

Four tools to lead complex organisations



CAN YOU LEAD A COMPLEX ORGANISATION?

This reads like a heading from one of those popular questionnaires that purport to test one's talents or abilities. But it's not simply a provocative question or teaser to gain your interest. It's a genuine question about the applicability of conventional leadership approaches to our modern complex organisations. And if they're not applicable - what can we do about it?

The capabilities of modern complex organisations - known as complex adaptive systems - are well understood ¹ ². They have the capability for:

- responding to a changing environment through continuous adaptation
- developing new emergent capabilities by learning and innovation
- coping with multiple demands and tasks in different parts of the organisation.

¹ *Why best practice may not be best practice*, Norman Chorn, 2013

² *Can there be a unified theory of complex adaptive systems?* John Holland, 1995

However, complex adaptive systems also have a number of less ‘desirable’ characteristics. These include:

- unpredictability - interventions often produce unexpected outcomes
- cause-effect relationships are hard to determine
- best practice from other organisations are not readily applicable
- errors and failure usually accompany attempts at innovation.

Viewed in this light, these characteristics might be thought of as the ‘price’ to be paid for leading a responsive and adaptive organisation. But given these characteristics, leadership models that use conventional performance-management and control systems often fail. Indeed, in many cases, they actually destroy value in these organisations³ and render them less capable of adaptation and growth.

So, if conventional approaches don’t suit complex organisations, what does? Our work suggests new guidelines for effective leadership in a complex organisation. And we identify four tools that may be used to guide these organisations in a way that preserves their innate ability to learn and adapt in their changing environments.

ROLE OF A SYSTEM STEWARD⁴

‘Stewardship’ is a concept not often used in the leadership literature. It is usually used to signify a considered and responsible approach to nurturing, growing and managing a set of resources in a sustainable fashion - in this case, an organisation.

The term **system stewardship** is used by Michael Hallsworth⁵ where he describes the challenges inherent in complex systems. He argues that a complex system can never be managed or led in a conventional way - it can only be guided and nurtured, if its unique capability to learn and respond is to be retained.

We use the metaphor of *hosting* to imply something similar. That is, leaders cannot really control a complex organisation. Instead, they *host* it and facilitate the learning and adaptation that takes place within it.

As we begin to understand this approach to leadership in a complex environment, three key guidelines emerge:

Firstly, leadership in a complex organisation is not so much about improving the performance of the organisation. Instead, it is about creating the conditions in which performance can improve.

³ *Organisations as Complex Systems*, Maurice Yolles, 2006

⁴ Stewardship is a concept that embodies the responsible planning and management of resources. It can be applied to the environment, economics, health, property and information. It is often linked to the principles of sustainability. Source: Wikipedia

⁵ *System Stewardship: The future of Policy Making?* Michael Hallsworth, Institute of Government, 2011

Secondly, complex environments demand learning, innovation and adaptation. These are not centrally controlled or imposed processes, but rather capabilities that emerge from the organisation itself.

Finally, stewardship of the system is the role that leaders play to ensure that this learning, innovation and adaptation occurs.

FOUR KEY TOOLS

Four key tools can be identified to enable successful stewardship in this way. They are:

- **Purpose of the organisation** - defining the broad *outcomes* to be achieved (usually not financial) and *defining the business* of the organisation
- **Guiding principles by which the organisation will operate** - the '*rules and boundaries*' for the organisation
- **Performance feedback** - *understanding* how the organisation is making progress towards the achievement of purpose (beyond simple lag-indicators such as profit)
- **Response to feedback** - how leaders *respond to possible 'drift'* away from purpose and / or guiding principles.

BECOMING A SYSTEM STEWARD

Leading a complex organisation can be described in terms of these four tools of *system stewardship*.

Purpose

The key role played by leaders of complex organisation is to robustly define the organisation's purpose. This means answering the question **why**. Why does this organisation exist and what is / are the key outcome(s) it seeks? (This is NOT a statement of the financial goals of the organisation - profit is just one of the possible results of an organisation successfully pursuing its purpose).

In addition, the purpose would include a statement of which **stakeholders and customers** are being served, and **what value** the organisation seeks to provide to them.

By defining the purpose clearly, you are defining the overall direction in which the organisation should head. See the table below for an example.

Guiding principles

These principles provide the **boundaries, rules and framework** within which the organisation needs to operate. Where the organisation and environment are highly complex, high levels of adaptation are required. Consequently, these boundaries will be fairly general and will encourage learning and adaptation. An example is the provision of

financial planning services to individual families. Here the organisation might set guidelines relating to the types of investments considered inappropriate and the maximum level of debt / risk for the client. The financial planner is then given the scope to develop an innovative package that suits the individual family's needs and goals.

Conversely, where the organisation's response needs to be highly uniform and stakeholders' requirements are similar, the boundaries can be more explicit and extensive. A good example of this might be a network of fast-food outlets providing low cost, nutritious meals. In this case, the organisation might have a framework that determines the combination of ingredients and food types in each meal, as well as the total cost of each meal. Each outlet is then left to determine how to operate within those guidelines by using local ingredients and suppliers.

Performance feedback

The feedback process is about tracking the progress made towards the achievement of the organisation's purpose and goals. Importantly in complex organisations, simply monitoring KPIs is not enough. Complexity requires that the leader seeks to understand ***how the outcomes are being achieved***, not simply the results that are produced. In many cases, this may require a more informal, inquiring process into the functioning of the organisation.

An analogy might be a netball coach who cannot judge the performance of her team by simply monitoring the win-loss ratios. She has to watch the games and see how the players and team are performing. She will observe different parts of the game - defence and attack, for example - and construct a picture of how the team is working together overall.

This procedure of understanding the processes whereby the complex organisation achieves its purpose and goals is vital to obtaining feedback about performance. Only in this way can the leader create the conditions in which performance can improve.

Response to feedback

The reaction to feedback is a critical process in leading complex organisations - provided the feedback process has been set up correctly. Based on the feedback, the response may range from subtle signaling to direct intervention. In general, the greater the complexity and the need for learning and adaptation, the more indirect the response should be ⁶.

Some of the indirect responses include:

- signaling: where the leader signals her preferences by way of presentations, blogs and informal communication through the organisation
- increasing transparency: where the managers and staff are subject to open questioning and challenge about their decisions - they make the decisions themselves, but have to be prepared to be challenged on them
- capacity building: where the organisation builds skill and capability in those areas where direction should be changed or performance improved
- making connections: where the leader enables connections with outside bodies or between parts of the organisation in order to share thinking and spread ideas.

⁶ *System stewardship: The future of Policy Making?*, op cit

An example is an organisation that has a cumbersome capital expenditure process that slows its response to a changing environment. The leaders begin to comment and discuss this challenge explicitly, and then include these views in their internal communications. Capex approvals are made more transparent by discussing them openly at regular executive meetings. Finally, outside experts are invited into the organisation to discuss the issue and to facilitate an exercise whereby management can explore it in greater depth.

Tool	Focus	Example
Purpose	<ul style="list-style-type: none"> Describe the reason why the organisation exists - usually expressed in terms of the key outcome you wish to achieve Define who the organisation is expected to serve and what value it is expected to add to these constituents 	<ul style="list-style-type: none"> The organisation exists to create better health outcomes for people We focus on those who are predisposed to, or have already contracted, diabetes We seek to improve their quality of life
Guiding principles	<ul style="list-style-type: none"> Set boundaries and frameworks for staff within the organisation Create a set of basic ‘rules of the game’ 	<ul style="list-style-type: none"> The corp. will operate strictly within the AMA ethical guidelines at all times The corp. will ensure that all therapeutic treatments and protocols are priced in line with developing country guidelines, as determined by the World Bank
Feedback	<ul style="list-style-type: none"> Identify the key processes that are on the critical path to the achievement of the purpose Recognise the signs of adaptation and be prepared to mitigate the risks involved 	<ul style="list-style-type: none"> Examine the R+D ‘stage-gate’ process to understand the criteria being used to evaluate new opportunities Attend product development and marketing meetings to understand costing and pricing strategies
Response	<ul style="list-style-type: none"> Respond to feedback by ‘nudging’ the system through a variety of indirect means Direct interventions only used in critical situations 	<ul style="list-style-type: none"> Re-affirm the organisation’s stance on ethical pricing at meetings and in presentations Set up field visits to developing countries where scientists and marketers can understand the problems first hand

THE CHALLENGES OF SYSTEM STEWARDSHIP

Leading a complex organisation is not for the faint-hearted. It requires an agile mind, patience and the ability to tolerate high levels of paradox and ambiguity. But perhaps the biggest challenge is to resist the temptation of intervening directly in the organisation!

Although you, as the leader, may believe you 'see' the answer to a particular challenge, direct intervention is rarely the best course of action. This is not simply because you may be disempowering an individual manager (although this is a significant disadvantage in itself), but because of the inherent characteristics of a complex organisation.

As we are reminded at the beginning of this paper, complex organisations rarely display simple cause-effect relationships, and direct interventions in one part of the organisation inevitably produce unintended consequences elsewhere. Moreover, your direct intervention can disturb the natural process of emergent learning and adaptation.

The evidence suggests that using the four tools of stewardship might produce the best outcomes for the leadership of complex organisations.

I'd like to acknowledge Charles Britton, who first brought Michael Hallsworth's work to my attention.



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