

## How self-management works.

A coherent set of structures and practices to get rid of bosses, hierarchy and the pyramid.

\_\_\_\_\_ **M-Prize** \_\_\_\_\_

## 2. Self-management and organizational results

## RESULTS

*The ideology of leadership and management that underpins large-scale human organizations today is as limiting to organizational success as the ideology of feudalism was limiting to economic success in the sixteenth and seventeenth centuries.*

Gary Hamel

Penguins are strange, funny creatures. Their legs somehow too short for comfort, they don't walk as much as totter, their whole body falling sideways onto one foot and then sideways again on the other, their wings sometimes gesticulating to maintain balance. We could be forgiven for wondering how evolution produced such clumsy animals. But when penguins jump from land into water, it's a different story. They are unusually gifted swimmers; fast, agile, and joyful under water, they can swim more than 4,000 miles on the energy of a gallon of petrol (2,000 kilometers on a liter). No human machine comes close in terms of efficiency.

The penguin is an apt metaphor, I believe, for the power of context. The environment we operate in determines how much of our innate potential we can manifest. It seems that the context of hierarchy, to which we have been submitted so far, has forced us to mostly totter. People who have experienced working in self-managing organizations often share it is a revelation. They find in themselves unexpected sources of energy, of creativity and passion. They have taken a dive, and realized how effortless it can feel to swim in the work of their organization.

### Anecdotal evidence

The research for this book doesn't provide the grounds, in statistical terms, to prove or disprove the claim that self-managing organizations will deliver a leap in human performance. For one, such claims are always methodologically fraught: *Who do you select as self-*

managing organizations? Who is in the control group? How can you factor out all the elements other than the organizational model (strategy, technology, market conditions, talent, luck, and so on)? And perhaps just as important: How do you define success? Profitability, market share, or increase in share price? Those are straightforward to measure, but mostly stem from the existing paradigm. Other questions are just as interesting: To what extent do the organization's accomplishments manifest its purpose? To what extent does the organization unleash human potential? To what extent does the organization heal today's massive crises and make for a better future? These are the kind of variables that resists being reduced to a single measurable number.

I'm afraid that an academic framing to the question is, for practical reasons, so difficult to establish that any academic claims in the field would be questionable at best. We will have to trust anecdotal evidence and personal experience to provide an answer. The sample size of a dozen organizations researched for this book does not allow us to make sweeping conclusions in that regard, but it nevertheless provides meaningful anecdotal evidence that self-managing organizations can achieve spectacular outcomes.<sup>1</sup> The first company we discussed in this book was Buurtzorg, the Dutch neighborhood nursing organization, so let's circle back there again. One of Buurtzorg's most striking features is its massive growth. The organization expanded from a team of 10 employees when it was created in 2006 to 7,000 by mid-2013, employing two-thirds of all neighborhood nurses in the country. In what before was a stable competitive market, nurses have literally deserted traditional providers to join Buurtzorg. (The trend continues unabated. At the time of writing, Buurtzorg receives 400 applications every month from nurses who want to jump ship.)

Financially, Buurtzorg does fantastically well too. In 2012, it generated surplus funds (what we could call "profit" if Buurtzorg wasn't a nonprofit) of around seven percent of its revenue. This is remarkable, because its explosive growth is costly: every new team costs the organization €50,000 before it breaks even. If we look only at mature teams, Buurtzorg has a double-digit surplus margin—due mostly to its low overhead costs and its high productivity. When growth slows down, this nonprofit will be highly "profitable," giving it the means to possibly start disrupting other fields of health care.

From Buurtzorg's perspective, what truly matters is the quality of the care. Growth and a solid bottom line are meaningful inasmuch as they help the organization reach more people. And the medical outcomes of the care it provides to the people it serves are spectacular. Chapter 2.2 mentioned some of the results from an Ernst & Young study:

- Because it helps its clients become autonomous, Buurtzorg requires on average close to 40 percent fewer hours of care per client than other nursing organizations (which is ironic when you think that other nursing organizations have come to time treatment

"products" in minutes, whereas Buurtzorg's nurses take time for coffee and to talk with patients, their family, and neighbors).

- Patients stay in care only *half as long*.
- Hospital admissions are reduced by *one third*, and when a patient does need to be admitted to the hospital, the *average stay is shorter*.
- The savings for social security are considerable. Ernst & Young estimates they would be just below €2 billion in the Netherlands if all home care was provided in Buurtzorg fashion. Scaled to the US population, this would represent \$49 billion—not too shabby if you consider that home care is only a fraction of total health care costs. What if hospitals were run that way?

In surveys, clients and doctors rate the service given by Buurtzorg significantly above that of other nursing organizations.<sup>2</sup> And nurses rave about their organization, too. Buurtzorg was named "Employer of the Year" in the Netherlands for the second time in a row in 2012. Every time a patient and a nurse come together in a relationship that honors the timeless human connection of care, a small miracle happens. Buurtzorg found the recipe to make that miracle happen, day in and day out, on a massive scale.

FAVI, the French brass foundry, had 80 employees when it started its transition to self-management in the 1980s. It has since delivered rather well on its purpose to create meaningful industrial employment in the underprivileged northeastern part of France where it is located. All its competitors in Europe have shut their doors and moved production to China; FAVI not only bucked the trend, but has expanded to more than 500 employees today. Its financial results are outstanding too. FAVI's primary business is in the cutthroat automotive industry, where it competes with Chinese suppliers. And yet it pulls off the feat of paying its workers salaries significantly above market rate (in a typical year, workers receive a profit share that gives them 17 or 18 months' worth of salary) and still make, year in and year out, an after-tax profit margin of five to seven percent. It has also proved extraordinarily resilient in times of recession. When the 2008 financial crash turned into an economic downturn, FAVI's revenue declined by a whopping 30 percent in 2009. True to its style, it avoided layoffs and still managed to achieve a 3.3 percent net profit margin in the midst of the crisis. In 2012, demand for its automotive products crashed again, this time by 22 percent, and yet FAVI finished the year with a 12 percent cash flow margin.

Another measure of success: FAVI is famous with its clients for its impeccable product quality and trustworthiness. Since the mid-1980s, it hasn't been late on a single order it shipped. A story from a few years back illustrates the pride workers have in their track record. One day, because of a technical glitch, one of FAVI's mini-factories produced

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*So much of what we call management consists in making it difficult for people to work.*

Peter Drucker

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items that, once the long truck drive was factored in, would reach the customer a few hours later than the promised delivery time. The team hired a helicopter to deliver the pieces on time. A few hours later, a

*Ego is the invisible line on your P&L.*  
D. Marcum and S. Smith

puzzled client who saw a helicopter land on its premises called Jean-François Zobrist, FAVI's CEO, to tell him that there were still items in stock, and the helicopter really wasn't needed.

Zobrist answered that the helicopter might look like an extravagant expense, but it was a statement members of the team made for themselves, about the commitment and the pride they place in their work. That was worth every penny of it.

It would take too long, and would ultimately become tedious and redundant, to highlight the achievements of all the other companies in this research in the way I have for Buurtzorg and FAVI. But what is true for them is just as true for RHD, Sun Hydraulics, Heiligenfeld, Morning Star, and the others. These companies 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 are vehicles that help a noble purpose manifest itself in the world.

There is one striking paradox I want to highlight: These companies are highly profitable, despite the fact that they seem to be, from an Orange perspective at least, quite careless about profits. Remember that they don't make detailed budgets, they don't compare budgets to actuals at the end of the month, they don't set sales targets, and colleagues are free to spend any money they deem necessary without approval from above. They focus on what needs to be done, not on profitability, and yet this results in stellar profits. Take Morning Star: it operates in the thin-margin commodity market of tomato processing. And yet it has been so profitable that it has financed its growth from a single-truck operation to the biggest tomato processor in the world entirely from its own cash flow and bank loans, without any capital injection. Heiligenfeld also self-financed its growth into a network of mental health hospitals through profits alone. Sun Hydraulics generates gross margins in the range of 32 to 39 percent and net income margins from 13 to 18 percent—margins we are more likely to associate with a software firm than a manufacturing firm.

All this evidence is anecdotal and doesn't claim statistical validity; yet it shows, beyond a reasonable doubt, that self-managing organizations can achieve results that are at least on par with the best traditionally run organizations. A leader embarking on a journey towards self-management is not taking a foolish risk, despite what people might say. There is good reason to claim the opposite: that by embracing self-managing structure and practices, leaders can shoot for outcomes that would otherwise be hard to achieve.

## Drivers of breakthrough performance

What can explain the spectacular outcomes of the pioneer organizations researched for this book? There are different ways to approach the question.

One way to look at the question comes from reasoning in terms of energy, because everything in life ultimately comes down to energy. The shift to self-managing structures, practices, and cultures liberates tremendous energies that previously were bottled up, unavailable. And with self-management, these energies get better harnessed and directed through a groups collective intelligence. This perspective can help us articulate some of the concrete drivers that explain these organizations' spectacular outcomes.

### *Liberating previously unavailable energies*

- *Through purpose:* Individual energies are boosted when people identify with a purpose greater than themselves.
- *Through distribution of power:* Self-management creates enormous motivation and energy. We stop working for a boss and start working to meet our inner standards, which tend to be much higher and more demanding.
- *Through learning:* Self-management provides a strong incentive for continuous learning. And the definition of learning is broadened to include not only skills but the whole realm of inner development and personal growth.
- *Through better use of talent:* People are no longer forced to take management roles that might not fit their talents in order to make progress in their careers. The fluid arrangement of roles (instead of predefined job descriptions) also allows for a better matching of talent with roles.
- *Less energy wasted in propping up the ego:* Less time and energy goes into trying to please a boss, elbowing rivals for a promotion, defending silos, fighting turf battles, trying to be right and look good, blaming problems on others, and so on.
- *Less energy wasted in compliance:* Bosses' and staff's uncanny ability to create policies generates wasteful control mechanisms and reporting requirements that disappear almost completely with the self-management.
- *Less energy wasted in meetings:* In a pyramid structure, meetings are needed at every level to gather, package, filter, and transmit information as it flows up and down the chain of command. In self-managing structures, the need for these meetings falls away almost entirely.

### Harnessing and directing energy with more clarity and wisdom

- *Through better sensing:* With self-management, every colleague can sense the surrounding reality and act upon that knowledge. Information doesn't get lost or filtered on its way up the hierarchy before it reaches a decision maker.
- *Through better decision-making:* With the advice process, the right people make decisions at the right level with the input from relevant and knowledgeable colleagues. Decisions are informed not only by the rational mind, but also by the wisdom of emotions, intuition, and aesthetics.
- *Through more decision-making:* In traditional organizations, there is a bottleneck at the top to make decisions. In self-managing structures, thousands of decisions are made everywhere, all the time.
- *Through timely decision-making:* As the saying goes, when a fisherman senses a fish in a particular spot, by the time his boss gives his approval to cast the fly, the fish has long moved on.

There is yet another way to make sense of the achievements of self-managing organizations: they are fueled not by the power of human will, but by the much greater power of evolution, the engine of life itself. Evolution is a formidable process that brings forth unfathomable beauty and complexity not through a grand design, but by means of relentless, small-scale, parallel experimentation. Evolution is not a top-down process.

Everybody is invited, and is needed, to contribute to the whole. Every living entity in the ecosystem of life—every cell, every sentient being—senses its environment, enters into harmony with others, and explores new avenues. Solutions are quickly iterated; what doesn't work is quickly discarded, and what works spreads quickly throughout the system. Life inexorably calls for more life, more beauty, more complexity, more order within the chaos. We can travel so much farther when we partner with life, when we are not trying to impose our will.

Thus far, we have run organizations on rigid templates, fearing evolution's messy and uncontrollable nature. Perhaps we are getting ready for the big leap. Ready to give up our attempts to control life and channel it into the narrow plans we have drawn up for it. Ready to open the doors of life. Ready to invite evolution, the most powerful process life has ever released, to propel our collective endeavors.

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*What is difficult or impossible  
in one paradigm is easy even  
trivial in another.*  
Joel Barker

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### Notes

- <sup>1</sup> Of course, we should be careful about the possibility of a selection bias. While I didn't select organizations to research based on their achievements, it could well be that only particularly successful self-managing organizations caught my attention.
- <sup>2</sup> For instance A. J. E. de Veer, H. E. Brandt, F. G. Schellevis, and A. L. Francke, "Buurtzorg: nieuw en toch vertrouwd—Een onderzoek naar de ervaringen van cliënten, mantelzorgers, medewerkers en huisartsen," Nederlands instituut voor onderzoek van de gezondheidszorg (NIVEL), 2008.