



EXTRAORDINARY ORGANIZATIONS

Creating Extraordinary
Quality of Work Life, Customer Benefits, Business Results

YOUR COMPANY DOES NOT EXIST

Notes on the Extraordinary Organization

By Don Yates and Mark Davis

This paper appears in the Vol 30, No. 5, May 2001 issue of *The Sudbury Valley School Journal*. A slightly edited version of it appears on Page 14 of the January/February 2001, Volume 22, Number 1 issue of the *Journal of Business Strategy*.

Pre-Copernican Organization Theory

Pore over the bookshelves of CEOs and other senior managers, and you will often find miniature libraries on organization theory, many of them “leadership” books, from rip-offs of Sun Tzu’s ancient classic, *The Art of War*, to highly popular books like those of Tom Peters.

Pull these books off the shelf, and you’ll often find them earmarked, with key passages highlighted or underlined for quotation in speeches.

It is staggering to count the sheer number of books and theories that have come up for their fifteen minutes of fame: Total Quality Management, Management-By-Objective, various forms of re-engineering. Each has had its season as the rage of b-school electives and consultants’ pitches. The best have deserved their wide currency, making tremendous contributions to our understanding of how organizations work and what they need to do better.

Still, not one of these models has become dominant. Not one has had staying power. After so many bright people have put forward so many well-thought out programs, why is it that we still hunger for more? Why do senior managers remain ready for the next big answer, as if they expect a unified field theory of management?

Perhaps the reason management and organization theorists have fallen short is that, for all their willingness to think anew, they have addressed the inadequacies of our governing paradigm without truly replacing it. They have been like early astronomers who resorted to all kinds of tweaks and nudges to explain why their models failed to predict the movements of the planets, and continued to hold this line even after the weight of evidence presented by Copernicus, Kepler and Galileo. They find themselves in the position of the defenders of the status quo who could never quite bring themselves to pose such a disruptive question as whether or not the earth was the center of the solar system. But it is just this kind of disruption that history has consistently shown us is necessary to sweep aside one paradigm to make room for another.

Perhaps, in a similar way, we need a completely new way of looking at the organizational world. What might a new paradigm look like? The best way to answer these questions is by beginning an open dialogue like the one initiated by Copernicus when he questioned the most fundamental beliefs of his day. We must ask disruptive questions about the most fundamental beliefs about organizations that make up our current worldview.

Three Disruptive Questions

Do companies really exist at all, or could the very idea of a company be considered a rhetorical fiction?

In other words, is it necessary to speak and think of a company as a being that acts on its own as an individual?

Instead, could a company fairly be described as a force field made up of the relationships between the people who associate with each other under a common banner? After all, when the people who make up an organization go home at night, the company no

more exists than a disbanded army. A company cannot imagine anything, cannot create anything, cannot sell anything. Only the individuals who make up the company can do these things.

This is a very elementary principle, but it is often such basics that get dismissed and overlooked.

And it is one that leads to a second disruptive question about another fundamental tenet of our times.

Do companies really exist to create profit?

No one can doubt that profit is a vital sign, one that confirms that a company or organization is satisfying external needs. This role of profit, vital as it is, has perhaps led us to exaggerate it. An organization must also respond to other things, especially to the needs of the people who make it up. After all the people who comprise an organization are the ones who determine which activities to pursue, which “missions” to undertake—always with their own interests, dreams and desires in mind.

This is seen more clearly when one traces any given company or organization back to its origins. To reduce it to the basics, an organization begins when a founder needs the help of others to get where he or she wants to go. These others join because they see their participation as getting them where they want to go—either because they are attracted to the founder’s intent, or because they are offered inducements to come along. Every organization was first established to benefit the set of individuals who created it. No organization is an end in itself. They are all means.

This purpose for founding the organization—the fulfillment of the wants and needs of the members who make it up—remains its abiding purpose, whether it is acknowledged or not. However, for the members to fulfill their wants and needs they must together, as an organization, successfully pursue the original intent that brought them together. They must achieve organizational results as a means to individual results.

Thus the first task of any organization is to serve the needs of the people who make it up, and to honor their desires. The second task is to create a producing or servicing system that creates the results that will fulfill the organization’s commitments to its customers. These two tasks are interdependent but distinct. The organization remains a tool to create for the founders and their colleagues what they really want (wealth, status, joy in the work itself). But to do so it must also succeed as a serving entity.

The challenge for the modern organization is to accomplish both tasks equally well. A company that can do both exceptionally well at the same time could be called an Extraordinary Organization.

In our everyday experience, we’ve all come across three other types of organizations. The most common is the Exploitive Organization, one that scores highly in serving the organization, but does poorly in serving the individuals within it. A second is the Egocentric Organization, one with high individual satisfaction, in which people are well rewarded, but the organization is poorly served (some of the more flamboyant S&Ls of the Eighties come to mind). A third kind of company, one which serves both individuals and the organization poorly, is simply Extinct.

The change programs of the past—Total Quality Management, Management by Objective, Quality Circles—all focused on trying to improve these three faulty organizations by trying to accomplish one task better, the results of the organization, without really working on the other task, meeting the needs and the wishes of the organization’s people. The Quality of Work Life movement tried to improve the people task, but did so primarily with a view toward serving the company. This too, falls short.

People must become the ends served by organizations, not the means to the ends of others. Corporate patriotism cannot motivate, liberate, or inspire people to take work “to the next level.”

Questioning whether companies are real and whether they exist for profit, leads us to ask possibly the most disruptive question of all— one that questions a belief that is perhaps the most fundamental to the way all organizations are run.

Is the belief that all authority in an organization must derive from a single source still supportable in an information age?

For three hundred years, since the first rumblings of the Industrial Revolution, organizations have been ruled through hierarchies. The paradigm of centralized power, as pervasive as it remains, may have reached its effective limits. Despite all the reinvention and re-engineering, few proponents of change have questioned the right or the need for command to emanate downward from the apex of an organizational pyramid to its base.

True, most of these proponents of change have envisioned flatter pyramids. That is, they would distribute power widely or push it down to lower levels. They applauded empowering the factory worker to pull the chain that stops the assembly line. They all stood in favor of delegating more power to teams dedicated to achieving specific results. But none has gone so far as to challenge the basic belief in hierarchy itself, to question the need for the whole structure of supervisors and the supervised.

Perhaps recent organizational theorists, for all their brilliance, have been like those medieval astronomers tweaking and nudging their models in vain. None have yet to consider what a new model of the organizational “Solar System” would look like if the planets themselves determined their own orbits and arranged their own positions.

The very idea that work could take place without central authority cascading down a given hierarchy is, of course, so very disruptive that it will most certainly be met with considerable resistance. After all, it only took the church four centuries to accept Galileo; and he wasn’t even threatening the control of every manager on earth.

These three questions then are certainly no less disruptive to our organizational status quo. Therefore, they require us to consider whether the time is right for them and whether an Extraordinary Organization built on new beliefs stemming from them is even feasible.

Machine Displaces Man, Man Displaces Machine

In our thinking today, the power-center of our productive universe is still the machine. It is around this focus that we think people and other resources must orbit. This remains true despite the fact that most people no longer work in factories but in the service sector. They are

still expected to function as cogs in the machine, as Taylorite masses to be commanded and conducted down to their finest movements (or, in modern times, to their very thinking).

In the past, the machine at the center was the steam engine, the smelting furnace, and the production line. These machines had to be fed, stoked and run by humans who were more or less interchangeable. What has changed is that the machine that organizes work today is, of course, the computer.

This is revolutionary, because the computer is the first machine to rely on the uniqueness of each individual who operates it and provides it with content.

This dependence on content—with all its nuance and need for context—makes the person, not the machine, the true center of the new economy. In the past, when a factory worker left a job, he lost his connection to the machine. When a knowledge worker leaves a job today, it is the machine that loses the connection to the person, the operator who made the machine's output unique and valuable.

In some ways we have come full circle to the time just before the Industrial Revolution when most people were basically independent actors. Prior to the advent of the big machine, most people were pretty much on their own, selling their wares in the marketplace. True, they had guilds and landlords to contend with. True, life could be nasty, brutish and short. But at least many people could ply their craft or manage their farm as they saw best.

In the 21st Century, the individual is once again a "free agent." Loyalty goes to one's self first; one's craft second; one's "employer" last. The high-tech knowledge workers of the 21st Century carry their most valuable commodity inside their heads. Such workers will not hesitate to walk out the door if ignored or unappreciated. And when these workers leave, they will take valuable company assets with them, capital stock in the form of ideas and skills.

While the relationship of the individual to the organization has changed, our mindset has not. Work is more associative today than ever before. Most people still seek to fulfill their own goals by associating with others in a given organization. Yet this basic understanding, quite healthy for all parties, is often treated as a shameful secret, something to be buried and denied. In true Industrial Age fashion, people are still asked to enthusiastically pledge their loyalty to the organizational entity. We are still imbued with this false spirit of corporate patriotism, one that does everyone a disservice by obscuring the real reason people come together as an organization.

What is needed at the workplace is a more open learning environment, one where workers ascend the ladder by taking on new tasks and challenges. And the ladder they seek to ascend is not a ladder of status, or of power, but of knowledge and skill. What is also needed is an environment in which people can become and act as fully interdependent equals. Only when they do will they be able to develop and put forth their full potential, which can carry them to the level of extraordinary. A hierarchical system is stuck in an everlasting parent/child world in which no one can ever reach that full potential.

One common objection to this approach, of course, is that a company without hierarchy is a company in which no one is in charge. This is the wrong way to look at it. Organized properly, a company without hierarchy is one in which everyone is in charge.

The Extraordinary Organization

Can such organizations exist in the real world? They are still rare, but emerging new forms of organization suggest strongly they can. No organization currently appears to exhibit all aspects of zero hierarchy or of other attributes arising from new beliefs. However, taken together the evidence is mounting that it is not only possible for them to exist but to substantially outperform the standard organization.

One London firm that exhibits a number of features of such new beliefs is an advertising agency called St. Lukes. It has a legal definition as a special kind of cooperative called a Qualifying Employee Shareholder Trust. Through it all members of the firm own shares of the company. Annual distributions are made with an equal number of shares going to each current member with at least one year of tenure. The people at St. Lukes adapted the acronym from this specie of legal corporation for their governing board, calling it the Quest. The Quest is a five-member council with two members elected, an outside attorney, and only two managers with seniority. A Treasury Committee, made up of virtually everyone in the agency who is in charge of any kind of expenditure, debates and makes major financial decisions.

St. Lukes advertises its corporate mission thusly:

- Profit Is Like Health.
- You Need It, But It Is Not Something to Live For.
- The Treasury Monitors the Profit We Need.
- The Quest Monitors the Lives We Lead.

The Extraordinary Organization is equally adept at serving the needs of its individual members and the organization. St. Lukes does this because its members tap into the full intellectual and imaginative potential of every one of their colleagues. The people of St. Lukes provide the environment in which each member can fulfill his or her own wants and needs, discover latent abilities, and develop hidden talents. At the same time, its democratic structure creates a pervasive sense of responsibility and accountability. The outcome? St. Lukes succeeds brilliantly, as an organization and as a place that bright people want to join, and rarely leave.

Another example of non-hierarchical thinking is organization members setting their own salaries. In his book *Maverick* Ricardo Semler tells how he did this in his company quite successfully. It has been done in the Silicon Valley in different ways. In one case it was done in an open meeting in which everyone was asked to select his or her own slice of the pie. In this case the total chosen exceeded the budget and the group decided to “pass the hat.” Those who had more disposable income returned some of the raise they had just requested, leading to a new total that was right on target. Far from leading to contention, this second round left everyone satisfied because it was self-chosen rather than imposed. As incredible as it may seem to those raised under command-and-control models, in which salaries are assigned in private, the system of self-selected salaries works astonishingly well.

The idea of leaderless organizations, and attempts to create self-managed work teams, is not new. In 1969, Procter and Gamble created self-managed plants that were extremely

successful. This approach had been adopted by educators a year earlier, with the founding of the Sudbury Valley School in Framingham, Massachusetts, a very successful educational template that has spawned imitators around the country. The school governs itself without a headmaster or principal. Each student and each staff member has one vote on school affairs carried out in the weekly “school meeting.” Staff members return each year only if the school meeting elects them each spring. Students are “sovereign learners” who face no grades, no courses, no mandatory learning. Students from ages 4 to 19 mix with each other, exchange ideas, create projects, and generally follow their own path of inquiry all without direction from “above.”

At first glance, this may sound like a throwback to the “free schools” and other excesses of the 1960s. In fact, Sudbury Valley is highly aligned with the needs of today’s workplace. With 80 percent of Sudbury Valley students going on to colleges and universities, these students are learning the kind of self-discipline and free form entrepreneurial thinking required by the New Economy.

Whether an ad agency in London or a school in Massachusetts, such Extraordinary Organizations function much like the human body, the ultimate example of an organization without hierarchy. We tend to think of the brain as understanding the body as a whole, like a principal who governs a school or a CEO who runs a corporation. The biological truth is that for all the importance of the mind, there is no one “boss” in the human body. The heart knows when to pump, the skin knows when to open its pores or contract them, the glands know when to release a hormone.

Can organizations produce strong results from the collective work of individuals functioning without any central authority? The answer is yes, but only if six criteria are met. All members must:

- Understand that they are part of a system
- Know what the purpose of that system is
- Know what his or her part in the system is
- Be fully capable of doing one’s part
- Be willing to execute one’s part to the best of one’s ability
- And do so in an environment of total communication.

The human body requires a feedback mechanism of neurons and hormones. So too does an EO require instantaneous communication, whether a formal system of well-defined meetings, an Intranet, or whatever combination of processes the members find effective.

To be fair, creating such an Extraordinary Organization is a difficult and sometimes risky venture. It requires a willingness to share ownership, in some cases equally, among all its members. Above all, such an EO requires abandoning some of the most deep-seated beliefs about leadership, hierarchy and the very purpose of an organization.

The greatest danger is that in weathering a crisis, those building an EO will be tempted to resort back to command-and-control. If they resist this temptation and survive, the EO will be one that achieves no management hierarchy at all, just good solid self-management.

In exploring the Extraordinary Organization firms are turning the old models upside down and inside out. They are quietly transforming the way organizations really work, effecting radical change with little fanfare or a place on the corporate bookshelf. Many who are doing it are not even aware that they are part of a larger trend. (Some even see themselves as small, freakish experiments.)

In time, however, the EO stands a good chance of long out-living some of the more heralded ideas and change programs of our times. Experiments with the principles underlying Extraordinary Organizations are bringing about quiet, steady change, promising to replace today's organizational model with something literally "beyond belief."

#

Don Yates is the founder of Extraordinary Organizations. He has been consulting with organizations for over twenty-five years since earning his MBA at the Harvard School of Business and his Ph.D. in Behavioral Science at the UCLA School of Management. He is currently helping people create extraordinary quality of work life, customer benefits, and business results through creating Extraordinary Organizations. Please visit www.extraordinaryorganizations.com for more information and articles on creating Extraordinary Organizations

Co-author, Mark Davis, is a Fortune 500 consultant with the White House Writers Group, Washington, D.C. He may be reached at mdavis@whwg.com.

© 2003 Extraordinary Organizations This article may be downloaded, reproduced, and distributed without permission as long as each copy includes this notice along with citation information (i.e., author's name and, if published, the name of the periodical in which it originally appeared and date of publication). Permission must be obtained in order to reprint this article in a published work or in order to offer it for sale in any form. Please contact contact@extraordinaryorganizations.com.