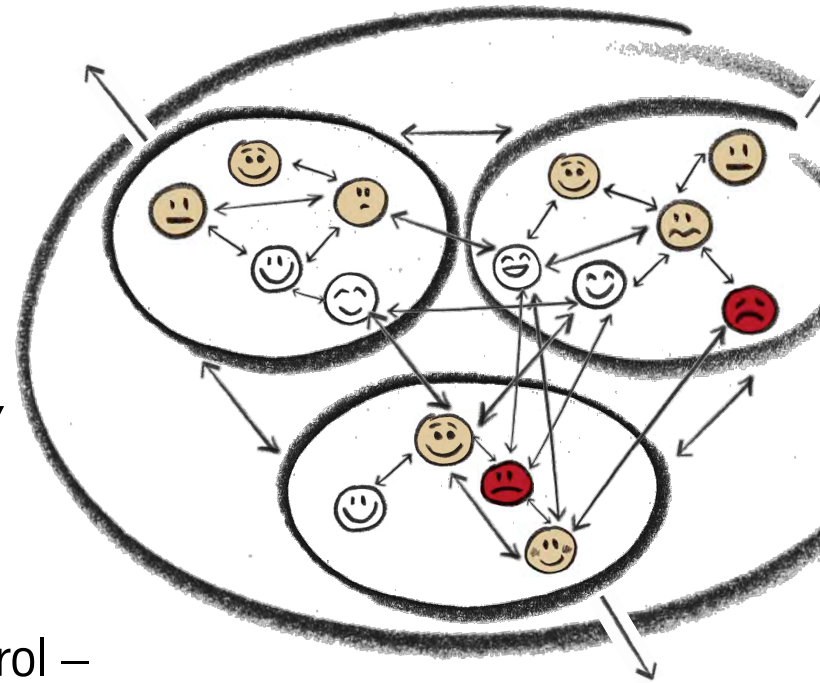




Make it real!

ORGANIZE FOR COMPLEXITY



Part 2. How to make work work again.
How to break the barrier of command-and-control –
and create the peak-performance, networked organization

BetaCodex Network Associates

Niels Pflaeging & Silke Hermann & Lars Vollmer
Illustrations by Pia Steinmann

BetaCodex Network White Paper No. 13, June 2012

13

This paper addresses fundamental questions of interest to business owners, managers, professionals and change agents

This is the 2nd part of our paper.

Some of the questions you will find addressed in it are:

- How can organizations deal with growing complexity?
- How to adjust a growing organization, without creating falling into the bureaucracy trap?
- How to become more capable of adapting to new circumstances?
- How to overcome existing barriers to performance, innovation and growth?
- How to become an organization more fit to human beings, and achieve higher engagement?
- How to produce profound change, without hitting the barrier?

In this paper, you will learn about concepts that allow to design entire organizations for complexity, regardless of size, age, industry, country or culture.

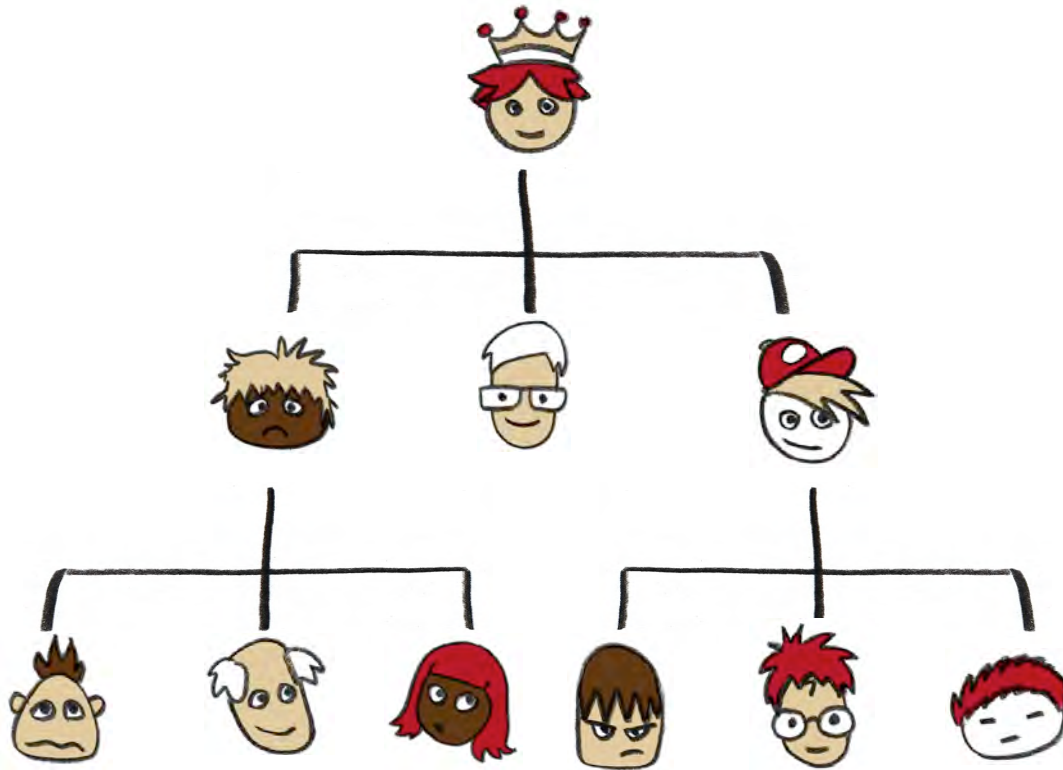


Part 4.

Organizations as systems: How to design for complexity



The dominant mindset turned into a problem: To imagine organizations as **pyramids** is a misguided metaphor



Design principle "Alpha":

The organization as a bureaucratic hierarchy, steered by managers who are always in control

Managers commanding/controlling a pyramid of “followers” from above is **not** a smart way to organize. Most of us sense that, intuitively: Our experience from practice contradicts that this can actually work.

This remains, however, the dominant **mindset** in companies, since the development of management theory about a century ago. When we speak of “management”, we usually refer to techniques, tools and models aimed at improving, optimizing, or fixing organizations as command-and-control pyramids.

A better metaphor: The organization as a multi-layered **network**

Design principle "Beta":

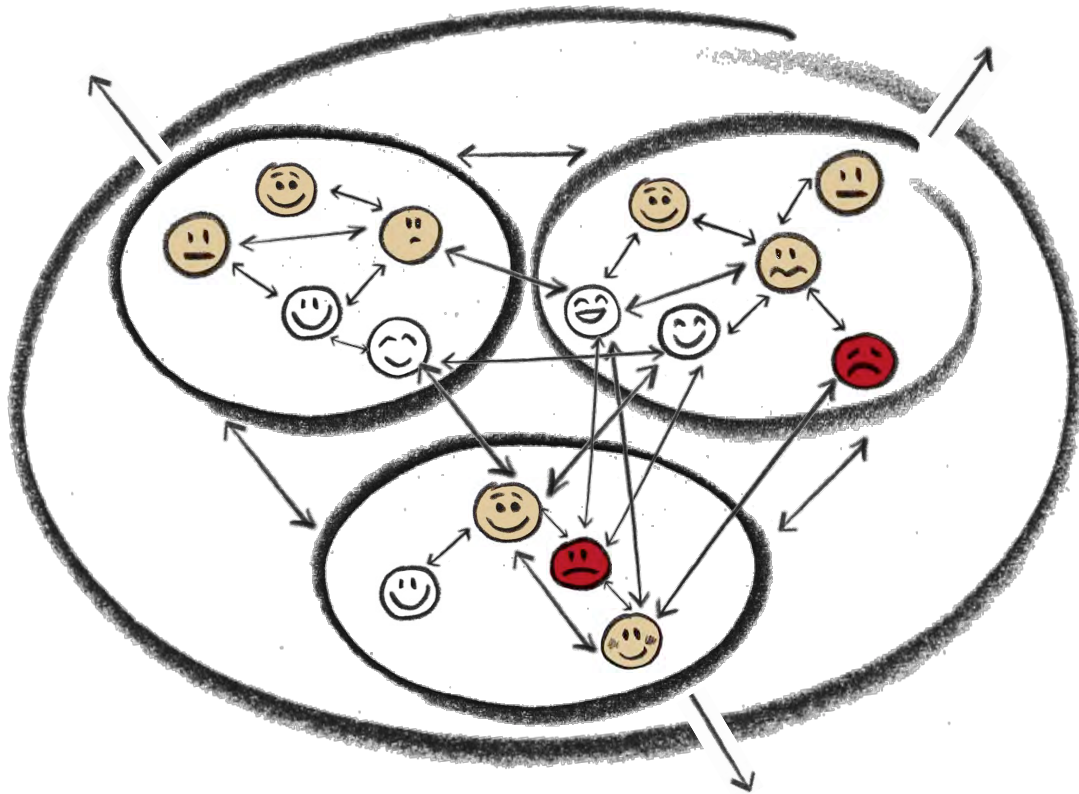
The organization as an interconnected, living network, steered by market forces. Nobody is in control. Everybody is in charge.

A smarter and more useful way to look at organizations is to see them as a **network**. This is not only more aligned with science than the mechanistic "pyramid" dogma, but it is also by far closer to reality, and in several ways.

Because organizations are in fact:

- Networks of individuals (through Informal Structure) and
- Networks of value-creating teams (through Value Creation Structure).

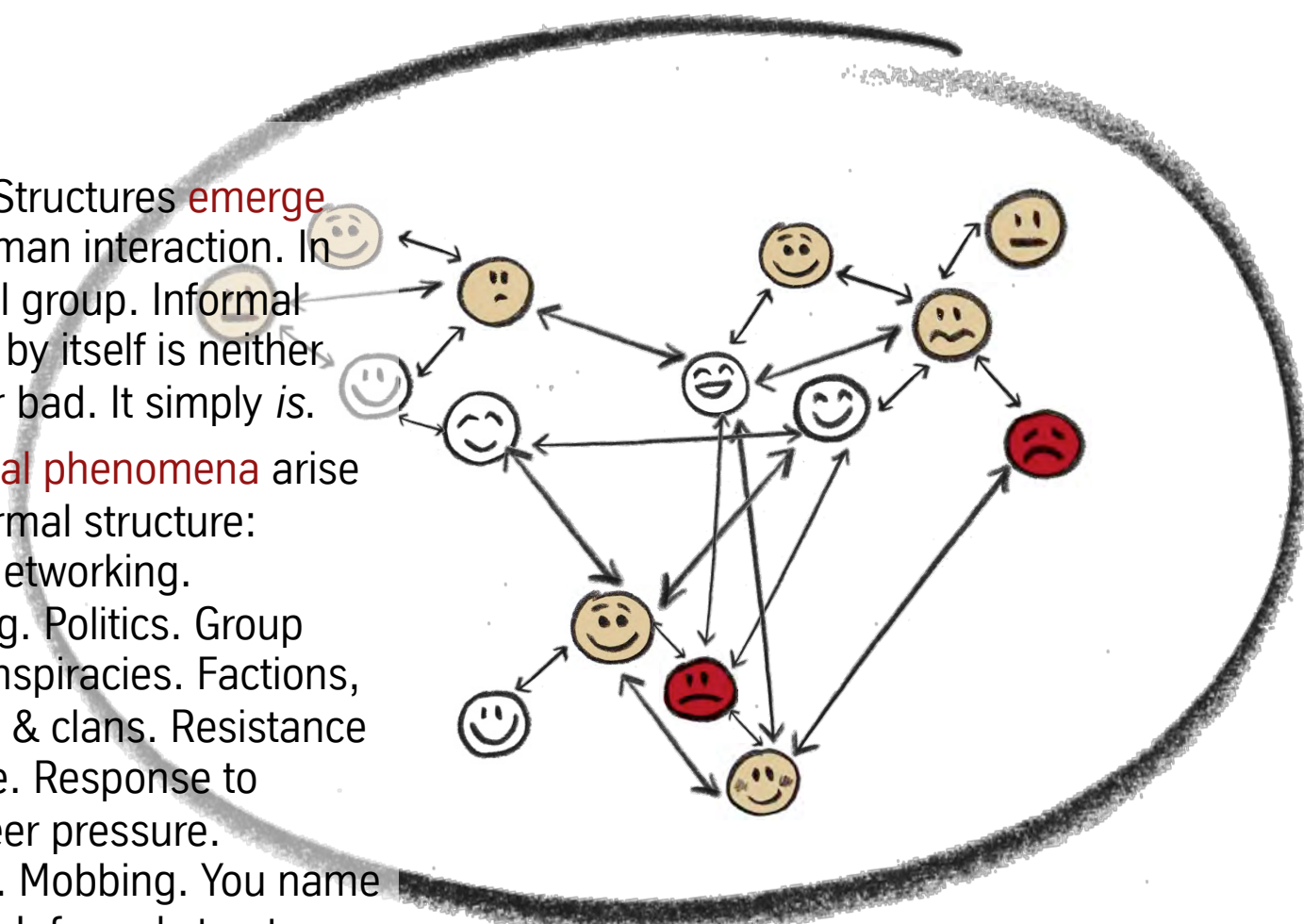
Let's take a closer look at these concepts.



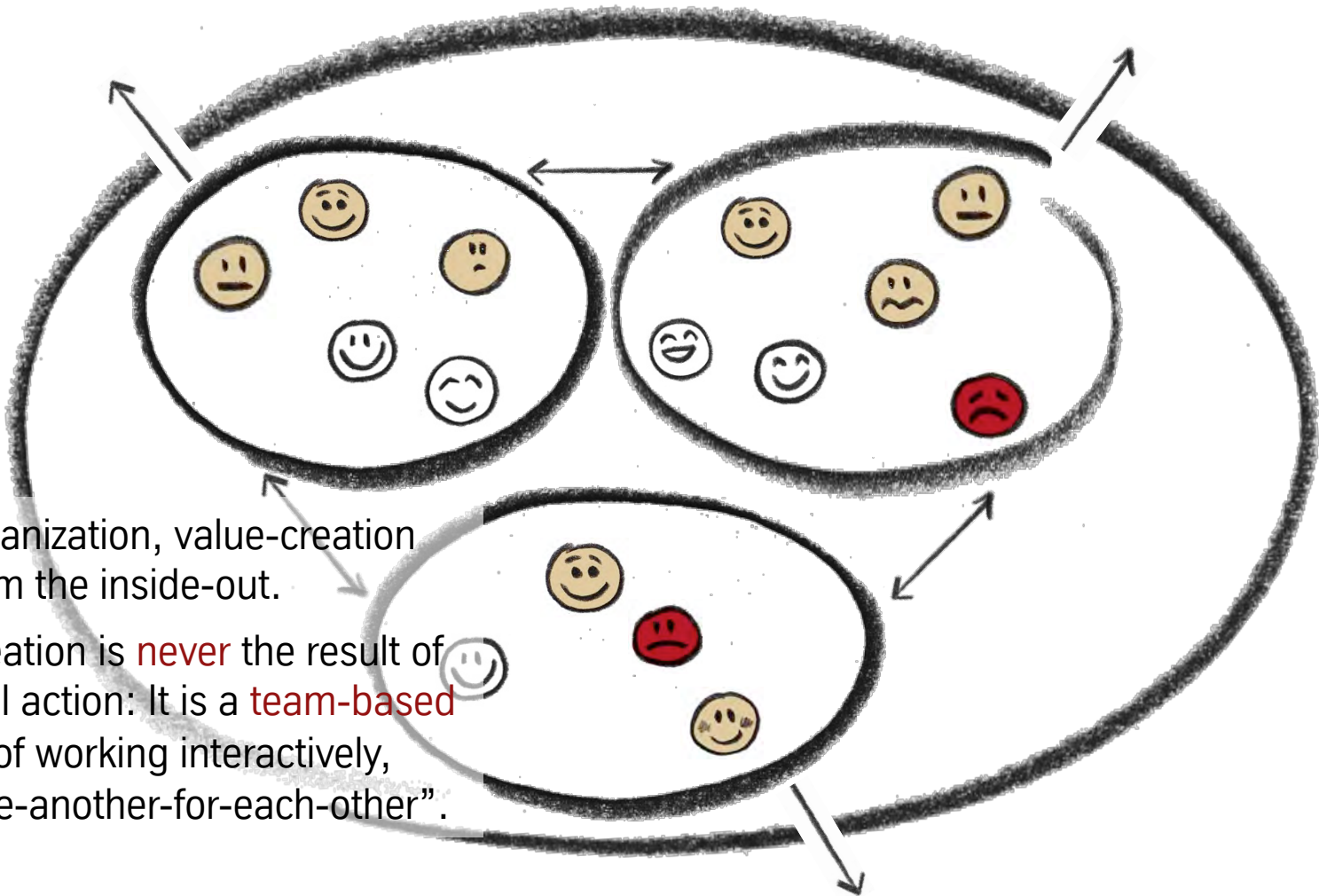
The workplace **is** networked: The organization's **informal structure**. Based on individual relationships

Informal Structures **emerge** out of human interaction. In any social group. Informal Structure by itself is neither good, nor bad. It simply *is*.

Most **social phenomena** arise from informal structure: Gossip. Networking. Socializing. Politics. Group think. Conspiracies. Factions, coalitions & clans. Resistance to change. Response to crises. Peer pressure. Solidarity. Mobbing. You name it. Fact is: Informal structures are powerful.



The workplace **is** networked: The organization's **value creation structure**, based on team interaction

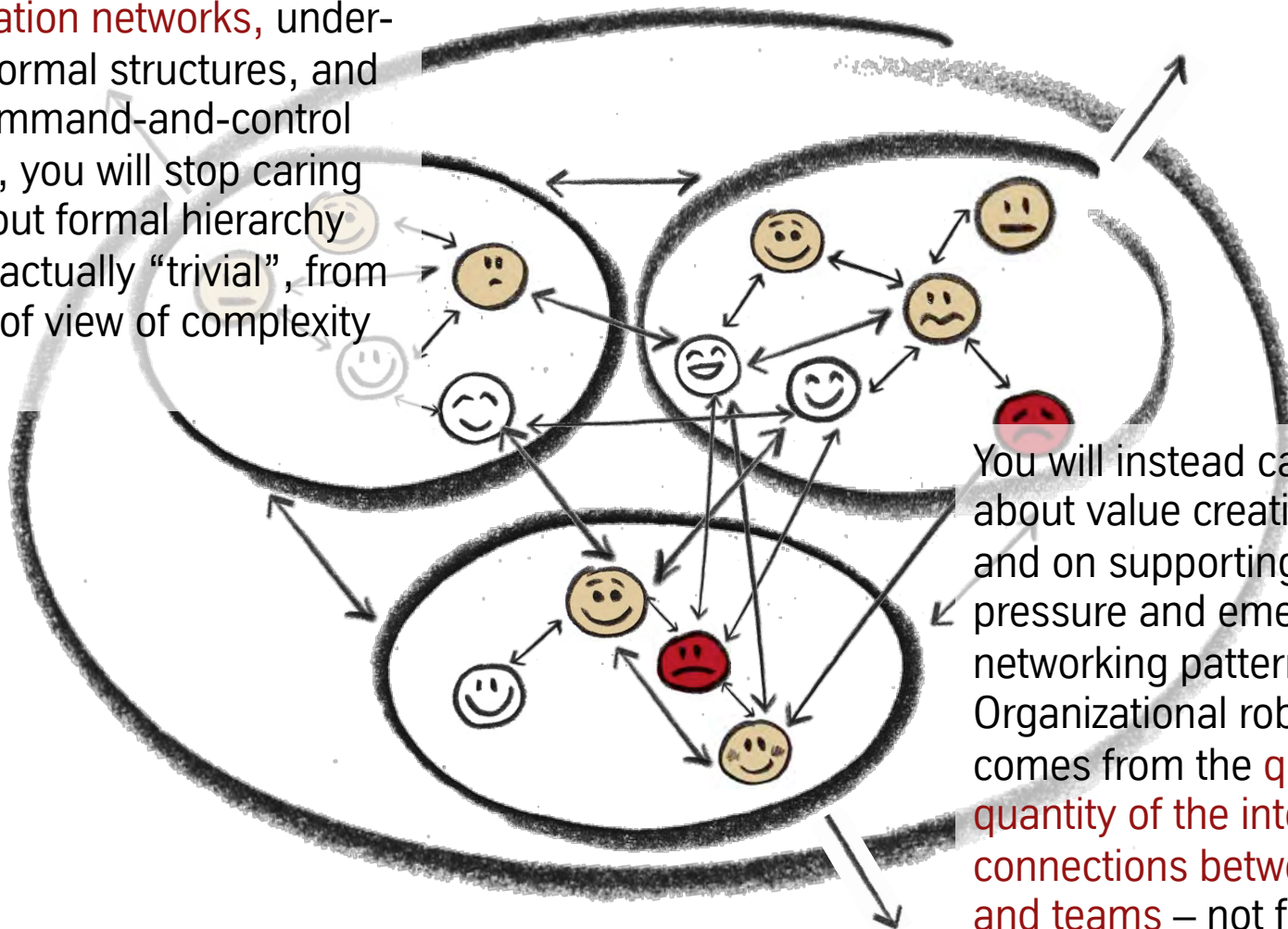


In an organization, value-creation flows from the inside-out.

Value creation is **never** the result of individual action: It is a **team-based** process of working interactively, “with-one-another-for-each-other”.

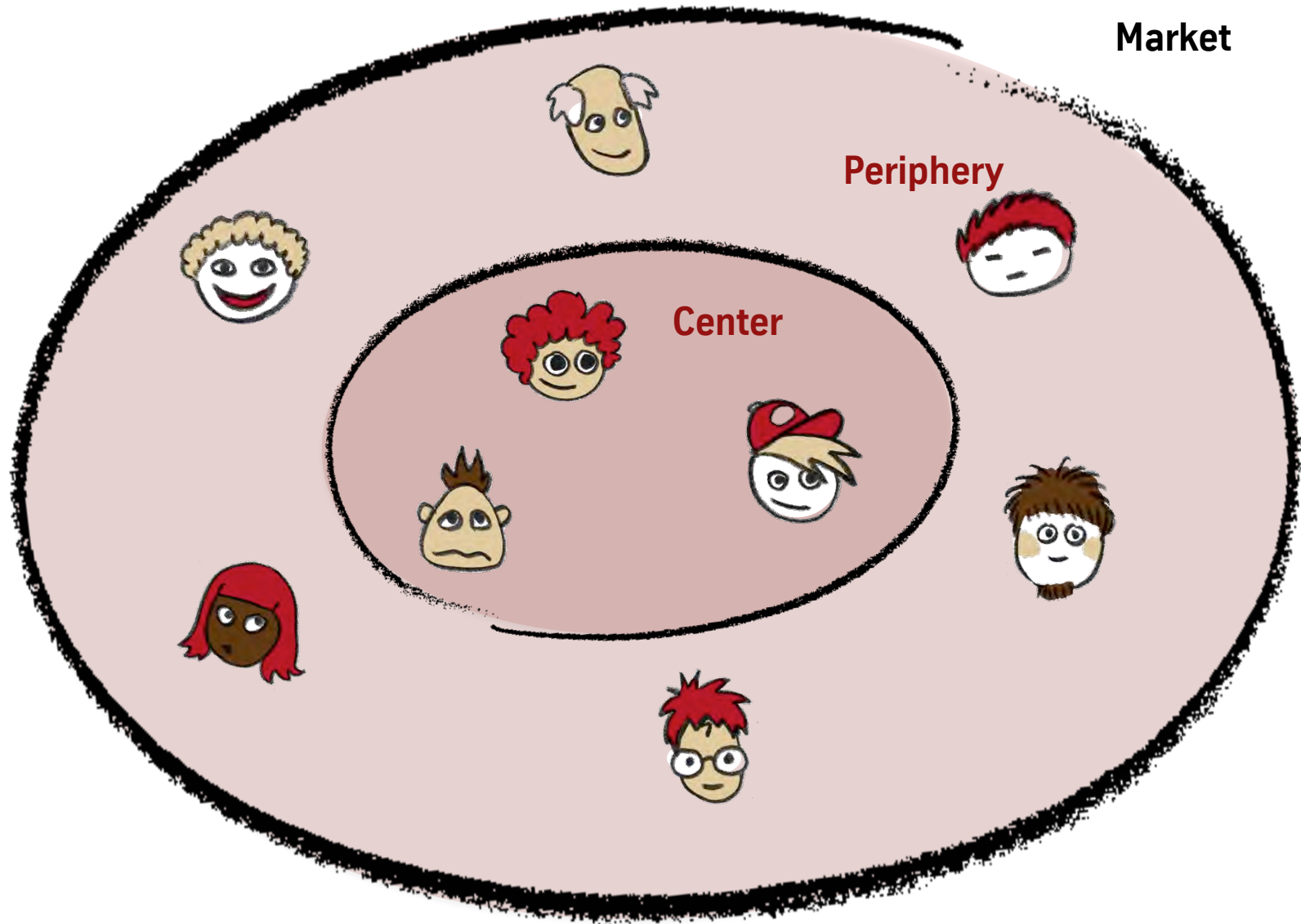
The workplace is networked: Putting together **informal and value creation structures**

Understanding organizations as **value creation networks**, understood by informal structures, and not as command-and-control pyramids, you will stop caring much about formal hierarchy (which is actually “trivial”, from the point of view of complexity thinking).

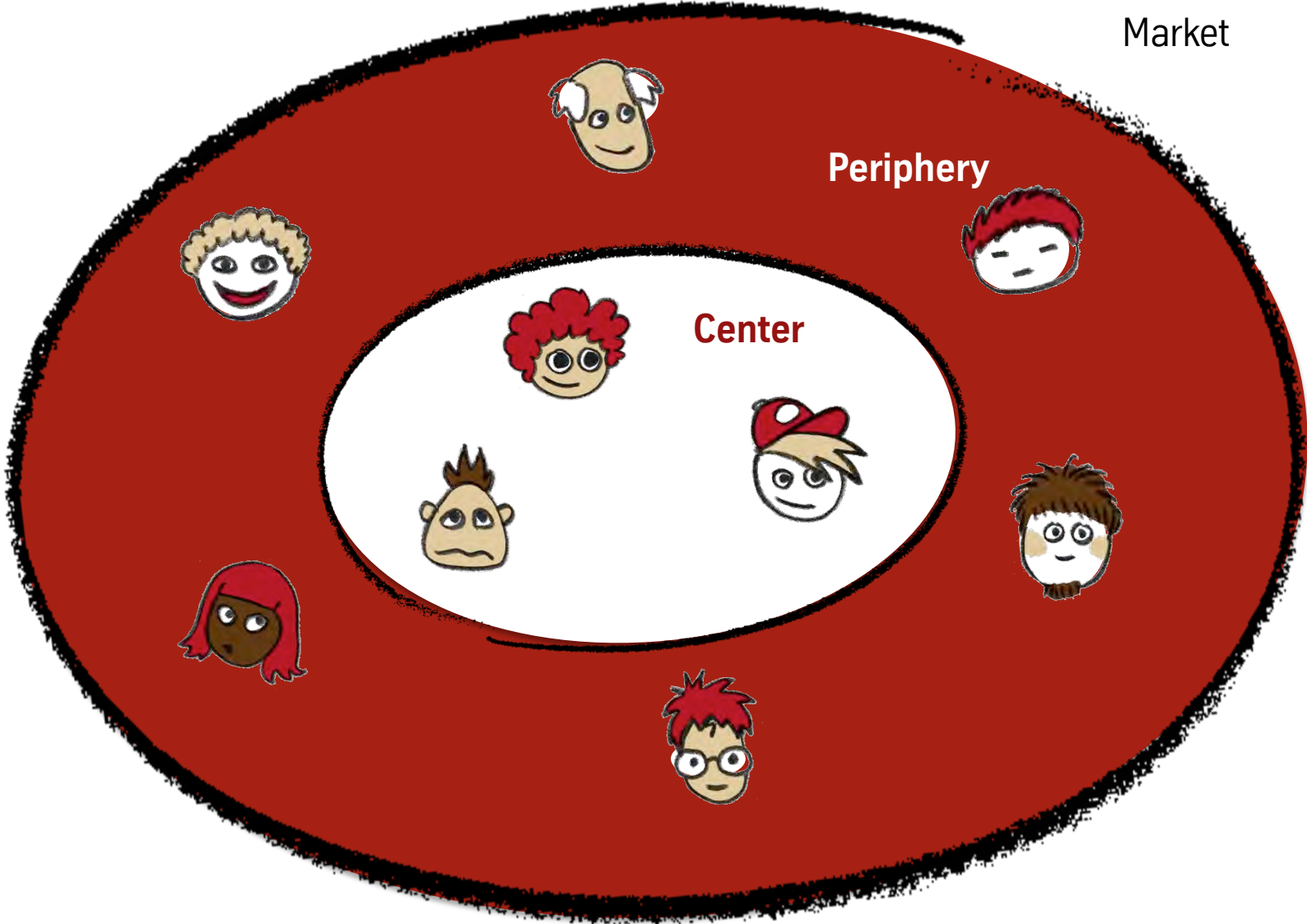


You will instead care a lot about value creation streams, and on supporting peer pressure and emergent networking patterns. Organizational robustness comes from the **quality and quantity of the inter-connections between humans and teams** – not from rules, bosses, or standards.

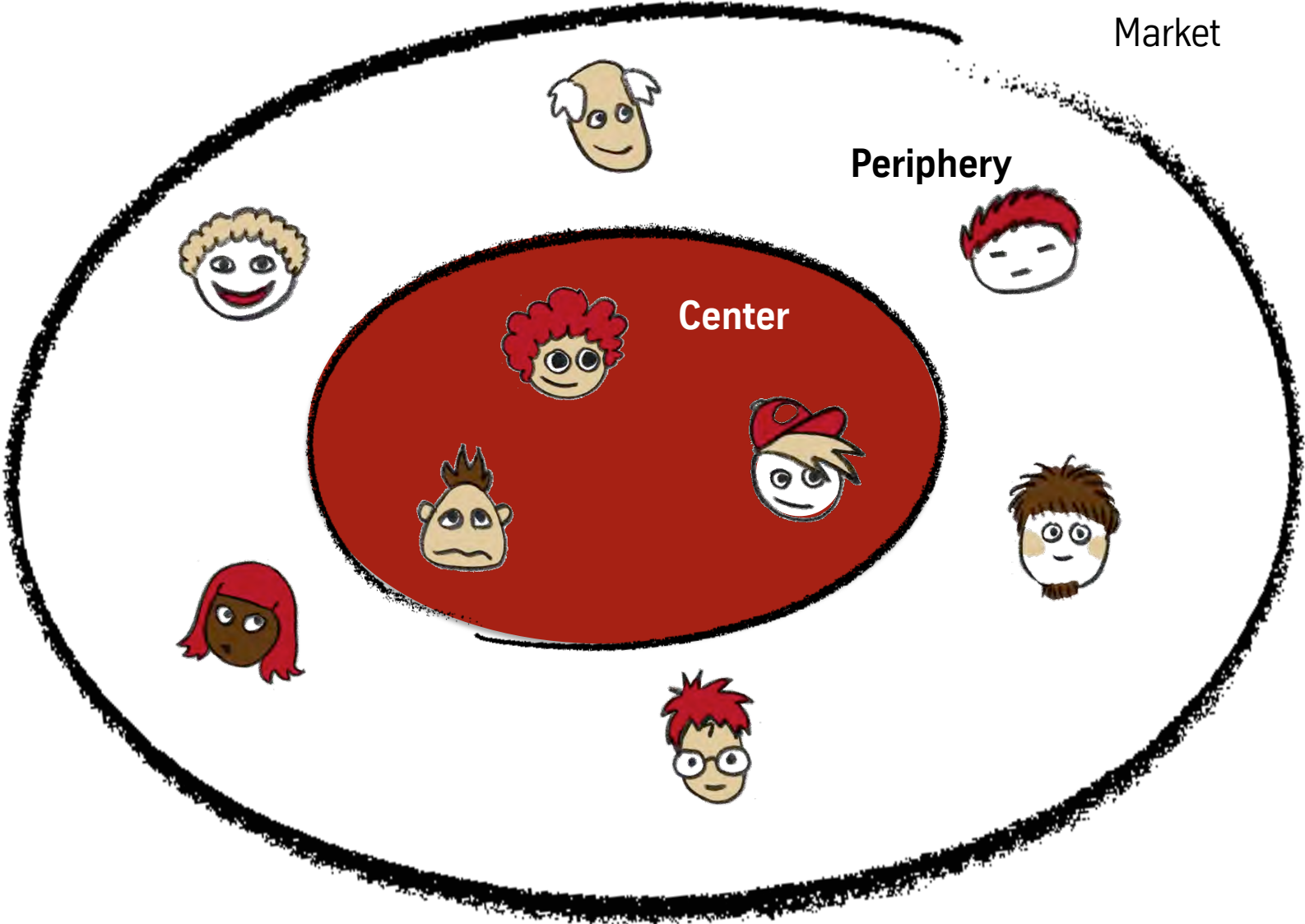
To gain a better understanding of value creation, it is helpful to understand the distinction between center, and periphery



The periphery: the only part of the organization with market contact



The center: no direct market contact.
The periphery isolates the center from the market

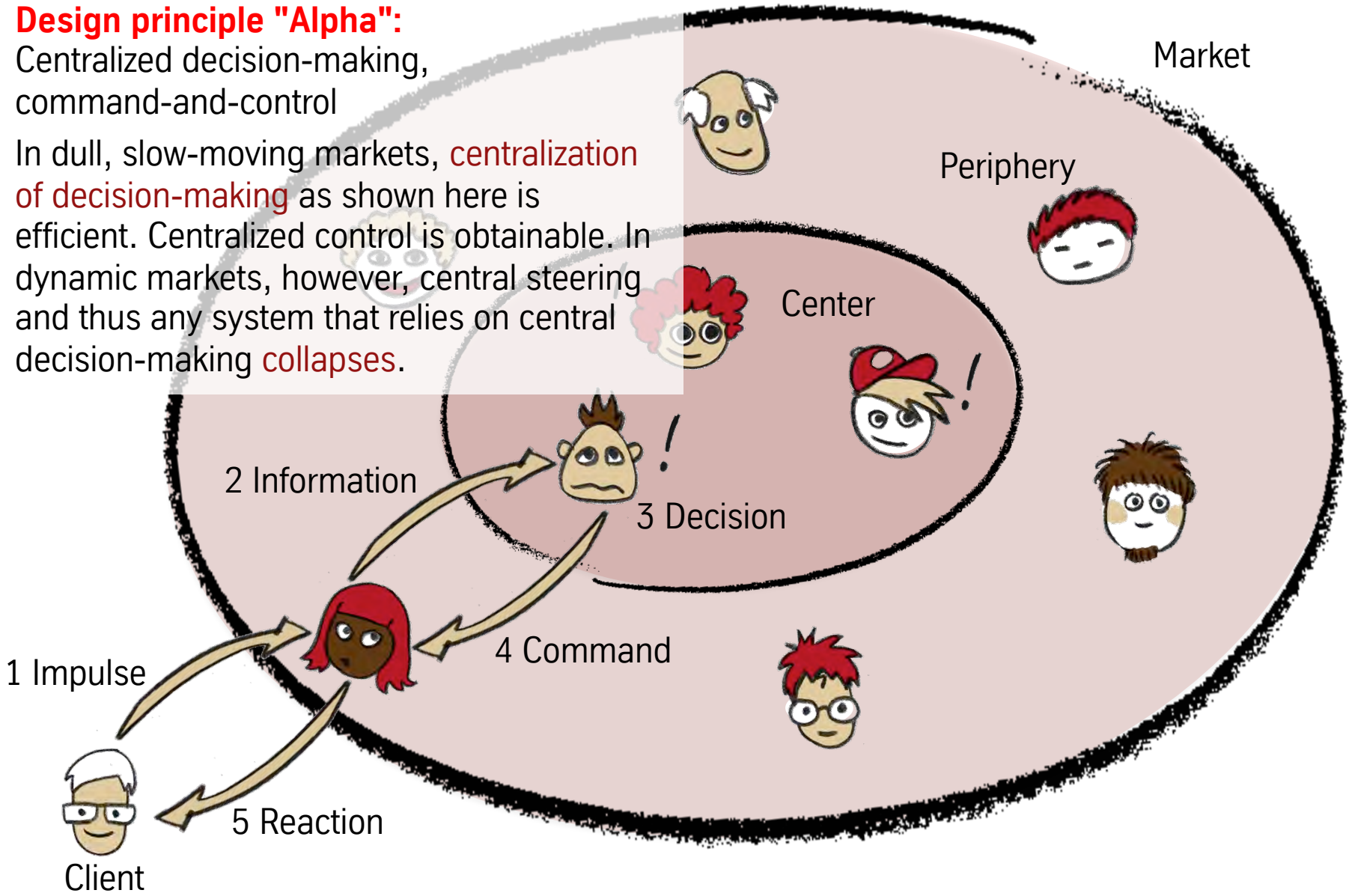


Centralized decision-making (command-and-control) in a system

Design principle "Alpha":

Centralized decision-making,
command-and-control

In dull, slow-moving markets, **centralization of decision-making** as shown here is efficient. Centralized control is obtainable. In dynamic markets, however, central steering and thus any system that relies on central decision-making **collapses**.

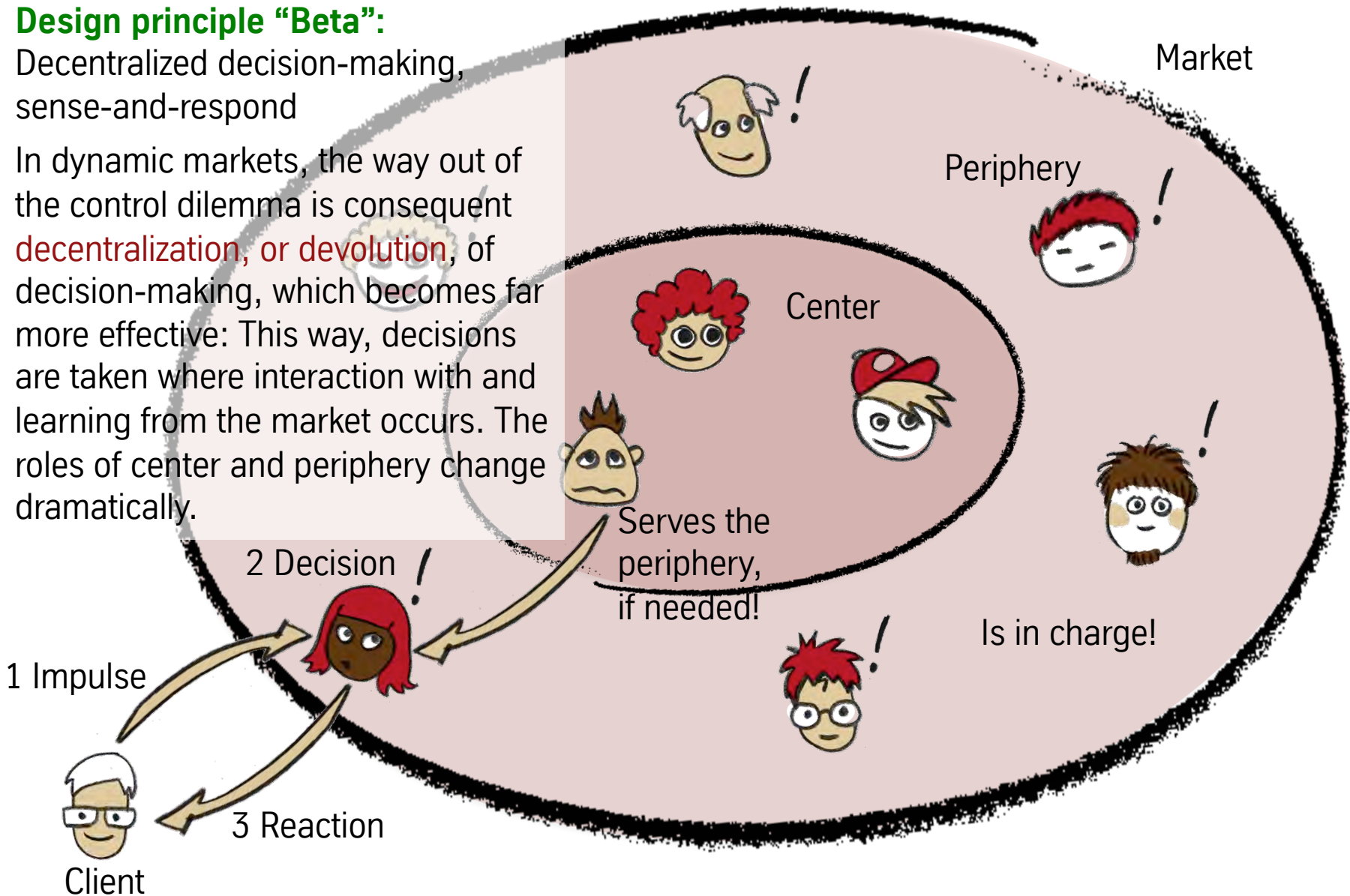


Solving the complexity dilemma, through **decentralization**

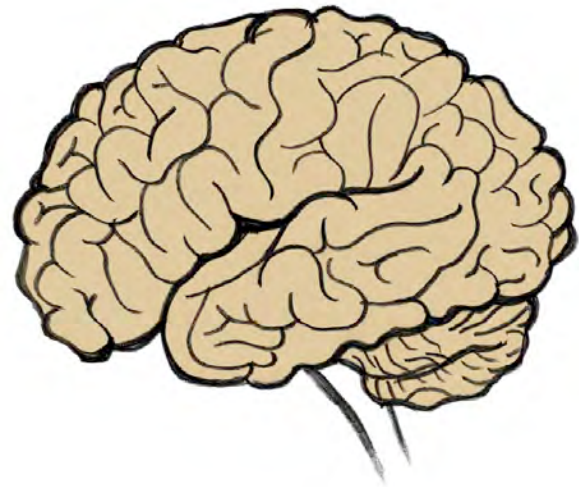
Design principle “Beta”:

Decentralized decision-making,
sense-and-respond

In dynamic markets, the way out of the control dilemma is consequent **decentralization, or devolution**, of decision-making, which becomes far more effective: This way, decisions are taken where interaction with and learning from the market occurs. The roles of center and periphery change dramatically.



Part 5.
**How to transform your organization into a
complexity-robust network and how to turn
“Beta” into the dominant mindset**



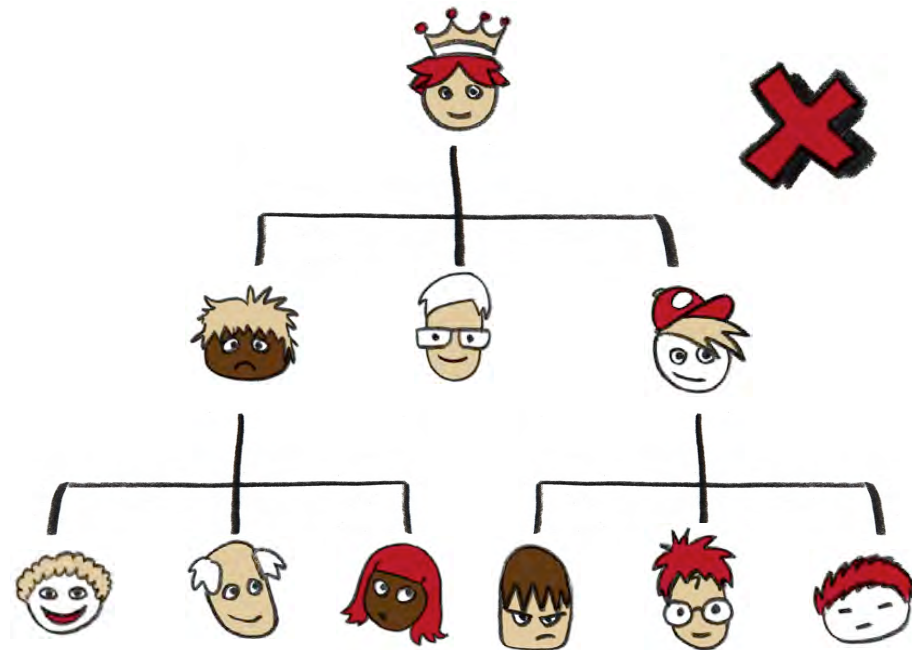
Designing an organization as a decentralized network

To turn your organization into a decentralized cell-structure, or to build a new organization as such a network, one must understand the elements, or building blocks, of such a design.

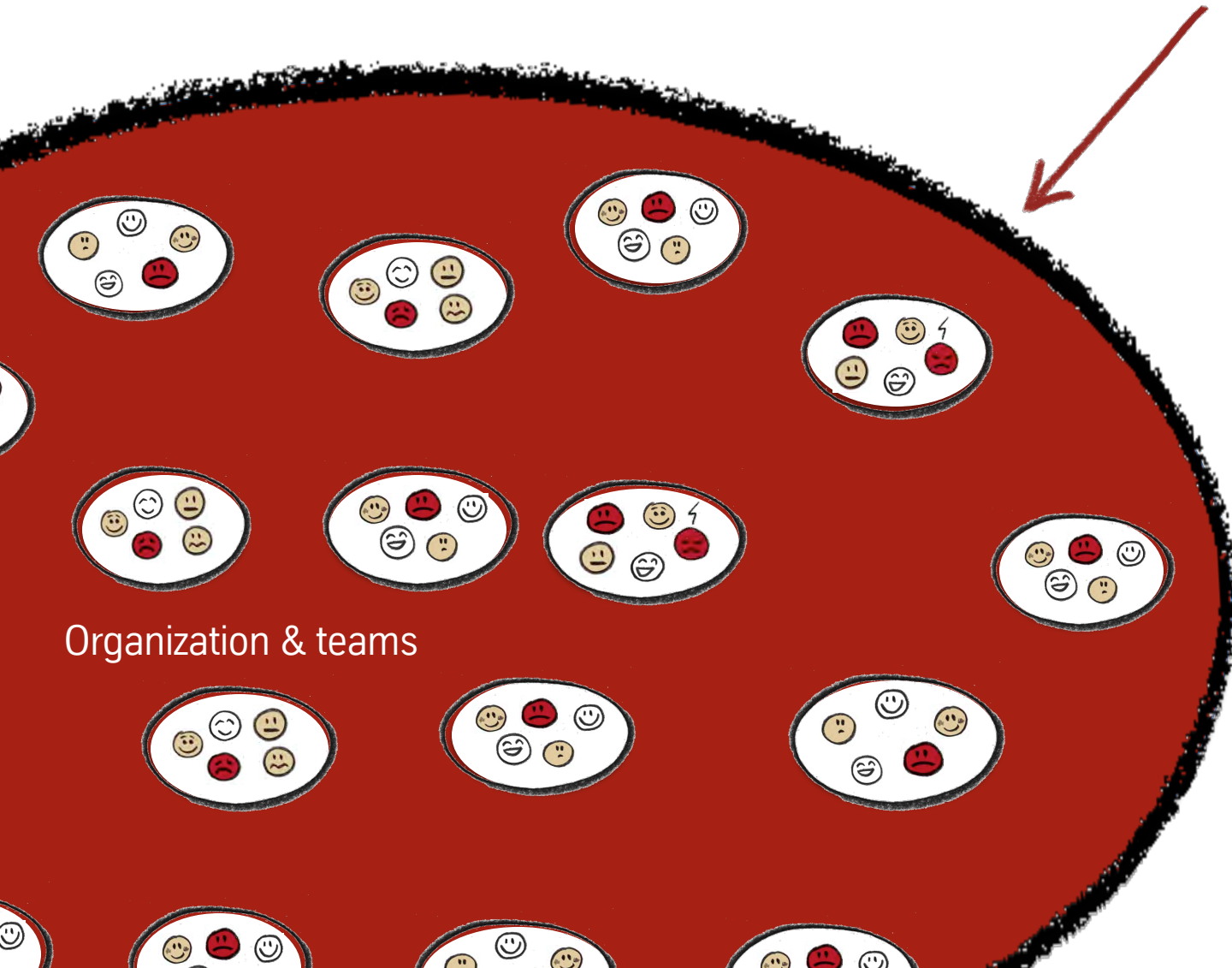
Four elements are necessary:

- a boundary, or **sphere of activity**
- network **cells** (with a distinction between central and peripheral cells)
- connecting **strings** between network cells, and, finally,
- **market pull** – connections with the external market

No line structures. No functions. No departments. No shared services. No divisions. No centralized staff. This is a different, and far more effective way of defining structure, in complexity.



Identity and the **sphere of activity**



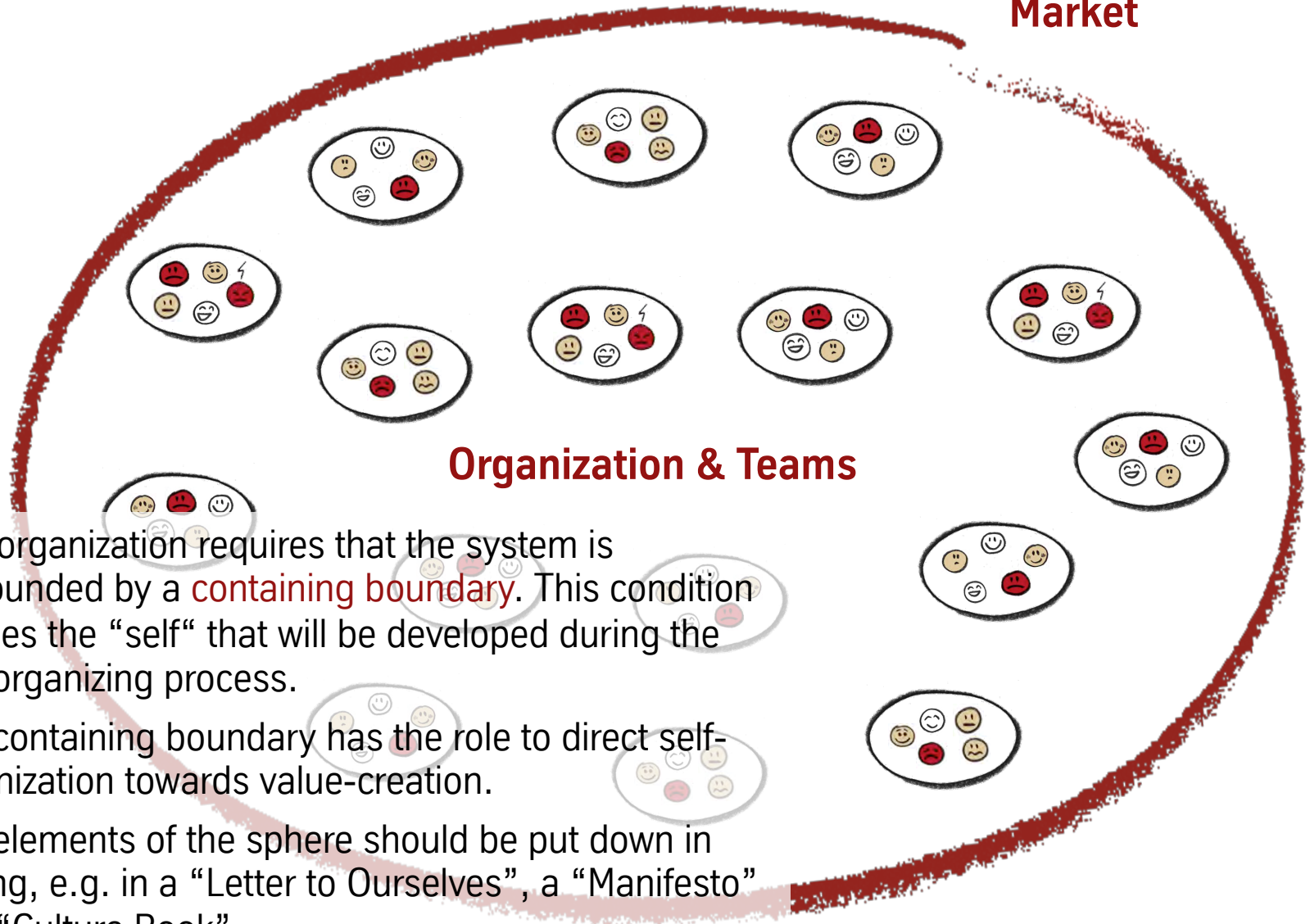
Sphere of Activity

- (shared) Values
- Principles
- Positioning
- Rituals
- Memes
- ...

Organization & teams

The sphere of activity

Market



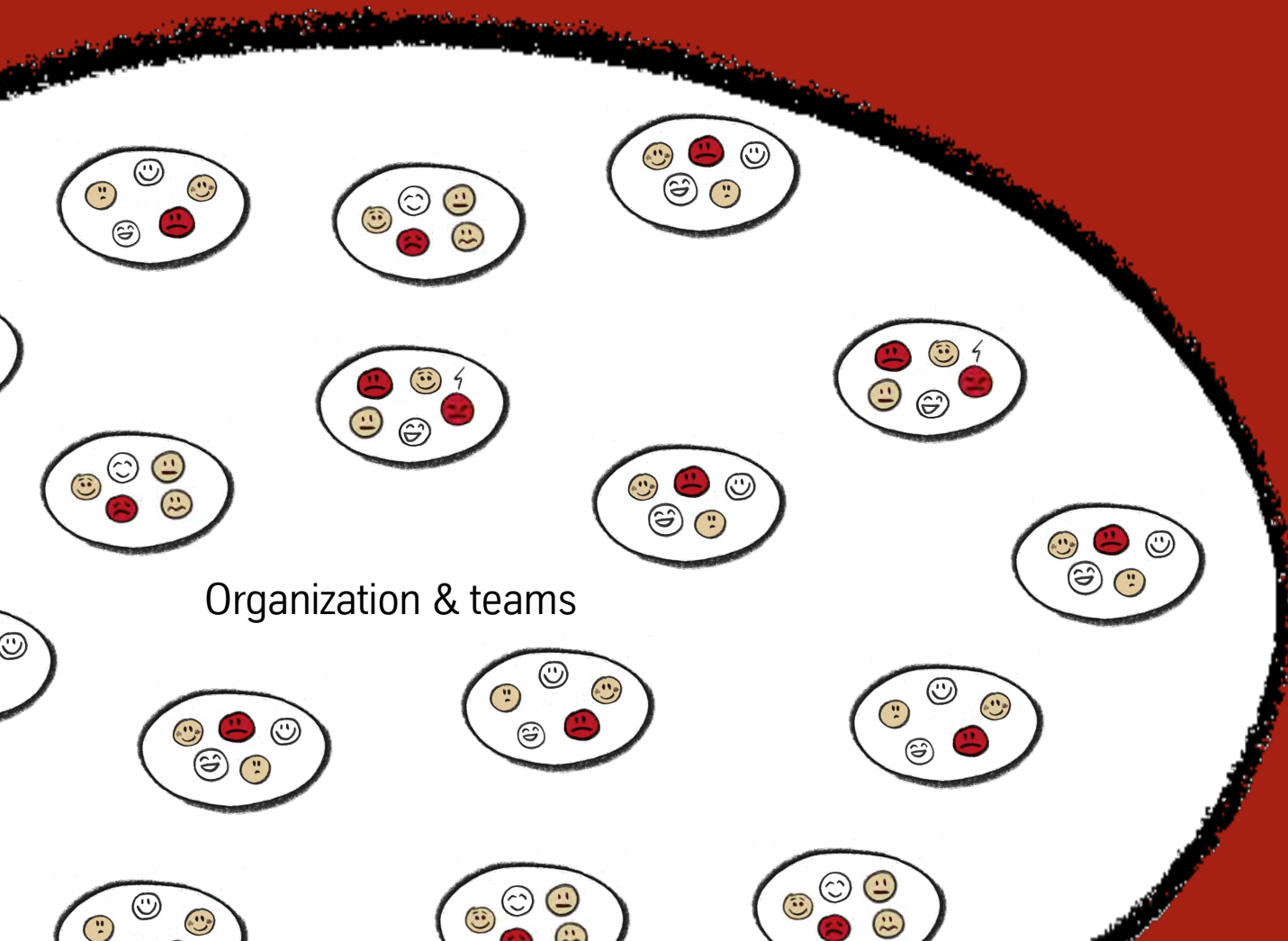
Organization & Teams

Self-organization requires that the system is surrounded by a **containing boundary**. This condition defines the “self” that will be developed during the self-organizing process.

The containing boundary has the role to direct self-organization towards value-creation.

The elements of the sphere should be put down in writing, e.g. in a “Letter to Ourselves”, a “Manifesto” or a “Culture Book”.

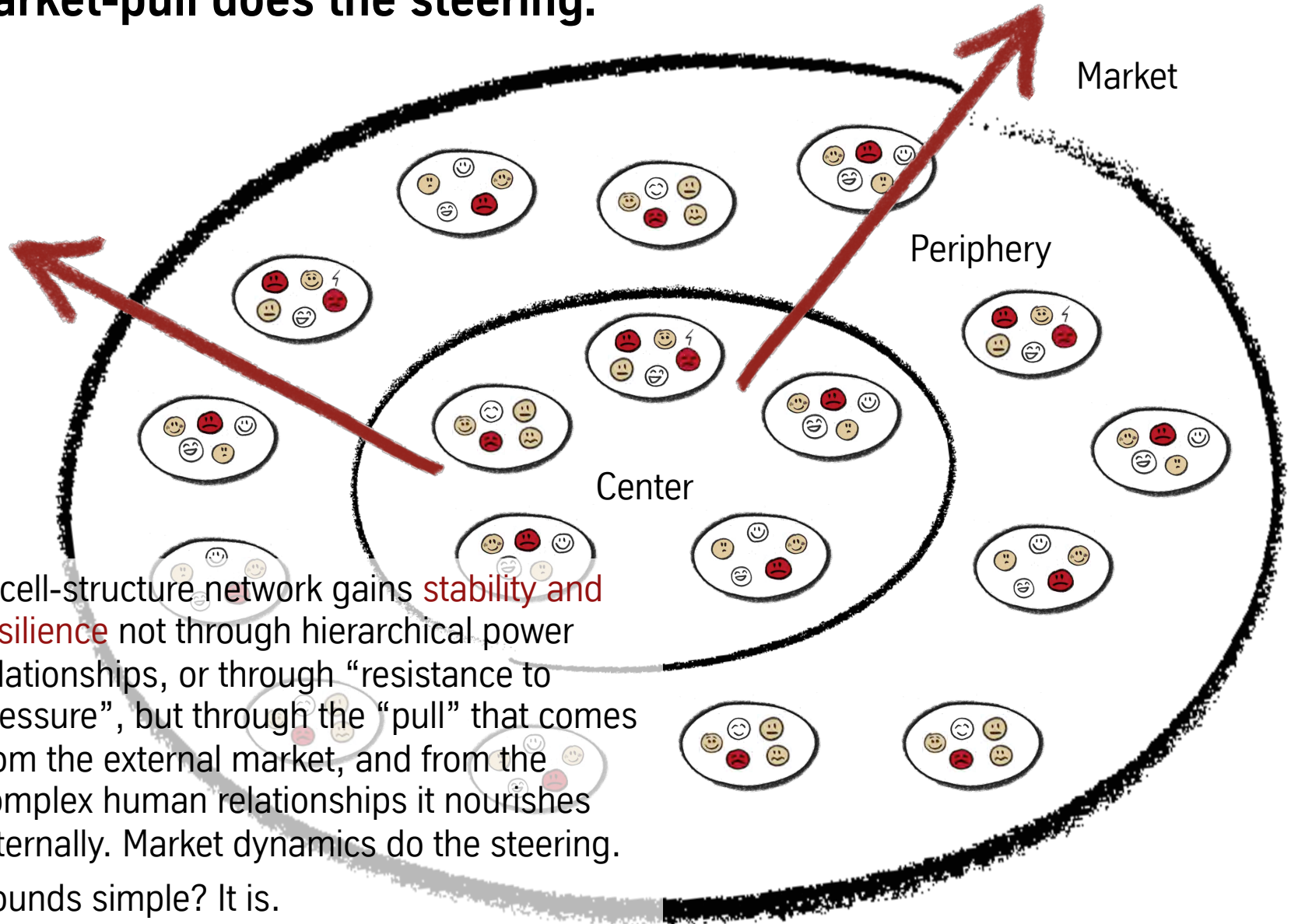
The market and its components



Market

- Customers
- Owners
- Banks
- Society
- Competitors
- Unions
-

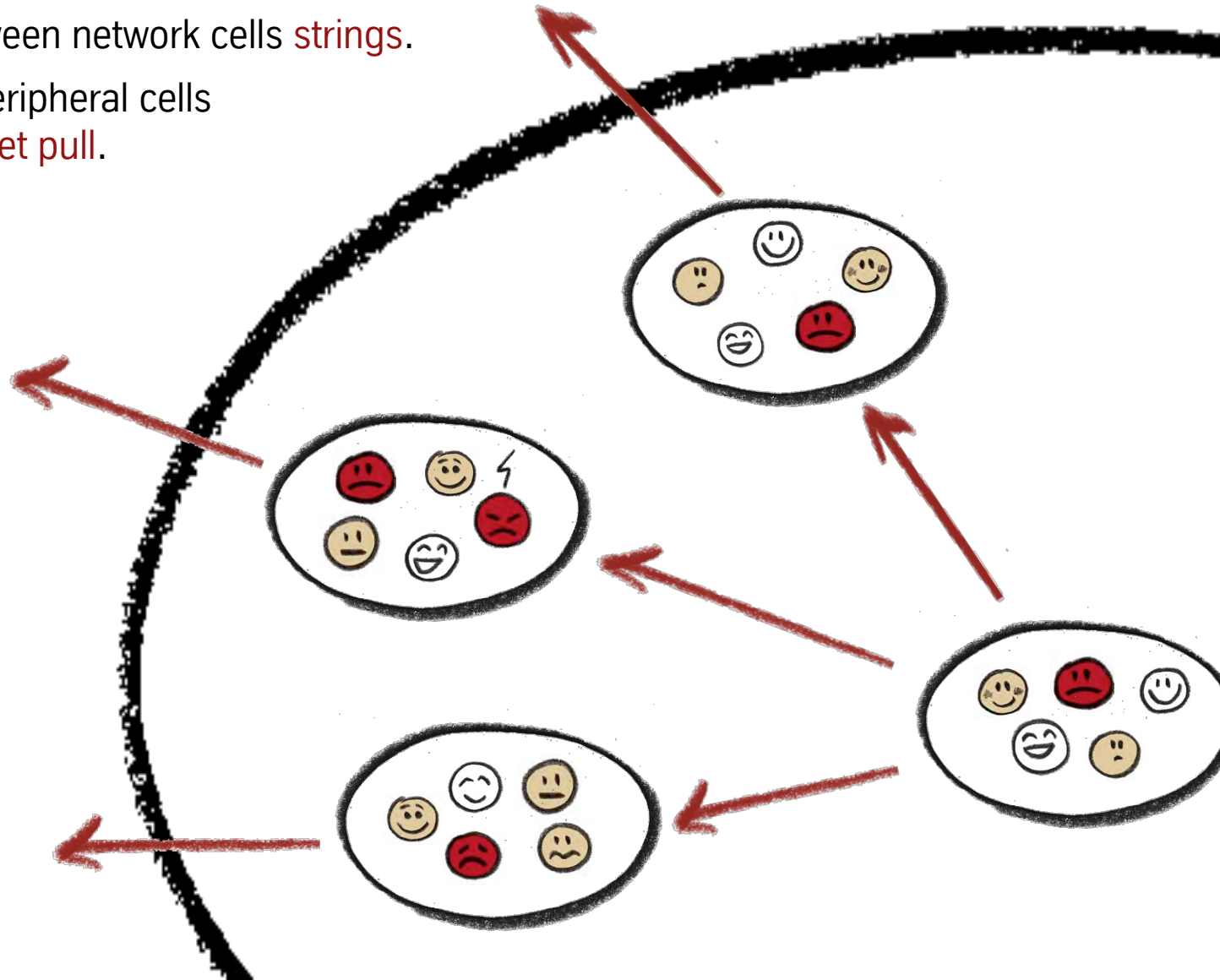
Value-creation flows from the inside out. Market-pull does the steering.



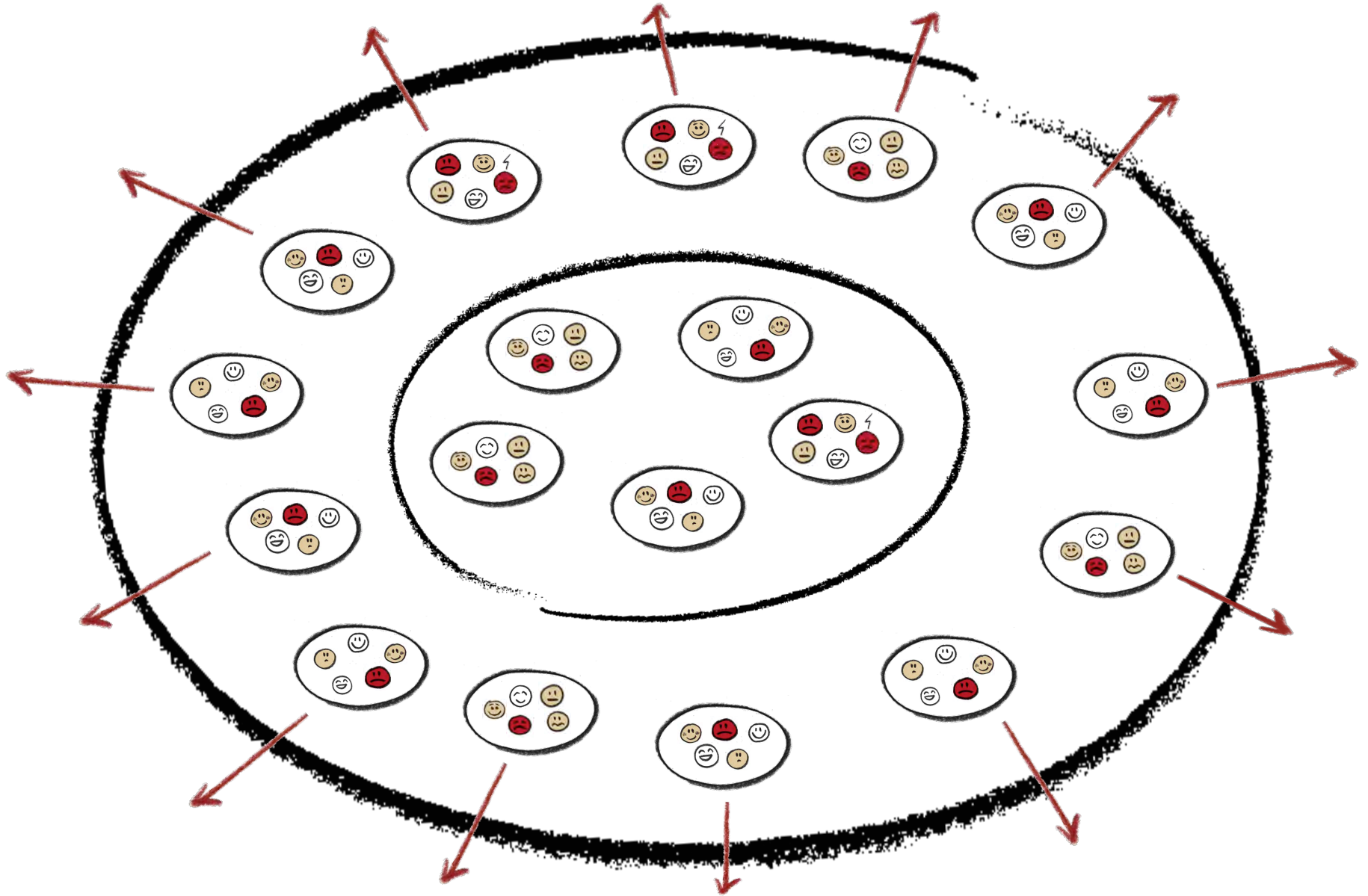
From value-creating teams to value-creating network

We call the links between network cells **strings**.

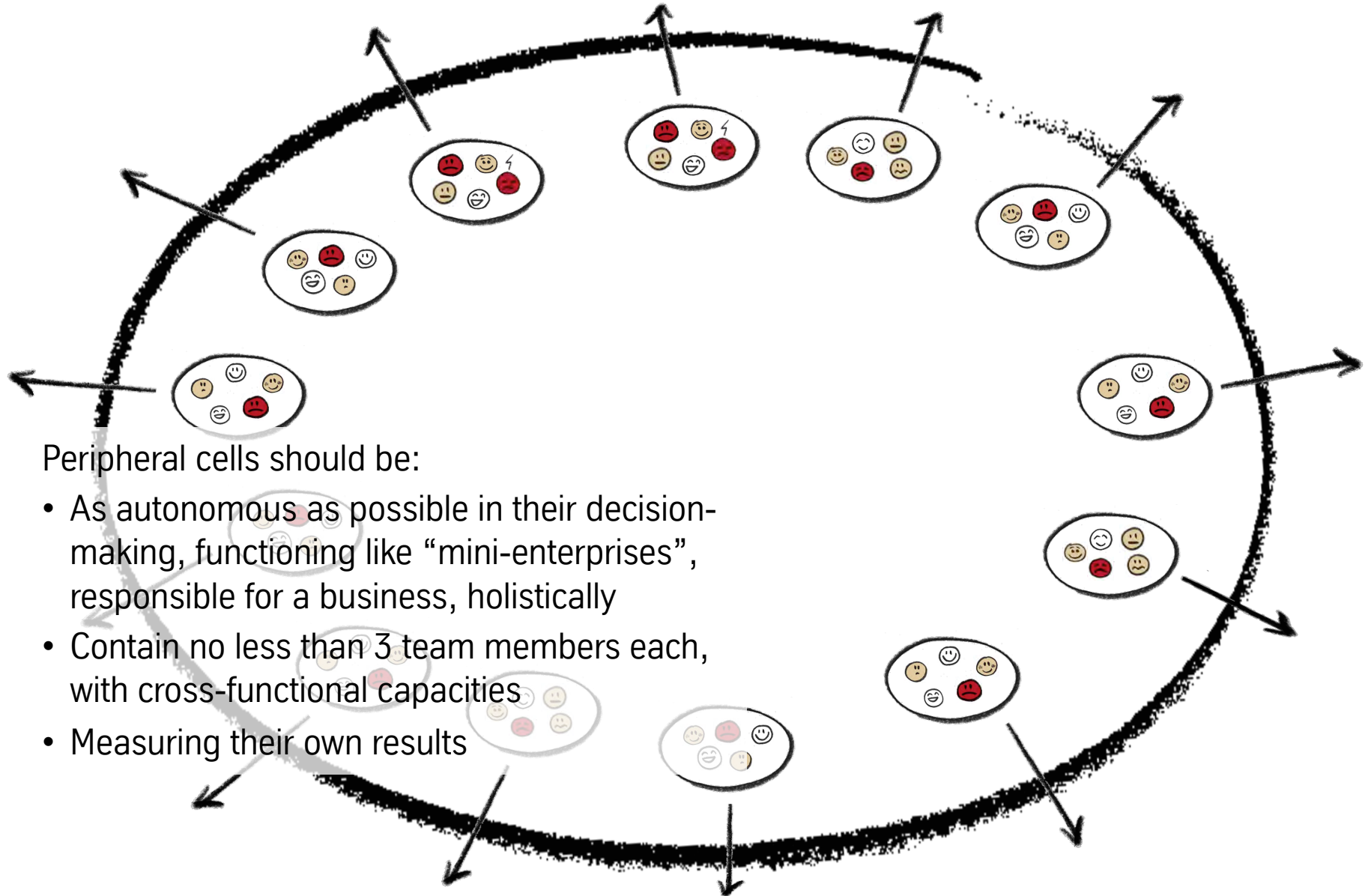
We call the links of peripheral cells with the market **market pull**.



Market pull: Only peripheral cells have direct links to the market and can thus deliver value externally



Step 1 in drafting your organization as a value-flow network: Start from the outside-in, by thinking about **peripheral cells first**



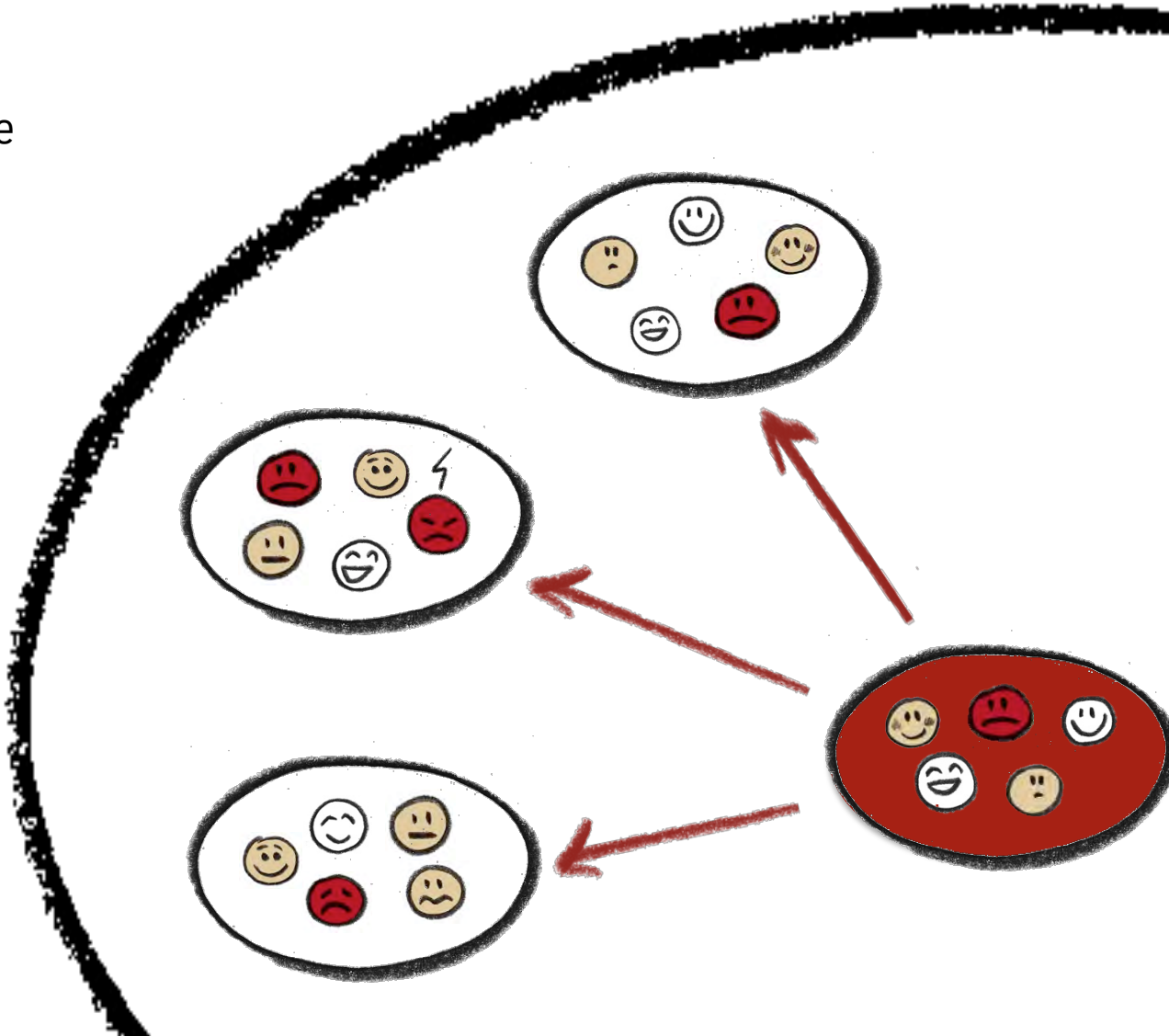
Peripheral cells should be:

- As autonomous as possible in their decision-making, functioning like “mini-enterprises”, responsible for a business, holistically
- Contain no less than 3 team members each, with cross-functional capacities
- Measuring their own results

Step 2: Design central cells as internally value-creating supply units

The role of central cells is to deliver value to peripheral teams that these cannot create themselves.

Their role is to serve, not to rule the periphery. It is not to execute power, or control. Ideally, these teams sell their services to peripheral cells through priced transactions, and on an internal market. Examples for how to do this exist at companies such as Handelsbanken, dm-drogerie markt, and Morning Star.



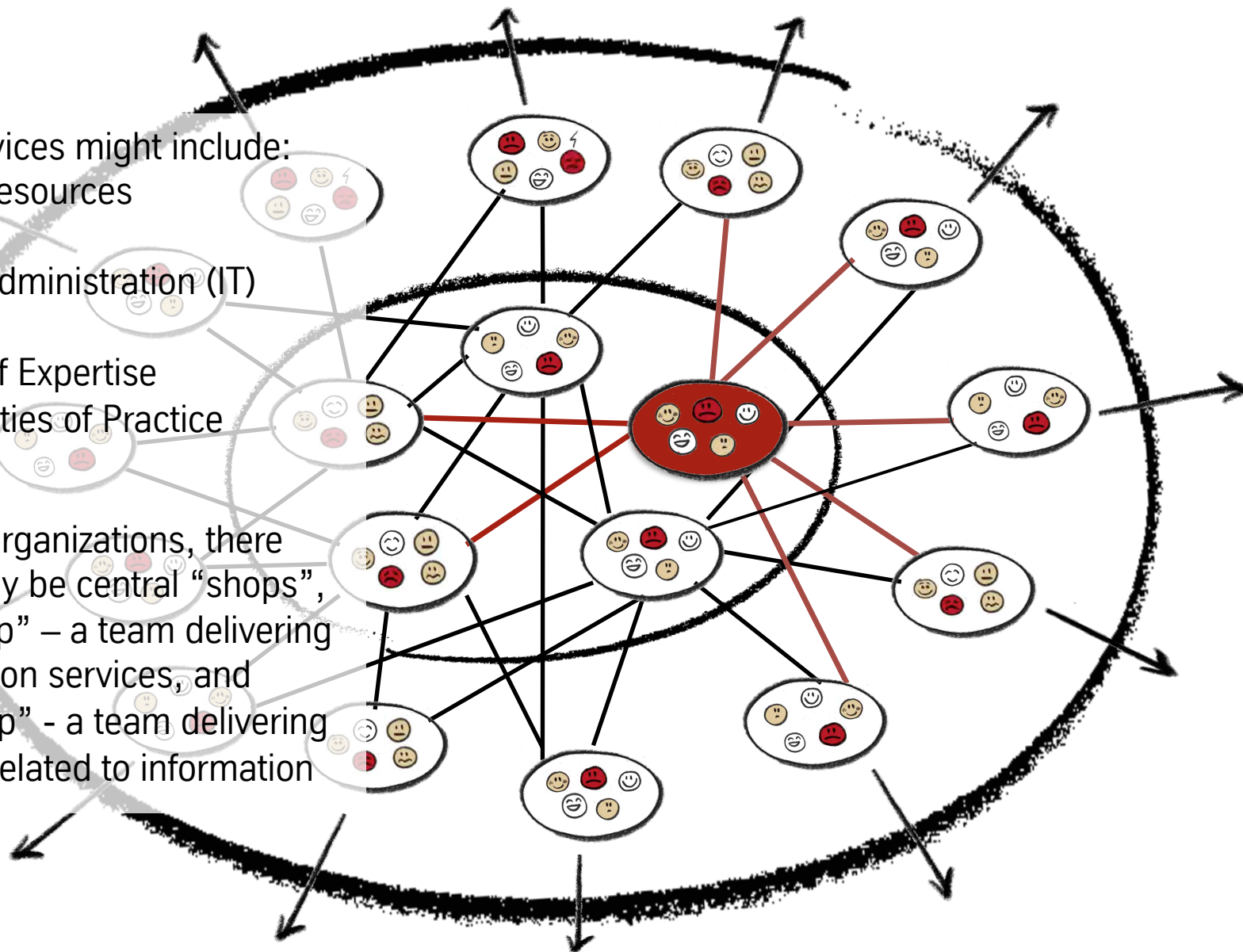
Central network cells

Central services might include:

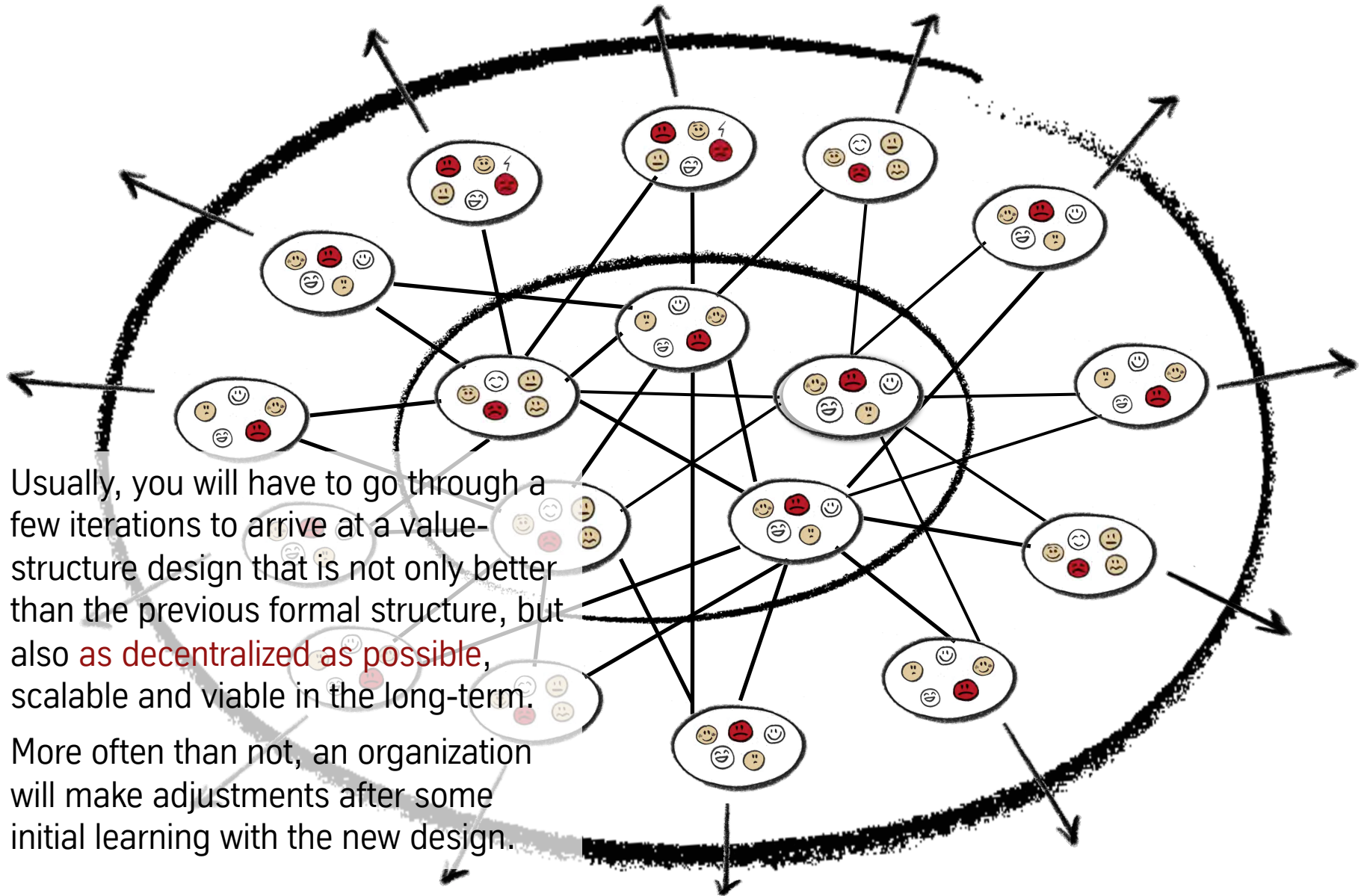
- Human Resources
- Finance
- System Administration (IT)
- Juridical
- Centers of Expertise
- Communities of Practice
- ...

In smaller organizations, there might simply be central “shops”,

- “Org Shop” – a team delivering organization services, and
- “Info Shop” - a team delivering services related to information



Step 3: Iterate – **involve many, many people** in the process of designing a full network structure



Usually, you will have to go through a few iterations to arrive at a value-structure design that is not only better than the previous formal structure, but also **as decentralized as possible**, scalable and viable in the long-term.

More often than not, an organization will make adjustments after some initial learning with the new design.

Individuals and “portfolios of roles”: A normality in decentralized network structures

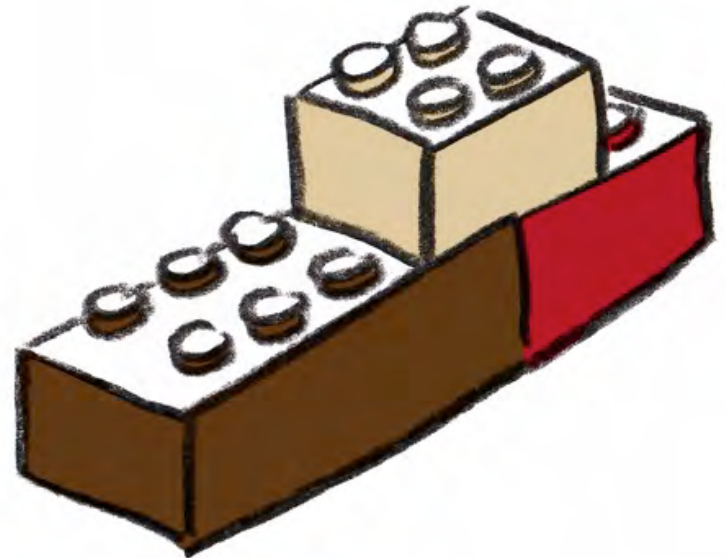
In a decentralized network structure, “positions” cease to exist. “Roles” rule. Individuals usually are not confined to one network cell alone, but will act in different cells, filling in different roles in different parts of the network.

Consequently, everyone keeps “juggling with roles”, all the time.

An example: A person with the official title of “CFO” on the business card would play a role in a central cell when serving other teams of the network, but be part of a peripheral cell when dealing with a bank. The same person might also fulfill additional roles within the organization that might have little or nothing to do with finance.



Part 6. Additional recommendations



Promote a result-based achievement culture

Make team performance visible (results only!), to nurture a team-based “winning culture”.

Never, ever, attempt to manage individual performance, though, as individual performance simply does not exist. Stop managing working time or controlling individual behavior - “behaviorism” has been proved wrong a long time ago!

What works, instead: The most adaptive and successful organizations focus on nurturing a culture that highlights the importance of “fun, while winning in the marketplace.”

You cannot have that controlling individual's behavior.



Promote self-development and mastery

You cannot and need not develop people. People can do that on their own. An organization, however, can create and should create conditions and forums for self-development, and it can also take care that leaders get out of the way by not trying to control or contain self-development.

Individual mastery is the only viable problem-solving mechanism in complexity.

We usually tend to overrate talent, and underrate systematic, disciplined learning. We tend to overrate class-room training, and underrate learning that is integrated into the actual work life. We tend to overrate formal instruction and underrate inspirational interaction, informal networking and communities of practice.

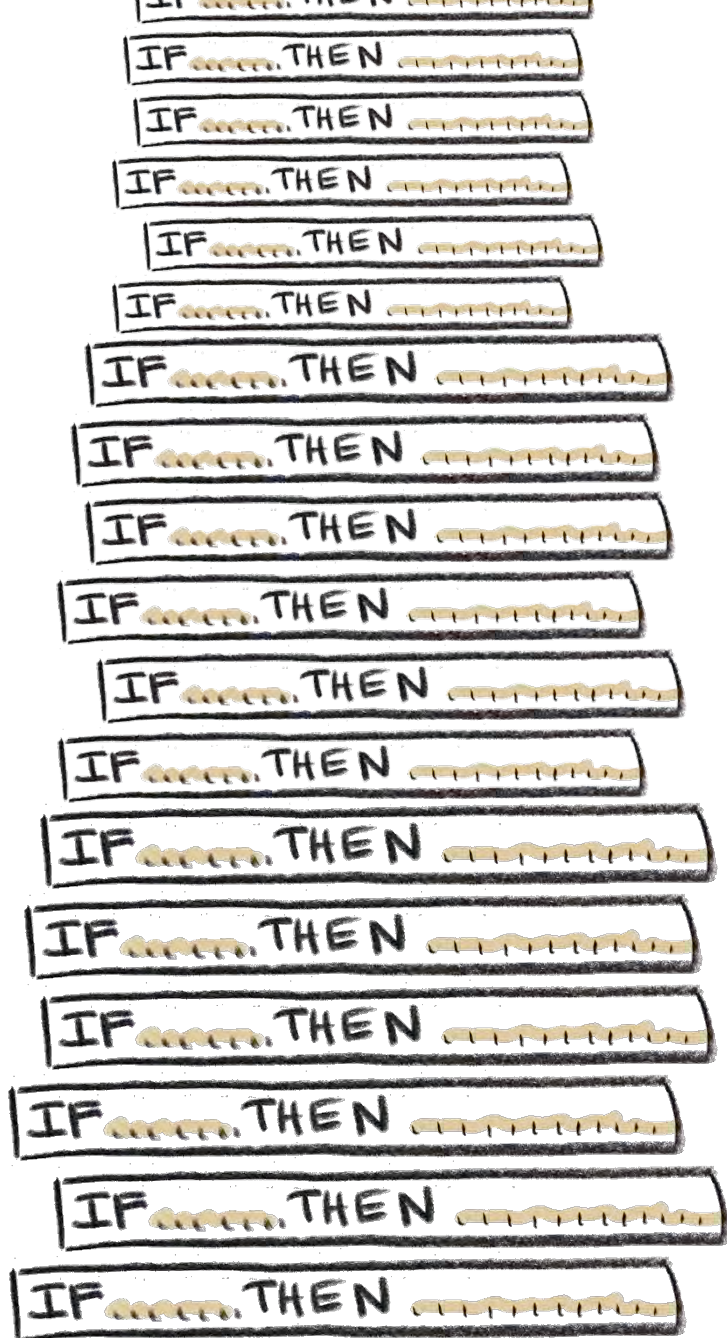
Training budgets only serve for control – not for learning. So scrap them and make learning resources available to those who learn, on demand.



Cultivate principles, not rules

Simple/few principles > Complex behavior
Complicated/many rules > Stupid behavior

DON'T DO EVIL.

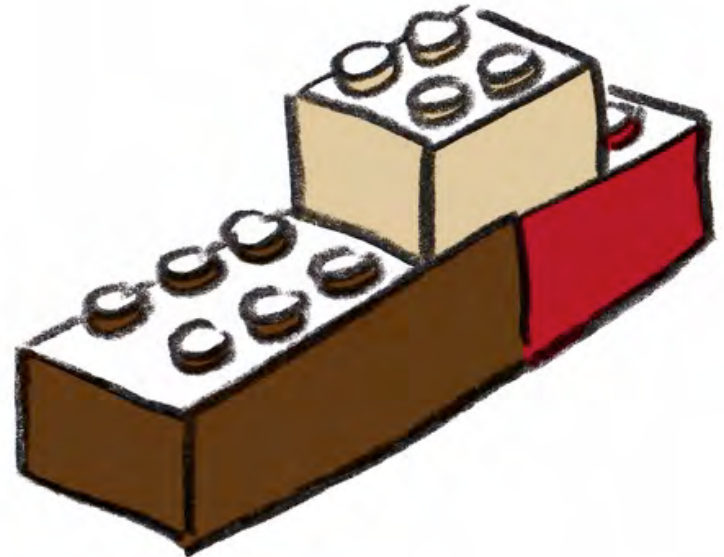


Focus leadership work on the system. Not on people.

Self-organization in complex systems is natural. With a containing boundary and external markets in place, that should provide for the steering.

Leadership, thus, has to be work focused on improving the system, on making the market palpable inside the organization through transparency and dialogue, and on allowing for self-organization and social pressure to function.

Work on the system, not the people.



Practice radical transparency

Information is to entrepreneurial responsibility what oxygen is to the human body.

In an organization, without fast and easy access to information – including that on team performance and financial results or the organization – teams and individuals will be waking around in darkness. Transparency is like turning the light on.

Transparency makes ambition, a healthy spirit of competitiveness, and group or peer pressure, possible.

Having “open books“ is part of that. If you find yourself thinking about possible ”dangers“ of opening the books, then you probably haven't thought the topic through, yet. Then it's time to do that, now.

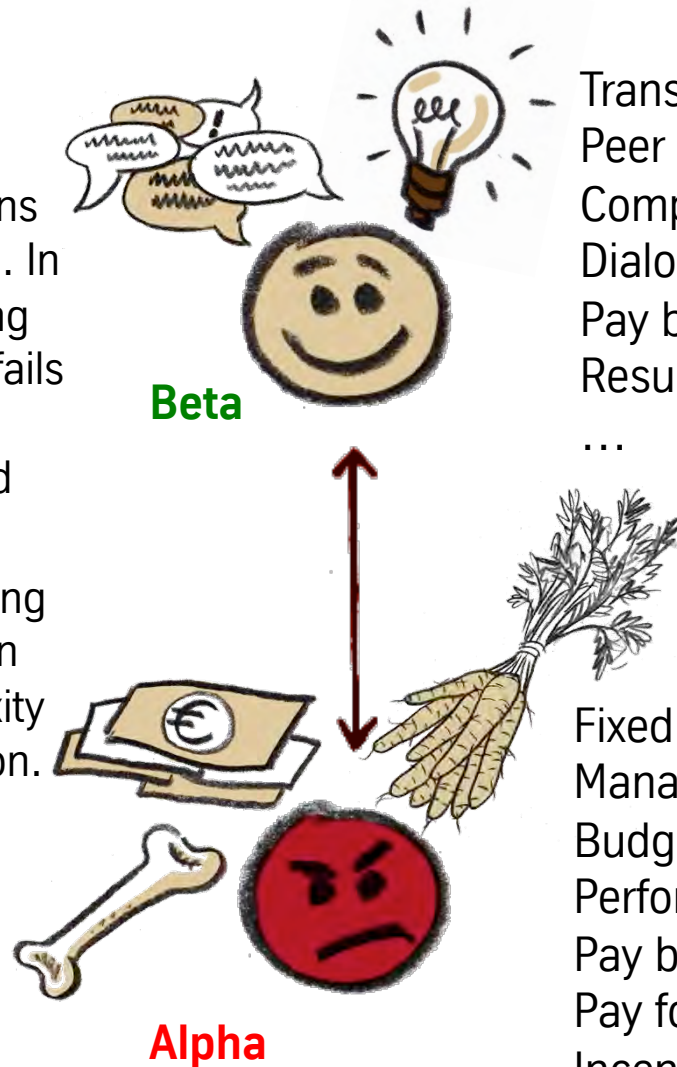


Make targets, measures and compensation “relative”

In dynamic markets, prognosis becomes impossible. Planning turns into a futile, if not dangerous ritual. In knowledge-intensive work, dangling carrots in front of people not only fails to work, it actually de-motivates people, strangles engagement and team spirit.

Direction through targets, measuring of performance, and compensation systems have to consider complexity and the nature of human motivation.

Let purpose drive behavior, not numbers or manipulative and controlling processes.



Transparency & Improvement
Peer team comparisons
Comparisons w/previous periods
Dialogue & dissent
Pay by market value
Result sharing

...

Fixed & individual targets
Management by Objectives
Budgets & Plans
Performance appraisals
Pay by Position
Pay for Performance
Incentives & Bonuses

...

A sum-up: Apply the full set of 12 laws of the BetaCodex - a set of design principles for complexity-robust organization



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

More reading and resources

For more about **organizational structures**, see our white paper no. 11.

For more about **cell-structure design**: see our white papers no. 8, 9 and 11.

For more about **“relative“ performance management**: see our white paper no. 10.

For more about **problem-solving in complexity**, see our white paper no. 7.

For more about the **BetaCodex**, see our white papers no. 5 and 6.

All papers can be accessed from this page: www.betacodex.org/papers

You are **free to use & share** this material. If you make use of this material in your work, please let us know –we would love to learn about that!

We **welcome your suggestions** to improve future versions of this paper.

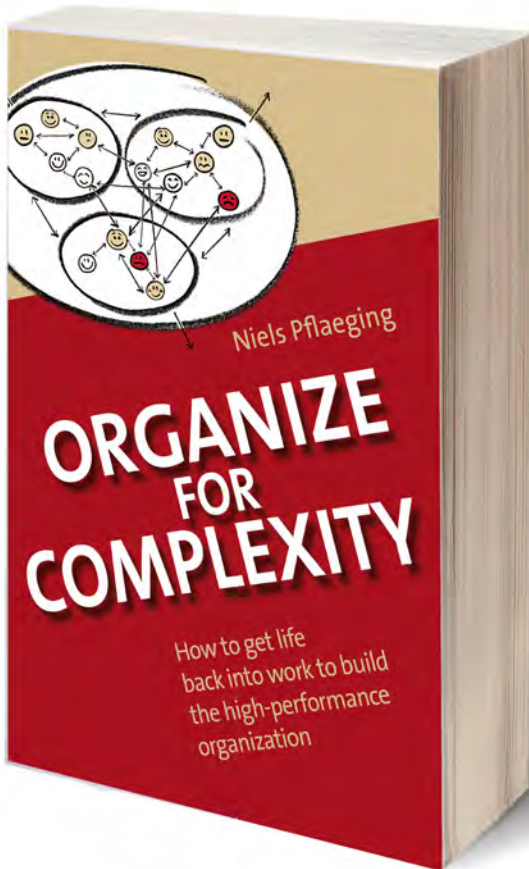
Thanks to **Pia Steinmann**, who crafted all illustrations used in this paper, and to **Jurgen Appelo**, whose drawings originally inspired it.

The BetaCodex Network white papers - so far

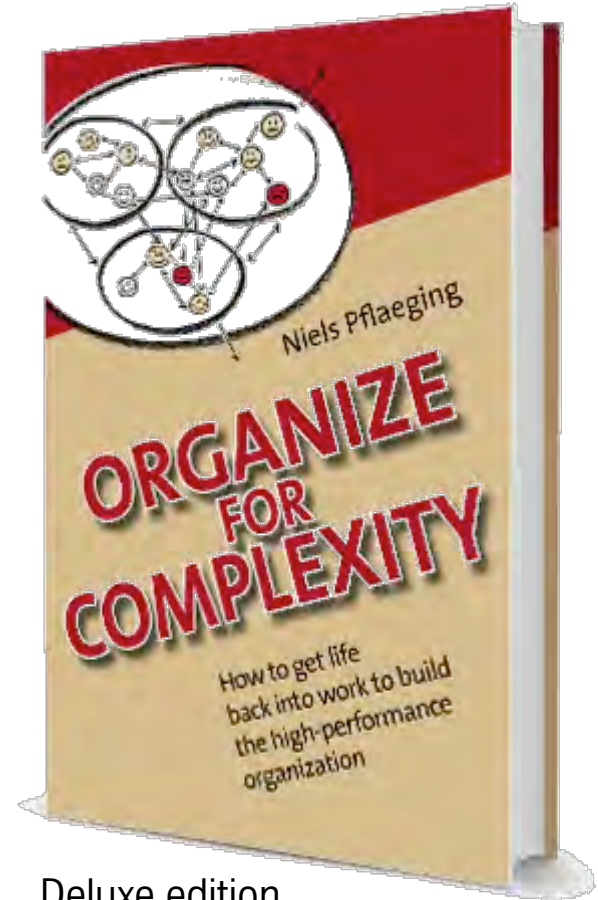


Find all BetaCodex Network white papers on www.betacodex.org/papers and on Slideshare.

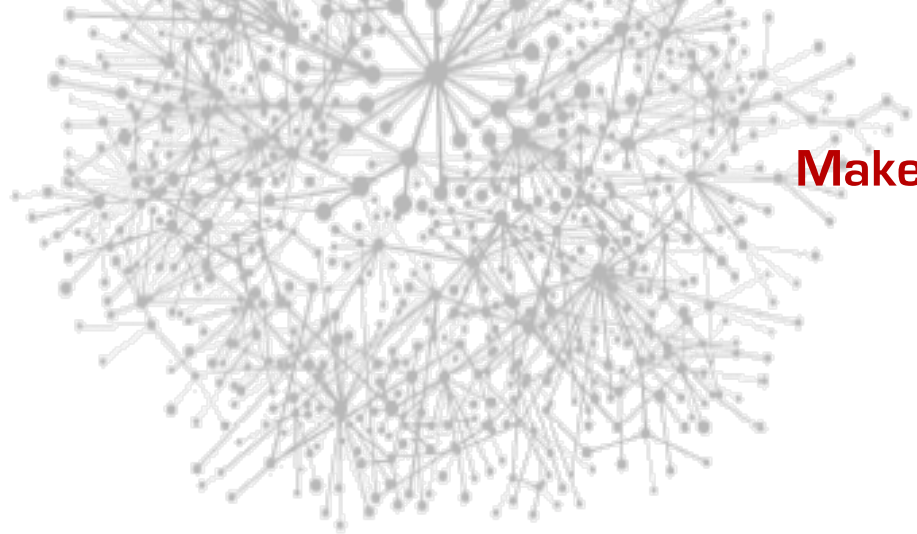
The “Organize for Complexity” book



Paperback edition



Deluxe edition
(with bonus chapter)



Make it real!



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