



# Four Groups Quarterly Update

Leadership, Intangibles and Talent

Q1 2011



## **The Trouble with Change!**

Welcome to the first update of 2011, we have lots to get through so let's get started.

Featured in this issue:

- The organisation as an ecosystem
- The neuroscience of change and innovation
- Rethinking promotion and recruitment
- The problem with creative types!

Articles are included from Clayton Christensen, Gary Hamel, Oracle, Strategy and Business, Wharton and Prof. Vlatka Hlupic.

## **The Organisation as an Ecosystem**

Regular readers will be aware that over the past 12 months or so we have seen an increasing number of articles calling for a fundamental shift in the way organisations are structured. Much of this comes from a realisation that businesses place far too much emphasis on the tangible aspects of organisational behaviour, the things that can most easily be controlled and measured such as processes and systems at the expense of the intangibles, such as relationships and culture. Perhaps most important is the growing realisation that it is these intangibles that govern our ability as individuals and organisations to innovate, motivate and adapt.

Kicking things off this issue is an excellent blog post by David Gray<sup>1</sup>, in this article Gray joins a number

<sup>1</sup> <http://www.fourgroups.com/link/?BBUANJ>

of commentators advocating a new approach to looking at organisations in a more dynamic or holistic way that requires a move away from traditional command and control hierarchy:

“Historically we have designed companies like machines – by division. We construct the org chart to divide the big chunks of work and separate them from each other: Finance, Sales, Operations. We design the work flows that process inputs into outputs: raw materials into products, prospects into customers, complaints into resolutions. As we design this kind of company – the divided company – we need to separate functions, which means people may not always have a sense of the larger thing they are working on”

“The resulting need for control, and the inability to achieve it at a reasonable cost, is what eventually kills a business”

“Companies are not so much machines as complex, dynamic, growing systems. As they get larger, acquiring smaller companies, entering into joint ventures and partnerships, and expanding overseas, they become “systems of systems” that rival nation-states in scale and reach.”

This thought was echoed in an interesting compendium of current views put together by Oracle,<sup>2</sup> amongst those interviewed about the future of Enterprise 2.0, we have this from Prof. Vlatka Hlupic who picks up Gray’s argument but instead of focusing on organisational design, in this quote points the finger at outdated management practices:

“The main problem is a lack of awareness of the unsuitability of traditional management styles for the future. Many leaders simply haven’t realised it is the wrong paradigm – because it worked in the past – but it cannot work in the present and future. Many organisations are now knowledge-based and knowledge workers cannot be managed and led in the traditional manner.

This all ties in with some similar criticism of command and control management in a blog post by Gary Hamel over at the Wall Street Journal<sup>3</sup>:

“Management 1.0—a dense matrix of bureaucratic practices that were invented to minimize variances from

<sup>2</sup> <http://www.fourgroups.com/link/?SE9TJ7>

<sup>3</sup>

<http://www.fourgroups.com/link/?BHGJSW>

plan by maximizing adherence to policy. Despite a lot of high-minded rhetoric to the contrary (often found on laminated cards that begin with “Our Values”), the management model found in your organization most likely over-weights the views of senior executives, undervalues unconventional thinking, discourages full transparency, deters initiative, frustrates experimentation and encourages an entirely unwarranted reverence for precedence. In so doing, Management 1.0 squanders the leadership talents of just about everyone apart from the CEO.”

“Management 1.0 was built to encourage reliability, predictability, discipline, alignment and control. These will always be important organizational virtues, but in most industries, getting better at these things won’t yield much of an upside. That’s why our management systems need to be re-engineered around the goals of adaptability, innovation, engagement and accountability.”

Instead of treating organisations (and people) like machines, David Gray argues that we should treat organisations much like we do cities, where there is little centralised control and far more autonomy at local level.

“Cities aren’t just complex and difficult to control. They are also more productive than their corporate counterparts. In fact, the rules governing city productivity stand in stark contrast to the ominous “3/2 rule” that applies to companies. As companies add people, productivity

shrinks. But as cities add people, productivity actually grows. "

Much like Hlupic and Hamel, Gray argues that a higher degree of autonomy is the starting point to create a connected organisation:

"To design the connected company we must focus on the company as a complex ecosystem, a set of connections and potential connections, a decentralized organism that has eyes and ears everywhere that people touch the company, whether they are employees, partners, customers or suppliers."

"It's not about design for control so much as design for emergence. You can't control a complex system, but you can manage its growth, and there are a lot of things you can do that will position it for success."

The idea of greater autonomy and devolving power to the local level is not new yet growing in popularity, not least for the implications that it would seem to have on motivation and engagement in the workplace. This is an argument that is gathering considerable some momentum and is something that we have covered at length in previous issues. For those not up to speed on current thinking on motivation there is an excellent [summary over](#) at Wharton<sup>4</sup>.

4 <http://www.fourgroups.com/>

## **The neuroscience of change and innovation**

Another popular topic at the moment is the role culture plays in limiting an organisation's ability to adapt. In his article, Gray cautions that wholesale change cannot take place without understanding that change has to take place within the context of the organisation's current identity, he states:

"Before you can start your path to the connected company, you need to understand the culture (or cultures) that are already there, so you can look for ways to enhance and strengthen that shared identity."

The importance of understanding and appreciating culture is echoed in an article over on S+B by John Katzenbach and Ashley Harshck.<sup>5</sup> They argue that before you try and change things you need to use current culture as a parameter or guide as to what and how you can change:

"Don't blame your culture; use it purposefully. View it as an asset: a source of energy, pride, and motivation. Learn to work with it and within it. Discern the elements of the culture that are congruent with your strategy. Figure out which of the old constructive behaviors embedded in your culture can be applied to accelerate the changes that you want. Find ways to counterbalance and diminish other elements of the culture

---

[link/?MW97ML](#)

5 <http://www.fourgroups.com/link/?EE2MHE>

that hinder you. In this way, you can initiate, accelerate, and sustain truly beneficial change — with far less effort, time, and expense, and with better results, than many executives expect.”

Clearly, the criticism of outdated management and organisational structure is an easy argument to make, indeed it is not difficult to find compelling research that supports new ways of structuring organisations that is almost in direct opposition to the traditional command and control structure of organisational hierarchy. However change on a practical level is much easier said than done. The difficulty of change is well acknowledged and something that we have discussed frequently in these updates. However we are always on the lookout for a new angle and there is an excellent article by Jeffrey Schwartz, Pablo Gaito, and Doug Lennick<sup>6</sup> that looks at change from a neuroscience perspective:

“Altering habits is difficult enough for individuals. Studies suggest that the number of people who voluntarily shift away from addictive or obsessive-compulsive behavior, even when they know their lives are at stake, is staggeringly low, perhaps one in 10. At corporations, the complexity of collective behavior makes the challenge even greater.”

**6** <http://www.fourgroups.com/link/?R28Z2J>

By explaining how our brains both as individuals and also I believe as a collective are naturally predisposed to habitual behaviour, it becomes clear that the challenges involved in any fundamental change go way beyond a good plan and clear communication. I think that this is especially so where you have had a degree of success or positive experience from a particular activity or behaviour. This makes any change or move away from this behaviour that has delivered success and recognition all the harder.

This is also interesting because it raises the question of how much of organisational culture is an embedded neurological response to routine and reward? My own personal feeling is that this is a significant factor in the manifestation of organisational culture.

It is clear that we are only at the early stages of understanding this groupthink. However, there is some work being done and there was a very interesting blog post over at IEET<sup>7</sup> by Philippe Verdoux that points to some of the fundamental challenges of understanding how group intelligence is manifested. In particular we can't just extrapolate group potential from the individual ability and aptitude of team members:

“In other words, it's not possible to accurately predict how well groups will perform on a range of cognitive

**7** <http://www.fourgroups.com/link/?UG8M2H>

tasks simply by averaging the IQs of its members, or by noting a single exceptional individual within the group.”

“This is interesting because virtually all talk of “cognitive enhancement” in the literature today focuses exclusively on the enhancement of individual intelligence. But what about group intelligence? Maybe there are technologies or strategies for cognitive enhancement that are applicable on the group rather than individual level?” This sentiment is echoed in a piece by John Ingham<sup>8</sup>, who questions why the vast majority of training and development is focused on the individual rather than at group level:

“Organisations succeed or fail because of the way individuals work with each other, particularly in teams and also increasingly in networks and communities – NOT because of the way any particular individual, or the sum of all these individuals, perform.”

“We treat each person as an individual human resource and we don’t think of how these resources work together as a collective: We measure and attempt to manage the performance of individuals. We reward people in the main for their own individual performance. We attempt to develop the capabilities of individuals, not those of whole teams (eg their shared mental models, shared understandings etc).”

---

<sup>8</sup> <http://www.fourgroups.com/link/?4T7DUB>

## **Rethinking promotion and recruitment**

Clearly, the issue of organisational systems, culture and change is a hugely complex area and we can’t change the system overnight. The key question therefore is, is there a way of positioning the organisation in a manner that it is able to take advantage and embrace new ideas and opportunities as they arise? Over the past Quarter there have been a couple of ideas that could possibly lead to a more manageable way forward, firstly the organisation with two different agendas and secondly, taking a look at who and why gets promoted up the organisation.

The first idea focuses on the two part organisation, with the larger part of the business focuses on core revenues and extracting value, another part is purely focused on innovation and disruption. This idea is discussed in an interview over at S+B with Vijay Govindarajan<sup>9</sup>:

“Every organization has a core business, which we call its performance engine. Its main job is efficiency: By making every task repeatable and predictable, the core business obtains scale and makes a lot of money. Innovation is just the opposite. It is nonroutine and unpredictable. Therefore, there is an inherent and fundamental inconsistency between what companies do to pursue scale and what they need to do to execute on innovation.”

---

<sup>9</sup> <http://www.fourgroups.com/link/?8LZ97Y>

There was also an interesting article in HBR that articulates a similar idea but from the perspective of M&A transactions by Clayton Christensen, Richard Alton, Curtis Rising, and Andrew Waldeck<sup>10</sup>:

“To state that theory less formally, there are two reasons to acquire a company, which executives often confuse. The first, most common one is to boost your company’s current performance—to help you hold on to a premium position, on the one hand, or to cut costs, on the other. An acquisition that delivers those benefits almost never changes the company’s trajectory, in large part because investors anticipate and therefore discount the performance improvements. For this kind of deal, CEOs are often unrealistic about how much of a boost to expect, pay too much for the acquisition, and don’t understand how to integrate it.”

“The second, less familiar reason to acquire a company is to reinvent your business model and thereby fundamentally redirect your company. Almost nobody understands how to identify the best targets to achieve that goal, how much to pay for them, and how or whether to integrate them. Yet they are the ones most likely to confound investors and pay off spectacularly.”

It is these “disruptive” acquisitions which can be seen as analogous to the innovation department and the transactions likely to result in

---

<sup>10</sup> <http://www.fourgroups.com/link/?D9SZAG>

exponential growth. Whereas bolt-on acquisitions (if they work) feed the core revenue or habitual behaviour. By building long-term planning around the innovative or disruptive elements, long-term change should be relatively more easily achievable.

Once you begin to think about it, it is easy to highlight examples of habitual behaviour or historical success damaging present and organisational performance. One of the most crucial aspects of misguided organisational behaviour is recruitment and promotion. A number of articles this Quarter have touched on the fundamental problems with current approaches.

First up over at Bloomberg Businessweek, Drucker Institute Executive Director Rick Wartzman<sup>11</sup> draws on the work of Peter Drucker to illustrate the pitfalls of hiring and promoting based on past performance:

“Past performance doesn’t necessarily guarantee future accomplishment, especially in a new job. “There is no reliable way to test or predict whether a person successful in one area can make a successful transition to a different environment,””

“Many people stumble when they move up the ladder because they “do what I did” Drucker explained. “They continue in their new assignment

---

<sup>11</sup> <http://www.fourgroups.com/link/?R9VMLB>

what made them successful in the old assignment and what earned them the promotion. Then they turn incompetent, not because they have been incompetent, but because they are doing the wrong things.”

This resonates with the difficulties of change above and highlights the fact that to achieve success both individuals and organisations need to be in a constant state of adaptation and willing to cast aside the behaviours that have contributed to their success. Ultimately what makes us successful is likely to eventually lead to failure unless new behaviours can be learnt and the old behaviours discarded. This also implies that organisations are still far too reliant on historical data in order to predict future performance.

The subject of promotions is also dealt with by Stowe Boyd in a provocative blog post<sup>12</sup> that discusses recent research that suggest that organisations would be better off promoting people randomly rather than through perceived competence:

“Certain skills and temperament are selected for in the hiring and promotion process. But are they the skills that the company needs?”

---

<sup>12</sup> <http://www.fourgroups.com/link/?MPMW2M>

And does consistently promoting the same sort of folks — with the same worldview, the same motivations, and similar backgrounds — actually lead to higher performance and more resilience for the company?”

“It falls into the category of folklore: ‘I was hired and promoted based on being the best fit for all the jobs I have had, and it worked for me!’ It becomes a self-fulfilling process, and never examined.”

Clearly, this is not a call to make promotions a lottery. Instead it questions the assumption that because an individual has performed well in one role they will be successful if moved up the corporate ladder. It also draws on the propensity of managers to hire people like themselves. I think that there is a lot to this argument and some further articles this quarter would appear to support a more sophisticated approach to the way promotions are handled.

### **The problem with creative types!**

Over at HBR<sup>13</sup>, Tony Golsby-Smith addresses the homogeneity issue in promotion strategy by calling for more diversity:

“There are plenty of MBAs and even Ph.Ds in economics, chemistry, or computer science, in the corporate ranks. Intellectual wattage is not lacking. It’s the right intellectual wattage that’s hard to find. They simply don’t have enough people with the

---

<sup>13</sup> <http://www.fourgroups.com/link/?LPNZTT>



right backgrounds. This is because our educational systems focus on teaching science and business students to control, predict, verify, guarantee, and test data. It doesn't teach how to navigate "what if" questions or unknown futures."

This sentiment is echoed in an article over at Wharton that discusses some recent research by Jennifer Mueller, Jack A. Goncalo and Dishan Kamdar<sup>14</sup>. The authors describe that although organisations are crying out for people who are creative and innovative, they are very poor at promoting these people into positions of influence:

"The troubling finding: Those individuals who expressed more creative ideas were viewed as having less, not more, leadership potential. The exception, they found, was when people were specifically told to focus on charismatic leaders. In that case, creative types fared better. But the bottom line is that, in most cases, being creative seems to put people at a disadvantage for climbing the corporate ladder. "It is not easy to select creative leaders," says Mueller. "It takes more time and effort to recognize a creative leader than we might have previously thought."

"The group found a significant correlation between being creative and being seen as poor management material. "By definition, people will say creativity is positive," Mueller states. "It is almost impossible to get people to say they don't want creativity. But when someone actually

---

14 <http://www.fourgroups.com/link/?RBDM9H>

voices a creative idea, there is a response of, "Wow -- What is that?"

I'm sure I'm not alone in thinking that organisations are missing a huge opportunity by not having a broader or more open viewpoint to the way they identify people for promotion. It is not hard to see how some people excel at the type of tasks you are required to perform in more junior ranks, struggle to even engage with the completely different tasks and problems faced further up the food chain.

Finally, for this issue and for those interested in the neuroscience of innovation, we have an interesting article by William Duggan<sup>15</sup>. In this article Duggan debunks the left-brain, right-brain explanation of the root of innovation and creativity.

"The new model of the brain is "intelligent memory," in which analysis and intuition work together in the mind in all modes of thought. There is no left brain; there is no right. There is only learning and recall, in various combinations, throughout the entire brain."

"Just as the intelligent memory concept has replaced the old two-sided brain theory in neuroscience, companies need to replace brainstorming with methods that reflect more accurately how creative ideas actually form in the mind."

Well, that's it for this Quarter. As always any comments and feedback is welcomed!

---

15 <http://www.fourgroups.com/link/?NGYTMV>

© Four Groups Ltd.

All rights reserved. No part of this document  
may be reproduced without written permission  
from Four Groups Ltd

Four Groups Ltd.  
5 St John's Lane  
London  
EC1M 4BH

Tel: +44 (0) 20 3137 8070  
Email: [contact@fourgroups.com](mailto:contact@fourgroups.com)  
<http://www.fourgroups.com>

Company Number: 4650494  
VAT Number: 817 7962 85  
Registered in England and Wales

