



A Paper of Importance to Organization Leaders by Lanny Goodman

# Why Are There No Managers In Nature?

What the Science of Complexity Can Teach Us About Leadership, Management & Organization Design

**T**he new science of complexity shows us how to design organizations that are largely self-managing and highly adaptive, a critical attribute in unstable times.

Imagine an organization where all the employees lie awake at night worrying about the company's profit margins. Imagine a CEO who does only the things that only the CEO can legitimately do. Imagine an organization in which instead of the boss doing the performance review, the internal customers of the individual decide whether that person should be able to keep his/her job. Imagine an organization in which there are as many chairs at the top as are needed for the people with the drive, ambition and talent to earn a chair. Imagine a queue of prospective business unit leaders, trained and ready to take an opportunity and turn it into a thriving business unit.

Sound unrealistic? It's not.

Are there dysfunctions in your organization? Ask any group of CEOs this question and every hand will go up. Why is this not setting off alarms?

The answer is simple.

Our assumptions about how to design and run companies have become so deeply ingrained, we never question them. But these principles are human artifacts. We designed them and we can redesign them because we can no longer afford these dysfunctions. They undermine our productivity, make it hard to attract and retain top talent and cause endless stress and cynicism in our employees. The world has become so competitive and the market so resistant to increased prices, we have to run our businesses better.

Nature is showing us a better way.

The science of complexity has shown us that (and read this twice) intrinsic to all systems is a natural propensity to self-organize.

So if the natural propensity of all systems is to self-organize, why do human beings seem to need an endless supply of managers to get anything done? Nature happily packs every ecosystem with vibrant life and nary a manager in sight. Twenty thousand ants in a mature ant hill happily divvy up the complex tasks of running their nest and you will never find an ant middle manager circulating memos.

Biologists call the self-organizing behavior that occurs in nature as "emergent" behavior. Where else do we see this? How about the marketplace? In 1776 Scotsman Adam Smith



wrote his landmark study of free market dynamics and coined the phrase “the invisible hand” to describe the almost miraculous reality that millions of people pursuing of their own self-interest somehow cause all the right stuff to show up at the right place at the right time and at the right price. Does “the invisible hand” sound like emergent behavior? It should and it is.

So what does all this have to do with how we run our companies? If we were to take just these two demonstrably robust and self-organizing systems (the natural world and the marketplace) and figure out what causes them to be self-organizing and implement those causes in our organizations should we expect things to be different?

Yes we would.

After all, business is about behavior. How a business comports itself collectively in the marketplace determines its success. How individuals in the business comport themselves determines the behavior of the business as a whole.

And here’s the real kicker.

People’s behavior is largely shaped by the ecosystem in which they work. If you look at dysfunctional behavior objectively, generally you will find that the person’s behavior is entirely appropriate for the local conditions in which he/she works. Unfortunately, that behavior may be sub-optimizing the functioning of the system as a whole.

So how much direct control do we really have over our employees’ behavior? Not a lot. We

have the carrot and the stick and these are pretty crude tools. But, the reality is that people adapt very accurately to the ecosystem in which they find themselves. If behavior is not appropriate, it is the ecosystem that needs adjusting, not the person. How much control do we have over the ecosystem? Virtually complete. Where is the leverage?

So, here's what we've learned in the last fifteen years:

Free markets are driven by the customer/vendor relationship because customers have recourse. Organizations are a dense web of internal customer/vendor relationships. Only one problem. The internal customers have virtually no recourse if they get lousy service. This is easy to fix. Put the internal customers in charge of doing the performance reviews. Let the internal customers (of which the boss is one but often not even the most important one) define success for the employee.

Nature self-organizes because all living things are driven by two imperatives: survive and propagate. In business, the analogue to survive and propagate is profit. Without profit, the organization can't survive for long and certainly can't propagate because it won't be able to attract debt, equity, or retain any earnings to create the working capital base necessary to support growth. If a profit sharing plan were devised that delivered meaningful money not to the top of the organization but to the bottom where it could really make a difference in people's lives (buy a house vs. live in an apartment, kids go to college vs. kids go to work) you will have unleashed a powerful engine to drive your company.

Of course, your people won't have a clue what to do or how to impact profitability, so education, training and orientation become critical pieces of the puzzle.

Ultimately, though, the hard part is realizing that the dysfunctions we experience in organizations are not OK. They are symptoms of either bad or obsolete organization design and artifacts (compensation, education, and feedback systems). They can be changed. We have to reinvent business to remain competitive or, more frequently, to regain competitiveness. We have an enormous number of brains who could be contributing to our success. Sadly, we tell our people, "Check your brains at the door and just do what we tell you."

Science is pointing the way. Will we be smart enough to follow the signs?

## **Building a Self-Managing Company - A Case Study**

When the recession hit, Rick found himself in serious trouble and running out of cash to make payroll in his \$16 million a year professional services company. A last minute infusion of capital saved his company, but he needed to make changes and make them fast. He was a natural leader and knew his business, but like a lot of entrepreneurs wasn't a good day-to-day manager and smart enough to realize it. He'd always had a COO, but the COO who had been with him for five years had come from a huge company and just didn't seem to get how things work in the rough and tumble world of the smaller company.

Applying the principles of self-management seemed like a plausible answer. It gave him a way to directly influence the company's direction without getting buried in daily operational details. He formed a Leadership Team and turned the roll of CEOship over to them collectively. They started meeting a day a month to work on the business's strategic issues.

Profit sharing was implemented. Internal customer feedback was implemented. The books were opened up for the employees. The company began to get traction. Two years later, the company showed thirty-five percent compound annual growth, had paid off a million dollars in debt and was making record margins. And, Rick had lots of free time for golf.

Being in his mid fifties and seeing a lot of consolidation in his industry, Rick put some feelers out and in ninety days sold the company for a sixty percent premium above what he thought it was worth. The premium was largely because the company demonstrably was not dependent on him as CEO, which made it a much more attractive acquisition target than the typical entrepreneurial firm.

## About Lanny Goodman

Since 1980, CEOs of companies large and small have consulted with Lanny around their strategic planning processes. Primarily focused on entrepreneurial organizations, Lanny's planning methodologies help companies focus their efforts, improve profitability, rationalize their operations and leverage their people.

In the late 1980's Lanny began exploring how changes in our understanding how the universe works might apply to how we lead and manage companies. Building on the principles of the new science of complexity theory, Lanny began working with his clients, researching and experimenting to create the first comprehensive system for creating companies that run themselves. Lanny's book, **The End of Management** lays out the logic of self-managing systems.

His company, Management Technologies Inc. provides comprehensive support services to organizations interested in creating companies built from the ground up to fully leverage their people. For more information visit [www.lannygoodman.com](http://www.lannygoodman.com).

Lanny's work has been the subject of a feature article in Inc. Magazine. He has been quoted there extensively as well as in Fortune Small Business and the New York Times. A compelling speaker, he has spoken at sixteen Inc. Magazine national conferences including five Inc. 500 conferences, celebrating the 500 fastest growing private companies in the country.

Lanny holds a BA in Fine Arts and an MBA in Financial Management and lives in Albuquerque, NM. He can be reached at [lanny@lannygoodman.com](mailto:lanny@lannygoodman.com) or by phone at 505-884-7300.

