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'Thinking about' series

Factor #18 – the organization has a centralized or decentralized hierarchy

Factor #11 – the use of independent work groups

May 10, 2017

'Delegation' is one of the best practices of innovation management

There are two Factors which are proxies for 'delegation' within an organization.

The lack of, or willingness to delegate, pervades several other measures of 'best practices' for innovation management[1] such as; organizational decentralization, lack of a hierarchy, and the willingness of management to use project teams which have authority.

Most importantly, the willingness to delegate is a proxy for the presence of trust in an organization. One delegates if there is trust. People – managers - are not inclined to delegate if they don't trust subordinates. This characteristic can therefore be a bell weather of broader management problems which inhibit innovation.

The willingness to delegate is a major characteristic of the management style of those well managed, technologically successful companies, which CIO has researched. Characteristics which relate to 'delegation' include the following.

- The frequency and use of independent work group (F#11)[2] and whether the establishment of such work groups is encouraged, or not, by management. To the extent that these groups are

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[1] Check out the full list at www.corporateinnovationonline.com
[2] Reference to the Factors (F#s) which are set out in the on-line survey on innovation management

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formed under the auspices of management is a sign that management is willing to delegate.

- An organization with a highly-centralized hierarchy (F#18) would not be a group which delegates decision making. Even establishing subsidiary organizations would be difficult. In these organizations. Most important decisions would flow to the top of the organization for approval and subsequent actions.

Far more important than the delegation issues raised above is the direct linkage between the willingness to delegate and presence of trust both within and outside the organization.

Other Factors come into play when thinking about 'delegation'. A high – or reasonably high – tolerance for failure is linked to the notion of delegation. When management in an organization demonstrates a 'tolerance for failure', Factor #5, the implication is that the project or initiative has been organized around a person or group, i.e. delegated, and those in charge have been given the freedom to fail. Managements which delegate often encourage collaboration within and outside the organization (F#12). Such collaboration, without delegation, could not take place easily. Where there is considerable consultation throughout an organization, there is a sense that information from those in the organization is valued.

On-line lab results
Users of the on-line lab favor delegation and decentralization

As might be expected, users are very much in favor of decentralization and one of the evidences of this is the use of independent work groups. On the other hand, 25% of users would opt for centralization and for not using such groups.

	In favor	Opposed	
F#11 -percentage who would encourage independent work groups	75%	25%	
F#18 – percentage who think there should be decentralization	77%	23%	

As a measurement of the strength of these views, there was more emphasis placed on the encouragement of independent work groups (-1.6) than on the need for either decentralization or centralization (-o.8).

	Average 'Ideal'	Average 'Reality'	Median	Mode	Average 'Delta'
F#11 – Management discourages or encourages the use of independent work groups	-1.6	N/A	-3	-4	2.32
F#18 – The organization has a decentralized of centralized hierarchy	-0.8	N/A	-0.5	0	3.09

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The median and mode results are interesting. The median – the number in the middle of a given set of numbers – for F#11 is -3 and the mode – the most frequently occurring, or repetitive, value in this array of numbers, is -4.0. Clearly the average is distorted by the extremes, which were not removed, in this analysis of the Factor.

For F#18, the mean is -0.5 and the mode is '0', meaning that opinions were not strong and many did not have an opinion, and registered '0'.

While the 'Deltas' for each Factor are low; 2.32 and 3.09, the standard deviation for F#11 is 1.85 and for F#18 it is 2.31; indicating a wider range of 'Deltas' for the latter Factor acting to influence the outcome.

World Economic Forum's ratings
Willingness to delegate influences ratings.

Annually, the World Economic Forum publishes its global competitiveness ranking. For the years 2016-2017, the report covered 138 countries.

Overall, the U.S. ranks 3rd in the world, Canada 15th and Mexico 51st. Only two countries rank ahead of the U.S.; namely Switzerland and Singapore. America is great by this standard!

Twelve 'pillars' are identified as making up the ranking. Within each pillar there are sub elements addressing specific topics which are all numerically ranked and go towards an overall rating in each pillar.

Within the 11th pillar, which addresses 'business sophistication', there is one element which caught CIO's attention for this subject, namely, the 'willingness to delegate'. Respondents to the WEF survey are asked 'how do you assess the willingness to delegate authority to subordinates. A rating of '1' is to be not willing at all and a rating of '7' means very willing to delegate to 'business management heads and lower-level positions'. Why is this characteristic so important?

For the last several years, at least since 2012-2013, the rankings have not changed much. Canada was ranked 8th in the 2012-2013 report and is currently rated 11th. The U.S. is ranked 9th. Year after year, Nordic countries are in the top ten. New Zealand slips in at 6th currently and Qatar is 7th. Mexico is 67th. The 'willingness to delegate' is but one of nine elements that contribute to a country's overall ranking for the 11th pillar; 'business sophistication'.

Countries such as India – 56th, Russian Federation – 78th, Argentina – 93rd, Armenia[3] – 105th, and China – 48th, have not yet, according this report, learned much at all about delegating.

Delegation also relates to whether the organization is planning or action-oriented. Excessive planning – to point of paralysis or lack of decision making – reflects on the inability to delegate

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[3] Armenia is admittedly a small country but personal experience led to its insertion in this paper as is also the case with Argentina (see an earlier report on Argentina versus Canada).

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decision making, or in the reverse, requires that the most important decisions must end up at the top of the organization.

CIO's online lab allows for users to model their own organizations and compare results with other participants.

Millennials
They have expectations that require delegation.

Delegation is especially important to millennials, those born between 1980 to around 2000. There is a strong preference for a flat organizational structure[4] and an attempt to strike more of a balance between work and life than previous generations.

Millennials place a great deal of importance on producing meaningful work, finding a creative outlet and prefer immediate feedback.

Technology with the introduction of social media has facilitated collaborative skills and a preference for team-oriented thinking and physical arrangements.[5]

Millennials differ from the Baby Boom generation in terms of the emphasis placed on work-centric attitudes, seeking to achieve a better balance and tipping more towards familial versus corporate values[6].

The flat work place environment places a requirement on the style of communication in the organization (Factor # 10). Millennials would prefer the short and informal style in contrast to an older more formal style.

Pew Research[7] makes the point that Millennials' attitudes and opinions …show evidence of a generation that is highly educated, self confident, technologically savvy and ambitious'. They are much more connected than the older generation and have a view that technology is a positive force. These people are seeking to run their own shows within corporations and feel confident to do so.

Authors Thom and Jess Rainer speculate that September 11 taught Millennials that life is short, prompting them to embrace ambition and reject "business as usual".

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[4] Wikipedia. Workplace attitudes. The majority of research concludes Millennials differ from both their generational cohort predecessors, and can be characterized by a preference for a flat corporate culture, an emphasis on work-life balance and social consciousness.
[5] Florida University. Howe and Strauss
[6] Wikipedia. Research by Hershatter and Epstein
[7] Report from 2010

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Google's management of innovation[8]
Google's policies and practices rely on 'delegation' using new technology along with responsibility and accountability

In many respects, Google's policies and practices are on a 'continuum' of development of management techniques which began decades ago. In that sense, there are no surprises.

On the other hand, Google's concepts are facilitated by technologies which encourage, or more to the point, demand social interaction, transparency and openness. These technologies did not exist decades ago. The concepts are not new but the means of bringing them about are. Speed, quick responsiveness, openness, transparency, communication, humour, smart hiring, deliberate diversions, all make the difference. Not just one practice but all working towards the same objective; smart innovation.

In the book, How Google Works[9], the authors go out of their way to explain their approach to management. There is much to learn from their candid communication. There is a focus on thinking big and having in mind the intersection represented by Pasteur's model[10].

Some of the highlights from this 'tell all' and which illustrate the importance of 'delegation' are as follows.

- Full transparency of people's activities with regular updating of performance information. Manager's own performance reviews are open to 'subordinate' staff.
  A very open approach to management with delegation and transparency at work

- Board strategic presentations made by product/service experts and shared widely after presentation. No secret documents – with some obvious exceptions.
  Great communication style to reinforce openness.

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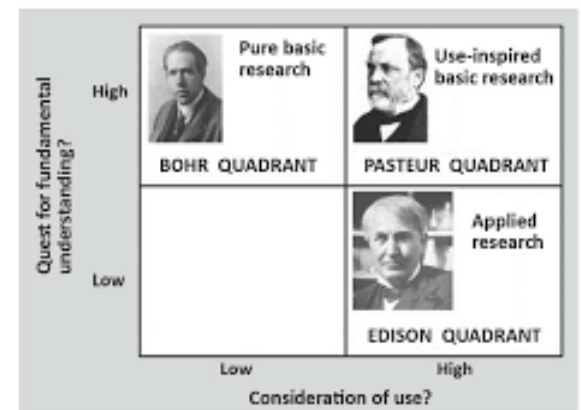
[8] For the full report visit web site www.corporateinnovationonline.com

[9] How Google Works by Eric Schmidt and Jonathan Rosenberg

[10] Invoking Pasteur's Quadrant is particularly interesting. Google believes and wants to work at the edges of fundamental science in whatever form that takes. It is not leaving this fundamentality to universities nor research centres as so many other organizations have. The challenge is to grapple with ideas no matter from what the source. Links to the sources of ideas which originate not from within Google's competitors but from without is the key thinking here. Google does not obsess about the R&D spending of the competition - F#23 – as it does about the idea itself.

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- Job descriptions/ activities (OKRs) used to bring about alignment within the organization. Management by objectives by any other name.
  An old technique more easily performed with new technology, shared and made more transparent.

- A deep sense in the organization that Google is working to better the universe by doing good deeds not 'evil'.
  Classic 'millennial thinking.

- Physical office arrangements focusing on crowding, relationships and not hierarchy, with the objective of spurring innovation and effectiveness.
  Open delegation.

- A process of filtering ideas based on the idea of forming teams with the relevant know how, encouraging collaboration, along with a continual review of potential projects (a long-standing practice at Google) and drawing on input from many sources.
  Delegation with considerable input from a broad range of interested parties within the organization.

- A functional organization concept to avoid creating 'silos'.

- A deliberate intention to focus a percentage of product investment into 'non-legacy' products.

- Untypical organizational thinking on the number of direct reports – designed to minimize micro managing.

- An extreme emphasis on the use of data for assessing projects and yet, at the same time, going ahead with an idea based on faith that it will be successful commercially, but based on limited financial information.
  The delegation of idea development not so much around financials as the prospects and inherent benefit of the idea itself.

- Tight idea management at the top and yet the provision of freedom for individuals and groups to take initiatives – if they can secure a buy-in to make up a team.
  Delegation of idea development but with the constraint that a team needs to buy-in.

Google faces some challenges typical of innovative companies in a growth spurt. While hugely embracing of innovation and brimming with innovative ideas, Google realizes that many of the idea *interests* may take time to come to commercial fruition.

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3M[11]
Work groups, business units, smallness are key

3M recognizes the importance of establishing separate work groups to carry out specific tasks in addition to setting up its up divisions where a different culture and performance characteristics than the norm at 3M is required for the division to be successful.

In the mid 1950's, when sales took off for the Duplicating Products Division, the group stayed in its original location where people knew they were breaking new ground. "We were separate, so we were independent. We had freedom to do what we needed to do. That was good because we were in a new business, very different from tape, abrasives or reflective sheeting. We had to hire different kinds of people to get the job done, and we built factories that were different from anything else in 3M" according to Ray Herzog. The arrangement lasted until the product reached the end of its life cycle and expected margins could not be realized against formidable competition.

By 1980, the company had grown dramatically to about 40 business units organized among five business groups, each with different management and business goals. The duplication of effort led Lehr to propose the first formal strategic planning process that 3M had undertaken in eight decades. The implementation of the resulting plan led to the company being organized into four business 'sectors' in which divisions with compatible technologies were grouped together.

In 'A Century of Innovation' it is noted that even with the success of Post-it note; the company was concerned that it could not produce products sufficiently fast to increase sales. Aggressive goals and 'stretch' objectives had been put in place which were challenging. Lehr formed a 16-member Innovation Task Force to take a candid look inside the company. The group was challenged to 'gain a clearer picture of 3M's climate of innovation'.

'Divisions[12] are kept small, on average about 200 million in sales, and they are expected to share knowledge and manpower'. '3M is big but acts small. There are 42 divisions, so ladders to the top are all over the place'.

More recently 3M notes it has 35 business units operating under 5 divisions. Over the years, the number of divisions and business units has increased and decreased by small amounts.

3M is also committed to a policy of minimal hierarchy and as close to flat organization as you can get given the size of the global organization.

William McKnight imagined a "flat" organization decades before the concept was a popular business model according to "A Century of Innovation'. The tenants of the 3M culture were 'minimal hierarchy, intentional informality, strong support for creativity and innovation.

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[11] See full IM (innovation management) report available on the web site.
[12] Business Week, June 11, 2007

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Challenging leadership is welcomed'. He encouraged 3M management to "delegate responsibility and encourage men and women to exercise their initiative. 'A Century of Innovation states that 'his management theories are the guiding principles for 3M' and with 'our heritage' dating back more than 100 years, and continue to accompany us in the 21st century'.

A "loose-tight" philosophy of management balances entrepreneurial action and corporate consistency where it matters most.

3M's practice of spinning off new initiatives is also testimony to its desire to minimize the tendency towards increased hierarchy which one often associates with large corporations.

Deere[13]
Decentralization but close financial control

From its beginning, Deere has emphasized decentralization as part of its business model. Branch decentralization began in 1869[14], when different parts of the organization were allotted rights to geographic areas, providing a degree of freedom in decision making. Charles Deere set up separate entities under the umbrella organization with different owners, acting as entrepreneurs, but partnering with John Deere.

Robert W. Lane, during his time as CEO, placed emphasis on decentralization. Accounting and financial planning remain centralized to this day. John Deere employees are seen[15] to be able to 'solve problems at the source'.

Deere's 'Green Bulletin' – in 1966 and in 1975 – emphasizes the practice of decentralization and ties this practice to the 'company's[16] continuing ability to excel against our many competitors'.

Rick McNally addresses this Factor, at least in terms of the training initiative, by describing Deere's approach as being 'somewhere in-between'. John Deere 'does not emphasize centralization of training development; rather it focuses on where training can and should be developed most efficiently.

Having noted the tendency to decentralize training, one also recognizes the role of centralized approaches such as the John Deere University, product training, and leadership training in Europe, India, or elsewhere, and the use of web-based course ware.

GE
Work groups, cross-fertilization and minimum hierarchy

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[13] For the full report on Deere go the www.corporateinnovaitononline.com
[14] The John Deere Way
[15] ibid
[16] ibid

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GE makes extensive use of teams and independent work groups to accomplish its objectives. There are many examples ranging from top level groups to working groups assigned to address significant corporate issues and new initiatives.

Nowhere is the importance of the use of special work groups more recognized than with the efforts to cross-fertilize than in the appointment of 'research and technology teams including GE employees from multiple disciplines to work on the same project'[17]. Examples of cross fertilization are provided; the lotus leaf for one (a concept for a new material), and the transference of health-care imaging technology to use in baggage scanning is another example. Apparently not much of this cross fertilization was done under Welch. The cross-fertilization of research was marginal under Jack Welch[18].

Another example of the use of work groups is when marketing teams arrive at the Research Centre to meet with scientists and talk about market needs[19].

The development of organic light emitting diodes (OLEDs) is yet another example of putting in place a group to carry out a specific project, in this case a cross-functional team under the oversight of the research center. Adding an outside partner to this effort, namely Energy Conversion Devices, added another dimension of knowledge to the effort and allowed, or at least facilitated, their application to a government agency for additional funding.

Immelt put an in-house team together[20] to get feedback on green initiatives and study greenhouse legislation and made use of an outside consulting group in the process. The result was a significant increase in funding for R&D on clean technologies and the reduction of its own greenhouse gas emissions.

GE is committed to a policy of minimal hierarchy and as close to a flat organization as you can get given the size of the global organization. Efforts are made to establish businesses within business.

Welch acted by 'removing layers of bureaucracy'[21]. Immelt learned from Welch to find ways to take bureaucracy out of the company such as having fewer meetings and fewer approval levels on decision making that added no value[22].

"What we try to do is to not run GE as one big company" according to Immelt[23]. The idea is not to think about doing business in markets outside N.A. but rather to think about what business is

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[17] ibid, p.98.
[18] ibid, p.100.
[19] ibid, p.99.
[20] The New GE Way, p.114.
[21] The New GE Way, p. 67.
[22] ibid, p. 164.
[23] ibid, p.177.

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being done in other geographic areas. Fifty percent of the firm's business is currently from outside the U.S.

As long as you have the people and the processes you trust, each unit can run as a veritable small company, according to Immelt[24]. The strategy is to break up the company into individual businesses and initiatives and remove size as an impediment to growth.

We decentralize decision making so that local teams can develop products, marketing approaches, pricing and risk assessment for their own local countries. This removes levels of bureaucracy and facilitates localization[25].

Immelt has, at the same time that the organization has grown, reduced overhead and bureaucracy[26]. Apparently by formulating the company into growth opportunities, considerably less overhead is required[27]. This comment is not totally understood as the link between opportunities and lower overhead is not clear.

The goal is to create a "limber organization"[28] unencumbered by deep layers of bureaucracy.

Conclusion
Delegation' in an organisation is one of the measures of whether an organization has the best practices in innovation management.

The consensus of users of the on-line lab is that delegation is important. Decentralization is proxy for 'delegation' as are the use of independent work groups to get projects done.

The WEF recognizes 'delegation' as having an impact on innovation and that is why it is measured as part of their 12th pillar.

Millennials' thinking is leading in the right direction.

3M, GE and Deere, to name just three companies, have learned how to manage delegation but know it takes constant work to make it happen as their organizations become bigger.

Other Factors, in addition to the two noted in this paper, also have a bearing on 'delegation' and thus on innovation. A tolerance for failure and for risk, for example, also signal trust; one of the basic requirements prior to delegation taking place.

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[24] ibid, p.183.
[25] ibid, p.187.
[26] ibid, p.203.
[27] ibid, p.204.
[28] ibid, p. 205.

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