PETER HESSELDAHL

GROUND RULES FOR THE 21ST CENTURY
Chapter 8

FROM MANAGING A COMPANY TO LEADING A COMMUNITY

Hierarchies are efficient if you know what you want to do. If you need to optimize the production of 15 million Models T Ford cars, then the hierarchy unbeatable. A predictable and manageable task that can be organized and coordinated for economy and stability. Hierarchies are suited for industrial age environments: factories, trains, accounting offices, refineries ...

The advantage of the hierarchy is that it is possible to consciously and effectively influence the way things are moving - if you are sitting at the top, that is. From the top it is also possible to make decisions that take the interest of the common good into consideration. There may be long term or very general objectives that could be pursued to make the whole system stronger and richer, but which require an investment that the individual participants are not willing to make on their own. In a hierarchy, you can override the individual's immediate and local interest for the benefit of the whole system.
This, for example, is the rational behind public services such as education, postal services, preventive health services, libraries, roads and public service media. The state decides to make them equally accessible to all citizens because it recognizes that it is an advantage for the entire society that everyone is involved and informed. Society functions better when there is a general high level of education, when everyone can be reached by phone, or all citizens have a basic knowledge of politics and culture. But achieving this requires prioritizing for the long-term and that is difficult to accomplish through a bottom-up process.

The hierarchical system has its limitations as well. As mentioned previously, our lives, as well as economy and politics are becoming more complex. The issues we must deal with consist of more and more inter-related factors that are continuously changing. In those circumstances it seems unrealistic to assume that those at the top of the hierarchy can have sufficient overview to make informed and appropriate decisions alone. Hierarchies can be inert and remote from the realities of a vibrant and changing situation, and a closed and steep hierarchy can distance itself from the valuable input, initiative and inventiveness of the many. When a system evolves rapidly, a central management can easily become a bottleneck for development. Finally, there is always the risk that those at the top of the hierarchy do not keep the entire system's long-term benefit in mind when they make decision, but that they instead use their power to promote their own interests.

A leading figure is still needed
The need for leaders is not going away, despite the networks' decentralization of knowledge, initiative and decisions. There is still need for someone with a strong vision and the authority to make it credible.
The founder of Apple Computers, Steve Jobs, is a perfect example of how one person can be a focal point for a large company and its customers. Apple has been through several serious crises. I was on a research trip to Apple headquarters in Cupertino,

California, on a day back in 1996 when the company fired thousands of employees. The mood was undeniably depressed. By then ten years had passed since Steve Jobs was fired as the manager, and since Apple had been like a drifting boat - or rather, increasingly like a sinking ship. Under a rapid succession of new CEOs, the company had lost the special touch that once made Apple users almost religious in their following of the brand. Now, fans (myself included) felt slightly foolish to continue using computers that were expensive, incompatible with the most popular software, and that increasingly didn't offer any significant advantages over an ordinary PC.

Apple came back from the brink. Less than a year after the big round of layoffs, the CEO, Gil Amelio, had himself been fired, but one of his last decisions before leaving was to acquire Steve Jobs' new company, NeXT and bringing Jobs back as an advisor to Apple. When Amelio was fired, Jobs took the position as interim - CEO or iCEO, as Jobs called himself. And suddenly the magic was back. Apple reclaimed its position as the computer company, all others tried to follow as Apple launched one "insanely great" invention after another: iMac, iPod, iPhone, iTunes, App-large, iPad ... all under Steve Jobs' watchful eye for the smallest details. With Jobs at the helm, Apple maintains a unique style and ability to innovate - and the question is of course whether the company can maintain the magic when Jobs retires.
There are other examples of individuals who managed to spark a whole movement. Nelson Mandela, Al Gore, Muhammad Yunus and – at least initially - Barack Obama have personally been able to inspire and support a vision that brings out the best in thousands or millions of people. Similarly though, there are obviously plenty of examples of leaders who led the masses into the most insane and destructive ventures. Strong leaders can be dangerous.

The benevolent dictator
Wikipedia and Linux are often cited as examples of an entirely new form of cooperation. Interestingly, they actually both have strong central leadership - although most imagine that they are completely flat organizations.
The open software program Linux has thousands of contributors, but it's just a small handful of people around the founder of the project, Finnish Linus Torvalds, who decides what improvements and adjustments are incorporated into the new versions of the Linux "kernel".
In Wikipedia's case approximately 175,000 persons have contributed with articles or alterations as of April 2008. 221,000 changes were made daily. But at the core of this crowd of contributors are a particularly active group of about 600 people, who by virtue of their efforts have a very high status when it comes to deciding whether a specific article or passage can be accepted or deleted. The most active "wikipedian", as they are called, has created nearly 300,000 corrections and additions since 2002, but even the person who is number 4000 on the list of most active contributors has produced over 8000 additions. It goes without saying that a person who makes this kind of contribution knows the system inside out, and if he makes a correction or objects to someone's posting, his status weighs heavily, when it comes to discussions. At the center sits the founder, Jimmy Wales, who refers to himself as "monarch" or a "benevolent dictator". When there are conflicts that cannot be solved by other means, it is ultimately Wales who makes the decision. In effect, as Charlie Leadbeater has observed, Wikipedia mixes all management modes: anarchy, democracy, meritocracy and monarchy.

<u>Participants recruits themselves</u>
The most active co-creators of Wikipedia would be any company's dream staff - but they work for free and are self-motivated. They decide for themselves which problems they feel they can help solve, and they work on it when they want.
If benevolent dictator Jimmy Wales wished to have one of them perform a specific task, then it would be very unwise of him to try to order it. But if he asks nicely, and if he can explain why it is important to the project, he will probably receive the help that the project needs.
With about nine million articles in dozens of languages it would be very difficult for the management of Wikipedia to keep track of which articles needed updates, or whether there were topics that are not adequately covered. But the contributors recruit themselves; if they see a deficiency they correct it – most likely because it is a subject that the writer happens to have enough knowledge and commitment about to be able to add something.
Wikipedia is an extreme example of large-scale *self-organization*. Most organizations have much tighter structures. If production at a traditional factory were done by employees working on what each of them felt like doing at the moment, the firm wouldn't survive for long. When it comes to predictable and consistent delivery and efficiency and optimization of all links in the production chain, we should leave it to self-organization. When you know what you want and how to do it, old-fashioned hierarchy works fine.

However, the type of results, most organizations need to create in the future are of entirely different nature. Production is becoming more complex, more diverse, and a company must continuously evolve and adapt to new demands and opportunities around it.
A large, complex project involves and depends not only on those formally employed in a company but also on partners and users. Therefore, many of the participants are often free to choose whether they will contribute to a project.

**In an increasing number of contexts command and control is a questionable strategy. Partly, because a growing proportion of those who can help decide for themselves whether to so. Partly, because the management at the top no longer has a realistic chance of knowing what needs to be done at the detailed level. At the same time, the relationship between center and periphery of an organization is changing. Each participant in the network can - and is increasingly expected - to show initiative and creativity.**

In a large and complex project participants will often switch roles in relation to each other as the project goes through different phases. Thus, the persons who take on the leadership of the team can change along the way. Some use *fishnet* as a metaphor to explain this structure of organization: During the lifetime of the project, different nodes in the network are lifted up, so it varies which points in the network are currently at the top.

<u>A bonus will not boost creativity</u>
In his book *Drive: The Surprising Truth About What Motivates Us* the American journalist and author Dan Pink summarizes a series of recent studies on motivation and efficiency at work. He concludes that the old-fashioned type of motivation, reward or punishment, works fine in relation to routine work, such as working your

way through a pile of familiar tasks. If employees are offered a bonus or threatened with being fired, they will increase the pace.

But sometime the task is not so well defined, the outcome is not known beforehand, and it is unclear how to achieve it. In these cases the stick and carrot motivation doesn't work. Instead, there are other mechanisms that motivate people to provide the necessary performance. Indeed, Dan Pink points at several studies, which indicate that it can *diminish* the quality of the creative effort, if it is made subject to a bonus. Commands can make employees deliver flawlessly and on time. But as the management guru Gary Hamel says, you can yell at people to make them shovel faster, but you cannot command people to deliver something groundbreaking.

Algorithmic and heuristic tasks

Dan Pink talks about two different types of tasks.

- One type he calls "algorithmic". These are tasks that can be solved predictably, like a machine that follows a program. First you do this, then you do this - you know the result, and you know how to achieve it. It's just a matter of working your way through the procedures.
- The second type of task Dan Pink calls "heuristic". These are tasks that have a greater element of exploration and experimentation. There are no set procedures and no given outcome from the effort. Instead one needs to draw on experience and a set of approximate rules of thumb and loose assumptions.

Dan Pinks' point is that there will be many more of the "heuristic" types of tasks as we move forward – however, the vast majority of managers still use the motivational tools that fit algorithmic tasks. We will be competing on innovative creativity and problem solving that requires a personal commitment beyond the routine - and therefore the traditional form of management is increasingly inadequate and insufficient.

According to Dan Pink, what motivates people to do better "heuristic", creative work, is typically something other than getting a higher salary. Salaries must be reasonable and at a level comparable to what others get for a similar effort, but the salary itself is not enough to create a burning commitment.

We can find a good illustration of the mechanism in the open source community and on the countless websites, blogs, 3D worlds and technical forums, where people who do not know each other and usually never meet again, never the less help each other and share their knowledge for the common good.  Here we see non-economic motivation in its essence. Rather than money, what drives the participants, is likely to be professional interest, status, recognition, creativity, or simply the feeling of making a difference and contributing to a greater cause. It's the same drive that underpins the millions of obscure books, records, films and other works that you come across, the farther you move out *the long tail,* that we mentioned in Chapter 3 A large part of the cultural content online is obviously not made for the money. We have moved up Maslow's hierarchy of needs, to where it is no longer a matter of stark survival but increasingly about realizing yourself through your work.

(As an aside, Dan Pink's conclusions raise an interesting question about the validity of the belief in tax cuts for the wealthy and huge salaries and bonuses to managers in order to motivate them to work harder. Is it really money that drives them in their work?)

<u>From company to Community</u>
One of the reason communities like Wikipedia or Linux, can be an inspiration for how to manage a company, is that successful businesses in many cases seem more like communities than a traditional business.

**Among the typical characteristics of community-oriented businesses are:**

> - For the employees, it's not just about making a salary. They are engaged emotionally, and their work is often a large part of their personal identity. You realize yourself through your job.
> Similarly, the purpose of the company is not only to maximize profits for the owners. Many company report on "three bottom lines", measuring both the company's financial, environmental and social results. Novo Nordisk, which alternates with A.P. Moller-Maersk as the most valuable Danish company, is an example of how this type thinking can be very successful.
>
> - There are many other stakeholders than just the employees in the firm. They can come from other companies, from the public, from NGOs, or it may be end-users who are engaged in an interaction with the company. The boundaries for participation are more porous, and the hierarchy between the participants is less clear cut and formalized than in traditional businesses.
>
> - New products and services are typically developing rapidly, and therefore there is also a fast turnover of the people and skills involved in production. The organization is a sprawling, loosely linked network, and what holds those involved together is not just the commercial success of a single company, but a hodgepodge of different participants' needs and interests.

Overall, this is a very different kind of organization and a different type of production - and in turn it requires a different type of leadership and motivation. The key word is *community*. The challenge is to make everyone involved understand the value of cooperation and sharing in order to realize the joint project.
In other words: a quite different interaction from the class struggle of the industrial age.

<u>Management and leadership</u>
Karl Marx observed that the steep hierarchies and the detailed division of labor in the industry made workers *alienated* towards their jobs. In my younger days I worked a long summer at a factory. I cut metal sheets, fed the punching machine or bent aluminum pipes. We would be handed an order sheet and a pile of steel plates, and we would work our way through them and then move on to the next order. I barely knew what the parts I produced were used for. There wasn't really anything you could do well or bad - beyond getting the job done within a reasonable time. Occasionally someone would mistype the specifications on the order sheet. Instead of cutting out a stack of 2.5 mm thick plates, we should have used 3-mm-plates. So for half day we would work away, only to discover that it all had to be discarded. Oh well. It made not difference to me. It wasn't my problem if there was a mistake and I had no clue whose problem it might have been.

Most jobs today simply can't be done properly if the employees don't understand the

context which they are part of. If employees are to act in a competent, constructive and creative manner, they need to understand what it is, the organization is trying to achieve and what is considered the correct way to achieve it. It's about *vision and norm* rather than detailed prescriptions.

We often talk about two different types of managing: Management and Leadership.
- Management is the traditional boss, who issues orders and organizes the work. The manager gives precise instructions and makes sure that everyone gets their assignments done on time.
- Leadership is more about providing a direction, and creating an environment that empowers the employees to pursue the common goal as efficiently as possible.

The change in organizational forms we have reviewed in this chapter, suggests that the *leadership* role is becoming more important in the future.
There is less need for detailed supervision because the employees are better equipped and more prepared to take on responsibility. Furthermore, in a more complex and changing situation there is greater need to communicate to everyone what the overall goal is and what the general *norm* for doing things in the organization is. Finally, the *vision* that management presents is crucial for how motivated the participants are to do their best for the sake of the project.

Complex contexts require clear vision
*Vision, goal, intention, narrative, context ...* There is a need for a clearly articulated common purpose that can create a sense of unity within a network of participants. Projects will tend to be more complex, diversified and integrated in the future. Participants may have very different roles, very different knowledge and different interests in taking part. But if it is clear what you are all jointly trying to achieve, participants have a better chance of figuring out for themselves how they can best contribute to the goal.

The manager's task is to establish a framework for the many participants' actions to fit logically inside, and that's why it makes sense to talk about *leadership as storytelling*. It's about making sense and telling stories.
A good story has a protagonist who must achieve something. The hero must struggle against enemies and opposition, but with some help from friends and the determination to act and succeed the hero eventually reaches his goal.
The manager must be able to tell what the goal is, who the friends and enemies are, and to tell the story so that everyone can see that they have a role in it. If it's a good story, participants will be more motivated. There is a difference between hauling bricks at some building site - and helping to build a cathedral.
And vice versa: If there is no shared narrative to define the project it's hard for the participants to assess if things are moving backwards of forwards.
We will elaborate on the importance of having a vision in Chapter 25

The Norm: The way we do things here
The norm is the shared identity. It may be the brand, the company's culture, it can be an awareness of its history, it may be a list of moral values, or it may be the social tone among employees or toward customers. Many companies have gone through lengthy processes of reaching a set of principles or a kind of manifesto, which attempts to express exactly what the company stands for and what values it professes.

In other cases, the norm is expressed less formally and explicit. It is certainly not uncommon that there is some disparity between the formal and the informal, but actual, standard.

The norm may be practical, a question of workflow and organization, but it is also a question of ethics and aesthetics. The norm applies to those who are inside the organization, but it is also a signal to the outside world. By communicating the norm a company can potentially attract new employees, new partners and new customers. Management therefore is very much about setting the norm and communicating it so that everyone knows what's the proper way to behave and, likewise, what's not acceptable in relation to achieving the goal.

Give, and you will be given

The new form of governance implies a different distribution of power in an organization. As mentioned, hierarchies do not become obsolete or useless, but the relationship between center and periphery is changed because the information and the need to think creatively moves towards the edges of the network. Management still has the most power, but the more initiative and knowledge moves to the periphery, the more the style of governance changes.

Again, it is illustrative to look at some extreme cases, like the open source projects and the social software sites. Linus Torvalds is the most powerful person in the Linux project. But if the other participants did not trust him or if he was perceived as unfair or incompetent, he would lose power very quickly, as participants would simply move on to other projects. The power that Linus Torvalds has must constantly be renewed because the participants are there voluntarily. They choose whether they will continue to contribute.

This is echoed many places on the web. There are sites with useful information on every conceivable topic, created by people in a community - and in each of these environments, there are those who command respect and have a leading position, because they contribute so much to the community. *They have power by virtue of what they give others*.

**You cannot *take* the power of open source projects; power is something you are given. It is a type of power that is *given* to those who are able to use it to make more of others.**

Network organization implies a new role for leaders, but it's also a new role for staff. Both parties must learn a new behavior and a new self-understanding - and for both parties this can be a great challenge.

The manager must learn to let go of some responsibility and control. The manager must learn to trust the competencies of the organization and give employees room to express their abilities. The manager must learn to listen.

But it also requires that employees play along. The employee must learn to assume a greater responsibility and to move pro-actively and creatively in the interaction. It takes two to tango.