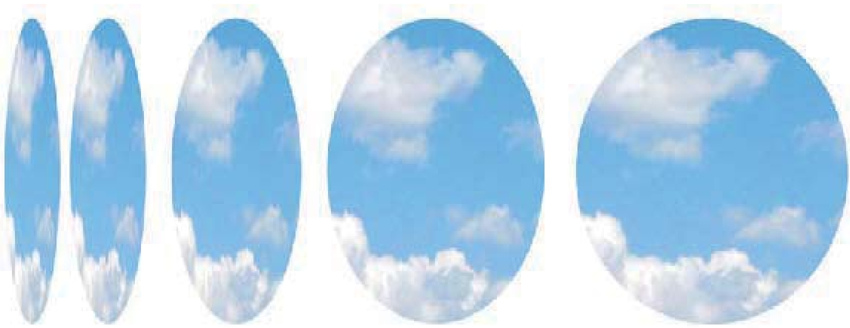
GO Global Organization Design



Readings in Global Organization Design
Articles

Summary of “Social Power and the CEO” by Elliott Jaques

Business Book Review

Article #10-09-03-2

2

Summary of "Social Power and the CEO" by Elliott Jaques

Business Book Review

WHAT'S IMPORTANT

The book *Social Power and the CEO: Leadership and Trust in a Sustainable Free Enterprise System*, was written by Elliott Jaques and published by Quorum Books in 2002. A summary of this book was produced by *Business Book Review* and is reprinted here by permission. It includes the following:

- Summary of requisite organization concepts as seen through the eyes of a professional business writer.
- A focus on how requisite concepts foster leadership and trust in organizations.
- Brief critical analysis of requisite organization.
- Suggested approach for CEOs considering using RO.

> *Jaques...demonstrates that not only has the bureaucracy naturally evolved with society throughout its "post-tribal" history, but that all attempts to establish a sustainable alternative form have failed. If that is indeed the case, then his advice for fixing its ills deserves some serious consideration.*[1]

According to Jaques, everyone's ideas about human nature at work are clouded by serious, invasive misconceptions that have continually fueled the development of ill-advised managerial leadership systems. Drawing on more than 50 years of thought, observation, analysis, and experimentation, *Social Power and the CEO* demonstrates that these shortcomings are not the result of CEO ineffectiveness as many believe, but flow from unclear concepts of managerial accountability and authority; no concepts of vertical or lateral organizational structure; dysfunctional processes for the selection and development of talent, for performance appraisal and merit review, and task assignment; and "trouble-making" compensation systems.

Thus, the work is offered to CEOs, the senior executives who advise them, HR specialists, academics, students, and consultants to demonstrate how Jaques's unique systems of managerial leadership and organization can grow well-organized and effectively led managerial hierarchies that contribute to an economically secure nation and a life of fulfillment for all employees.

Part I: Debunking the Myth of Why People Work

Jaques notes that *work* is defined by *Webster's Dictionary* as "labor, travail, toil, drudgery, grind"; thus, many CEOs believe people work because they have to. It is also believed that the nearer one is to the top of the employment hierarchy, the more satisfaction one gains from being employed. By the same token, it is assumed that the lower one is, the more frustration and dissatisfaction one experiences with work. People at lower levels are viewed as needing supervision, and also needing results-based financial incentives to overcome their lackluster and dispirited attitudes toward their work, which implies that people are paid basic wages/salaries for being less than fully committed to performing their work satisfactorily.

1 This article is reprinted in its original form with permission by the copyright holder, *Business Book Review*™. ISSN 0741-8132.

Jaques, who defines *work* as "an organism's use of judgment in making the decisions necessary to reach a goal," has found that attitudes and feelings about work are very different from these common assumptions. He contends that everyone needs to be engaged in socially valued work and that employees resent senior management's failure to understand how deeply seated the importance of work is to them. They want work that provides them with the opportunity to exercise their full potential, to receive fair compensation, and to not be subjected to the usual "artificial carrot-and-stick treatment" used to coerce them into doing their jobs.

Despite the deep importance of work to people, and despite the satisfaction gained from having conditions that allow effective collaboration in that work, difficulties in ensuring such cooperation have been a perennial problem in managerial systems, where self-interest and employee rivalry are persistent issues. During the past 50 years or so, attempts have been made to overcome this problem via the introduction of group dynamics training, the use of group decision making, self-managed teams, and various kinds of group and department bonuses and profit sharing. While these approaches may be effective in the short term, they are not sustainable over time because they are in direct conflict with the contract under which all employees have always worked.

Specific provisions aside, this contract is between the employer and the *individual* rather than the group. And, though many believe that any kind of individualistic contract supports and encourages self-directed self-interest, it is Jaques's contention that it does not undermine effective cohesion and collaboration—quite the contrary. He believes that the way to gain social cohesion and effective collaboration within managerial organizations is to clarify and strengthen individually those aspects of accountability, authority, recognition, and reward that govern vertical relationships between managers and subordinates, and horizontal relationships among individuals whose roles demand effective collaboration with each other.

"Everyone's ideas about human nature at work are clouded by ubiquitous, invasive, serious misconceptions. These misconceptions have continuously fueled the development of ill-advised managerial leadership systems."

Part II: Accountability and Authority—a Framework for Leadership

Because accountability and authority are at the heart of all interpersonal relationships, managerial hierarchies gain their success or failure through the success and failure of the working relationships between and among their people. Accountability and authority establish where people stand in relationship to each other, determine who can say what to whom, who *must* say what to whom, and establish who can get whom to do what.

Thus, it is crucial that CEOs model accountability and authority with their senior executive subordinates and require them to do the same with their subordinates. CEOs must understand that people are not employed as groups and cannot be held responsible for working as an accountable group—only the board of directors falls into that category. They must also understand that human behavior in managerial systems is determined by the people systems set by the CEO and the board and not by the psychology or psychopathology of each individual.

It is a property of managerial systems that managers, not subordinates, are always accountable for results. In other words, the salesperson is not accountable for results, the production worker is not accountable for outputs, and the engineer is not accountable for design quality. Individual employees can only be held accountable for their full commitment to carry out assigned tasks. The employee contract is about paying employees a wage/salary for doing their best—for using their full knowledge and best endeavors to carry out assignments. Although they may not always succeed in achieving a specified goal, they must be able to show that they tried their best to do so. Moreover, they must not be given bonus pay for doing their best. To do so is to state that a base salary/wage is for less than full commitment, which undermines managers by handing some of their authority over to an impersonal and dysfunctional payment mechanism. This reduces their accountability and their sense of involvement, and it weakens the relationship between manager and subordinate.

In the meantime, managers must be able to assume that, as a matter of employee contract, their subordinates are always doing their best, and, if this is the case, there is nothing more they can do. Subordinates encounter many unpredictable circumstances, such as flaws in raw materials and component supplies and/or unexpected moves by the competition, which are outside the purview of the individual employee. Thus, it is up to CEOs and managers to deal with such disrupting variables by modifying assignments, modifying methods, making adjustments to cope with unanticipated changes in external conditions, adding resources, giving more time, coaching subordinates, and/or reassigning work.

Because managers set all the operating conditions, and are the ones to be held accountable for work results and the behavior of their subordinates, they need the necessary authority to ensure that they can discharge such accountability. Jaques identifies four that every manager must have in order to be an effective and trustworthy managerial leader.

1. Authority to veto an appointment. The author contends that managers do not need, and should not be given, the authority to hire (the organization, and not the manager, is the employer). However, they should be given the unequivocal authority to turn down any candidates, presented from above, who they believe cannot do the necessary work.
2. Authority to deselect (decide that an unsatisfactory subordinate should be removed from a role) after due process. Managers do not need, and should not be given, the authority to dismiss or fire. Instead, they should have the authority to decide that, if a subordinate is no longer working at the minimum required level of effectiveness, the individual will no longer keep his or her position with that particular manager, but be transferred elsewhere within the organization. If no possible vacancy exists, the individual is terminated with the benefits associated with layoff rather than dismissal.
3. Authority to decide what types of assignments to give to subordinates and not be bypassed by their own managers in this regard.
4. Authority to decide at what level of effectiveness a subordinate is working and what level of merit pay the subordinate should receive.

"Unclarity and incorrect assumptions about managerial accountability and authority are the starting point for dysfunctional people systems."

Accountability and authority cannot exist effectively if the CEO does not have specific and accurate information about the size of the roles two levels down in the organization, the size they should be in order to get the work done, the level of capability (the "size") subordinates must have in order to fill these roles, and their actual level. Job evaluations, thought to be objective measures (because numbers are used to express the final results of various evaluation processes), are inept measures of role size. IQ testing, Myers-Briggs assessments, and other types of intelligence and personality tests also fail to give an objective measure of the size of a person, especially as it relates to the size required for a given level of work in a role. Thus, the author advocates certain time measurements, which he has found to provide a systematic, powerful approach to managerial leadership that overturns a number of greatly limiting and dysfunctional assumptions about work and people.

According to Jaques's findings, an assignment is not just *what* an individual has been directed to do, but it is a "what-by-when" task, which is about "time-span," a simple, direct, objective measure of the size of a role. If two roles have the same time-span, they are the same size, regardless of what is involved in completing them. Moreover, people seem to have a universal view of what constitutes fair pay differentials for different levels of time-span, regardless of country, type of industry/occupation, or actual pay.

Time-span estimates are obtained from the manager, who has identified the longest tasks or sequence of tasks during which he or she relies on the subordinate's judgment in completing them. The range of these periods can be several days at the shop-floor level; months at first-line managerial level; one, two, three, or more years for longer-term development projects at mid-management level; or five, ten, twenty, and more years on long-term goals at the corporate senior executive level.

This simple measure of a role's size has led to a connected measure of the size of the individual (i.e., the largest role an individual has the potential to carry out in work he or she values and for which he or she has gained the necessary knowledge and experience). The time-span of such a role (what Jaques calls the person's *time-horizon*) is the longest time forward that an individual can plan and execute an assignment or reach a goal. Thus, a person can be identified as having a six-month, two-year, or seven-year time-horizon. Moreover, with these formulations of time-span and time-horizon, it is possible for an employee, an employee's manager, and the manager's manager to arrive at a consistent evaluation of the employee's current potential capability, in terms of the highest level of role the employee can perform.

The time-span instrument can also be used to discover the fundamental structure for effective managerial hierarchies. When this structure is applied, it gives the CEO a clear and apparent foundation for effective operations and effective management leadership. Jaques contends that poor organizational structure has two serious consequences: First, because there is a strong tendency to create control systems that reduce managerial judgment as far as possible, a serious loss in managerial effectiveness can result. Second, top management focuses on training, exhortation, and other change efforts as a means of transforming values and attitudes so that people behave and work together differently and more effectively, in line with what they have been given to do as a means of achieving improved organizational functioning.

Jaques contends that the exact opposite is needed. Rather than changing behavior and outlook, it is more effective to develop better managerial leadership systems—in other words, systems that take full advantage of the judgment and decision-making capabilities of managers at all levels, and holds them accountable for results obtained by subordinates under their leadership. A clear and well-structured hierarchical organization is the prerequisite, and it begins with the concept of time-span.

The author notes that time-span boundaries at one day, three months, one year, two years, five years, ten years, and twenty years have great significance for the hierarchical organization structure. Anyone in a role whose time-span falls between the same two adjacent boundaries as the time-span of their manager's role will feel too close to that manager. In other words, this individual will feel as though the manager adds little value to his or her work and does not have the necessary vision to set the context for this work. Any manager with an immediate subordinate whose role is farther down than the next time-span range will feel "pulled down into the weeds," managing tasks that are too short for the manager's role. Finally, any subordinate with a manager whose role has a time-span at any level in the next higher time-span range will feel just the right distance away.[2]

"Understanding the 2-D[3] nature of time leads to the ability to measure prime aspects of human behavior which have until now been taken for granted as non-measurable."

Establishing the right number of basic layers, then, is the first step in building an effective organization. Thus, any CEO who wants to establish an effective managerial leadership system will begin by establishing a structural foundation layered in accord with the time-span framework. All that needs to be done is to measure the time-span of the CEO's role, place it in its proper layer, and count down from there to determine the number of organizational layers (strata) the organization can have. It will then be possible to look down and see a *comprehensible* series of strata, because the work at each stratum will have certain distinctive characteristics, derived from common time-spans and the particular quality and complexity of the work that informs each.

2 Editorial note: This paragraph assumes that employee and manager are in roles whose complexity matches their level of capability.

3 Editorial note: Jaques's two dimensions of time were *chronos* (the time that actually elapsed in completing a task) and *kairos* (the length of time a manager intends a task to take).

Jaques notes that CEOs have become infected with the common, yet destructive, assumption that certain qualities, personality traits, and/or competencies are required for certain types of work. However, the author contends that there is no such thing as a "leadership personality"—everyone needs to possess reasonable amounts (not too much and not too little) of sociability, initiative, analytical ability, aggressiveness, optimism, realism, risk taking, honesty, intuition, loyalty, reliability, balance, cooperativeness, etc., in order to work effectively in any position. Thus, once it is recognized that the employment contract implies that reasonable behavior is required, a much simpler and much more valid approach to the evaluation of human capability becomes available. With this method, CEOs will get what they really need—the ability to ensure the placement of the right people, in the right roles, at the right time, at all levels, and in all functions in the organization.

The approach begins with the understanding that there are only four qualities that individuals need in order to be able to function successfully in any given role in a managerial hierarchy:

1. The necessary potential capability or time-horizon (TH), which is a measure of the level of a person's information processing complexity—his or her raw native ability—to match the level of complexity of the role, measured in time-span.
2. The skilled knowledge (K/S) required to function in the role.
3. Sufficient valuing of the work in the role, so as to be fully committed (C) to doing the work.
4. The ability to carry out the required behaviors (RB).

Thus, when people's TH matches the time-span of the role, and they have the appropriate K/S, experience, C, and RB, they are the right people for the right roles, at the right time.

A key CEO function, one that affects every employee and their self-esteem and self-actualization, is the performance appraisal, which Jaques chooses to call the *personal effectiveness appraisal*. He believes that every capable manager, including every CEO, maintains a running evaluation of his or her immediate subordinate. And, he notes that this view is verified by the fact that, universally, managers manipulate performance appraisals on a regular basis so that they align with this intuitive evaluation they make of their subordinates on a daily basis. These assessments exist in the manager's mind, but there has never been a language or a scale for expressing them.

For example, any well-appointed manager knows if an immediate subordinate is functioning satisfactorily in his or her particular time-span role; knows he/she is working as well as someone in the top half of the role or in the bottom half; and knows if the subordinate is working like someone in the top of the top or bottom half, in the middle of the top or bottom half, or in the bottom of the top or bottom half.

This method of appraisal highlights the distinction between performance and personal effectiveness. According to the author, performance defines the subordinate's results, which can be counted objectively. Personal effectiveness, on the other hand, defines how well a subordinate is *judged* to have done in achieving those results. This distinction is of value because, as regards performance, it sharpens people's ability to do their day-to-day work more successfully, and allows them to implement the "early warning task assignment." Because their performance is not being measured in terms of results, subordinates feel they can freely approach their managers when they find it impossible to achieve the assigned results.

"Great managerial leadership derives from the setting of sound strategies and success in carrying out those strategies, and not from any particular personality qualities."

Another important CEO role is the development of the managerial system's mission and strategic plan, which Jaques contends will fail if not implemented according to the systematic planning procedure he advocates. As discussed previously, the operational scale of any managerial system is defined and measured by the time-span established for the role of CEO. This time-span determines the number of organizational layers required and the TH level required of the CEO. Thus, the organization's mission and strategic outreach will always be functions of the greatest time-span and TH of the CEO's role. The bigger the CEO's role, the further into the strategic future he or she must plan. Jaques strongly disagrees with today's conventional wisdom, which says that, because information technology has produced such rapid change, planning for more than one or two quarters ahead is impossible, regardless of mission, strategy, or mid- to long-term objectives. He believes, instead, that though it may be necessary to change and adapt plans more frequently, times-span and TH are the most critical and influential factors.

Many companies create plans for different time periods—the most popular being three to five and, sometimes ten years. In the author's estimation, however, none of these periods is designated according to any fundamental principles for developing a system of optimum planning levels. For example, in stratum VI corporations (most

Fortune 500 companies), a wide variety of tasks are performed, with hourly, day-to-day, week-to-week, month-to-month, year-to-year, and years-ahead time-targets. And, though the CEO has hour-to-hour, day-to-day, and week-to-week tasks, they are different from those same tasks of the shop floor operator or the office clerk, because these shorter tasks are concerned with the company as a whole.

In the CEO's stratum VI role, key corporate goals would be set at twelve years, but key goals for three to five years would also be articulated. In addition, three to four seven-year goals would be set, as part of tactical planning, for carrying out the twelve-year strategy. This sets a point of alignment for each of the CEO's immediate subordinates, for each would be assigned key goals for which they would develop seven-year strategies that are aligned with the CEO's seven-year plan for the whole company. Concurrently, stratum VI executives would find it useful to sort out organizational goals for stratum V in the five-to-ten year range.

The next step involves establishing tactical plans for Strata IV and III at three years (for IV) and at one year (the budgeting level for III). Each of the subordinates would then follow the same cascading planning process so that all managers at every level have an overall strategic thrust that aligns with the CEO's tactical plans, both at stratum IV and lower down.

Compensation practices are of eminent importance for millions of wage/salary earners and their families, for compensation determines standard of living, socio-economic status, economic security, self-esteem, and the distribution of wealth in capitalist nations. Unfortunately, most compensation systems suffer from a host of untenable notions about what constitutes a sound approach. They include the misconceptions that: 1) people should be held accountable for their own results and should receive incentive pay that accords with these results; 2) work is something people are *forced* into in order to survive, so incentives are essential in getting people to give their best efforts; and 3) human labor is a commodity, whose price is bargained for and set according to market forces.

These misconceptions force employees to be self-seeking and grasping, and to cut corners on quality, in order not to lose out in the compensation stakes. Under fairer treatment, however, people are capable of behaving fairly, reasonably, honestly, and cooperatively, even about pay. According to Jaques, it only takes a very simple compensation system to elicit this positive side of human nature—one that involves creating a pay structure that provides an equal pay range for roles of equal complexity, regardless of occupation—the higher the level of complexity, the higher the pay. It also involves holding individuals accountable for being fully committed and paying them within their range at the step that matches their manager's evaluation of their effectiveness.

Given these views of why people work, manager-subordinate accountability, managerial authorities, the nature and measurement of individual capability and individual roles, the appraisal of personal effectiveness, strategic planning and alignment, and compensation, what, then, is managerial leadership?

"The need for short-, mid-, and long-term planning will always exist as a critical factor in successful business regardless of changes in technology."

Jaques contends that because it is part of each employee's employment contract to do his or her best, it is not part of any manager's leadership accountability to motivate or stimulate subordinates to do what they have contracted to do. Thus, CEOs can stop trying to change their behavior so that it conforms to some idealized standard. So-called people or leadership skills are nothing more than the ability needed by leaders to manipulate subordinates into doing what they want them to do in the absence of clear and correct accountabilities, authorities, and managerial leadership practices.

Instead, CEOs can develop sound strategic plans that will allow the achievement of the company's goals, set by the board or by the owner and, like all managers, they should seek the counsel of their subordinates in developing the strategy for successfully achieving these goals. Leading subordinates means giving them assignments that effectively contribute to success and displaying the initiative, flexibility, and adaptability to change direction and adjust assignments in order to overcome any difficulties along the way.

Managerial leadership must also concern itself with the issue of CEO capability—the issue of whether any given CEO has the right level of capability for his or her role, is too big for the role, or is not quite big enough. The degree of match can readily be measured and stated in terms of the role's time-span (which is fixed by the key goals) and the CEO's TH [time horizon]. When TH is shorter than the time-span of the role, the subordinates of these CEOs, many of whom may have capability levels within the same CEO stratum, will find their innovative initiatives being constricted. Moreover, this constriction will work its way down through the organization until the loss of work causes the organization to settle out at the level of the CEO's capability. When CEO TH is in line with the role's time-span, it is the most powerful force possible for overcoming the effects of any shortcomings in managerial structures and practices. And, though all the difficulties may not be resolved, the effective operational leadership can lift employee morale and satisfaction. Finally, if the CEO's TH is greater than the role's time-span, the organization will grow and develop, despite any shortcomings in organizational arrangements. Although the managerial system is not automatically sound, the operational leadership is, and this has a profound effect on employees.

Remarks

Jaques, who is considered one of the most controversial management theorists/consultants in the world (if not the most), is known, among other things, for his contention that "there is no one single, self-established concept in the field of management on which you can build a testable theory." *Social Power and the CEO* offers that theory and demonstrates how it informs the values of the leadership of hierarchical managerial organizations, the values he believed should inform socio-economic life in a sustainable system of democratic free enterprise, and the value of mutual trust between people. And, it makes the case that these values can be made real, practical, and consistent with sound business practices.

It is difficult to imagine that anyone in any arena of the world of business would disagree much with Jaques's view of the state of management theory, or his belief that there is a real need for a system that would allow effective managerial leadership and organization to emerge.

Nonetheless, there are, indeed, compelling reasons to examine Jaques, and examine him closely. First, his theory provides what appear to be valid reasons for the management abuses and poor corporate performances the literature consistently bemoans. Secondly, he provides practical insights into redesigning organizational roles and compensation systems, so that they no longer undermine organizations and the people who must work in them. And, third, he touts bureaucracy as the only structure that truly fits human nature. Although this last reason is a major source of some of the criticism thrown Jaques's way, he demonstrates that not only has the bureaucracy naturally evolved with society throughout its "post-tribal" history, but that all attempts to establish a sustainable alternative form have failed.

If that is indeed the case, then his advice for fixing its ills deserves some serious consideration. In evaluating Jaques's theories and guidelines, readers of this book might take a more objective middle road that avoids blind devotion or blind criticism and test any organizational design by the author's criterion of mutual trust. His message to CEOs is that they must assess managerial systems to ascertain whether they increase mutual trust or increase mutual suspicion. "Organizational structures, selection and career development processes, personal effectiveness appraisal, merit review and compensation systems, methods for evaluating levels of work and levels of capability, that require behaviors that support mutual trust are good for efficiency, good for people, and good for the nation." It is a template for social leadership that organizations themselves can prove or disprove, without further intellectual debate, in the testing ground of their own practical experience.

ABOUT THE AUTHOR

Business Book Review™ is a best in class business book summary service. *Business Book Review* is a key component of the leadership and management development curricula for many Global 500 companies. Its brief but comprehensive synopses of the best business books encourage readership, improve the business intelligence of entire organizations, and support their goals to establish a continual learning environment. Visit www.businessbookreview.com or contact jfayad@businessbookreview.com for more information. *Business Book Review*, LLC1549 Clairmont Road, Suite 203, Decatur, GA 30033.

OUR PURPOSE

The Global Organization Design Society is a not-for-profit corporation registered in Ontario, Canada to promote the following objective:

The establishment and operation of a world-wide society of academics, business users and consultants interested in science-based management to improve organizational effectiveness for the purposes of:

> Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.
>
> Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

CONTACT US

Global Organization Design Society
32 Victor Avenue
Toronto, Ontario,Canada M4K 1A8
Phone: +1 (416) 463-0423
Fax: +1 (416) 463-7827
E-mail: Info@GlobalRO.org
URL: www.GlobalRO.org

GO Global Organization Design Society

Sponsorship is provided in part by the generous support of the following organizations: