Practical Alternatives To Hierarchy

Four New Organisational Structures Unlock Innovation

By Lee Bryant, Cerys Hearsey, Ea Ryberg Due, Christine Spivey Overby & Sam Thomas
Executive summary

Today’s organisations rarely represent how work really gets done, since they evolved to uphold market conditions that no longer hold sway; but advances in technology and social sciences unlock organisational possibilities that favour adaptability and improve business and employee performance. Modern org structures flatten the hierarchy, following four patterns: 1) Networked Model; 2) Circle Structure; 3) Tribe Model; and 4) Autonomous Business Units. Companies like Haier prove the business returns of undertaking radical transformation.

Navigating The Shift*Base Guide

- Hierarchical Org Structures Stifle Innovation
  - New Technology And Psychology Enable Better Structures
- The Four Patterns Of Modern Org Structures
  - Networked Model
  - Circle Structure
  - Tribe Model
  - Autonomous Business Units
- Which Pattern Is Right For You?
- Embrace A Dual Org Approach
- Case studies
  - Tribe Model: Spotify
  - Autonomous Business Unit System: Haier
Hierarchical org structures stifle innovation

Tidy organisational charts rarely represent how work gets done and employees communicate. Increasingly, communities, small teams, and external ecosystems are not just shadow structures, but part of the organisation’s vital fabric and the secret to unlocking innovation.

Yet today’s dominant organisational structures — the ones documented in HR systems everywhere — uphold outdated ideas on hierarchy, relationships, and decision-making. Why? Because they evolved to support market conditions that no longer hold sway, specifically:

- **Top-down decisions, due to information scarcity.** Modern bureaucracies adopted hierarchical decision making — with cascading enforcement — when executives had the broadest exposure to critical information. But now, every employee has access to insights thanks to both customer and enterprise technologies. And ever more complex organisations mean that top executives are often the last to know. Recently, United Airlines CEO Oscar Munoz admitted that he and the board were isolated from the front-lines — to the detriment of the business and shareholders.¹

- **Functional departments, due to limited communication.** Functional departments grew as the most efficient means of associates sharing expertise, at a time when one could only ask for help “as far as your voice could fly”. Now, enterprise chat tools like Slack and Chatter support far-flung communities of practice and open up new structures in which functional reliability is not the dominant organising principle.

- **Blunt incentives, due to motivation and measurement gaps.** Companies often use external rewards — a cash bonus, president’s club — to entice high performance. The rationale is simple: they are easy to measure and manage. But studies show these rewards have a short-lived effect. Worse, they can lead to system gaming at the expense of real progress. That’s why in 2007, the Baltimore Police Department — who paid officers based upon arrest quotas — reached new records for both murders and arrests.²

New technology and psychology enable better structures

Now, businesses have the power to design more productive and adaptive organisations, thanks to advances in digital and social technologies, plus lessons from the fields of psychology, ethnography, and behavioural economics:

- **Enterprise social to enable lateral and virtual collaboration.** As a baseline, an Enterprise Social Network (ESN), such as Jive Software or IBM Connections, provides a space for associates to connect with their colleagues. On an ESN, experts can discuss technical problems in their Communities of Practice, whilst colleagues from different departments can solve broader challenges in Customer & Product communities.

- **Nudging to shrink the change to manageable increments.** People are more likely to change through a series of small, positive reinforcements and indirect suggestions, a concept that behavioural economists call ‘nudging’. In a recent experiment with its 335
captains, Virgin Atlantic found that pilots conserved more fuel when provided with targets for fuel efficiency plus feedback on progress, compared to a control group.\(^3\)

- **Intrinsic rewards to drive sustaining motivation.** New evidence shows the lasting effect of rewards that speak to people’s intrinsic motivations, such as belonging, purpose, and altruism. In the same Virgin Atlantic study, pilots who received targets, feedback, plus a charitable donation made in their name also improved fuel consumption. But what’s more: they reported higher job satisfaction compared to other pilots.

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**The Four Patterns Of Modern Org Structures**

There is no single ‘right’ shape for an adaptive organisation. But neither are there are as many org structures as there are companies. While each application has its own nuances, modern org structures follow one of four patterns: 1) Networked Model; 2) Circle Structure; 3) Tribe Model; and 4) Autonomous Business Units. Each of these supports:

- **Zero distance to the customer.** Organisations like Haier and Favi focus on a structure that creates a line-of-sight to the customer. Practices like customer co-creation are the norm, with exceptional results.

- **Small teams, each with a shared purpose.** As is the case in companies as diverse as General Electric and Etsy, teams aim for autonomy and deliver on clear objectives to internal or external customers.

- **Edge decisions.** To allow for more responsiveness, the organisation should support decentralised decisions made by associates who directly face a problem or opportunity. Techniques like KRIAD and ‘lazy-majority vote’ provide structure and alignment for inclusive decision-making.

- **Employee entrepreneurship.** Provided with the right support, employees will often take the initiative and behave like entrepreneurs. In more radical instances, such as the online school Treehouse, self-organising teams operate successfully with no managers.

- **Shared platforms for alignment.** The organisation becomes a platform for people and adaptation. Support functions like IT and HR move to a service-oriented approach (similar to how APIs in software expose underlying services). This approach permits new teams to more easily spin up, by picking up standards, templates and procedures from the platform.

The specific characteristics of the four patterns are discussed in the following pages.
1) Networked Model

A Networked organisation design yields several benefits, including: quicker dissemination of information and knowledge; closer distance between associates; and most importantly, mutual adjustment between colleagues’ activities. The purpose is to strengthen a company’s interconnectedness by linking associates from different teams. A company can use several tactics to encourage and nurture relationships between associates.

Technical connectivity is only a first step. Associates must also share bonding experiences that create trust and mutual awareness, which end up connecting teams to the broader mission. General Stanley McChrystal pioneered this ‘team of teams’ approach when he took control of the US Joint Special Operations Command (JSOC). By initiating an exchange program — e.g. a Navy Seal embedded in a Delta Force unit — he created interconnected relationships within his organisation that more readily surfaced intelligence and accelerated decision-making.

2) Tribe Model

The tribe model allows companies to scale without sacrificing team autonomy. It organises smaller teams around customer needs and product features. The primary unit is the squad: a multi-disciplinary and self-organising unit with its own long-term mission. Squads with a common theme group together in a tribe to encourage collaboration and knowledge sharing.

Companies with tribe organisations — such as Spotify — also use a secondary organisational structure to nurture functional excellence and support inter-team connectedness. Within a tribe, chapters link people with similar skills and competencies. They give associates a space to focus on upskilling, while chapter leads take on traditional line management functions, like developing people and setting salaries. Guilds serve as Communities of Interest spanning tribes.

The tribe model has a set of roles and tools, which help govern the organisation. For example, Squad Dependency Management surfaces emerging dependencies and ensures that squads can continue to operate with autonomy.
3) Circle Structure

Circle Structure is an organisational design where the structure is derived from the organisation’s purpose and teams comprised of multi-disciplinary skills — ‘circles’ — needed to execute on that purpose. An organisation has a main circle responsible for defining the overall purpose, and sub-circles carry out each of various sub-purposes. A key benefit of a circle structure is that it mimics an organisation’s actual activities.

The circle structure originates from Holacracy — an organisational approach to support self-organising teams and minimises rigid hierarchies. Hence, a circle structure defines the roles needed in the circles, rather than specific people or job titles. At Zappos, the largest company to adopt a circle structure to date, each of the 1,600 employees self-select from 500 circles, based upon their individual skills and how they contribute to the overall purpose.

4) Autonomous Business Units

Autonomous Business Units is a radically different way to build an organisation, as independent businesses coordinated by contractual relationships and bound together by common brands, strategic goals, values and internal organising principles. The aim of an Autonomous Business Units system is to orchestrate company-wide entrepreneurship, which brings market dynamics and competition inside the company and at the same time fosters a customer-centric culture.

Haier has developed a highly detailed system for running Autonomous Business Units with various management techniques to promote collaboration between them, as well as efficiency.
Which pattern is right for you?

All four patterns uphold radically different principles compared to classic management theory. Yet to innovate, attract top talent, and remain competitive, you must become an adaptive organisation, which building upon one or more of the four approaches. Certainly, the networked model is the most accessible because you can overlay it atop your existing organisation. But more radical patterns like Autonomous Business Units can live alongside a more conventional organisation that supports reliability — both during experimentation and the entire lifecycle of traditional products and revenue lines. This approach is called the Dual Org.

Embrace a Dual Org approach

The Dual Org, a hybrid structure articulated by John Kotter, has two systems that co-exists and operate in concert. One operating system is structured with a traditional hierarchy to optimise for efficiency, and the other system is adaptive. While the hierarchy is useful for maintaining repeatable processes such as production or administration, the agile org enables innovative behaviour, which allows for the exploration of new strategies based on ‘sensing and responding’ to changes in the environment.

The dual organisation approach is valuable for organisations that currently have a healthy business with products produced through repeatable processes, but wish to explore strategic possibilities for the near future. This can for example include industrial companies moving into Industry 4.0 or financial services testing the waters in FinTech.

How do you build the second organisation? By using a volunteer army. The volunteer army is a group of volunteers that form a task force (Operating system 2) which initiate projects to push an organisation’s strategic progress including the overall business strategy and smaller initiatives. Importantly, this takes away the strategic work from the rest of the organisation (Operating system 1), which should focus on repeatable process work. However, the volunteers maintain their actual jobs in Operating system 1. Hence, the people involved in the development the business strategy and initiatives have daily interactions with the rest of the business and are not separated from the org as often happens with strategic task forces or consultants.
Case study: Spotify

Spotify is a streaming service founded in 2006 by Daniel Ek, the service has had significant influence in making legal music streaming services mainstream. Ek managed to make deals with major record labels and made it possible for artists without a record label to distribute their music on the same platform as established artists. At the time of writing Spotify has 75M+ users. Recently, online media report unrest within Spotify’s HR department, suggesting that even case study companies still have work to do.

Adopting A Tribe Model

Spotify has managed to shape the market for a new, subscription-based method of music consumption. Their platform features an effective mix of upcoming and established artists. As the Spotify user base has grown to significant numbers, record labels and consumer brands have also started to use the platform for seeding new songs and artists they wish to promote, providing an auxiliary revenue stream for Spotify.

The team behind Spotify is constantly collaborating with corporate stakeholders to improve the service and platform, and the organisational set up has helped the business to create this customer-centric orientation. The organisation structure draws from agile development; in particular the engineering function of the company has conditions for a culture of agile methodology to thrive. Spotify Labs have published two excellent descriptions of the engineering teams’ structure, culture and practices, which you can find here: Part 1 and Part 2.

Key Lesson

**Base structure on desired capabilities**

Based on the organisational capabilities that the company wish to foster, the leadership should think creatively about defining structure and practices that will support those capabilities.
Practices from Spotify that other companies can use

**Platform Strategy**

*The platform strategy approach entails creating a platform as the foundation for services and products, which an external ecosystem of developers and users can develop.*

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<tr>
<th>WHO</th>
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<tbody>
<tr>
<td>Leadership</td>
<td>A business model where a company builds a foundation upon which an external ecosystem of producers can develop additional tools and services for the end users.</td>
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</table>

**WHY**

A platform strategy enables a scale of service and product offerings that would not otherwise be achievable for a company. Especially useful around emerging technologies, mobilising collective efforts from multiple parties can deliver high quality services that would otherwise require large R&D investments from a single company. It can also cause customers to get locked into the ecosystem of products and services around the platform making them less likely to switch to alternative products.

**HOW**

To be successful a company’s platform must provide unique value that interests other companies in producing their product and services around it. This unique value would typically be: a more efficient production (e.g. building websites with WordPress); or access to a customer segment (e.g. selling apps through iTunes).

Once the unique value is made accessible, an ecosystem of ‘producers’ can develop. The producers should be guided in using and monetising the platform to ensure that they will continue prioritising the platform. The company should consider the producers as stakeholders, that are as important as customers.

The company should also develop a network around the platform, which connects producers and consumers directly. So the producers contribute towards maintaining relationships with the clients.
**Agile Teams**

*Agile teams bring together employees with the necessary skills across multiple disciplines to service a particular customer requirement.*

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<th>WHO</th>
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<tr>
<td>All employees.</td>
<td>A method for building autonomous team configurations (internal or external).</td>
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**WHY**

Agile teams minimise dependencies and enable teams to work autonomously, while still aligned to customer requirements.

**HOW**

An agile team should be defined by the human skills needed for a single customer problem or product feature. A typical team should be 5-10 team members, what Jeff Bezos calls a 2 Pizza size team. Agile teams should have a clear line of sight of the customer that guides their activities and purpose, including the skills needed on a team. As new customer requirements arise, that might mean up-skilling the team or attracting other talents. For some agile operating models, this is managed by the ‘flow to the work’ technique.

**Creating a customer-centric business**

*Rather than basing businesses functions on product lines or services a company should organise itself around it’s customers.*

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<th>WHO</th>
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<tr>
<td>All employees.</td>
<td>The integration of customer orientation and requirement directly into business processes.</td>
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**WHY**

By organising teams around customer requirements, the organisation can create a clear line of sight to the customer and enable employees to be aware of where a business process might be getting in the way of customer delight.
Culture Code Deck

Culture code-decks are like a company's hand-book, mission statement, guiding philosophy and user manual all rolled into one.

**WHO**

All recipients of corporate communications.

**WHAT**

A tactic for communicating the current or envisioned corporate culture.

**WHY**

Culture decks can be a great tool for building a narrative around values and guiding principles to potential employees, allowing for better self-selection of candidates. They can also be effectively used for marketing purposes as they contain all the qualities that differentiate a company from its competitors.

**HOW**

To create a culture code deck organisations must decide on the most core values and find examples where the values are present in the daily routine. Four simple steps to develop a culture deck:

- Ask and asses which core values are defining for the company and important for future performance.
- Describe the core values in a way that explains them to outsiders and also include what potentially negative consequences that might have.
- Show how the core values play out in the daily routine in the company and communicate it in visual and compelling language.
- Update the culture code deck as the company grows, changes direction or deals with specific challenges.
Case study: Haier

Haier is a Chinese multinational consumer electronics and home appliances company and in 2011 the Haier brand had the world’s largest market share in white goods, with 7.8%.

Adopting Autonomous Business Units

The company’s CEO Zhang Ruimin has been transforming the organisation over the past 30 years in five stages\textsuperscript{10}. The current stage, Networking Strategy, aims to leverage Internet technology and decentralise the organisation to become a networked enterprise. Hair describes this stage as having three key aspects: “border-free enterprise, manager-free management and scale-free supply chain.” To achieve this goal Haier has developed a highly unique organisational structure based on principles from interfirm theory to make the organisation customer obsessed.

This is a strategic model for redesigning an organisation. The underlying logic is that strategic decisions should be driven to the lowest level possible and teams/individuals should be rewarded according to their performance, expressed through four key values (ZEUS):

- Zero-distance to customer
- Entrepreneurial employee (self-driven, Self-managed, self-innovation)
- Unified commitment & process to customer and results
- Sharing value between customer and employee
Key Lessons

Create org structures to improve decision-making, speed and execution.
Zhang thinks of Haier as a service company and service is best achieved if there is zero distance between Haier and its customers, which requires a more market-centric organisational structure.

Think of all employees as entrepreneurs. The entrepreneurial energies from the workforce are seen as the best means of achieving the service goals of the company. Hence, value creation should be linked between customers, the organisation, and the employees driven by win-win company-and-individual-goals.

How it works day-to-day
Employees are not hired for a job, but into the organisation's talent pool. Depending on their profile and performance, they will continuously be recruited to new teams. When a team needs more/new resources they can approach employees from other teams to join their team. To source potential candidates, a team can request functional departments (finance, marketing etc.) for a list of good performing candidates, both internal and external. The employees have the right to refuse an offer, but team leaders cannot prevent other teams from approaching their employees. This process allows teams to continuously search the best people in the organisation. For employees, this allows them to move through different teams and take charge of their own career development.
Practices from Haier that other companies can use

Presets

*Pre-established conversations and agreements (presets) are used as a mechanism for creating responsiveness in the collaboration between the different business units.*

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<tr>
<td>Teams</td>
<td>A method for developing contracts and agreements between teams and departments before collaborating.</td>
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**WHY**

The preset technique is useful to establish clear expectations between teams and departments that collaborate and especially relevant with departments that have individual profit and loss statements such as autonomous business units. The preset also injects market-like conditions by defining contractual relationships between collaborating parties in the organisation.

**HOW**

When teams or departments request products or services from each other, this should be planned in details in contracts to provide sufficient precision to aid in ensuring that the goal is achievable.

OEC Methods

*OEC stands for Overall, Everyone, Everything, and Everyday and Control and Clear and aims to create transparency and overall control of associates finished activities.*

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<tr>
<td>All employees.</td>
<td>A system for associates to clock the work that they do, which also encouraged them to improve their performance.</td>
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**WHY**

OEC is an approach to create accountability for individual's continuous improvement, because it directly correlates with the performance of the business. It will create transparency in the business but also very granular insights to associates’ activity.
**Bilateral recruiting process**

*Bilateral recruiting process brings out the entrepreneurial sides of the employees and ensure that talent flows to where it will create most value for both customers and employees.*

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<th><strong>WHO</strong></th>
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<tr>
<td>All employees.</td>
<td>Teams recruit from each other in the search for the best talent.</td>
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**WHY**

Bilateral recruiting process is intended to bring out the entrepreneurial sides of the employees and ensure that talent flows to where it will create the most value for both customers and employees.

**HOW**

Employees are not hired for a job, but into the organisation’s talent pool. Depending on their profile and performance, they will continuously be recruited to new teams. When a team needs more/new resources they can approach employees from other teams to join their team. To source potential candidates, a team can request functional departments (finance, marketing etc.) for a list of good performing candidates, both internal and external. The employees have the right to refuse an offer, but team leaders cannot prevent other teams from approaching their employees. This process allows teams to continuously search the best people in the organisation. For employees, this allows them to move through different teams and take charge of their own career development.
Catfish

A catfish (or a substitute team lead) is used to introduce competition in teams and ensure that team leads are motivated to produce excellent results while having a team that supports them.

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<tr>
<td>One catfish per team.</td>
<td>Catfish is a technique for developing and managing team lead substitutes.</td>
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WHY

A catfish (or a substitute team lead) is used to introduce competition in teams and ensure that team leads are motivated to produce excellent results while having a team that supports him/her. The term stems from an old legend, which goes that “introducing catfish into a barrel of other fish added an element of fear, which kept the other fish moving in order not to me eaten”.

HOW

The catfish’s function is to be an alternative team lead, if the team collectively vote out the current team lead. The role of the catfish is likely to be sought after by individuals who are ambitious and wish to rise quickly in responsibilities.

The catfish should either be selected by the team or inserted by management. Once selected as a catfish, the associate works as a part of the team, but is not supervised/evaluated by the team lead. Instead, the catfish reports to functional units e.g. HR. The catfish should be the most capable and qualified in the team and hold capabilities that will allow him/her to easily become a team lead.


For further reading on the Spotify org, see:

Kniberg, Henrik, and Ivarsson, Anders. "Scaling Agile @ Spotify with Tribes, Squads, Chapters & Guilds." PDF. October 2012.


For further reading on Haier, see:

"Haier strategy" Web. Haier.net/en/about_haier/haier_strategy/

For further reading on Kotter, see:


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