PART 1
INTRODUCTION

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The Crisis of Organization

The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty and we must rise with the occasion. As our case is new, so we must think anew and act anew.

Abraham Lincoln

Only a few years ago, the ideas and approaches outlined in this book would have seemed not merely radical, but fanciful to many. In the past few years however, there has been a growing groundswell of recognition that the traditional approaches to designing and running organizations are fundamentally flawed. Not just in need of a few tweaks, but fundamentally wrong. The evidence is all around us. Over 90% of strategic plans are never implemented. Over 70% of change projects fail. The average lifespan of companies continues to plummet – currently 12.5 years in Europe and significantly less than the career span of the people working in them. In a 2005 survey of 1400 CEOs, 77% said managing the increasing complexity of their organizations was a high priority, 91% believed that this required special skills, tools and approaches, but only 5% believed they had the skills needed. There is, therefore, a clear gap between what these beleaguered CEOs think they need and what they currently have as solutions.

It is a truism that change is now faster than ever, yet it is clear that the thinking about organizations and management has failed to keep pace. The western Business Schools continue to teach methods that were developed to deal with a world that no longer exists and management thinking in our large organizations continues to be based around a set of disciplines and methods that are hopelessly inadequate to deal with current challenges.

Business planning is still rooted in an annual cycle of targets and budget setting that is indistinguishable from the centralized planning system of soviet Russia under Stalin. This is despite the fact that the natural business cycle is rarely a year. Many businesses need to be able to change their strategy in response to emerging strategic threats on a much shorter timescale than the annual cycle. Instead of helping them, the annual cycle fetters the organization's freedom of thought and action like a ball and chain. And what happens when we do try to implement change? Well, usually not that much, since the traditional way of carrying out change also fails in an overwhelming number of cases. So, far from enabling organizations to adapt and flourish in this fast-changing environment, the traditional approaches actually prevent adaptation.

Similarly, organizational complexity continues to grow as organizations are forced to address more issues and greater diversity in their operating environments. Technology proliferation, globalization, market fragmentation and other macro-level changes force organizations to operate in increasingly complex ways and with increasingly complex structures. Once again, the old models are failing. The traditional solution to organizational complexity was the bureaucratic model, but even for monopolistic public sector organizations that is becoming unacceptably cumbersome and there are few private sector situations where it offers a sustainable solution.

The reason the old models are failing is that the problem is not just organizational complexity or the rate of change. It is the combination of the two and the dynamic that these have together. The rate of change drives organizational complexity and organizational complexity drives up the rate of change. Organizations are locked into this reinforcing cycle and whether you see it as vicious or virtuous largely depends on your point of view, or more prosaically on whether you think you are winning or losing at that moment.

Increasingly however, the numbers of people prepared to stick their heads above the parapet and challenge the status quo are growing. And it's no longer just the eccentrics operating on the fringes of management thinking

who are speaking out. As Dee Hoch, founder and ex-chairman of Visa and ex-CEO of the Bank of America said:

> we have today a massive epidemic of institutional failure. You can look around you: schools that can't teach, welfare systems in which nobody fares well, unhealthy healthcare systems, corporations that can't compete, economies that can't economise, police that can't enforce the law, judicial systems without justice. The list is virtually endless of organisations increasingly unable to achieve the purpose for which they profess to be there.

At the world's biggest conference in 2004 on performance management (as staid a management discipline as you could hope to meet), three out of five of the platform speakers stated that management needed to get away from the hierarchical model of organization that is at the root of many of our organizational problems. This was a fairly conservative gathering populated by some fairly conservative figures, yet even here, there was a recognition that the old models no longer work.

What there is less consensus about, however, is what to replace them with. There has been a succession of ideas about management and organization over recent years. Some of these have held valuable if partial answers, some were extremely effective when used well, but dangerous when used inappropriately and some were frankly half-baked. How then to tell whether any 'new' idea has any merit or will simply be another 'here today and gone tomorrow' fad? This is especially difficult if the diagnosis that there is something fundamental wrong with current management thinking is correct. If it is, then it almost certainly means that there is something wrong with the paradigm. As Einstein said, 'You can't solve the problem with the same reasoning that caused the problem'. If another paradigm is needed – and I believe that it is – then inevitably that means that many of the assumptions that we take for granted as being self-evidently true have to be abandoned. Well, I would suggest that there are four touchstones that we can use to test new ideas, and certainly these are the ones that I have used in my own search for a different set of solutions.

The first is whether the idea has any supporting theory to back it up. Underpinning the approaches outlined in this book is not just a chunk of theory, but a whole body of systems and cybernetics thinking. Much of it has become fundamental to how we understand our world today. So much so that most people are unaware that much of what we now consider 'common sense' is thinking that was impossible for previous generations. Today, there are few managers who do not talk about 'feedback' and yet the term was only migrated from engineering into common parlance by the first generation of multi-disciplinary cyberneticians after World War Two. Similarly, the circular mechanisms of global warming are taught today to 13-year-old children in the UK, but those same systems theorists and cyberneticians only introduced the concept of feedback loops into scientific disciplines in that same immediate post-war period. Prior to that, science only had a language to consider linear cause and effect. This is where much of current management thinking is still rooted. Traditional management techniques are based on the assumption that organizations and business can be understood using simple cause and effect models. Outside of business, the same theoretical underpinnings on which this book is based are used extensively in disciplines as diverse as military guidance systems and ecology.

Of course, theory is no guarantee of validity, and many a theory has proved false. Nevertheless, for practical purposes, having some theory behind your method does give some guidance as to why it might work when it does, and therefore where it might be helpful, and where it will not. After all, this is the purpose of theory.

When Stafford Beer first developed the Viable System Model, he was seeking to encapsulate a set of fundamental laws in a science of organization. So far, we have not found any sort of organization to which it does not apply. Just as all types of flying things from airliners to Frisbees are subject to the same laws of aerodynamics, so, what it means to be a viable organization seems to be universal. Although all organizations may be different in what they do and how they do it, the principles of organization are universal. A set of simple laws govern whether an organization will be viable or whether it will die. Part of the importance of theory is that it

provides reassurance that this really is applicable in any situation. This is not to claim that this is any sort of panacea. It is not. There are a whole host of business problems that are not directly addressed by this approach, but it does mean that for the issues it does address, it can be applied to any sort of organization and used to understand how they function or indeed fail. Of course, the experience of finding that application is universal does provide the consultant or manager with confidence that it is soundly based.

The second touchstone is to do with resonance. When a new paradigm comes along that is able to provide answers to long-standing puzzles and problems, generally speaking, it does not just solve one problem, it solves, or dissolves several problems at once. By definition, systemic problems give rise to many apparently separate and diverse symptoms. So solve the core problem and it addresses all the symptoms. When you get over flu, your headache, fever, sinuses and appetite *all* improve. It is the sign of a paradigm change that lots of things look different from the new perspective. The new paradigm casts everything in a different light and nothing looks the same again. So, with management ideas, one that has real validity is likely to resonate in many different areas. It should change the way you look at strategy and the way you look at change management, the meaning of governance and the purpose and practice of performance management and it should connect all of these together into a coherent picture, where each makes sense of the others in a completely new way. This is not the same as falling into the Maslow trap – 'to the man who only has a hammer, every problem looks like a nail'. It is not that a new approach can or should be expected to solve everything, but systemic problems, like the hydra of Greek myth, have many heads on the same body, so one solution can solve many apparently different problems.

One of the key attributes to look for here is connectivity. It is not just that a new paradigm should simultaneously address several apparently different and disparate areas – although this in itself would be impressive. It should also show how they connect together in a way that makes sense. It is not just that it has something to say about change

management, performance management, governance, strategic risk and strategy. It is that it shows how and why these are linked, how each of these supports and complements each of the others. A consultant talking to me the other day commented that this set of 'specialisms' were fairly diverse, but of course they are not, because in reality these are not merely linked together, but are simply different facets of the same whole. The purpose of governance is to manage strategic risk by carrying out organizational change. A performance management system should be capable of measuring both strategic risk and the organizational change to address it and so inform the governance structure how effectively it is working. The links between these are so strong and natural that it makes no sense to treat them as if they are separate and yet, many managers, consultants, management theorists and academics behave as if they had nothing to do with one another, as if governance and change were in no way connected. In very practical terms, they are usually handled quite separately, by different teams, each of which has different purposes and different objectives, and uses different models and languages. You cannot sensibly think about strategic risk without taking into consideration the capability and design of the governance structure that is supposed to deal with the risk. But again, these are often considered as totally separate issues.

Is it really surprising if we treat things that are and need to be intimately connected as if they were totally separate, that we end up with organizations that cannot respond coherently to the risks and changes they face? Is it surprising if managers feel confused and helpless in addressing the problems they face?

The third touchstone is practicality. Does the approach, model or method help us to get to pragmatic solutions? Does it do it quickly and are the solutions robust? In my work over the past few years, I have been shocked at how easy it has been to take the core model around which this book is based, of organizations as complex viable systems and use that model to develop new methods for strategic risk, governance, change, performance management, resource management and strategy development. In most cases, these methodologies were developed as a direct response to a

client's immediate problem, so speed and pragmatism were not just desirable, but essential.

The fourth touchstone is the 'Aha' moment, the moment when you see a familiar problem or experience in a new way and say to yourself 'oh so that's why . . . '. Many, I suspect probably most, of the people who have taken up the ideas I have tried to present in this book have done so because of such an experience. This is one of the reasons that I have tried to include a range of examples from real life and also the 'archetypal pathologies' many of which managers will have seen and experienced first-hand as a set of symptoms, but without necessarily understanding the systemic drivers. For most of us practising in this area, there was a moment when suddenly the world of organizations looked very different. As one director said to me a week after being exposed to these ideas for the first time: 'everywhere I look now I see variety issues'.

And so to a safety warning, understanding organizations as systems is a 'red pill', there is no going back. You may rage or despair at the stupidity or futility of some common management practices, but once you understand the reasons why they usually fail, you cannot un-learn that knowledge. Hence, there is undoubtedly a negative side. On the positive side, however, understanding organizations as systems is immensely powerful. One academic I know who used to teach Viable Systems to undergraduates told me that they were regularly able to analyse business situations more completely than highly experienced international business consultants. This despite the enormous handicap that they had never worked in a business, so were working from pure theory. After over a decade of practice, I am still frequently surprised at the speed, power and precision of the systemic approach and the elegance and simplicity of some of the solutions it can provide.

I believe that the approaches I outline in this book present a coherent but radically different picture. The Viable System Model has been described as a 'master organizing idea', in other words a concept that allows other tactical tools and approaches to be placed in their proper context with one another. It has also been an extremely fruitful source of practical

methodology for addressing a wide range of common management problems in a radical way. In many ways, this is quite different to many management books. For a start, it may appear to be very broad, touching many conventional disciplines, from finance to operations to marketing. This is because the core topic of this book is organization and organizing, and organizations are the structures within which all other management disciplines exist. Organizing is the glue that binds them all together. In many places in this book, there will be a reference to conventional management practice, so rather than describing either finance planning or market segmentation, these will just be referenced, because others far more knowledgeable, have described and explained these better than I could. However, the contribution of a systemic approach is to show just how these other disciplines need to fit together if we are to have organizations in which market analysts and financial planners actually work together effectively to contribute to strategic plans that will actually address market needs and be practicable.

What I am advocating in this 'radical approach' is not a wholesale ripping up of all existing management doctrine. The fundamental shift in thinking is about how to design and run organizations and of the importance of organizational and management structures, not necessarily about all management practice within existing disciplines. I hope that it is an approach that casts many existing management methods in a new light whilst relying on them as the bedrock of management practice.

However, in addition to just providing a model of organization that can be used to frame existing management approaches, I have also tried to set out a number of new approaches that come directly from a systemic perspective and which challenge the prevailing practice where it seems to me the evidence shows it is failing most often. On reflection, these seem to be clustered around the dynamics of organizations – how they assess their strategic risk, how they decide strategy, how they carry out change, how they govern this continuing cycle of change and renewal and measure whether it is working. All of these relate to the statistics quoted earlier about the widespread failure of traditional approaches to strategy and change. The systemic model on which they are based provides a powerful

tool for managers to understand and deal with organizational complexity. I am not the first to point out that these areas of organizational dynamics are often not taught well on MBA courses and it is perhaps no accident that MBA stands for Master of Business Administration. The focus of administration is the status quo, not change. Unlike some other critics however, I generally support MBA courses. In my experience, they turn out bright, competent people with a common managerial language and some very relevant skills. That the MBA courses and therefore the graduates have a set of skills to do with organization, strategy and change that generally do not work is simply a function of the complex fast-changing environment we find ourselves in at this time and the need for new approaches that it calls for.