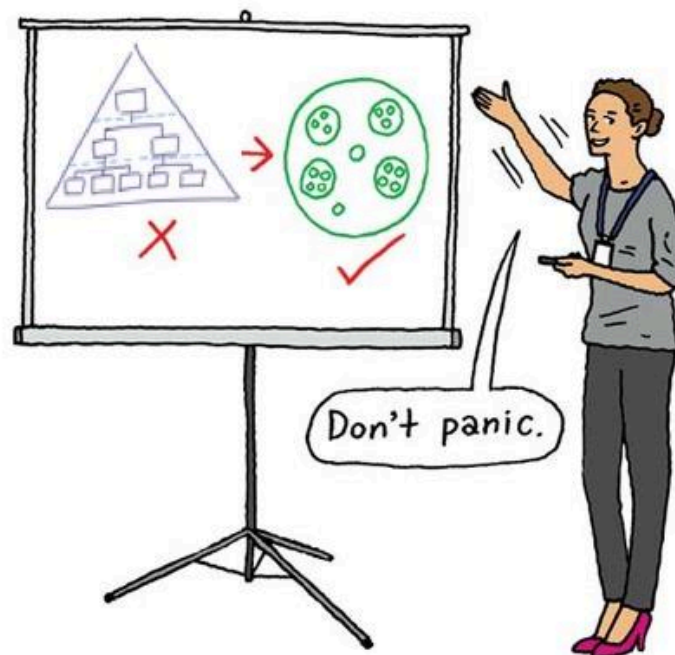


Death of the Machine. How Millennials have re-written the rulebook on Organisation Design



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The ascendancy of millennials in the workforce, coupled with the coming of age of digital-only giants like Spotify and Facebook, has upended long held management theories about the organisation of work

In March 2014 Tony Hsieh, CEO of Zappos, a hugely successful Las Vegas-based footwear firm, stood in front of his staff and made a shocking announcement. The company's org chart, he proclaimed, along with the roles of its top 150 managers were to be abolished. In its place, a network of 'circles' and 'role marketplaces', more akin to the the darwinian 'un-structure' of a city than a company, would allow employees to choose their work, make decisions and chart their careers. This was more than a restructure - it was a new paradigm. It even had a name: *Holacracy*. Staff were stunned, and by the end of the next year 30% of them had left.

Over fifteen years I have worked with leaders on the transformation, merger or integration of their organisations, from the largest, like British government departments, to the smallest, like the 100-man start-ups I now spend more time with. And I have seen the practice - and theory - of organisation design change so completely in that time that I wanted to try to capture and describe the change I see going on, what's driving it, and what it may mean for leaders today.

The Zappos example is extreme, but it's part of a trend. And it exemplifies the degree to which the very *science* of organisation design is being disrupted by the 21st century's emergent tech

firms, their young leaders and workforces. This is *not* about the stylistic manifestations of tech culture; the free beer in the office, home working and hoodie-wearing CEOs; which are already well documented. Rather, it's about the management *science* behind the way organisations arrange work. Across the world hierarchies are flattening or disappearing, and an exotic mix of *squads*, *guilds*, *scrums*, *circles* and even *chapters* is supplanting them. Employees at firms ranging from Google to Basecamp probably recognise many of Hsieh's ideas, even as they embrace a degree of autonomy at work unknown a generation ago. A recent [survey of 7000 companies](#) by consultancy Deloitte, found that “today’s digital world of work has shaken the foundation of organizational structure, shifting from the traditional functional hierarchy to... a “network of teams.”

So what’s changed, how did it happen, and how applicable is it to all of us?

Out with the old. The breakdown of the machine

Corporate organisational design thinking, it's now clear, has existed within a paradigm whose most basic presumptions have stood for decades if not centuries. Truths such as

- people have defined roles
- (most) people have bosses - in other words - a hierarchy, and
- bosses make decisions, with bigger decisions escalated upwards

have been axiomatic, whatever the management *fad du jour* layered on top of them. Some scholars recognise this permanence as rooted in the fundamental [stages of societal evolution](#) (tribal, then agrarian, then industrial etc). Each stage has brought with it innovations in organisation: the agrarian society introducing the ideas of hierarchy and rules, hence the first sophisticated organisations such as the catholic church. The industrial society which has pervaded for the last two centuries brought innovations like the scientific method, empiricism, accountability, and hence the corporation as an organisational model.

Consequently, management approaches to organisation design, while numerous, have also had a certain uniformity. Best practice techniques like McKinsey’s ‘7-S’ model or Booz Allen’s ‘Five Pillars of Enterprise Governance’ have all treated the organisation as a complex mechanism of interlocking parts or subsystems - like the engine of a car, which must be considered in the round or risk unbalancing the machine. Most can trace their intellectual ancestry back to the “Star Model” developed by American organizational theorist Jay Galbraith in the 1960s. Galbraith broke organisation design into five interlocking cogs (or points of the star): strategy, structure, people, process and rewards. Thus for decades, corporate leaders have re-drawn their structures, HR consultants have cranked out job specifications, and teams have operated all within the accepted principles of command and control, clarity of role, clarity of decision making authority and, essentially, hierarchy.

But the world is entering a post industrial or information age, and the cracks in the established models of organisation are beginning to show. Studies repeatedly show employee engagement levels dropping. A 2018 [Gallup poll](#) showed only 32% of employees in the United States were

engaged in their jobs, suggesting that over two-thirds of employees are disengaged from their work. The writer [Frederic Laloux](#) talks about a pervasive sense of “tiredness... exhaustion.... a feeling there is something broken in the way we [have been] running organisations”. For indeed the problem with viewing the organisation as machine, is that , by extension, the humans working in it are cogs - an unappealing image, especially for a rising millennial workforce. And, as if in response, the last decade has seen the rise of some radically different organisational systems which challenge the very notions of cogs, fixed roles, and even hierarchy itself . The era of the machine as a metaphor for the organisation may be ending.

Org Design 2.0: From Machines to Cities, Movies, and Jazz Bands

Hsieh’s, Zappos experiment, while flawed, was certainly underpinned by academic thought. In this case the operative metaphor for his system, [Holacracy](#) is not of machines, but cities. “Every time the size of a city doubles, productivity per resident goes up by 15%” explains Zappos’ Holacracy lead, [John Bunch](#). “But when companies double in size, actually the exact opposite thing happens, productivity per employee goes down”. (The 15% figure is disputed, with [more recent studies](#) putting it closer to 5%, but the effect appears real). So how do cities do it: can productivity really rise without top down control?

One instructive example is Spotify. The Swedish music streaming giant develops its software with a system of cross functional teams called *Squads*. Squads comprise 8 or 9 people with a mix of skills, and - like Zappos’ circles - they are largely autonomous. Each is guided by a mission, which may be long term, like “Make Spotify the best place to discover music”, but which are tangible enough to be measurable. The squad has autonomy to decide what to build, how to build it, and how to work together while building it. They are constrained only by certain rules of good citizenship, such as listening to - and responding to - the needs of other squads - like a jazz band, in which each player is riffing, yet they listen and respond to the other players, thus play in harmony. Squads also have finite lifespans, forming and dissolving as goals are met or re-set. Squad members each have disciplines, for example, design, testing, development, and these are represented across Spotify in ‘*Chapters*’ - communities of functional specialism.

The resulting project-style of working (with apologies, I’ll call it Org 2.0 for now) has been compared to how Hollywood makes movies. Hollywood the ‘city’ is populated by communities of professionals with specialist skills like cameramen, sound engineers, actors or directors, who come together to make a movie (the Squad) then disband. While their near-term focus is highly oriented to completing the movie (Squad mission), over the medium term individuals build and hone their own craft and career with the support of their chapter. The gig economy inside the firm.

”Most organizational charts are an illusion” says the Spotify Agile Coach Henrik Kniberg. “Spotify’s main focus is community rather than hierarchical structures. We’ve found that with

strong enough community [we] can get away without a high volume of structure. If you need to know exactly who is making decisions, you're in the wrong place."

Photo: A Spotify Squad at work. Photo: Spotify



What's new is that these ideas are now so far beyond the preserve of a few pioneering firms like Zappos or Spotify, that they are becoming the new norm. Over 1000 organisations have experimented with Holacracy alone, including Google, Ernst & Young, Twitter, and the government of Dubai. Meanwhile companies that share no common link are arriving independently at similar models. From a Colombian dance studio, Zumba became arguably

the world's largest fitness brand with a franchise-type model which attracted over 100,000 dance instructors globally and equipped them to act as entrepreneurs. Similarly, but quite separately, Dutch healthcare firm Buurtzorg teaches communities of nurses to self organise and operate in small teams without a boss at all. In 2018 Buurtzorg employed over 10,000 nurses, and provided 80% of community nursing in the Netherlands, with an HQ team of just 25.

The common theme is equipping small teams with skills to *self organise*: to run a meeting, resolve a conflict, drive to a decision etc. Doing these things without a tie-breaker is not straight forward, and it's a misconception that systems like Holacracy, Buurtzorg's or Spotify's are without structure. What they all do though is break people out of the mindset of being cogs and, as Laloux says, "force people to be grown ups". Netflix has arguably elevated this empowered view of the role of employee within the firm to an art. Its famous [culture deck](#), essentially a treatise on freedom and responsibility, has become a reference text for the millennial organisation.

Leadership in Org 2.0

What is most interesting about these 'Org 2.0' models is their implication for leadership. The role of leadership certainly does not go away, but it does change. (I've written previously on the challenges of [leadership in the millennial organisation](#)). The flipside of all this autonomy is that a leaders' job becomes to communicate the problem to be solved but not to direct how - to say, as Spotify puts it, "we need to cross the river", not "go build a bridge". The squad figures out how to get across the river, and if a ford, tunnel or human cannon works better (for all), they can build that. The key insight is that by generating sufficient *alignment* (clarity and agreement on the challenge) leaders can step back to allow the high levels of autonomy squads enjoy.

It's a leadership philosophy sometimes characterized as "hire good people and get out of the way", but this is to underplay the *enabling* role of leadership in Org 2.0 cultures. For in addition to creating alignment, the leader creates the team environment in which each member can deliver their best work. The best illustration of this comes from Google, whose organisation is also characterised by cross functional teams. Between 2012 and 2015, Google's [project Aristotle](#) attempted to understand why some of its teams performed better than others and thus to identify the ingredients of team success. After thousands of hours of initially frustrating analysis, covering 180 of Google's teams, they eventually had a breakthrough insight. The factor common to the best performing teams, they realised, was what they now call "*Psychological Safety*", that is: "a sense of confidence that the team will not embarrass reject or punish someone for speaking up. It describes a team climate characterised by interpersonal trust and mutual respect in which people are comfortable being themselves". If this sounds like motherhood, the key point is that by encouraging team members to bring their whole selves to work, and speak out with confidence, either to propose an experiment, or speak against a consensus, more and better ideas are brought to bear. The role of leadership in this context is succinctly summed up as threefold:

- Promote the goals which provide context and engagement for teams (alignment)
- Promote *Psychological Safety* which permits team members to take risks (enablement)
- Provide moments for teams to reflect and incorporate improvements (learning/growth)

Simon Sinek, the management theorist brings vivid colour to this theme of *safety* in his remarkable TED talk "[Why good leaders make you feel safe](#)"

Table: Five ways new organisation design up-ends old norms.

	Old	New: Org 2.0
Structure & Reporting	Hierarchy, bosses, reporting lines	Networks of autonomous teams
Job Roles	Fixed. Described in a document, and attached to an individual	Fluid. Set for duration of a project rather than attached to an individual. Increasingly self selected in market places
Leadership	Directive (hence term 'Director'), prescriptive	Leader as context setter, storyteller around the "Why?" 'Servant' leader: as coach and enabler
Career Development	Periodic appraisal, promotion	Gig-like, self charted. Accumulation of mastery, sometimes denoted by credits or badges
Culture	Restricted view of the	Wholeness: bring your whole

	professional self. Firm as machine, employee as 'cog' in machine	self to work. Firm as family and 'safe space'
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How - and why - has it happened

Three long term trends have come together to drive this change: the millenialisation of the workforce, the rise to pre-eminence of digital-only tech firms, and, oddly, the spread of 'agile', the software development approach now influencing wider organisational thought.

First take millennials. Millennials now comprise over [50% of the global workforce](#). Sometimes derided as entitled or unmotivated, a fairer view is that millennials are differently motivated to the Gen X-ers making way for them. Millennials are more likely to be genuinely *intrinsically* motivated, placing less value on reward systems and a higher value on the company's 'story', context and purpose. They also tend to be sceptical of authority. In this context, leadership becomes very much about communicating the 'why'; making clear the challenge (aligning), acting as coach or enabler, but otherwise getting out of the way. (See my [5 tips for leading in the Millennial Organisation](#)). Org 2.0 can be seen in part as a response to the challenge of managing this essentially individualistic group

Second, tech firms have steadily popularised a different mind-set. Four of [the world's six most](#) valuable companies at time of writing produce no physical product, being entirely digital (Google, Facebook, Alibaba..), and, perhaps in consequence, have evolved with a very different attitude to risk. No one dies if a Spotify page fails to load. And besides, the firm can in any case test innovations on controlled sub-sets of users, (a practice it calls 'minimising blast radius'). So the price of taking risk seems low. Harvard Professor Ethan Bernstein points out that all organisational systems balance two fundamentally opposing goals: [reliability and adaptability](#). More often than not, systems err on the side of reliability, creating red tape and rigidity. Digital-only firms like Spotify or Netflix, on whose product no lives depend, have in a way, had the luxury of not having to weigh reliability so heavily, - they have developed with a cultural bias to adaptability.

(Through this lens the recent travails of Facebook and others to get on top of problems with data security, are unsurprising. The mind set of secure custodianship of precious assets is the mindset of the traditional prudent banker. Mark Zuckerberg's manifesto on Facebook's culture - written to investors at the time of Facebook's IPO - is titled - literally - [The Hacker Way](#).)

Third, Agile. Surprising as it seems the software development philosophy which emerged in the early 2000s has seeped beyond the borders of the IT department and become quite influential in general management. Squads like Spotify's, and similar ones now appearing in may firms, have evolved out of [Agile](#), incorporating many of its organisational principles - particularly around teams and project management. British word-of-mouth marketing firm Verve set up a

squad to develop and launch its second product, acting like a start-up within a start-up. The squad saw through the launch and has evolved into a fully fledged product division of the company.

Lastly, a mention must go to technology: not a driver, but certainly an enabler of Org 2.0. I've argued that Org 2.0 is a product of society's emergence from the industrial to the information age, and Information Technology greatly oils the wheels of the new Organisations. From the basic hosting of tools teams need, like how-to playbooks (which need to be common to all, yet editable by all), or online training modules, to the gig marketplaces which underpin Org 2.0 career development. All depend on easy access to shared servers. Performance measurement, which becomes more not less important in the high-autonomy world of Org 2.0, is greatly aided by slick, app-like tools which employees use to give and receive feedback and track progress. The term [Digital HR](#) is creeping steadily into the management lexicon.

How to renew your organisation without 30% of staff leaving

If you lead a firm which feels in need of an organisational refresh, but all this feels a bit radical there is some good news. First, thanks to the trailblazing of Zappos and others, there is a growing body of evidence around what does and doesn't work when introducing change. Second, it's clear progressive evolutionary approaches, not big bang revolutions, work best. Nonetheless, moving the dial on your organisation design is a lot of work. Here, to close, and in no particular order are 4 tips from my own experience

1. Avoid wholesale overhauls. Start with a pilot. Trials, beacon teams, skunk-works all work well with careful context setting
2. It MUST be regarded as a journey not an event. I've been working with fast-growing firms on such journeys for most of this year, and managing the process, in particular, bringing staff along with the thinking, is vital
3. Recognise that it's work. Org 2.0 eschews hierarchy - but it's not without structure. Holacracy has manuals for everything from decision making, to compensation. Building autonomy throws up a lot of questions. Be ready to co-create a lot of "how-to" material
4. Address the whole culture. Org 2.0 doesn't function without the right underlying cultural values. Critics of the Spotify model say that it only works because of the firm's Swedish-style culture of consensual working. But culture can be built. British firm Verve is building it through a transparency agenda, including full pay transparency. Peter Drucker once said "Culture eats strategy for breakfast". He could have been talking about the millennial firm of today.

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