
Strategic Leadership in a Living Organization

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Strategic Leadership in a Living Organization

based on the book

Who Really Matters: The Core Group Theory of Power, Privilege and Success
by Art Kleiner (New York: Doubleday, 2003)

and on a series of “Creative Mind” articles originally written for *strategy+business*

and on “A Blueprint for Strategic Leadership” by Steve Wheeler, Walt McFarland,
and Art Kleiner (*strategy+business*, Winter 2007)

and on *The Age of Heretics, 2nd Edition: Jossey Bass/Wiley, 2008*

Art Kleiner is editor-in-chief of *Strategy+Business*, the quarterly executive magazine published by Booz & Company. He is a writer and speaker specializing in business management, interactive media, corporate environmentalism, scenario planning, and organizational learning. His books include *Who Really Matters: The Core Group Theory of Power, Privilege and Success* (Doubleday, 2003) and *The Age of Heretics: Heroes, Outlaws and the Forerunners of Corporate Change* (Doubleday, 1996, Wiley, 2008). He is also the editorial director of the best-selling *Fifth Discipline Fieldbook* series, co-authored with Peter Senge.

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We know more about leadership than we think we do.



“Management is in the same state today that the natural sciences were in before the discovery of the circulation of the blood .”

-- Elliot Jaques

There are a lot of barber-surgeons out there, “fixing” organizational problems...

But there’s also a body of knowledge emerging, as the industrial world reconfigures itself...

Joos van Craesbeck (1608- circa 1654/1662) is a Flemish painter. He shows us here, preserved in a private collection, the interior of a barber-surgeon.

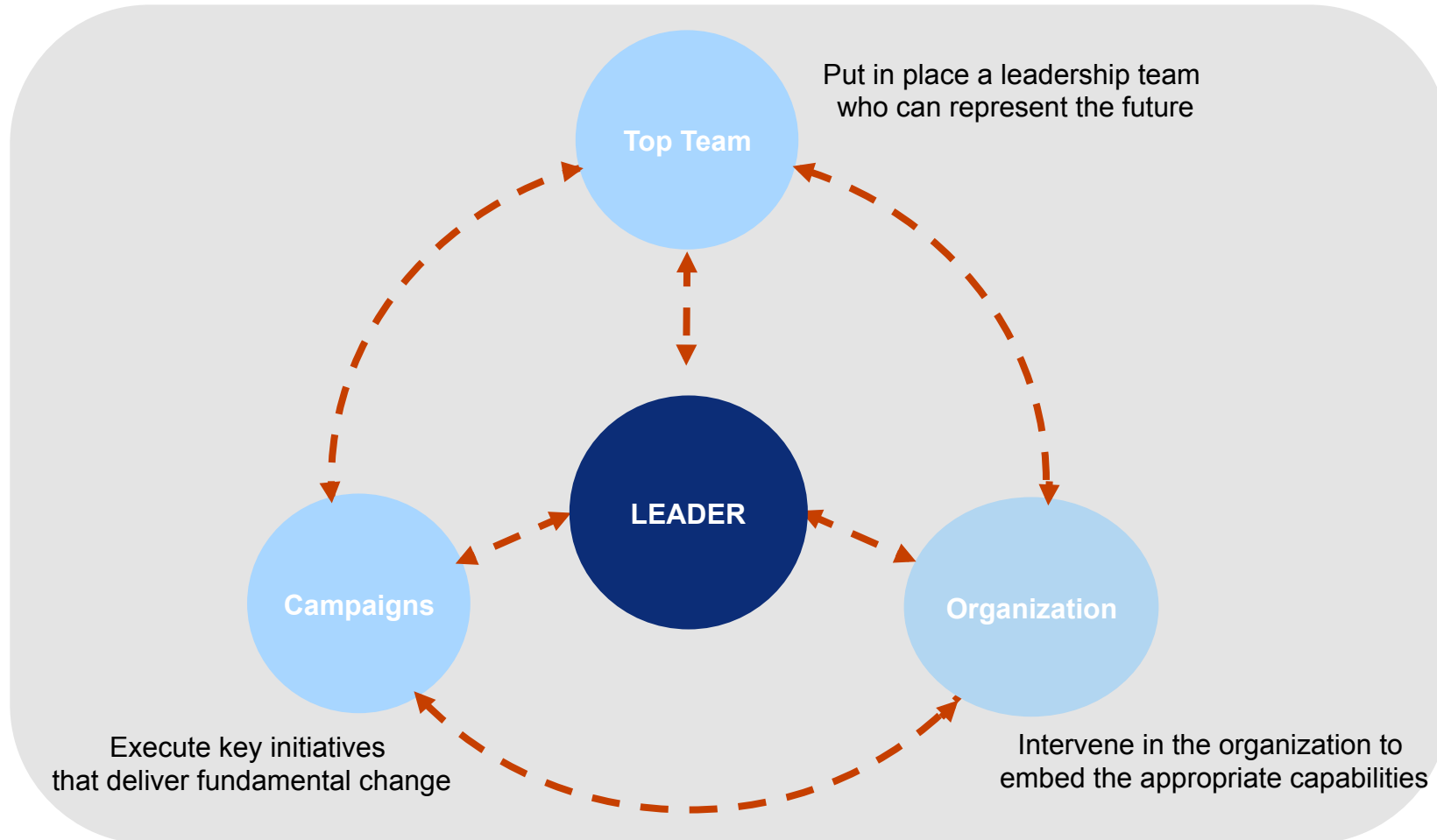


The quality of top leadership matters more than we'd like to think it does.

“The ability of companies to adjust their capabilities and direction over the long term – to meet the challenges of new markets and new competitors – grows directly out of the quality of their leadership ...”

Joseph L. Bower,
*The CEO Within: Why Inside-Outsiders
are the Key to Succession Planning*

Great strategic leaders are not born *or* made: They create a context that enables them to lead.



When you intervene... treat it as a living system.

Mechanistic Systems

Living Systems

<p>Clocks</p> <p>Automobiles</p> <p>Engines</p> <p>Telephones</p> <p>Computers</p> <p>---</p> <p>Incentives</p> <p>Laws</p>	<p>Plants</p> <p>Animals</p> <p>People</p> <p>-----</p> <p>Families</p> <p>Communities</p> <p>The Earth (Gaia)</p> <p>Organizations</p>
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Living systems change when something affects their circulatory systems

“To coordinate all of the instabilities in all of the cells [of the human body] requires that **the far-flung parts of an organism be in constant communication with one another**, over long-distances as well as locally.... This is accomplished by messages sent via nerves, in the form of electrical energy we call impulses; via the bloodstream, in the form of the chemicals we call hormones; and -- to nearby groups of cells -- via the specialized substances we call local signaling molecules. As each of these methods of communication was discovered, researchers ... came to recognize the inherent wisdom of the body.”

-- Sherwin B. Nuland, *The Wisdom of the Body*

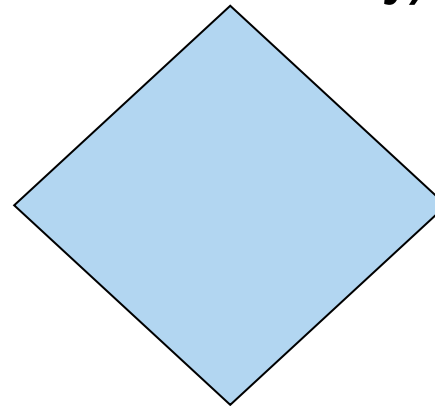
Leaders can affect at least four major circulatory systems.

*Seeks equilibrium; limbic system; source: King and God;
Transmits formal directives, requests, promises, rights, evaluations.*

Hierarchy
(flow of authority)

Network
(flow of knowledge)

*Seeks capability; neural structure; source:
Connection and Language; transmits
intellectual capital, information,
awareness, mutual
respect, experimentation.*



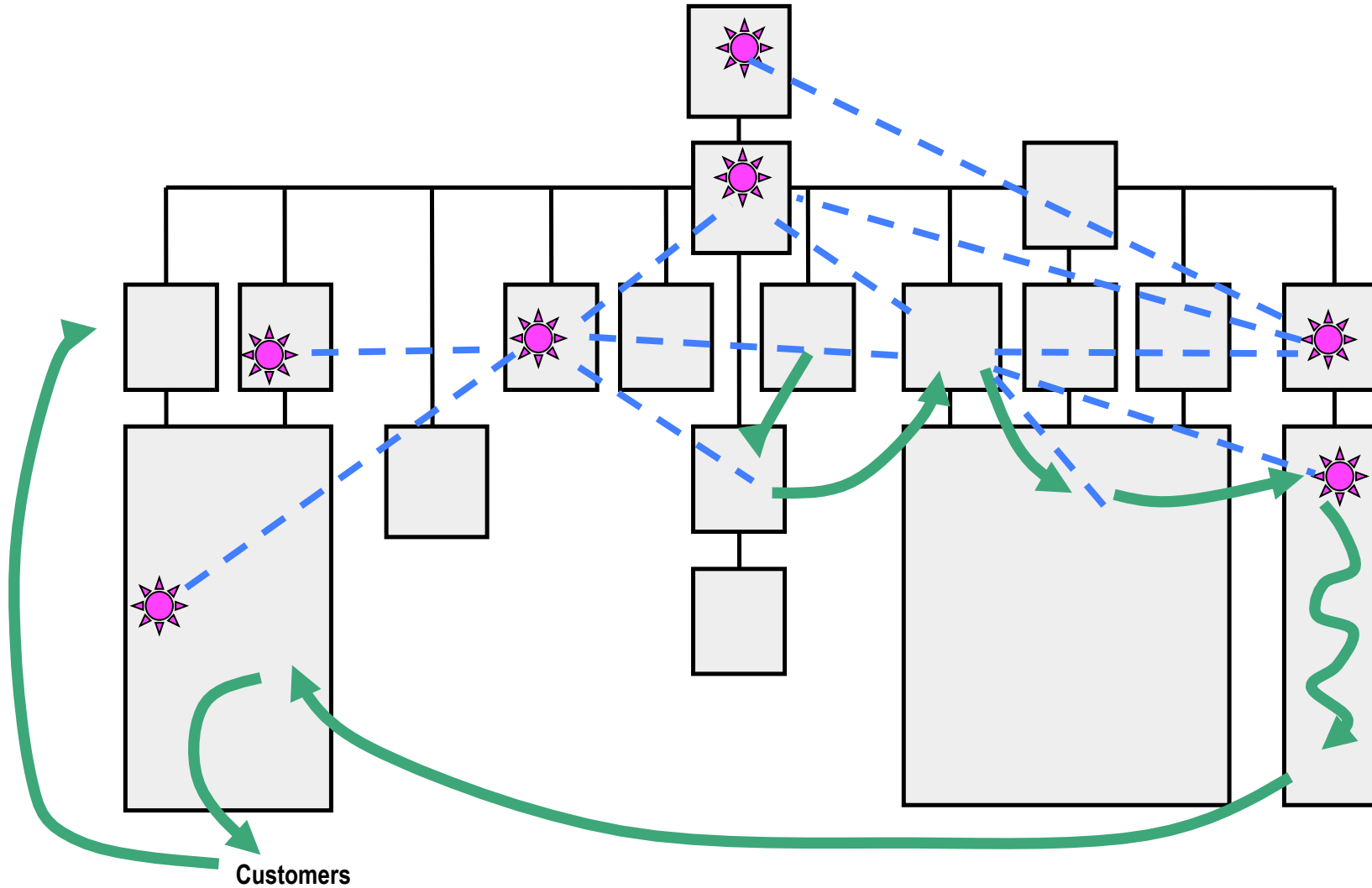
Clan (Core Group)
(flow of allegiance)

*Seeks legitimacy; endocrine structure;
source: Family and Love; Transmits
behavior, emotion, loyalty, purpose,
commitment.*

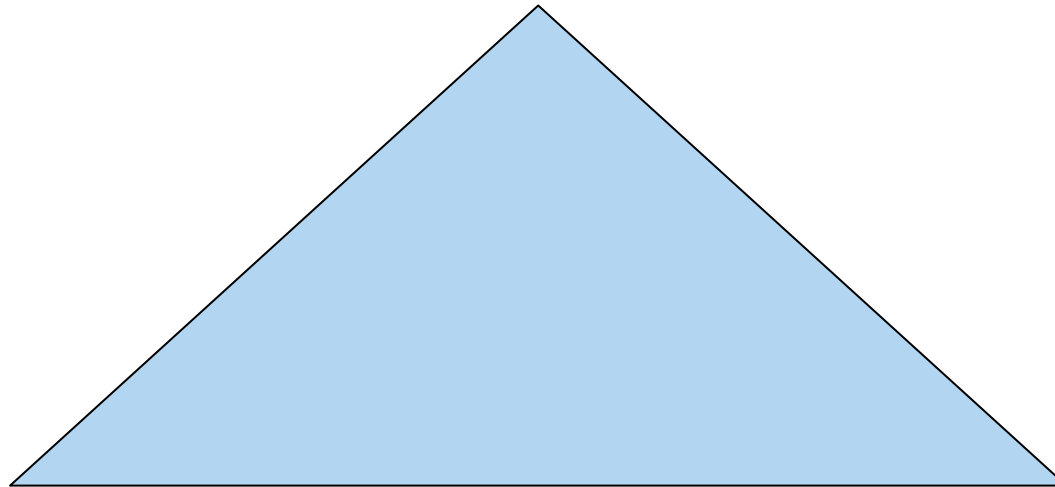
Market
(flow of work)

*Seeks production; cardiovascular structure; source: Supply
and Demand; transmits value, goods, services, payment,
results, credit, nourishment, waste.*

All four are evident in any given organization....



Hierarchy ***(flow of authority)***



A theory of hierarchy (Elliott Jaques)

Hierarchical position	"Felt-fair pay"	Cognitive complexity (time-span of role)	Army equivalent
CEO	16 x UM (\$1.28m)	20-50 years	Army
EVP	8 x UM (\$640K)	10-20 years	Corps
VP	4 x UM (\$320K)	5-10 years	Division
BUL (Dept. Mgr.)	2 x UM (\$160K)	2-5 years	Brigade
Unit Manager	UM (\$80K)	1-2 years	Battalion
First-Line Mgr	55% of UM (\$44K)	3 mos-1 year	Company
Operator/Clerk	31% of UM (\$24K)	Less than 3 months	Private & NCO

What information flows up and down the hierarchy?

- Anything that can be aggregated, so that activity can be deployed at scale.
- Flores and Winograd referred to this as a “conversation for action.”

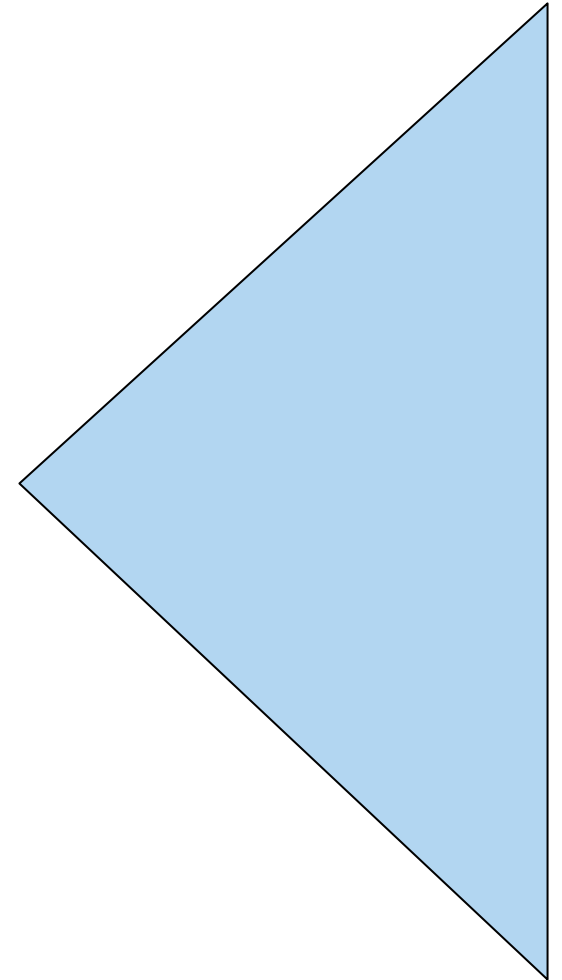
Travels in hierarchy easily:

- Requests
- Promises
- Offers
- Statements of acceptance or decline
- Estimates
- Statements of completion
- Evaluations
- Categorization

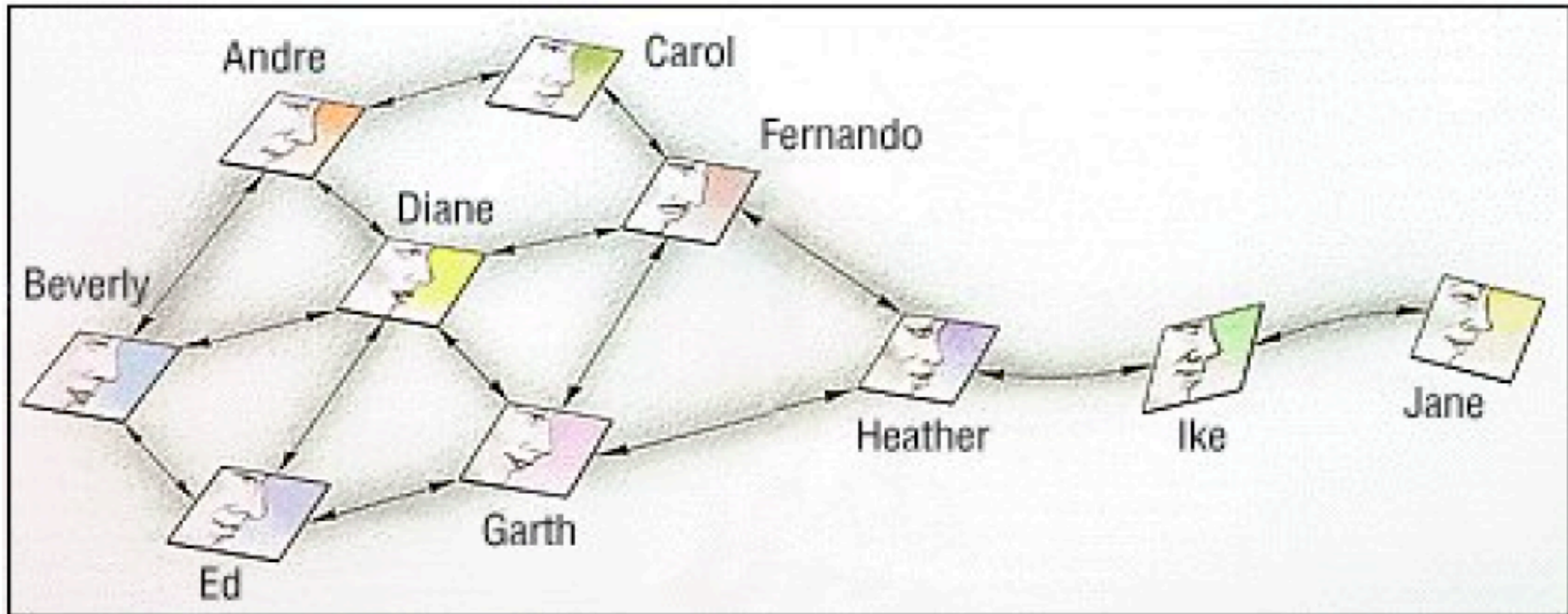
Travels in hierarchy with difficulty:

- Stories
- Excuses
- Analogies
- Statements of concern, trust, or curiosity
- Open inquiry
- Knowledge and learning

Network
(flow of knowledge)



A theory of networks (Karen Stephenson)



- Hubs (Diane): high trust, central to information flow
- Gatekeepers (Heather): control access to sub-group or knowledge base
- Pulsetakers (Garth & Fernando): critical for the organization's self-awareness

What information flows easily through the network?

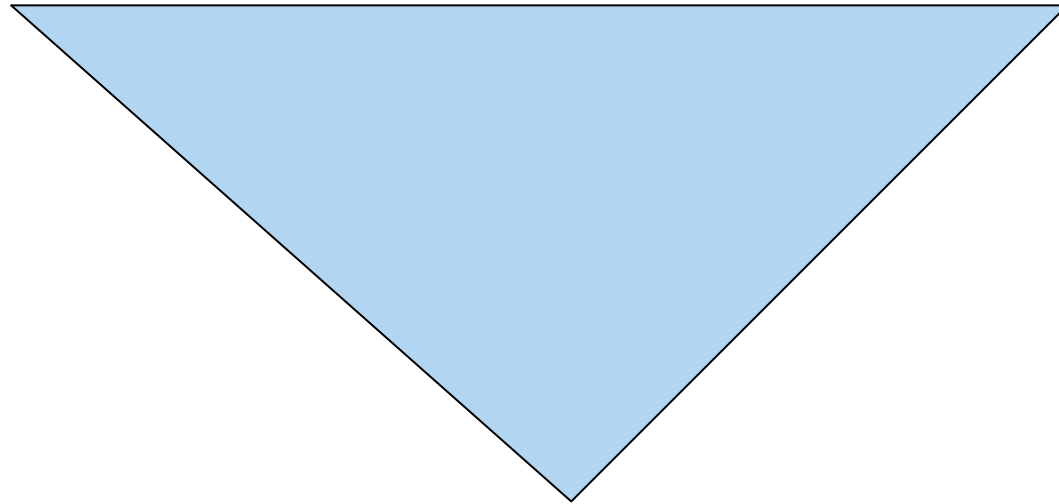
- Anything that is unstructured flows through the network.
- Mark Granovetter referred to the power of “weak links.”

Travels in networks easily:

- Unstructured information and ideas
- Gossip; news
- Light observation
- Knowledge and learning
- Working advice
- Collaboration
- Self-awareness

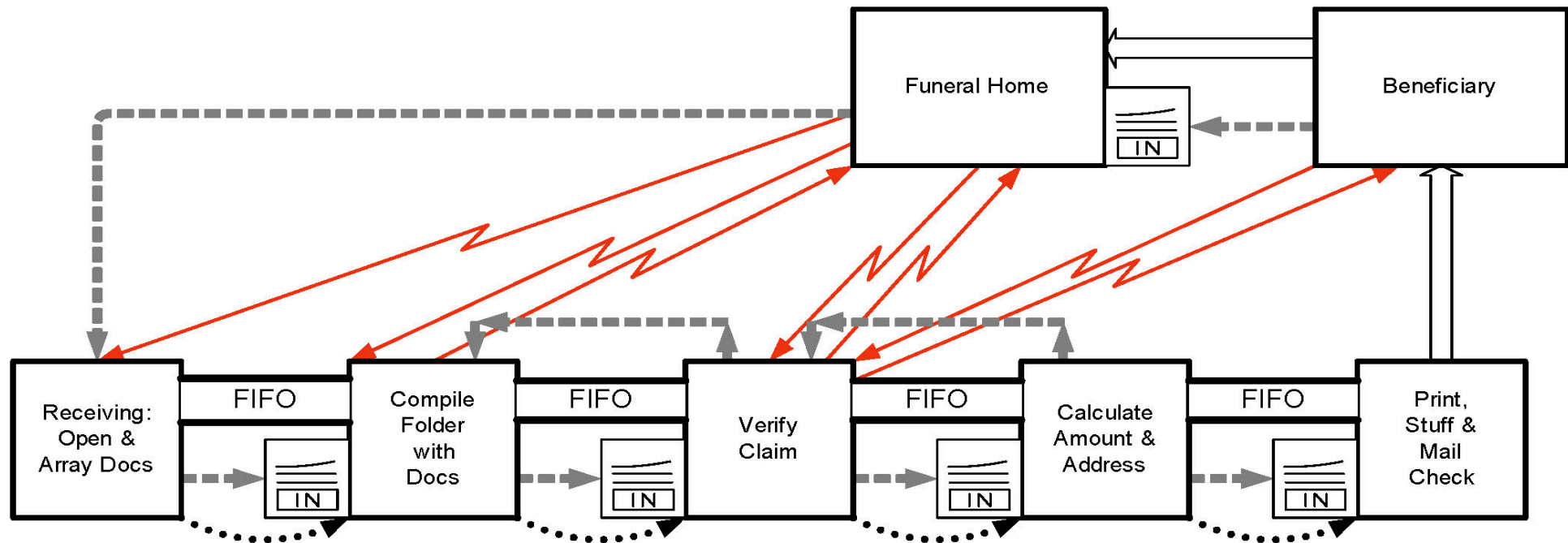
Travels in networks with difficulty:

- Issues of emotional depth
- Controls
- Difficult conversations
- Commitments
- Absolute truth
- Aggregation and deployment



Market
(flow of work)

An emerging theory of “market” (Womack & Jones, etc.)



- Example: Insurance claim processing
- Each link, internal or external, has a customer and supplier.
- Information about the process flows back and forth (red lines)
- Smoother “flow,” more “pull,” and less *muda* (waste) = more value.

What information flows through a market (or process) easily?

- Anything that can be traded. Paul Milgram and John Roberts note that a transaction-based system automatically tends toward coordination.

Travels in process flows easily:

- Goods and services
- Contracts
- Statements of worth (implicit prices)
- Bids, deals, and trades
- Allocations
- Efficiencies
- Returns on investment
- Reputations

Travels in process flows with difficulty:

- Ambiguities
- Emotionally-charged values
- Controls
- Commands
- Loyalty

How to improve the flow of work...

“Change is pain.”

“Behaviorism doesn’t work.”

“Humanism is overrated.”

“Focus is power.”

“Repeated practice and attention.”

The flow of work
is best improved through
repeated practice and
conscious attention

(As in the Toyota Production System
and Financial Literacy)

-- David Rock and Jeffrey Schwartz, “The Neuroscience of Leadership”



Clan (Core Group)
(flow of allegiance)

What is the Core Group?

When you look at an organization's total behavior
(in aggregate, no matter what the individuals are doing)

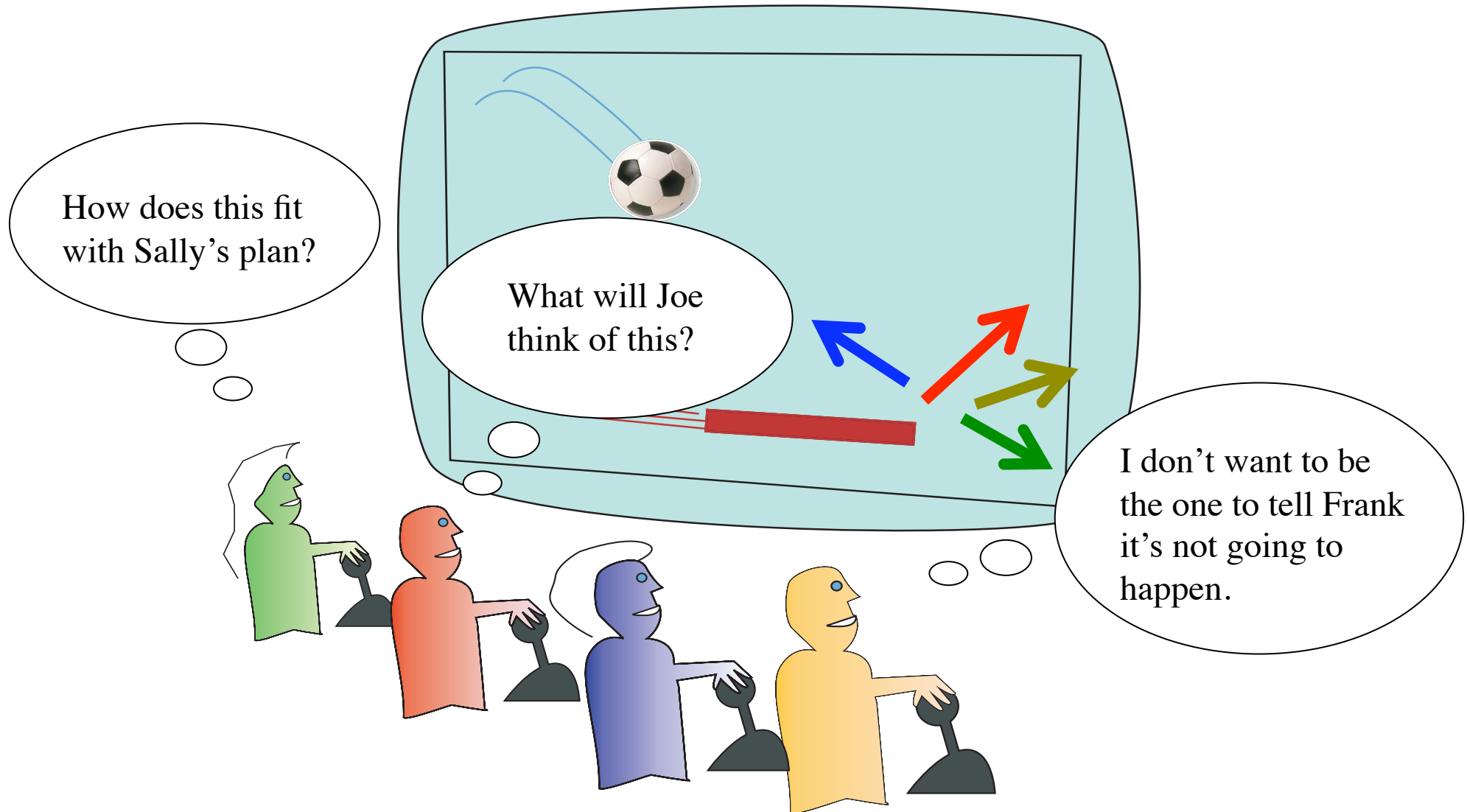
You'll see it continually acting

To fulfill the perceived needs and priorities of some
collection of key people;

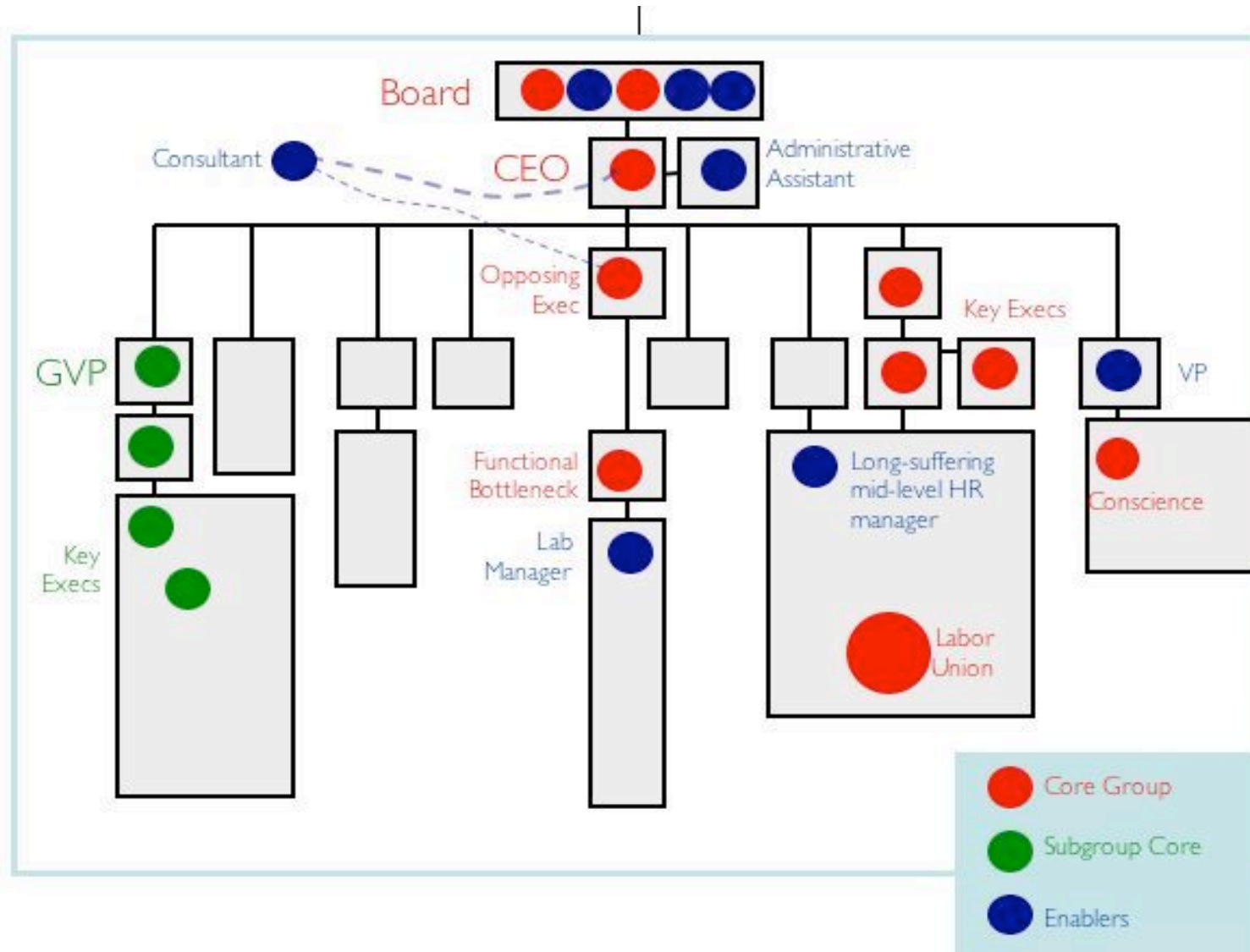
Thus, behind every great organization,
there's a great Core Group....

And behind every organization in trouble,
there's a Core Group in crisis.

A theory of clan (the Core Group nature)



A Core Group diagram might include...



Qualities of the Core Group

- From 1 person to hundreds (The larger the core group, the greater the capabilities of the organization need to be.)
- It may be stable; it may be in flux.
- Some members have authority; some have integrity; some have control of bottlenecks; all have legitimacy.
- The organization is in love with the Core Group, no matter what the individuals think of its individual members.
- Some core groups are great leaders; others are highly dysfunctional.
- But there is no such thing as an organization without a core group.

What information flows through a clan structure?

- The perceived needs and priorities of the Core Group; and the shared cognitive perceptions of “what” and “who” really matter.

Travels in clan structures easily:

- Legitimacy
- Pride and Shame
- “Amplification”
- Misunderstanding
- Virtue
- Trust and mistrust
- Unspoken imperatives
- Culture
- Loyalty

Travels in clan structures with difficulty:

- Transactions
- Reliable news and knowledge
- Authority
- Commands
- Anonymity

Leadership: Amplification

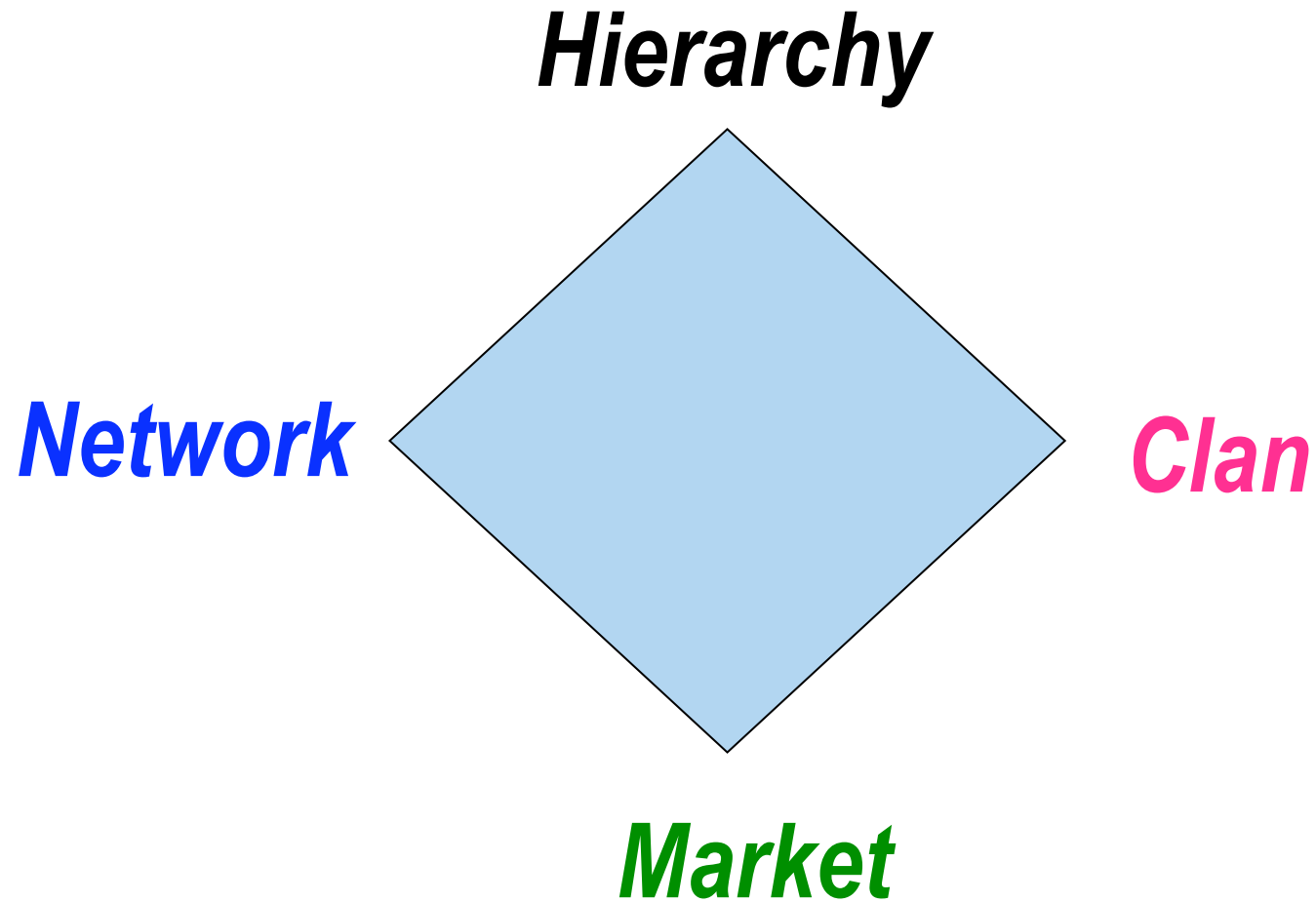
“Shall a man who has eaten my bread insult me and all the kingdom, and not one of the lazy servants whom I nourish at my table help me fix this affront?” -- Henry II



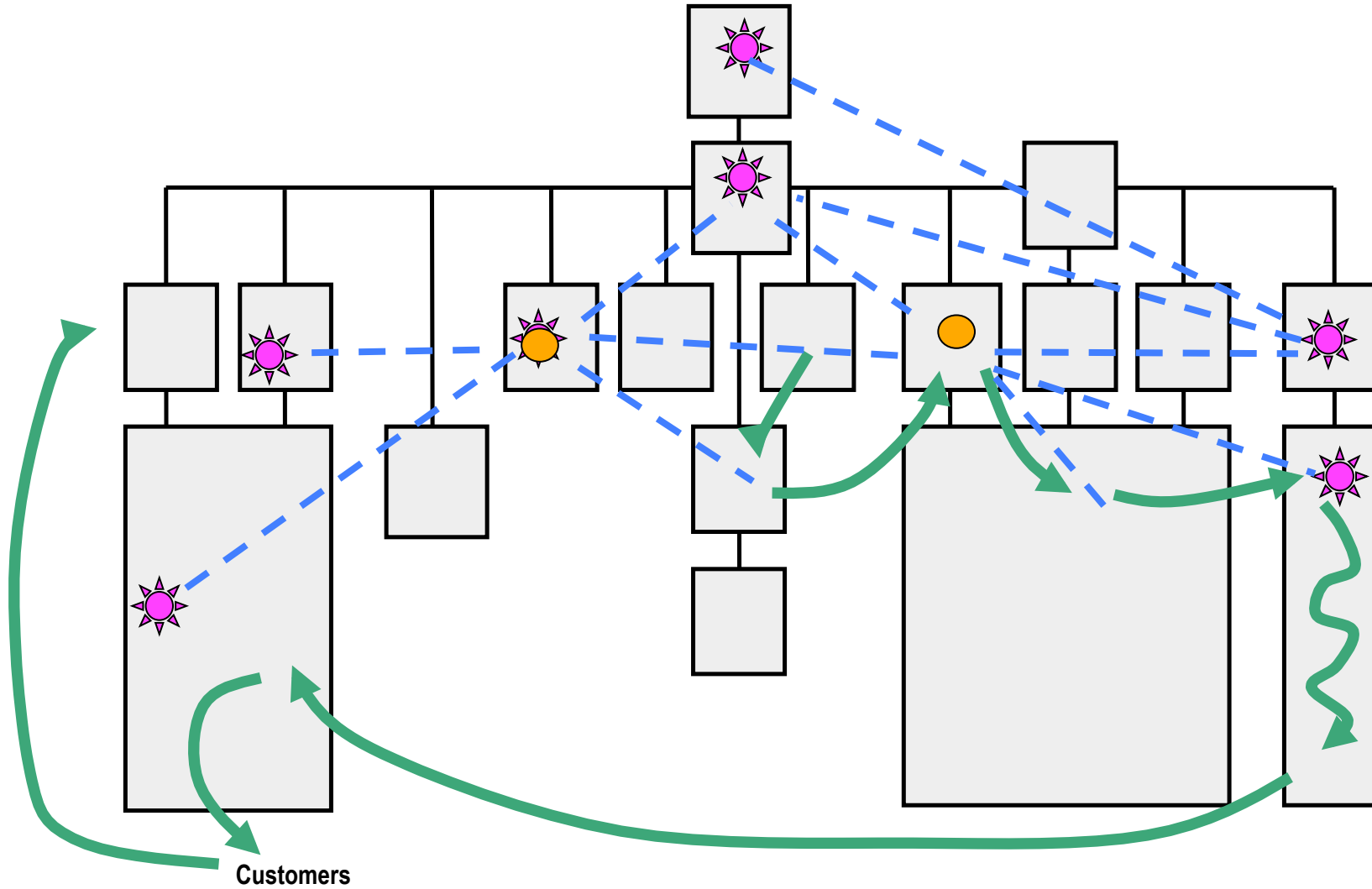
Leadership and the Core Group

- Leadership is the ability to enter the Core Group.
- We follow the Core Group because otherwise life is too complex.
- People watch what the Core Group says - what the Core Group does - but especially what the Core Group pays attention to.
- Like all Clan leaders, the Core Group leader operates through his or her presence in other peoples' minds: through “transference” and “inference”
- The organization is only limited by what people perceive that the Core Group will tolerate.

Putting it all together



Four Organizational Circulatory Systems



Mechanistic and Living Interventions

Mechanistic Interventions

Living Interventions

<p>Easily codified</p> <p>Replicable</p> <p>Scalable</p> <p>Unresponsive (except as programmed to respond)</p> <p>Faster, easier, predictable</p> <p>---</p> <p>Unintended consequences</p>	<p>Impossible to codify</p> <p>Unique</p> <p>Situation-specific</p> <p>Inherently responsive</p> <p>Slower, more difficult, less predictable (but you're sort of stuck with them)</p> <p>---</p> <p>Unintended consequences</p>
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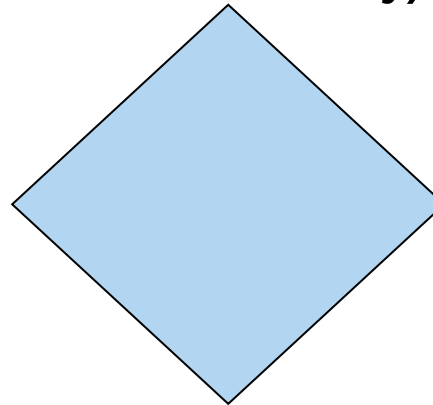
Changing the organization in four different ways

*We intervene with commands, new roles, accountability,
firing people.*

Hierarchy
(flow of authority)

Network
(flow of knowledge)

*We intervene by setting up new
conversations where people can
exchange information.*



Clan (Core Group)
(flow of allegiance)

*We intervene through our own integrity,
“walking the talk,” cultivating
commitment and relationships.*

Market
(flow of budget and results)

*We intervene through process designs, customer
relationships, new types of contracts and market
arrangements.*

Diagnostic: The four circulatory systems

- Where do I see...

1. People prominent in some circulatory systems but isolated from others?

2. Dense and complex patterns of connection versus patterns that depend on one or two “hubs” or “gatekeepers”?

3. Gaps between the “espoused” system (the way it’s supposed to work) and the way it actually works?

4. Places where desirable interconnections are missing?

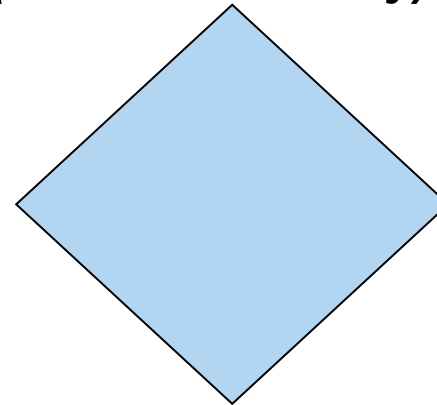
5. Other mismatches?

Group exercise: What would you do to solve a problem?

You can adjust decision rights, reporting relationships, metrics, governance, and any other structure.

Hierarchy
(flow of authority)

Network
(flow of knowledge)



Clan (Core Group)
(flow of allegiance)

You can put anyone in a room with anyone else for any specified amount of time (but you have no say over the agenda).

You have the magic ability to give anyone advice, and they will listen to you and act accordingly.

Market
(flow of budget and results)

You can change any process, eliminating waste, streamlining work flow, redefining transactions, or adjusting the movement of goods, services and money.

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