Essential to Knowledge Creation and Sharing

Before exploring these concerns and possible corrective actions, it is useful to have in mind the conditions that are commonly regarded as essential to knowledge creation, knowledge sharing, and innovation. These conditions were clearly visible in one of my research visits to a Hewlett-Packard (HP) division in Palo Alto in the early 1960s. I was visiting an engineer who was a team leader focused on the design and production of a new version of an early HP product. As I came up to his desk on the production floor, he was talking on the phone with a customer—an engineer at another firm that had purchased an earlier version of the piece of equipment the HP engineer was working on. “You did what?” he said. “Well that’s clever, how did it work?” There followed a rapid-fire technical discussion, at the end of which the HP engineer said, “that’s exactly what we were looking for. I’m going to try it on the new model and I’ll make sure you get credit in the manual.” He took several minutes to add to the notes he had been taking and then turned to me and said, “That guy is good, but so are most of our customers.”

Knowledge was shared and new knowledge-driven innovation launched in this situation because the parties trusted and respected one another. Moreover, the HP engineer’s promise of recognition was believed (and, I suspect, followed up on) and perhaps was valuable to the customer/engineer in terms of subsequent promotions or moves to other firms.

Trust and the commitment to equitable treatment were essential elements in that exchange at HP, as indeed they are in all situations of knowledge-driven innovation. Much if not most of the knowledge inside organizations is tacit—know-how and understanding in the minds of organizational members accumulated through observation and actions. This knowledge is not recorded and is not shared except in an atmosphere of trust, which is built on respect and the expectation of equitable treatment.

Within trusting relationships, individuals freely collaborate in the process of innovation, sharing tacit knowledge and creating new knowledge out of combinations and new interpretations of the pieces of knowledge each possesses. In every industry, most innovations are powered by collaborative knowledge-sharing relationships. It follows that organizations and managers that are capable of creating conditions that build and sustain trust, including a commitment to equitable allocation of the returns on innovations, are more likely to be successful. Perhaps it is not surprising that a recent study in Finland (one of the countries challenging the U.S. for leadership in technical innovation) indicated that trust-supported collaborative relationships between firms were quickly formed and sustained, even in those situations where one firm was much larger than the other. For example, Nokia has over 300 small Finnish suppliers that have thrived in situations where they could have been exploited. However, while trust-based managerial values and firm practices may be increasing in parts of Northern Europe and Asia, there is a growing concern in the U.S. and Great Britain...
that the highly collaborative practices that I observed at HP and other firms in the 1960s and 1970s may be decreasing rather than increasing. Similarly, the organizational commitment to creating and sustaining such collaboration may also be in decline.

Managerial Values and Firm Practices Essential to Support Innovation

Clearly, I am not suggesting that U.S. firms and their managers are unaware of the crucial connection between knowledge and innovation. The focus of my concerns is that the crucial connection between managerial values and the process of knowledge creation and sharing is no longer a top priority for either the business or academic communities. An article in the recent special Business Life issue of *Fortune* titled “Texas Instrument’s Lunatic Fringe” (with a heading of “Engineers Gone Wild”) illustrates this disconnect and highlights its importance. Texas Instruments (TI) had been recognized as a leader in progressive management practices in the 1960s and early 1970s, and the article suggests that this “tech industry pioneer has staged a surprising comeback by nurturing a culture of ideas . . . a revolution [that] started with a small group of crazies.”15

In terms of understanding management values, the article was interesting on several counts. First, the “lunatic fringe” was described as a collection of engineers and scientists who had been given the freedom and the charge to pursue new ideas from any and all sources, ideas expected to drive the development of new technologies and new products. The group’s name reflects the recognition among those TI members that they were not operating under the same demands (or with the same managerial styles) that guided those units involved in the production and sales of existing products. Instead, they were free to interact across group lines and across company boundaries, discussing product concepts with current and potential customers and suppliers, sharing ideas and thoughts in a manner that most of the units in the firm would view as “wild” or “lunatic.” The article claims that the unit had successes that were driving new products and had many fans and potential converts in other TI departments.

Second, while as the article suggests, the “fringe” group’s structure and process was effective and the results were impressive, what the article says—or rather doesn’t say—about leadership values and styles is even more interesting. Clearly the most interesting, unstated point is that the special unit featured in the article was behaving very much in line with the managerial values that led to the firm’s founding and drove its early success. Similarly, the fact that the idea-generating units were called “the lunatic fringe” emphasized the shifts that had occurred in managerial values and prescriptions both inside firms and by those who study and write about them. That is, if the piece had been written in the 1960s or early 1970s, the “fringe” group’s self-directed behaviors within and across units and the boundaries of the firm would have been applauded as models for managers and team members across all units in TI. Finally, the fact that the article appeared in *Fortune*, rather than in an academic journal is
noteworthy, as is the fact that the author and researcher was a senior editor of the magazine and not a professor doing organizational research. If innovation is a fringe activity and the conditions essential to it are viewed as largely separable from everyday managerial values and practices, it is easy enough to understand the concerns expressed by Ghoshal and other critics of current trends in academic theory, research, curriculum content, and the way managers manage.

Indeed, I suspect that similar “fringe” tales might be told about other successful firms during the 1960s and 1970s. IBM, for example, went through a period of centralized control that appeared to threaten its creativity. More recently, however, IBM appears to have found a new direction that shares some of the values and behaviors labeled as lunatic at TI, particularly across units in overseas subsidiaries with similar innovation-generating success. Moreover, in collaboration with Intel, IBM has recently begun creating a “community” of suppliers and distributors around their version of the new “blade” processor technology. A key element in the community is the free sharing of the technical information underlying the design features of the IBM/Intel processor. The community of firms that is evolving has some of the same properties evident in the Nokia community, so perhaps the “fringe” may once again be on its way to becoming central to some U.S. firms.16

The challenge, of course, is how to get the innovation-supporting leadership values and organizational practices into the mainstream of management and firm behavior. As the above examples attest, it is not that we lack understanding of the conditions essential to the design and support of innovation communities; rather, it is simply that the messages contained in the critiques offered by academics seem not to have been persuasive. Nevertheless, the economic importance of this issue demands the continuation of efforts to put the message in a format clearly focused on the core issue—managerial values and behaviors—perhaps borrowing more directly on the scholarly experiences in the 1960s.

Management Theory for Innovation

The scholars who influenced managerial beliefs and actions in the 1950s, 1960s, and 1970s did so by prescribing values and behaviors that they had found in use by successful managers in productive firms. In the 1950s, Peter Drucker described the successes achieved by companies such as Sears and General Motors as flowing from managerial skills in designing decentralized structures and leading through effective delegation and the creation of jointly agreed on goals and objectives (MBO).17 In the 1960s, Douglas McGregor drew on studies in the military and in industry to portray contrasting autocratic and participative managerial beliefs and actions in his widely influential description of Theory X and Theory Y.18 Rensis Likert did the same in his description of management systems I, II, III, and IV.19 Both argued that effective managers improved subordinate motivation and unit performance by adopting the supportive, participative approaches advocated in Theory Y and System IV. In the same period, my
colleagues and I sought to clarify and strengthen McGregor and Likert’s messages by describing the important value and behavioral differences between the Human Relations (pseudo participative practices aimed primarily at morale improvement) and Human Resources (fully utilizing the untapped potential of organizational members) theories of management. Later, we described the Human Investment management philosophy, which urged managers to think of organization members as assets and not just as expendable resources, building on an idea first suggested by Likert in the 1960s.

While the work of those focusing on leadership values and styles from the late 1950s through the early 1970s was probably less sophisticated than similar work today, it did attract broad attention both in academia and in U.S. organizations. In fact, by the late 1960s and into the 1970s, a large number of U.S. firms were actively involved in managerial approaches utilizing the management theories described here, including their prescriptions for: the redesign of jobs to make greater use of worker judgment and skills; the development of work team skills in setting and performing to their own production and quality goals; and organization development programs focused on the improvement of communication and collaboration across units at all levels. Indeed, it was this period and the achievements of these programs that accelerated envy and imitation of U.S. values and practices among competitors in Europe and Asia.

Thus, it would appear that the challenge today is to make management theories essential to knowledge sharing and innovation as influential as were the management theories of the 1960s to leadership styles. However, as indicated by the Fortune article, while the management values and approaches essential to support new innovation-focused strategies and structures are generally understood, they are not viewed as mainstream. They certainly have not been as specifically prescribed as essential elements of effective innovation-driving leadership, as was the case with scholars in the 1950s and 1960s who directly linked participative leadership values and behaviors to subordinate performance and firm success. The scholars of that period clearly acknowledged sociologist Reinhard Bendix’s research demonstrating that all organizational and managerial prescriptions rested on ideological foundations—sets of assumptions and beliefs used to justify them.

Returning to the style of the 1960s and updating McGregor’s symbolism, one could label the leadership values and behaviors essential to today’s organizations as “Theory I” (for Innovation) or, alternatively, the “Collaborative Community model.” Whatever the label, the key is that these alternative value and behavior prescriptions need to make explicit the ideological foundations on which they are built. They need to clearly state the assumptions they contain regarding the capabilities and character of organization members, the prescribed leadership approaches based on these assumptions, and the expectations regarding performance and attitude outcomes.

The Theory I or Collaborative Community model, as described here, assumes that valuable knowledge is widely distributed within and across organizational units and potentially across firms operating in complementary markets.
It also assumes that knowledge will be shared in settings where trustworthiness is clearly signaled and sensitively maintained. It recognizes that most people do expect to ultimately benefit as the result of economic gains achieved by knowledge sharing and are satisfied as long as they believe an equitable distribution of rewards will be forthcoming.

Leaders, according to Theory I, maintain a trust climate that generates high rates of innovation by regularly recognizing and acknowledging contributions and encouraging efforts to find new knowledge sources both within and across unit and organizational lines. Indeed, the same prescriptions that created TI’s “lunatic fringe” might well be offered in most settings. Psychologists, as regularly acknowledged in the 1960s and 1970s, describe individuals in this situation as intrinsically motivated.25

Are the assumptions, prescriptions, and expectations of Theory I reasonable? The best way to answer that is for management scholars to do the same sort of research in the Googles of today that many of us did in the HPs of yesterday. My guess is that researchers today would find, as did those in the 1960s, that the leaders of highly successful organizations will have beliefs and behaviors much like those described in Theory I. Then, and now I suspect, leadership values in new industries often flowed into firms from the laboratories in which they were born, and most managers simply sought to recreate the high-innovation conditions they had previously enjoyed. What the scholars of that day did was simply to try to codify the values and practices they observed within successful firms, but not just in the “fringe.”

Of course, the barriers to the creation of positive leadership values and behaviors are probably greater today than they were in the 1950s and 1960s. The managerial values prescriptions of this time were heavily influenced by the values-based social policies advanced to help alleviate distress during the great depression and by the ideology of teamwork fostered to support the economic and military challenges of WWII.26 The values that supported helping one’s neighbors in the 1930s also supported both economic and military opportunities for women and minorities during WWII. After the war, they also supported education for veterans through the GI Bill, and those veterans brought to their jobs beliefs and behaviors that were forged to facilitate the military’s rapid growth and deployment in a two-hemisphere conflict in which young leaders could only succeed by building effective teams and tapping the initiative and creativity of their members. At that time there appeared to be little question that the ownership of economic success was widely shared among owners, managers, employees, customers, suppliers, and community members—a view often referred to as Stakeholder Theory.27

Today, agency theory and its focus on stockholder primacy has dismissed the concept of multiple stakeholders, and though some related concepts have been prescribed under titles such as the “Stewardship Theory” and “Balanced Scorecard,”28 there has been no widespread challenge to the doctrine that corporate purpose and policy should be directed solely to the benefit of shareholders. Moreover, the emphasis on short-run financial returns is precisely counter to
the investments most firms need to make in both human capital and research and development capital to support innovation. In sum, a widespread movement in the short run toward managerial values and behaviors highly supportive of knowledge sharing and nearly continuous innovation would seem to be at odds with the broader value climate of the United States.

Nevertheless, as the TI example illustrates, many of the positive values and practices prescribed in the earlier period still attract interest—and, more importantly, still appear to be effective. Perhaps we are entering a period when at least a few scholars and managers will take on the challenge of demonstrating that units and behaviors like those at TI are not viewed as “lunatic” and are not restricted to defined segments of truly innovative organizations. Perhaps trust-affirming leadership values and behaviors might be explored as part of what is probably at the moment an academic “fringe” group that has existed for fifteen or so years calling for a focus on “positive psychology” and “positive organizational studies.”

Just such a group of scholars and managers exploded into a broad movement in the late 1950s and early 1960s, and the level of concern today suggests the possibility that a similar movement might emerge. It would be a pleasant task to prepare an article for the 70th anniversary issue of *California Management Review*, noting that the first decade of the new millennium saw a dramatic shift in U.S. management values and firm practices—a shift that assured the maintenance of a prominent innovation-based role for the U.S. in the highly creative new global economy.

**Notes**


16. The IBM-Intel community is described in <www.blade.org>.


