Notebook - Six Simple Rules

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Page 2 | Highlight

> They were working hard and, when they failed to achieve the results they wanted, they worked harder. But they didn’t have much hope the outcome would be any different. They felt overwhelmed, trapped, and often misunderstood and unsupported by their teams, bosses, and boards.

Page 3 | Highlight

> BCG Complexity Index.

Page 4 | Highlight

> an increase in the number of relevant stakeholders. Companies must answer to customers, shareholders, and employees as well as to any number of political, regulatory, and compliance authorities.

Page 5 | Highlight

> the winners in today’s business environment are those companies that know how to leverage complexity and exploit it to create competitive advantage.

Page 6 | Highlight

> work harder and harder but on non-value-adding activities.

Page 7 | Highlight

> no correlation between the size of companies and their degree of complicatedness.

Page 10 | Highlight

> The hard approach rests on two fundamental assumptions. The first is the belief that structures,

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> processes, and systems have a direct and predictable effect on performance, and as long as managers pick the right ones, they will get the performance they want. So, for example, if you want your employees to customize your offering to local market demands, you choose a decentralized organizational structure; if you want to leverage economies of scale, you choose a centralized structure, and so on. The second assumption is that the human factor is the weakest and least reliable link of the organization and that it is essential to control people's behavior through the proliferation of rules to specify their actions and through financial incentives linked to carefully designed metrics and key performance indicators (KPIs) to motivate them to perform in the way the organization wants them to.

Page 10 | Highlight

> When the company needs to meet new performance requirements, the hard response is to add new structures, processes, and systems to help satisfy those requirements, hence, the introduction of the innovation czar, the risk management team, the compliance unit, the customer-centricity leader, Mr. Quality-in-Chief, and the cohort of coordinators and interfaces that have become so common in companies.

Page 11 | Highlight

> Performance increasingly depends on the cooperation between the boxes.

Page 12 | Highlight

> According to this perspective, an organization is a set of interpersonal relationships and the sentiments that govern them.12 Good performance is the by-product of good interpersonal relationships. What people do is predetermined by personal traits, so-called psychological needs and mind-sets. In other words, to change behavior at work, change the mind-set (or change the people).

Page 12 | Highlight

> At first glance, the soft approach may seem like the antithesis to the hard approach, but it isn't. Both seek to control the individual. The only difference lies in the fact that the soft approach assumes that what really matters is emotional rather than financial stimuli.

Page 13 | Highlight

> complexity can only be addressed by people using their judgment in the moment. People's autonomy is therefore essential to deal with complexity.

Page 13 | Highlight

> Companies need to invest in—and trust—the intelligence and ingenuity of their people by expanding their autonomy and room for maneuver.

Page 14 | Highlight

> It is also in the nature of complexity that no one individual has the entire answer. So it is equally necessary that people use their autonomy to cooperate with each other. Companies need to encourage—and, indeed, impel—people to perform their specialized tasks in a way that also enhances the effectiveness of others.

Page 14 | Highlight

> the emphasis on good interpersonal feelings typical of the soft approach creates obstacles to cooperation

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Page 16 | Highlight

> The rules are based on the premise that the key to managing complexity is the combination of autonomy and cooperation.

Page 16 | Highlight

> The purpose of the simple rules is to create situations in which each person's autonomy—in using judgment and energy—is made more effective by the rest of the group, and in which people put their autonomy in the service of the group.

Page 17 | Highlight

> THE SIX SIMPLE RULES OVERVIEW

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Page 17 | Highlight

> Understand what your people do. This rule is about getting a true understanding of performance—what people actually do and why they do it—and avoiding the smokescreen of the hard and soft approaches. With this understanding, you can then use the other simple rules to intervene.

Page 17 | Highlight

> Reinforce integrators. This rule involves giving to units and individuals the power and interest to foster cooperation; integrators, when reinforced, allow each one to benefit from the cooperation of others.

Page 17 | Highlight

> Increase the total quantity of power. This rule shows how to create new power—not just shift existing power—so that the organization is able to effectively mobilize people to satisfy the multiple performance requirements of complexity.

Page 17 | Highlight

> Increase reciprocity. This rule and rules five and six shift from creating the conditions for effective autonomy to ensuring that people put their autonomy in the service of the group to deal with complexity; rule four achieves this through rich objectives, the elimination of internal monopolies, and the removal of some resources.

Page 17 | Highlight

> Extend the shadow of the future. This rule harnesses the natural power of time—rather than the use of supervision, metrics, and incentives—to create direct feedback loops that impel people to do their own work today in a way that also contributes to the satisfaction of performance requirements that matter in the future.

Page 18 | Highlight

> Reward those who cooperate. This rule radically changes the managerial dialogue—covering the entire spectrum from target setting to evaluation—in a way that makes transparency, innovation, and ambitious aspirations become the best choice for individuals and teams.

Page 19 | Highlight

> give people an advantage in the way they mobilize their intelligence and energy at work by providing them with relevant knowledge, room for maneuver, power, and the resource of cooperation.

Page 19 | Highlight

> create the conditions for individual autonomy so that its effectiveness can be multiplied through cooperation from others.

Page 19 | Highlight

> use their autonomy to cooperate with others, by embedding feedback loops that expose them as directly as possible to the consequences of their actions, without the need for extra supervision and structure or for the bureaucracy of compliance metrics and incentives.

Page 21 | Highlight

> there are always "good reasons" (in the sense of reasons with explanatory power) for how people behave.

Page 21 | Highlight

> What matters are not the rules, but the ways people use them.

Page 21 | Highlight

> Organizations have to create the right context for cooperation.

Page 24 | Highlight

> traditional methods, developed for a different, less complex era,

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Page 26 | Highlight

> People's behavior can be understood in terms of three key elements: the goals people are seeking

Page 26 | Highlight Continued

> to attain (or problems they are trying to solve) and the available resources that help them or constraints that hinder them.

Page 26 | Highlight

> An important type of constraint is the adjustment cost that people bear when they cooperate with others.

Page 31 | Highlight

> Once you understand what people do and why they do it, it is easier to improve performance, not by asking or telling people what to do, but by changing their context.

Page 31 | Highlight

> Goals are what people are trying to achieve, the problems they are trying to solve, and the stakes for them in a particular situation. When

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Page 32 | Highlight

> Questions to Ask to Analyze Context What are the most interesting aspects of your work? Why? What are the most difficult, annoying, or frustrating aspects? Why? What are the key problems that you have to deal with in your job? How do you go about solving them? How can you know if these solutions work? Who (departments, people) do you have to interact with to do your job? Which interactions are the most important ones for your work? Why? Which are the most difficult or involve the most conflict? Why? Who do you depend on? What is it that they do that affects your ability to do well? When they act, do they take into account the impact of their actions on you?

Page 33 | Highlight

> Resources are what people use to solve their problems in achieving what matters to them at work.

Page 33 | Highlight

> Constraints are things that people try to avoid, minimize, or sidestep.

Page 34 | Highlight

> Whenever there is interdependency, there needs to be cooperation.

Page 34 | Highlight

> Cooperation between individuals with distinct responsibilities, resources, and constraints always involves what we call adjustment costs.

Page 34 | Highlight

> When two people cooperate, they move the cursor along the continuum to a spot that is not ideal for either but that is more beneficial for the overall results.

Page 36 | Highlight

> Clues for Assessing Adjustment Costs Stress or dissatisfaction. When one person or group adjusts to the needs of others, but the others do not do so in return, the result is usually a situation of high stress for those bearing the costs of adjustment. Resentment. When a person or group avoids adjusting to the needs of others, and forces them to do the adjusting, that person or group is often the target of resentment. Indifference. When a person or group neither makes adjustments nor forces others to do so, others often display indifference toward the individual or group.

Page 37 | Highlight

> nothing is inherently a resource or constraint; it depends on people's goals and problems.

Page 38 | Highlight

> Often, the most effective way to change people's goals is not to intervene directly on the goals, but rather to change the resources available to the people.

Page 42 | Highlight

> hard approach insists so much on clarity—in the details, completeness, and accuracy of job and role definitions, process instructions, procedural rules,

Page 46 | Highlight

> if an organizational mechanism is useless, then it is positively damaging.

Page 47 | Highlight

> compensate with extra resources that remove interdependencies.

Page 48 | Highlight

> To change behavior, it is more effective to change the context instead of trying to change people's mind-sets.

Page 50 | Highlight

> Behaviors Are Rational Solutions in a Particular Context People always have reasons for the things they do, even if those things are not always reasonable from the perspective of others. Every behavior is a solution to a problem. Every behavior contains evidence about the resources it mobilizes. Every behavior shows traces of the efforts people make to sidestep or minimize their constraints. Never explain what people do in terms of an irrational mind-set (doing so tells more about the limitations of your analysis than the limitations of the people being analyzed).

Page 50 | Highlight

> Removed useless and thus counterproductive organizational elements.

Page 51 | Highlight

> make managerial promotion dependent on having worked in more than one function.

Page 51 | Highlight

> Changed the context to produce cooperation.

Page 52 | Highlight

> Performance Is Behavior Performance is the result of what people do—their actions, interactions,

> and decisions. To understand organizational performance, managers must trace that performance back to what people do and the way their behaviors combine with each other to produce overall results. Describe what people do, not what they don't do. Identify their goals, resources, and constraints. Understand how existing organizational elements shape these goals, resources, and constraints. Don't use black-box explanations based on people's mind-sets or personality traits. Ask yourself how behaviors adjust to each other and how those adjustments shape performance.

Page 54 | Highlight

> SUMMARY OF SIMPLE RULE ONE What do the executive teams of competing firms actually compete on? Not on their firm's products or services—this is the company's output. On the pertinence of their decisions? This is quite tautological. In fact, executive teams primarily compete on the quality of their insights about their own organization. The first basis of competition between executive teams is the understanding of what really happens in their organization. To deal with complexity without complicatedness requires that you must first avoid or get rid of the false explanations derived from the hard and soft approaches that obscure your understanding of what is really going on. You need to get a true understanding of performance: what people do and why they do it. Trace performance back to behaviors and how they influence and combine with each other to produce overall results. Use observation, mapping, measurement, and discussion to do this. Understand the context of goals, resources, and constraints within which the current behaviors constitute rational strategies for people. Find out how your organization's elements (structure, scorecards, systems, incentives, and so on) shape these goals, resources, and constraints. Because you understand why people do what they do and how it drives performance, you have created the sine qua non conditions to then define with surgical accuracy the minimum sufficient set of interventions. You are now ready to use the other simple rules to modify and simplify the organizational elements with adequate knowledge of their impact on the work context and thus performance.

Page 55 | Highlight

> An effective integrator has both an interest in making others cooperate and the power to impel them to do so.

Page 56 | Highlight

> Reinforcing integrators involves making sure that there are roles in the organization with both the power and the interest.

Page 56 | Highlight

> being an integrator should be at the very heart of the managerial role.

Page 57 | Highlight

> integrators cannot be ignored.

Page 58 | Highlight

> Because they are a resource and a constraint, integrators typically attract positive and negative feelings, but never indifference.

Page 63 | Highlight

> an integrator makes a difference for people, either positive or negative;

Page 70 | Highlight

> repeated exposure to interactions with unhappy customers

Page 71 | Highlight

> To be a monopoly means that an organization can make customers bear the cost of the comfortable avoidance of cooperation among its employees—in the form of delays, defects, and high prices.

Page 71 | Highlight

> the more work has relied on positive interpersonal feelings, the more a change at work will be experienced as a betrayal by those whose good feelings are strained by the change.

Page 72 | Highlight

> People only cooperate when the context of work makes it individually useful for them to cooperate.

Page 72 | Highlight

> Remove managerial positions. Some managerial roles will never have sufficient power to influence the work context so that people have an interest in cooperating. It’s best to eliminate these positions.

Page 73 | Highlight

> Minimize rules. Too many rules hem in managers and keep them from effectively exercising their judgment. It’s best to minimize them.

Page 73 | Highlight

> Rely on judgment over metrics. One of the paradoxes of cooperation is that it is extremely difficult to measure who contributes what. For managers to serve effectively as integrators, rely on their judgment instead of pseudo-precise metrics.

Page 74 | Highlight

> the first step in reinforcing your managers to play the integrator role is to cut the number of hierarchical layers, which simultaneously increases the span of control and shortens hierarchical lines.

Page 75 | Highlight

> It’s the same phenomenon that we see in government, where legislators respond to every call for action with a new law.

Page 75 | Highlight

> Rules in the workplace can take many different forms: A process definition specifies that the way to achieve X is by doing Y followed by Z. A performance target becomes a priority in every situation, even when the target doesn’t really make sense. A template specifies the only way to convey a certain type of information. Monitoring scorecards specify how activity is recorded. A computerized job request is a rule on interaction. An internal contract, such as a service-level agreement (SLA) between support services and internal customers, details what mechanisms constitute minimum (and very often, therefore, maximum) service.

Page 76 | Highlight

> the trade-offs between contradictory performance requirements. But a trade-off specified in advance will always be at some distance from the situation-specific optimum that can be found in the here and now.

Page 77 | Highlight

> Beyond a certain threshold (which can only be determined by the specific work context), adding new rules also decreases management's control over the people to whom the rules apply.

Page 77 | Highlight

> by definition, there can be no rule about how to correctly interpret a rule.

Page 78 | Highlight

> As the rules pile up and apply to more practices, managers can make less of a difference for their teams.

Page 78 | Highlight

> requests for more rules often come from the team members, rather than from their manager. Rules protect teams from the hierarchy by diminishing managers' room to maneuver.

Page 79 | Highlight

> The Benefits of Reinforcing Integrators More direct cooperation to optimize contradictory performance requirements. Less complicatedness thanks to the removal of matrix dimensions and hierarchical layers. Less waste and fewer mistakes that result from escalating decisions. Decisions made as close as possible to where the action takes place and where information is richest.

Page 80 | Highlight

> To cooperate always involves a decision about how to allocate your efforts, time, and energy. That decision always carries some degree of personal risk. You agree to sacrifice the ultimate protection granted by your measurable performance in order to enhance in a disproportionate way the

Page 80 | Highlight Continued

> performance of others and the overall results.

Page 81 | Highlight

> What you can’t accurately measure: The contribution of one individual or unit to the effectiveness of others (the contribution of procurement to the effectiveness of manufacturing, the contribution of front offices to the effectiveness of back offices, and so on).

Page 81 | Highlight

> Therefore: Don’t measure behavior; measure results. Use judgment rather than measurements to evaluate the degree of cooperation.

Page 82 | Highlight

> managers need to be present to observe and gather, through conversation and interactions, the nonmeasurable data that reveals the content and result of cooperation.

Page 82 | Highlight

> “I don’t think many people fully understand the value of observing. I came to see observation as a critical part of my management skills.”

Page 84 | Highlight

> Reinforce integrators by looking at those directly involved in the work, giving them power and interest to foster cooperation in dealing with complexity instead of resorting to the paraphernalia of overarching hierarchies, overlays, dedicated interfaces, balanced scorecards, or coordination procedures. Among operational units, find those that can play the role of integrators among peer units, because of some particular interest or power. Use feelings to identify candidates: feelings provide important clues for the analysis, because they are symptoms rather than causes. Among managerial layers, remove those who cannot add value and reinforce others as integrators by eliminating some rules and relying on observation and judgment rather than metrics whenever cooperation is involved.

Page 86 | Highlight

> Power is not a direct function of position, individual skills, or authority. Rather, it derives from the possibility for one person to make a difference on issues that matter to someone else.

Page 86 | Highlight

> By increasing the amount of power available in the organization, more people will take the risk to cooperate.

Page 88 | Highlight

> Power is the possibility for one person to make a difference on issues—or stakes—that matter to someone else.

Page 88 | Highlight

> power comes from having control over uncertainties that are relevant to others and to the organization.

Page 89 | Highlight

> power exists only in the relations between people; it is an imbalanced exchange of behaviors.

Page 90 | Highlight

> power in the organization often needs to be something more than a zero-sum game.

Page 91 | Highlight

> You need to create a positive-sum game. You need to increase the total quantity of power in the organization so that the power given to some does not come at the expense of the power of others.

Page 98 | Highlight

> it is critical to avoid an overconcentration of power that causes others to withdraw from

Page 98 | Highlight Continued

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> cooperation. When some players are dominated by others, they tend to isolate themselves.

Page 99 | Highlight

> We also frequently hear that managers are provided with new levers to manage their team, but “lack the courage” to put the levers to use. This type of judgment is typical of the pseudo-psychology of the soft approach. What it usually means is that people have some authority (over some decisions) but not real power. It’s a bit like the soldier facing ten enemies with only one bullet in his gun. In such a situation, the gun isn’t a resource; it’s a constraint.2 Using the gun exposes the soldier to more problems than it solves.

Page 101 | Highlight

> the very essence of strategy is protecting and increasing freedom for action.

Page 105 | Highlight

> Organizational Design: Thinking beyond Structure, Process, and Systems Don’t think of organizational design in terms of structures, processes, and systems. Do we have the right structure? Should we organize by customer segments, geographies, or functions? Should we go for parallel or sequential processes? Since each of these solutions is supposed to carry intrinsic benefits to deal with specific performance requirements, you will end up with an n-dimensional matrix organization—by region, product, function, segment, etc.—as there are more and more requirements to satisfy. Instead, think of organizational design in terms of power bases and the resulting capabilities. Capabilities are concrete behaviors, embedded in people with power and interest to do something. What do we want our organization to be able to do tomorrow that it can’ t do today? Who needs to have power to achieve these goals and how will we provide it to them?

Page 108 | Highlight

> SUMMARY OF SIMPLE RULE THREE Whenever you consider an addition to your organization’s structure, processes, and systems, think about increasing the quantity of power. Doing so may save you from increasing complicatedness and enable you to achieve greater impact with less cost. This can be done by enabling some functions to have an influence on new stakes that matter to others and performance. Whenever you are going to make a design decision that will swing the pendulum—between center and units, between functions and line managers, and so on—see if making some parts of the organization benefit from new power bases could, in fact, satisfy more

Page 108 | Highlight Continued

> requirements in dealing with complexity so that you don't have to swing the pendulum in the other direction in the future (which would only compound complicatedness with the mechanical frictions and disruptions inherent to these changes). When you have to create new functions, make sure you give them the power to play their role, and that this power does not come at the expense of the power needed by others to play theirs. When you create new tools for managers (planning, or evaluation systems, for instance), ask yourself if these constitute resources or constraints. Providing a few tools simultaneously is more effective (because it creates a critical mass of power) than many tools in a sequential way, one after the other. Regularly enrich power bases to ensure agility, flexibility, and adaptiveness.

Page 110 | Highlight

> putting each individual's autonomy in the service of the group.

Page 110 | Highlight

> creating feedback loops that expose people, as directly as possible, to the consequences of their actions.

Page 110 | Highlight

> The fourth simple rule—increase reciprocity—creates a context in which each person's success comes to depend on the personal success of others, just as overall performance depends on cooperation among individuals or groups.

Page 110 | Highlight

> The primary management tool for increasing reciprocity is the design of what we term rich objectives.

Page 111 | Highlight

> Rich objectives help organizations increase reciprocity. They are composed of three elements: collective output objectives, individual input objectives, and overlap objectives. Together, these elements make interdependencies more visible to people, so they recognize the need for reciprocity.

Page 112 | Highlight

> The more clarity, the better. The first misconception is that an individual's roles and objectives should be as detailed and well defined as possible. Although we certainly don't advocate confusion in role-and-responsibility definitions, we believe that a certain degree of fuzziness in these definitions can be a good thing.

Page 112 | Highlight

> When you define roles with too much clarity, it often has the opposite of the desired effect because it allows people to avoid recognizing their interdependencies. Instead, they just adhere to the specification ("I handed it off at ninety-six meters, just as you said.") and check the box next to that responsibility, rather than working with others to find ways to deliver the desired output (a smooth and rapid handoff of the baton) in a given situation.

Page 113 | Highlight

> the reality of interdependency is that it is impossible to parse responsibility such that each person's "amount" is perfectly defined.

Page 114 | Highlight

> Resist the pressure to clarify roles, decision rights, and processes. Try to keep appropriate fuzziness and overlaps between roles. Beyond a certain threshold, clarity only encourages mechanistic compliance and "checking the box" behaviors, as opposed to the engagement and initiative to make things work.

Page 114 | Highlight

> Nobody knows where his job ends and another person's begins." When somebody asks for clarity in this way, it is frequently an attempt to avoid having to cooperate.

Page 115 | Highlight

> The Difference between Autonomy and Self-Sufficiency Autonomy is about fully mobilizing our intelligence and energy to influence outcomes, including those outcomes that we do not entirely control. Self-sufficiency is about limiting our efforts only to those outcomes that we control completely without having to depend on others. Autonomy is essential for coping with complexity; self-sufficiency is an obstacle because it hinders the cooperation needed to make autonomy

Page 115 | Highlight Continued

> effective.

Page 117 | Highlight

> Collective output objectives are those that depend on the involvement of multiple individuals and units.

Page 118 | Highlight

> Rich Objectives Rich objectives stimulate the mutual interest to cooperate by making each person's success depend on the success of others. They have three components: Collective output objectives define the ultimate value the organization wants to deliver; their achievement depends on the interactions of multiple individuals and work units. Individual input objectives define the inputs that individuals contribute to the collective output; their achievement does not depend on interactions with other individuals or work groups. Overlap objectives define what a person does, in his or her role and area, and that increases the effectiveness of others in their own roles and areas.

Page 119 | Highlight

> It takes initiative for individuals to add value to a collective effort. They have to interpret the formal procedures, figure out how to act in the spirit of guidelines, and go beyond the letter of the law.

Page 119 | Highlight

> There is always a distance—a gap—between real situations and what is defined by procedures. The gap can only be bridged by people using their judgment to best apply procedures.

Page 120 | Highlight

> Overlap objectives are contributions that only make a positive difference in the performance of others.

Page 120 | Highlight

> the overlap objective defined for category strategists was to ensure that the guidelines and tools they developed for the buying units were practical and easy to apply.

Page 121 | Highlight

> In defining input objectives, make sure the scope of roles is valuable for the individual as well as for the organization.

Page 121 | Highlight

> Will this role and its objectives create a significant learning effect? Will the effective execution of the role bring about productivity improvements whose benefits can be shared between the company and its employees? Does the role involve individual capabilities that the individuals can enhance as they gain experience in the role?

Page 121 | Highlight

> Is the learning effect sustainable over time? Will the role become obsolete quickly or will it remain relevant as technology progresses and market trends shift? Input objectives are sustainable when they lead to continuous improvement and education. By making learning a valuable investment for individuals—beyond its value to their current work with the company—you provide a reason for people to engage more fully in their role today.

Page 121 | Highlight

> this success—or failure—inherently takes place off the radar screen of objective measurable criteria.

Page 122 | Highlight

> it happens in a gray area where individual contributions cannot be measured.

Page 122 | Highlight

> if we only use measurement to reward performance, what gets done is at the expense of what cannot be measured: cooperation.

Page 123 | Highlight

> Defining rich objectives is an important way to increase reciprocity within an organization. But in the end, such objectives are only an expression of intent. How can you create a work context such that individuals actually behave in accordance with these objectives? There are three reinforcing mechanisms that managers can use to increase the odds that people will behave according to the rich objectives—eliminating internal monopolies, reducing some resources, and creating adequate networks for interactions.

Page 123 | Highlight

> Monopolies cannot be avoided by others in the organization. Other units have no alternative but to work with the monopoly, so the units that depend on the cooperation of monopolies are stuck. Given that other units are fully dependent on them, monopolies do not take into account the needs and constraints of those units.

Page 123 | Highlight

> An internal monopoly can, however, be broken, either by making it contestable or by finding a partial substitute for it. By making it contestable, we mean that no function, by virtue of its organizational decision rights, should be protected from questioning by others about matters such as budgeting, investments, or even career decisions for its staff. If monopolies are immune from challenge over such decisions, they begin to exhibit silo behaviors.

Page 125 | Highlight

> In addition to making every group contestable, you can also break a monopoly by making it partly substitutable. To do this, you make sure there is some form of substitution available that provides an alternative to the monopoly and therefore keeps the people in the monopoly on their toes.

Page 126 | Highlight

> To create a substitute for these units, we recommended that the marketing department start forming alliances with external research centers. By giving people in marketing a choice of who they could work with (they could now control a stake for R&D), the company was able to ensure better cooperation from the internal R&D units.

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Page 127 | Highlight

> The abundance of resources basically removes interdependencies and the need to cooperate.

Page 128 | Highlight

> When resources are removed, people have to share.

Page 128 | Highlight

> The goal of reducing resources is to enhance capabilities, not cut costs.

Page 130 | Highlight

> without cooperation, the value produced in those extra minutes actually decreases because of the proliferation of non-value-adding activities (rework, modifications, writing reports, control, and so on).

Page 130 | Highlight

> A third way to reinforce the rich objectives that increase reciprocity is to make sure people belong to multiple networks of interactions that complement each other.

Page 132 | Highlight

> By being at the intersection of the various networks of interactions, the individual eventually had to satisfy the union of the requirements in play.

Page 134 | Highlight

> These feedback loops allow for decentralized control, since it is based on interaction among people, each one partly controlling the behavior of others. Control becomes distributed and flexible, as opposed to top down and rigid, which enables the organization to be more adaptive to changing conditions.

Page 134 | Highlight

> SUMMARY OF SIMPLE RULE FOUR In the face of business complexity, work is becoming more inter-dependent. To meet multiple and often contradictory performance requirements, people need to rely more on each other. They need to cooperate directly instead of relying on dedicated interfaces, coordination structures or procedures that only add to complicatedness. Reciprocity is the recognition by people or units in an organization that they have a mutual interest in cooperation and that the success of one depends on the success of others (and vice versa). The way to create that reciprocity is by setting rich objectives and reinforcing them by eliminating monopolies, reducing resources, and creating new networks of interaction.

Page 135 | Highlight

> What game theory calls the "shadow of the future" is the importance of what happens tomorrow to us as a result of what we do today. By extending the shadow of the future, we make the more-or-less distant horizon—that point at which our present behavior will eventually reveal its consequences—much more important and evident to us now.

Page 136 | Highlight

> We will offer four different ways for extending the shadow of the future: tightening the feedback loop by increasing the frequency of interactions, bringing the end point forward, tying futures together, and making people walk in the shoes they make for others.

Page 137 | Highlight

> What do managers mean by strategic alignment? If it means the organization must be designed to support rather than hinder the execution of the strategy, then it's simply a truism and not very helpful.

Page 137 | Highlight

> In its crudest form, strategic alignment is the mechanistic application of the well-known mantra: "from strategy to structure."1 To understand the problem with this approach, imagine that an organization is a stupid machine that has but one routine: each time a new performance requirement is introduced, the machine adds a new, dedicated function to handle it: "Quality is a new requirement. Add one quality department to the organizational machine."

Page 138 | Highlight

kindle

> Often when companies follow the “from strategy to structure” mantra, they use a linear sequence. They start with strategy, then align the structures, then align processes within the structures, and then align various systems (IT, performance monitoring, human resource management, and so on) to make the processes work. At each step of the sequence, however, it becomes increasingly difficult to address the right issues or to provide useful answers.