

“The most powerful thing we can do is not predict and control but sense and respond.”

Business thinker and best-selling author Frédéric Laloux explains his belief that the way organizations are run is outdated – and that the future is about self-management.

Egon Zehnder talks with Frédéric Laloux

Egon Zehnder: Frédéric, you think that traditional management has outlived its utility. Why is that?

Frédéric Laloux: Speak with corporate leaders behind closed doors and see if you can encounter one that will not share at some point that something is broken; something isn't working in the way we run organizations today. When I started working in the corporate world, more than 15 years ago, there was a general faith that we were mastering the art of management. People were looking up at GE under Jack Welch, for instance, with a sense that this is it; this is how management needs to be done.

Today, pretty much all the leaders you meet will admit at some point that things are too slow, too bureaucratic, not innovative enough, people aren't motivated. They are ready to try the next fad, because they no longer know what to do.

But I think there's a deeper secret that no one talks about: Being a top executive isn't fun anymore. It's become a rat race. Top executives are bearing this incredible pressure on their shoulders and most of them are wearing it as well as they can, but they're all on the brink of burnout. I find this interesting because no one talks about it. There is a generalized taboo around the topic. I imagine it's because it took so much hard work to get to the top that you should enjoy it when you make it, and it feels like an admission of defeat when you are miserable.

What has changed in corporate life that has made it worse?

Everything increased: the complexity, the scale of large organizations, the demands of the stakeholders you need to manage, the expectations of the workforce... We try to meet this increased complexity with all sorts of initiatives and programs, to try, for instance, to make things more agile, to try and empower people. We can launch culture change initiatives. But in many ways, these programs at best prolong the shelf life of our management system. In most cases they don't work or even backfire and add to the complexity.

As a result, an increasing number of executives are leaving the corporate world, sometimes because of a burnout, an illness or a divorce that has them reassess their lives. But sometimes, they simply come to a point of realization: "Hey, I'm not sure I want to do this anymore; there's got to be a better life out there." And it's not just executives. Nurses and doctors are leaving hospitals in droves, because hospitals have become these enormous, soulless machines. In most countries, it's hard to find teachers who still want to teach in schools. Teachers are leaving their professional vocation in record numbers. I think there's a general crisis of management in our institutions.

What happens to people when they opt out?

Not all of these people do leave the corporate world. Some of them restart new organizations or transform their existing organizations in extraordinary ways. In my research I sought out a number of truly amazing organizations founded by leaders whose journey brought them to look at their work, at management, at organizations, in a whole different way. When I started studying these organizations, two things struck me.

With that perspective they dared to question the whole management edifice that we're being taught in business school. It just wasn't working for them. And here is the remarkable thing: Not only did the different set of organizational structures and practices they stumbled upon, with some trial and error, prove to be much more powerful, and also soulful and purposeful. They were also remarkably similar, which is quite astounding. These leaders often thought they were the only ones daring to question today's management so radically. And yet they ended up with very similar principles and practices. It's as if they are separately tapping into a new paradigm that is ready to be accessed.

What is this new management paradigm?

One of the most difficult questions you can ask me is, "So, Fred, can you summarize in two minutes what these new organizations look like?" It's hard because it's not that one aspect of today's management has been changed. It's the whole foundation, the whole edifice that has changed.

When we look how management has evolved in the course of human history, we see that there are a number of fundamental leaps we've made. The first organizations,

historically, operated pretty much in the way the mafia and street gangs do today – informal affairs with a powerful, violent boss as the glue. With the shift to agrarian societies and civilization came a major leap: the invention of the organization chart with formal, stable reporting lines, and with the invention of replicable processes – next year, we’re going to do the same thing as this year.

With the industrial and scientific revolution came a breakthrough of equal importance that is still very much at the foundation of today’s management: management by objectives. These leaders set out a direction and set out targets, but then how you reach those targets, that is kind of up to you. And that has given birth to things like strategic planning and budgets and objectives and KPIs and balanced scorecards and incentive systems and performance appraisals.

All of that is to say that there are these moments where we make a leap to a more powerful management system. And when we research organizations out there that appear to be operating from a new paradigm already, we can discern that they come with three new breakthroughs.

What are the three breakthroughs?

One of the breakthroughs is self-management. We now have organizations with thousands of people who are operating entirely without a boss-subordinate relationship. That sounds crazy, but then again this is how hugely complex systems like the human brain or natural ecosystems operate. A number of people have cracked the way to operate human organizations on the same principles. There are now enough of these organizations who’ve been doing self-managing for some time, some of them for 20, 30 or 40 years, for us to understand how it’s done and how incredibly robust and incredibly productive this can be.

If you look at all the complex systems in the world, none of them work with hierarchy because hierarchy cannot deal with a lot of complexity. If you look at the human brain, 85 billion cells, there isn’t one cell that is the CEO and some other cells that believe they are the Executive Committee, and who say to the billions of the cells in the brain, “You guys, if ever you have a clever thought, pass it by me.” If you would try to run the brain in such a hierarchical way, it would immediately stop functioning. You cannot deal with complexity that way. All complex ecosystems, like a forest, the human body or just any organ, self-manage.

What does self-management look like in practice?

Let me share a story with you about a neighborhood nursing organization in the Netherlands called Buurtzorg. It was founded by Jos de Blok who had worked in a traditionally-run nursing organization, until at some point he couldn’t take the bureaucratic, often absurd and demeaning things management asked nurses to do. At some point, he said, “Enough.” He left in 2006 and created Buurtzorg – an extraordinary success story. He started with three colleagues. Now they’re 10,000. It’s an entirely self-managing organization. 10,000 people, not a single manager, a tiny headquarters, no CFO, no head of HR. I’ll forgive you for wondering: how can that possibly work?

It took me a whole while to wrap my head around the structures and mechanisms organizations like Buurtzorg use, because they're so unlike what I had encountered before. They deal with complexity in a whole different way, where things suddenly become quite simple again, so much so that it almost looks like magic.

Can you give an example of how self-management cuts through complexity?

One aspect of self-management is that you can't impose a decision, simply because you hold a certain title. You have to solicit advice from experts and everybody who will be affected, before making a decision (a practice sometimes called "the advice process").

Oh, but isn't this slow and complicated? No! When Jos de Blok comes up with a certain initiative, he has to use the advice process. He generally writes a blog post on the intranet, for instance something like this: "I've been thinking we need to change how we calculate overtime. This is the new system I propose. What do you think?" And because he's highly respected, within 24 hours, most of the nurses will have read it and commented on it. Often, there is broad agreement, and 24 hours later, still through a blog post, he confirms the decision. Sometimes, the proposal meets with disagreement, and de Blok will improve his first proposal, or ask a group of volunteers to look into it more deeply with him.

This doesn't sound like such a big thing until you realize how this same question would have played out in a traditional organization. Jos de Blok, with a sense that something that needed to be changed in the way overtime is calculated, would have talked to his Head of HR about it. The Head of HR would have tasked a more junior person in HR to think about this, right?

The more junior person in HR would have written a document, thought about it, talked with a number of colleagues and had a bit of a nervous moment presenting it to the Head of HR. The Head of HR would change a few things. The junior would go back to the drawing board, would again talk to one or two more colleagues, and plan a new meeting to present the document again to the Head of HR. Maybe the second time around, the Head of HR approves it.

Then the Head of HR shows it to the Executive Committee. Most likely, there might be somebody else in the Executive Committee who doesn't like the Head of HR and doesn't want him to have an easy win and goes and asks a few difficult questions. So the Head of HR says, "Okay. I will study it," goes back to drawing board, goes back to junior person, more meetings, and then goes back to the Executive Committee. When it's finally approved, it goes to internal communications for some polish. Then it's shared in a meeting with the regional managers, then the district managers... and then finally with the nurses. Can you count how many meetings and how many weeks were spent on this? Jos de Blok's blog post achieves that in 24 hours, and the input and buy-in of the nurses is backed right into it.

Can you share another example?

Here is a story from FAVI, an automotive supplier in the North of France. When the first Gulf War broke out, suddenly the automotive industry crashed. FAVI had lots of overcapacity and needed to fire 25 percent of its people. And the director, Jean-François Zobrist, did something pretty astonishing: He asked for all the machines to be stopped and he assembled everyone – at the time they were a few hundred people. He stood on a stack of pallets, and he said essentially this, “I think I should fire 25 percent of the people. That means all the temporary workers here. And I don’t want to do that. But I’m not sure what else I can do.”

He was courageous to just put it out there. You can imagine the nervousness of the people and the hard questions being asked. Then one person said, “No one knows how long this will last. Maybe this is just temporary. Why don’t we take a 25 percent salary cut for the next month and not fire anyone? And then see if we need to do it for another month?” And when Zobrist asked, “Who is in favor?” all hands went up. An hour later, everybody was back at their machines. In one hour, a major crisis had been solved. Imagine how many meetings and work would have gone into a big round of lay-offs, and how it would have affected people and the organization’s future when, a few months later, demand picked up again. Of course, this was possible only because people had been self-managing for a few years already, which breeds tremendous trust and responsibility in people. Try this in a traditional organization and it would not work so easily!

How do you get a company – and especially managers – to adopt a system that’s the exact opposite of what they are accustomed to? How can a big company work without structure?

That’s exactly the misunderstanding, that self-management means no structure. People say “It cannot possibly work! Four or five people can self-manage. But come on, beyond that, you need structure. You need a boss!” The truth is that, yes, you need structure. You absolutely need structure, but you don’t need a boss.

There are a number of things that leaders can do to initiate the journey. I’ve seen several leaders of large organizations assemble a team of enthusiasts and give them the mandate to go out there and experiment and prototype. Rather than impose self-management top down, the CEO nurtures that team, make sure that it meets, that people learn from each other’s successes and that these people are protected, because the system is going to fight back. These islands of sanity create a buzz in the organization and get others to want to join.

It also seems to be helpful to have someone external help facilitate that team. As you say, this kind of change goes against the grain of how we all grew up thinking about management. It raises hard questions about power and control, and about what roles managers will have going forward. An experience facilitator who doesn’t shy away from such difficult but important conversations can be very valuable to help people wrap their head around this new world they are stepping into.

So there's a role for external people who can help create that context...

Yes, but only to facilitate, not to steer the process. I don't believe too much in a traditional approach to consulting when it comes to such profound transformation that simply cannot be planned linearly. Good facilitators, though, create a space for profound, heartfelt conversations that help overcome resistance and see the beauty of self-management.

What happens to people who don't buy into the self-management concept?

You know, I've asked that very question quite often myself, because you often hear other leaders say, "I don't think my people are mature enough for this. I don't think you could trust them with the kind of decisions they would need to make." And when I put this question to the leaders of organizations that are transitioning, they give me a very consistent answer. They say, "In their private lives, people make very important decisions. They decide if they will get married, to whom, if they should buy a house with a mortgage, what school to send their kids to – fundamental decisions in life. Why do we think that once people are in organizations they can't be trusted with important decisions, even on the shop floor?" What I hear from organizations that are transitioning to self-management is that the vast majority of people are happy to embrace more freedom and more responsibility. It's not so much about "buying into a concept" as about experimenting with it and realizing it simply makes sense and it works.

But for an organization to embrace self-management, the person at the top, the CEO, must lead the charge. Isn't that a paradox?

You are right, it is a paradox. Today there are probably a few hundred, maybe a few thousand organizations who are on that journey. And we know that, because of the power vested in CEOs in traditional, pyramidal organizations, their role is critical. If they understand and want this change, and if they have a board of directors that will let them do it, they can make it happen. With self-management, the role of the CEO in terms of decision making becomes drastically less important, because so many more people step up to make decisions. But their role in terms of actually holding the space and saying, "This is how we'll operate, and we won't go back to the old ways," becomes absolutely critical.

How do self-managing organizations deal with a true crisis?

The first thing that I found remarkable in my research is that self-managing organizations have way fewer crises. So when you look at, for instance, a number of self-managing manufacturing organizations, they go through recessions and still make a profit. And I think there are two reasons for this. One is that these organizations are lean and mean. They don't go through the cycles of building up "fat" in good times and then firing people when things get tough. The other thing is that they are much better at adapting constantly, and don't need to make sudden, painful adjustments.

The impact millennials are having on the workplace is huge. They have much greater focus on purpose, too. What have you observed about this new generation?

Many millennials instinctively understand self-management. They've grown up with the Internet, a place with no hierarchy or gatekeepers in the traditional sense. They're used to the fact that anybody can express something, and then if it's good, it will spread, irrespective of anyone's title.

Most of them have also been raised in a much less authoritarian manner than we have been. They are used to questioning things and are quick to say, "I'm not sure I need to put up with this thing that makes no sense!" And they've grown up knowing that we face daunting ecological challenges, so simply making money is often not enough of a purpose to motivate them.

For all these reasons, many traditional HR departments say that millennials are hard to manage. I believe they're asking all of the right questions, and they are forcing us to open up doors that we older folks will be happy to walk through as well. I'm really curious about the acceleration that might happen in the corporate world in ten years' time when some of these younger people rise through the ranks and reach the top. That is, if they haven't all left before then!

Is there a type of organization that is not appropriate for self-management? The military?

Read General McChrystal's book *Teams of Teams*. Special operations teams, the people who are dealing with the most radical uncertainty, the people that you drop behind the lines to kill Bin Laden, these teams have always been self-managing! It is impossible to run highly complex operations with a traditional chain of command. General McChrystal has taken all of the special operations groups, numbering 8,000 people, and has created what he calls a "team of teams", in other words he has scaled self-management from individual teams to the whole special operations group of the United States Army.

So you can perhaps still run traditional artillery units with a slow-moving chain of command. But the teams that do the really complex operations, they are all self-managing already. McChrystal's book is a real eye-opener for many people, hammering in the truth that self-management is the only way to deal with high complexity.

You mentioned that there were three breakthroughs in your work. What's the second one?

The second one has to do with wholeness. It is just as powerful as self-management, but it's more subtle, less headline grabbing, and so people often underestimate its importance. It is this idea that, for some reason, in almost all organizations, we feel we need to wear a professional mask. We hide much of who we are – our joy, our hopes, our doubts, our longings, and our quiriness – behind that mask. For instance, have you noticed that in the workplace, showing up with our ego is considered the most normal thing in the world? In a meeting, you fight for your team, for your budget, for your career, or simply to win an argument. But try speaking to something deeper, to your hopes and longings for a meaningful purpose for your organization, and you'll quickly feel in dangerous terrain.

When we hide so much of who we are behind a mask, we also cut ourselves off from a huge amount of our energy, of our creativity, of our passion. Some of the organizations I researched have understood this. They have put in place very deliberate practices to make us feel welcome with all of who we really are. People show up whole; relationships become much deeper, much richer. And with that comes a level of vibrancy, of aliveness that is just extraordinary.

And the third breakthrough?

The third one is what one organization that I researched calls “evolutionary purpose”. This means not only that the organization truly has a meaningful purpose, beyond making a profit and gaining market share. But that the organization keeps listening to where that purpose will lead it.

The traditional management paradigm, as it's taught in business schools, is founded on the notion that we should predict and control the future. Leaders need to define a clear long-term vision, translate that into a strategy, which then must be executed upon.

Leaders of this new breed of organizations that I've researched say, “That only makes sense if you believe that your organization is this lifeless thing that you need to program and give a direction. But we believe that our organization is like a living organism. It has its own sense of direction.” And so our role as leaders is much more subtle. It's actually to listen to that evolutionary purpose. The world has become so complex that the best we can do, the most powerful thing we can do, is not predict and control but sense and respond. Agile software programming has shown how much more powerful *sense and respond* is, compared to *predict and control*. Evolutionary purpose extends this to the whole organization, and replaces traditional strategic planning, budget exercises and cascading targets with much more light-weight, adaptable practices.

Vita

Frédéric Laloux is an unsettling thought leader with an unconventional track record.

His first steps were predictable enough, with an MBA earned from INSEAD and a spell as a consultant with McKinsey. Then, however, he embarked on the search for a new worldview. Laloux's revolutionary management thinking is set out in his best-selling book, "Reinventing Organizations". Today he is an internationally sought-after business thinker, who practices the alternative approach that he preaches. He lives at Ecovillage Ithaca in New York State, where he spends a lot of time with his family. His out-of-office mail reply runs: "If you write to ask about a talk or some consulting you'd want me to engage in and you don't hear back within a week, then consider this the gentlest of "no" – it's something I almost don't do at all anymore."