

CIB on wings



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 **Initiatives of Change**
Caux Initiatives for Business

Editorial

Frederick Laloux's book on "Reinventing Organizations" is a comprehensive, highly practical account of the emergent worldview in business. It appears to contain everything one needs to know about building a new paradigm organization. The Foreword to the special Indian edition of this book is written by Sarosh Ghandy, Chairman, CIB. Thanks to the efforts of the CIB Pune Chapter team who worked hard to print this at short notice, they made copies available during the CEO Conclave that CIB hosted early this year as well as during the Biennial International conference that took place shortly thereafter.

CIB on Wings has, in a couple of past issues, carried extracts from Laloux's book and received very encouraging comments from several of our readers. For this reason, we felt that another extract from the chapter titled, "Results", may certainly interest you.

The updated calendar of programs conducted by Asia Plateau, Panchgani is also featured herein for your benefit. Should you find a program that interests you, the team at Panchgani would be happy to help with any queries you may have.



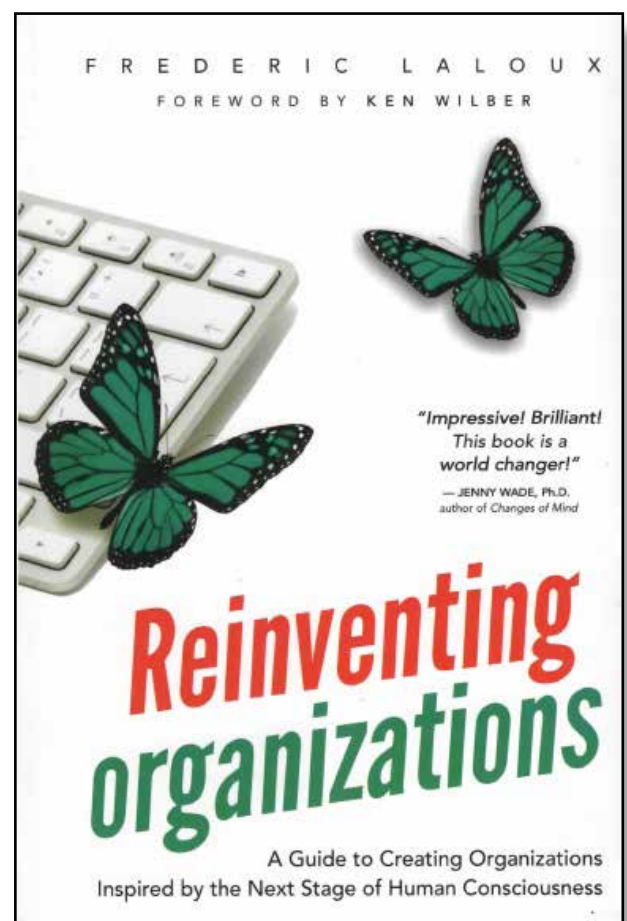
For private circulation.

*Published by Sarosh Ghandy, Chairman – CIB, Friends of Moral Re-Armament (India), Asia Plateau, Panchgani - 412 805, India
Editor: Charles Fernandes*

Results from Reinventing Organizations

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. Every time humanity shifted to a new stage of consciousness, the new organizational model it developed—first Red, then Amber, then Orange, then Green—allowed more of our talent, and potential to unfold. Today we are at a crossroads again. Despite the unprecedented prosperity and life expectancy that modern organizations have provided us with over the last hundred years, I have the sense that in these organizations, we humans still totter somewhat clumsily like penguins on land—our talent and potential constrained by the many



ills of corporate life: politics, infighting, bureaucracy, silos, breakdowns in communication, resistance to change, and so forth. The pioneer organizations in this research reveal that with a different context, work can come to feel as fluid, joyful, and effortless as life in the water for penguins.

In the past, every shift to a new organizational model brought a quantum leap in organizational performance. Could this be the case again with Teal? Can Teal Organizations, like the metaphor of the penguin suggests, swim faster and further than similar organizations which run along Amber, Orange, or Green lines?

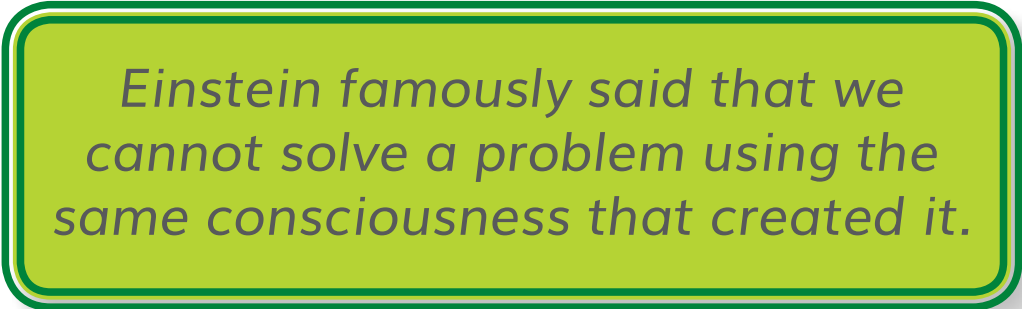
So much of what we call management consists in making it difficult for people to work.

Peter Drucker

Before we try to answer the question, let's first pause and explore where the question comes from. In some ways, the question stems more from Orange than from Teal. Most business books today promise they will help their readers achieve better outcomes ("the secret recipes to boost your revenue, profit, and market share!"). This book would probably sell many more copies if such a claim were a central part of its message and not addressed only here, in one of the very last chapters. Keep in mind that, as we discussed in chapter 1.2, *extrinsic* motivators drive people in all stages prior to Evolutionary-Teal. For Orange, success is often measured in terms of money, profit, and status.

In Teal, people switch to *intrinsic motivation*—doing what feels right in relation to inner values and assumptions. This was confirmed to me in my discussion with founders and CEOs of the pioneer companies researched for this book: they didn't experiment with new management methods in the hopes of reaping more success. The driving force to invent a new

organizational model stemmed from an inner imperative to make a difference, to work in an environment they liked, to act in accordance with their worldview. The traditional way of running organizations simply doesn't make sense to them; it infringes on their values and their own deeply held assumptions about the purpose of work and how people can relate to each other. Making money for themselves or the organization was never the key motivator. With hindsight, though, they are all convinced that the new models they devised turned out to be radically more productive. This is not to say, of course, that effectiveness in Teal does not matter; it just matters for a different reason. When we are pursuing a purpose that we find deeply meaningful, we want to be effective! From that perspective grounded in purpose, the question of whether Teal Organizations can indeed provide yet another break-through in terms of results is of real interest.



Einstein famously said that we cannot solve a problem using the same consciousness that created it.

There are two other reasons why this question matters. For one thing, leaders setting out to create Teal Organizations in a world where Teal is still only emerging will face strong headwinds. They will be told *ad nauseum* that their choices are risky or even outright foolish. Some reassurance that other pioneers have fared well (and even exceedingly well) could give some welcome peace of mind. And if we look at the issue not from the perspective of one organization, but from that of society at large, the matter takes on real urgency. Einstein famously said that we cannot solve a problem using the same consciousness that created it. If that is true, then we won't be able to deal with the impending crises brought by modernity (global warming, overpopulation, depletion of natural resources, collapse of ecosystems) with organizations molded in modernity's thinking. Our best hope for a sustainable future might well rest on the notion that we can access radically

more powerful ways to solve today's big problems.

Anecdotal Evidence

The research for this book doesn't provide the grounds, in statistical terms, to prove or disprove the claim that Teal Organizations will deliver another leap in overall human performance. For one, such claims are always methodologically fraught: *Who do you select as Teal 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 most crucially: *How do you define success? Profitability, market share, or increase in share price?* Those are straightforward to measure, but from a Teal perspective, not very relevant. For Teal, the interesting question is: *To what extent do the organization's accomplishments manifest its purpose?* This is the kind of variable that resists being reduced to a single measurable number.

Ego is the invisible line on your P&L.

D. Marcum and S. Smith

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 Teal Organizations can achieve spectacular outcomes. 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 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. 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.

All its competitors in Europe have shut their doors and moved production to China. FAVI not only bucked the trend, but has expanded.

FAVI, the French brass foundry, had 80 employees when it started its transition to Evolutionary-Teal ways of operating 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. It's 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 items that, once the long trunk 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 puzzled client who saw a helicopter land on its premises called Jean-Francois 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 Teal Organizations can achieve results that are at least on par with the best traditionally run organizations. A leader embarking on a Teal journey with his organization is not taking a foolish risk, despite what people might say. There is good reason to claim the opposite: that by embracing Teal structure and practices, leaders can shoot for outcomes that would otherwise be hard to achieve. Whether these breakthroughs can propel us to a more sustainable future on a societal level, only time will tell, of course.

The above is an extract taken from the book, "Reinventing Organizations - A guide to creating organizations inspired by the next stage of human consciousness" written by Frederic Laloux.

The Foreword of the special Indian edition of this book is written by Sarosh Ghandy, Chairman, CIB and published by Knowledge Partners.

Asia Plateau Program Calendar

October 2018

- 10 to 13 Effective Living & Leadership Program for Industries
24 to 27 Heart of Effective Leadership Program for Industries

November 2018

- 12 to 16 Education Today, Society Tomorrow - Educators
21 to 24 Heart of Effective Leadership Program for Industries
28 to 2/12 Lead for Change

December 2018

- 10 to 14 Education Today, Society Tomorrow - Educators
17 to 20 Effective Living & Leadership Program for Industries
26 to 29 Heart of Effective Leadership Program for Industries

The design of the Effective Living and Leadership programs for industries is prepared for shop-floor workers; while that of the Heart of Ethical Leadership is for middle-level and senior managers.

Programs mentioned above are subject to change.
For enquiries and confirmation, please write to programs@in.iofc.org
For more information, please visit www.in.iofc.org