

# **CULTIVATING THE REQUISITE ORGANIZATION AND SYSTEM DYNAMICS APPROACHES TOWARD BETTER ORGANIZATIONAL PERFORMANCE OVER TIME**

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## Abstract

*The time dimension is a critical design element for CEOs to build more effective organizations. Requisite Organization principles provide a structural approach toward achieving the time division of labor challenge. In this design approach, it is clear that the CEO has the ultimate task responsibility for effective decision making and action to achieve policy objectives over the organization's longest time horizons. However, well-intended but unaided CEOs are ill-equipped to deal with delayed feedback dynamics encompassed in these long time horizons. Recognizing the inabilities of middle and senior managers to meet their task demands, the CEO is leading a long term culture change effort to install both Requisite Organization and System Dynamics theories to lengthen the time horizon of the organization's work focus. In this culture, planning for the longest horizon ultimately rests with the CEO. Thus, the CEO commits to his personal development to learn the technical skills to build system dynamics models for his work task requirements of setting organizational policy context.*

All too often, the chief executive officer's (CEO) time seems to belong to everybody except to this top organizational official. Ironically, the one person who in theory has the greatest degree of control can become among those most captive to the organization's multitude of situations needing immediate attention.

This phenomenon has become particularly prevalent across the financial services industry since The Great Recession. Today, there are daily news stories of these "situational response"

dynamics as CEOs and their executive teams are forced to focus on “operating” the current organizational configurations to be successful—and in some cases, simply to remain viable. Senior management teams try to “proactively” move their organizations forward to get out of the proverbial “weeds”, but unfortunately “fixes that fail” archetypes are pervasive. Actions taken to put out today’s fire ignite more fires tomorrow. Unless CEOs take the “right” action to alter the conditions in which all employees work, the conditions will only worsen until the powerful forces of “creative destruction” described by Joseph Schumpeter provide the terminal outcome of those organizations that simply can no longer add value to society.

The current state of our organizations does not require this situational response approach. Most CEOs have both the authority and the accountability to alter the conditions. The central structural problems that CEOs must address are (1) a lack of proper attention to time horizon in organizational design; and (2) a persistent difficulty in managing the inherent conflict from a multiplicity of goals over varying time horizons. Conflicts arise because actions to enhance short-term performance often come at the expense of long-term performance.

This notion that there is a distinction between the short and long terms is hardly new. What is missing is good advice on how to put appropriate time horizons into an organization. The approach known as Requisite Organization<sup>1</sup> (RO) has been used at SACU to provide the missing theory and practice for a time-based division of labor. In the RO approach, the organizational hierarchy provides the foundation for apportioning the various time horizons among different managers. The hierarchy is defined by a series of cascading time horizons filled with manager (and individual contributors) roles having appropriate accountability and authority at each level as depicted in the figure on the following page.

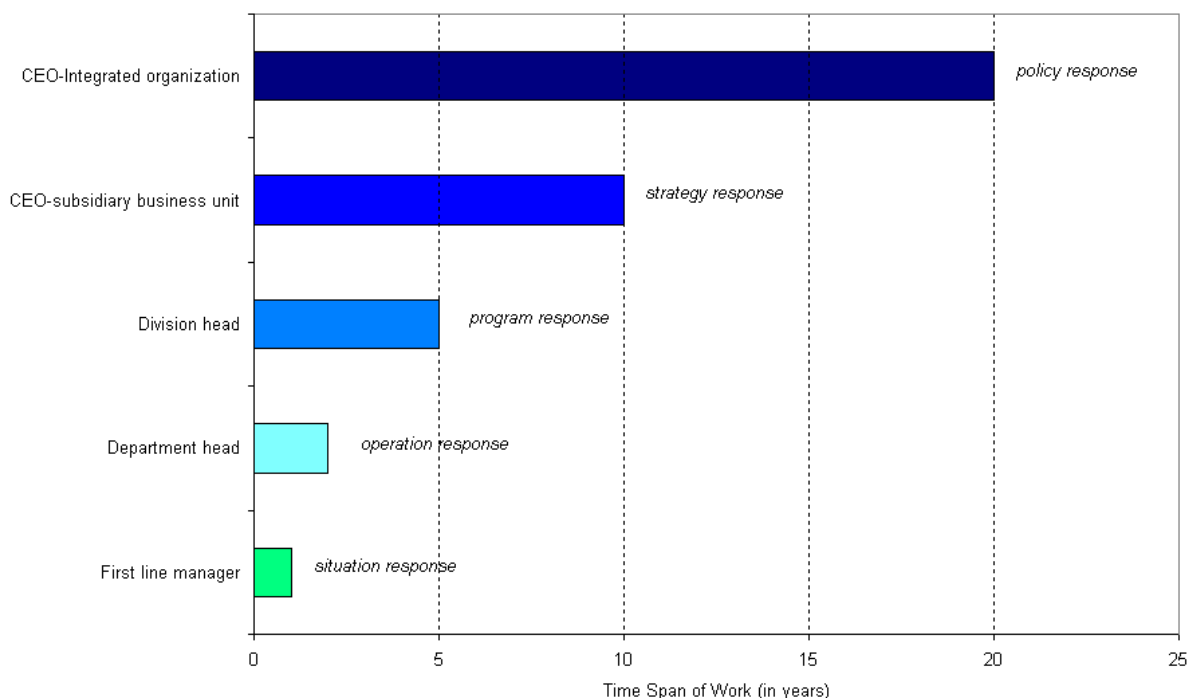
Lower levels have very little strategic latitude, focusing instead on delivering against past commitments, while higher levels must work toward increasingly deep understanding of the key leverage points that will radiate a desirable effect throughout the organization continuously over time. Middle managers in charge of operating departments and divisions must manage the tension between current operating configurations and the implementation of future configurations from context set by policy and environment insights received from the higher work level.

Each work level serves both to set context downstream as well as to receive it from above. The longer time horizon of a higher level provides an important part of the context for the next lower level. The Board of Directors and the CEO of the organization are hierarchically accountable for the longest time horizon. Thus, the CEO’s primary accountability and use of authority should be directed at the time it takes to complete the longest task that has been determined for the organization as a whole. As the Board’s only direct report employee, the CEO is solely accountable to the governing body for the longest task which the organization needs to complete because the CEO has the longest time span of Board-delegated discretion and authority over all organizational resources. The CEO’s time span of work output should be no less than the time period containing all the relevant dynamics.

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<sup>1</sup> For the interested reader, the Global Organization Design Society ([globalro.org](http://globalro.org)) maintains research and case studies on the Requisite Organization theory and practice.

**Requisite Organization**  
**Hierarchical Work (Response) Level Time Horizons**



Unfortunately, CEOs have difficulty in focusing on long term dynamics. Typically, CEOs tend to focus on the past quarter, recent comparisons to industry peers, quarterly earnings updates with stock analysts and daily stock prices.

Several reasons may exist for CEOs lack of focus on the long term, the least of which is that they don't think it's important. There appear to be two fundamental reasons.

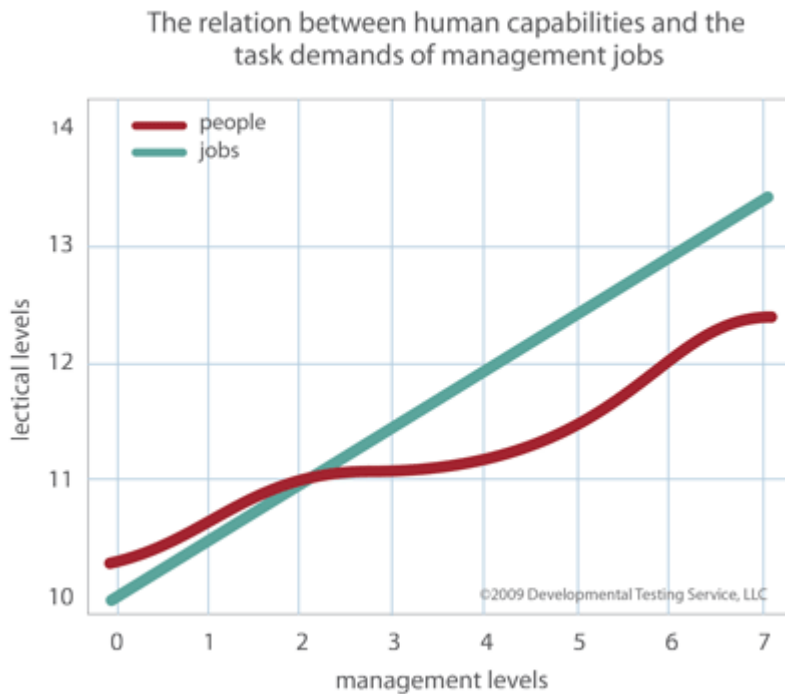
First, these CEOs have not structured their organizations properly—which is not surprising if they don't have a long term focus. Consequently, CEOs get pulled down into shorter-time-horizon work that properly should have been done by their subordinates (who themselves are being pulled down to do work that should have been done by *their* subordinates). And, when senior managers are prevented from doing longer-time horizon work, the short-time horizon work – lacking the proper context – ends up generating fires that must be put out immediately, reinforcing the focus of senior managers on the short term.

Second, CEOs are ill-equipped to grapple with feedback loops containing long delays and that pass through seemingly distant parts of the organization and its environment. Lacking the appropriate concepts and tools, CEOs are left to simply use their best judgment and intuition in setting organizational context. While good judgment based upon broad experiences is important for the CEO, it is not enough even if the organization is designed properly with the CEO working in the correct work level and time span. Learning from surprises is a reasonable thing to do, but it can have some dangerous consequences, especially if it is the CEO that is being surprised about critical underlying policy assumptions. In the end, an unaided,

consciously-aware CEO can over allocate attention to the most urgent perceived pressure while the feedback that “should” be his focus is rarely considered.

Making decisions today with the long term in mind is not harder than making decisions today with the short term in mind; it is however a fundamentally different type of decision requiring qualitatively different approaches. RO does not provide the decision-making approaches, but “only” specifies which role is responsible for what time-horizon of the tasks required. Something more is required.

Consider the following figure created by Theo Dawson. The figure shows the relation between the task demands (“lectical levels”) across seven levels of management and the measured performance levels of managers occupying these management positions. In this image, the task demands of most management positions increase; however the capabilities of managers do not, for the most part, match these task demands.



Dawson further asserts that in many situations our best hope for meeting these demands is to (1) work strategically on the development of our own skills and knowledge, (2) learn to work closely with others who represent a wide range of perspectives and areas of expertise, and (3) use the best tools available to scaffold our thinking.

I agree with these three premises and have positioned System Dynamics as an integral element of my personal skill development over the years. I also work closely with leading academics and industry consultants to develop models for areas of active inquiry but also more fundamentally to develop a culture of using system dynamics in our decision making. And, I build my own models to test my own thinking relating to decisions I face in my role as CEO.

This modeling effort affords me greater ability to put in appropriate perspective the information flowing to me in my CEO role that differs from information others around me intake in their work responsibilities. As I gain my own insights, they can be different than the insights of a skilled consultant or member of staff in a different organizational position. And while I actively seek the input of those individuals, I cannot abdicate or overly delegate my planning responsibilities which are inherent in my role over the time horizon I described previously. Given that my working time horizon is the longest, I am afforded the opportunity to create the conditions for the greatest degree of impact if focused properly on policy objectives over this time period.

I believe it is essential for system dynamics and requisite organization to co-exist. It is difficult for an organization that has long term time spans to be effective without the system dynamics approach to assist with the complexity over time. Conversely, trying to install a system dynamics approach into a management culture that does not have good organizational design structure with long time span work levels does not enable the benefits to endure. Both are complementary to each other and from my experience, both are required for each to be effective.

Finally, the longer the time horizon, the “weightier” the work feels to the CEO. Combining this perceived weight with good structure which enables discretion to pursue the work in a more systematic way is empowering in my experience. For those CEOs committed to sustainable long term policy design, good structure provides the time and resources to a systemic study of the organization and its environment.

Effective long-term policies can only be designed by the CEO if the relevant underlying structure is understood. System dynamics as a way of viewing the world and as a toolset is useful in understanding the causes of systemic problems, as well as in testing the effectiveness of alternative policies. System dynamics is the ideal approach within an integrated organizational design and management culture which places a high value on effective policy and people committed to performance over time.

## Acknowledgements

The work toward developing both high quality models for learning and, more broadly, toward helping me to shape an organizational culture that values the system dynamics approach would not be possible without the personal energy and commitment of Jim Hines. Jim has a rare blend of being a skilled modeler, facilitator, teacher and sounding board to our managers in their efforts to learning to apply system dynamics to their goal directed efforts. I am grateful to his commitment to our organizational mission.

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