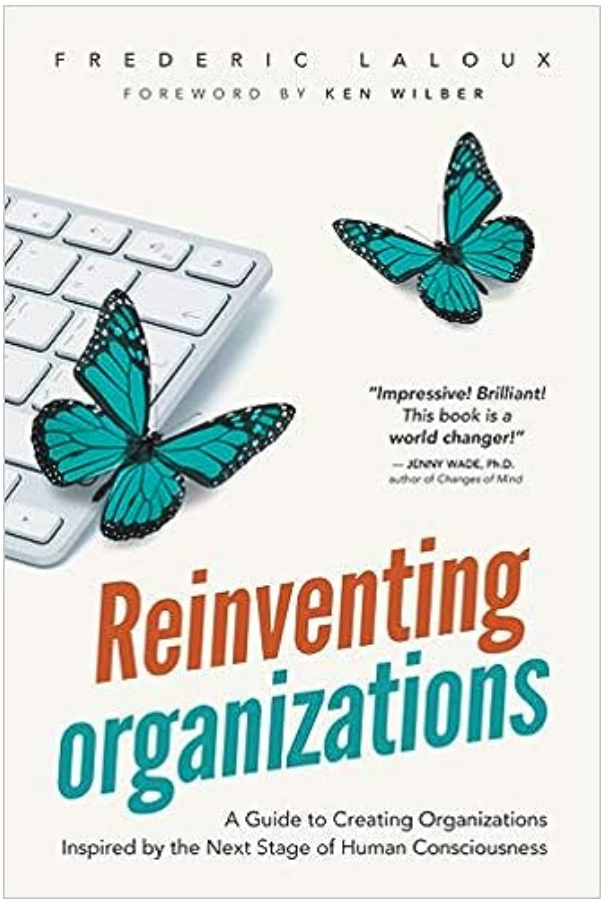
Human First Works

Reinventing Organizations

A Guide to Creating Organizations Inspired by the Next Stage in Human Consciousness

By Frederic Laloux



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Introduction

In his 2014 book **Reinventing Organizations**, former McKinsey & Company consultant Frederic Laloux draws on numerous case studies to explore the constraints of today's predominant "command and control" organizational model, and to provide compelling examples of an emerging model of self-managing teams that is achieving impressive results across a wide range of industries. Zappos is currently using his book as a guide in its comprehensive organizational transformation, and we at **Converge** drew on the book to help inspire and inform our self-managing team structure.

Can we create organizations free of the pathologies that show up all too often in the workplace? Free of politics, bureaucracy, and infighting; free of stress and burnout; free of resignation, resentment, and apathy, free of the posturing at the top and the drudgery at the bottom? Can we create soulful workplaces – schools, hospitals, businesses, and nonprofits – where we can shed our masks and where our talents can blossom and our callings can be honored?

The predominant organizational model today commonly uses formal titles, fixed hierarchies, and organization charts. Planning and execution are strictly separated, and the thinking happens at the top, the doing at the bottom.

We tend to think of organizations as machines. A leader up in the hierarchy turns a cog that directs the workers below. We often talk about inputs and outputs, pulling the lever, and moving the needle. Changes must be planned and mapped out in blueprints, then carefully implemented according to plan.

However intricate and complex these organizational machines become, they are challenged by the structural and cultural constraints of their hierarchical command and control model, including:

- **A lack of coordination across business units & silos;**
- **A lack of agility & response,** as the organizational structure is too rigid (form doesn't follow need) and workers do not have the power to make major decisions and address opportunities requiring immediate action;
- **A lack of innovation,** as insights from on-the-ground workers are left uncollected, and critical decisions are too far removed from the day-to-day work;
- **A lack of responsibility,** as employees do not feel an obligation to do something about the issues they sense that fall outside the scope of their role ("it's not my problem");

- **Restricted advancement opportunities,** as rigid org charts put an artificial ceiling on talented individuals (conversely, some decision-makers may be undeservedly locked into influential positions for reasons related only to tenure or status);
- **Difficulty integrating human emotion,** embracing diversity, and resolving personal conflict.

Unsurprisingly, a recent poll of 32,000 workers in the corporate sector across 29 countries found that only about a third of people are engaged in their work (35%) while many more are "detached" or actively "disengaged" (43%). The remaining 22% feel "unsupported."

So what would it take to reinvent organizations in a way that makes work productive, fulfilling, and meaningful?

Past & Current Organizational Models

"You see things not as they are, but as you are." – ***Anaïs Nin***

Organizations as we know them today are simply the expression of our current worldview, our current stage of development. So before we explore what the next organizational model looks like, it's helpful to first briefly review the past and current organizational models in human history.

Around 15,000 years ago, humanity started to shift from small family bands to tribes of up to a few hundred people, called the **Magic-Magenta** stage. Organizations didn't exist at this stage yet.

Then about 10,000 years ago the shift to the **Impulsive-Red** paradigm was a major step up for humanity. **Red Organizations** first appeared in the form of small conquering armies. They can still be found today in the form of street gangs and mafias. Their glue is the continuous exercise of power in interpersonal relationships. They had the advantage of being able to make big decisions quickly, but they couldn't deal with as much complexity.

Every paradigm shift opens up unprecedented new capabilities and possibilities. When the **Conformist-Amber** stage emerged, humankind leaped from a tribal world subsisting on horticulture to the age of agriculture, states and civilizations, institutions, bureaucracies, and organized religions. According to developmental psychologists, a large share of today's adult population in developed societies operates from this paradigm.

People in this stage develop a deeper awareness of other people's feelings and perceptions, and ego and sense of self-worth are very much based on other people's opinions. Amber societies have simple morals based on one accepted, the right way of doing things.

Amber Organizations brought about two major breakthroughs: **planning for the medium and long term and creating organizational structures that can scale.** Amber Organizations are still very present today: most **government agencies**, **public schools**, **religious institutions**, and the **military** are run based on Conformist-Amber principles and practices. They commonly use formal titles, fixed hierarchies, and organization charts. Planning and execution are strictly separated: the thinking happens at the top, the doing at the bottom. The underlying worldview is that workers are mostly lazy, dishonest, and in need of direction.

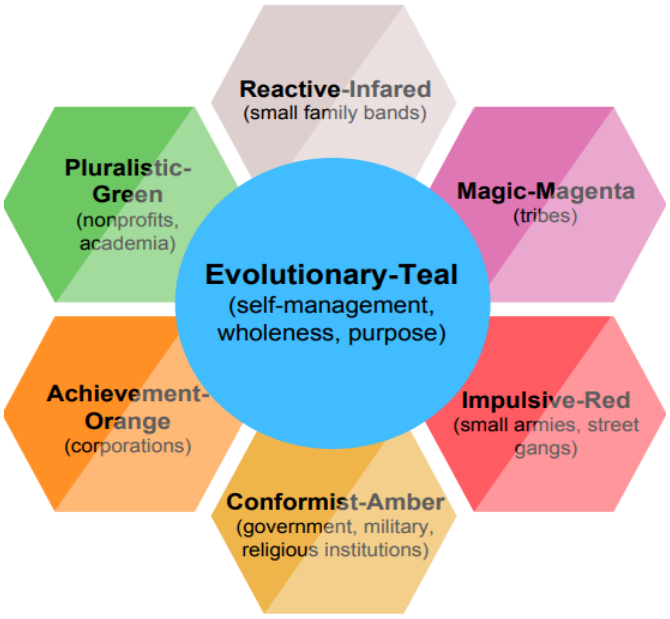
When the **Achievement-Orange** stage emerged, effectiveness replaced morals as the yardstick for decision-making: **the better I understand the way the world operates, the more I can achieve;** the best decision is the one that begets the highest outcome. Today, Orange is arguably the dominating worldview of most leaders in business and politics.

Modern global organizations, including Walmart, Nike, and Coca-Cola, are the embodiment of **Orange Organizations.** Orange Organizations achieved huge results thanks to three additional breakthroughs: **innovation, accountability, and meritocracy.** They also invented departments that didn't exist in Amber Organizations: research and development, marketing, and product management.

In a worldview where people are driven by material success, Orange Organizations invented a host of incentive processes to motivate employees to reach the targets that have been set. Where Amber relied only on sticks, Orange came up with carrots. Leadership at this stage is typically goal-oriented, focusing on solving tangible problems, and putting tasks over relationships.

The **Pluralistic-Green** worldview that subsequently emerged is keenly aware of Orange's shadow over people and society: **the materialistic obsession, the social inequity, and the loss of community.** Social responsibility is often at the core of a **Green Organization's** mission. Green is highly sensitive to people's feelings and insists that all perspectives deserve equal respect. It seeks **fairness**, **equality**, **harmony**, **community**, **cooperation**, and **consensus**.

While **Orange** is predominant today in business and politics, **Green** is very present in postmodern academic thinking, in nonprofits, and among social workers and community activists. Where **Orange** seeks to make decisions top-down, based on objective facts, expert input, and simulations, **Green** strives for bottom-up processes, gathering input from all and trying to bring opposing points of view to eventual consensus. Where **Orange** views organizations as machines, the dominant metaphor of organizations in **Green** is the family.



A Note on Stages of Development: Every stage *includes and transcends* the previous, and there are both healthy and unhealthy versions of each stage. The Teal stage draws the healthy parts from every previous stage while transcending the unhealthy aspects of earlier stages. The trigger for growth into a new stage always comes in the form of a major life challenge that cannot be resolved from the current worldview. No one can be made to evolve in consciousness, even with the best of intentions. What can be done is to create environments that are conducive to growing into later stages. When someone is surrounded by peers who already see the world from a more complex perspective, in a context safe enough to explore inner conflicts, chances are higher that the person will make the leap.

What determines which stage an organization operates from? It is the stage through which its leadership tends to look at the world. As Wayne Dyer said, **"When you change the way you look at things, the things you look at change."**

The Evolutionary-Teal Stage

All "first-tier" stages consider that their worldview is the only valid one and that all other people are dangerously mistaken. People transitioning to the **Evolutionary-Teal stage** can accept, for the first time, that there is an evolution in consciousness, that there is a momentum in evolution towards ever more complex and refined ways of dealing with the world. In Teal we importantly achieve the ability to reason in paradox, transcending the simple *either-or* with more complex *both-and* thinking, and consequently, our listening is no longer limited to gathering information to better convince, fix, or dismiss. This allows us to consider and combine information in new ways.

The shift to Evolutionary-Teal happens when we learn to disidentify from our ego. By looking at our ego from a distance, we can suddenly see how its fears, ambitions, and desires often run our lives. When we are fused with our ego, we are driven to make decisions informed by external factors – what others will think or what outcomes can be achieved. In **Red**, a good decision is the one that **gets me what I want.** In **Amber**, decisions are determined by social norms and morals of what is **right and wrong.** In **Orange**, **effectiveness and success** are the yardsticks by which decisions are made. In **Green**, matters are judged by the criteria of **belonging and harmony.**

In Teal, we shift from *external* to *internal* yardsticks in our decision-making. We are now concerned with the **question of inner rightness:** *Does this decision seem right? Am I being true to myself? Is this in line with who I sense I'm called to become? Am I being of service to the world?*

With a Teal worldview, we do not pursue recognition, success, wealth, and belonging to live a good life. We pursue a life well lived, and the consequence might just be recognition, success, wealth, and love. In Teal, the ultimate goal in life is not to be successful or loved, but to become the truest expression of ourselves and to be of service to humanity and our world.

The Three Breakthroughs of Teal Organizations

Up to this point in human history, humanity has experienced four ways to collaborate in organizational settings, based on four very different worldviews: **Impulsive-Red**, **Conformist Amber**, **Achievement-Orange**, and **Pluralistic-Green.** Each of these organizational models has brought about major breakthroughs and allowed us to tackle more complex problems and achieve results of unprecedented scale. As more people engage with the world from an Evolutionary-Teal perspective, more Teal Organizations will emerge.

Orange thinks of organizations as machines. A leader up in the hierarchy turns a cog that directs the workers below. **Orange** often talks about inputs and outputs, pulling the lever, and moving the needle. Changes must be planned and mapped out in blueprints, then carefully implemented according to plan. **Green** uses the metaphor of organizations as families.

Teal Organizations think of themselves as **living organisms** or **living systems**. Change in nature happens everywhere, all the time, in a self-organizing urge that comes from every cell and every organism, with no need for central command and control to give orders or pull the levers. The metaphor opens up new horizons. Imagine what organizations would be like if we stopped designing them like soulless, clunky machines. What could organizations achieve, and what would work feel like, if we treated them like living beings?

The case studies of pioneer Teal Organizations reveal three major breakthroughs: **evolutionary purpose, wholeness, and self-management.**

Teal Organizations that have embraced these breakthroughs seem to fire on all cylinders at the same time. They provide a space in which employees thrive; they pay salaries above market rates; they grow year in and year out, and achieve remarkable profit margins; in downturns, they prove resilient even though they choose not to fire workers; and perhaps most importantly they're providing an example of what the next evolution or organizations can look like. Examples of pioneer Teal Organizations include:

- **Buurtzorg** is a homecare nursing organization. It has reached 60% market share in only 8 years in the Netherlands, achieving extremely high patient satisfaction rates at half the cost and with high employee satisfaction rates. If the US embraced Buurtzorg's model for home care across the county, not only would patient outcomes drastically improve but it would save our healthcare system $49b.
- **FAVI,** a French Brass Foundry, commands a 50% market share for its gearbox forks, it delivers high-profit margins despite Chinese competition, it has salaries well above average, and hasn't had a single order delivered late in over 25 years.
- **Morning Star** is the world's largest tomato processing company located near Sacramento. It produces over 40% of the tomato paste and diced tomatoes consumed in the US.
- **AES** is a global energy provider headquartered in Virginia. It has over 40,000 employees operating power plants in 31 countries on all continents.

- **Zappos** just announced that they are fully embracing a transition to Teal and self-management principles, after about a year of experimentation. They have over 1,200 employees and over $2b in annual revenue.

Teal Breakthrough #1: Evolutionary Purpose

"Success, like happiness, cannot be pursued; it must ensue, and it only does so as the unintended side-effect of one's personal dedication to a cause greater than oneself." – Viktor Frankl

Rather than trying to *predict and control,* Teal Organizations try to *sense and respond.* The traditional practice in organizations is to look five years ahead and make plans for the next year. Instead, Teal Organizations think like farmers: **look 20 years ahead, and plan only for the next day.**

Making predictions gives us a comforting sense of control, but the reality is that organizations and the world we live in have become complex systems. In such complex systems, it becomes meaningless to predict the future and then analyze our way to the "best" solution. When we do, we only waste energy and time producing an illusion of control and perfection. Instead, make peace with complexity and shoot not for the perfect solution but for a workable solution that can be implemented quickly. Based on experimentation & new information the decision can be revisited and improved at any point.

In a self-managing organization, change can come from any person who senses that change is needed. This is how nature has worked for millions of years. Innovation doesn't happen centrally, according to plan, but at the edges, all the time, when some organism senses a change in the environment and experiments to find an appropriate response. Some attempts fail to catch on, while others rapidly spread to all corners of the ecosystem.

Strategy is no longer the domain of a few minds at the top, and implementation is no longer a mandate given to a few program managers. A whole organization is mobilized to sense into the future and help that future unfold.

Teal Breakthrough #2: Wholeness

"It's not the work of the organization to develop people, but people are given the opportunity to develop by doing the work of the organization." – Tom Thomison

People often feel like they have to shut out part of who they are when they dress for work in the morning. They put on a professional mask, conforming to the expectations of the workplace. This mask keeps us from connecting authentically and forming genuine, trusting relationships.

By embracing a culture of "wholeness" organizations support the development of meaningful relationships within and across business units, leading to notable benefits including:

1. **Smarter groups.** Research shows that as group emotional intelligence is increased, so is group performance. The research suggests that if you want a smarter group, add more women.
2. **Creativity and innovation are unleashed.** It's critical to build relationships with colleagues across the company to understand it from all sides. The more people you know and the more you understand the whole, the more you'll be able to come up with new ideas and turn them into reality. Furthermore, when people's emotional, limbic brains are allowed to show up at work (rather than just the logical, rational pre-frontal cortex) they are freed to explore their inner creativity and intuition.
3. **Improved employee satisfaction.** Employee satisfaction rates are improved as emotionally and spiritually safe environments are created where each of us can behave authentically and contribute in our distinct way. We don't have to pretend like we're someone we're not, and we're able to search within ourselves for a meaningful way to define who we are and what we can contribute.

The single most important component of an organizational culture, and wholeness, is the quality of relationships and authenticity of conversations across your company.

To start developing an organizational community, you must strive to create a safe space that invites deep listening, authenticity, and vulnerability. Train all colleagues in interpersonal skills to enable them to deal gracefully with conflict, share life stories, start meetings with a round of check-in, and integrate peer-coaching practices.

Remove symbols of status, allow colleagues to lead skill training programs infused with the company's values and culture, and have recruiting & interview practices handled not by HR but by future teammates who simply want to decide if they would want to work with the candidate daily. Other innovative techniques include developing a company-wide "network map" that reveals which teams should have a conversation to improve their collaboration.

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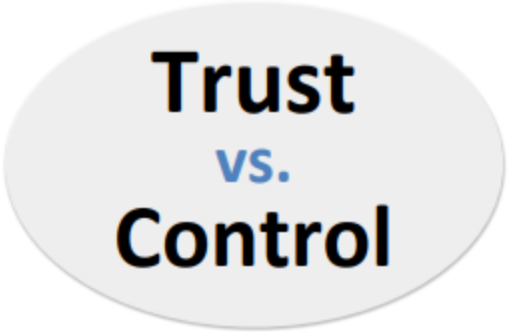
Teal Breakthrough #3: Self-Management – Principals

"Everything that is really great and inspiring is created by the individual who can labor in freedom." – Albert Einstein

Whereas most organizations today resemble machines, the dominant metaphor for self-managing organizations is a **living organism** or **living system**. But a model of self-managed teams, just like the traditional pyramidal model it replaces, is not a chaotic free-for-all. It works with an interlocking set of structures, processes, and practices that inform how teams are set up, how decisions get made, how roles are defined and distributed, how salaries are set, how people are recruited or dismissed, and so on.

The difference in self-managing Teal Organizational models is that **form follows need.** Roles are picked up, discarded, and exchanged fluidly. Power is distributed. Decisions are made at the point of origin. Innovations can spring up from all quarters. Meetings are held when they are needed. Temporary task forces are created spontaneously and quickly disbanded again.

Leaders of self-managing organizations get asked the same question over and over again: Isn't it risky and foolish to let people make decisions without top-down control, especially when money is involved? In their experience, it is less, not more risky, to deploy self-managed teams because better decisions get made.



Ultimately it's the choice between trust and control. In a control system, the underlying assumptions are often that workers are lazy, workers work primarily for money, and workers need to be told what to do. In a trust system, the assumptions are that people are creative, thoughtful adults capable of making important decisions and that people want to use their talents and skills to make a positive contribution to the organization and the world.

As Dennis Bakke, the founding CEO of AES said, ***"Every decision made at headquarters takes away responsibility from people elsewhere in the organization and reduces the number of people who feel they are making an effective contribution to the organization."*** The expectation in a self-managing organization is that frontline teams do everything, except for the things they choose to push upward.

The philosophy is based on trust, whereas most organizational hierarchies, rules, and regulations are based on fear. Fear is a great inhibitor, causing decision-makers to implement rules and control mechanisms to minimize the responsibility that workers have.

When trust is extended, it breeds responsibility in return. For example, at FAVI after the CEO got rid of the clock-in, clock-out system, including fines and punishment for those who arrived to work late, productivity increased. Furthermore, rather than leaving the moment their shift ended - often in the middle of a project - workers regularly stayed 30 minutes after their shift to finish a job they had started.

Emulation and peer pressure regulate the system better than hierarchy ever could. Teams set their objectives, and they take pride in achieving them. When a person doesn't pull their weight, their team members are quick to let them know. Effective conflict resolution is the mechanism through which peers hold each other to account for their mutual commitments.

There are major benefits of self-management. **First,** by distributing power, employees become more engaged and have the freedom to grow into the strongest, healthiest versions of themselves. How high you reach and the impact you have is no longer constrained by the org chart. As a result, employee development is improved through on-the-job training.

Second, responsibility & accountability are increased, as people can no longer say "It's not my problem" or complain about an issue or inefficiency they see without taking steps to fix it.

Third, information flows more freely through the organization, and decisions are made at the point of origin. Innovations can spring up from all quarters, and productivity increases. For example, cities, which are (for the most part) self-organizing systems, become 15% more productive when they double in size, while hierarchical companies tend to lose productivity as they grow.

Fourth, organizational agility is increased, as form follows need. Roles are picked up, discarded, and exchanged fluidly. Meetings are held when they are needed. Temporary task forces are created spontaneously and quickly disbanded again. According to a study by McKinsey, companies that were more agile and coordinated across business units – by quickly reallocating resources when opportunities arose - achieved an average shareholder return 30% higher than the average return of companies that were slow to shift resources.

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Teal Breakthrough #3: Self-Management – Structures & Practices

Case #1 – Buurtzorg

Since the 19th century, every neighborhood in the Netherlands had a neighborhood nurse who would make home visits to care for the sick and the elderly. In the 1990's, the health insurance system came up with a logical idea: **why not group the neighborhood nurses into organizations?** After all, there were seemingly obvious economies of scale and skill.

Soon enough the organizations that grouped the nurses started merging themselves, in pursuit of ever more scale. Tasks were specialized: some people would take care of the intake of new patients and determine how nurses would best serve them; planners were hired to provide nurses with a daily schedule, optimizing the route from patient to patient, call center employees started taking patients' calls, regional managers were appointed as bosses to supervise the nurses in the field.

To drive up efficiency, **time norms were established for each type of intervention or procedure (now called "products"):** Intravenous injections would be allotted exactly 10 minutes, bathing 15 minutes, and wound dressing 10 minutes. To keep track of all this, a sticker with a bar code was placed on the door of every patient's home and nurses had to scan in the barcode, along with the "product" they had delivered, after every visit. All activities were time-stamped in the central system and could be monitored and analyzed from afar.

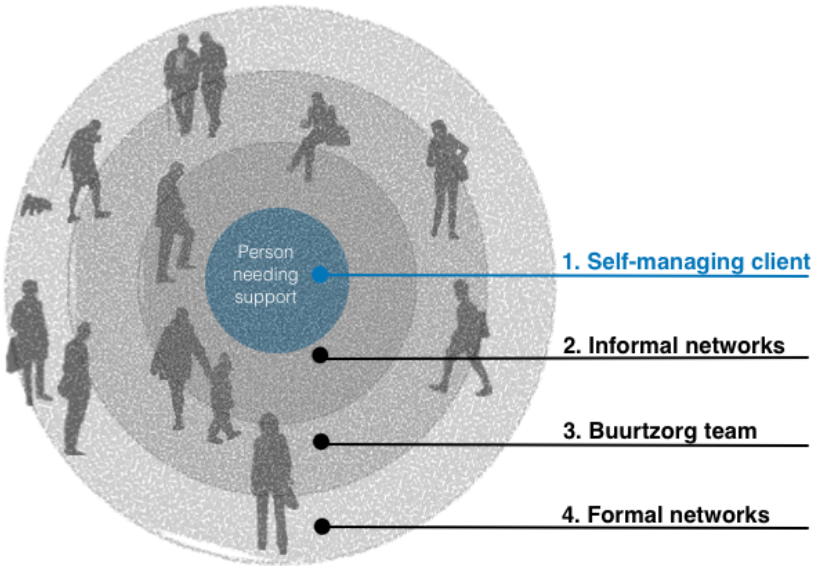
In the pursuit of economies of scale, the overall outcome proved distressing to patients and nurses alike. Patients lost the personal relationships they had with their nurses. Every day a new unknown face entered their home, and the patients – often elderly, sometimes confused – had to re-tell their medical history to an unknown, hurried nurse who didn't have any time allotted for listening. Consequently, subtle but important cues about how a patient's health is evolving were overlooked. The system became a machine, losing track of patients as human beings and instead seeing them as subjects to which products were applied.

Founded in 2006, Buurtzorg, (which means **"neighborhood care"** in Dutch), is causing a revolution in neighborhood nursing. It has grown from 10 to 8,000 nurses in eight years, gaining 60 percent of the market share in the Netherlands while achieving extremely high patient satisfaction rates and health outcomes at 40% of the cost.

At Buurtzorg nurses work in self-managed teams of 10, with each team serving a well-defined neighborhood. The team is in charge of all the tasks that were previously fragmented across different departments, responsible not only for providing care but also for deciding how many and which patients to serve. They do the planning,

scheduling, and administration, decide which doctors and pharmacies to reach out to, monitor their performance, and decide on corrective action if productivity drops. Each nursing team is **effectively self-governing and self-organizing,** and care is no longer fragmented.

Whenever possible, a patient always sees the same nurse. Nurses take the time to get to know the patients and their history and preferences. For days and weeks, deep trust can take root in the relationships. Care is no longer reduced to a shot or a bandage – patients can be seen and honored in their wholeness, with attention paid not only to their physical needs but also their emotional, relational, and spiritual ones. **The result is that patients are thrilled by how Buurtzorg's nurses serve them,** and so are their families who often express deep gratitude for the important role nurses come to play in the lives of the sick or elderly.



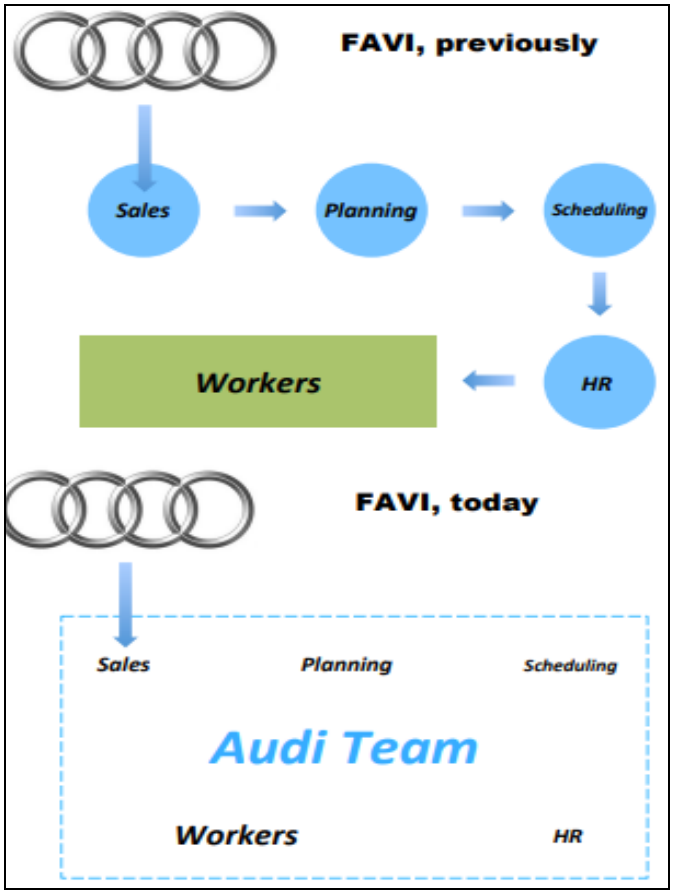
By changing the model of care, **Buurtzorg has accomplished a 40 percent reduction in hours of care per patient,** which is even more impressive when you consider that nurses in Buurtzorg take time for coffee and talk with the patients, their families, and neighbors, while other nursing organizations have time "products" in minutes.

Patients stay in care only half as long, heal faster, and become more autonomous. A third of emergency hospital admissions are avoided, and when a patient does need to be admitted to the hospital, the average stay is shorter. Satisfaction rates are increased for both patients and nurses.

And the financial return on relationships is considerable. Ernst & Young estimates that **close to €2 billion would be saved in the Netherlands every year** if all home care organizations achieved Buurtzorg's results. Scaled to the US population, **the savings would be equivalent to roughly $49 billion.**

Case #2 – FAVI

FAVI, a French brass foundry holding a 50% market share for its gearbox forks, initially had a more traditional pyramid structure – people at the top make the decisions, and workers at the bottom perform assigned tasks. Then a new CEO took the helm, and within two years the organization was fundamentally reshaped. Today **the factory has over 500 employees organized in 21 teams called "mini-factories" of 15 to 35 people.** Most of the teams are dedicated to a specific customer (the Volkswagen team, the Audi team, the Volvo team, etc.). **Each team self-organizes;** there is no middle management, and the staff functions have nearly all disappeared. FAVI consistently delivers high-profit margins despite Chinese competition, pays salaries well above average, and hasn't had a single order delivered late in over 25 years.



How a client order makes its way through the system best illustrates how the new model works. Previously, when an order came in it would arrive at the sales department. Then planning would give sales a predicted shipping date and allocate machine times, scheduling would make the detailed planning of what would need to be produced by when on which machine. Then HR would allocate workers to the machines, and workers simply did what they were told.

Now, in the team setup, **the process looks very different.** There are no more departments – instead the roles are divided and performed within each team. Every week in a short meeting the account manager for the Audi team shares with the team the order that the carmaker placed. Planning happens on the spot in the meeting, and the team jointly agrees on the shipment date. **Decisions occur through team discussions.** Account managers don't report to heads of sales, they report to their

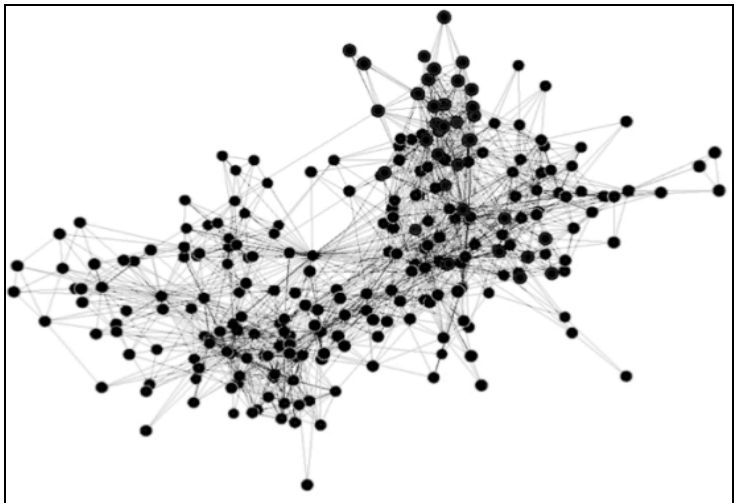
teams. No one gives them sales targets, **their motivation is to serve their clients well** and **to maintain or increase the number of jobs the factory can provide** – particularly now that the shop floor operators are not faceless workers.

Of course, **coordination is often needed** across teams – traditionally that's when bosses and staff functions step in. Maybe customer orders fluctuate and one team needs additional workers to complete the job. At FAVI a group composed of one designated person from each team comes together for a few minutes – they quickly discuss which teams are over or understaffed; back in their teams, they ask for volunteers to switch teams for a shift or two.

Things happen organically voluntarily; nobody is being allocated to a team by a higher authority.

Case #3 – Morning Star

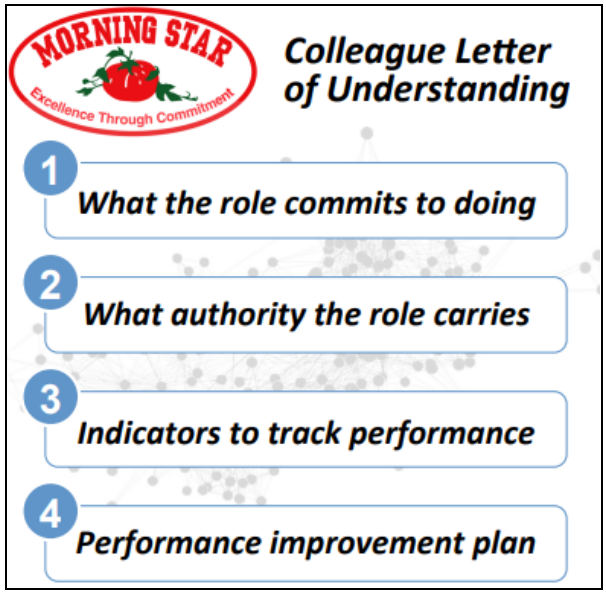
Morning Star provides another example of self-managing teams, although with a distinct structure to Buutzorg and FAVI. As the world's largest tomato processing company, **Morning Star produces over 40% of the tomato paste and diced tomatoes consumed in the US**, working with 400 employees in the low season and 2,400 employees in the summer. There are 23 self-managed teams, no management positions, no HR department, and no purchasing department. **Employees can make all business decisions,** including buying expensive equipment with company funds, provided they have sought advice from colleagues who will be affected or have expertise.



Web of commitments at Morning Star

Instead of a rigid org chart, each of the 23 teams resembles the network to the right. Morning Star is a collection of naturally dynamic hierarchies – there isn't one formal hierarchy, there are many informal ones. This is one of the misconceptions of self-management. In self-managing organizations **the point is not to make everyone equal; it is to allow all employees to grow into the strongest, healthiest version of themselves.** Without a command and control hierarchy (the structure where bosses hold power over their subordinates) lots of

natural, evolving, overlapping hierarchies can emerge—hierarchies of development, skill, talent, expertise, and recognition.



On any issue, some colleagues at Morning Star will have a bigger say than others will, depending on their expertise and willingness to help. One accumulates authority by demonstrating expertise, helping peers, and adding value. Stop doing those things, and their influence wanes—as will their pay.

So really, these organizations are anything but "flat," a word often used for organizations with little or no hierarchy. On the contrary, they are alive and moving in all directions, allowing anyone to reach out for opportunities. Information flows more freely through the organization, decisions are made at the point of origin, and innovations can spring up from all quarters.

How high an employee reaches depends on their talents, their interests, their character, and the support they inspire from colleagues; it is no longer artificially constrained by the organization chart.

Roles and commitments are agreed upon between colleagues, and outlined in a document called a Colleague Letter of Understanding – for each role colleagues specify what it does, what authority they believe it carries (including any decision rights), what indicators will help evaluate performance, and what improvements you hope to make on those indicators. **This type of structure is appropriate for longer & more continuous processes.**

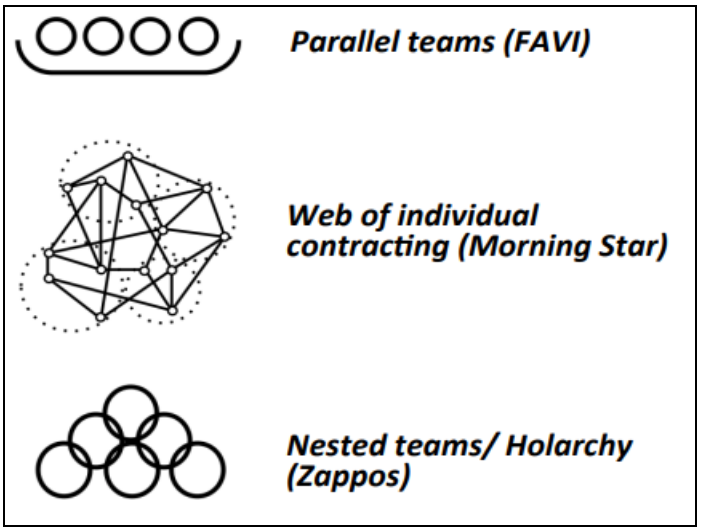
It's important to note that in Teal Organizations people have roles, which come with clear areas of responsibility, but no turfs. **The key is what Morning Star calls "total responsibility"** – all colleagues should do something about an issue they sense, even when it falls outside of the scope of their roles. Often this means going to talk about the issue with the colleague whose role relates to the topic.

Structures of Teal Organizations

There are many structures of self-management. Whereas **FAVI operated with a Parallel Teams structure**, and **Morning Star operated with a web of individual contracting**, there's a third structure fit for large, complex processes, called **nested teams**. What works at FAVI, for example, wouldn't work for a pharmaceutical company, where a team of 10 people alone can't develop a series of drugs, get them approved by the FDA, and sell them across the world. In this case, you need specialization on a bigger scale, and consequently a nested team structure.

Self-Managing Team (small organizations – e.g., Converge): A small organization in any sector that can be run as a single, self-managing team.

Parallel Teams (large organizations with short value chain – e.g., Buurtzorg, FAVI): This model is highly suitable when work can be broken down in ways that teams have a high degree of autonomy, without too much need for coordination across teams. In practice, there will often be a need for some people or teams who take on coordinating or supporting roles with a more narrow focus.



Web of Individual Contracting (large organizations with a long value chain and continuous, stable processes – e.g., Morning Star): In this model roles and commitments are not discussed in teams, but between colleagues who work together. Commitments can then be formalized in a written document.

Nested Teams (large organizations with long, deep value chains – e.g., pharmaceutical, software): In this model, there is a hierarchy of purpose, complexity, and scope, but not of people or power. The circle at the top pursues the overall purpose of the company, while several sub-circles pursue a specific part of the overall purpose (such as research and development, or marketing). Decisions are not sent upward, and cannot be overturned by members of overarching circles. The sub-circle elects a representative to the overarching circle that sits on all that circle's meetings, and vice versa.

Human First Works

Teal Breakthrough #3: Self-Management – Critical Components

There are three critical components of effective self-managed organizations that help mitigate risk.

First, self-managed organizations must figure out how to counteract situations in which a small number of employees take advantage of the freedom gained from being in a no-manager organization. The best solutions are generally peer-pressure systems. For example, a public leaderboard ranking system to measure performance, or quarterly presentations by teams with their peers where each team presents to the other teams what they are working on and why it is adding value to the company.

Second, there needs to be a clear process for conflict resolution. One effective conflict resolution process is to have those involved first meet one-on-one to have an honest conversation and try to work it out. If that doesn't work they can bring in a mutually agreed-upon council of peers to mediate. Finally, if no solution can be found they can escalate it to the CEO or someone similar.

Third, members of self-managed teams must utilize some form of the advice process to make decisions.

The Advice Process

If there is no formal hierarchy of bosses and subordinates, how are decisions made? Can anybody just make any decision? ***That sounds like chaos.*** *Or are all decisions made by consensus?* ***That sounds exhausting.***

Using the advice process any person in the organization can make any decision, but first, that person MUST seek advice from all affected parties and people with expertise on the matter. **The bigger the decision, the wider the net must be cast.** Often it becomes clear through the advice process that someone else might be in a better position to hold the decision rights and make the decision – given their relevant experience or expertise – as long as they too seek input from affected parties. Failing to uphold the advice process is one of the few things that can get a person fired.

For example, at FAVI the workers, rather than managers, are in charge of purchasing the machine and equipment they work with, even when the cost is high. They seek input from all other workers who will be using the new machine and seek advice from the organization's financial experts who better understand the organization's budget. The worker whose role is to purchase the new machine will then do the analysis, write up the necessary specifications, visit and negotiate with suppliers, and secure financing if needed.

When managers in command & control hierarchies do the analysis and choose a machine model, workers often complain about the new machine and drag their feet when it comes to learning how to operate it. When they have chosen the model, there is no such resistance to change.

Another example of the advice process comes from a recently hired financial analyst at AES. This analyst wanted to leave his role to go back to his native Pakistan to research the opportunity for electricity-generating capacity there on behalf of AES. Given the breadth of the idea, he consulted with the CEO, Dennis Bakke. Bakke was skeptical, but the analyst nevertheless decided to go to Pakistan and create a new position for himself as a business developer. Six months later, he invited the CEO to Pakistan to meet the prime minister. 2 ½ years later **a $700m power plant was up and running.**

In a variation on the advice process, it's a team – rather than one person - that integrates people's advice into a decision. These decisions occur at monthly meetings. These monthly meetings are also when new roles are proposed and created, and existing roles are amended or discarded. If in times of crisis, the advice process needs to be suspended, make sure to give full transparency about the scope and timeframe of the top-down decision-making, and appoint someone to make those decisions. And in a transitional period, **it's OK for leadership to appoint someone to make a specific decision as long as they too utilize the advice process.**

Transitioning to Teal

The evolution to becoming a self-managed Teal Organization doesn't need to happen all at once. Instead, **consider these concepts as possibilities that you could experiment with depending on the goals you're seeking.**

For example, there may be opportunities for your organization to develop a better way for employees at all levels to provide ideas and take initiative using the advice process. You might implement improved conflict resolution practices so that tensions are dealt with and solutions are developed between the parties involved, without needing to bring in and take time from the CEO or COO. **As a leader,** you could decide to remove some control mechanisms and give workers more flexibility in deciding their roles - based on their skills, interests, and reputation among peers, so they're not artificially constrained by the org chart. Or **you could adopt practices to bring more wholeness into the workplace,** which could improve employee satisfaction and make your teams more effective. Each alone could make a positive difference in your organization. **The important thing is to decide what works best for you and your organization** and to start experimenting.