

# LEADING TOMORROW'S ORGANIZATIONS

*With each leap in technology and corresponding advancement of civilization, the optimal forms of organization and leadership also change. Through this lens, the author argues there is a strong link between the rise of the modern organization and the transition from a classical paradigm of leadership to a new formula for leading tomorrow's organizations. According to the author, the main challenge for organizational management today is to facilitate environments that inspire and engage people. Essential components of such an environment are fairness and transparency, the offering of autonomy, opportunities for self-development, and engagement around a purpose beyond merely making profits.*

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**T**hroughout history, human groups have organized themselves around the concept of a leader with varying levels of authority. Societies have been ruled by leaders who exerted their authority within a more or less ambiguous organizational framework based on a combination of generally accepted norms, rules, and regulations.

Because of the complexity of human nature, these assumptions varied across organizations and were developed predominately through trial and error by applying accumulated intelligence towards the purpose of advancing civilization. As innovation, and hence advancement, continued, previous assumptions about the organization of social groups became inefficient and even obsolete at certain periods, needing to be improved upon or replaced by new models.

One of the clearest tipping points came with the advent of the Industrial Age. Organizations that efficiently applied what Frederick Taylor identified as a new hierarchal and functional model of industrial production prospered and conquered through the principles of diversification and systematization.<sup>1</sup> The ones that did not evolve to adapt accordingly were comparatively weaker and often did not survive. The lesson to be taken from this profound period of transformation in the workplace is that new realities need to be served by new and improved organizations; the consequences can be devastating otherwise.



Now, in the Information Age, we are at the cusp of another, even more powerful tipping point at which organizational assumptions are being challenged like no other time before. The advancement of technology, particularly in bringing increased computing power and hyper-connectivity, has created a new playing field that will oust the organizations that cannot reform accordingly from the game.

All our working assumptions about organizations therefore need to be revisited. What was established by trial and error before the Information Age can now be

<sup>1</sup> Frederick W. Taylor (1856-1915) is credited as the founder of scientific management. His work focused on increasing the efficiency of the workplace by differentiating managers from non-supervisory workers and systematizing the jobs of both types of employees.

tested and reformulated by using contemporary statistical models. In other words, technology now enables us to scientifically test our assumptions and reformulate them in a more informed and systematic manner. New methods of governance based on these refined assumptions can now enable organizations to acquire long sought-after, collective wisdom.

The insights touched upon here are not just about digitalizing institutional functions or streamlining processes to eliminate inefficiencies. What needs to be done in order to build organizations of the future is much greater than that: we need to reform in totality. This involves redesigning the architecture of the organization, in essence a redefinition of people's roles and interactions within organizations – and particularly that of leadership – as well as among suppliers and customers. If the fundamental human dimension is not addressed properly, no amount of rational models, incentive schemes, and state of the art technologies would succeed in motivating organizations to achieve their missions.

Before defining what we mean by leadership, we first need to identify organizational structures that will enable people to work collaboratively towards a unified purpose, generating productivity, innovation, and added value for today's knowledge base. You cannot win a race with a horse and carriage if you are racing against cars, even if you are the world champion driver of horse carriages. It is futile to even try to enhance your skills with the means currently at your disposal. Instead, you need to focus first and foremost on building the car that will give you a chance to win the race.

Obviously, carrying out such a fundamental transformation is a challenging task in today's fast-paced, ever-evolving business and financial world. Staying competitive through innovation and continuous refinement of our skills, tools, and methods is key. As famous motivational speaker, Stephen Covey, put it: "One needs to sharpen the saw."<sup>2</sup> Covey explains that one of the seven habits of highly effective people is that they consistently reflect on and overcome their deficiencies. Needless to say, sharpening the saw is an analogy – not a recommendation to keep using saws when technology offers you more efficient instruments with which to complete the task

2 Stephen R. Covey, *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change* (Free Press Publishing: 1990).

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at hand! In general, however, leaders today need to apply this principle of striving for continuous improvement not only to themselves but also to their organizations.

In contrast, however, today's organizations are still predominantly using Taylor's hierarchical and functional framework, which was revolutionary in its time for organizing industrial production and routine work. "The problem is that there will be less and less of this type of routine work for humans to do, so the Taylorist industrial mindset needs to be laid to rest.<sup>3</sup> This mind set is outdated and inapplicable to the needs of modern business. Fashionable concepts such as business process reengineering (BPR) and Six Sigma cannot even begin to improve the inefficiencies of industrial organizational structures. *Delegation*, *empowerment*, and *teamwork* are all correct terms but they cannot be achieved to their full potential without a definitive organizational framework designed for this information era. Despite the fact that private organizations are considered to comprise individuals who are most driven by instincts to reach the "top" where authority is concentrated, these institutions, paradoxically, are the ones most likely to search for models of improved collaboration through the efficient distribution of authority.

### ***The Need for Purpose***

Material possessions are reduced as we share them. In the mode of survival, human instinct is naturally opposed to sharing. Therefore, the standard organizational *modus operandi* is fundamentally based on a zero-sum game principle: the more one gains, the more the other loses. Greed and fear are the basic drivers in this game.

Among all things humans can possess, only two have the potential to proliferate when shared: feelings and knowledge. When we share them, not only do we still retain them, but we also have the chance to enhance them. This principle never changes.

Digitalization became a game changer in management because of three opportunities it offers: capturing and analyzing vast amounts of transactional data, creating an efficient and practical medium of exchange for knowledge, and enabling the modeling of the emotional side of organizations.

These new opportunities have amplified the gains and are poised to change the balance of power in favor of sharing within and among organizations. It may seem counter-intuitive, but now one can get more by giving more. Sharing needs to be unconditional and genuine to be able to generate a ripple effect. If you expect an

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<sup>3</sup> Jacob Bøtter and Lars Kolind, *Unboss* (iBooks: JP/Politikens Forlagshus, 2012).

immediate return from sharing then the instinct behind the gesture is still essentially greed, not genuine sharing. If this is the case, then trust will be lost, and the organization will not succeed. This is the reason why organizations need a purpose that is above and beyond making profits. That purpose will unite people together, sharing and fighting together for that common cause. Only when a company has a shared purpose can it achieve lasting and fulfilling success.

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For instance, Apple’s purpose of “making products for the people who think differently and want to change the world” and Google’s mission to “liberate all sort of information and make it available to everyone” are good examples of meaningful purposes that empowered both of these companies to unite their respective organization’s power and focus on beating formidable competitors. When people have faith in their organization’s purpose and their fellow colleagues, they will be motivated to work for more than just material gains.

### ***Challenging Structural Hierarchy***

Functional hierarchy was designed for industrial production. This model assumes employees with particular functions should concentrate on those tasks that need to be performed within their functional role and nothing else. The decisionmaking power is at the top and people are not expected to know – and are even discouraged from knowing – anything more than what they need to do.

This model was not designed to give average employees any authority outside of their specific function; rather, “authority should be derived from function.”<sup>4</sup> However, in practice, people assume the cumulative authority of the functions of all employees reporting to their position. Whoever assumes higher authority is considered to be above the person with lesser authority in an unnatural hierarchical structure. Mary Parker Follett, a pioneering management theorist, identified this conflict almost a hundred years ago, and her organizational insight still applies today – in fact, even more so. “Authority belongs to the job and stays with the job.”<sup>5</sup> The practice of

4 Mary Parker Follett, *Freedom and Coordination (ROLE: Organizations): Lectures in Business Organization* (New York: Routledge, 2013).

5 Follett (2013).

delegation, however, creates an illusion that all authority belongs to the individual or group decision-making body at the top.

The authority to perform a certain function can be overridden by an individual or group with higher authority whose task is to perform a different function. The justification for this overriding of authority is that the outcome of the function at the higher level of authority will have a greater impact on the overall common purpose. Rather than a “delegation” of tasks, a more autonomous system should be designed in which individuals come up with tasks and goals, but these can be “overridden with just cause” by their leaders.

The need for designing such a system, for reconfiguring the entire architecture of an organization to incorporate the insights discussed above, can be analogous to service-oriented software development (SOS).

Today, most organizational architecture is still designed like client-server architecture: business logic and authority sits in the server in client-server software, similar to how authority generally belongs to those at the very top of organizational structures. In SOS, the components house their particular business logic internally and execute functions themselves, serving the overall outcome independently of other components. This resembles the authority-function relation described here, in which authority resides in the function you perform.

Instead of permanently bundling functions under specific positions, we need to organize work and projects into stand-alone functions. These functions need to be classified into categories that require different sets of skills and competences. Employees can be trained and certified to be eligible for one or more function categories. Their track record for executing these functions will constitute their dynamic level of mastery, which can change with expertise acquired for a new function. The assignment of specific functions to people can be carried out in the spirit of the free market. The project initiator and eligible candidates can collectively determine the terms in an open bidding process. As the freedom to choose is a powerful motivational factor, this kind of design can foster entrepreneurship in organizations at an unprecedented level history. The transition in the design of such systems cannot be done overnight, but trends in digitalization and social life, as well as in business, certainly show that this transformation is already in progress. It will be difficult, however, to predict the tipping point of when this kind of architecture will be widely accepted.

Successful projects like Wikipedia and open source software companies surely demonstrate the willingness of people to participate and contribute, even only

for the sake of recognition. Imagine a world where employment can offer such dynamics on a wide scale. Some pioneering companies started to experiment with a more autonomous work environment, but this can be hard for traditional organizations to adopt. For example, Google's encouraging of employees to devote one full day in a week to do something outside of their formal job description reflects this type of progressive thinking; many companies, however, would consider incorporating such a business plan financially impracticable. How can we encourage the transition to a more participatory, entrepreneurial organizational structure on a wider scale?

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Dissecting – identifying and clarifying – the functions of all employees is the first step towards solving the organizational design puzzle. To design an architecture that is appropriate for organizations on a wide scale, we can use the following methodology:

**D**issect the workload into specific work functions.

**E**valuate the usefulness, eliminate what is not useful.

**C**larify : Does the strategic importance serve the purpose? In-house or outsource if non-strategic.

**I**ncorporate required skills and/or competencies to execute the functions.

**D**ilegate to computers whatever is programmable and executable by computers.

**E**xecute an auction system to assign people to tasks.

DECIDE seems to be a very sensible framework for overhauling classical, and therefore outdated, organigrams that served Industrial Age organizations. DECIDE replaces those typical work-flow charts that puzzle most managers today, who spend their valuable time trying to fill in often arbitrary boxes with names, searching for new configurations that will not offend or demotivate people. Today, positions should not be created by bundling functions, as this is contrary to the uniqueness of people. Standard job specifications demotivate and disengage people. Only the freedom to decide to grow at our own pace and contribute according to our own will can bring out the best in us. Disassembling the function-position-person trilogy will be the fundamental leap forward in the design of knowledge organizations.

### ***Organizing the Emotional Side***

If purpose is the compass showing the direction of the organization, motivation is the wind powering the sailboat. Motivational factors are often mixed up with hygiene factors, which are a set of factors in the workplace that cause job dissatisfaction. For example, money is often considered as a motivational factor, while it is actually a precondition meant to ensure that employees are not distracted from engaging in the workplace, i.e., that they can pay their bills and focus on work. Money is not something that can create engagement by itself.

Motivation can be generated by work environments that stimulate curiosity and engagement among employees. Unfairness is at the top of the hygiene factors; a lack of fairness is the condition that is least tolerated in the workplace.

People are emotional, and if emotions are ignored, rational cost-benefit models, no matter how perfect, will not be able to perform successfully. Organizational designs need to encompass ways of addressing emotional needs of employees in a rational and systematic discipline. For example, models that map digital and physical interactions of people can help to understand and manage social network developments within organizations. Computer-programmed feedback mechanisms can help to eliminate negative personalization of events, negative feelings about work and co-workers, and breakdowns in collaboration.

Some of these computer-modeling concepts might seem distant, or it does not seem likely they will be applicable in our lifetime. Nevertheless, we usually underestimate the pace of change. Ongoing complacency in management practice can be a misleading benchmark. One might comfortably chose to conform to the norms since the need to change does not seem so imminent. However, it is not that foreseeing this tidal wave requires any Nostradamus prophecy. As Peter Drucker – often credited as being the inventor of modern management – says, we just need to look out of the window to see what is visible but not yet seen today.<sup>6</sup>

### ***Leadership in the Information Age***

Leaders are the ones who help steer the sailboat to the desired harbor. They ensure it is properly equipped for storms and that the sails are filled up with motivational winds at quiet times.

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<sup>6</sup> “The Man Who Invented Management,” *Bloomberg Businessweek Magazine*, 27 November 2005, <http://www.businessweek.com/stories/2005-11-27/the-man-who-invented-management>



As US President Abraham Lincoln stated, “The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise to the occasion. As our case is new, so we must think and act anew.”<sup>7</sup> Our times now call for new thought and action, yet the fundamental principles and values of leadership have not changed. Today’s leadership is now more about instigating reform

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within people than managing functional executions towards a common purpose. Leadership is still a matter of how to be, not how to do.

Leaders are expected to continuously integrate systems, ideas, and people to bring about practical solutions towards creating tomorrow’s organizations. In this integration process, the creative side of the organizational brain needs to be kept in harmony with the rational side, while also keeping people fully engaged in the purpose. As CEO and Chairman of Starbucks Howard Shultz claimed: “You can’t grow if you’re driven only by process, or only by creative spirit. You’ve got to achieve a fragile balance between the two sides of the corporate brain.”<sup>8</sup>

When an organization fails to perform, leaders do not have the right or the luxury to blame people for their lack of competency, their cultural diversity, or outside structural forces. Instead, leaders need to focus on facilitating environments that inspire people. When people are inspired, there are no obstacles that cannot be overcome.

Simon Sinek, a management consultant, motivational speaker, and author of the popular leadership manual “Start With Why,” rightfully states that organizations first need to answer *why*, then *how*, and then *what* – instead of in the reverse order.<sup>9</sup> He also claims that the offering of autonomy and uniting around a purpose are qualities necessary to engage people in their work. Other important hygiene factors, such as lack of transparency and unfairness, need to be addressed

7 Abraham Lincoln, “Annual Message to Congress – Concluding Remarks,” 1 December 1862, <http://www.abrahamlincolnonline.org/lincoln/speeches/congress.htm>

8 Anna Mudio, “Growing Smart,” *Fast Company Magazine*, August 1998, <http://www.fastcompany.com/34493/growing-smart>

9 Simon Sinek, *Start with Why: How Great Leaders Inspire Everyone to Take Action* (New York: Portfolio Trade; Reprint edition, 2011).

to ensure that a motivational environment is maintained. A leader's primary objective should be to ensure that the system and the people within the organization are in sync. If this can be achieved, people will not need policing from above. They will be genuine in their work toward fulfilling their own personal goals, not merely working to satisfy their bosses.

It is the leader's responsibility to choose the road map and the pace; that will keep the organization functioning by observing the delicate balance in changing the organizational assumptions and people's expectations in the change process. Leaders will only be able to do this by observing universal values and being open minded to all ideas. In this journey, fear and ego must be kept under control with discipline and strong will. The hardest step is the first one; leaders need to decide and take the first step.