From Pyongyang to Cupertino: The "NextGen" Race

A decade ago, there were four traditional companies on Bloomberg's list of the five most valuable companies in the world, and only one technology company. Today, five out of five are from technology. Technology is the new sheriff in town, and it has created a networked world with new business models that in many cases are far superior to the ones used by conventional companies. And no wonder.

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Gallup's most recent workplace survey shows that only 13% of employees around the world feel engaged in their work, while 63% feel disengaged and 24% feel "actively disengaged" – a staggering 87% of the global workforce are not passionate about their work! There is no doubt that these figures are directly related to the widespread use of conventional managerial practices, such as static hierarchy and convoluted bureaucracy. These practices were invented in the early days of the last century and were perfectly fitted for an era where human beings had to act as living robots, in the name of efficient mass-production. But today, real robots and other technologies are taking over from human robots. Traits such as predictability, obedience and uniformity might be hailed in Pyongyang, but in other places, companies look for qualities such as passion, creativity and initiative.

New types of companies are emerging, exploiting technology, creating new business models, unleashing passion and creativity, and outmanoeuvring incumbents. Many are asking how the old and static can compete with the new and nimble. Let's take a look at one – rather impressive – answer to this.

It takes a swarm?

The former commander of the US Joint Special Operations Command (JSOC), General Stanley McChrystal, recently recounted an episode from Iraq in 2005, where soldiers woke him in the middle of the night, seeking permission to launch a risky attack. McChrystal gave his OK, but was left with some troubling thoughts: "I began to

question my value […] my inclusion in the decision […] slowed the process, and sometimes caused us to miss fleeting opportunities", McChrystal explained in an interview with Forbes.

This doubt was an important part of a long and frustrating process, during which McChrystal slowly came to understand the nature of the emerging, intangible and diverse networks of insurgents and terrorists in Iraq, and more importantly: what it would take to defeat this new kind of enemy. Initially, McChrystal and his team tried to diagram the enemy organisation in a traditional military structure, with tiers and rows. But the closer they looked, the more the model didn't hold. They realised that the enemy was organised not by rank, but based on relationships and reputation. This allowed for great flexibility and an impressive ability to grow and sustain losses. Furthermore, the enemy was self-organising and did not wait for decisions from superiors, but made them themselves. They had the advantage of living amid a local population closely tied to them by history and culture, while at the same time being as closely linked, through modern technology, to individuals and groups across the region. Money, propaganda and information flowed at alarming rates, allowing for close coordination. It was a deadly choreography achieved through a constantly changing, often unrecognisable structure, a swarm.

It became clear to McChrystal and his officers that in order to defeat a networked enemy, they had to become a swarm themselves. They had to figure out a way to retain JSOC's traditional capabilities, while achieving levels of knowledge, speed, precision and unity of effort that only a network could provide. But the fashioning of a self-contained traditional hierarchical structure to a more nimble one is easier said than done. So McChrystal and his men studied, experimented and adjusted. And they connected deeply with entities such as the CIA, NSA, satellite analysts and regional experts as well as regular US, Coalition and Iraqi forces. And they learnt that an effective swarm starts with robust connectivity. Consequently, JSOC's discretionary funds were not used on more or better weapons, but on bandwidth, so that all the nodes of the networking swarm could speak to each other real-time, even during missions. JSOC effectively became an experiment in intel crowdsourcing, and it soon got a much bigger, deeper picture of the enemy it was fighting – and essentially emulating.

Besides connectivity, McChrystal emphasised a strong sense of shared moral purpose, as well as simple decision-making criteria to increase autonomy and speed. Most important of all, however, was the unlearning of command and control – letting go of authority and developing a largely self-governing, cross-organisational swarm that functioned rapidly, flexibly and with deadly entrepreneurialism.

In 2004, JSOC carried out 18 raids a month; two years later, the same force carried out 300 raids a month. This acceleration forced the enemy to increase movement, communication and intake of inexperienced fighters, which all led to increased vulnerability. Ultimately, JSOC was directly responsible for the elimination of the enemy leader, al-Zarqawi, and was to a large extent credited for the defeat of Al-Qaeda in Iraq.

Fly the Jolly Roger

The analogy should not be dragged too far, but there seem to be similarities between what conventional incumbent companies, across industries and geographies, are facing and what JSOC faced in Iraq. Many incumbents now face an overwhelmingly complex global system, where everyone and everything is connected and where static hierarchical structures will have to become more fluid to keep pace with new competitors, who naturally exploit networks, interconnect with customers and create constantly shifting relationships, product preferences and strategies. It seems, however, that many leaders still treat their markets, environments and organisations as traditional linear systems, and hope for simple command-and-control or cause-and-effect relationships when launching new strategies, reorganisations, behavioural rules or marketing campaigns. We are faced with a DNA-level challenge. But the principles set forth by Taylor, Weber and Fayol are quite simply yesterday's solutions for yesterday's challenges. Stanley McChrystal will testify to that. And, so would Steve Jobs, who famously said: "It's better to be a pirate than to join the navy" – alluding to the fact that pirates despise hierarchy and bureaucracy; they support one another but also have the ability to act independently; they stay creative and on task in difficult or hostile environments and they take risks within the scope of the greater purpose. Jobs wanted Apple to become what McChrystal wanted JSOC to become. And last year, while celebrating their 40th anniversary, Apple flew the Jolly Roger over their HQ in Cupertino.

So, we have pirates like McChrystal and Jobs, but who replaces Taylor, Weber and Fayol and comes up with practical managerial principles fit for our age?

We propose a Next Generation Corporation model that will revolutionize how we govern, manage and act.

The NextGenCorp has to combine best practices, standards and economies of scale with extreme flexibility, entrepreneurism and autonomy. To do it we will have to unscrupulously split our entire organization into a process platform and a project swarm. The platform has to bring end-to-end processes to a new level. Undoubtedly, we will digitize the platform over time and take part in the artificial intelligence ride. The project swarm will dissolve classic matrix organisations and their hierarchies. But we still need a new framework for roles and mandates. Our NextGenCorp needs a new plexus, a nerve system. A plexus that gives purpose and meaning to our people. A nerve system that holds together the perfect platform and the crazy swarm!
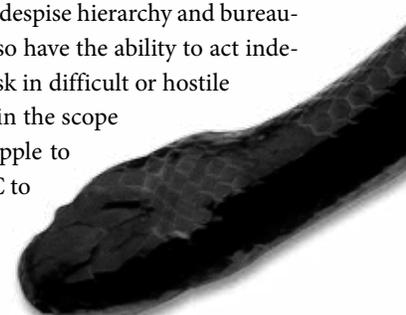
*ALL THESE PEOPLE ARE
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THE PAPER CLIPS. THIS IS THE
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Safe is risky,
risk is safety

Professor Ilya Prigogine received the Nobel Prize for Chemistry in 1977. Among other things, Prigogine was interested in the concept of entropy, which (put simply) is a measure of the disorder in a system – the less ordered it is, the greater its entropy. The second law of thermodynamics states that the total entropy of an isolated system always increases over time, which basically means that order inevitably deteriorates into decay. But Prigogine discovered how structures could avoid the standard route to entropic death. He showed that when a physical or chemical system is pushed away from equilibrium, it survives and thrives, whereas if it is left alone and remains in equilibrium, it dies.

The reason for this is that when systems are far from equilibrium, they are forced to explore. And this exploration helps them create new patterns of relationships and different structures. The greater the amount of variety and diversity within the system, the stronger that system can become, as the key to evolution is the ability to explore new possibilities. "We grow in direct proportion to the amount of chaos we can sustain", Prigogine concluded. This illustration reminds us that we must push our companies and people out of their structures and roles when they have settled in an equilibrium and become too comfortable, ensuring diversity and the exploration of new ideas. Radical times require radical decisions. For our companies it is not enough to create a few satellites to explore disorder, while leaving the mother ship unchanged.

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Productivity
hand-in-hand with growth

Professor Geoffrey West has many scientific break-throughs to his name, among them his studies of cities. West proved that whenever a city doubles in size, every measure of economic activity increases by approximately 15% per capita. "This remarkable equation is why people move to the big city", West explained in an interview with The New York Times. "Because you can take the same people, and move them to a city that's twice as big, then all of a sudden they'll do 15% more of everything that we can measure". Cities simply magnify humanity's strengths – they spur innovation and entrepreneurship by facilitating diverse human interaction, and they attract talent and sharpen it through competition.

After looking at cities, West and his team turned to what they expected to be a similar subject: corporations. But it turned out that cities and companies differ in a very fundamental aspect: cities almost never die, while companies in comparison are short-lived and increasingly so. West analysed data from more than 25,000 publicly traded companies to find out why, and he discovered that corporate productivity is entirely unlike urban productivity. As the number of employees grow, the amount of profit per employee shrinks, which, according to West, reflects that efficiencies of scale are almost always outweighed by the burdens of bureaucracy: "When a company starts out, it's all about the new idea," West says in the New York Times article. "And then, if the company gets lucky, the idea takes off. Everybody is happy and rich. But then management starts worrying about the bottom line, and so all these people are hired to keep track of the paper clips. This is the beginning of the end".

It seems obvious that companies have something to learn from cities. Danish superstar architect, Bjarke Ingels, says that all cities have a starting point, while none of them have a finish line. And this embrace of emergence, imperfection, constant renewal, self-organisation and purpose might be what we should aim for.

Change fluidly in a swarm

The company where I work builds on these thoughts. Our consolidated experience shows that, even in a swarm, increased agility, passion, purpose, innovation and diversity come with a price. Because for all the freedom of swarms, how do you obtain efficiency and accountability? The answer is not a simple one. It is not just "network" or "hierarchy". Rather, it is the "ability to alternate" fluidly and rapidly between relevant structures. There are a number of situations where a hierarchical structure is quite useful, so it should not just be dismissed altogether. It is more a case of making hierarchies disappear the minute they no longer make sense. The team should get back in swarm formation, ready to engage in a new structure, so to speak. We must learn to alternate naturally.

In the same way, individuals must learn to alternate naturally between roles. Most significantly between leadership and followership. In one context, it might be vital that you step forward and take lead, but shortly afterwards, as the situation alters, it might be just as vital that you step back and let yourself be led. We must no longer see ourselves as being confined permanently to a fixed position in a traditional organisational chart, but rather as nodes in a dynamic network, where influence will come from abilities, relevance and contribution. As Gary Hamel once pointed out, "When you post a video to YouTube, no one asks you if you went to film school". If it's a great video, it's a great video. In the networked society, you earn your rights based on what you do, not what papers you might have.

In a future where we in the course of an ordinary working day will experience both hierarchical and network structures, and alternating roles, we will obviously need a strong "why" to guide our choices and direction. On the battlefield, General McChrystal realised that the seemingly unconnected enemy swarms were held closely together not by a structure, but by a strong and pervasive moral purpose. Consequently, when reorganising conventional companies in a networked world, we will see a stronger emphasis on timeless values worth fighting for – instigating a future where it is as meaningless only to make money, as it is not to make money.

The snakeskin jacket

A question to ask is whether we can step in and out of structures and roles, quickly and frequently, like a reptile that sheds its skin while still retaining its soul. If not, structure and individual roles and titles might have become more important than the original purpose, and the paper clip people might be driving the company… towards certain entropic death. To keep the paper clip people out of the driver's seat, we suggest we let people choose their own leaders. Voluntary followership and co-creation are great mechanisms against lack of purpose, poor managers and standardised, sterile and uninspiring monocultures. And such mechanisms are more important now than ever, because mindless loyalty in exchange for a pay check will soon be a thing of the past, together with silly titles, trophy offices, discretionary bonuses and other relics from the hierarchical era.

Besides the loss of such relics, the shift to a fluid organisation might also imply short-term inefficiency, uncomfortable loss of control and the need for more purpose-driven leadership. However, we must all consider whether the radical changes in the Bloomberg ranking of the most valuable companies on earth is an illustration of the impact that fluidity delivers. Who wouldn't want the speed and entrepreneurialism of JSOC, the resilience of Prigogine's unbalanced systems, the almost "magical" productivity of West's cities, the ability to renew and grow as described by Ingels, or the passion, creativity and initiative from the 13% of the workforce who actually feel engaged in their work? It is no coincidence that the most valuable company on Earth flies the Jolly Roger over its HQ. So let's get started… on the journey from Pyongyang to Cupertino. ⚑