



The silos are out to get us!

Building an Adaptive Organisation fit for the digital age: beta.

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Introduction

Everybody deserves an organisation that supports them to be who they want to be. People want to grow, develop, learn new skills and work on things that are meaningful and motivating. All the research shows, people supported in this way are at least 80% more productive.

From a macroeconomic viewpoint, [Alvin Toffler declared in his prescient book, *Powershift*, the \[knowledge economy\]\(#\) is here and in it “*the workers truly own the means of production*”.](#)

At the moment however, it feels to me more like his description of the conflict while the socio-economy adapts to the new paradigm. The ‘command and control’ style of leadership seems to be even more dominant and transferring itself into the internet giants.

Crucially, it’s clear that ‘structure drives behaviour’ and there’s a body of evidence from the systems thinking community that supports this. Any organisation structure rewards some behaviour and limits others. If we truly want organisations to be people-centric and provide checks and balances on the powerful, while still being profitable, we need to change the structure fundamentally.

The current default organisational structure, functional hierarchy, is no longer fit for purpose.

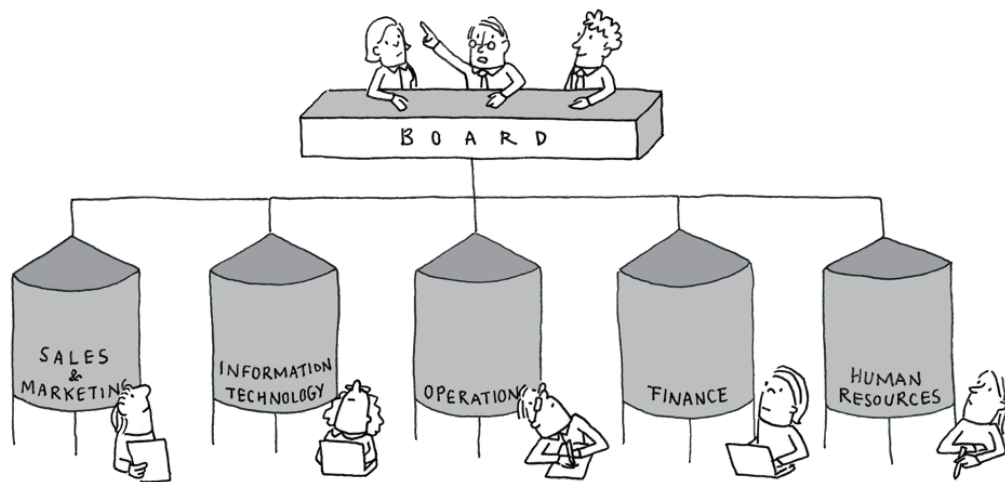
There are **four key reasons** why this organisational model should be replaced.

1. Functional hierarchies enable behaviours that are no longer wanted or useful
2. Functional hierarchies can’t evolve quickly enough in the digital age
3. Functional hierarchies don’t focus on the customer or citizen
4. Functional hierarchies reassert themselves to frustrate transformational change

All of these will be familiar (except possibly the last one) and many others have pointed them out. None have provided an alternative that’s evolutionary rather than revolutionary.

I believe this paper is the first to outline a practical evolution path for existing organisations that want to stay relevant in the digital age.

Functional hierarchies



The default organisational model consists of a set of functions reporting to a Chief Executive through Heads of Department.

Functional organisation was codified in the late 19th and early 20th centuries when life was significantly simpler and respect for hierarchy was embedded in all aspects of society. It came about to enable industrial companies to grow efficiently by making all parts of the business repeatable, reflecting the production lines of the time.

The basic pros and cons of functional organisation are [well known](#), but this paper focuses on the four key reasons why it should be replaced.

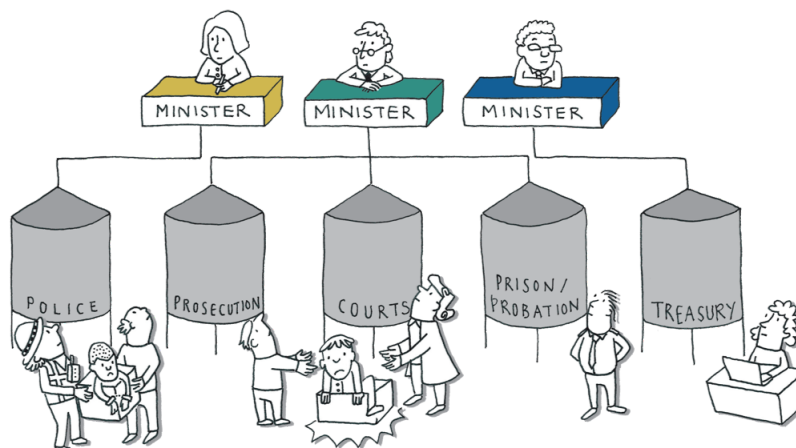
1. Structure drives behaviour

Obviously you can only behave in ways allowed or enabled by the structure around you, e.g. cars need roads to drive on – whether it's a track, road or motorway, the road dictates the speed and society needs traffic laws to keep everyone safe.

The same is true of organisations. 'Structure drives behaviour' is a core principle of systems thinking and should be at the centre of organisational design. [Conway](#) and [Larman's](#) laws have popularised the concept in the technology industry.

In a functional hierarchy, work is focused inside the 'silo'. The ways of working are organised to make the function efficient, even if that doesn't support the overall effectiveness of the organisation. Communication and collaboration between functions is often difficult.

Everyone is focused on the people above them in the hierarchy, particularly those at the top. This means the personality traits, both good and bad, of the 'seniors' get amplified through the functions with few checks and balances. This leads to a lack of opportunity for people whose 'faces don't fit' and behaviour that's no longer acceptable.



The human cost of functional hierarchies can also be illustrated by the example of criminal justice. Victims, witnesses and many defendants are vulnerable people, yet they get passed between government departments resulting in delays – prolonging the stress and trauma.

2. Functional hierarchies can't evolve quickly enough

The good of functional hierarchies might outweigh the bad if they still provide a 'job for life' as they did through to the 1970s. However this is no longer true.

Of the Fortune 500 in 1955, there are only 60 corporations still in existence. Over this period, the [half-life of a publicly traded company](#) has decreased to 10 years. While cash flow is typically the trigger for corporate failure, the underlying reason is always that they can't adapt quickly enough to changes in their environment.

These examples illustrate the typical failure sub-types:



Failure to adapt to technological change



Failure in decision making



Failure of ethos and values

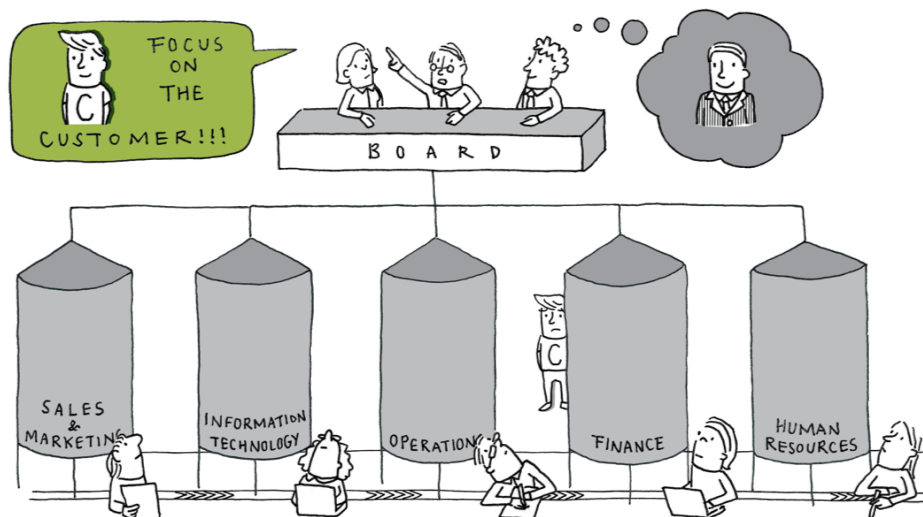


- Eastmann Kodak invented digital photography but didn't see its potential to disrupt the 'wet film' market that generated almost all of its profits until it was too late
- in the early 1990s, ICL had almost the reverse problem – too much innovation. It had leading positions in a number of emerging technologies. But what ICL couldn't do is decide which one to back with enough money to be successful
- Enron (and Arthur Anderson) used off-balance sheet accounting (it wasn't forbidden at the time) to inflate its profits and share price in a massive fraud. This was a clear failure of ethos and values

While shareholders lose their capital in a corporate failure, there's also a wider human cost from people losing their livelihoods suddenly.

3. Focus on the customer

This is a factor in both of the previous points but needs to be emphasised. In the internet age, to be able to stay in business, you need to have laser-like focus on the evolving needs of your customers, even if they don't know what these needs are yet! This is at the root of all digital transformation initiatives.



Functional organisations are unable to focus on the customer because they're not structured to do so. In most organisations, all that massive investment in technology has achieved is automating the hand-offs between functions. The needs of the customer are still lost.

One irony is that the Chief Executive can try and use the power of the hierarchy to say "*focus on the customer*" but the structure of most businesses means they still focus on the shareholders.

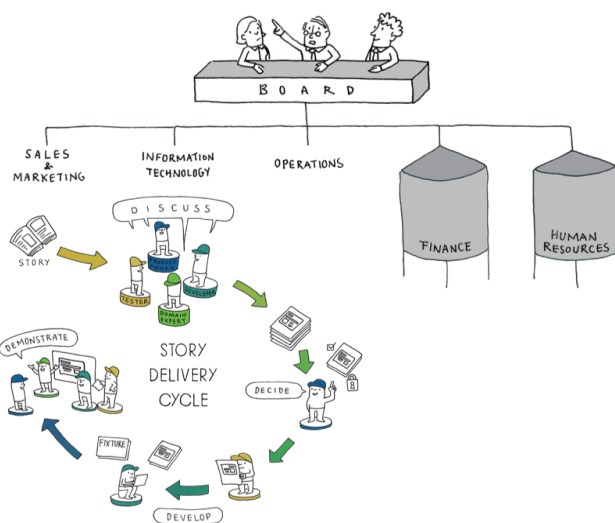
4. No transformation without structural change

The most insidious thing about functional hierarchies is that they re-impose themselves. The need to focus on the customer and support cross-functional working has been recognised

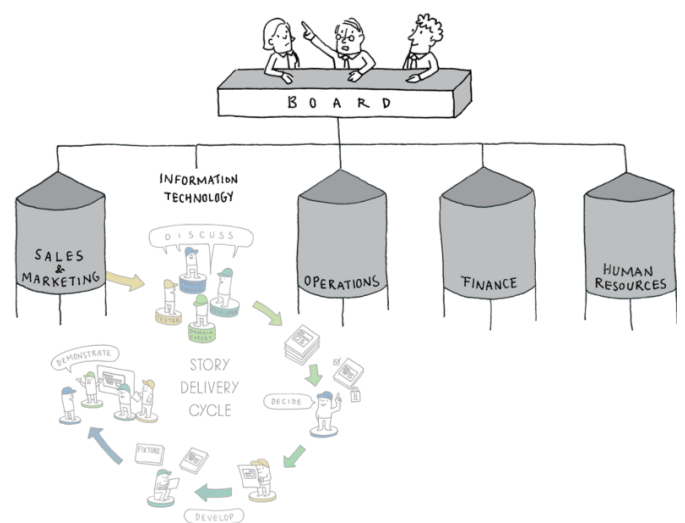
for decades. In the 1990s we tried 'business process engineering' and in the 2000s 'lean six-sigma'.

The problem is, none of these initiatives have stuck, each transformation has failed to achieve its visionary objectives. If you've read this far, then the central reason for this failure should be obvious – none of these initiatives changed the underlying organisation and power structures. The organisation has not lined up behind the needs of the customer or citizen, it's still focused inside each function.

Now in the 2010s we're trying 'digital' (usually with agile/lean/DevOps). However the view (2017) is that [90%](#) of digital transformations are failing or have failed. At their best, digital initiatives have sales, marketing, operations and technology working together to deliver a rich customer or citizen experience.



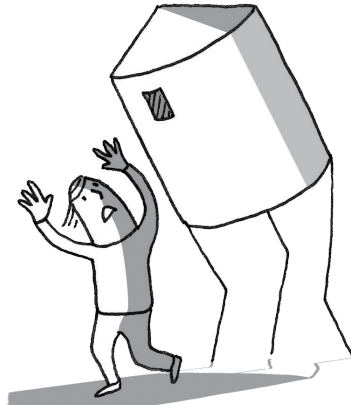
Digital at its best



Digital post initiative

However, because they're not changing the whole structure the [silos re-emerge](#) as problems arise, enthusiasm wanes and key people move on. In many places, digital is being put back into the technology function.

The silos are out to get us!



At one level we need to be kind to ourselves. The silos re-emerge because we don't have an alternative mental model. The patterns of behaviour are almost subconscious – even for those who see the problems and want to change.

Nearly everyone has been part of functional hierarchies for most of their lives and until now, there aren't any credible alternatives that can be applied to most situations.

What's needed is a different organisational model that's fit for modern, digital-enabled organisations and is generic enough to be applied in most environments. It needs to be focused on customers and citizens, scalable, humane, reactive and adaptable.

Our proposal is the Adaptive Organisation and this is described in the next section.

The Adaptive Organisation

Summary

This section outlines a generic organisation structure, the Adaptive Organisation, that meets the needs of 21st century business and society. Its primary purpose is to present a viable alternative to traditional functional hierarchies to challenge the ingrained mental models we all hold.

To recap, the current default organisational structure, functional hierarchy, is no longer fit for purpose. This is because:

- it enables behaviours that are no longer wanted or useful to society
- functional hierarchies cannot evolve quickly enough in the digital age
- functional hierarchies do not focus on the customer or citizen
- functional hierarchies re-assert themselves to frustrate transformational change

To be an Adaptive Organisation, you have to commit to switching to being service-led. Once committed, there are four key elements in delivery (execution):

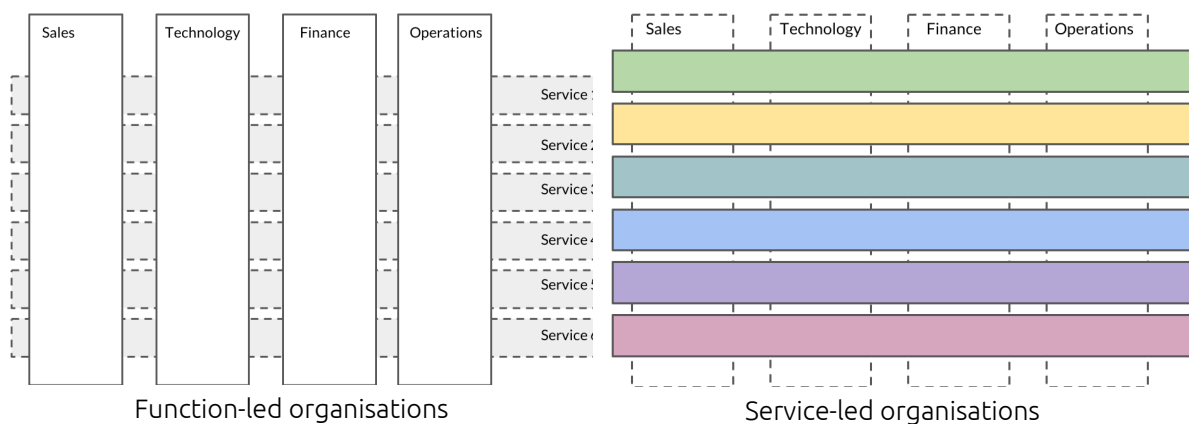
1. the multi-disciplinary team
2. de-constructing traditional silos into constituent parts
3. thinking in terms of micro-roles for 'support' functions
4. embracing 'CxO-ness'

Commit to being service-led

The starting point to 21st century organisation is to commit to being service-led, **including changing the power structures**. Everything else flows from this commitment.

Unless power over day-to-day operations (particularly financial power) is delegated to the services, the structure will continue to be dominated by traditional silos and user focus will be lost.

You have to be clear about the change in power structure. In many digital transformations, the service lines are told they're empowered only to find that, in practice, the empowerment is constrained, draining motivation and embedding conflict into the organisation.



The unit of delivery is the empowered, servant-led, user focused, team

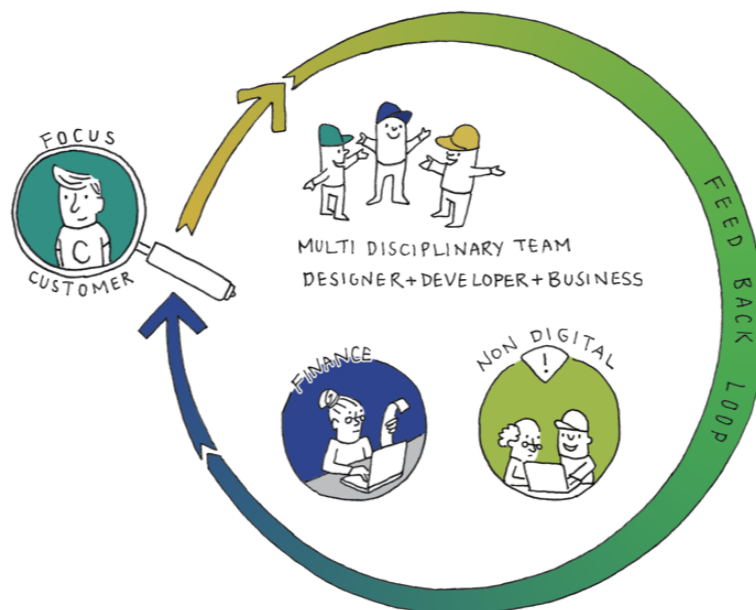
In the internet age, to stay in business or relevant to your citizens, you need to have laser-like focus on the rapidly-evolving needs of your users – even if they don't know what they are yet. This desire to really understand and meet user needs should be at the root of

all digital transformation initiatives as it's the primary basis of both competitive advantage and cost reduction in the digital age.

At the simplest level, an Adaptive Organisation is as easy as creating a multi-disciplinary digital team that contains the skills and experience to meet the needs of its target users.

This will be familiar to anyone that's been part of a start-up as this is how every start-up works.

This multi-disciplinary team uses techniques from agile/lean to deliver new valuable features and enhancements to the users every few weeks (or less), working out what's valuable through feedback – both from direct user research and digital tools like Google analytics.



The team is trusted by the organisation to understand and deliver the needs of its users because they have the most day-to-day interaction with them. They're empowered, including financial empowerment, because they can measure the value they deliver through key performance indicators. For a business, these KPIs typically include profit or a proxy for future profit, e.g. subscriber numbers.

They're led by a product or service owner who knows that they need all the skills and experience of the team to deliver the value and that their role is to hold the vision, clear impediments and inspire the team to deliver.

De-construct the silos

The word de-construct is chosen carefully. Much of the discussion around digital/agile/lean/DevOps talks about 'breaking down the silos' which implies something destructive. This isn't helpful because all of the outcomes the functions deliver are still needed by the organisation (if not all the activity).

What we need to achieve for an Adaptive Organisation is to embed the day-to-day operational parts of each silo in the product/service teams and report to the product or service manager. To do this, the silos need to be deconstructed into their constituent parts.

In each function of a traditional organisation, there are several types of activity going on:

- day-to-day operational management
- ensuring compliance with external regulations
- looking for and providing common standards and efficiencies
- learning and professional development
- positioning the organisation for the future i.e. taking a strategic view

	Finance	Personnel (HR)
<i>Strategic</i>	Fundraising/investment	Workforce planning
<i>Professional development</i>	ACCA, CIMA opportunities	CIPD opportunities
<i>Standards/compliance</i>	Financial reporting standards	Performance management best practice
<i>Operations</i>	Invoicing and salaries	Hiring and firing

Examples of functional outcomes

Once we're clear what type each outcome is, we can assign delivery to the relevant part of the Adaptive Organisation. The first step is to integrate day-to-day operations e.g. finance and HR into the service/product teams.

Integrating the 'support' functions into multi-disciplinary teams is necessary to make sure the service meets the user needs. It's obvious that each service will have different peoples' needs so the process for hiring (and firing) should belong to the team. It's less obvious (but just as important) for invoicing to be part of each team because different services and different large customers, have different invoicing needs and not meeting them typically results in payments being delayed.

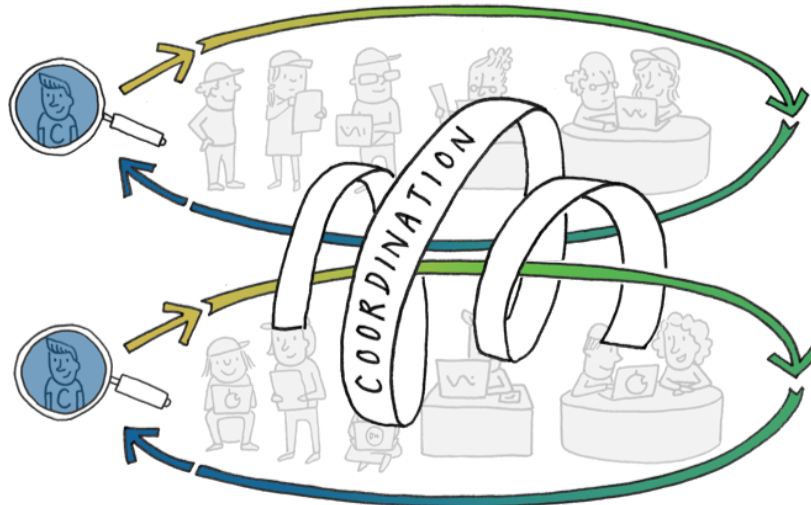
Scaling and coordination

The primary reason for creating functional silos was explicitly to allow industrial organisations to grow efficiently. However, one of the key problems is in becoming efficient, they optimise narrowly i.e. what works for them rather than the overall needs of the organisation or their customers or citizens.

Multi-disciplinary digital teams are mindful of efficiency, however what's much more important is the ability to adapt rapidly to user feedback and changing users needs i.e. they need to be more effective than efficient.

The need for the Adaptive Organisation model is most acute when considering larger organisations and those that need to scale. An organisation delivering just a single value stream is not resilient to the ever-accelerating pace of change in the digital era.

The key to a scaled digital organisation is empowering the product/service teams to maintain focus on their users while taking efficiency opportunities when they emerge and resolving pressure for shared resources or skills.



This means there's a requirement for coordination between teams. As well as resolving possible conflict over shared resources and skills, other examples include compliance to external laws, standards (both implicit and explicit) of "*How things get done around here*" and professional development. These are outcomes that we've already identified from 'silo deconstruction'.

In agile/lean there are many techniques for coordinating multi-disciplinary teams which can be directly applied to the Adaptive Organisation. The key one is the Community of Practice (CoP) where the people who have similar skills e.g. user experience, software engineers, testers, get together to learn from each other and agree standards. These communities are facilitated by a Head of Practice (HoP).

In the Adaptive Organisation, this concept is extended to all communities in the organisation. The people looking after invoicing in the service teams are part of the finance CoP and the team member(s) looking after hiring and firing would be part of the 'people' CoP.

To avoid these CoPs re-creating functional silos, the people in the communities continue 'reporting' to their service manager not the Heads of Practice (HoP). The HoP acts more as a coach or mentor for the community. However, they do provide an important safety

valve/check/balance should there be poor behaviour by the service manager or other members of their team.

Adaptability through micro-roles






One obvious scaling issue is the 'support' functions in most organisations are relatively small in comparison to delivery, as a result of efficiency/cost-reduction drives over many years.

The crucial lesson from agile/lean software development is that teams need to be kept as small as practical. They also need to be small to keep the financial delegation and empowerment manageable – finding the right people and asking them to manage a £5m budget is a lot less risky for both the individual and organisation than if the budget is £50m.

Lack of cash flow is what kills all businesses. Getting accounts payable/receivable right is core to any organisation. However, for a £5m budget this role is unlikely to be a full time role, the same applies to other 'support' functions, e.g. hiring and firing and contracts.

This is where siloed thinking initially creeps in and then becomes firmly established. At one level, it's quite reasonable to say *"Let's hire one person to do accounts payable/receivable for 3-4 teams"*. The problem is, the person hired will typically want to do things consistently across teams/clients to make things easier for themselves and to implement 'best practice' – often adjusting the service to the customers away from their specific needs.

As we've found at Agilesphere, this is always risky because customers want their invoices presented in a format that suits their finance systems – if you move away from their user needs and you won't get paid, generating a lot of unnecessary work to sort it out.

	Account Manager	Operations	Accounts Pay/Rec	Legal / Contract	Talent Aquisition	DM/Coach	User Experience	Dev/Test/DevOps
Client 1								
Client 2								
Client 3								
Client 4								

People can wear many hats

The Adaptive Organisation approach is to look at what 'micro-roles' can be combined to justify hiring an additional person. For example, a good accounts payable/receivable person will be detailed-focused, organised and numerate and so can cover operations and possibly standard contracts for that team (the green hat scenario above).

It's possible for an Adaptive Organisation to have one person fulfilling the accounts payable/receivable micro-role in more than one team (the yellow hat scenario above). However, they have to be very clear that they're meeting different user needs in each role and, crucially, reporting to different service/product managers for each role.

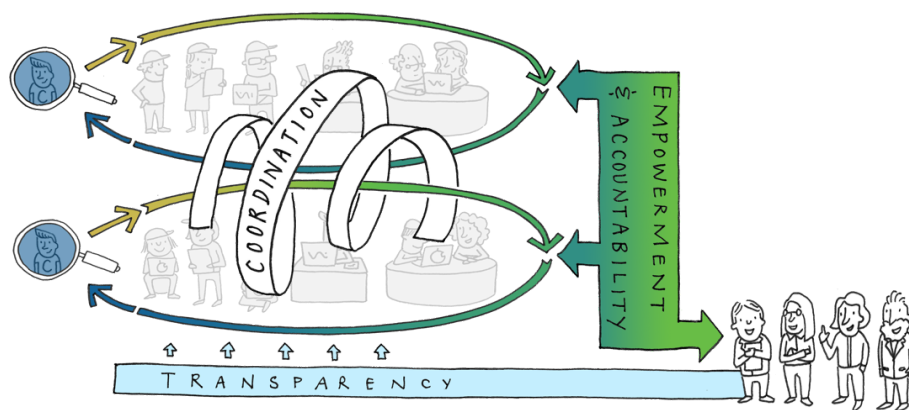
The person fulfilling the Head of Practice role is usually best selected from the people actually doing the role in the teams. This maintains the connection with delivering user needs, while looking for synergies across the teams and making sure that people's development needs are met.

Just starting to think about micro-roles immediately brings adaptability into the organisation. This adaptability can be taken further by putting an expiry/review date on a micro-role and separating the commitment to the individual to provide work from the actual work they're doing.

Empowerment, accountability and transparency

The biggest weakness of functional organisations is that decisions about spending money are separated from generating money (or delivering value in the public sector). These decisions are only linked towards the top of the hierarchy meaning that they're taken slowly, typically in an annual budgetary cycle (see Beyond Budgeting for alternatives).

For the organisation to be adaptive, it's crucial the product/service teams are making decisions, including deciding to spend money, reacting to feedback on a day-to-day basis to meet users needs. They need to be empowered.



However these teams are spending other people's money, so they need to be accountable and demonstrate with some rigour and formality that they've generated value e.g. brand awareness or profit in the private sector, improved citizen outcomes in the public sector or cost reduction in either. The basics of needing to see a return on investment becomes even more acute in the digital era as trends accelerate faster than ever before. You win or lose very quickly.

All governance needs to be matched to the feedback cycle the teams are operating with their customers or citizens. Typical digital/agile teams 'check and adjust' to user feedback on a two-week cycle and have a maximum of a three-month planning horizon.



Agilesphere, for example, has a three-month forecast with monthly adjustment in line with [Beyond Budgeting](#) best practice.

In addition, more informal conversations and feedback across the team and between the teams and strategic leadership is needed. This is best summed up by the word transparency.

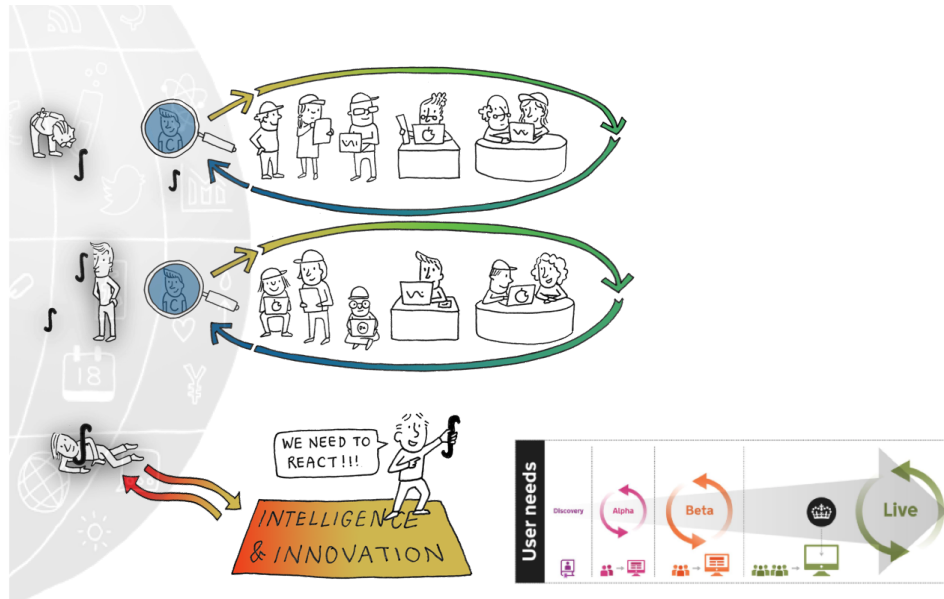
Agile teams should make everything they're doing as visible as possible with large 'information radiators' showing what they're currently working on, what they have planned next and the status of the live service. This keeps everyone up-to-date while minimising the impact on day-to-day delivery – progress reporting is a by-product of delivery.

Intelligence and innovation

The previous sections are aimed at organising to deliver the current value streams. On a day-to-day basis, these are reacting to changing needs from existing users looking for continuous improvement to the product or service.

However, the broader environment/marketplace is also changing and some of these changes (particularly with advances in technology) may threaten the existing value streams, like the Kodak scenario. There'll also be new opportunities for the organisation to exploit.

At the core of the need for the Adaptive Organisation is the fact that functional hierarchies can't react quickly enough to disruptive innovation. In the silos we're trying to de-construct, there's only continuous improvement in the individual function, no true innovation is enabled by the structure – a cross functional system for intelligence and innovation is needed.



There's a lot of guidance, such as [The New Business Road Test](#) by John Mullins and [Lean Startup](#) by Eric Reis, on how to do this commercially. The Government Digital Service applied Lean Startup to meet UK citizen needs for innovation in public services and created the GDS Service Manual.

Intelligence and innovation need to be separate from the current organisation so that it can think, act and be measured more like the start-ups that would look to disrupt the existing value streams. Multi-disciplinary delivery teams, the same as in the rest of the organisation, are used to turn Innovation in new value streams. This means that innovation is familiar to the rest of the organisation simplifying integration and communication.

Leading the Adaptive Organisation

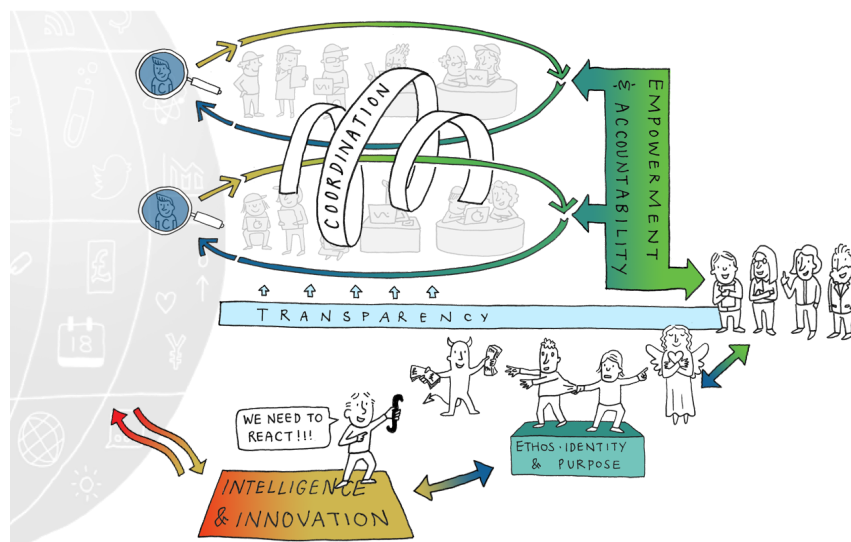
Adaptive Organisation leadership is distributed by empowering the product/service owner and their team. There's also leadership in the Heads of Practice. This orthogonal leadership gives people an alternative source of support providing a natural check and balance

Looking to our de-constructed silos, the part we still need to translate into Adaptive Organisation is the strategy and what happens to the leadership at the top of the silos – the CMO, CFO, COO, CIO and CPO, otherwise known as the C-Suite.

If we take the example of intelligence and innovation, any strategic decisions require marketing, finance, operations, technology and people viewpoints to be considered. For example: Is there a market? Can we raise the investment? Can we run it? Can we develop the technology quickly enough? Can we develop/acquire the right skills?

The same is true in empowerment and accountability (governance) decision making. How can we expand our market? What profit margin are we making? What's our failure demand? What's our up time? What's morale like? Are we retaining people?

The point is, all of these viewpoints need to be present. It's the context that changes. In addition, these questions need to be framed in the context of the Ethos, Identity and Purpose of the organisation to minimise the 'Enron risk'.



The imperative for diverse viewpoints in strategic decision making is already recognised in both business and academic literature. Professor Andrew Kadabadse has been researching this for many years and his body of evidence clearly demonstrates boards that have the most diverse perspectives make the best quality decisions.

What's needed are leaders that have a broad perspective and expertise in more than one function. Marketing and HR Senior Vice Presidents need to know their numbers, CFOs need to know how to manage and motivate non-financial people.

It's also clear the 'all-powerful CEO' increases the business risk from both a decision making and cultural perspective. Kenneth Lay at Enron and Travis Kalanick are high profile examples.

The 'CEO' role in an Adaptive Organisation is to design (and re-design regularly) the organisation to be adaptive. They ensure delegation happens to help team stay close to user need, allow people realise their potential, facilitate strategic conversations across empowerment and accountability, intelligence and innovation and ethos, identity and values ensuring the right level of diversity for the situation.

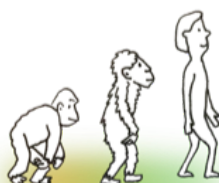
This is our definition of a true servant-leader and really needs a different word to describe it. We use the term CxO for the strategic leadership roles.

This stands for someone who operates across (x) the board at 'C-Suite' level. A CxO isn't responsible for a silo, they're responsible for the health and growth of the organisation as a whole, working in tandem with the other CxOs.

Benefits of Adaptive Organisation

We see the benefits of the Adaptive Organisation as being:

- the organisation can adapt quicker so is more likely to survive and thrive
- the people in the organisation are closer to the user and can see the impact of what they're doing– improving motivation which increases productivity
- built-in checks and balances on behaviour
- a clear alternative to a functional hierarchy, enabling an organisation to scale while maintaining focus on the customer or citizen



The Adaptive Organisation:

