



How Organisations Work (And Don't Work)

"An engineer who understands how to control a complex physical system also understands how to control an analogous managerial system: all he requires to do is to generalise his engineering knowledge and then transport it to his managerial problems"¹

Isn't It Obvious?

This article might seem unnecessary and the topic obvious. The quote above though indicates that some people appear not to appreciate how dynamic, complex and unpredictable organisations really are.

The Smart Work Framework on the following page summarises the work of many theorists, researchers and practitioners over decades, and is supplemented by up-to-the-minute research and commentary on global workplace trends. In summary:

- organisational structures and processes need to adapt so that an enterprise can remain viable as the external business environment changes;
- structures, processes, support systems and technologies attempt to control and co-ordinate the enormous complexity of human behaviour;
- how structures, processes and support systems are designed and put in place influence how people work together.

My doctoral research fourteen years ago explored organisations as inter-connected systems, and how systems' design influences people's willingness and ability to engage in problem-solving and decision-making. These design principles are integral to the sort of

¹ Robb, F.F. (1984). 'Cybernetics in management thinking'. *Systems Research*, vol. 1, no. 1, 5-23.

business processes demonstrated in action by Japanese manufacturers and later taken up by western manufacturers.

Fast forward to now and a shift in the UK away from manufacturing and massive changes in the external business environment in the shape of seismic economic, technological, demographic and structural developments.

I began to monitor research on these trends about four years ago, through my work with Johnson Controls Global Mobility Network, an informal learning network for senior executives. In joining dots between all the emerging issues, it became clear that there is so much previous research and insights that are being overlooked – in my view.

As the world changes, there are calls for 'management re-invention'² and claims of 'new paradigms'³ emerging. If what re-invention means is doing all the good stuff that we already know about then yes, let's re-invent. It does seem though, that 'delusion with novelty'⁴ can blind us to old knowledge, which of course needs interpreting for current contexts, that offers anyone willing to listen guidance as to how we might go forward in these uncertain and turbulent global conditions.

This article shares just some of the existing research and theoretical principles I believe provide guiding insight. Of course the selection is personal and cannot claim to be in any way comprehensive.

Nevertheless, it is an attempt to provide a meta-view that can be added to, disputed and improved.

² <http://blogs.wsj.com/management/2009/02/18/moonshots-for-managers/>

³ CIPD (2008). How Smart Is UK plc?

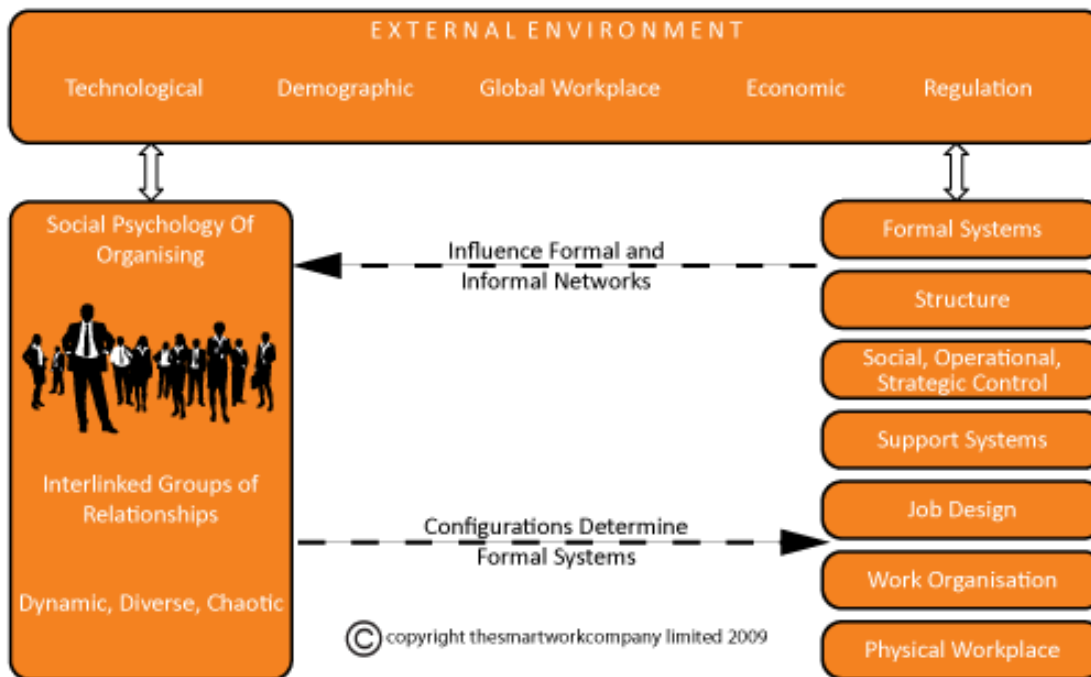
⁴ Pettigrew and Fenton (2000). *The Innovating Organisation*. Sage Publications

We Are Social

More detailed commentary is available at:

www.thesmartworkcompany.com/what-is-smart-working/.

From the website, you can click on the components of the diagram for access to topic information.



Social networking and collaboration tools are refocusing attention on something we have known for a long time and many businesses appear to forget: that organisations are social entities first and last. This is represented in the left of the framework: organisations as social, dynamic, inter-related, relationship-focused and networked. Although social networking tools have shifted the balance of power towards communities of consumers, causing disruption to the music industry and broadcast media, they have yet to have a similarly transforming effect inside enterprise firewalls.

There are indications that this might be changing:

“As the next generation of employees enters the workplace, their demands are likely to become more strident,

*making the provision of social networking tools critical to businesses looking to attract the best and brightest”.*⁵

Analysts at Gartner⁶ predict that enterprise social networking technologies will be among the top ten strategic enterprise tools for 2009, where strategic is defined as having potential for significantly impacting the running, growing and transforming of enterprises within the next three years.

The reach of networks and communities in already social, networked and connected organisations is now expanding across enterprise and national boundaries.

⁵ www.ft.com, 27th January 2009

⁶ <http://www.gartner.com/it/page.jsp?id=777212>



Business As White Water Rafting

Jim Balsillie, joint CEO of RIM which makes the Blackberry, sees business as a series of optimisations. He compares business to white-water rafting. You know roughly the direction of the course but energies are constantly in the moment to keep the boat afloat and heading in the right direction as quickly and safely as possible, while avoiding the rock that has just come into view⁷.

Businesses are currently facing extraordinary complexity and uncertainty from the external business environment. Large companies are fragmenting into eco-systems of alliances and partnerships, and shifting their centre of gravity to other parts of the world. Eco-systems of inter-linked enterprises begin to look and behave like social networks⁸. Enterprises and job roles go wherever skilled people happen to be. Fragmentation adds significantly to already near chaotic situations as integration and co-ordination overheads increase.

The emerging economies like India and China present both threat and opportunity. One threat is demographic; their large populations of young and ambitious workforces are a real competitive advantage at a time when the west is experiencing retirement of its Baby Boomers, who take their knowledge and experience out the door with them. Although so-called Generation Y, the 18 – 25 year olds are innovative and talented, there are not enough of them.

And as if all this was not enough, workplaces are reforming virtually online. National borders are increasingly meaningless, with all the implications for understanding and accommodating national, organisational, professional and demographic cultural diversity.

⁷ <http://www.2017.uwaterloo.ca/balsillievid1.htm>

⁸ www.microsoft.com/uk/business/peopleready/resources/ecomomist.msp

The Big Question

To survive the unpredictability of the operating environment, in Balsillie's experience, effective collaboration is everything; this means "minute by minute sense-making, checking, distilling, monitoring, constant feedback and modifying through millions of tiny short-term adjustments". Getting buy-in and engagement are pivotal.

"Many of us who push the concepts of social computing are often referred to as evangelists ... what you're evangelizing isn't about a bunch of technology. It never has been. It's about human potential. About a more efficient and effective way to collaborate. Collaboration is the entire reason a company exists."⁹

Given the complexity of the external business environment, that organisations are essentially social entities, and that workforce buy-in and engagement are crucial for effective collaboration, what sort of formal systems do enterprises put in place to allow them to function effectively in the face of such unpredictability and uncertainty? How are enterprises mobilising and engaging people effectively in the face of this environmental complexity?

Control

On the right side of the diagram, you can see that businesses try to control organisational dynamics through formalised organisational structures, systems, policies and procedures. Businesses have choice in how they put in place systems, processes and policies. Choices are influenced by a multitude of contextual factors but in reality management attitudes and values significantly influence formal policies and processes¹⁰.

⁹ <http://rexstoughtspot.blogspot.com/2008/03/keeping-faith-e20-evangelist.html>

¹⁰ Pettigrew and Fenton (2000). *The Innovating Organisation*. Sage Publications

Control has been a dominant concern for business over the decades. Tannenbaum¹¹ wrote in 1968:

“the theoretical analysis of control in social systems has a long and venerable history ... control helps circumscribe idiosyncratic behaviours and keep them conformant to the rational plan of the organisation.”

Since then, a ‘considerable literature’ has emerged on management controls and their fit with structure and context¹². Control continues to be a management preoccupation right up until the present day. According to a 2007 McKinsey article, informal networks in organisations ‘typically fly under management’s radar, they elude control’ and ‘the greatest limitation of these ad hoc arrangements (informal networks) is that they can’t be managed’¹³. Of course control and co-ordination are entirely valid management concerns. It is how these processes are designed and monitored that matter.

Behaviour Or Output Control?

Operational control focuses mainly on output or on behaviour¹⁴. Output control is based on valid output measures: setting standards, evaluating performance against standards and consequences arising from performance evaluation. Thinking about trends and changes in the external business environment, there are a number of things happening that are forcing managers to have to think about outputs. Work is becoming more distributed,

mobile and ‘anytime, anywhere’, and as it does part of the work of management and leadership will be to ensure that people have all that they need to get on with job out of sight. One of the most widely-reported case studies of companies instigating flexible working regimes, where people work from home part-time or full-time, is BT. The inability of some managers to identify and monitor outputs was a barrier that had to be overcome¹⁵.

According to Ouchi¹⁶, behaviour control is particularly inappropriate where tasks are complex and unpredictable and this is becoming the norm in the knowledge economy, especially in knowledge work that is messy and unformulated. In practice, behavioural control is widespread. Not only is it pervasive, it can be counter-productive:

“Engineering managers seem so obsessed with exerting and maintaining control that they disregard the havoc that excessive control wreaks on the business.”¹⁷

Shadow systems in organisations are informal, unofficial and self-organised networks. They can be influenced but they cannot be managed. This is what Stacey¹⁸ says about shadow networks:

“I am arguing, then, that it is primarily the state of the shadow system that determines whether or not an organisation operates in the space for creativity ... (the shadow system) lies at the edge of disintegration or anarchy.”

Shadow systems can be destructive or creative - it depends on prevailing organisational cultures and how people are treated. Politics, jockeying for position, cliques, cabals, skulduggery, the exercise of

¹¹ Tannenbaum, A.S. (1968). *Control in Organizations*. McGraw-Hill Inc., New York.

¹² Selto, F.H., Renner, C.J. and Young, S.M. (1995). ‘Assessing the organizational fit of a Just-In-Time manufacturing system: testing, selection, interaction and systems models of contingency theory’. *Accounting, Organization and Society*, vol. 20, Nos 7 & 8, 665-684.

¹³ Lowell, L et al. (2007). *Harnessing the Power of Informal Employee Networks*, The McKinsey Quarterly, No. 4

¹⁴ Ouchi, W.G. (1977). ‘The relationship between organisational structure and organisational control’. *Administrative Science Quarterly*, vol. 22, 95-113

¹⁵ www.thesmartworkcompany.com/pdf/NWWCS1.pdf

¹⁶ Ibid

¹⁷ Hitchins, D. (1997). ‘Carry on thinking!’. *Engineering Management*, vol. 7, no. 3, 114-116

¹⁸ Stacy, R. (1996).



subversive power, resistance, creativity, collaboration - it's all there in the dynamic, self-organising shadow system. People will connect and communicate within informal networks at will and as they see fit, with or without technology.

Influencing Buy-In And Engagement

This is not to say that behaviour cannot or should not be influenced. Belief systems are often used in distributed organisations to influence behaviour through dissemination and enactment, especially by senior management, of core organisational values. Another tactic is negatively-stated boundary systems that tell people what not to do. Boundary systems give scope for innovation and are critical where trust is a key competitive asset¹⁹.

Going back again to distributed, mobile, remote working. As well as managers having to develop capabilities in negotiating and monitoring outputs, this sort of working requires high levels of self-management – another shift in practice and attitudes for traditionally minded managers. Experience from a number of manufacturing case studies shows that self-management turns out to be more controlling than anything that management could ever impose. Barker²⁰ calls this concertive control, social self-control exerted by peers who force compliance through consensus on shared values. The combination of peer pressure and self-regulation can produce powerful social control.

That control has been such a persistent management preoccupation for at least forty years, largely directed towards behaviour, is testament to the impossibility of controlling people, who always find ways of asserting

their will. Treat people badly and coercively control them and they will wreak their revenge through resistance, non-compliance and sabotage. Cause and effect become intertwined and it is not difficult to see that even more repressive and equally ineffective behavioural control might be the response.

Ashby's law of requisite variety implies that a system's responses to its external environment must match it in complexity. The system can try to attenuate external complexity as well as amplify its responses. A significant way for enterprises to amplify their responses would be to facilitate the collective intelligence and creativity of the workforce. Micro-managing and treating people like they are not to be trusted is not consistent with creating requisite variety.

Secret Is The System

How systems are designed influences behaviour. According to Senge²¹, "systems cause their own crises, not external forces or individuals' mistakes". Deming famously demonstrated the effects of statistical variation in manufacturing systems. He showed that willing workers battle against the effects of a bad system. Because systems design influences performance outcomes, he argued vehemently against performance related pay and short-term incentives that support competitive behaviour. He advocated co-operation as the way to achieve quality outcomes and wealth creation.

A number of research studies support the facilitating influence of systems. A Towers Perrin survey of 88,600 employees in 18 countries on attracting and engaging talent found an average 21%, with regional and national variation, of employees fully engaged, 41% enrolled, 30% disenchanted and 8% fully disenchanted²². The survey found that the organisation, 'a whole system

¹⁹ Simons, R. (1995). 'Control in an age of empowerment', *Harvard Business Review*, vol. 73, no. 2, 80-88

²⁰ Barker, J.R. (1993). 'Tightening the iron cage: concertive control in self-managing teams'. *Administrative Science Quarterly*, vol. 38, 408-437

²¹

²² <http://www.2017.uwaterloo.ca/>



of leadership, learning, empowerment and corporate social responsibility', is the most powerful influencer of employee engagement.

*"The organization, not intrinsic personal or work experience factors, has the strongest positive impact on engagement ... the key is creating a whole system of leadership, learning, empowerment and corporate social responsibility"*²³

A consistent finding of the survey was that people seek challenging work, and that learning and development is a crucial condition for engagement. There is a mis-match between what people want from work and the opportunities they are being given; people want to invest discretionary effort but organisations are not effectively tapping into their commitment and energy. Workplaces are emptying of meaning as businesses become risk averse and people are frustrated at not being given the opportunity to make things happen. In general, business leaders are failing to inspire and create receptive working environments.

Pettigrew and Fenton, referenced earlier, also found that high-performance is linked to complementary structures, processes and boundaries that are implemented in a systematic, mutually supportive way; "doing more of one thing increases the returns of doing more of another". They also found misalignment in support systems:

"Our case study findings show that the incentive systems of most organisations are often remarkably misaligned with corporate attempts to build good citizenship (to share knowledge) in organisations where competition and collaboration have to coexist."

It has been a while since I read this 1995 research paper from Huselid²⁴. From memory,

²³ Towers Perrin, www.2017.uwaterloo.ca

²⁴ Huselid, M.A. 1995. The impact of human resource management practices on turnover, productivity, and corporate

he also reports that clusters of HR practices implemented together yielded the 'doing the more of one thing increases the returns of doing more of another' that Pettigrew and Fenton found. It is wise to be aware of the possible limitations of research studies. Nevertheless, integrated support systems are tentatively linked with high-performance.

This And That

Another feature of innovating organisations revealed in Pettigrew and Fenton's international research study is that these enterprises put in place structures, processes and boundaries that allow them to negotiate dualities.

Examples Of Dualities
Hierarchies and networks
Centralising strategy and decentralising operations
Standardising and customising
Control and self-organisation
Continuity and change
Stability and innovation
Order and disorder
Behaviour and output
Manage inputs and outputs

This approach is picked up by other commentators. Analysis of Honda's strategic approach to becoming a 'global local corporation' highlighted a Japanese cultural tendency to accommodate dualities²⁵. The same theme was dominant in Dr Francis Westley's session at the Workplace 2017 conference at the University of Toronto in 2007²⁶. She described work systems full of

financial performance. Academy of Management Journal, 38, 635-672.

²⁵ Andrew Mair (1994). *Honda's Global Local Corporation*. St Martin's Press, New York.

²⁶ www.2017.uwaterloo.ca



paradoxes and dilemmas. Using the conflicting dimensions of safety and speed in sports cars as an illustration, she emphasised the fact that managers regularly have to reconcile the horns of multiple dilemmas.

Final Reflections

Structures and processes need to adapt as the world changes. Management practices that are a hangover from when people worked in one place, when machines and production lines dictated the pace of work and when management's role was largely policing behaviour – these things are no longer appropriate or fit for purpose.

We live in a connected world, where competition from clever and cost-effective talent is not going away. Businesses really need to value people's knowledge if they want to stay in the game, creating work environments that let people collaborate and learn together. How structures, processes and management support systems are designed and put in place influence how people work together.

Structures and boundaries in a continual state of adaptation and reinvention can lead to levels of complexity that add significantly, through management overheads, to already near chaotic situations. Coping with such distributed diversity suggests holistic thinking and action is imperative in co-coordinating processes among structural subunits²⁷. There is an enduring obsession with attempting to control complex social dynamics, which is futile in organisations functioning in a continual state of flux at the edge between order and disorder.

“The test of a first-rate intelligence is the ability to hold two opposing ideas in the mind at the same time and still retain the ability to function. One should, for example, be able to see that

²⁷ Pettigrew and Fenton (2000). *The Innovating Organisation*. Sage Publications

things are hopeless yet determined to make them otherwise.”²⁸

As the world changes rapidly, smart businesses will learn to accommodate co-ordination and self-organisation, collaboration and individual focus, mobile and location-based, local and global, virtual and real-world and a myriad other potentially conflicting considerations. Rather than micro-manage and constrain people, which as we argue is in any case ineffective, enterprises need to put in place integrated systems designed to amplify their knowledge, participation and creativity.

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About The Smart Work Company:

Anne Marie is passionate about blending work-based learning and new management thinking. She has an international track record, having helped senior executives from London to Moscow to embrace new approaches to management.

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²⁸ F.Scott Fitzgerald. *The Crack-Up*, <http://www.esquire.com/features/the-crack-up> (originally published in February, March and April edition of Esquire 1936)