

Surviving the Global Financial Crisis

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As we face the deepening global financial crisis and accelerating climate change with its associated carbon trading, there is more and more evidence that Australian organizations are failing to contain costs. At a time when organizations need to be able to cut costs to survive, recent evidence shows that the solutions management are using to curb the problems are exacerbating them. The 2008 paper *When the cure is the cause: the turnover and absenteeism problems* by Australian social scientist, Dr. Merrelyn Emery, shows that the continued increase in turnover and absenteeism in Australian workplaces flows from human resources (HR) practices.

The costs of these outcomes for Australian organizations and the community have been measured in the tens of \$billions and they're growing.

The Australian Human Resources Institute (AHRI) reported on turnover estimating that the cost of replacing each employee is 150% of salary. They then calculated that Australian employers are losing \$20 billion per year from turnover.

Previous research showed that turnover averaged 12.6%, but now it has blown out to 18.5%. However, some Australian organizations are facing rates of 40%. Turnover also creates a heavy reliance on casual workers whose loyalties lie elsewhere. Over 95% of survey respondents saw turnover having a negative effect on the business.

A study of absenteeism by Direct Health Services shows that the average worker takes 8.62 days off per year in addition to their entitled annual leave, which equates to \$26.6 billion in lost productivity for the Australian economy. Absenteeism has increased and DHS predicts this situation is going to get worse. As organizations retrench employees in the face of the economic crisis there is more pressure on those left behind, and therefore these outcomes are likely to get worse. It's a vicious cycle.

The DHS study also found that the range of measures used to try and curb the disturbing rate of absenteeism in Australia has failed. They have been "largely ineffective at dealing with the underlying causes".

The questions are why do people leave and why are turnover and absenteeism increasing?

However, turnover and absenteeism are only the tip of the iceberg. There are multiple problems in most of our organizations. In Keith E. Ayers' 2007 book *'Engagement is not enough: you need passionate employees to achieve your dream'*, he identifies three distinct types of employee in typical organizations. They are engaged (30%), not engaged (54%), and actively disengaged (16%). Ayers states that a high proportion of employees are switched off, leadership has failed and things are getting worse. Without engagement or motivation more generally, organizations simply can't work properly and meet their goals. And in a paper entitled 'Structure underlies other organizational determinants of mental health' and published last year in the *Journal of Systemic Practice and Action Research*, we show that workplaces are implicated in the current global epidemic of mental illness.

Most of this costly failure is unnecessary. The sources of the problems are outlined below. So too are the reasons why our organizations are not only failing to solve their problems but are making them worse.

Organizations fail to meet the basic human needs of work

Recent evidence such as the above and nearly sixty years of previous research consistently highlight the failure of most organizations to meet people's needs of work. People need certain psychological conditions or factors to be present if they are to engage in productive or creative work. Because these factors produce continuous intrinsic motivation they are called the *intrinsic motivators*. If they are not present in a workplace, the people who work there become de-motivated and disengaged. This lack of motivation shows up in low quality and productivity as well as turnover and absenteeism, and mental health problems in the workplace.

These psychological needs were distilled into a core of 6 measurable criteria in 1969. The first 3 must be optimal for each individual so they vary from person to person and can change over time.

1. Elbow Room - autonomy in decision making
2. Continual learning, which involves some room to set goals and getting accurate and timely feedback
3. Variety

The second 3 exist in the climate of the workplace and are factors that people can never have too much of:

4. Mutual support and respect, helping out and being helped out by others without request
5. Meaningfulness, which consists of doing something that our society values, and being able to see the whole product or service to which they are contributing
6. A desirable future, not having a dead end job

The basics of organizational design

To understand why our organizations fail to provide these intrinsic motivators, we need to go back to the basics of organizational design.

Organizations need some degree of flexibility so they must include some redundancy. There are only two ways of building in redundancy, either by having more parts than are required or by having each part perform more functions than are required. In organizations the parts are people.

These fundamental *design principles* are therefore, called 'redundancy of parts' and 'redundancy of function'. They result in two very different organizational structures. The first design principle, called DP1 for short, produces a bureaucratic structure or simply a bureaucracy. This is the most common form of organization. The second and less familiar design principle called DP2 for short results in a structure called a participative democracy. We will come back to this structure later.

Bureaucratic (DP1) structure

The basic unit of bureaucratic structure is an immediate boss (supervisor or manager) with several people reporting upwards to him or her. But each boss has

another boss above them all the way to the top producing the pyramid we are all familiar with.

In terms of the work, whole tasks such as assembling a product, are fragmented into narrow discrete jobs with minimal requirements for knowledge, skill and, therefore, training. Job descriptions are developed, and then people are recruited to fill the various jobs or positions. Each employee, therefore, has an individual job and a one-to-one relationship with the boss.

The boss has the right and responsibility to control what has to be done, what standards have to be met, and the specific objectives each employee must attain. Control is the vertical axis of an organization. The boss also coordinates the work to be done in his or her section. That is, the boss determines who will work with who to ensure the section's goals are met. Coordination is the horizontal axis of an organization. Thus, the *critical feature* of DP1 and bureaucratic structure is that responsibility for coordination and control is located at least one level above where the work is being done. The degree of control and coordination people can exercise is measurable so we can measure the relationship between the design principle and its various effects.

The right and responsibility of the boss to tell subordinates what to do and how to do it defines the relationship as one of personal dominance, master-servant. Superior and subordinates have by definition unequal status.

This pattern of personal dominance, controlling and coordinating subordinates' work and managing, monitoring and resourcing the one-to-one relationships is repeated from the bottom to the top of an organization. It results in a dominant hierarchy of authority. It has been the main way organizations have been designed since the start of the industrial revolution over 200 years ago.

How does this DP1 or bureaucratic structure work? For example, when a production operator's (part 1) machine breaks down he/she contacts the production supervisor (part 2). This person then contacts the maintenance supervisor (part 3) who then instructs a fitter (part 4) to fix the machine – when the fitter has time.

This description makes it clear that bureaucracies are designed on the basis of a mechanistic set of beliefs and assumptions. The organization is viewed as a machine and people are literally treated as replaceable cogs within it. When one part (person) fails it (s/he) can simply be discarded and replaced. This applies particularly to those at the bottom of the organization where work is most likely to be simple and unskilled. When times are tough however, people are thrown on the scrap heap even when they have worked well and carry critical organizational knowledge.

However, it's these frontline employees who build up the knowledge to improve quality, reduce costs, and improve customer loyalty. But these employees won't come forward with their ideas to improve performance while they know they are replaceable parts. Being undervalued leads to such negative effects as frustration and anger, low levels of trust and only feigned efforts when asked to help.

This mechanistic world view also assumes that systems are closed. That is, it assumes that people are closed systems, which implies they are not affected by their external environments. Closed systems thinking assumes a person's behaviour is a consequence of their nature or their interpersonal relationships within the organization. *There is no awareness that behaviour is also influenced by the environments the person is in.* As we shall see below, this is a characteristic of the

dominant theory of organizations that is being taught in all our universities and other educational institutions.

So why do bureaucratic structures produce such dreadful results?

There are several reasons:

- People are not cogs, they are purposeful and display will with minds of their own.
- They are open to their environments, not closed systems.
- Another is that the DP1 or bureaucratic structure induces competition. For an employee to advance up the hierarchy he/she must look good in the eyes of the boss. So if the boss asks subordinate A to help subordinate B then A will be reluctant to do so if he/she is keen to get a promotion. A will pretend to help B, but not enough to make B look good.

These reasons conspire with the nature of the structure itself to ensure that it is almost impossible to get good scores on the 6 criteria, the intrinsic motivators. Going through them one by one:

Elbow room, autonomy for decision making: if the boss is doing their job properly and making all the decision about how and when work should be done, there are virtually no decisions left for the subordinates to make. They are supposed to just do as they are told. Instead of being treated as purposeful adults, they are treated like children. This causes anger and frustration as well as low motivation. We have evidence that workers take more sick days as they age, simply because they get 'sick of it'. There is a limit to how long ordinary dignified adult human beings can put up with being treated as stupid children.

Continuous learning: again, if the boss is doing their job properly there is little room for people to set goals and, therefore, challenges for themselves. Superiors typically underestimate their subordinates so the goals they set for their underlings are not challenging. Competition also destroys the potential for accurate and timely feedback as it is not in a subordinate's interest to correct another's mistake. As the situation stands, the person making the mistake looks relatively unproductive and deficient. Even in organizations that have spent a lot of money bringing in schemes to improve feedback, the scores continue to be low.

Variety: when a person is stuck doing their job X and only X, there is very little variety. Boredom is inevitable and we often find over 30% saying they are frequently or constantly bored at work and another 40% who are bored sometimes.

Mutual support and respect: competition affects this factor in the same way as it affects feedback. This is particularly unfortunate for those suffering genuine problems as they are often ignored if not ostracized. There can also be little respect when everyone is trying to be the brightest, the strongest or the boss's favourite.

Meaningfulness: when people have no control over the work they do and no involvement in the direction of the organization more generally, they have no chance to improve the social value of their work. Also, when they are stuck doing X which produces part of a small component, they often do not know what the component is or what it is used in. This problem is not confined to the unskilled or in manufacturing; highly specialized consultants are frequently dropped into projects to do a day's work and never find out whether the project was successful or whether their work helped or not. How can work be a meaningful part of a person's life if they know people don't

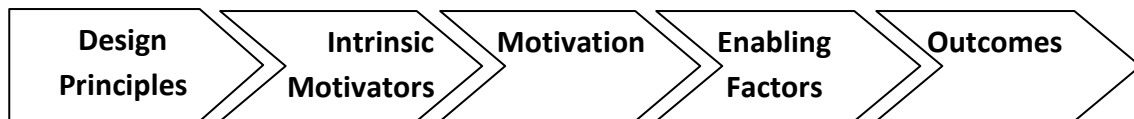
care whether they do it or not and they have no idea what they are contributing to? When work is not meaningful, people stop caring about it.

Desirable future: there is very little opportunity in many DP1 structures to increase skills and knowledge when working in narrow fragmented jobs. And consider the case of skilled tradespeople who get stuck doing just X or Y. What happens to the skills they came in with? The rule is ‘use it or lose it’. Bureaucracies are inherently deskilling. As people see no desirable future in the organization, they clock on, do their hours, and can’t wait to get out of the place. “Friday on my mind”!

This brief analysis shows that DP1 structures, bureaucracies, de-motivate and de-skill employees, which is an unsustainable situation in the current economic crisis. It isn’t empty rhetoric to say that people are the most important resource in organizations – organizations really do rely on their people to deliver high quality and productivity. People who are angry, frustrated, bored and generally turned off do not deliver high quality and productivity. They no longer care about the organization and its goals.

Thousands of intrinsic motivator surveys have been conducted over the last 50 years and in many countries. Time and time again employees who work in bureaucracies score low on these surveys. Even when management has gone out of its way to improve the hygiene factors or external motivators (such as pay), the intrinsic motivator scores remain low

We have recently statistically analysed intrinsic motivator data and other organizational health survey data from organizations across Canada and Australia and discovered a consistent causal pattern as follows:



When the first design principle is operating, the intrinsic motivators and motivation are low, positive enabling factors and outcomes such as trust and productivity are low while negative enabling factors and outcomes such as fight/flight and turnover are high.

When the second design principle is operating, the intrinsic motivators and motivation are high, positive enabling factors and outcomes such as trust and productivity are high while negative enabling factors and outcomes such as fight/flight and turnover are low.

In other words, the two design principles produce exactly the opposite set of results.

Analysis of our comprehensive database shows that *DPI (bureaucracy) leads to low scores on the intrinsic motivators leads to low motivation leads to a range of enabling factors such as low trust and poor quality relationships, low levels of intellectual satisfaction, poor communication, negative dynamics such as dependency and fight/flight and these in turn lead to poor mental health, low innovation, quality and productivity plus high turnover and absenteeism.*

This pattern means that changing anything other than the design principle can have only short term effects. Everything gradually returns to normal.

This pattern from the hard data research is also exactly the same as that seen in action research projects where the design principle of the whole organization is changed through a process known as the Participative Design Workshop

The unsustainable costs of bureaucracies

Each of these factors mentioned above has a cost attached and as we have seen, those such as turnover and absenteeism that have been directly costed are hugely expensive. There are many other tangible and intangible costs locked into the bureaucratic model and collectively they are making it very difficult for organizations to survive the current economic crisis. This is especially so if their source of competitiveness relies upon quality or price. Some of the major inbuilt costs of the bureaucratic model are as follows

Poor communication

Relationships of personal dominance and inequality severely affect the quantity and quality of communication. In terms of the quantity of communication, the number of formal reporting relationships indicates the sheer volume of communication required. In their 1976 book, 'A Choice of Futures', Drs Fred and Merrelyn Emery calculated the formal reporting requirements in organizations structured on DP1 and DP2. For a small bureaucratic structure of 29 people, there were 28 formal reporting channels while there were no communications between peers about work.

The *quality* of communication also suffers when there is personal dominance and inequality as explained by Merrelyn Emery's paper, '*When the cure is the cause: the turnover and absenteeism problems*'.

"Within bureaucratic structures with their relations of personal dominance, communication has three characteristic features; asymmetry, egocentrism and 'them and us', an adversarial characteristic. Asymmetrical relations lack the reciprocity of sender and receiver that can be observed in a discussion between equals. There can be a total absence of discussion and a predominance of orders or instructions. Orders require reactions or responses, not conversation or negotiation. Asymmetry is a characteristic of the 'communication' between an operator and a machine and that it is reflected in person to person communication should come as no surprise."

Egocentrism is expressed in statements such as 'I want this by Friday'. Use of 'I' versus 'we' is one of the most distinctive language differences between autocratic and democratic organizations. In bureaucratic/autocratic structures, whole tasks are split into one person-one job pieces. The interests of individuals are, therefore, best served by looking out for themselves. They are not concerned to communicate information that could be of benefit to others, either horizontally or up and down. Similarly, unless a received communication is of benefit to oneself, there is little concern to attend to or remember it.

As we have illustrated above, DP1 or bureaucratic structures produce competition and this also explains the adversarial nature of its communications. Emery continues:

"Each step in the communication chain represents a difference in status and therefore, a difference in the interest of the individuals. Superiors want the truth if they can do something about it. If not, they would prefer not to know. Superiors frequently believe they know what is going on in their organizations but can be suffering from misinformation or a lack of information. Failing to inform is a powerful way of waging organizational war vertically as well as horizontally. Inferiors may distort communications to make themselves look good and make competitors look bad."

These three characteristics illustrate the dilemmas and costs inherent in divorcing work from responsibility for coordination and control. Our most common form of structure shows a mismatch of values because as consumers, people are encouraged to

speak out and demand their rights but when these same consumers arrive at work they are treated like children. When adults are treated as children, they get their revenge by exercising their purposefulness in exactly the way the structure demands. As it is inherently competitive, so they compete. But the ends they serve bear no relation to the organization's goals. Because the organization is not adaptive to the nature of the people within it, individuals meet their own needs.

Also, an increase in skills does not translate into improved communication unless the person is motivated to use the skills. As we have seen above, in DP1 structures people are less likely to enjoy optimal or satisfactory levels of the six criteria and correspondingly, they are less likely to be motivated to employ the communication skills they readily display in other settings.

These three characteristics of communication have caused untold damage to personal and organizational reputations, and in some cases have destroyed both careers and organizations. One only has read recent case studies of rogue currency traders to understand what damage misinformation or lack of information can do to superiors and their businesses. They obviously have very serious implications for risk management policies.

Error amplification

The structure affects the spread of errors in the same way as it affects communication. Firstly, errors can enter an organization from anywhere. Secondly, it is not always in an individual's interest to tell the truth. Replaceable parts do not want to be associated with a mistake. Thirdly, bosses try to maintain their dominance and, therefore, when they need to seek their subordinate's advice, they ask each separately. By asking for their independent judgements, the boss hopes to prevent collusion.

There is a simple mathematical formula that relates the number of subordinates to the chance of truthfulness. It shows that as the number of subordinates increases, so the chance of getting sound advice decreases. As advice travels up through the hierarchy, the chance of sound advice getting to the top is vanishingly small. The formula shows that once an error has entered a structure of inequality and personal dominance, it will inexorably spread and amplify through the organization.

Management attempts to counteract this amplification of error in several ways. They can try to prevent errors or mistakes entering the organization by writing strict standard operating procedures, training, rules and regulations and monitoring and enforcing. This is a never ending costly process.

A major effort is also put into devising surveillance and control systems that can minimize the chances of errors spreading. We're all familiar with the call centre surveillance catchcry, "your call may be monitored for coaching purposes".

A 2004 NSW Council of Civil Liberties report on workplace surveillance found that surveillance systems can contribute to employee stress, lower morale, and resentment.

The stakes to ensure workplace surveillance are high. The family of Telstra technician, Leon Dousset, said in a 2008 ABC TV 'Four Corners' report that his suicide was linked to Telstra's demanding performance targets and the installation of Global Positioning Systems (GPS), which track in detail employee daily movements.

Performance appraisal discussed below is another one of these attempts to control employees. Discipline must be maintained by use of various carrots and sticks. All these measures to prevent and/or recover from the inevitable amplification of errors are very expensive.

Dynamics of dependency and fight/flight

Denying employees the responsibility for controlling and coordinating their work produces two types of dynamics. The first type is called dependency because subordinates are dependent on their boss. People assume that the boss is there to take responsibility for them, which is the case, so they need not learn or work hard. They just tend to wait for the next instruction and rarely offer ideas to improve things. They are reluctant to become involved or participate and if things start going wrong, they give up easily.

The second dynamic is called fight/flight because subordinates assume that the boss is not working in their interests so they actively fight or passively resist instructions and suggestions. Because the structure produces competition and adversarial relationships in general, fight/flight can divide a workplace into cliques and is often described as ‘playing politics’.

Individuals who get caught up in fight/flight are often seen as having interpersonal problems or as trouble makers. Conflicts are often described as personality conflicts because unequal relationships accentuate personality differences. And to mitigate these personality differences employees are often subjected to costly personality tests. Finally, people sometimes behave irrationally when they are in conflict and as tempers rise, cases can even boil over into costly industrial relations issues.

Managers can spend large amounts of time and energy attempting to cajole workers out of dependency and into active, interested participation and work. This is an additional cost to the dependency itself which reduces innovativeness and productivity. There are also huge costs in having people spending their time fighting and plotting when they should be working. Negative dynamics are a drain on resources.

Poor communication, dependency and fight/flight are the most obvious signs that relationships are poor and trust is low. Trust is generated when there is openness, when people are known to share the same human concerns and there is a common understanding that they all live in the same world. None of these conditions can be present in a DP1 structure. Inequalities of status and the right of personal dominance ensure that superiors and subordinates have very different concerns and it can sometimes be very obvious that management and workers live in different worlds. Openness of information is impossible when it is a major weapon of competition and can also be tied to managerial prerogatives.

As the conditions for trust cannot be sustained in a DP1 structure, low trust and poor quality relationships are just another source of negative emotions that ultimately end up in tangible costs such as absenteeism.

Low intellectual satisfaction

Our hard data shows that employees do want intellectually challenging work and satisfaction and are prepared to move around to get it. This sample consists mainly of ordinary workers in manufacturing, assembly, service and clerical positions, some

from relatively disadvantaged backgrounds and some with low levels of education. When they get intellectual satisfaction, they stay in the organization.

The components of intellectual satisfaction are high workload, mental demand, sense of achievement, low replaceability, their knowledge being used and having learning on the job.

The evidence shows that workers want to use their brains at work and do a good day's work for a good day's pay. Any manager who believes their employees do not want challenging work, only an easy life and a pay packet, is contradicted by this data.

Replaceability is a function of low skill and training levels – unplug the existing part and plug another in. Employees want skills and education. They want to be treated as people not machines. Similarly, people become extremely frustrated and angry when they have relevant knowledge that is ignored. They want to contribute.

Performance appraisal

One area of bureaucracy that generates volumes of paper work and consumes many resources is the management and monitoring of one-to-one relationships via individual performance appraisals. It is an HR tool designed to be used by line management to reinforce desired organizational behaviours and increase organizational performance.

The subjectiveness and potential for favouritism make performance appraisals unpopular with superiors and subordinates alike, particularly as the outcomes often affect individual salaries. Whenever there are unequal relations, there is the potential for conflict and negative feelings about the workplace.

Busy line managers find them time consuming and a distraction. It is not uncommon for line managers to pay lip service to the whole concept of performance management. This behaviour is so prevalent that HR managers are trained to deal with reluctant line managers in HR management courses.

In some organizations, performance appraisals have become unmanageable because of de-layering of hierarchical reporting levels. Those left behind become responsible for more and more direct reports to the point where it's physically not possible to both undertake performance appraisals and meet all other job description objectives. The cost of managing and resourcing these ineffective performance appraisal programs is staggering, both physically and mentally for managers and for the organization as a whole.

All these above factors contribute to final outcomes such as defects in quality, poor productivity, turnover and absenteeism. The costs of these outcomes for Australian organizations and the community have been measured in the tens of \$billions and they are growing. Today many bureaucratic organizations are sinking in a sea of rising costs, much of their own making but also as a result of the global economic crisis. So what can be done to turn this situation around?

Participative democratic (DP2) structure

Obviously the thing to do is to change the design principle and therefore the basic structure of the organization so that these costly problems do not arise. The method used to change the design principle from DP1 to DP2 is the Participative Design

Workshop and we see below the sort of business results that organizations experience after they have changed their principle in this way.

The basic unit of a participative democratic structure is a self managing group where every person is of equal status. There are no supervisors, group or team leaders. Because the design principle is redundancy of function, there is more skill and knowledge built into each person than that person can use at any one point in time.

In terms of the work, a group performs a whole task where the whole task is a complete product or service or a major component of it. In DP2, rather than a boss setting goals for each individual and the section, the group is accountable for meeting a comprehensive set of measurable goals which they have negotiated and agreed. There is a goal for each aspect of the work, not just production goals. This set of goals controls the work of the group so it is important that there are human or social goals as well as goals governing environmental and quality concerns.

The *critical feature* of DP2 is that responsibility for coordination and control is located with the people doing the work, that is, with the group. The groups control and coordinate their own work and themselves. This is quite different from DP1, the bureaucracy, where the boss is responsible and accountable for controlling and coordinating the work of subordinates.

To work flexibly and successfully meet their goals, self-managing groups in a DP2 organization have redundant skill and knowledge, whereas a DP1 organization has more parts (people) than are required to do the productive work. This difference between redundancy of parts and skills is highlighted in the following comparison.

In the previous production breakdown example the DP1, bureaucratic structure, showed that there were 4 parts (people) with separate job descriptions involved in fixing part 1's broken down machine; namely the production operator (part 1), the production supervisor (part 2), the maintenance supervisor (part 3), and the maintenance fitter (part 4).

When part 1's machine breaks down, part 1 becomes idle. (NB if part 1's machine is a sub-component of a continuous operation then other parts will become idle too.) While part 1 is idle, parts 2 and 3 communicate with each other to sort out how to fix the problem, which usually involves re-prioritising the breakdown maintenance schedule. This can take time. Once sorted out, part 3 instructs part 4 to fix the machine.

In the DP2, participative democratic structure, a self-managing group of production operators holds all the essential skills to keep the production line operating at the output and efficiency rate specified in their agreed goals. Those operators (usually the ones who are keen to move along a maintenance career path) hold sufficient breakdown maintenance skills to help the group meet its production goals.

Therefore, in DP1 there are 4 people involved in fixing the problem with a considerable amount of downtime. In DP2, one multi-skilled person immediately fixes the problem with minimum downtime. It's not hard to work out which organizational design is more cost effective.

There is a flow on benefit from training members of a production self-managing group in breakdown maintenance skills. It frees up maintenance personnel to concentrate on preventative maintenance, where often highly specialised maintenance and electrical skills are required. This type of benefit is found in every industry and form of work.

When an organization transforms from a bureaucracy to a participative democracy, former supervisors generally become part of a self-managing group providing support and training to the operational groups, or they work on future developments such as projects to reduce the organization's carbon footprint. They do not get involved in the day to day work of operational self-managing groups. They as a group have their own productive work to do.

The basic structural unit which is the self-managing group is repeated from the bottom to the top of an organization. These DP2 organizations consisting of self-managing groups at all levels are called non-dominant hierarchies of function. In a small organization of about 100 employees there would most likely be only two functions – strategic and operational, and therefore, only two levels of hierarchy. A larger entity may require strategic, resource and operational functions and therefore, three levels of hierarchy. Relations between groups at whatever levels are all conducted as negotiations between peers, equals. This means change can be initiated from any point in any organization.

This description of a DP2 structure or participative democracy makes it clear that:

- people are treated as responsible purposeful adults
- people are known to be open to their environments and this environmental knowledge is respected. As people working in an organization notice changes in demand or customer behaviour, they can initiate discussion and change to actively adapt the structure and its functions to that environmental change.
- participative democracies acknowledge the world consists of open systems (people, organizations, communities, and so on) and each functions as an open system. For employees, the organizational structure functions as an environment. It influences their behaviour.
- the structure induces cooperation rather than competition. Because people work in groups to meet group goals it is now in their interests to cooperate and communicate effectively. There are no individual rewards or punishments in a DP2 structure so it is in everybody's interest to make the group look as good as possible. Agreeing to meet certain outcomes produces cooperation and effective communication because without these behaviours, those outcomes will not be attained. No group wants to fail.

Low cost participative democratic organizations sustain high performance

When people work in a self-managing group that controls and coordinates its own work and is accountable for meeting agreed goals, all the problems and inbuilt costs that arise from the competitive behaviours caused by the bureaucratic structure are not present.

Employees' basic human needs of work, the intrinsic motivators, improve dramatically when they work in self-managing groups:

Elbow room: all the decisions previously made by the immediate boss are now available to the group. People who like making decisions have many to make. People who prefer to hang back can do so.

Continuous learning: when the group discusses who is to do what, members participate to ensure they get the challenges they need to learn. For example, if a worker does not want to move up a career path and prefers to do simpler jobs then group members can arrange for this to happen. On the other hand, for those who want

to take on more challenging tasks that will help meet group goals then the members can plan their work for this outcome too. And as people are now cooperating to achieve their goals, it is in their interests to give each other accurate and timely feedback.

Variety: All of the narrow jobs included in the group's task are now available to all members.

In general, groups work flexibly so that their members get the right amount of each of decision making, learning and variety for them.

Mutual support and respect: as the structure produces cooperation, so it also produces mutual support and respect. It is now in everybody's interest to look after and help each other out. In self-managing groups members are valued for their contribution and are not treated as replaceable cogs in a machine.

Meaningfulness: as people are actively participating to ensure an adaptive direction for the organization, they have opportunities to improve the social value of their work. Group members also understand their contribution to a whole product or service because the self-managing group is responsible for a whole task.

Desirable future: group members now have the opportunity to learn all of the skills and knowledge encompassed in the previously fragmented narrow jobs. In DP2 structures the only way to pay people fairly is to move to a skills-based pay system which provides a career path that supports personal development and underpins group goal attainment. To advance up a career path an individual must demonstrate that he/she has a particular piece of knowledge or can apply a particular skill. Employees are then paid for the knowledge and skills they hold.

In terms of **communication**, the number of reporting relationships in a participative democracy is orders of magnitude smaller than a bureaucracy. Transforming a small bureaucratic structure to a participative democracy with 2 operational self-managing groups and a self-managing group doing the productive work required at the level of the whole organization, reduced the reporting channels from 28 to 2. While there were no communications between peers about work in DP1, there were 136 in DP2. There was also 29.5 times as much paper work generated when the structure was DP1 than there was when the structure was DP2.

In other words, formal reporting and the amount of paper generated were much higher in bureaucratic structures while the communications between peers about work was non-existent in bureaucratic structures and high in participative democratic structures. Formal reporting and paper generation do not necessarily bear any relationship to productive work.

Asymmetry, egocentrism, and 'them and us', the features of bureaucratic communication are not found in participative democratic organizations. This is because people are working as equals, not adversaries. They have no problems communicating.

This proves that effective communication is a function of organizational structure and motivation, not a matter of skills. DP2 organizations, therefore, avoid the costly communication training that appears to be required in bureaucracies.

In DP2, **errors** do not amplify through the structure – they attenuate. As the group discusses the advice it will give, errors will be discovered and corrected. The mathematical formula shows that errors are reduced. This means that errors do not have to be prevented from entering the system because they will be discovered and

will function as the basis of learning. All of the costs of building and maintaining surveillance, control and error correction systems disappear.

Another key benefit of self-managing groups is that they generate what is known as the **creative working mode**. In this mode, group members work together with sustained high energy and creativity. This is their normal pattern of work not just a rare event. This mode is in stark contrast to the dynamics of dependency and fight/flight found in bureaucratic structures.

Once the design principle has been change from DP1 to DP2 and people are working in self managing groups, they have all the conditions for **high intellectual satisfaction**. Mental demand, learning and using their knowledge come from challenges and decision making. Low replaceability comes from the increase in skills and knowledge, and a sense of achievement comes from meeting or bettering the group's goals.

No longer is there a requirement for very costly individual performance appraisals. From the perspective of organizational performance, it is only the performance of the groups that matter because group goals are directly linked to the overall goals of the entity. Self-managing group members are constantly controlling, monitoring and mentoring each other informally as a normal part of their daily work.

Each group monitors its own performance as a matter of course so it knows how it is going. It is extremely rare for a group not to have met its goals by the end of the reporting period. If a group realizes it won't meet a particular goal, it automatically analyses why. If different conditions or quality of supplies are required for example, the group will sit down with the relevant group for their problem and sort it out. This may involve support, training, information or other resources. The management group also monitors the performance of the operational groups against their respective agreed goals because it is part of their work to ensure that all the group goals converge to produce the strategic goals.

This process exemplifies the non-dominant hierarchy of function that is a DP2 or participative democratic structure. It also highlights the interdependency of each functional level.

In summary

This simple analysis shows why Merrelyn Emery's statistical analysis of data from organizations across Canada and Australia found that the causal pattern for DP2 structures or participative democracies is the opposite of that found for DP1 structures or bureaucracies.

That is, *organizations designed as participative democracies have high levels of the intrinsic motivators that **produce** motivation or engagement which **leads to a range of enabling factors or conditions such as trust and intellectual satisfaction that **lead to low turnover and absenteeism and high levels of employee mental health, innovation, quality, and productivity.*****

The Future of Work

If you had to create an organization from scratch, would you design it to demotivate and de-skill employees and produce uncooperative behaviour, which would then require all sorts of costly training programs to try and turn this situation around so the organization had some chance of meeting its goals?

Wouldn't it make much more sense to create in the first place an organization that is actually designed to motivate employees and produce the conditions that enables employees to work cooperatively and innovatively to continually improve organizational performance?

As the economic crisis unfolds and carbon begins to cost, the future of work will centre on the second design principle, DP2, because the crippling costs of operating a DP1, bureaucratic organization will make it an unviable option in this new and highly unpredictable environment. The proven alternative to a mechanistic bureaucracy is a participative democratic organization.

Examples of participative democratic organizations

Over the last 60 years there have been many examples of increased productivity and reduced costs when organizations redesign their structures from bureaucratic to participative democracies. Here are several sustained outcomes published in recent times that include the associated company names and one organization that wishes to remain anonymous.

Karadoc Winery Victoria: Productivity increased 7% in first year. Inventories fell from 4 weeks to 10 days for casks and from 2 months to 4-5 weeks for bottles. Improvements in efficiencies and waste reduction were around 28% and 38% respectively, and customer complaints about packaging fell by about 14%. There was a sustained reduction of lost time injuries down from 2,000-3,000 hours per year to 20-30 hours per year over a 10 year period.

Syncrude Canada Ltd: Secured its future by reducing the cost of a barrel of its light sweet synthetic crude to a cost competitive with the traditional product. Between 1989 and 1995, production increased by 37%, productivity per person increased 76% and revenue increased 50%. At the same time, operating costs dropped 20% and the workforce of originally over 4000 dropped by 22%. There were no major technical changes during this period with only minimal sustaining capital injection. By 1997 productivity and revenue had increased even more while costs and workforce had further reduced convincing owners and new investors to commit over \$2.5 billion in new capital.

J Robins & Sons, Sydney: This Sydney-based company has been designing, manufacturing, and distributing footwear in Australia for over 100 years. Tariff reductions and global competition were threatening this company's viability with 500+ jobs at stake.

Some 5 years ago J Robins changed from a bureaucracy to a participative democratic organization. Since then, total stock has reduced by 50% resulting in increased investment in new technology, lead time has reduced from 15 days to 2 hours, customer returns have reduced by 45%, downtime has reduced by 65% and pairs produced per person has increased by 30%. Absenteeism has dropped from 4 to 1.5%.

Currently self-managing groups at J Robins can make a shoe in 40 minutes, which means the business can now take a customer order size of one! This expertise has opened up new markets including selling shoes at home shows. And because of increased leather making expertise, J Robins is now selling other leather products.

In the last few years J Robin's share of Australian production has gone from 12% to over 60%, while many other Australian footwear manufacturers have closed their doors and sent manufacturing jobs offshore.

Manufacturer of mining and construction industry products, Queensland: This outback Queensland operation employs about 100 people and a previous attempt to set up teams by management, who had little training and experience in this area, had poor results.

In 2006 an initial review of the production plant overwhelmingly showed that organizational factors alone, (which were directly under management control), were contributing to poor employee engagement and low motivation leading to uncompetitive performance.

In late 2006 management and employees redesigned their Queensland manufacturing plant from a low engagement and uncompetitive bureaucracy operation to a participative democracy where employees are multi-skilled and work in self-managing groups that are accountable for meeting agreed goals. Within six months the operation achieved the following unprecedented outcomes:

- Employees worked out a way to immediately increase overall production by more than 40% without capital expenditure. And they showed how they could do this by eliminating most overtime too! This makes their operation competitive with low cost imports from China. (Incidentally, management were concerned that a 20% target could not be met.)
- Employee engagement improved from 32% to 55% (The engagement survey was conducted by an independent company.)
- Three operational management positions that became vacant during the project were not replaced. The self-managing groups incorporated the former management responsibilities into the groups', which included shift production planning and breakdown maintenance.

It's worth noting that when the self-managing groups were presenting their goals and action plans to management the plant manager stated, "This is the most exciting presentation I've heard in this board room. There's a fantastic opportunity for this plant to become very successful".

Given the consistent and sustainable successes of DP2 organizations, why are there so few of them? The answer is that the vast majority of people never hear about them because our educational institutions are teaching only the opposite set of theories and practices, the ones that don't work. But it is not only the scarcity of DP2 organizations that constitutes a problem; it is also the escalating costs we have seen with increasing turnover and absenteeism. Why is the situation getting worse?

Current HR initiatives promise a lot but don't deliver

In the AHRI study discussed above, the researchers found a discrepancy between the reasons for leaving assumed by HR managers and those given by employees in exit interviews. Merrelyn Emery further analysed the exit data and it became clear that HR managers assume employees are primarily concerned with interpersonal relationships, money and getting ahead. However, what employees were really concerned about was having interesting and challenging work and a decent quality of life.

This exit data is the same as that from our comprehensive international database. It shows that employees all over the world are consistent in what they need from their workplaces.

This analysis highlights that HR managers believe employees are motivated by hygiene factors or the external motivators such as pay and getting ahead. Previous research shows that external motivators can produce short term increases in motivation, but cannot produce *sustained* intrinsic motivation produced by the 6 criteria described above.

Employees are leaving organizations not because of external motivators, but because their basic human needs are not being met. *How is it that the HR manager's reasons for people leaving an organization are so seriously out of touch with the realities of employees?*

The only conclusion you can make is that HR managers are unaware of the criteria that drive sustained intrinsic motivation. This lack of understanding must stem from what's being taught in Human Resource Management (HRM) and management courses more generally.

Human Resource Management courses are failing students

Most of our universities, colleges and private enterprise education and training organizations teach only the Human Relations School of thought. This school of thought goes back to the 1920-30s and is based on a set of mechanistic / closed system beliefs and assumptions. There was never sufficient evidence to justify these beliefs and assumptions in the first place. None has been discovered since. The theory emanating from this ideological base has become a mythology perpetuated through generations of textbooks.

Not surprisingly then, it is impossible to find reports of organizations that have undergone a change process based on Human Relations and that show increased and *sustained* levels of innovation, productivity and quality. One only needs to ask proponents of Human Relations to describe their intervention, show the figures before the intervention, the changed figures that flow straight from the intervention, and then spell out the sustained increases in innovation, productivity and quality over the following 3 year period, and you'll draw a blank.

Human Relations theory states that commitment to an organization is generated by people being nice to each other and communicating well. By improving skills in interpersonal relationships and communication, commitment is generated and productivity and quality will be improved. HR initiatives, therefore, focus on trying to change the individual. That theory never worked and it does not work now.

By ignoring the design principles and putting the blame for problems on people alone, we can see that *Human Relations is a closed systems theory*.

Analysis of HRM curricula across many different tertiary institutions clearly shows that HR managers are being taught to design and maintain bureaucracies. For example, one University is offering a Bachelor of Business (Human Resources) where students are taught about job design and evaluation and performance management (individual appraisals), which are key elements of bureaucratic design.

A popular text book called *Organizational Behaviour – a global perspective 3rd Edition* consists of 735 pages on how to establish and manage DP1 organizations. It even has substantial information about authoritarianism, dogmatism, and Machiavellianism but nothing about participative democracy. And it's short discussion about 'open systems' is totally misleading. It defines 'open systems' as the transformation of human and physical resources received from their environment into goods and services that are then returned to the environment. This definition is a

mechanistic input-output model. It is classic closed system thinking. It provides no understanding that open systems can influence and are influenced by their environments over time. This lack of understanding affects an organization's capability to develop effective strategic plans and organizational designs that will enable it to actively adapt to its environment.

This text defines bureaucracy as the basic building block of all organizations and praises it: "A bureaucracy is an ideal form of organization whose characteristics were defined by the German sociologist Max Weber."

The chapter on *Teamwork and team building* runs from pages 308 – 347 and covers 'teams versus groups', 'foundations of team building', 'effective team leadership', 'effective team facilitators', 'team norms', 'employee involvement teams', 'problem-solving teams', 'virtual teams', and 'self-managing teams'.

Their definition of self-managing teams is: "small groups of people empowered to manage themselves and the work they do on a day-to-day basis". They also have a definition of autonomous work teams: "problem-solving teams given significant authority and responsibility over their work in contexts of highly related or interdependent jobs". There is not even one functional concept such as the design principles in the whole chapter. It is simply words and as Humpty Dumpty knew, words can mean anything people want them to mean.

But this textbook is not just teaching people that all organizations must be autocratic and bureaucratic: the diagram on self-managing teams has a team leader and these so called 'teams' are only at the bottom of the bureaucratic triangle. Therefore, this book is showing students how to set up laissez-faire organizations that cause confusion and reduce accountability.

HR managers complete their courses believing they can improve organizational performance by improving interpersonal dynamics and communication skills. They are not taught that there are two organizational design principles and that employee behaviour is influenced by these most powerful principles.

Therefore, when management come to HR to complain about employees being trouble makers, not cooperating, resisting change, not helping out to improve performance, not passing important information up the chain of command, not taking responsibility, not being a team member, and so on, HR managers often suggest as a first option, training programs that try to correct employee's recalcitrant behaviour.

These programs, which include things like team building, communicating effectively in the workplace, conflict management, anger management etc., are simply more of the same. All are variations on a theme. They all recognize that most workplaces experience communication problems and conflict.

One particular communication training program states, "This program is for individuals, team leaders and managers...to communicate and work with others avoiding conflict and disharmony". Some of the areas covered include communication style and pitfalls, effective listening techniques, interpersonal techniques.

Another course for working effectively in teams involves examining the role that group dynamics play in establishing and maintaining productive teams. The course covers such matters as leadership, team building, effective decision making in team environments.

Each course is an explicit acknowledgement that the individual people they are recruiting are lacking the skills and knowledge required to participate in or manage a

harmonious workplace where people communicate effectively. They assume that employees are inadequate human beings who need to be improved.

Clearly, training people in communication skills is not going to solve any communication problems caused by DP1. These problems flow from inequality and lack of motivation, not lack of skill. Exactly the same people show no deficit in listening skills when they are enjoying a spirited discussion at the pub or are working together for their local voluntary organization.

And the presumption that group dynamics is a cause of the degree of productivity in a team turns reality and fifty years of consistent research evidence on its head.

All of these many courses, therefore, share the basic features of Human Relations theory,

- the total lack of awareness of the organizational design principles and the power of structure to affect human behaviour
- the use of closed rather than open systems that locates the causes of the problems in the individual or the interpersonal social unit
- the lack of regard for empirical evidence for their theories and the practices derived from them.

These courses are not cheap. They range from about \$400 - \$800 per day per individual. On top of the cost of the problems in the first place, sending people out to these courses adds insult to injury as the courses stand no chance of redressing the problem. It is an expensive way not to solve a problem or exacerbate it.

While management may believe in these types of courses, their employees are less enthusiastic. In 2007 we asked those in a small Australian organization who had experienced a range of these activities to rate how they worked to improve their creativity or productivity. The most relevant one here, team building, had no effect on or turned off 80.0%.

Analysis shows that this type of training can have short term effects but after a while things go back to normal. If these approaches and other Human Relations programs did produce *sustainable solutions* why do we have only around 30% of employees engaged and why are turnover and absenteeism increasing?

Cosmetic change reduces organizational performance

Another popular option adopted by HR and senior management in their attempts to improve bureaucracies revolves around the relationship between frontline supervisors and employees. Management in their efforts to improve this relationship change the name 'supervisor' to 'team leader'.

In 2000 Canadian social scientist, Professor Don de Guerre from Montreal's Concordia University reported that this form of organization is increasing in North America. They are mistakenly known as empowered workplaces, but are actually producing laissez-faire organizations where people don't know who is accountable for what.

Management loosens the controls between the team leaders and their subordinates as they believe this type of change will empower employees and improve motivation. But the team leaders still retain their legal rights as supervisors. This situation creates widespread confusion about who is responsible for what – is it the team or the team leader?

Important matters can fall through the cracks and we found over 12% of employees from a large organization with team leaders believed that nobody much was usually or always held accountable when things went wrong. This was significantly higher than in organizations without team leaders.

Theoretically, laissez-faire is neither bureaucracy nor participative democracy but these modern forms of laissez-faire are still DP1. The competition and negative dynamics are still present but with the additional confusion and lack of accountability, they produce many more negative emotional affects and poorer overall organizational performance. They are worse than a bureaucracy.

The trouble with these changes and others like them that try to improve the performance of bureaucracies is that they're all superficial changes. They don't get to the deep-seated structural problems of the organization which are caused by the design principles.

These superficial changes are equivalent to dyeing your hair. When the dye washes or grows out, it goes back to its original genetic colour. Changes to bureaucracies may have a short term impact, but after awhile things go back to the way they were because the design principle has not changed.

The cure is the cause

Merrelyn Emery called her paper 'When the cure is the cause' because as we have seen, most of the HR strategies for fixing the turnover and absenteeism problems have not the slightest chance of working. But the situation is worse than that. She wrote:

"By adopting the beliefs of the Human Relations School and ascribing the woes of the organization to the employees who are suffering its effects, HR managers are blaming the victims. Underlying their assumptions and strategies is the belief that there is something wrong with the employees – their materialistic desires, their lack of interpersonal and communication skills. As employees know this, it is no wonder the turnover and absenteeism problems are getting worse. HR is inducing negative emotions, helping to turn employees off.

People are increasingly well educated, sophisticated and independent. They are increasingly less likely to suffer the authoritarianism they experience within bureaucratic structures. They are also less likely to tolerate managers assuming they are inadequate human beings."

Thus we have the absurd situation that HR managers are attempting to fix the problems in organizations that de-motivate and de-skill employees and produce uncooperative behaviour by measures that further de-motivate and de-skill.

If Human Relations theory was producing sustained improvement in performance then key indicators such as turnover and absenteeism would be decreasing over time. But as we have seen, these indicators are increasing.

Universities are failing the nation

Why is it then that tertiary institutions are still teaching flawed management courses when the evidence clearly shows that they are failing students, organizations, investors, and communities?

You could perhaps excuse these academics for being unaware of the alternative to bureaucracy because universities are themselves bureaucratic structures. This excuse wears thin however, because an expounded theory must have evidence to support it. Why do the academics in our various social science departments no longer understand the nature of science and research? Why are our academics uncritically parroting the textbooks that contain this mythological material? Have the predictions of universities as 'sausage factories' proved true?

Teaching Human Relations and ignoring the alternative is anti-scientific. In the current economic circumstances and the uncertain future we face, this situation must be redressed. This is not a matter of academic freedom: it is a matter of science and its societal consequences.

Human Relations is pushed by people who have vested interests in providing the products and services this ideology demands. Training people in communication and interpersonal skills is a huge industry. The trend towards academics also spending as much of their time as possible as paid consultants is inevitably spreading Human Relations because this is what managers ask for. There is a serious malaise in our social 'science' departments.

Universities and other tertiary educational institutions that teach courses underpinned by Human Relations theory must answer for the fact that managerial and particularly HR beliefs and practices are damaging our industries, their employees and the country. They too must change.

Conclusion

Evidence about the failings of bureaucratic structures and managerial beliefs and practices has been accumulating for a *long* time. It is time to call a halt to the status quo. We must replace the bureaucratic structures that produce sick, turned off people, high turnover and absenteeism with participative democratic structures that produce healthy motivated people, innovation, productivity and quality.

We must replace the Human Relations School with theories that actually work in practice. Universities need to start exercising leadership here. Senior management, unions and their peak organizations across the country can help by demanding that tertiary educational institutions teach those theories that work. Management needs these theories so they can redesign their structures and strategies to reduce their costs and increase their profits. Australia cannot afford high unemployment and the terrible flow ons it creates for families and communities.

As we face the unprecedented global economic crisis on top of accelerating climate change, we need the energy and creativity of all our people.

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