



Make it real!

TURN YOUR COMPANY OUTSIDE-IN!

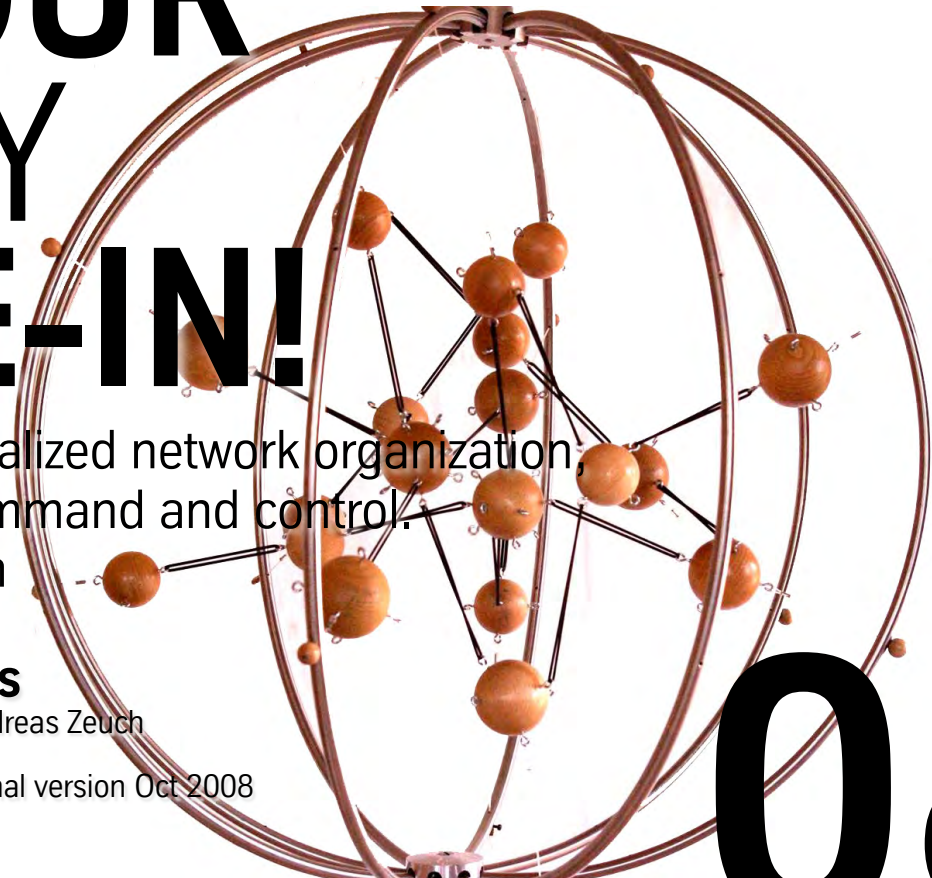
Part 1. How to build the decentralized network organization putting an end to centralized command and control.

A paper on Cell Structure Design

BetaCodex Network Associates

Niels Pflaeging, Valérya Carvalho, Gebhard Borck, Andreas Zeuch

BetaCodex Network white paper no. 8.Jul 2012, original version Oct 2008



08

What you will find in this paper

Organization Design is a lost art. A troubled and somewhat abandoned grey space within the field of organizational theory. Nonsensical theory and advice abound in the sphere of Organization Design. And that is for a reason.

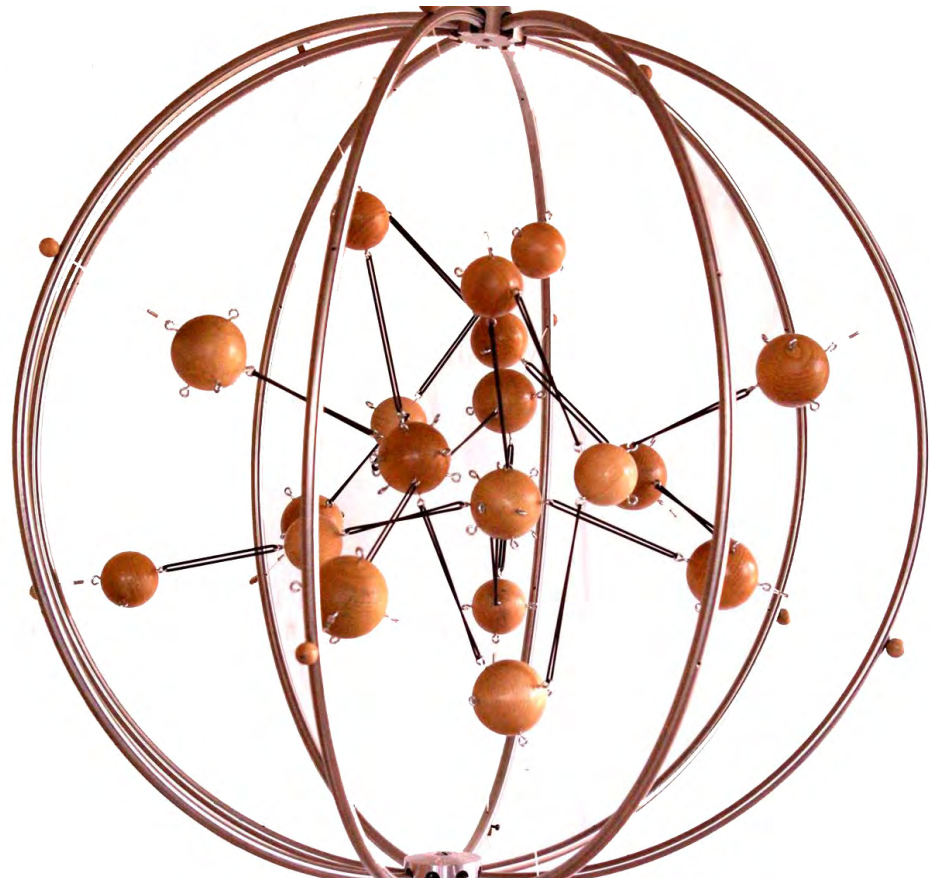
In this paper, we outline the rationale for a different, non-tayloristic, way to structuring organizations – leading to the question of how to build organizations capable of
(1) accommodating human beings, and
(2) competing in today's dynamic and non-linear market-places.

This is the first part of a 2-paper series. In this part, we...

- describe why previous ideas such as systems theory failed in creating significant momentum for change in organizational practice, and outlined the design principles that decentralized, networked cell structure organizations must adhere to.
- detail the ingredients of such structures, which include
(1) a sphere of activity, (2) network cells, (3) strings and (4) market pull.
- Finally, we describe some of the consequences of applying such a design, highlighting key advantages as well.

In the 2nd part of this paper, we describe two cases from our consulting practice, in which tayloristic command and control organizations were redesigned as decentralized networks.

**Part 1:
The trouble with
organization design**



Think about organizational design



You are now probably conjuring up images of managers
or management consultants shuffling boxes on an organization chart.

Right?

Organizational design: the lost art

Well, that kind of "corporate restructuring exercise" hardly deserves to be called organizational design. **The topic of effective organizational design transcends disciplinary lines.** That's why it is not effectively taught at business schools, that's why there is little decent research in the topic, that's why usually nobody in an organization, except "top management", dares to touch it. To design an organization effectively, you need to understand business models, organizational behavior, information technology, accounting, and leadership.

In recent years, writers and thought leaders have coined a dizzying array of buzzwords to help managers think organizations afresh. There is talk of networked organizations, boundary-less organizations, virtual organizations, learning organizations, federalist organizations, wiki organizations, starfish organizations, and the like, to name only a few.

But if you actually read and study these works, you will share our frustration. With few exceptions, most writing on this topic is either utopian, or limited to certain types of organization, or is shallow in a sense that it offers advice that has no theoretical underpinning. The utopians rail at the stifling nature of hierarchy and extol the virtues of "organizations without structure": self-organizing work, networks, and employee empowerment will, they argue, miraculously drive out command-and-control empires. The other set of books and articles offers design choices supported by detailed lists of pros and cons. Yet these analyses quickly prove to be unsatisfying. Lists of tradeoffs and considerations fail to provide a clear sense of direction. When you finish a chapter, it is never clear what exactly organizations should do – choices abound, but no rationale for decision and no convincing theoretical underpinning is given.

The BetaCodex, in contrast, presents an integrated theory that gives clear direction about how to design organizations and how to make it fit with management processes, and leadership. To outline how the new breed of organizational design works, this paper offers a tour de force through different disciplines, and through many of the conceptual frameworks that the BetaCodex is based upon.

First, some considerations about organizational design

Organizational design is a means to an end. Not more, not less.

And that end is to create and maintain an organization capable of achieving sustainable competitive success in a dynamic and complex world.*

In this context, it is important to remember:

- There is more to organizations than design – so to bring the design to life, you need to create a coherent whole including values, language, communication, leadership style, processes, etc.
- There is no single right design for your organization – but your design process should be based on robust design principles
- Organizational design is an evolving, iterative process – which only feels messy and complicated if the principles that are applied are messy, and if important assumptions are not made explicit.
- The design you will come up with at first will not last forever, or even for long – because you will learn more and more about different design options and learning loops will inevitably occur.

* This claim is closely related to the BetaCodex Network's mission.

The notion of dividing an organization into functions, and then departments, is fundamentally flawed.



But what is the alternative?

Why should we look for an alternative way of building and governing organizations?

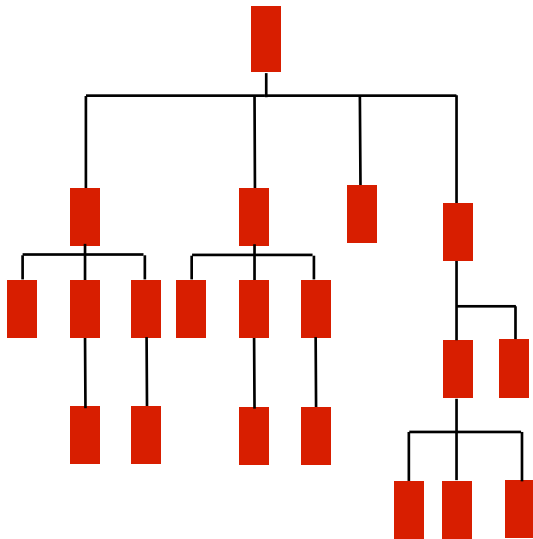
By dividing a firm into functions, and then departments, you actually impede work flow, build organizational territories, and drive out initiative and entrepreneurial thinking. But companies have done exactly that for ages.

Organizations today are crippled by tayloristic thinking and division between functions. Taylor's idea of separating thinking from execution – like the assumption that responsibility for control and coordination should be located one level above from where the work is actually performed – have created immense misalignment with today's critical success factors. These problems have been laid out in detail by the BetaCodex movement since its foundation (then coined “Beyond Budgeting”) in 1998, and also by a fair amount of management thinkers and scientists. As soon as 1960, **Douglas McGregor** wrote, in his groundbreaking book “The Human Side of the Enterprise”, that “it is probable that one day we shall begin to draw organization charts as a series of linked groups rather than as a hierarchical structure of individual reporting relationships” For further reference on the problems with tayloristic management, see the BetaCodex Network's website.

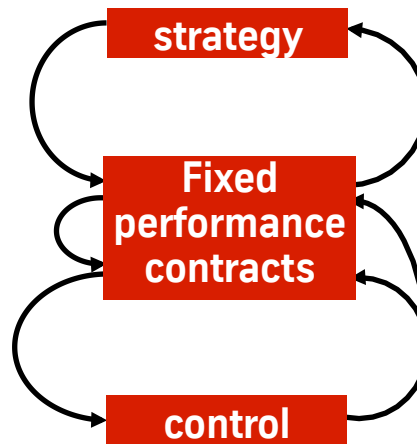
The alternative to taylorism, however, has not been that clear, until recently. And knowledge about how to transform tayloristic organizations into post-tayloristic organizations, which are capable of reintegrating thinking with decision-making and execution, has been patchy at best. So if we want to depart from the current standard of corporate modern-world “slavery“, based on now obsolete thinking, we need two things. First, we need new mental models to build and govern 21st century organizations. And we also need new, systemic models for change, in order to enable wide-spread transformation of organizations. The problem, overall, is not that people were not fit for accelerated dynamic and more fierce competition. We clearly hold a different view: that, instead, organizations as they are designed today, are not fit for the capabilities of the human beings that work inside them. The tayloristic “machine organization” is doomed, in an age of dynamics and competition. **The tayloristic model now has become an immoral choice as a blueprint for organizational design.** Why? Because, quite simply, it stands in the way of their people to fulfill their potential, and furthermore because quite recently, the vision and practical road-map to an alternative model has emerged. We call this alternative the “BetaCodex”.

Outlining the 'industrial age' model and its pitfalls

“command and control“

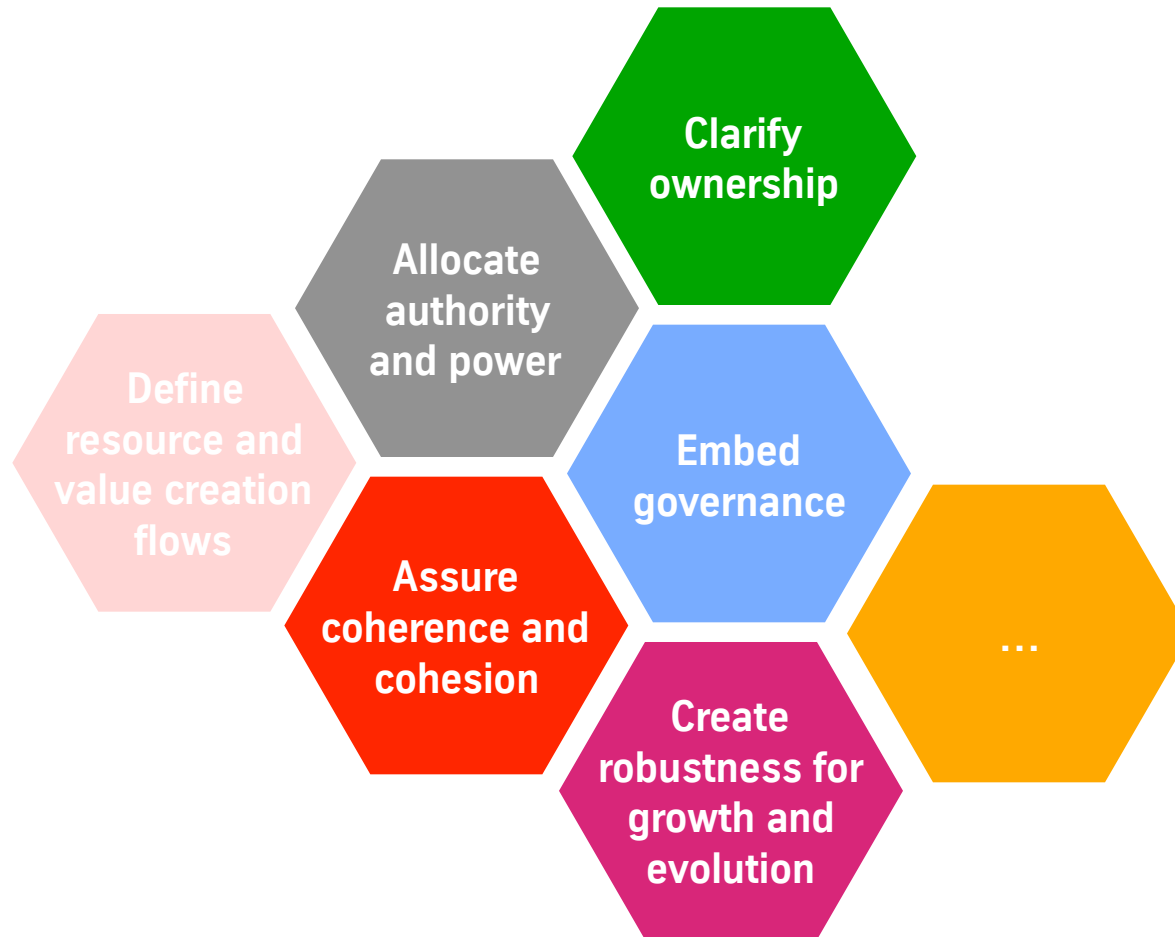


“keep on track”



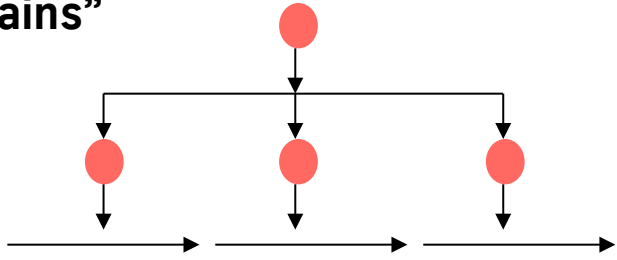
- Too centralized
- Too inward-looking
- Too little customer-oriented
- Too bureaucratic
- Too much focused on control
- Too functionally divided
- Too slow and time-consuming
- Too de-motivating
- ...

Recurring themes in organizational design that any robust design model must address



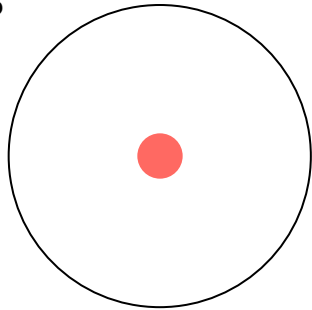
Common alternative ways to visualize organizations – according to Henry Mintzberg

Organizations as “pyramids and chains”



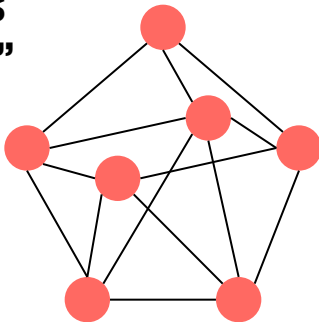
- Process chain strengthens the vertical chain (hierarchy)
- Sustains centralization and heroic management: “The top manager as an important person, removed from operations, taking decisions based on analyses and calculation”
- Imagine a hospital, a laboratory or a project– they simply don't work this way!

Organizations as “hubs”



- The points of focus are hubs: it's *them* who attract, emit and move people, things and information
- Less focused on sequential activities
- Example: Hospital - the patient as focal point

Organizations as “networks”



- Some organizations naturally don't have a centre (e.g. labs, or project teams...)
- They are networks with free interaction, embedded in collaborative relationships that work in any direction
- It's not a model “without structure” – it just follows another logic. One that is not focused on activities or managers.

How to overcome the burdens of taylorism

Highly devolved organizations, as opposed to command and control organizations, are not structured hierarchically. In fact, since hierarchies don't accept any other rulers but "top management", or "bosses", radical empowerment based upon the decentralization of decision-making is not compatible with structures based on power relationships and hierarchy. Although it is well-known that many organizations are factually ruled not by formal, but by informal networks, the common way to make teams act responsibly is still to give some of the organization's members a "commanding", or "managing" position.

BetaCodex organizations, on the other hand, want to achieve something entirely different: They want everybody in a company to think, to be and act responsible, in order to increase the value and wealth creation. Therefore, a BetaCodex organization does not "believe" in hierarchy. It believes in empowerment and in the capabilities of its people. And the best-known and successfully practiced route to empowerment is to turn the organization into a **network of interrelated cells**.

A cell structure (as opposed to a design based on "departments" and "functions") is capable of interacting situationally, in more diverse ways than functionally divided hierarchies. Even more so, it doesn't need commands to be controlled – it can be controlled and governed just through "market pull". Other control mechanisms that make sense within a decentralized cell structure are self-control, "peer pressure", cultural control inspired by strong shared values and culture, as well as a far higher level of internal and external transparency than is common in the tayloristic management model. Overall, by creating a network of these cells, and by making use of people's full potential, business is being turned as simple and as straight-forward as executives always dreamt it would be.

So what organizations have actually accomplished this, in practice?

Eric Schmidt, CEO of **Google**, once humorously and with a nod to coined it “the borg”, referring to the extraterrestrial race on Star Trek. Dennis Bakke and Roger Sant, of US-based energy firm **AES**, dubbed it “the honeycomb”. Ricardo Semler of **Semco** from Brazil calls it the “circular organization”. Terri Kelly, CEO at **W. L. Gore**, talks about the “lattice organization”, a concept the company has applied since the 1960s. In the past, others have called it “the onion”.

Ultimately, they are all talking about the same: A new way of thinking about organizations without a common hierarchy. As one can see, we are still far cry from reaching a consensus on wording with regards to the “alternative” organizational model that will succeed Tayloristic command and control pyramids. Schmidt, Bakke, Semler, Kelly and others are all describing the notion of an organizational structure that is neither based on power relationships, nor on hierarchy or functional division. These organizations have built devolved “sense and respond” networks.

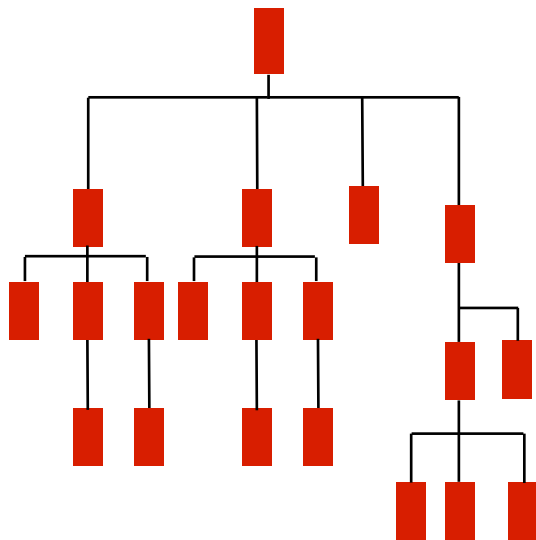
An example: Semco's Survival Manual, the company's only written set of principles, claims that: **“Semco does not use a formal organizational chart.** Only the respect of the led turns someone into a leader. When it is absolutely necessary to sketch the structure of some part of the company, we always do it in pencil, and dispense with it as soon as possible.”

Much like Semco, several other BetaCodex pioneers, such as Guardian Industries and Handelsbanken, do not have an org chart at all, and they get along with three layers of hierarchy only. **That said, the pioneers still have some hierarchy,** though usually not more than three layers, regardless of their size. In their organizational design, thus, “hierarchy doesn't matter“. It is perceived as a rather trivial fact, and one that is not really relevant for day-to-day work.

The challenge: From hierarchy to network structure. But we need methodologies for redesign and for creating the change!

Traditional model

(centralized functional hierarchy)

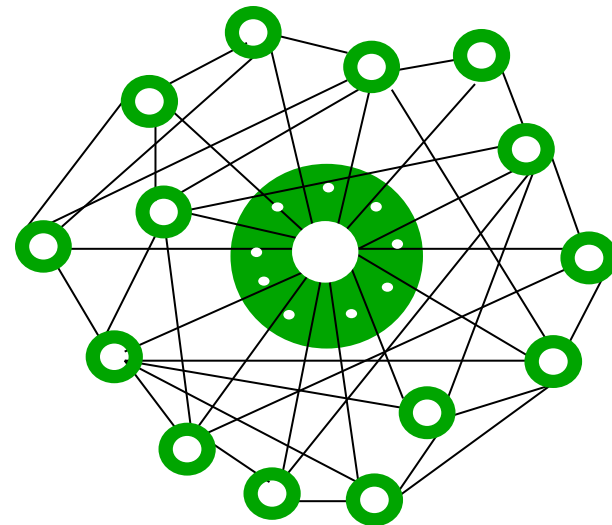


Changing
leadership and
structure

- “Bosses” rule!
- Top-down command and control
- Top management is always in charge
- Centralized leadership

New model

(decentralized leadership network)



- “The market” rules!
- Outside-in sense and respond
- Front-line teams are always in charge
- Devolved leadership

What is new about this?

Although previous concepts have failed to fully explain cell structure as a business organization structure, there is still a lot we can learn from other thinkers on the subject.

One of the most significant contributions to the field of organizational design probably comes from systems theory. Stafford Beer, the father of British systems thinking, who died in 2002, laid the foundations of the Viable Systems Theory – a theoretical concept that lacks practicality, but that has inspired many within the field of organizational development anyway. Dirk Baecker, a follower of German systems theorist Niklas Luhmann, convincingly points to the systemic incoherence between general knowledge of systems and what happens in business organizations. But even though systems theory explains lots of the phenomena that occur, within firms, the advice of Baecker and others has been insufficient for practitioners with a desire to truly transform their organizations.

Other theorists have explained important elements of an alternative model, but invariably failed to describe a coherent theory that would work for any company, or the consequences that come with implementing it: Most scientists, for example, have ignored the impact of steering processes, such as performance targets, planning, and compensation, on organizations. Even worse: Most leading thinkers partially remained within the boundaries of the old, Tayloristic mindset with regards how business organizations have to work and be led.

Charles Handy wrote about what he calls the Cloverleaf Organization, based on his observations about the individual and his responsibility in society, and the effects of that will be seen in business organizations one day. Henry Mintzberg made promising attempts at deriving conclusions from different “typologies” of organizations. Jay Galbraith developed what he called the “star model” of the organization, and recently, experts like Thomas W. Malone have been talking of organizations as “democracies”, “free markets”, or “loose hierarchies”, in which “no direction takes place and decisions are met at the front lines”. But one might ask, if “front line”, “democracy”, or “loose hierarchy” aren't rather feeble concepts to be applied in real life. Again, this advice has not been too actionable, overall.

Why have so few organizations adopted a networked design?

Not surprisingly, maybe, some of the best-understood **network organizations of the past** have come from the realms of the non-profit sector. As success and impact there depends, primarily, on volunteers that resist to “being managed”, convincing alternatives to “management” have always been a standard there. Many experts have described key characteristics of organizations like the WWF or the international boy scout movement, as proof that cell structure organizations can actually work.

But is the same possible in the profit sector? Attempts on decentralized organizational models made by previously traditionally organized firms often could not meet the expectations. A high-profile case from the 90s was ABB - but their much lauded “matrix” organization soon went into decline. And for good reasons. Other transformed organizations have fared much better, as they chose more coherent ways of working, ways that were firmly rooted in more radically different mental models. Surprisingly, though, some firms with notable competitive success that abandoned tayloristic management long ago have never been recognized as network structures. A few of these firms have succeeded in building and sustaining a “decentralized network” structure over the course of many decades, as is the case of W.L.Gore, Toyota and Handelsbanken. But although the evidence is there, running a profitable cell network actually is seen as an exotic achievement of some exceptional leaders like Gore.

Neither organizational theory, nor management science have been able to fully describe the principles of such structures, or have formulated a decent road map towards creating this kind of innovative design. **This is about to change now.** We will argue that, based on the 12 principles, or laws, of the BetaCodex, it is possible to build a high performance cell network for any company of any size.

Organizational evolution: Typical phases within the lifespan of an organization, according to systems thinking

Cybernetics rightly states that organizations have much in common with living organisms. In the same way in which organisms evolve through different stages throughout their lives, so do organizations typically change over the course of their existence. Systems theory has added to this a concept which relates intimately to what we call transformation.

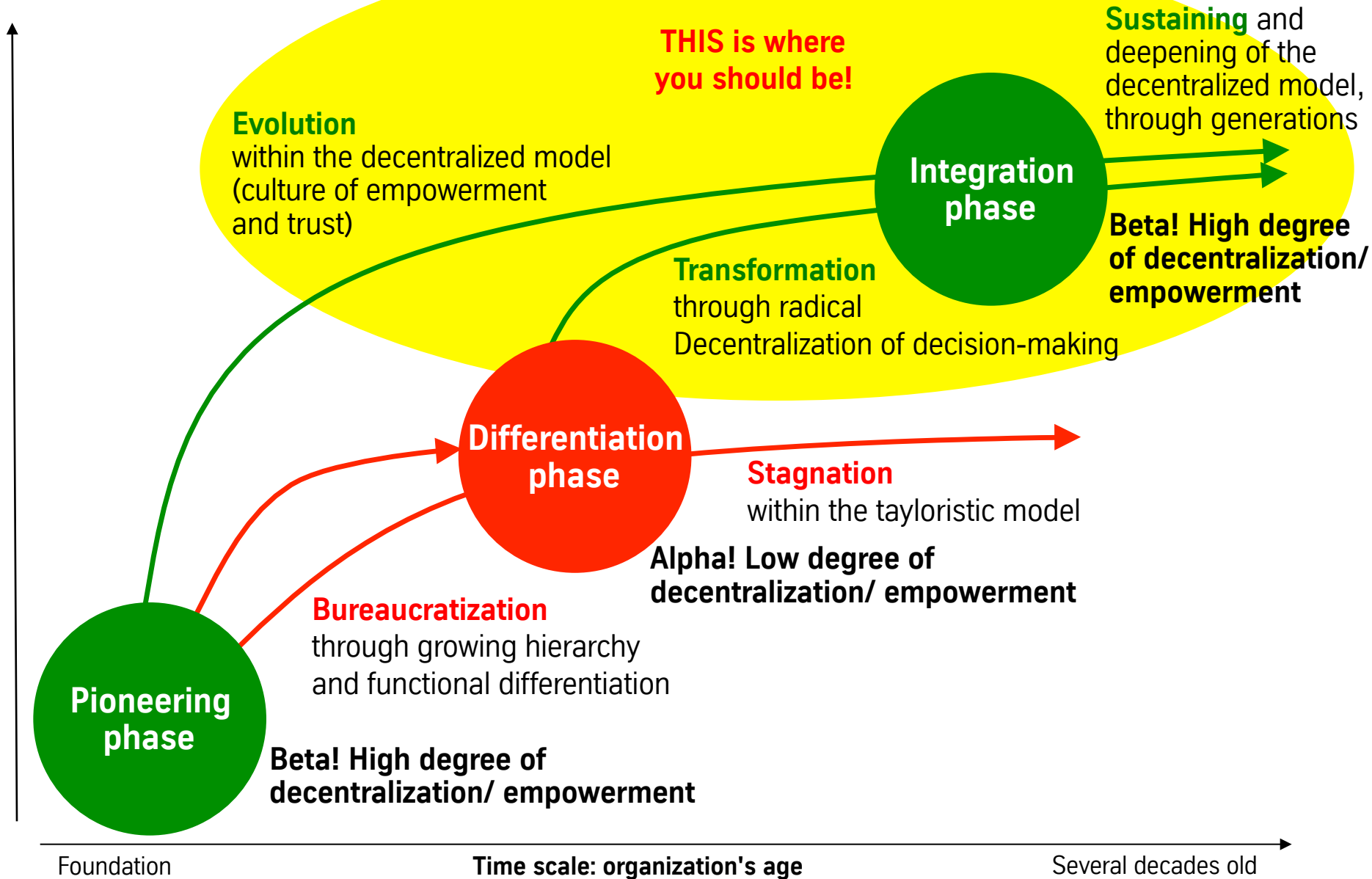
Organizations, in this view, typically begin their lives consisting of very few people, and in a “Pioneering Phase”, which is characterized by a high level of entrepreneurship, informality, autonomous and improvised decision making. There is little “structure” here. A pioneer organization may feel chaotic- but a certain amount of chaos seems normal to every start-up, doesn't it?

However, as an organization becomes successful and grows, sometimes very quickly, new forces start to apply: There is a pressure to “professionalize”, to create a more formal structure, to hire specialists, to implement systems, to standardize processes and to do lots of “planning”. In this “Differentiation Phase”, hierarchy, functional division and departmentalization increase strongly, decision-making becomes more centralized, and rules and processes start to substitute improvisation and freedom to act. Though perceived as a blessing by many, differentiation is also always accompanied by the death of the organization's more entrepreneurial founding, or pioneering culture. The place becomes “less fun”, in order to become more orderly. Many of us have seen this happening to organizations, and we have often observed the loss of entrepreneurship that comes with differentiation.

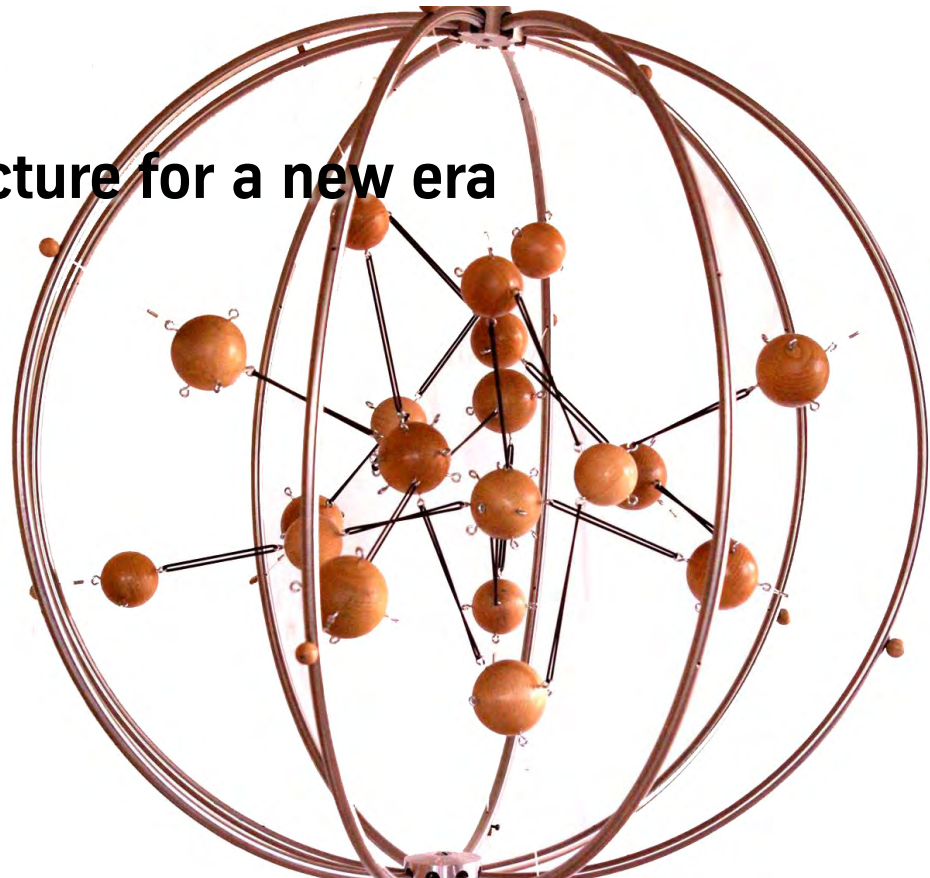
Most organizations remain forever in the tayloristic paradigm. Few have so far escaped the differentiation trap, actively moving towards what we may call the “Integration phase”. Integration means applying a thinking that turns “large” organizations into small, functionally integrated mini-firms, which can act with great independency and decision-making power. A visualization of the “phase concept” is shown on the following page.

As noted, few organizations firms have actually made this transformation. Within the BetaCodex research since 1998, however, we have identified a couple of notable and diverse exceptions, such as dm-drogerie markt (Germany), Semco (Brazil), Toyota (Japan), and Handelsbanken (Sweden).

Organizational evolution: Typical phases within the lifespan of an organization, according to systems thinking



**Part 2:
Principled design & structure for a new era**



What makes the difference?

Instead of centralized functions and departments, BetaCodex organizations have a **lean and organic network of independent teams**, or cells, which each work as fully accountable business units, or profit centers. To create a network of cells, however, you will have to fundamentally change the way you have thought about organizational structure.

- **You will apply “functional integration”** – as opposed to functional division, practiced by Tayloristic organizations. This sounds easier as it is: Because our brains are astonishingly hard-wired into the notion of functional division. You may notice that further on.
- **You will create a structure in which there is control in the forms of transparency, “market pull”, self-control, and peer pressure** – as opposed to control through hierarchy and management staff. Cells themselves are accountable for results – not managers managing the team externally, or managers within the cell. This requires, first and foremost, a massive change in thinking.
- **You will build individual cells that consist of permanent teams, of (temporary) project teams, or of ad-hoc and voluntary task forces.** Though not at all common in traditional, functionally divided command and control organizations, teams based on voluntary participation can be highly effective and enthusiastic, as several of our case studies show.

A networked cell structure has a lot in common with living organisms, as we saw before. **Cell division** is a common feature as well. It happens both in organisms and in networked organizations.

Organizations of the new kind share the belief that a single cell should never outgrow a psychologically sound size that can grant high-trust communication among team members. Consequently, in cell network firms, once a team expands too much, this team gets divided “as needed”. This kind of cell division can be found at places such as AES, Aldi, Handelsbanken, Dell and W.L. Gore. Maximum cell size defined by an individual firm may vary greatly from industry to industry, and it varies among the case examples. W.L.Gore's unit size, for instance, is limited to around 150 team members.

How is life within a “network cell” different from working in a command-and-control hierarchy?

Generally speaking, single cells within a devolved network do not entail highly specialized people, but mostly **generalists who share the workload flexibly among themselves**. Furthermore, traditional tayloristic job descriptions focusing on an individual are displaced by **role descriptions** for entire teams, which focus on the responsibilities that have to be assumed by individual cells. These roles are often juggled with among team members, which means that “role rotation” is very common here. In order to allow for this flexibility, generalist talents of people are more appreciated in networked organizations, as opposed detailed technical knowledge, which is typically (over)valued in tayloristic organizations: Here, organizations sadly classify their people by their work, or job descriptions - not by their talents or abilities. In order to make a devolved network become real, thinking about work and performance have to undergo a deep transformation. In a single cell, employees have to be entrepreneurial thinkers and doers, whereas **managers in these structures serve as advisors or keepers of shared values and principles**. Their role extends to not more than to steward the organization. In the words of some of the pioneers, this means being a “catalyst” (Ricardo Semler) or an “enabler” (Vineet Nayar). Managers in their traditional role as commander, inspector and executor are not needed in a networked structure, but there are roles traditionally filled out by managers which can be assumed by single persons or by different persons in the cell's team. The lead can be and is taken by everyone who takes the responsibility to act for the team. Besides the need for people to assume the role of “temporary leaders”, **there is a need for “new roles”**, which are not common in tayloristic organizations, but which are vital for decentralized networks to sustain coherence and learning. **The “master” role:** These initiate learning processes in the organization, in order to keep the cells prepared for current changes and keep them innovative. **The “symbolist” role:** Symbolists have the sense for symbolic gestures, signs and rituals in order to make, maintain and develop internal and external relationships as well as maintaining, keeping conscious and penetrating the organization repeatedly with the its principles, reason for being, values, identity and visions). **The “anthropologist” role:** Anthropologists provide the understanding of norms and cultural values, of desired attitudes, mindsets and convictions of partnership internal/external in the network.

Let's take a look at the design principles
for an alternative organizational structure.

If you are somewhat familiar with
the Beta Codex, then you already know these principles...

The 12 laws of the BetaCodex are a full set of “design principles“ for the new structure

Law	Beta	Alpha
§1 Freedom to act	Connectedness	not Dependency
§2 Responsibility	Cells	not Departments
§3 Governance	Leadership	not Management
§4 Performance climate	Result culture	not Duty fulfillment
§5 Success	Fit	not Maximization
§6 Transparency	Intelligence flow	not Power accumulation
§7 Orientation	Relative Targets	not Top-down prescription
§8 Recognition	Sharing	not Incentives
§9 Mental presence	Preparedness	not Planning
§10 Decision-making	Consequence	not Bureaucracy
§11 Resource usage	Purpose-driven	not Status-oriented
§12 Coordination	Market dynamics	not Commands

Comparing the models

surprise	repetition
principle	rule
flow	structure
Systemic thinking	Tayloristic (mechanistic) thinking
“Theory Y” human nature assumptions	“Theory X” human nature assumptions
Network cells as mini-enterprises	Functions, departments
Outside-in value creation relationships/” pull”	Hierarchical power relationships/” push”
The market as an external reference is in charge	“Management” as an internal function is in charge
Leaders lead by stewardship and servanthip	Functional division guides structure
Matching value creation and formal structure	“Bosses” govern by command and control
Leadership is devolved and temporary	Suppressing informal structure
...	Leadership is centralized and linked to title
...	...
alive	dead

The importance of design principles

In this paper, we are suggesting two main concepts:

1. The organization design model that is the **BetaCodex** with its 12 laws.
2. The transformation model that we call the **Double Helix Framework** - as the way to adopting the organization model, or to bring it into life.

It is not very common, actually, that a coherent and full organizational model (BetaCodex) and an implementation model (the Double Helix Framework) are brought together into a single approach, thus allowing not only to envision a new organizational form, but also to develop it.

Having the right design and transformation principles is key to transformation. The reason for this is that, ideally,

- Design principles should be so clear and simple that **anyone in an organization can understand and apply them at all times.**
- **The people in an organization themselves** are the ones best suited to develop the new organizational structure. Consultants should only provide moderation and guidance in the process of shaping out the structure.
- For an organization to **maintain an organizational structure that is not command and control**, the new principles (or the new mental model) have to stick with people.

The design principles of the new model

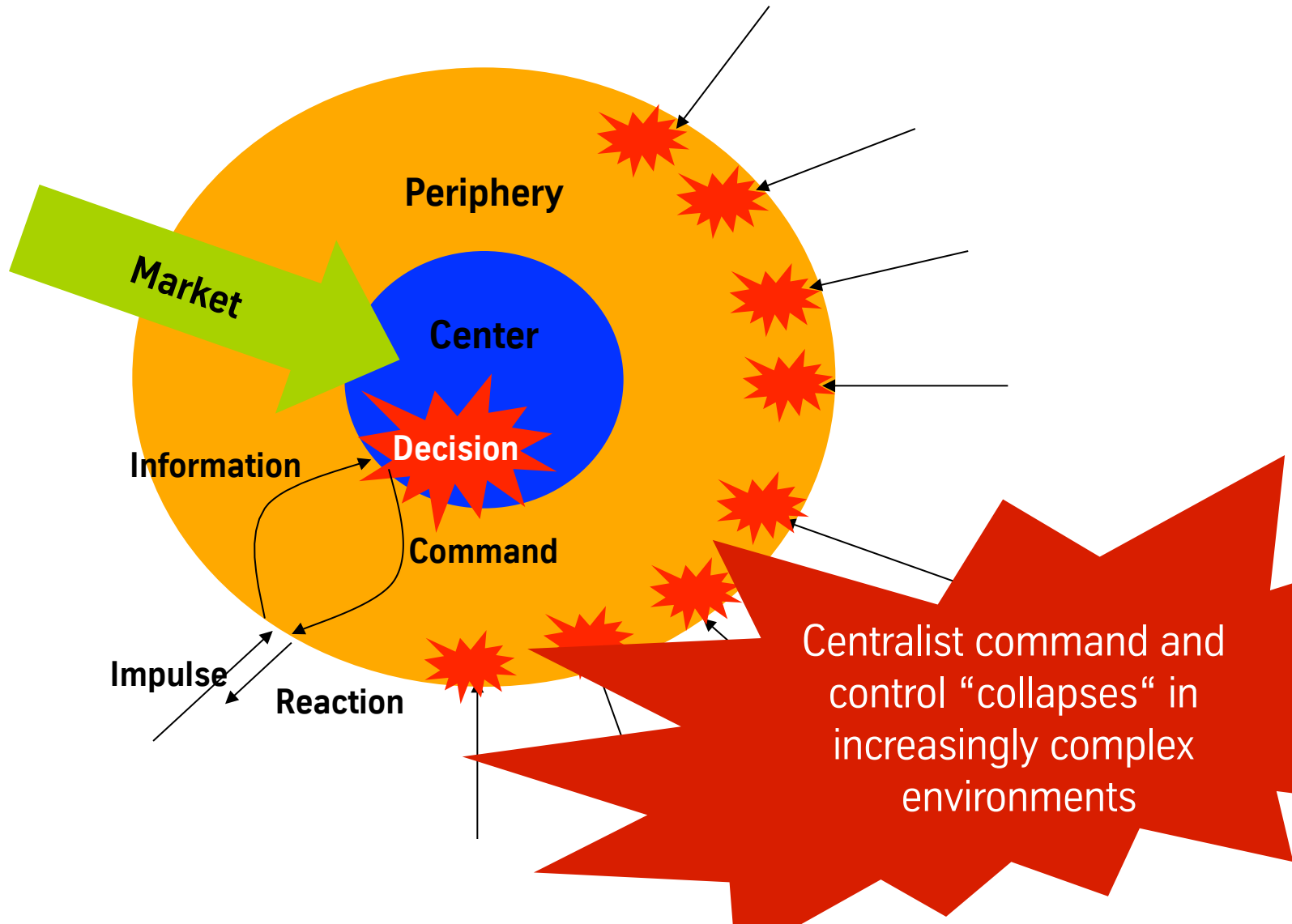
Conventional management practice has ignored the importance of **understanding principles** before leaping into action. Usually, organizations feel pressured into adopting a new method because “everyone else is doing it“. Six Sigma, Lean, the Balanced Scorecard, Business Reengineering, or CRM are such methods. Typically, neither managers nor the recipients of such schemes can articulate the design principles that are driving the method. And usually the majority of organizational members don't have a clear idea of why specific changes are being made and how such change will affect them.

This is different with the BetaCodex. The codex employs a set of 12 design principles for the new type of organization. The design principles are not rigid rules, but instructive **codes** that shape our thinking about how relationships between people, roles, tasks, and responsibility should be structured. They (and their tayloristic counterparts) reflect deep cultural assumptions having to do with the issues of power, authority, control and value creation in organizations. Design principles are equivalent to a mental model that acts as a systemic framework for constructing organizations. The design principles thus get to the roots of how organizations should be structured to get the work done, and to achieve superior competitive performance, together.

Because organizations are human and social creations, design principles provide the criteria – implicitly and explicitly – that guide the way we structure and lead organizations. It is important in BetaCodex Transformation to make the “old“ set of design principles and the new one explicit.

This way, the **mental models of all members of the organization can change.** The design principles are far more than just rhetoric – they go to the heart of understanding the underlying premises and the structural logic that influence leadership and behavior.

How markets govern organizations “from the outside in”



Why “make-and-sell” business models, combined with “command and control” management, don't fit anymore

Classic 20th century organizations from the industrial age usually applied **make-and-sell business models**, which means that you develop products, produce them and then give the customer an incentive to buy them. High performance organizations today use a **sense-and-respond** approach, which applies an outside-in philosophy.

Any organization can apply an outside-in sense-and-respond approach.

- Famously, Toyota and Dell have invented outside-in business models in their industries (cars and computers, respectively), submitting production to single customer orders or projects.
- Guardian Industries originated a similar business model for flat glass and mirror production, being the first company in the industry to sell directly to customers.
- Handelsbanken, dm drogerie-markt and Scandinavian retailer Ahlsell work from the branch outside-in.
- Southwest Airlines, AES and Semco, Egon Zehnder International and W.L. Gore work from single value creation streams or customer projects.

The high performers of the 21st century are “managed” by market pull, not through inside-out command and control. Waste and even damage occurs if inside managers interfere with the mechanism of “market-pull”. Every single person needs a free and clear view to the market forces that are driving the organization.

Ways to organize for empowerment

Hierarchical organization charts dissimulate the view that organization members “serve the boss”, or hierarchy. They thus stand in the way of the market forces, by making people look “up”, not “out”. In this way, hierarchies limit the potential of their members to serve the market.

BetaCodex organizations, on the other hand, don't “produce” without **market pull**. They actually make use of the pull from the outside in to energize and stabilize their adaptive networks of cells. That way, BetaCodex organizations use the somehow differing interests of the market forces like legislation, investors and customers to “manage” their networks of cells.

There are **different ways to organize for empowerment**, which are all coherent with Beta principles. The different typologies can also exist in combination.

- Profit center networks (e.g. Handelsbanken, Toyota and Scandinavian retailer Ahlsell)
- Multi-project organization or project orientated organization with temporary centers of project teams established instead of permanent profit centers
- Cross-organizational value creation networks between self-dependent cells

Adopting a cell structure design is vital to making integration, or transformation work. Without this kind of concept, building an organization with little hierarchy and no command and control, is near-impossible.



The building blocks of the devolved networked organization

According to the systemic view of an organization, a devolved network consists of only **four types of structural elements**, which we will explain more in detail in this section.

Understanding the role of each of these elements is key to designing a truly devolved organization.

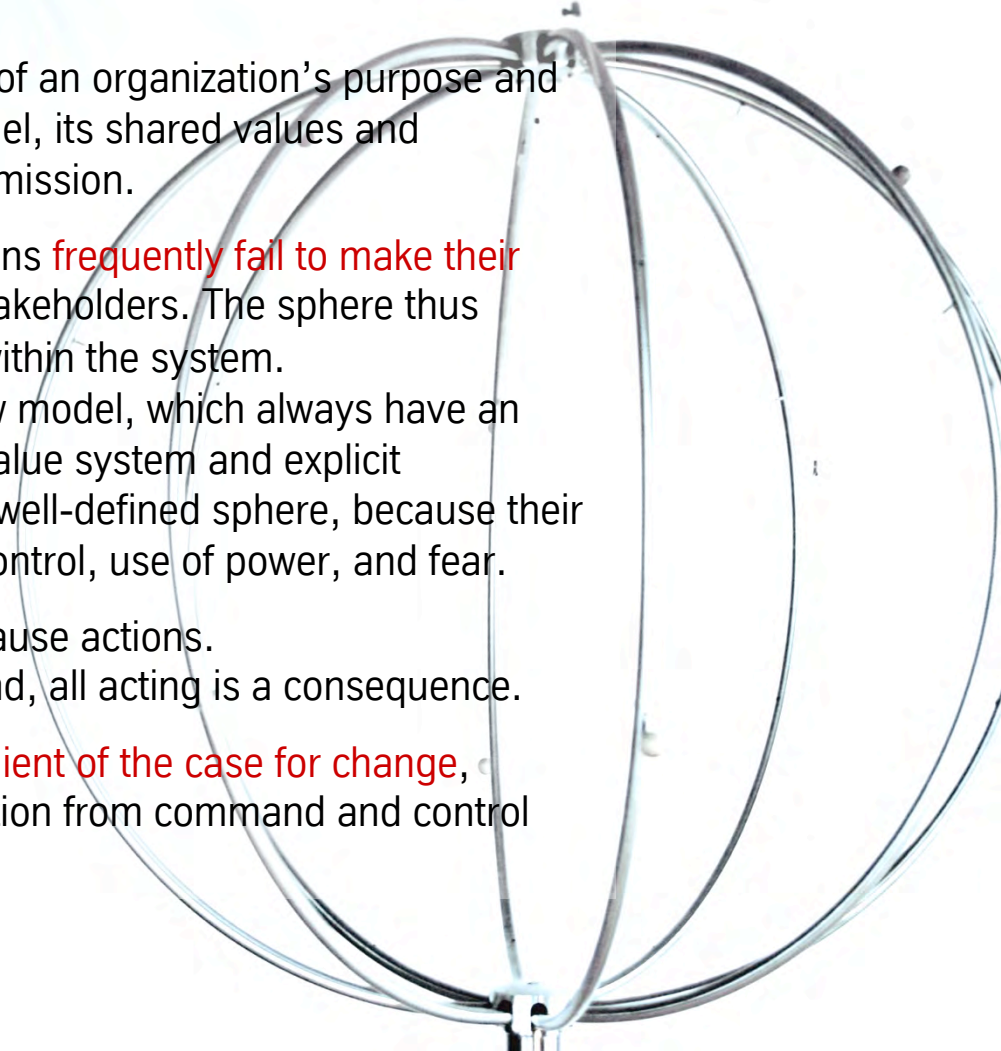
The four structural elements of the model are:

1. Spheres of activity
2. Network cells
3. Network strings
4. Market pull

That's it. Simple, isn't it? So let's take a look at these different structural elements.

Building blocks of the networked organization I: “Spheres of activity“ - distinguishing the inside from the outside

- Every organization operates within its own “sphere of activity”.
Consciously or unconsciously.
The sphere originates from the combination of an organization’s purpose and identity. This encompasses its business model, its shared values and principles, its brand proposal, its vision and mission.
- Traditional command and control organizations frequently fail to make their sphere of activity explicit to its people and stakeholders. The sphere thus remains ambiguous to the involved parties within the system.
Not so in pioneering organizations of the new model, which always have an extremely strong corporate culture, a clear value system and explicit boundaries. The pioneers have a need for a well-defined sphere, because their governance doesn't rely on command and control, use of power, and fear.
- In traditional organizations, consequences cause actions.
In pioneering organizations, on the other hand, all acting is a consequence.
- Defining the sphere of activity is a key ingredient of the case for change, which has to be written up in the transformation from command and control (Alpha) to the BetaCodex.



Building blocks of the networked organization II: “Network cells” – how they differ from functions & departments

- **Network cells integrate several functions, roles and duties**, which would be traditionally separated into different departments, divisions and areas. A cell thus contains different functions and roles!
- **Network cells offer and sell products** and/or services on its own, and only depend on its market in its decisions about them.
- **Network cells are customer focused**, as they respond only to internal or external clients, not to hierarchy.
- **Network cells are held accountable** by other members of the organization and are responsible for their own value-creation. Each cell has its own P&L statement. Cells are socially dense.
- **Network cells apply the full set of 12 laws of the beta codex.**



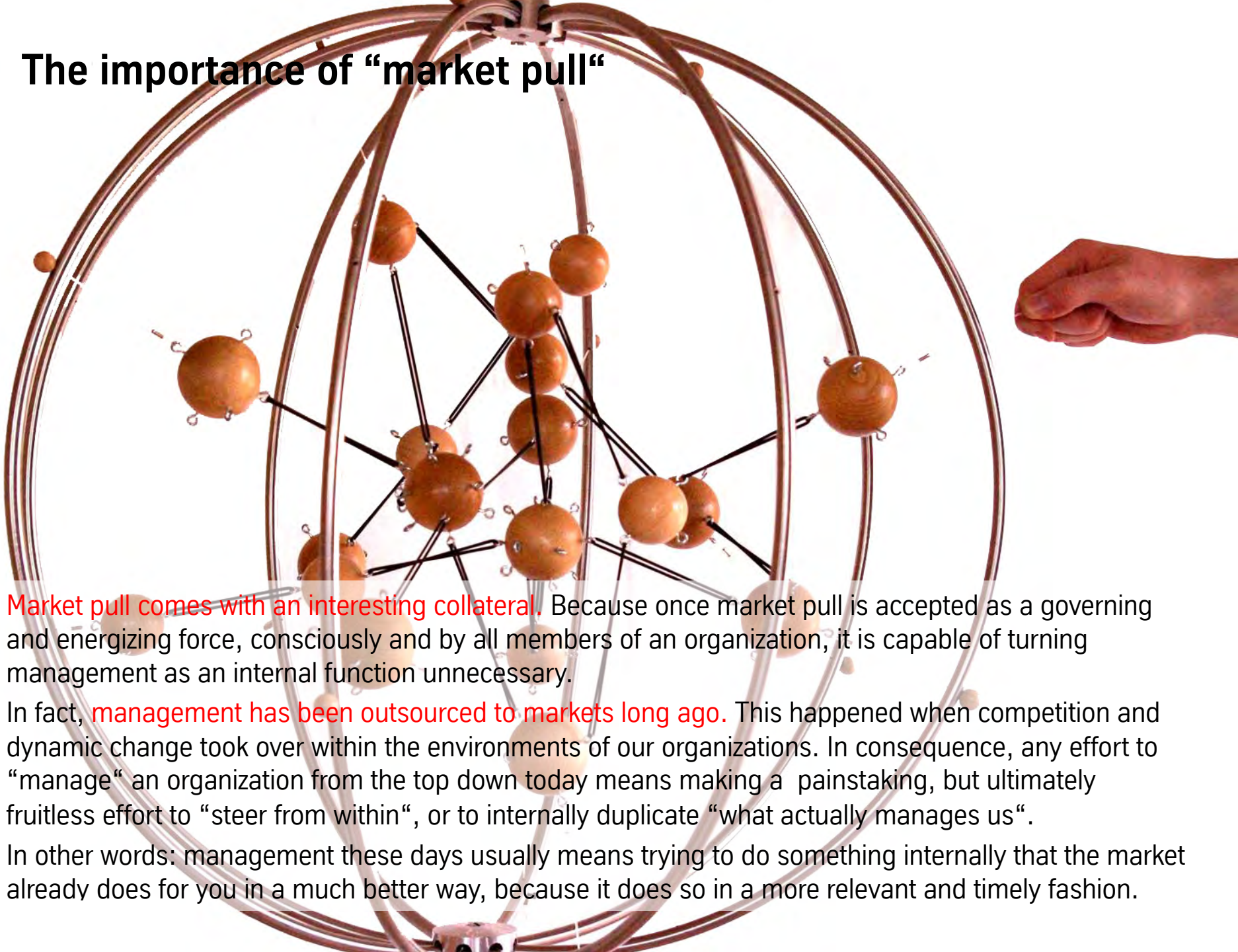
Building blocks of the networked organization III: “Network strings” - the communication and value creation links

- **Strings depict the connections between cells, showing a high level of elasticity.** Such connections arise from several different kinds of interaction:
 - Value creation flows from the inside out,
 - Formal communication, and
 - Informal networking.
- **Internal markets and pricing** mirror the value creation flow from inside-out: Cell networks practice internal payments, from the outside-in, to compensate for internal services.

Building blocks of the networked organization, IV: “Market pull” - the force that actually “manages” organizations

- **Market pull** is what connects the market with the organizations, and thus the outer part of the sphere of activity with the inner part. Whenever an external stakeholder of an organization “wants” or “demands”, “orders” or does something relevant to the organization, it originates market pull.
- Market pull can be applied by customers wanting something, but also by shareholders demanding a compensation for their investments, or a bank demanding payback of a loan, or the state demanding the payment of taxes, or a competitor launching a new product. **Market pull thus has varied sources.**
- **In the real world, there is no such thing as “market pressure”.** This might at first sight appear as a counter-intuitive claim. But if you consider organizations as operating within their own, self-defined Sphere of Activity, then markets simply cannot apply “pressure”. What markets really do is that they apply “pull”. They do this all the time. And pull is a powerful force. All market actors pull. They stimulate by pulling. They want things. They govern the organization.

The importance of “market pull“



Market pull comes with an interesting collateral. Because once market pull is accepted as a governing and energizing force, consciously and by all members of an organization, it is capable of turning management as an internal function unnecessary.

In fact, **management has been outsourced to markets long ago.** This happened when competition and dynamic change took over within the environments of our organizations. In consequence, any effort to “manage“ an organization from the top down today means making a painstaking, but ultimately fruitless effort to “steer from within“, or to internally duplicate “what actually manages us“.

In other words: management these days usually means trying to do something internally that the market already does for you in a much better way, because it does so in a more relevant and timely fashion.

Some guidelines to creating a working cell structure:

What characterizes a truly networked organization

- It gains stability and resilience not through power relationships, or through “resistance to pressure”, but through the “pull” that comes from the market outside. (Sounds simple? It is!)
- It is transparent, through open information systems.
- It shows its internal interactions in a simple manner, based on “market” and “pull” relationships.
- It creates a shared understanding of the “inside” and “outside” relationships of the organization.
- It doesn't care about hierarchy (which is regarded as “trivial”, but about value creation streams, based on networking patterns.
- It has the interconnections needed - not more, not less
- It applies the full set of 12 BetaCodex principles.

Further recommendations for you

- **Turn this paper into a starting-point for your organization.**

If this paper is meaningful to you – just share it with your peers. This is a sensible and always adequate way of inspiring others to join a dialogue.

- **Give feedback.**

Give us feedback about this paper - we are excited to hear from our readers.

Feel free to use this material in your work. If you find it useful, we will also be happy to hear about that.

- **Read the 2nd part of this white paper.** It covers two real-world case examples that illustrate how the BetaCodex cell structure design concept has been applied in two industrial organizations from two different continents. That paper also shows how to **embed Cell Structure Design into the process of transforming an organization** from Alpha (“command and control”) to Beta, and how to avoid common implementation traps we have discovered in our work with clients.

- **Get more information.**

To learn more about the “Beta” way of leadership, and about how to approach organizational transformation, please visit the BetaCodex Network website, or get in touch with any associate you like. We will gladly assist you in learning more about it.



the
betacodex
network

since 2008

Get in touch with
the authors of this paper:



Niels Pflaeging
niels.pflaeging@redforty2.com



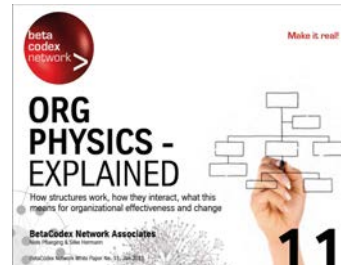
Silke Hermann
silke.hermann@redforty2.com

Paper concept & design: Niels Pflaeging

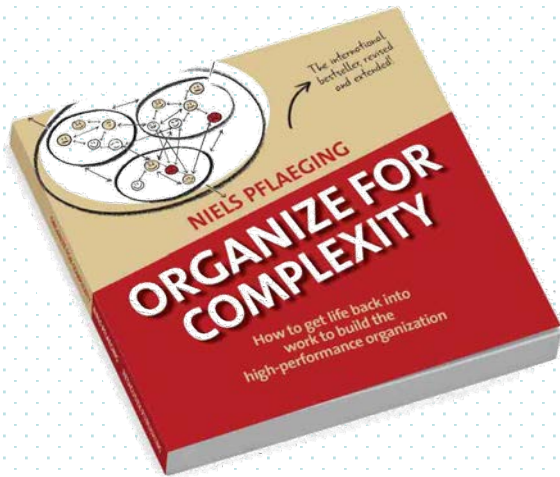
You are free to use this paper, or parts of it, under the condition that you quote and/or mention the source, appropriately. Visit www.betacodex.org and contact us for more about Beta and about how to bring about Beta transformation.

The BetaCodex Network white papers

Find all our white papers on betacodex.org/white-papers and on Slideshare.



Related books from Follett Publishing

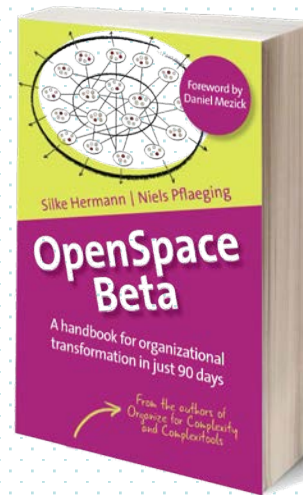


Organize for Complexity. How to get life back into work to build the high-performance organization

Niels Pflaeging

2015, 5th edition 2020

Also available in German, Portuguese, Turkish

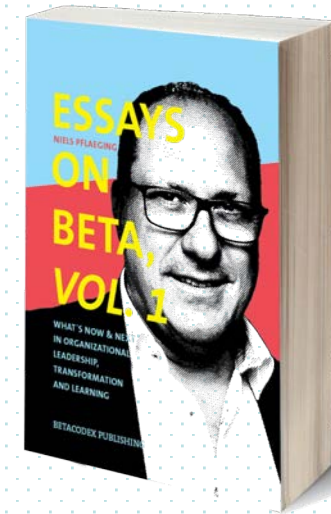


OpenSpace Beta. A handbook for organizational transformation in just 90 days

Silke Hermann | Niels Pflaeging

2018, 2nd edition 2020

Also available in German and Korean



Essays on Beta, Vol. 1. What's now and new in organizational leadership, transformation and learning

Niels Pflaeging

2020

Nominated for the UK Business Book Award 2021