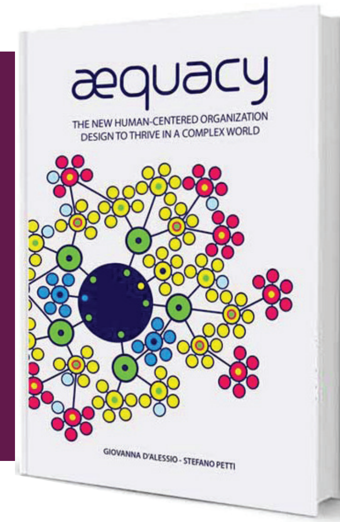
AEQUACY: A NEW HUMAN-CENTERED ORGANIZATIONAL DESIGN TO THRIVE IN A COMPLEX WORLD

A book excerpt by Mobius Friends Giovanna D'Alessio and Stefano Petti



In the last decade, it has become increasingly obvious that we are under *adaptive pressure*: the solutions to the most common corporate issues are not to be found in the current capability of the organization. When a problem emerges in an organization, the classical response of the managers and top executives is to focus on the symptom of the problem and to identify the most effective solution to that particular symptom. It's time for a radical departure from the system we have today. In this book we introduce AEquacy, a leaderless organizational design and operating system that changes the paradigm of the traditional, hierarchical organization and paves the way for greater innovation, collaboration, and performance.

In 2016 a study by Deloitte grabbed our attention. "The New Organization: Different by Design" survey of 7,000 respondents in more than 130 countries showed very interesting results. Two facts stood out: 82% of large companies are either currently reorganizing, plan to reorganize or have recently reorganized to be more responsive to customer needs; 92% of the companies surveyed cite "redesigning the way we work" as one of their key challenges, making this the #1 trend or concern of the year.

Of course we were well aware that many organizations were going through their umpteenth re-organization, but these numbers really struck us. How could we help organizations get into better structural and cultural shape to not just survive, but thrive in the next ten years?

> "Hierarchy generates peculiar, predictable systemic patterns."

That's when we started our research project to design a new, revolutionary organizational "kernel." (The kernel is the program that is the core of a computer's operating system, with complete control over everything in the system. It is the first program loaded on start-up.)

We propose that any organization in which subordination of some kind is present generates typical dysfunctional systemic patterns that cannot be overcome without questioning the whole concept of hierarchy.

The central idea of our research findings is that only hierarchy-free, self-governing organizations will be in the best condition to foster innovation, boost performance and expand people's potential.

The problem with the available solutions (Holacracy, Sociocracy and the like) is that they maintain a certain degree of hierarchy; some are too vague and some are too strict in their implementation, especially for large organizations; and none of them presents a comprehensive framework of guiding principles and an implementation model to support a shift to the new organizational operating system.

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A very interesting insight emerged when we looked at the regional results of an organizational culture survey called Cultural Transformation Tools (CTT) by Barrett Values Centre, a survey that in Asterys we tend to use for measuring the main elements of the current culture and the desired culture within companies. We realized that the main challenges are always the same, across industry, across organizational dimension, across location.

In this survey, respondents – generally all the employees, managers, and leaders of an organization, or a sample of them – are asked to choose ten values or behaviors that describe the current culture of the organization and ten values or behaviors that describe the culture that they would like to experience in the future. The list of values from which respondents can choose includes both positive and potentially limiting values. Examples of the former are values such as accountability, teamwork, innovation, continuous improvement, ethics, and so on. Examples of the latter are bureaucracy, blame, internal competition, silo mentality, distrust, and many others. The share of the potentially limiting values among the total values chosen by respondents in a given company measures the organizational "entropy" or degree of dysfunction existing in the organization. We can refer to entropy also as the amount of energy that becomes dissipated rather than being used to achieve the company's goals.

- **Healthy <10%** A cultural entropy of 10% or lower indicates a healthy organization, as a little bit of friction can be considered natural.
- **Some adjustment 11-20%** An entropy in this range reflects issues requiring cultural or structural adjustment.
- **Significant issue 21-30%**
- **Serious 31-40%**
- **Critical >40%**

Requiring ever increasing cultural and structural transformation, leadership development, and coaching – and ultimately changes in the leadership.

Looking at the overall results of organizational entropy by region (we chose to monitor North America, Western Europe, and Eastern Europe) we can notice that almost anywhere, the level of entropy is worryingly high: almost half the organizations surveyed (1,440 in these three regions) have levels of entropy above 21%, with Eastern Europe having the largest share of companies with levels above 31%.

Top **CURRENT** values by levels of entropy

21 - 30%	31- 40 %	> 41%
Bureaucracy	Bureaucracy	Bureaucracy
Results orientation	Cost reduction	Confusion
Cost reduction	Confusion	Silo mentality
Teamwork	Hierarchy	Cost reduction
Confusion	Silo mentality	Short-term focus
Customer satisfaction	Results orientation	Hierarchy
Continuous improvement	Short-term focus	Blame
Hierarchy	Control	Control
Accountability	Long hours	Long hours
Short-term focus	Blame	Information hoarding

Top **DESIRED** values by levels of entropy

21 - 30%	31- 40 %	> 41%
Accountability	Accountability	Accountability
Continuous improvement	Teamwork	Continuous improvement
Teamwork	Continuous improvement	Teamwork
Open communication	Open communication	Open communication
Customer satisfaction	Employee recognition	Information sharing
Employee recognition	Information sharing	Trust
Information sharing	Trust	Customer satisfaction
Commitment	Efficiency	Leadership development
Innovation	Customer satisfaction	Commitment
Balance (home/work)	Adaptability	Coaching/mentoring
		Employee recognition
		Innovation

Source: Barrett Values Center. Data from 2,463 cultural values assessments in 77 countries, 2016.


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Our curiosity led us to examine which potentially limiting values lead to the different levels of entropy of the organizations. Not surprisingly, when looking at the top ten values selected by respondents for level of entropy, we noticed that bureaucracy, hierarchy, control, short-term focus, silo mentality, blame, control, and information hoarding are increasingly present and influence how people work, collaborate, and achieve goals – thereby also influencing organizational performance and the ability to innovate and change.

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A history of hierarchy

It is no accident that most companies are organized in a hierarchical fashion. The structures and systems an organization adopts are generally designed for the efficient achievement of goals, and the hierarchical format seems the best choice when it is introduced. The problem is that these structures and systems are never scrutinized or challenged when conditions change.

To have a better understanding of how the hierarchical structure became mainstream, it is useful to go back to the beginning of the 20th century in the United States, where job-shop manufacturing was shifting to mass production. Companies needed an effective way to perform the work and a strong control of the manufacturing process.

The thinkers in that period, Frederick Taylor in the United States and Henri Fayol in France, saw the organization as a machine and developed principles and systems that suggested how to structure the company for maximum efficiency and productivity. These principles and systems included:

- Job classification
- Top-down authority structures
- Separation of roles between those making decisions and those implementing the decisions
- Reporting structures
- Division into functional departments
- Standard operating processes
- Strong focus on specialization

The vertically, hierarchically structured organization became the classic structure that after more than a century is still applied in the vast majority of large organizations.

The economic growth after World War II allowed companies that had survived the Great Depression to experience a sudden increase in size and geographic dispersion, an increasing complexity, and a need for more creativity and innovation.

The matrix structure developed as an effort to share resources among business units, to mitigate excessive specialization, and to foster cross-fertilization of ideas by having people working in project groups with experts from other functions. Even if the matrix structure solved some of the limitations of the traditional structure, it was still developed under the same hierarchical organizational mindset. Furthermore, the double reporting (employees having a functional boss and a line boss) increased complexity and potential conflicts of power.

More recently, many organizations have moved to a flatter structure, in order to reduce the hierarchical layers and allow more collaboration among teams.

Notwithstanding all the reorganizations, the disadvantages of the hierarchical structure remain.

Without a doubt, the vertical structure (with a long or short chain-of-command) generates several organizational paradoxes: expectations and hopes that conflict with the obvious outcome of the underlying operating system. Let's explore some of the most common paradoxes.

1. EXPECTATION OF TRUST VS. CONTROL-DRIVEN SYSTEMS

Almost all the systems in place in the average organization (KPIs, reporting, assessments, rules, policies and regulations, performance management appraisals, just to name a few) have been put in place for the purpose of controlling employees. The role of Manager has been created for this same purpose: to control employees.

The basic assumption underlying these forms of control is that employees cannot be trusted and should be closely monitored. Even if not openly stated, this is the message that people get. If a CEO or a Management Team aspires to develop more trust among their workers, they need to rethink the way the whole company can demonstrate trust in its people.

2. EXPECTATION OF RISK-TAKING VS. PUNISHMENT FOR MISTAKES

The CEO of a major pharmaceutical company once asked us for an intervention to inspire his employees to take on more risks. The CEO aspired to see more innovation and creativity and had identified the fear of making mistakes as the main issue hindering people's potential. When we asked how the organization dealt with mistakes, he revealed that he was keen to consider mistakes as opportunities for learning, but that he could accept only one mistake of the same kind. This seemed fair enough... make sure you always make new mistakes.

Then we interviewed a sample of employees on the same topic and we realized that the context as they perceived it was very different from the CEO's vision. Employees worked with a strong fear of consequences for their mistakes and they gave us some examples of what could happen: they mentioned that one day a director in Spain just disappeared from the company. He left, without a goodbye or explanation.

They all speculated that he was fired because he did something wrong. They mentioned a few other cases of this kind of overt or covert punishment. Middle managers and executives were not as flexible toward mistakes as the CEO thought and the HR department didn't have a policy of transparency, so that an aura of secrecy surrounded any layoff or disciplinary procedure. Employees all valued their jobs, so they learned to keep their heads down, to always be on the safe side, and to avoid taking risks.

We did set up a training program to develop trust, but without an intervention in the system itself, we knew that we wouldn't be able to achieve the best possible result, especially in the long term.

3. EXPECTATION OF AUTONOMY AND SELF-DIRECTION VS. RIGID REGULATIONS

Increasing complexity and competition require organizations to respond to customer issues promptly

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and to develop solutions that may not have been tried before. In this context, it is imperative for organizations that employees be more autonomous, to better answer customers' needs or generally find creative solutions to emerging problems. But this expectation crashes into the zillion procedures and processes, including authorization processes, that suffocate people's initiative.

Hugh O'Byrne (former VP Global Sales Center Excellence, Digital Business Group at IBM Europe) describes one of their sales processes that sales reps had a problem with: "When I interviewed the person who designed the process I realized that there are 120 steps to this model, including several internal authorization steps. Imagine if I have just a £1,000 sales deal… following this process makes the sale not worthwhile. We need to simplify the rules and allow people to make decisions at their level." More autonomy can happen only if the individual is not tied by rigid, binding, time-consuming policies and regulations.

4. EXPECTATION OF ENTREPRENEURIAL ATTITUDE VS. SUBORDINATION

This is another wild dream of many top managers: inspiring an entrepreneurial spirit in employees, so that they can respond to a situation more quickly and with stronger personal ownership. Unfortunately this dream fails to become reality when subordination is in place. The characteristic of entrepreneurs is the freedom to dream and realize, to take risks because they don't need to justify or build consensus around their actions.

Once it is established that there is a boss and a subordinate, well… inevitably a reality is created in which the boss takes charge and the subordinate obeys and gives up power. It's in the nature of the boss-subordinate relationship and, as we will learn later on in the chapter, it doesn't depend on the will or competence of the individuals.

5. EXPECTATION OF EMPLOYEE ENGAGEMENT VS. TOP-DOWN DECISIONS

In the last decade or so, employee engagement has risen to one of the top concerns in organizations. The 2011-2012 State of the Global Workplace, an international study by the Gallup Institute on this topic, shows that only 13% of employees feel engaged. The rest of the employees are either "not engaged"(63%) or "actively disengaged" (24%). And these numbers have not changed much in the last 15 years, despite increasing investments in employee engagement initiatives.

Of course there are many factors that contribute to the lack of engagement among employees, including a lack of trust (see previous points), perceived lack of respect toward people, or lack of transparency. But a great deal of engagement is lost when people are not included in organizational decisions and when they are not allowed to make autonomous decisions on issues that fall under their sphere of responsibility.

6. EXPECTATION OF COLLABORATION VS. INDIVIDUAL REWARD SYSTEM

This is a classic. Any Management Team we have ever spoken to desires to see more collaboration within their teams. A lot of effort and money goes into team-

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building activities, alcohol-fueled Friday evenings out, and so on. But unless the focus of the reward system shifts from the individual to the group, employees will focus on the incentives that bring them personal rewards. The very idea of advancing one's career in a vertically-structured organization pushes people into competition, not collaboration.

7. EXPECTATION OF AGILITY VS. BUREAUCRACY

CEOs invest a lot of money in agility programs, hoping to simplify how people work and to speed up company processes, but because they don't fully trust people, they keep the entire control & compliance structure in place. Agility can't be achieved without getting rid of policies, procedures, authorization levels, complicated processes, norms and ultimately managers. As Hugh O'Byrne told us: "In our company, the employee manual is 40/50 pages. Nordstrom's is only one statement: 'Use you best judgment, always.' I highly admire a company that goes that far. It's as if the management said: we train you to do the right things, then we trust you and we'll give you the support mechanism that allows you to give us your best contribution."

Does a company that trusts its employees to use "their best judgment, always" need complicated and tortuous ways to control them? We don't think so.

The idea that the structure and the systems of an organization shape people's behavior is not new. Chris Argyris, Professor Emeritus at Harvard Business School and co-founder of Organization Development, known for seminal work on learning organizations, was among the first to argue that a rigid hierarchical structure paves the way for a shift in behavior from active toward passive, from self-management toward dependency, from equal to subordinate. [For more on the work of Chris Argyris, see Erica Ariel Fox's article on page 77.] Other researchers (R. Merton, P. M. Blau, James Worthy, to name just a few) suggest that hierarchy causes conservatism, conformity, domination of individuals, low output, low morale, and decreased innovation.

A recent study by Louisiana State University's Richard D. White, Jr. has built an argument supporting the hypothesis that a rigid hierarchy restricts an individual's moral development and ultimately adversely affects ethical behavior.

The correlation between hierarchy and moral development is reinforced by studies suggesting that hierarchical organizations have a negative effect upon small group conformity behavior, obedience to authority, and groupthink.

In a famous experiment set up by Stanley Milgram, a Yale professor and social psychologist, a person in authority orders study participants to inflict a subject with an increasing intensity of electric shock (although in reality no shock is given), ostensibly to gauge the effect of punishment on the subject's ability to memorize content. Milgram expected most participants to refuse the order but found out that 65% of the study participants obeyed the order and administered the highest level of shock. The insight for Milgram was that individuals in a hierarchy become passive players and enter a state in which autonomy, responsibility, and moral judgment are suspended. According to Milgram: *the essence of obedience consists in the fact that a person comes to view himself as the instrument for carrying out another person's wishes, and he therefore no longer sees himself as responsible for his actions*.

Technical and adaptive solutions

The Founding Director of the Center for Public Leadership at the John F. Kennedy School of Government at Harvard University, Professor Ronald Heifetz makes a distinction between technical and adaptive challenges. [See Zander Grashow's article on page 5.] Technical challenges are those for which the competences and skills required to succeed already exist within the current paradigm or mindset, although they are not yet known to the individual person who must acquire them.

Adaptive challenges, in contrast, require that the person develops a completely new mindset, new values, and new ways of learning. Adaptive challenges are connected to transformation, either personal or – in the case of business challenges – collective.

They require us to question the assumptions and beliefs underlying our way of seeing and interpreting ourselves, others, the circumstances, and the world, and to be able to reformulate them. The problem is that leaders in organizations often mistake adaptive for technical challenges and continue to apply technical solutions which inevitably fail or fall short of their potential.

Let's consider how corporations have tried to solve their organizational issues. In the last 30 years we have seen a number of fancy corporate initiatives, some of which have lasted for several decades, others which emerged and disappeared in a matter of a few years: Total Quality programs, the matrix structure, Six Sigma interventions, Lean initiatives, leadership development programs, flatter organizations, and more recently Smart Working.

The results of these initiatives generally fall far short of reaching their full potential and after a few years the company is ready to move on to its next transformation effort. The reason is that all these initiatives are implemented within the same mindset that created the problems in the first place. They are technical solutions to adaptive challenges.

> "We can refer to entropy also as the amount of energy that becomes dissipated rather than being used to achieve the company's goals."

In biology the term *adaptive pressure* defines a situation in which the effective response to the surrounding environment is not included in the possibilities and current capabilities of the organism. This means that the organism must observe its processes and "discern" what still works and what needs to be abandoned, and this requires a transformation, if the organism is to survive successfully in an environment that has changed. The same process should be undertaken by a person, company, or organization when the contextual conditions change or when the old strategies are no longer effective.

In the last decade, it has become increasingly obvious that we are under *adaptive pressure:* the solutions to the most common corporate issues are not to be found in the current capability of the organization.

When a problem emerges in an organization, the classical response of the managers and top executives is to focus on the symptom of the problem and to identify the most effective solution to that particular symptom. In AEquacy we argue that "It's the system, baby!" and that it's time for a radical departure from the one we have today.

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Introducing AEquacy

AEquacy is a leaderless organizational design and operating system that changes the paradigm of the traditional, hierarchical organization and paves the way for greater innovation, collaboration, and performance. We can imagine AEquacy as an organizational "kernel", a new, revolutionary operating system that overcomes the limits of the hierarchical organization and expands individual, team, and organizational potential. As illustrated in figure 1, AEquacy can be displayed as a radial, equalitarian structure of self organizing, peer-coordinated teams, in which people are considered associates instead of employees and serve the organizational purpose autonomously.

We chose the name AEquacy (from the Latin aequum: equality, fairness) to emphasize the absence of hierarchy and the equal right of all members of the organization to participate in decision-making. A company which adopts AEquacy is thus an aequal organization.

In aequal organizations people can perform at their best because they have total control over their work, clarity about the organizational direction and access to all information to make the best decisions.

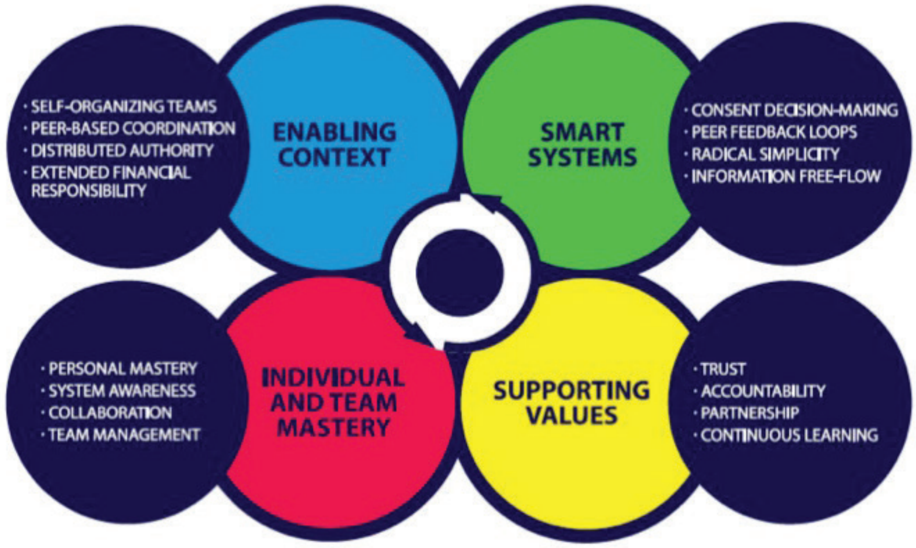
AEquacy is based on a framework that determines the main elements in four areas that need to be in place for a successful implementation of (or transition to) this new operating system.

In our experience supporting large organizations in implementing change programs, we learned that there are four main areas that need to be considered and aligned if the change is to stick:

1) Enabling context that provides the conditions for the new organization to develop. It's like making sure that a plant has sufficient exposure to sun, water, and nutrients to grow. In AEquacy the main elements of an enabling context are:

a. A structure of self-organizing teams that work in full autonomy, advancing the purpose of the company
b. A system of peer-based coordination that maintains alignment without reverting to rank-based control

Figure 1



c. Distributed authority, to make sure that decision-making happens where the issues emerge, in any part of the organization
d. Extended financial responsibility, by assigning each team a Profit & Loss account they are responsible for.

2) Supporting values. Development of a few essential values whose embedding is the sine qua non for AEquacy to run effectively. These values are:

a. Trust: when there is no formal controlling function, people need to develop their own trustworthiness and trust in one another.
b. Accountability: in the absence of bosses, people should consider themselves accountable toward one another and their organization and be able to report, and be responsible for, the resulting consequences of their actions.
c. Partnership is the quality of equal relationships, when we move out of the superior-subordinate paradigm. In AEquacy, learning to partner with others is vital.
d. Continuous Learning becomes a state of mind in aequal organizations. Procedures, processes, products and services, as well as people, all go through cycles of renewal, improvement, and evolution.

3) Smart Systems to reinforce the expected working practices of the organization and to simplify the lives of the teams and keep bureaucracy out of sight. Each organization will rethink its systems based on the AEquacy framework and its own needs, but we believe that implementing a few such systems will make the difference:

a. Radical simplicity as an approach in the design of any system will make sure that the company doesn't fall back into the trap of bureaucracy.
b. Consent decision-making will make the decision-making process faster and provide better alignment among team members.
c. Peer feedback loops will replace the outdated Performance Management System and will give people real time, public input on how they are doing and what their next learning edge should be.
d. Information free-flow will keep people on the right page and give them the opportunity to increase innovation, to better address any issue, and to focus on what really matters instead of speculating about missing information.

4) Individual and Team Mastery must be developed, as AEquacy questions all the deeply held paradigms on how to achieve good performance in a hierarchical organization. Each individual needs to become more psychologically mature and to develop certain skills to be successful in an aequal organization:

a. Developing Personal Mastery is the key to finding one's own personal compass in a complex and ambiguous environment. Learning to exercise autonomy effectively requires both courage and empathy, so that one can reach one's goals without undermining the achievements of others.

b. System Awareness means developing a broader view of one's own team dynamics but also the network of dynamics of the whole organization, in order to effectively navigate and influence the system.

c. Being part of a self-organizing company means that collaboration is a key competence for any member. Learning to listen, engaging in productive dialogue and addressing conflict are indispensable skills for high performance.

d. Team management means that every person in the organization is co-accountable for the governance of the team and for the functions that were once the domain of a manager, such as hiring, planning, strategizing, and controlling. It is a whole new mindset shift.

From hierarchy	To AEquacy
Subordination	Equality
Leadership	Partnership
Control	Trust
Bureaucracy	Radically simplified systems and processes
Silos	Inter- and intra-team collaboration
Information hoarding	Transparency
Top-down strategic decision-making	Decision-making everywhere
Job titles	Dynamic roles and responsibilities
Performance reviews	Peer feedback loops
Cycle of yearly strategy-implementation	Iterative prototyping
Managers supervise and lead teams	Teams self-organize
Focus on customers	Focus on all stakeholders

Adopting AEquacy equips small and large organizations to better tackle complexity, to increase agility, to foster innovation, and to respond much more rapidly to internal and external challenges. AEquacy revolutionizes all the key attributes and practices of the hierarchical model.

The benefits of AEquacy are 1) AGILITY: systems are made radically simple and members of the organization are trusted to act in the best interests of the organization. 2) SPEED: Teams respond to market opportunities and issues rapidly, because they don't need to wait for the chain of command to take action; peer pressure and adherence to the organizational Purpose and Values are the compass for decision-making. 3) COLLABORATION: Teams spontaneously collaborate in the absence of department boundaries. 4) INNOVATION: Each team feels free to be creative to improve its P&L and its financial rewards. 5) PERFORMANCE: Financial and operational performance are potentially maximized through a self-balancing system that leverages the potential of each individual team.

Associates experience higher levels of engagement and personal fulfillment, greater autonomy, and an expanded sense of purpose. For more about AEquacy, please visit the Asterys website. ■

ABOUT THE AUTHORS

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Mobius Friend Stefano Petti is a partner at Asterys and a former manager in multinational settings. He is the co-author of *AEquacy* and several *Harvard Business Review* articles, including "How your State of Mind Affects your Performance" (2014), and "A Simple Way to Combat Chronic Stress" (2016).