

HOW TO SURVIVE THE ORGANIZATIONAL

REVOLUTION

A GUIDE TO AGILE CONTEMPORARY
OPERATING MODELS, PLATFORMS
AND ECOSYSTEMS



ARD-PIETER DE MAN, PIETER KOENE & MARTIJN ARS

FOREWORD

Over the past few years numerous new organizational forms have emerged. We noticed that many practitioners remain unfamiliar with these forms or, if they are familiar with them, find it difficult to determine whether they are the right solution for their own organization. This book aims to help leaders and professionals in organizations answer that crucial question. We believe new organizational forms can be beneficial for many organizations. At the same time we are concerned that hypes and rigid application of organizational models may do more harm than good. This book acts as a first guide to recent developments in the world of organizing and will help professionals make the right decisions if they are considering restructuring their organization.

Many people and influences shaped this book. We would like to recognize the following people and organizations. This book started during Ard-Pieter's time as Dean of Sioo, the leading Dutch training institute in the areas of consulting, organization design and change. For Sioo's Consulting Program & Community (CP&C) he developed a workshop on new organizational forms. Special thanks to the participants in CP&C who contributed many insights and relevant literature that found their way into this book. A substantial part of this book was written at the Royal Melbourne Institute of Technology (RMIT), where Ard-Pieter spent a short sabbatical in 2018 as an honorary visiting professor. Thanks to professors Gerda Gemser and Mark Leenders and RMIT's Graduate School of Business and Law for their hospitality and for creating an environment that enabled Ard-Pieter to concentrate on writing.

Pieter and Martijn contributed to this book based on their experience leading PwC's global community on enterprise agility and new contemporary organizational models. We thank all PwC colleagues across the globe for their ideas, support and sponsorship for this project and for sharing their thought leadership in this area with us.

We are very grateful to the organizations who made their time available for us to interview them. We specifically would like to thank the following interviewees for giving access to their cases: Nick Jue (ING), Harm Jans (bol.com), Sally Wang (International SOS) and Natalie Peters (Telstra). Thank you all!

A final group of people deserving our gratitude are those involved in the production of the book. We are indebted to the creativity of Buro BRAND for designing the book and the wonderful illustrations.

We are very happy with the look and feel Nikki Langkemper, Samily Metselaar, Hester Naaktgeboren, and Simone Prick of Buro BRAND created. BIS Publishers and in particular Bionda Dias and Sara van de Ven were very helpful throughout the process of getting this book to market. Mike Corder was a flexible editor who corrected our English and ensured consistency in our use of language.

Ard-Pieter de Man

Pieter Koene

Martijn Ars



How are rewards provided to motivate people?

Rewards need to be provided to stimulate people to do the work assigned to them. The term rewards however is broad and does not only include financial incentives. People are also motivated by their colleagues, challenging assignments or an appealing vision.

How is information provided so people can make the right decisions?

In order for people to do their work they need to have the right information. This includes information about when they need to coordinate with others. IT systems can provide information, but reports, meetings and chats at the coffee machine provide information as well.

We describe new organizational forms in terms of these four elements. Next we provide information leaflets for each organizational form. This is inspired by the information leaflets you get from your pharmacist when you pick up your medication. We believe such information leaflets should be mandatory for management concepts as well. They should state how it works, why it works, when it does not work and what the side effects are of using any management concept. All too often, management literature is overconfident with the prescriptions it gives. A mandatory information leaflet could tame the guru ambitions of many a management thinker.

HOW TO READ THIS BOOK?

The book consists of three elements (see figure 1). *First* there are chapters that provide the backbone of the book. Chapters 2 to 7 describe the new organizational forms. They are the multidimensional organization, the Spotify model, holacracy, the platform organization with an ecosystem, value proposition based ecosystems and open source organizations. Chapter 1 describes the big trends in organizing and why they occur. Chapter 8 provides an antidote to success stories and highlights some of the drawbacks of new organizational forms. Chapter 9 gathers information about new mechanisms for internal governance that have been developed in practice, many of which can be applied across the six organizational forms we describe. The final chapter 10 provides guidelines to help managers choose the appropriate form for their organization and shows how forms can be mixed in hybrid solutions.

The second element of the book is cases. The cases illustrate the new organizational forms, but they also show that in practice organizations adapt them to meet their own unique needs. The common denominator is that they tweak organizational models to make them fit.



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WHAT

WHY

1 THE WHY OF NEW ORGANIZATIONAL FORMS + HISTORY OF ORGANIZING

The third element of the book is excursions that dive deeper into some themes that we find relevant or provide background knowledge to help you better understand the six organizational forms discussed in chapters 2 to 7. Depending on your existing knowledge or your curiosity, you can choose to take a deeper dive.

Each chapter and excursion starts with an ‘Idea in brief’ section. This summarizes it and helps you to determine whether you want to know more about it or move on to the next topic. It is possible to read the book from cover to cover. Obviously, we believe that that is the most valuable experience. Otherwise we would not have taken the trouble to put the chapters, excursions and cases in this order. But being aware of the modern manager’s impatience, the book also makes it possible for you to jump right to topics you are the most interested in.

WHAT IF YOU WANT TO KNOW MORE?

Our book gathers existing information, structures it, analyzes it and presents it in a coherent form. The book provides an overview and not a detailed discussion of all the ins and outs of new organizational forms. It is an introductory text, not a full-blown analysis.

We have added further references for those who are interested in delving further into a certain topic. We selected references that do justice to those who put forth the ideas we summarize here, but that also are helpful for managers who want to know more.

References also show classic texts that are still worth reading today because they explain fundamental insights. If you want to dig deeper into the background of a certain idea, the older and more academic references are the ones you may turn to. If you are more interested in how you can apply those ideas today, the more recent articles, white papers and websites are the place to look. If you are a teacher, the references can be useful to give your students assignments to probe beyond what we write here.

¹ Puranam, P., Alexy, O., & Reitzig, M. (2014). What’s “new” about new forms of organizing?. *Academy of Management Review*, 39(2), 162-180.

THE WHY OF NEW ORGANIZATION FORMS

A CHANGING ENVIRONMENT

We live in a time of widespread experimentation with new organizational forms. For many decades organizations used varieties of only a few basic organizational forms like the functional form, the business unit and the matrix. These organizational forms were very successful in meeting the demands of the 20th century industrial economy¹. Once adapted to the specific circumstances of a company, and despite continuous bickering about the disadvantages of hierarchy and bureaucratic policies, these organizational forms actually enabled managers to run companies of unprecedented size. The economies of scale and scope they generated laid the foundation for the economic successes of the previous century².

Then came the information society. In the information society the processing of non-tangibles like data and images is of more significance than the transformation of physical materials³. The costs of gathering, manipulating and sharing information have declined immensely. The impact of this trend on management is substantial. After all, one of the core questions of organizing is how to ensure that any individual in an organization has the right information to make the right decision at the right time. For example, the role of the middle manager in the business unit organization was to interpret information gathered by staff units, make decisions based on that information and to communicate these decisions to his subordinates. At the time of the invention of the business unit in

1923 this was an optimal use of information. In 1923 information could not be interpreted automatically and sharing information was expensive. Currently, artificial intelligence and algorithms interpret information and cheap online tools are available for information sharing that can reach millions of people in a

The idea in brief

- **The information society requires other organizational forms than the industrial society**
- **They are less hierarchical, more dynamic and information based**
- **Be careful following the latest fads: traditional ideas still have their uses**
- **Each organization is unique, therefore there is no one best way to organize**

2 THE MULTIDIMENSIONAL ORGANIZATION

A key problem for multinationals that operate several product lines for different market segments in different countries is how to optimize profitability across all these dimensions: country, product, segment. The business unit structure focuses on one of these dimensions and the matrix tries to optimize two. Other dimensions are neglected, even though they may be important. Until recently, there was no organizational form that had the ability to optimize across more than two dimensions. Usually one or two dimensions were chosen and other dimensions were managed via temporary projects, working groups or individuals tasked with looking after dimensions that would otherwise be neglected¹. The multidimensional organization provides a more integrated solution that would not have been possible without the use of modern information technology².

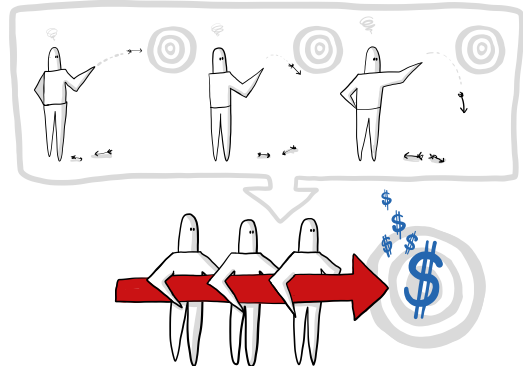
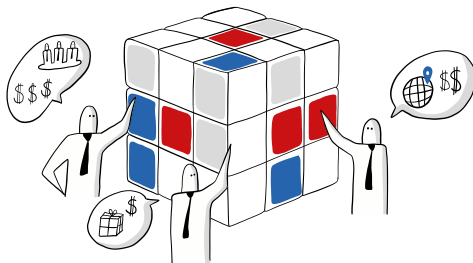
A multidimensional organization balances several dimensions (product, geography, market etc.) to optimize overall profitability. In a multidimensional organization, managers are accountable for the contribution their dimension makes to the overall company performance. Having managers accountable ensures two things. First, that each relevant dimension gets sufficient management attention. Someone has to spot new opportunities in market segments or for product development. In addition, managers need to assign resources to projects. Second, it ensures clients can do business with the organization in the way they want: on a product basis, a regional basis or in any other way they desire. However, all these accountabilities increase the risk of conflicts between

managers about which clients to serve with which resources. To solve these conflicts, the multidimensional organization prioritizes decisions based on the profitability per client. Resources are assigned to the project that contributes most to that profitability.

The idea in brief

- **The multidimensional organization balances several dimensions rather than only one or two (e.g. geography, product, client and expertise)**
- **A manager is responsible for each dimension**
- **Conflicts are solved and priorities are set based on profitability per client**
- **Supported by one undisputed source of information and a collaborative culture**

To make that decision, the organization needs to have an undisputed source of information that enables the company to decide which action is the most profitable. In addition, information has to be available for each dimension about which revenues and costs it generates, so as to ascertain their contribution to overall company profitability. This means that for any transaction with clients, the company needs to register all this information in one centralized database. For example, if an IT company sells hardware, software and services to an oil company in China, it needs to register all this information to be able to trace how each product category performs, how well they do in the oil sector and in China. The same revenue and cost of the transaction can next be reported across all these dimensions. That also makes it possible to compare performance within the dimensions: for example, by sharing information across different regions, managers can see in which region things are going well and in which region less so. They can next contact each other and discuss possible improvements.



This way of operating requires a number of additional mechanisms. The first is that there needs to be an overarching logic that is shared within the firm about how to serve clients and which clients to serve first. An example is IBM's logic that they prefer to sell integrated solutions to clients, rather than individual products. Developing and maintaining such a logic and next defining the relevant dimensions that need to be measured in keeping with that logic, is a top management task. Having such a logic in place also helps to resolve conflicts about resource assignment: conflicts are prevented when everybody knows the priorities.

Second, the higher levels of management are rewarded not on the profitability of their own dimension but (mainly) on the overall profitability of the firm. This creates an incentive for them to collaborate to increase profitability per client, rather than profitability of the dimension under their own management. Third, and following on from the previous

CASE STUDY:

ING'S AGILE TRANSFORMATION JOURNEY

An interview with Nick Jue, CEO ING Germany

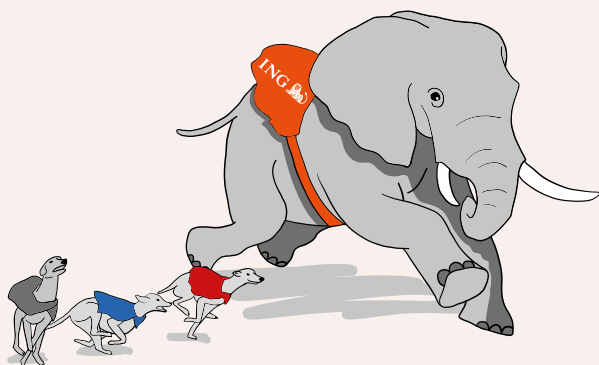
As CEO of ING in the Netherlands Nick Jue presided over ING's transformation towards an agile organization, largely inspired by businesses such as Spotify, Google and Netflix. He is now also implementing the agile way of working at ING in Germany. In this interview he discusses the transformation process that started in 2013 and the results it has delivered.



Why is ING implementing the agile way of working?

Being agile is not an end in itself. It is about delivering on changing customer needs. It is our way of getting closer to the customer and of fulfilling their wishes much faster. Customer needs and expectations have changed significantly in recent years and we operate in a very competitive market.

We used to have an extensive network of branches where most of the customer interaction took place. Now with the mobile phone, and big players like Amazon, Uber and Airbnb people are used to a specific kind of service - and they want the same type of service from their bank. Everything has to be fast and convenient. For example, if they forget their password, clients now get an email in two seconds with new login information. Until very recently, ING in the Netherlands still restored passwords via letters. People don't accept that anymore. They expect the bank to deliver as fast as Internet firms do. The market has become more diversified with new competitors. We're not the only ones thinking about financial services. Our competitors are not just the traditional banks anymore. Fintechs and big tech firms also see opportunities in the banking world. And they are much faster and more flexible than us, the big banks.



This is why I came up with the picture of an elephant running a race with greyhounds. Our ambition was to train the elephant to be as agile as a greyhound. We believe big banks still have advantages though. We wanted to keep the strength, the knowledge and the experience. We can invest larger amounts than the fintechs. Still, we do have to become more flexible and faster to meet their competition.

How did you start the change process?

Where did you get your ideas?

Spotify: Organization and way of working (Tribes, Squads, Chapters, Guilds)

Netflix: Portfolio and performance management (Quarterly Business Review)

Google: Employee engagement

We mainly learned from others. Looking outside the box is decisive for a successful agile transformation. We visited non-banking companies who operated in an agile way:

Spotify, Netflix, Google. The inspiration helped tremendously in opening our eyes to new ideas. We did not directly copy them, because our business has specific requirements. But we learned from them and took what we could use and put it together to work for us. From Spotify we learned about the organization structure. We took their idea of working in tribes, squads and chapters. However the Spotify model did not meet our requirements for performance management. For that, we took inspiration from Netflix: We used their process of quarterly business reviews. In this quarterly process tribes look at their successes and failures and set their goals for the next three months. This ensures tribes are aligned with our overall strategy. Another important element was introduced via Google, namely: How do you hire people? We realized that we needed to change much of our staff to fit the agile organization. So we implemented parts of their hiring process in which the boss doesn't hire his own staff. Instead we worked in hiring teams to get a broader view of people.

How does that hiring process work?

Let me give you an example. If I needed a new CFO at ING Netherlands, I used to interview three or four candidates myself and selected the one that I thought was the best fit. Now there is a four-step process. First, two board members other than me interview the three

PROBLEMS SOLVED	<ul style="list-style-type: none"> · LIMITED USE OF EMPLOYEES' KNOWLEDGE · LIMITED BOTTOM UP COMMUNICATION · UNCLEAR ROLES AND ACCOUNTABILITIES · LOSS OF TIME GETTING CONSENSUS ABOUT HOW WORK MUST BE DONE
DISADVANTAGES	<ul style="list-style-type: none"> · MANY RULES NEED TO BE FOLLOWED; COMPLEX SYSTEM · MAINTENANCE OF RULES · SOCIAL ASPECT OF MEETINGS GETS LOST
SUITABLE FOR	<ul style="list-style-type: none"> · ORGANIZATIONS WHERE OPERATIONAL OPTIMIZATION IS IMPORTANT · ORGANIZATIONS WHERE PEOPLE CAN LIVE WITH LIMITED EXPLICIT CONTROL
NOT SUITABLE FOR	<ul style="list-style-type: none"> · ORGANIZATIONS WHERE ACCOUNTABILITY CANNOT BE DISTRIBUTED · ORGANIZATIONS WHERE THE INDIVIDUAL AND THE ROLE CANNOT BE SEPARATED · ORGANIZATIONS WHERE MANY LINKAGES BETWEEN CIRCLES EXIST
KEY INGREDIENTS	<ul style="list-style-type: none"> · HIERARCHY OF CIRCLES AND ROLES · DOUBLE LINKS · DECISION-MAKING BY CONSENT · ELECTION OF PERSONS · AUTHORITY LOW IN THE ORGANIZATION · IT SUPPORT · PURPOSE DRIVEN
RISKS	<ul style="list-style-type: none"> · TOO MANY MEETINGS · ROLE PROLIFERATION · PROJECT PROLIFERATION
LEADERSHIP	<ul style="list-style-type: none"> · IMPLEMENT AND MAINTAIN THE CONSTITUTION · EXECUTE ROLE IN THE ANCHOR CIRCLE · COACHING THE ORGANIZATION: EXPLAINING WHY

Table 10: Information leaflet Holacracy

A major disadvantage of Holacracy is the fact that it has many rigid rules that have to be followed. The Holacracy constitution is very prescriptive and does not offer a 'light' version. You go all in or you don't do it at all. It is a complex system with its own terminology and procedures¹². Maintaining all those rules over time requires a continuous effort and may lead to some people getting tired of the processes. To be honest: people also tire of processes in a traditional hierarchy. The rigid meeting structure leads to efficient meetings but the social element of meetings gets lost. There is no time to chat. Maintenance of the social aspect of the organization requires separate attention.

In theory, Holacracy can be useful for many organizations. The system works very well in organizations where operational optimization and continuous adjustment to changing circumstances are important. The system also works well in organizations where people can live with limited explicit control, for example professional organizations. Not everybody is able to self-organize and especially when traditional organizations move towards Holacracy, some people may not be able to cope¹³.

The use of Holacracy is more difficult in organizations where accountability cannot be distributed. Governments with democratic control for example will have difficulty with distributed accountability because it is in

the nature of their system that one person must be held accountable by an elected body. Organizations where the individual and the role cannot be separated are also less likely to use Holacracy. When unique talents form the basis of an organization's existence the freedom to allocate roles and change roles across individuals is limited.

Finally, organizations where linkages between circles are important will have difficulty with the Holacracy form. If circles cannot operate separately but overlap in the work they do, the need to coordinate between circles may lead to an overload of horizontal links and boundary conflicts. It is the explicit responsibility of management in a Holacracy to ensure horizontal links between circles are created when necessary. When too many of them are needed, the number of meetings will increase and the organization may actually slow down instead of speed up.

The core idea that makes Holacracy work is that everybody can be responsible for managing the organization and that organizations need to make use of all information present in the workforce. The system of hierarchy of circles and roles, double links, decision-making by consent and election of persons ensures authority lies low in the organization. IT support to keep an overview of all the roles and to administer all the processes simplifies the management of the holacratic organi-

“Unlike traditional pipeline businesses, platforms don’t control value creation. Instead, they create an infrastructure in which value can be created and exchanged, and lay out principles that govern these interactions”.

**> Geoffrey G. Parker,
Platform Revolution**

This made it more difficult for complementors to develop interesting applications. Faced with the growth of Google, Apple was gradually forced to make more and more of its operating system available for developers to build on.

An outside risk to platforms may lie in a societal backlash against them. This is especially true for online platforms. Because online platforms can exercise considerable market power, the fear of abuse of monopoly (and actual examples of it) has led to concerns about them. Antitrust authorities have fined many of the large online platforms. Privacy issues have been raised as well. With people handing over much information about their life every time they search for something or click on a button, platforms amassed a wealth of data. Fears about how these data are used are further fueled by a lack of transparency of the algorithms the platform owners use to extract value from these data. This societal debate is only in its infancy. Organizations setting up platforms now, should be aware that stricter regulations may be implemented in the near future, restricting the value that can be reaped from the data they gathered. The role of leaders in platform organizations has been clearly defined in the literature. The platform owners have five tasks¹⁰:

- **Set and communicate the vision that energizes the platform organization and the ecosystem;**
- **Determine the scope of the platform: what (not) to do in house;**
- **Determine the technology design and IP: what to include in the platform and how open should the interfaces be;**
- **Manage external relationships with complementors: how to manage them and how to encourage them to contribute to the ecosystem;**
- **Structure the internal organization: one point of attention here is how to reassure complementors that the leader works for the good of the ecosystem, not just for its own good.**

Regarding this last point, the platform owner should ensure the ecosystem of complementors that their future on the platform is secure. Once this faith is gone, complementors will leave the ecosystem. This becomes specifically salient when a platform starts to compete with complementors. Intel implemented some mechanisms to ensure it would be perceived as neutral when it started to compete with its complementors in one of its markets¹¹. It established a business unit that would compete with complementors based on Intel IP, but at the same time it made that IP available to the complementors, without giving its own unit a head start. The IP was developed in another department than the new business unit.

7 OPEN SOURCE ORGANIZATIONS

The **open source** organization is perhaps the least and at the same time the most traditional of all organizational forms. It is the least traditional because it is completely online. It is the most traditional in that it is an organization of volunteers and voluntary organizations, which may very well be the oldest form of organizing we have. Open source organization is a form of organization in which individuals collaborate on a voluntary basis to develop a product or service that is freely available for all. There is no formal contract between the individuals making up the organization or between the individuals and the organization, but it does have rules to which all must conform. Some of the rules are informal, others are written down in a manual.

The idea in brief

- **Open source organizations are organizations in which volunteers develop a resource for the whole world to use**
- **Their main governance mechanisms are benevolent dictatorship, consensus based democracy and information transparency**
- **Their strength lies in the high motivation of the volunteers to contribute; their weakness in the lack of formal control mechanisms to ensure alignment**
- **'Innersourcing' is the application of open source thinking inside organizations**

Open source organizations first emerged to develop open source software in an online environment, where people collaborated to create a joint source code and worked on improvement of the source code or its derivatives. The best known examples are of course Java, Linux and Android, but there are many other examples. Other open source organizations produce services for a broad audience, like the online encyclopedia Wikipedia. The original impetus for open source often was a combination of a desire to develop software that was not created by commercial organizations and by a more idealistic and even hippy-like renunciation of the idea of intellectual property (in this view, ideas should not be owned)¹.

Since its emergence in the open source software movement, the concept of open source has also been applied outside the online world. Most popular attention has gone to the Free Beer movement, that made a recipe for beer brewing. Anyone can use this recipe as a basis for brewing their own beer. To give open source activity a legal foundation, lawyers developed Creative Commons licenses which enable creators to maintain some ownership about aspects of their work they want to control (their 'copyleft' instead of copyright) while simultaneously allowing anyone to build on the ideas in a way they see fit. A Creative Commons license usually requires such users to contribute their ideas to the commons as well.

With these developments and the increasing legal backing behind it, open source ideas have spread far beyond their initial creators and have made a considerable impact. Open source software is widely used by many organizations and the structure of the organizations behind it is therefore worth studying. Table 18 summarizes the key ideas behind open source organizations².

Even though open source organizations rely on self-organization this does not imply an absence of management. The division of tasks is usually done by leadership, at least concerning high level tasks. This may be the person who founded the organization or an

informal leader who emerged over time. In a minority of cases, like Wikipedia, such task division is not done by a leader but purely left to the self-organizing capabilities of the organization. Around specifically challenging issues, a consensus based democracy may work. In a consensus based democracy, everybody tries hard to reach consensus and only when that fails is the issue put to a vote.

The allocation of tasks to specific individuals may also be done by informal leaders, but it is more common that people nominate themselves to execute a certain task. In open source organizations there may also be managers with a specific task like being responsible for documentation or managing the frequently asked questions list. Such managers may assign certain tasks to certain individuals. The term 'assign' is used loosely here. Because the organization consists of volunteers, managers cannot dictate others what to do. Rather they make a request to someone. Also they do not have the monopoly on the area they were assigned. Their role is more that of coordinator.

As open source organizations are voluntary and not-for-profit, rewards for people are not of a monetary nature. Most participants in an open source organization are intrinsically motivated to work on it, because they enjoy it or strongly believe in its cause. Visibility, recognition and status can also be a benefit

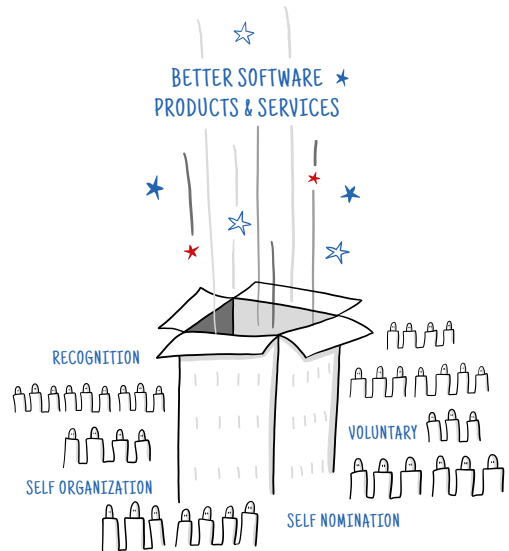
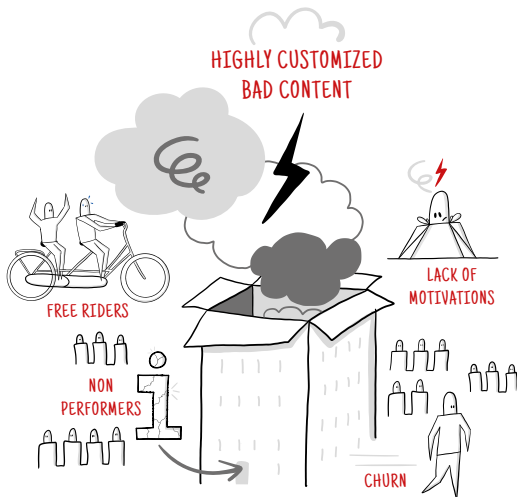
element that keeps the organization together. Standardized tools have been developed over the years to support this. The relevance of simple and transparent communication online will be evident.

Open source organizations do not have onboarding processes: people have to find out themselves how the organization works and why it is organized the way it is. By capturing knowledge in IT systems, providing manuals and showing discussion threads online, newbies are helped to find their way. These explicit mechanisms are not enough though. Any organizational form also requires softer and implicit mechanisms to make it work. In this case, a strong sense of community is required to deal with many of the risks and disadvantages of open source organizations.

If people feel part of a community this greatly eases communication, increases their willingness to do chores and provides a foundation for stability.

As is so often the case, the major benefit of this organizational form is also its major risk: its voluntary nature. The benefit of working with volunteers is that it gives access to a highly motivated, free work force. The downside is that this workforce can leave the organization at any time without giving any notice.

The risk of a high level of churn in the membership is high and this may imply that there is no accrual of organizational memory and skills. Because of the voluntary nature of the organization, it may also lack the self-cleaning capability to rid itself of



underperformers and free-riders. And if a group of people decides to walk off and start a competing organization or create a sub-branch of the source and work on that, there is no formal way to prevent this. These risks are mitigated however by the fact that the volunteers are not all individuals working for themselves.

IBM for example is a leading company in open source and employs many employees who work on it. Voluntary open source organizations therefore can tap into the resources of well-established companies and that provides them with some stability. A final risk lies in internal politics. In-crowds may emerge that go unchecked by a hierarchical manager or transparent procedures. Such in-crowds may overrule the less powerful contributors to the organization without being held to account.

Leaders in open source organizations have primarily a facilitating task in helping others to solve problems or support them in their decision-making. Their role is often described as that of a benevolent dictator. Only when the organization is not able to come to a consensus, will the leader make the decision. A benevolent dictator can be given this position based on his expertise and his reputation as a person who is reticent with the exercise of power. The benevolent dictator model is often used in the early phases of development

of an open source organization. Over time the model may transform into the consensus based democracy model.

To better understand open source it is valuable to compare it to agile and scrum. There are a few differences⁴:

- Agile is developed for teams that meet face to face. It assumes people are based at the same location. Open source assumes teams are dispersed and can work anywhere around the globe.
- This also explains why Agile focuses less on getting good documentation for the software: there is always somebody around to answer your questions. As open source works in dispersed teams, it requires very good documentation.
- Agile and scrum are less scalable but deliver results fast; open source is highly scalable because of its online way of working, but it delivers results more slowly.
- Agile and scrum focus on the internal organization whereas open source is interorganizational.
- Agile has a strong focus on the end user; end user involvement in open source is limited.

INNERSOURCING

There is no reason why the principles of open source organizations cannot be applied in organizations internally and indeed a number of companies have begun to experiment with

8 THE DARK SIDE

Organizations invent new organizational forms because they provide better solutions than previous ones. That does not mean they are without problems. In the discussion of new organizational forms we already saw that each form had its specific downsides. There are also some common disadvantages connected to new organizational forms. Hierarchical forms had some general downsides in terms of their limited flexibility, limited freedom for employees and the presence of bureaucratic procedures. Similarly we identified a number of downsides for new organizational forms. We discuss these below. The new organizational forms also affect society more broadly. Sometimes they are at odds with existing habits, rules and laws. Sometimes the law does not keep up with the development of organizational forms. The second part of this chapter discusses some institutional challenges that come with them.

The idea in brief

- **New organizational forms have drawbacks on the organizational level and affect society at large**
- **On the organizational level, data-driven work, continuous change and the focus on norms and values may also lead to loss of privacy, exhaustion and dehumanization of work**
- **On the societal level questions may arise about the effect of new organizational forms on equality (the (in) equality paradox), corporate governance (the responsibility paradox) and anti-trust laws**

THE LIMITS OF NEW ORGANIZATIONAL FORMS

The totalitarian organization and the privacy/performance tradeoff¹.

At the risk of becoming repetitive: new organizational forms are rooted in the enhanced capacity to gather, process and share information. Companies also collect information about employees. By using artificial intelligence and the Internet of Things employers can monitor their employees in many different ways. A chip in the company ID badge can track an employee's movement around the office. Employees can be given smart watches or bracelets to monitor their health or behavior. These devices can also be used to

notify an employee a certain task has to be performed. The office can turn into an information panopticon in which privacy is gone and everybody is measured and watched continuously².

As with all technology, these developments can be used to the benefit of people and to their detriment. A key issue is how companies use these data and interpret them via artificial intelligence. Algorithms may appear objective because they deliver interpretations based on objective data, but the algorithms themselves are not objective. They are built with a certain goal in mind and may be subject to prejudice. And beyond that there is the human right to privacy and the feeling you don't want to be spied upon by your employer.



The Economist proposes three mechanisms to alleviate privacy problems that stem from using artificial intelligence in the workplace. Employers may make use of employee data but should anonymize the data whenever possible. Employees should be told how employers use artificial intelligence and what data they gather. Employees should be able

to request the data employers have on them. The Economist provides a succinct summary of the issue: 'The march of AI into the workplace calls for trade-offs between privacy and performance. A fairer, more productive workforce is a prize worth having, but not if it shackles and dehumanizes employees. Striking a balance will require thought, a willingness for both employers and employees to adapt, and a strong dose of humanity'³.

The disappearing middle management

Even though new middle management functions emerge to replace the old ones, the higher reliance on self-organization in the organizational forms we discussed will probably tilt the balance towards a declining number of middle managers. This is not necessarily a bad thing. However, this implies all employees will have to participate in some administrative duties. It means time that could have been devoted to the 'real' work now has to be devoted to management tasks.

A longer-term issue with middle management disappearing lies in the question who is going to succeed the top managers. Traditional career paths gradually gave people more responsibility and thus created a pool of managers from which the best could be selected. But what if that pool is very small? Will there be sufficient choice? Moreover, with a small pool the opportunities for career growth also decline for those at the bottom of the pyra-

Meetings: QBRs and Obeyas

Meetings play an important role in organizations. They help to align, coordinate, report and prioritize. Interestingly, despite the widespread aversion to meetings, many new organizational forms require more, not fewer, meetings. The higher frequency is necessary to ensure continued alignment in a fast paced and decentral organization and to adapt to changing circumstances. More meetings do not have to translate into a heavier burden if the meetings are productive and short. The meetings in new organizational forms tend to have higher energy levels than those in traditional organizational forms, because they use more interesting formats than sitting around a table to stare at documents and

PowerPoints. They may also be shorter. The daily stand up in lean/agile teams are a case in point: they are conducted often, they are short and they are held standing.

In agile organizations the Quarterly Business Reviews (QBR) are a meeting form that ensures alignment between all business domains. The process runs as shown in figure 11. Boards and senior staff prepare a QBR by aligning around the strategic goals for the next quarter. Product owners, teams and sector or domain leads use that as input to write a QBR memo, which shows what they plan to do. Next they comment on each other's memos to ensure they are aligned. Coordination is ensured where necessary. In a 'big room

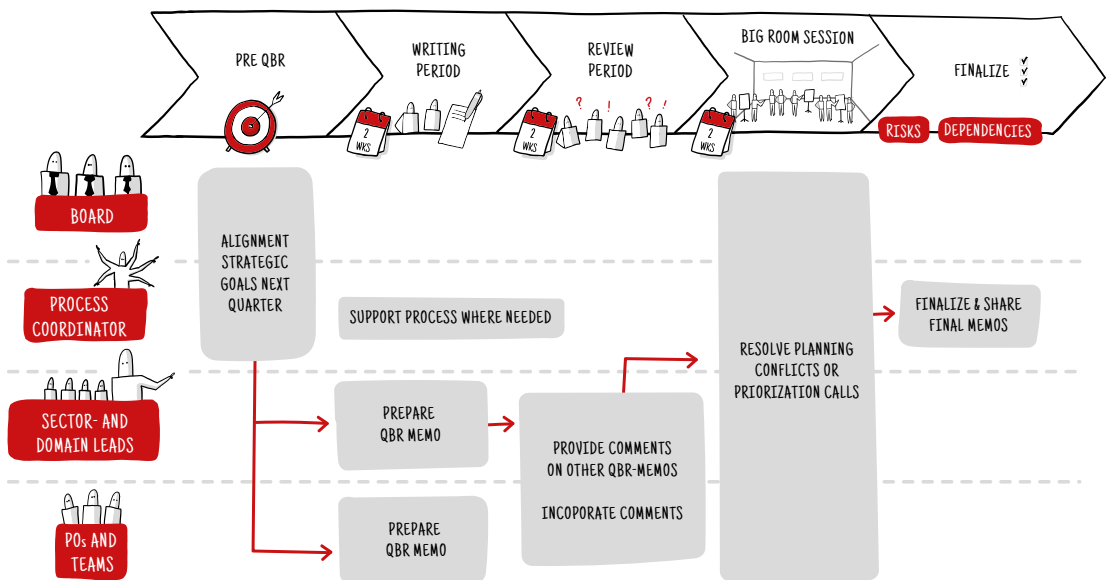


Figure 11: The QBR process⁷

session' planning conflicts are resolved and where necessary the Board sets priorities. Final memos are shared after the meeting. QBRs mitigate the risk that teams lose track of the overarching strategy. Big room planning sessions are derived from Toyota's Obeya concept. Obeya means big room. In a big room, organizations visualize their core processes and goals using tables and charts. This enables managers to have standing meetings in the room to discuss relevant issues and get insight quickly into what is going on. Even though physical presence of everybody involved helps, some organizations use online Obeya's to help manage a globally dispersed organization.

An example of how to conduct a big room session is provided by Lego Digital Solutions⁸, where 150 people meet for one day every other month in order to plan the next Product Increment. During that day teams run through a prioritized product backlog that is prepared before the meeting. Each team has a white board showing what its plans are. Any risks they see for a particular development project are put on a risk board. As everybody sees the risk board, some risks identified by one team can be resolved by another. The management needs to review the remaining risks at the end of the day and decide what to do with them. There also is a dependency board that uses post-it notes to show where teams depend on each other to develop a

certain product feature. After the meeting this dependency board is used twice per week in a scrum of scrums meeting to discuss where dependencies create problems. All this forms input for draft plans for teams. Those are presented but not in a plenary session. Instead there are 5-7 minute presentations by one team member that take place simultaneously by all teams in the room. The other team members listen to those presentations by other teams that are most relevant for their work and give feedback. This leads to final plans for each team. Any remaining problems need to be solved by management, but because everybody is in the room, many issues get resolved before a manager needs to get involved.

BUDGETING AND RESOURCE ALLOCATION

Budgeting is another area that is reconsidered to better fit the needs of new organizational forms. To be clear, even in organizations that rely extensively on self-management, the budgeting cycle that allocates resources is an important mechanism management can use to exercise influence. They may give more budget and resources to what they find more important, for example by allocating more time to some issues than to others⁹.

In the Spotify structure as implemented by ING, budgeting is straightforward. Each tribe has a fixed number of people and that deter-

10 NEW ORGANIZATIONAL FORMS: A ROUGH GUIDE

The organizational models that form the core of this book are the multidimensional organization, the Spotify model, Holacracy, open source, the platform organization and the value proposition based ecosystem. We present a rough guideline on when each of the organizational forms is applicable. However, the cases in the book showed that in real life companies adapt these models and take inspiration from across the business landscape, to tailor them to their specific needs and circumstances. Therefore we highlight the risks of using a copy-paste approach to organization design. Because of the risk of copy-pasting and the necessity to adapt models to the specific organization, hybrid models may emerge. We describe some of those.

WHEN TO USE WHICH FORM

The organizational forms discussed in this book have many characteristics in common that distinguish them from more hierarchical organizational forms, as we showed in Chapter 1. Despite these commonalities, there is still substantial diversity. Table 24 highlights the unique characteristics of each organizational form to help clarify the distinctions between them. The table gathers insights from the earlier chapters with the aim of helping managers get a picture of when they may apply each form. Keep in mind that this is a rough guide. In practice there are many gray areas and the applicability of the forms may be broader than the table suggests.

The multidimensional form's unique characteristics are that the client acts as the profit center and that a manager is accountable for each relevant dimension. Such a set up works

The idea in brief

- **None of the models discussed in this book should be used in a copy-paste manner**
- **Instead, they are sources of inspiration and present ideas that managers need to adapt to their specific circumstances**
- **We present some guidelines as to when which form is suitable and how they can be combined into hybrid forms**

well when clients require integrated solutions rather than individual products and when an organization can gain substantial advantage by coordinating multiple rather than single dimensions. This form therefore presupposes the presence of a multi-product, multi-unit, multi-geography firm. To deliver the solution to the client, departments in the organization depend on each other. This model is less applicable when departments are able to be successful in the market on their own.

The unique characteristics of the Spotify model are multifunctional teams with prescribed roles for team members and the presence of the product owner/client in the team. They are grouped in tribes and chapters. The Spotify model is suitable in a project environment with non-routine operations, such as when information products need to be developed. The multifunctional teams have great value when solutions are unclear, because the combination of insights from people with different backgrounds may lead to more creative solutions. The short cycle time and the presence of a client in the team also make it possible to adapt to changes in requirements during the development process. If no such changes are expected or close collaboration with an end user is not possible, this model is less applicable¹.

Unlike the Spotify model, holacracy does not prescribe roles. Roles can be defined by

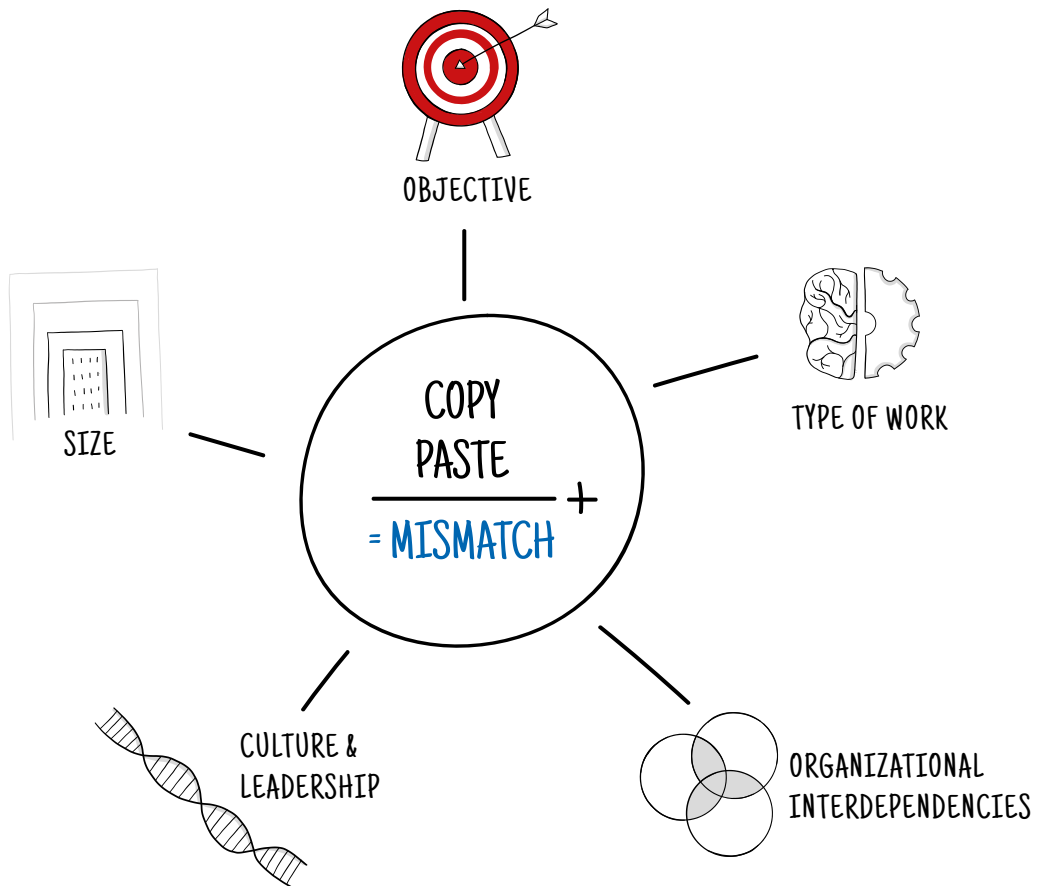
the people in the organization, who work in consent based circles. Double links ensure vertical coordination. In holacracy everybody is involved in the governance of the organization and everyone is involved in changing, adapting or transferring roles. This contrasts with the Spotify model where the structure of chapters and tribes is fixed. This difference is rooted in the fact that holacracy focuses on improving the management of the flow of work. This is best done by involving those who know most about the work: the people doing the work. In keeping with this focus on the flow of work, holacracy tends to be used more in routine operations, where similar tasks need to be performed on a daily basis. Because of the more routine tasks, the client is not present in holacracy. Co-creation with clients is less relevant in holacracy than in Spotify. The bol.com case shows holacracy can be useful in sales and marketing as well. Holacracy improves entrepreneurship by giving people a sense of ownership of the business and enabling them to make decisions about which new products to sell or which products discontinue.

On the right hand side of the of the table, we find the organizational forms that cross organizational boundaries. The platform organization may still be within a single organization, but its surrounding ecosystem permeates the organizational boundaries. Unique for the platform organization is that it tends

THE RISKS OF A COPY-PASTE APPROACH

The model that works best for any organization depends on many different variables. Any organization implementing a new organizational model must also make that model its own. When forms become a hype however, organizations may start to copy-paste them without a thorough analysis of which form

is most suitable. Organizations that have taken a copy-paste approach towards any of the organizational models discussed in this book, have often failed to reach their objectives. Among the many reasons why the copy-paste approach does not work, some important ones are:



- **Mismatch with overall objectives.** Depending on the organization's objectives, some forms are more suitable than others. The Spotify model allows organizations to deal with uncertainties and enables them to respond fast to changes in their business environment. In a small municipality this form may therefore not be the best option.
- **Mismatch with type of work.** Some forms presuppose routine work (holacracy), others non-routine work (Spotify). Some forms require high task standardization (open source), others are suitable for unique tasks (value proposition based ecosystems). Without a thorough understanding of the nature of work, no choice between organization models can be made.
- **Mismatch with organizational interdependencies.** The expected level of interdependencies between departments within the organization is an important area of consideration when selecting the right organizational form. The multidimensional organization recognizes such interdependencies; value proposition based ecosystems recognize interorganizational interdependencies and propose a method of dealing with them. The Spotify and platform models, on the other hand, assume more simplified organizational environments, with fewer interdependencies.
- **Mismatch to organizational culture and leadership.** Organization culture and leadership are key elements to consider when selecting a new organizational framework. Some models are based upon a high level of autonomy and trust. Organizations and their leaders need to be able to demonstrate behavior that fits this. If culture and leadership do not fit the chosen model, either the model has to change or the culture and leadership.
- **Mismatch with size of the organization.** Some of these organizational forms contain assumptions on the minimum and maximum number of people in teams and how teams should be structured in an organization. Complex structures for smaller organizations or smaller department will not be effective.

TAILORING ORGANIZATIONAL FORMS TO YOUR CONTEXT AND NEEDS

A thoughtful adaptation of an organizational idea to the needs of the organization is necessary for it to succeed. The examples of bol.com and ING show they were very much aware that they needed to adapt holacracy and Spotify to their specific situation. They consciously chose not to follow some elements and added others. As a further illustration we present some examples of how organizations have successfully tailored underlying principles from the Spotify model to their specific context.

HOW TO SURVIVE THE ORGANIZATIONAL REVOLUTION?

Today companies face a bewildering choice of new organizational design options. Information technology enables the emergence of new organizational forms that go beyond business unit and matrix structures. This book is the first complete overview of these new organizational forms that underpin the information economy. It is an indispensable guide to profit from the opportunities new organizational forms present.

This book provides

- An overview of the new organizational design landscape.
- A concise and practical analysis of new organizational forms like Holacracy, the Spotify Model, scaled Agile, platform organizations, ecosystems and open source organizations.
- Clear guidelines that help managers decide whether these new organizational forms are appropriate for their organization.
- An explanation of how the organizational revolution affects issues like human resource management, middle management, governance, planning and control.
- Practical examples and enlightening case studies.

Corporate leaders and managers can use this book to start their own organizational (r)evolution. Entrepreneurs will find solutions in this book that can help to scale-up their business. Consultants can use it to help their clients to rethink their organizational form. Business school students will find this book a practical reference and starting point for a more in depth study of the latest developments in organizational design.



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